Bright company, smart energy

D.TEK

ANNUAL REPORT 2009

2009 was a difficult year for DTEK, as well as for the Ukrainian economy in general. We, nevertheless, demonstrated the best financial and operational performance in the sector, strengthened our market position and increased investments. The crisis has taught us valuable lessons and made us stronger.

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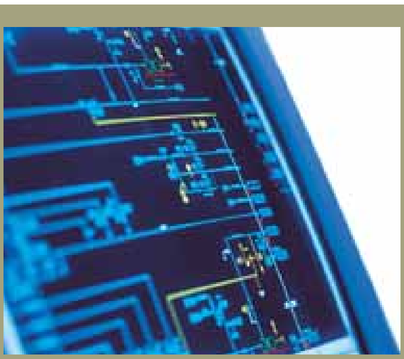


ABOUT THE COMPANY

DTEK is Ukraine's largest privately-owned vertically-integrated energy company. Our enterprises create an efficient operational chain, from the production of coal, to the generation and supply of electricity. We hold a leading position in the Ukrainian coal and fossil-fuel generation markets.

Our strategic goal is to become an energy company which links Ukraine with the European Union and Russia to form a single chain for the generation and sale of electricity.

Mission

We work for the progress and prosperity of society. Energy we produce delivers light and warmth to people.

Coal production

The largest Ukrainian coal mining company

17.6
m tonnes

Electricity supply

The largest privately-owned generation company in Ukraine

26.3
TWh – Total supply of Vostokenergo and Dneproenergo*

Electricity transmission

A leading player in the electricity distribution market

12.0
TWh

* DTEK has a 47.55% interest in Dneproenergo.

Values

Professionalism
Our employees are professional, responsible and diligent. These qualities, combined with our determination to make the optimal use of human, natural and financial resources, enable us to achieve high-quality results, quickly and efficiently.

Responsibility
We believe that our operations should serve the public interest. We take responsibility for the quality of our work and adherence to corporate standards, for meeting our obligations, for the prudent use of resources, and for environmental safety. We are also responsible for our employees – the people who make our company successful.

Pursuit of excellence
We create conditions to develop the skills and talents of our staff, introduce the most advanced technologies, and improve production and management processes. By building our business, we not only inspire our employees, but also contribute to the successful development of Ukraine.

Unity
We encourage a team spirit, unity and solidarity – it is only as a united team that we will be able to achieve great results. By combining each person's knowledge and expertise we create the potential for the company's development. In their commitment to our ideas and goals, our employees understand and support one another: they enjoy working and spending leisure time together.

Transparency
By willingly informing our employees, partners, shareholders, and other external parties, of important issues in the company's development, we lay the foundation for trust and co-operation. Our business is conducted on principles which are clearly defined, both for our employees and our partners.

Vision

DTEK is a dynamic Ukrainian company which aspires to being a leader in the European energy market. Our success and uniqueness are founded on the skill and professionalism of our people, and the application of advanced technologies.

Personnel

World social responsibility standards

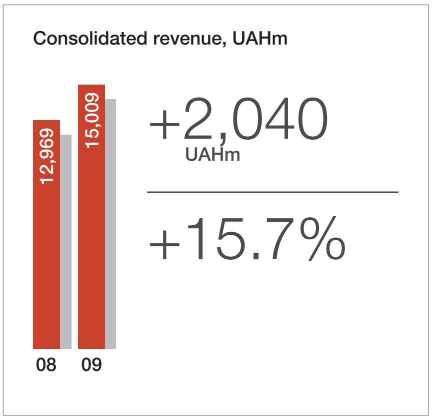
42,360*
employees

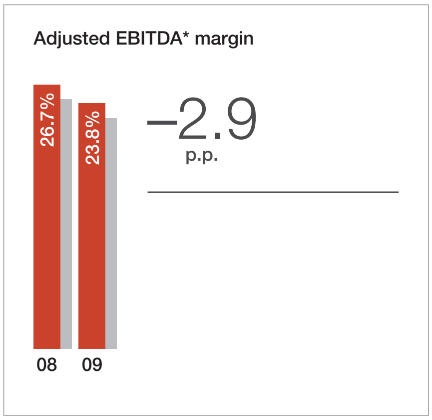
* Excluding Dneproenergo, DTEK has a 47.55% interest in Dneproenergo.

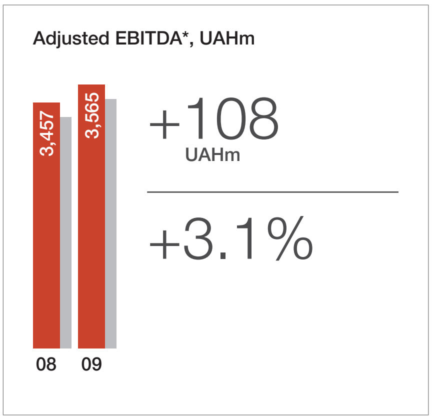
HIGHLIGHTS

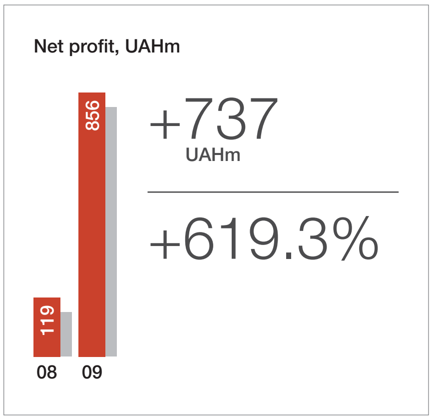
In an environment of economic crisis in Ukraine, and a decline in industrial output, DTEK reduced its electricity supply, but maintained coal production at 2008's level. While the volume of electricity transmitted through our network decreased after a fall in demand, our share of the wholesale market went up.

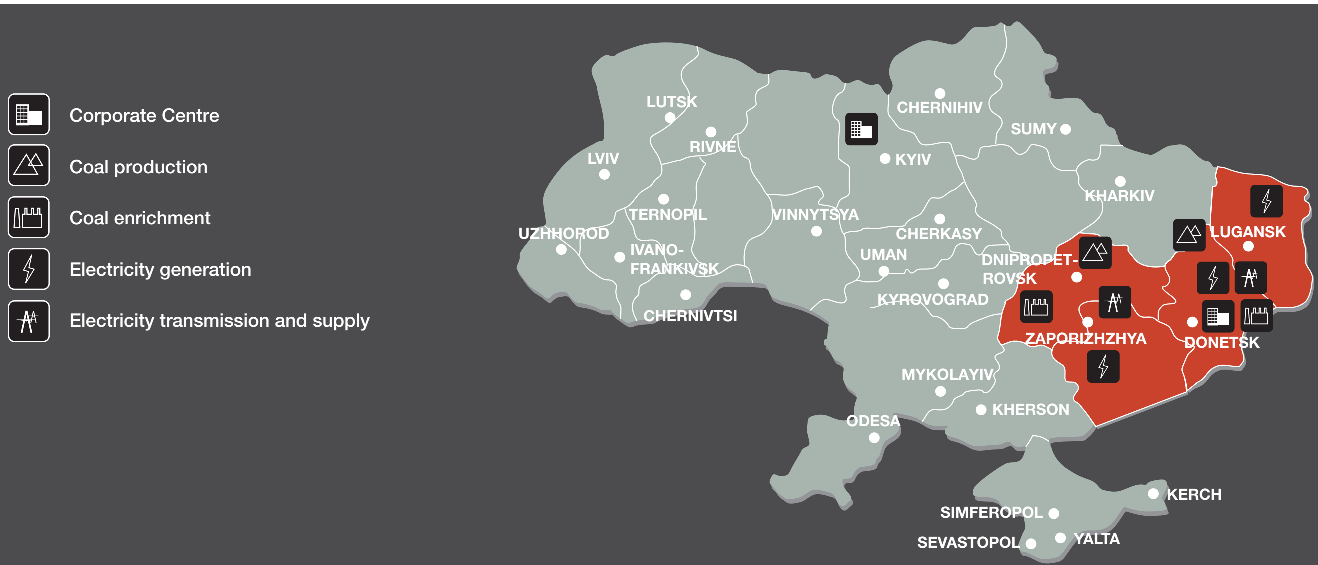
The Company's 2009 financial results were better than those of 2008, despite poorer operational indicators in some business segments. Our financial stability enabled us to increase the scope of our investment program regardless of the unfavourable environment.











* Adjusted EBITDA represents profit for the year after excluding the following non-operating income statement items: foreign exchange losses less gains from borrowings, certain finance costs, income tax expense, depreciation and amortization and impairment of property, plant and equipment.

Coal production, tonnes m

+41.2
thousand t

+0.2%

Electricity transmission, TWh

–1.5
TWh

–11.3%

Investment program, UAHm

+10
UAHm

+0.5%

Electricity supply by Vostokenergo and Dneproenergo*, TWh

–5.3
TWh

–16.8%

Electricity purchase in the market

+0.8
TWh

+7.3%

Coal production and enrichment

This division comprises the ten mines of Pavlogradugol, the Komsomolets Donbassa Mine and five coal enrichment plants. It produces thermal and coking coals, principally for generation companies.

Commercial reserves

817 m tonnes

Market share

24.4%

Electricity generation

This division comprises our six thermal power plants (TPPs) of Vostokenergo and Dneproenergo*. The electricity it produces is sold on the wholesale electricity market (WEM).

Installed capacity of Vostokenergo and Dneproenergo

12,302 MW*

Market share of Vostokenergo and Dneproenergo

45.8%**

Electricity transmission and supply

This division comprises our transmission companies PES-Energougol and Service-Invest, which buy electricity on the wholesale electricity market for transmission to end consumers. Its principle customers are the steel-making and coal-mining industries.

Network length

3,818 km

Market share

7.7%***

* DTEK has a 47.55% interest in Dneproenergo.
** Share of thermal generation market.
*** Share in total electricity purchase in the WEM.

COMPETITIVE ADVANTAGES

VERTICAL INTEGRATION

- A well-balanced portfolio, from coal production to electricity generation and distribution.
- We use our own coal to generate electricity.
- The liberalisation of the energy market presents the prospect of bilateral contracts between the generation and supply companies.

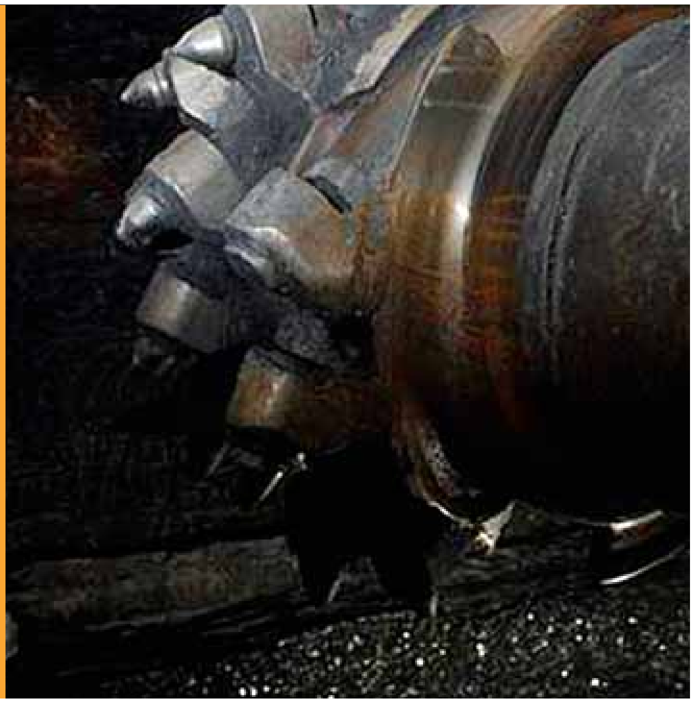
BEST MANAGERIAL EXPERTISE IN THE MARKETS OF OPERATION

- DTEK's management team is recognised as being the best in Ukraine's electricity generation and coal production industries.
- We have the ability to attract and develop the best managers in new markets.

EXPERIENCE IN DEVELOPING COAL MINES IN DIFFICULT GEOLOGICAL CONDITIONS

< We are experienced in minimising the cost of extracting coal from thin seams.

< Our production costs, which are the lowest of Ukraine's coal producers, provide a competitive basis for expanding our generation business.



UKRAINE'S LOCATION

< Ukraine forms the most important corridor for transporting energy between Russia and Europe. Our geographic position not only gives us access to the resources of Ukraine and Russia, but also to Europe's markets for electricity.

CHAIRMAN'S MESSAGE

I am pleased to present DTEK's Annual Report for 2009, a very important year for the Company.

In the face of unprecedented economic conditions – which had continued from 2008 – DTEK maintained its financial and operational strength. In addition, the progress we made in our strategy of maintaining our leading position in Ukraine and in expanding our international presence began to be recognised. The most notable of our achievements included: the establishment of a more advanced and efficient corporate governance structure; the launch of our international expansion program, principally directed at Europe's energy markets; and the completion of the latest phase of our program to modernise Company's assets.

DTEK has a number of competitive advantages, which position it well against its peers: our market-leading corporate governance structure, vertical integration system, international standards of management expertise, experience in operating coal mines in difficult geologies, and the geographic location of our core market, make us confident of achieving our ultimate goal – to become the leader in Ukraine's energy market. In 2010 we intend to continue to build on the progress we have made in pursuing this objective.

Results
We maintained our share of the thermal generation market at the previous year's level, of 25.3%[1], and increased our market share in the coal production and electricity distribution sectors. At the year end, DTEK had a 24.4% share of Ukraine's coal mining sector and 7.7% share in electricity distribution. In comparison, in late 2008 our share of the coal production market was 22.6%, and of electricity distribution, 6.5%.

Our excellent market positioned is underlined by strong financial results. Consolidated revenue grew by 15.7%, to UAH15,009m, while adjusted EBITDA[2] increased by 3.1%to UAH3,565m. Profit before tax increased more than fourfold compared with the previous year, to UAH1,175m; net profits increased more than sevenfold to UAH856m (2008: UAH119m), and net margin grew to 5.7% (2008: 0.9%).

One of DTEK's most notable achievements for the year, was its expansion into foreign markets: the company obtained rights to export electricity to Hungary, Romania and Slovakia. This was one of our core strategic goals and is a development that we expect to provide us with opportuities for further growth.

Investments
Even in a market in which the availability of debt financing continued to be limited, we maintained our investment in the development and modernization of our coal and energy facilities. These form the basis of our vertically-integrated chain of coal extraction, electricity production and distribution and are, therefore, crucial to our ability to maintain an efficient and effective operational infrastructure. In 2010, we plan to re-establish those investment projects which were delayed as a result of the economic conditions.

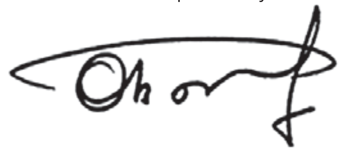
Sustainable development
We continue in our objective of reducing the cost of power generation but, at the same time, are committed to mitigating our operations' negative effects on the environment. As the market leader, we believe that this will not only contribute to conservation of the environment, but will also provide us with a competitive advantage and future growth potential.

The future
Our goal for 2010 remains unchanged: to become the leader in Ukraine's energy industry, while maintaining our commitment to sustainable development. With this in mind, the Company's key objectives for 2010 are: active expansion into the European energy market; the modernization of our existing operating capacities and infrastructure; and increasing our operational efficiency.

We are confident that our capacity and expertise make these ambitious goals achievable. I believe DTEK has the expertise, resources and, most important, the responsibility to achieve our aims in a sustainable manner while, at the same time, playing a constructive role in our industry. We are in no doubt that further development is going to be challenging, but I also believe that the strength and expertise of our teams will enable us to meet, and overcome, these challenges.

DTEK's team are highly professional, dynamic, efficient, loyal and responsible. I take this opportunity to thank every member of the team for their work, for their daily contribution in the development of the Company, for their commitment, and for their pursuit of excellence. I also thank my colleagues on the Supervisory Board, DTEK's senior management team, and all our operational managers for their excellent work and continued contribution towards the goals we pursue. The implementation of our short-term plans and long-term strategy would not be possible without them.

Oleg Popov
Chairman of the Supervisory Board



[1] Excluding results of Dneproenergo, where DTEK has a 47.55% interest.

[2] Adjusted EBITDA represents profit for the year after excluding the following non-operating income statement items: foreign exchange losses less gains from borrowings, certain finance costs, income tax, depreciation and amortisation, and impairment of property, plant and equipment.

CHIEF EXECUTIVE OFFICER'S REVIEW

2009 was a challenging year for DTEK – in common with many companies in the world, we felt the impact of the global financial crisis. A dramatic decrease in Ukraine's GDP and a sharp fall in industrial production resulted in a marked decline in demand for our products. We adapted quickly, however, and successfully positioned the Company to enable us to continue to perform well despite the difficult markets.

Our belief that a crisis always presents new opportunities for growth was borne out by our continued development. Despite the difficult conditions we managed to identify, and use, our competitive advantages to strengthen and reinforce our leading market positions.

On the way to the world markets
One of the year's most significant achievements was the completion of a new corporate governance and management structure. As a result, three operating entities, which form DTEK's new corporate structure, were created. The company now comprises:

- DTEK Holdings B.V., The Netherlands – holding company;
- DTEK, Ukraine – corporate centre and senior management team;
- Industrial enterprises.

This new structure has brought a number of benefits. Not only is our structure more transparent, but our operating systems and methods are also more modern, efficient and effective; clear lines of authority – with a focus on the interests of our stakeholders – have been established. The achievement of this core initiative, defined a significant step towards DTEK reaching its objective of playing a larger role in the EU's energy industries as well as in the wider economic area.

In 2009 we completed the rebranding of our corporate centre and industrial enterprises. The creation of a recognisable, uniform, corporate brand marked an important stage in the ongoing development of our business and, as a result, we have introduced a united corporate culture across all our enterprises. The Company needs a strong brand to reinforce its position in the Ukrainian market and to support its successful entry into external markets; the new brand will play an important role in the recognition of the Company as it builds on its position in the international industry.

The dramatic fall in the domestic demand for electricity, which resulted from the economic downturn, reinforced the need for us to diversify our distribution channels, particularly in exporting to certain international markets.

Since no clear laws or precedents regulate electricity exports from Ukraine, we endeavoured to standardise and increase the transparency of official procedures for access to the export infrastructure. In December 2009, the first auction of rights of access to the inter-border connection infrastructure, organised by the System operator, Ukrenergo, took place. This marked the first step in the liberalisation of energy exports from Ukraine. DTEK won the right to export 150MW monthly during 2010 to Hungary, Romania and Slovakia. Interaction with the Ministry of Fuel and Energy, the National Electricity Regulation Commission and Ukrenergo will continue through the current year.

Strengthening our position in Ukraine
Our basis for foreign expansion is our strong position in the domestic energy and coal markets. DTEK's outstanding production and management efficiency ensured that its electricity and coal were in high demand, even in a declining market.

Our results demonstrate that, in 2009, we maintained the previous year's level of coal production, at 17.6m tonnes. On the back of a declining coal industry in Ukraine, this resulted in our market share increasing to 24.4% (2008: 22.6%). The stable demand for our thermal and coke coal was supported by our low production costs and by an improved sales structure. A new entity, "DTEK Trading", was formed to trade on the Ukrainian and foreign markets. This enabled the Company to increase sales efficiency in the domestic and international markets, and to create a system for supplying fuel to its own generators.

During the year, we continued the program of modernising Vostokenergo's power generating facilities. The second stage of the program will include the reconstruction of the Zuevskaya No 1 and Kurakhovskaya No 7 units. DTEK is the only energy company in Ukraine that is reconstructing its generating facilities. The Company's highly-efficient energy equipment enables it to retain its market-leading position in the generation of thermal power. In 2009, Vostokenergo and Dneproenergo[1] supplied 26.3bn kWh, a 45.8% share of the thermal power generation market.

The reported decrease in demand for energy had a negative influence on the transmission levels of DTEK's networks – they reduced by 11.3% in the year. At the same time, our share of the tradeable volume of electricity bought on the

[1] DTEK has a 47.55% interest in Dneproenergo.

wholesale market increased to 7.7%, and volume increased by 7.3% – a total of 11.8bn kWh. During the downturn, our companies in the transmission and electricity supply sector focused on customer service. Service-Invest developed additional services which were provided at client support centres. PES-Energougol introduced a new service – providing industrial energy consumers with remote access to their accounts. By giving priority to customers who paid promptly for energy, payment collection was 100% at the year end.

Investments and efficiency
DTEK's increased efficiency of its business has been achieved by more than the modernization of its manufacturing facilities. We realised that it is equally vital to have a modern and efficient management system which provides the correct data to facilitate decision making.

In 2009, we took the first step in achieving better efficiency at executive level when we began the implementation of an ERP system, based on SAP software. In the first stage, which is due for completion at the end of 2010, SAP HCM (Human Resource management) and SAP BI/BPC (business-planning and consolidation) solutions will be implemented at the corporate centre, and the complex management system, SAP ERP, at Pavlogradugol. All the SAP solutions should be in place at the Company's enterprises by 2013.

The introduction of ERP systems will enable us to identify and resolve administrative challenges more effectively. It will also enable us to automate our business processes and to increase transparency in operational work.

In 2009 DTEK continued its HR management strategy. An historic step was made in the provision of professional training and development for our employees when, in December, the "DTEK Academy", our corporate university, began to operate. This project has united all the Company's educational and professional programs when it became our group-wide control centre for knowledge systems. Each year, 1,500 of DTEK's best employees, including departmental heads, managers and sector experts, will be trained at the Academy. The establishment of this project will enable us to reach an important strategic target – by 2013, we aim to fill at least 80% of our vacancies for top and middle managers internally.

Responsible development
Entering foreign energy markets demands that we demonstrate responsibility in every aspect of our business – particularly in environmental matters, safety and sustainable development. We are making significant efforts and allocate considerable investment in bringing the Company into line with the EU standards and requirements.

During 2009, leading DTEK enterprises received labour safety certification when they were awarded the international standard OHSAS 18001:2007. Within two years of introducing the standard, our occupational accident rate has decreased by 39% and now we have one of the best safety records in Ukrainian industry.

The degassing and recycling of mine-produced methane at Komsomolets Donbassa Mine, moved to a new level during the year. For the first time in Ukraine, we began trading units of greenhouse gas emissions reduction, when we sold the first 300,000 ERUs to ING Bank N.V. The mine guarantees to supply this volume of ERUs until 2012. During this time, our development of a system to recycle methane at Komsomolets Donbassa Mine will eliminate the equivalent of 620,000 tonnes of CO_2 emissions into the atmosphere.

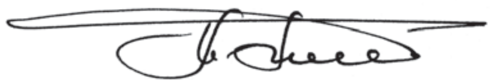
During the year, we continued DTEK's social partnership program in the cities and regions in which we operate. We believe that maintaining funding levels at pre-downturn levels to address social problems in the regions around our enterprises and production facilities, made a real difference to the local communities.

Confidence in our future
The downturn had little, if any, effect on our strategic plans. We continue our objective of strengthening our leading positions in the Ukrainian coal and energy markets, in which our modern and efficient production methods and strong operational efficiency give us an advantage over State-owned and private peers. Our continued investment in technology, people and sustainable development provides us with a strong platform for growth, which we believe will enable us to achieve our ambitious goals.

We intend to use Ukraine's geographic position to our advantage in playing our role as a strategic link between Russia and Europe in the energy field. We will continue to develop our capacity for the export of coal, and to play an increasing part in promoting Ukrainian electric power on international markets. DTEK has the necessary expertise, experience and operational infrastructure to represent Ukraine in the EU energy market.

I thank all colleagues and partners who worked with us during this challenging year. Your professionalism, determination and enthusiasm helped us not only to overcome the difficulties we faced, but also to become a stronger company as a result. I am proud of what we achieved and am confident that, by working together, we can continue to face future challenges and to build a stronger company and industry for the future.

Maxim Timchenko
Chief Executive Officer



CORPORATE GOVERNANCE

Corporate governance
DTEK's corporate governance system, which is based on international best practice, is designed to ensure high-quality management of the business and to protect the interests of the Company's shareholders and other stakeholders. The Articles of Association of DTEK Holdings B.V. sets out the fundamental principles and procedures of the Company's corporate governance. The Articles of Association, together with the Code of Corporate Ethics – which has been in force at DTEK since 2008 and determines the principles of business ethics for its employees – lay a reliable foundation for well-balanced and efficient managerial decision-making. In future, the Company plans to develop and introduce a Corporate Governance Code.

In 2009, DTEK took further steps to improve its corporate governance and the transparency of its shareholding structure. In April, DTEK Holdings B.V. was established in the Netherlands and a decision was made to optimize DTEK's governance structure. As a result of the legal restructuring, at the end of the reporting period the Company's corporate structure comprised three levels: the Holding Company, DTEK Holdings B.V.; the Corporate Centre, DTEK LLC which has two headquarters, one in Kiev and one in Donetsk; and the operating companies, which are in four regions of Ukraine.

The new corporate structure creates tools for strategic decision making and communication in compliance with best practice, and improves DTEK's competitiveness and shareholder value.

Supervisory Board
The Supervisory Board at DTEK Holdings B.V. conducts the strategic management of DTEK's business. Its principal roles are to represent shareholders' interests, determine the Company's development strategy, set tasks for the management and monitor their achievement, and approve deals and financial statements. In addition, it is responsible for the employment and dismissal, where necessary, of senior managers at the Corporate Centre and operating companies. The Articles of Association and Regulations on the Supervisory Board, adopted in September 2009, regulate the Supervisory Board's activities.

The members of the Supervisory Board are elected by the General Meeting of Shareholders. In 2009, the membership of the Supervisory Board was increased from five to seven directors when two new independent directors joined the Board. As a result, there are now three independent directors on the board.

The members of the Supervisory Board are:
- Oleg Popov, Chairman;
- Nataliya Izosimova, director;
- Sergey Korovin, director;
- Irina Mykh, director;
- Stanislav Shekshnia, independent director;
- Pierre Daures, independent director;
- Robert Sheppard, independent director;

Each Board member has one vote on decisions made at Supervisory Board meetings.

Committees of the Supervisory Board
The Board has four operating committees in charge of key aspects of the Company's development: the Audit Committee; Nominations and Remuneration Committee; Strategy and Investment Committee; and Health, Safety and Environment Committee. The last two committees, which were established in 2009, are evidence of DTEK's objective of continuously improving corporate governance procedures.

As advisory bodies to the Supervisory Board, the committees consider and prepare recommendations on issues within the Board's competence. The members of each of the committees meet regularly in compliance with the annual work plan approved.

Strategy and Investment Committee
Members
Pierre Daures (Chairman)
Oleg Popov
The primary task of the Strategy and Investment Committee is to prepare and make recommendations on issues relating to DTEK's strategy and capital expenditure, for consideration by the Board. In addition, it prepares proposals to improve the practices for the Company's strategic development and project management.

Nominations and Remuneration Committee
Members
Stanislav Shekshnia (Chairman)
Oleg Popov
Nataliya Izosimova
The Nominations and Remuneration Committee contributes to the improvement of the Company's HR policy, in particular the recruitment and retention of qualified senior managers. It assists the Board with the creation of a motivation, appraisal, compensation and development system for senior managers and Supervisory Board. The Committee monitors corporate governance best practice and facilitates its introduction into the Company's activities. In addition, the Nominations and Remuneration Committee prepares recommendations on membership of the Supervisory Board and its committees, and on candidates to the Executive Board of the Corporate Centre.

Health, Safety and Environment Committee
Members
Robert Sheppard (Chairman)
Stanislav Shekshnia

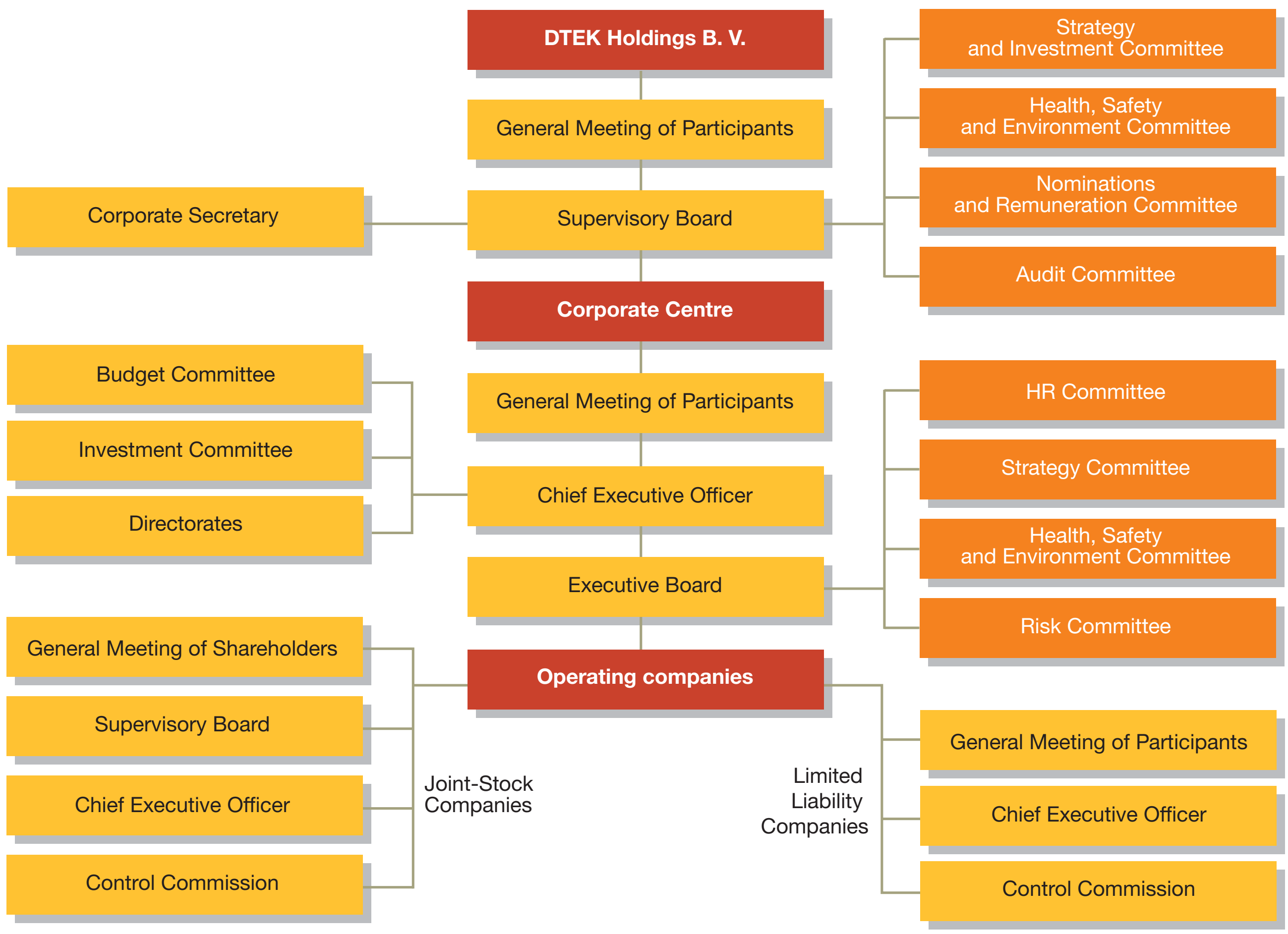
The Health, Safety and Environment Committee is responsible for developing actions and procedures on the safety of operations and the protection of the environment. Its responsibilities also include the identification, and monitoring, of safety and environmental risks related to the Company's activities.

Audit Committee
Members
Sergey Korovin (Chairman)
Irina Mykh
The Audit Committee supervises the internal control and risk management system, and the activities of the internal and external auditors. It assists the Board on compliance with deadlines, and the preparation, submission, completeness and reliability of financial statements and other reporting. Its responsibilities also include risk management issues, internal control and compliance with applicable laws. In addition, the Committee prepares recommendations on the selection of an independent auditor of the Company's financial statements.

Chief Executive Officer
The Chief Executive Officer (CEO), Maxim Timchenko, is based at the Corporate Centre. He is responsible for the day-to-day management of the Company's activities, and is elected by the General Meeting of Participants.

The CEO represents the Company in interfacing with other market participants and governmental bodies. His responsibilities include operational management of the Company, enter into deals, issue and approve instructions, and approve local regulatory acts and other internal documents.

DTEK corporate governance structure



CORPORATE GOVERNANCE

Executive Board
The Executive Board's status, tasks and responsibilities, membership and structure, procedure for establishment and activities, and the rights and obligations of its members are defined by the Regulations on the Executive Board.

The responsibilities of the Executive Board include the day-to-day management of the Company, with the exception of those matters which are the exclusive responsibility of the CEO and other governance bodies of the Company. Key tasks of the Executive board are business planning, nominating and appointing, making M&A decisions and approving organisational structure of the Company.

The Executive Board has four committees: on strategy, HR, risks, and safety. The committees act as consultants and provide advice for the CEO and Executive Board. The committees function as advisory bodies for CEO and Executive board.

Internal control and audit
DTEK's internal control and audit system include the Audit Committee of the Supervisory Board; the Corporate Internal Audit Department; and the Internal Control and Risk Management Department; all operate from the Corporate Centre.

The Corporate Internal Audit Department provides consultations and independent information on the Company's activities, and the internal control and risk management system to the Supervisory Board, Audit Committee, CEO and management. The work of the Internal Audit department, which reports to the Audit Committee and, administratively, to the CEO, complies with the risk-orientated plan, the performance of which is controlled by the Audit Committee.

The department oversees the control systems and internal procedures of all DTEK's enterprises to ensure that the managerial process is efficient, and makes recommendations to management on improving the internal control and risk management systems. The Executive Board monitors compliance on a regular basis.

The internal control function at the Company is in the Internal Control and Risk Management Department. The Department develops and monitors the execution of required business processes and documentation of the Company, consults functional subdivisions of DTEK and production enterprises on internal control issues. The Department actively participates in the implementation of new processes and systems in order to guarantee their compliance with internal control requirements.

Supervisory Board

Oleg Popov
Chairman of the Supervisory Board
Oleg Popov was appointed Chairman of DTEK's Supervisory Board in July 2009. He has been Chief Executive Officer of System Capital Management (SCM) since December 2005, where he is responsible for key financial, investment and personnel decisions, for the company's facilities, and for the management of other executives. For the previous eight years, he worked at a number of State establishments and enterprises. He is also the Chairman of the Supervisory Board of Joint Stock Company "Football Club 'Shakhtar' (Donetsk)", and represents SCM on the Supervisory Boards of Ukrainian Retail. Oleg graduated from Donetsk Polytechnic Institute in 1990 with a degree in, and from Donetsk State University in 1996.

Natalia Izosimova
Member of the Supervisory Board
Natalia Izosimova joined DTEK's Supervisory Board in July 2009. Since 2007, she has been Managing Director of the Effective Governance Foundation, founded by SCM's owner, Rinat Akhmetov. Between 2005 and 2007 she worked at SCM, where she became Director of Corporate Restructuring, after joining as Human Resources Director. She previously worked for McKinsey & Company, in Moscow, as Director for Professional Development for Eastern Europe. She represents SCM on the Supervisory Boards of Metals and Mining, Power Energy, Banking and Insurance, and SCM's Media business. She is also a member of the Supervisory Board of Joint Stock Company "Football Club 'Shakhtar' (Donetsk)". Natalia graduated from Moscow State Pedagogical University with a masters degree in English and American Literature.

Sergey Korovin,
Member of the Supervisory Board
Sergey Korovin has represented SCM on DTEK's Supervisory Board since February, 2010. Before joining SCM, in 2008, he worked, from 2002, at Danish and Russian affiliates of the leading international consultancy, McKinsey & Company, where he held positions from consultant to junior partner. At McKinsey & Company he participated in, and managed, a number of projects in strategy, organisational changes and management systems, use of IT in energy companies, telecommunications, direct investments and high technology. From 2008 he ran projects with telecommunications companies and was on the Board of Directors of Microsoft Russia. At SCM he is responsible for the development of the Group's energy business, particularly for strategic, investment and financial issues and risk management. Sergey graduated with honours from the Faculty of Applied Mathematics and Cybernetics at Moscow State University in 1993.

Irina Mykh
Member of the Supervisory Board
Irina Mykh was appointed to the Supervisory Board in July, 2009. She is a senior lawyer at the law firm, Voropaev & Partners. She was previously Head of the Legal Department at Cheese Club, a holding company which manages 16 production and distribution companies in Ukraine and other countries. In 2008, she was a legal counsel at the Ukrainian Agriculture Investment group. Between 1996 and 2006 she was a senior lawyer, and later a partner, at The Silecky Firm, an affiliate of Squire Sanders & Dempsey LLP. Irina graduated with honours from the Law faculty of Lvov State University. She also studied at Osgoode Hall Law School, York University, Toronto, Canada.

Stanislav Shekshnia
Member of the Supervisory Board, Non-executive Director
Stanislav Shekshnia joined the DTEK Supervisory Board in July, 2009. He is an Affiliate Professor of Entrepreneurship at INSEAD. He previously spent ten years as a business executive and entrepreneur in France, the US, Russia and Central Europe. Between 1991 and 2002 he held positions as Director of Human Resources, Central and Eastern Europe, for Otis Elevator; President and CEO, Millicom International Cellular, Russia and CIS; Chief Operating Officer of VimpelCom; CEO of Alfa-Telecom; and served as Chairman of Vimpelcom-R and a board member of a number of Russian companies. Stanislav graduated from Moscow State University with a master's degree and with a PhD in Economics and was awarded an MBA by the Northeastern University in Boston.

Pierre Daures
Member of the Supervisory Board, Non-executive Director
Pierre Daures joined the DTEK Supervisory Board in September, 2009. He has spent his entire career, since 1966, at Electricit� de France (EDF): first in the Engineering Division, then in the department for General Economic Studies. He was the Manager of Bugey nuclear power station, then of the staff and labour relations division of EDF-GDF. In 1987 he was appointed Vice President, Director of EDG-GDF Services, Deputy Managing Director for nuclear and industrial issues then, in 1994, Chief Operating Officer (COO). He became Chief Executive Officer of EDF in 1996. In 2003 he was Vice-chairman, in 2004 Chairman, and in 2005 Past-President and a Member of the Board of the Business Advisory council for South Eastern Europe. Pierre graduated with a degree in civil engineering and atomic engineering.

Robert Sheppard
Member of the Supervisory Board, Non-executive Director
Robert Sheppard was appointed to the DTEK Supervisory Board in September, 2009. He is Chairman of IPM Advisors, an international strategic consulting firm that provides senior-level advice to oil and gas and related industries. He is also a senior adviser to BP senior executives on investment and operational issues in Russia and CIS. Between 2002 and 2004, he was Senior Vice President at BP, responsible for overseeing the company's assets in Russia and advising management on strategic investments. From 1998 to 2002, he was Chief Operating Officer, and then President, of Sidanco, the fourth-largest integrated oil company in Russia. For more than 25 years, he held various positions around the world at Amoco. He was President and General Manager of Amoco Egypt for three years, President and General Manager of Amoco Argentina, and Managing Director of the Gulf of Suez Petroleum Company. He began his career in the petroleum industry as an engineer at Amoco, rising to Chief Engineer in ten years. For five years, he was based at Amoco's London office, as Vice President of Amoco (U.K.) Exploration Company. Robert graduated from the University of Wyoming with a BSc in Physics. He was awarded an MBA from Columbia University School of Business.

MANAGEMENT

Maxim Timchenko | Yuriy Ryzhenkov | Vitaly Butenko | Vsevolod Starukhin

Maxim Timchenko,
Chief Executive Officer
Maxim Timchenko has served as Chief Executive Officer of DTEK since July 2005. He previously worked as a consultant at the multinational PricewaterhouseCoopers – from 1998 to 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. Maxim graduated, with honours, in 1997 from the Donetsk State Academy of Management with a degree in Production Management. He continued his education at the University of Manchester where he earned a BA with honors in Economics and Social Studies. He is a member of the Association of Certified Chartered Accountants (ACCA).

Yuriy Ryzhenkov,
Chief Operating Officer
Yuriy Ryzhenkov was appointed Chief Operating Officer of DTEK in March 2010, after serving as CFO since September 2007. Between 2002 and 2007 he was Deputy CFO and CFO of the International Steel and Tube Industries Limited Group (ISTIL) (Donetsk-London). Before that, he worked in the financial and economic departments of the ISTIL Mini Steel Mill and the Donetsk Steel Works. Yuriy graduated with honours from King's College London (UK) in 2000, with a BA in Business Management. In 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 honours at the London Business School.

Vitaly Butenko,
Chief Strategy Officer
Vitaly Butenko has headed the Strategy and Mergers and Acquisitions Division of DTEK since April 2007. He previously 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 China. In 1995, he worked as an associate in the London office of the European Bank for Reconstruction and Development (EBRD). Between 1996 and 2004, he held executive positions at the leading investment banks, Credit Suisse First Boston, in New York; Bank of Nova Scotia, in Toronto; and IB TRUST, in Kyiv and Moscow. Vitaly graduated with honours from the University of Chernovtsy (Ukraine) in 1993, with a degree in foreign languages. In 1996, he was awarded an MBA from the Asper School of Business, University of Manitoba, Canada.

Vsevolod Starukhin,
Chief Financial Officer
Vsevolod joined DTEK as Deputy Chief Financial Officer, in December 2009 and became Chief Financial Officer in March 2010. He began his career, in 1995, at Kraft Jacobs Suchard as Credit Control and Financial Transactions Manager. From November to May 2006 he was in charge of the financial division of Mars Confectionery in Russia, Hungary, The Netherlands and Brazil. From May 2006, he worked as Financial Manager at the HQ of Schlumberger, in France, and then as Chief Financial Officer of its Russia division. In April 2008 he was appointed CFO of the aluminous division of Rusal (Moscow). Vsevolod graduated from the Warsaw School of Economics with a Master of Economics degree in 1995. He was also awarded a PhD in Economics at the Moscow Academy of Labour and Social Relations.

Sergey Kordashenko Guerman Ainbinder Sergey Detyuk Dmitriy Tikhiy Sergey Polianskiy

Sergey Kordashenko,
Human Resources and Corporate Communications Director
Sergey Kordashenko has been Director of Human Resources and Corporate Communications at DTEK since August 2005. Before that, he worked as Human Resources Director at Moscow Efes Brewery, Human Resources Director at AGA (Sweden) and Deputy General Director for HR at Vesso-Link (Russia). Sergey graduated from Moscow Aviation Institute in 1994 with a degree in Applied Mathematics. In 2005, he earned an International Executive MBA from the Stockholm School of Economics.

Guerman Ainbinder,
Business Development Director
Guerman Ainbinder joined DTEK in 2005 as head of the Strategy and Corporate Development Division before being appointed to his present position in 2007. He previously 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 Financial Manager at Nero (Russia). Guerman graduated from the Moscow Machine-Tool Institute in 1991 with a degree. In 1993, he was awarded an MBA at the School of Business and Economics at the Academy of National Economy and California State University (Hayward).

Sergey Detyuk,
Information Technology Director
Sergey Detyuk joined DTEK in 2007 as Deputy IT Director and was in charge of IT development at all DTEK enterprises, before being appointed IT Director in November 2009. He began his career in 2000 at the Ukrpodshipnik industrial and investment company, as Information System Expert, and was later appointed Deputy Manager of the project to create a corporate information system. Between 2004 and 2006 he was Head of the IT Unit at ISTIL and implemented an ERP system, based on SAP software. He later became Head of the IT Department at the Dneprospetsstal plant, where he was responsible for the introduction of an ERP system and ran several other IT projects. Sergey graduated from Donetsk State Technical University in 2000, with a Master's degree in IT Software. In 2002, he continued his studies and was awarded a degree in Finance and Economics at the same university.

Dmitriy Tikhiy,
Health, Safety and Environment Director
Dmitriy Tikhiy joined DTEK in January 2007 as Head of the Health, Safety and Environmental Department. He was appointed as HSE Director in December 2009. Between 1997 and 2004, he worked for British American Tobacco, where he started as Chief Power Engineer and rose to the position of HSE Regional Manager for Central Asia. In 2004, he moved to Rusal, where he was in charge of building an up-to-date safety management system at Krasnoyarsk Aluminum Works and, later, at all Rusal enterprises as Safety Director of the Aluminium Division. Dmitriy graduated from Saint-Petersburg University of Information Technologies Mechanics and Optics in 1994, with a degree in Process Design Engineering.

Sergey Polianskiy,
Security Director
Sergey Polianskiy Joined DTEK in 2005 as Deputy Head of DTEK Security Service for Economic Security and as Director of the Economic Security Department. From 1986 he held various positions in the internal affairs office. He began his career as Operation Officer, rising to Head of the 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 undertook international training courses on anti-terrorism and the disclosure of crimes involving explosives and firearms in the US, Great Britain and Turkey. Sergey graduated from the National Academy of Internal Affairs of Ukraine with a degree in law.

Development concept

To build an energy company which links Ukraine, the European Union and Russia into a single chain for the generation and sale of electricity. We will benefit from our vertical integration model; our management expertise, which is the best in the market; our experience of developing coal mining companies in difficult geological conditions; and the geographic location of our home market, Ukraine.

Our strategic goal is to become the national leader by gaining the largest share possible of Ukraine's coal and generation markets in compliance with regulatory limits.

Competitive advantages	Strategic goals to be achieved by 2013
Vertical integration < A well-balanced portfolio from coal production to electricity generation and sale. < We use our own coal to generate power. < Liberalisation of the energy market raises the prospect of bilateral contracts between generators and sellers of electricity.	To provide at least 90% of the fuel needed for our thermal generation from our own resources, and to sell at least 70% of the electricity produced to end consumers.
Best managerial expertise in the markets of operation < Our management team is pre-eminent in Ukraine's electricity generation and coal production industries. < We attract and develop best top managers in new markets.	To fill at least 80% of top and middle-level management vacancies with in-house candidates.
Experienced at developing coal mines in difficult geological conditions < We are experienced at minimising the cost of extracting coal from thin seams. < Our production costs, the lowest of Ukraine's coal producers, provide a competitive resource for the expansion of our generation business.	To achieve the lowest coal production cost in Ukraine.
Geographic location < Ukraine's geography makes it an important energy transportation link between Russia and Europe. We have access to raw materials in the Ukrainian and Russian markets, as well as to European markets for the sale of electricity.	To become Ukraine's principal operator in the external energy markets for resources outside Ukraine, and for those to account for at least 25% of the Company's operating profit.

STRATEGY

Strategic objectives of DTEK's businesses up to 2013

Coal production and enrichment	
To provide the coal for DTEK thermal generation activities	With the expansion of thermal generation business, the major task of coal production and enrichment segment is to satisfy the growing demand for fuel by increasing production and quality of coal products.
To set up an efficient trading function	Creation of coal trading will allow more effective use of existing coal resources, hedge risks by entering new markets and increasing market share in Ukraine.
To keep costs below those of imported energy by ensuring that we are the lowest-cost producer of coal in Ukraine	Competitive coal production is a pre-condition of a strong position in the electricity market. In 2009, DTEK was Ukraine's most competitive producer.
To integrate an up-to-date safety management system in our operations	The major task for coal production and enrichment is to reduce industrial risks that are inherent in Ukraine's coal mining industry. Achievement of high standards in safety management is one of the major goals for the Company.
Electricity generation	
To set up an efficient energy trading function	Generation business's task in both current and new markets, is to maximise income through efficient marketing and price policies in all market sectors (base and peak load sectors of new markets).
To keep TPPs competitive by increasing efficiency through the by-component reconstruction of our energy-generating units	Principal task in improving generation efficiency is to increase TPP units' fuel efficiency. This will enable us to maintain and strengthen our competitive position in the generation market.
To cut semi-fixed costs by 15%	Benchmarking semi-fixed costs determines the potential for cost cutting and areas for improvement.
Electricity transmission and supply	
To sell at least 70% of electricity produced to end consumers	Securing electricity sales to our own customers is a priority; it will provide a stable market for our generation output
To set up a commercial business for electricity supplies, and ensure 100% payment collections	An efficient commercial business will enable us gradually to expand our pool of clients
To be the lowest-cost supplier and transmitter of electricity in Ukraine	The implementation of a program to optimize operating costs will enable us to win customers in the open market.

Implementation of the Company's strategy in 2009

DTEK's medium-term strategy was formulated in 2008 when a new concept of the company's development was approved, and strategic goals and initiatives were set. Our strategy has not changed, despite the prolonged financial crisis: the key actions are all still in place and are being implemented.

In particular, in 2009 we continued to implement such significant strategic initiatives as the introduction of new equipment at our coal companies, the reconstruction of energy generating units at our TPPs, and network facilities at our distribution companies.

Coal

The operational improvements program is based on the introduction of new coal-extraction machinery, from German (DBT) and Czech (Ostroj) manufacturers; increased efficiency of existing equipment by dealing with bottlenecks and reducing downtime; optimization of coal deposit extraction; and the provision of in-house coal enrichment facilities. By operating advanced coal-breaking equipment at our mines, we are able to increase the load at a breakage face by 1.5 to 2 times.

The implementation of the division's development strategy has enabled us to achieve the lowest coal production cost, and to make our coal operations competitive – on both external and internal markets.

We took the strategic decision to establish «DTEK Trading» to strengthen our coal business. The objective is to diversify coal sales, gain entry to external markets, and expand coal supplying alternatives. In 2009, when demand for coal was low, the Trading House enabled us to sell all the coal produced, partly by expanding exports.

Generation

In 2009, our generating units at Kurakhovskaya and Zuevskaya TPPs were reconstructed as part of stage 2 of our project to reconstruct our generating capacities. These plants are currently operating two energy units that have undergone by-component reconstruction. The reconstruction project achieved the following:

- equipment service life was prolonged by up to 15 years;
- installed capacity was increased by 12-20MW a unit;
- the balancing range was increased by 35-42MW a unit;
- at a number of units, the specific consumption of fuel equivalent for electricity generation was reduced by 64g/kWh.

To optimize the efficiency of the repair work, and to achieve the most efficient way of meeting deadlines and budgets, we divided the project into that work which could be carried out by our own workforce and that which needed to be carried out by contractors.

We began the process of setting up a marketing function, to prepare us for operating in the bilateral-contracts market. Initially, the tasks of the function will include personnel training and preparation for reforming the market.

The development and implementation of an environmental protection program is a separate strategic project. Its objective is to ensure that our generation companies are able to meet European standards on harmful emissions.

Electricity transmission and supply

Our electricity transmission and supply business focused on implementing our initiative to set up an energy sales company to boost electricity sales on the domestic market and abroad. In late 2009, DTEK became the first privately-owned company in Ukraine to sign a contract to sell electricity outside the country.

A program to develop client-service centres, and the expansion of the range of services offered, are important elements in the development of the sales function.

FINANCIAL PERFORMANCE OVERVIEW

ANALYSIS OF FINANCIAL RESULTS

This analysis of DTEK's financial performance is based on the 2009 IFRS audited financial statements.

Income statement

Overview of the financial results

In 2009, DTEK's financial position remained stable despite a decline in the Ukrainian economy. The Company's consolidated revenue for the reporting period increased by 15.7%, to UAH15,009m, compared with UAH12,969m in 2008. The cost of sales increased by 25.5%, to UAH12,447m. As a result, gross profit reduced by 15.9%, to UAH2,562m (2008: UAH3,048m), while gross profit margin declined to 17.1% (2008: 23.5%). The decrease in gross profit is principally related to the increased cost of coal bought for the generation business, and greater depreciation charges resulting from the higher value of the property, plant and equipment on revaluation, as of 1 August 2008.

Adjusted EBITDA[1] increased by 3.1% year-on-year to total UAH3,565m (2008: UAH3,453m), while adjusted EBITDA[1] margin decreased to 23.8% (2008: 26.7%). Net finance costs increased by 79.5%, to UAH727m, mainly as a result of increased interest payments on loans relating to the increased cost to service debt financing (mainly due to UAH depreciation).

Earnings before tax went up more than four times year-on-year to UAH1,175m. The main factors influencing the earnings before tax were:
1) a reduction in the loss from net exchange-rate differences to UAH120m (2008:1,195m); this is as a result of lower fluctuation foreign exchange rate of UAH to USD compared with 2008;
2) increased profit from the stakes in Donetskoblenergo.

Net profit in 2009 increased more than seven times to UAH856m (2008: UAH119m), while net margin went up to 5.7% (2008: 0.9%).

Overview of financial results, UAHm

	2008	2009	Change, 09/08, %
Revenue	12,969	15,009	15.7
Cost of sales	(9,921)	(12,447)	25.5
Gross profit	3,048	2,562	-15.9
– Gross profit margin	23.5%	17.1%	
Distribution costs	(77)	(110)	42.9
General and administrative expenses	(532)	(598)	12.4
Adjusted EBITDA[1]	3,457	3,565	3.1
– Adjusted EBITDA[1] margin	26.7%	23.8%	
Operating profit	1,992	1,874	-5.9
– Operating profit margin	15.4%	12.5%	
Foreign exchange losses less gains from borrowings	(1,307)	(203)	-84.5
Net finance costs	(405)	(727)	79.5
Profit before income tax	248	1,175	373.8
Income tax	(129)	(319)	147.3
Net profit	119	856	619.3
– Net profit margin	0.9%	5.7%	
Net profit attributable to:			
– Shareholders of the Company	119	863	625.2
Minority interest	—	-7	

[1] Adjusted EBITDA represents profit for the year after excluding the following non-operating income statement items: foreign exchange losses less gains from borrowings, certain finance costs, income tax expense, depreciation and amortization and impairment of property, plant and equipment.

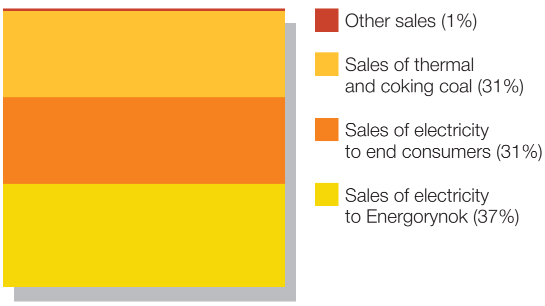
15.7%
Growth of consolidated revenue

Revenue
DTEK's revenue is generated by the wholesale of electricity to the State-run company Energorynok; sales of coal to end consumers, and proceeds from electricity transmission and supply. In 2009, consolidated revenue increased by 15.7% to UAH15,009m, (2008: UAH12,969m). In the reporting period, the Company's revenue was balanced between the different business divisions: electricity wholesale revenue accounted for 36.9% of consolidated revenue, while revenue from coal sales and electricity sales each accounted for 31.1%. Other sales revenue did not exceed 0.8%.

The Company generates its principal revenue (97.7%) in the domestic market. In 2009, it concentrated efforts expanding its markets, mainly by exporting coal.

In 2009, DTEK's revenue from electricity generation were down 2.2% year-on-year to UAH5,543m (2008: UAH5,665m). The main reason for this decrease was a lower output of electricity resulting from a decline in demand from internal consumers, and the reconstruction program (which required units to be taken out of operation): in the year, Vostokenergo decreased its electricity generation by 13.6%.

DTEK's revenue structure, UAHm



In 2009, the distribution business' revenue increased by 25.1% to UAH4,672m (2008: UAH3,736). An increased supply of electricity by Service-Invest to its consumers and higher electricity tariffs were the key drivers of the growth in the distribution business's margin.

Coal sales revenue in 2009 increased by 37.3% to UAH4,678m (2008: UAH3,407m). The main factors in this increase were higher sales in the domestic and export markets.

Cost of sales
DTEK's cost of sales in 2009 was up 25.5% to UAH12,447m (2008: UAH9,921m). It exceeds growth rate of consolidated revenue that for the reporting period increased by 15.7%. At the year end, therefore, gross profit decreased by 15.9%, to UAH2,562m (2008: UAH3,048m), gross profit margin also decreased to 17.1% (2008: 23.5%). The decrease in the gross profit margin is mainly related to a larger share of the electricity distribution business; increased costs of externally purchased coal for the generation business; and higher depreciation charges caused by the higher value of PPE after the revaluation as of 01 August 2008.

Electricity purchased for resale to end consumers forms the largest element (35.0%) in DTEK's production cost structure. Other essential cost items are payroll expenses (21.3%), raw materials costs (18.7%) and fixed asset depreciation (11.2%). Other costs include operational and overhead expenses, transport and utilities services, routine equipment repair and other items (13.8%).

Overall costs of electricity purchased by distribution companies from Energorynok, for resale to end consumers, grew in 2009 by 25.0% to UAH4,353m, the largest item in the Company's operating expenses. The increased costs of electricity purchased on the market is, primarily, a result of higher market prices and volumes.

DTEK's revenue structure, UAHm

	2008	2009	Change, 09/08, %
Sales of electricity to Energorynok	5,665	5,543	-2.2
Sales of electricity to end consumers	3,736	4,672	25.1
Sales of thermal and coking coal	3,407	4,678	37.3
Other sales	161	116	-28.0
Total	**12,969**	**15,009**	**15.7**
Revenue brake down by region:			
Domestic market	12,883	14,671	13.9
Exports	86	338	293.0
Total	**12,969**	**15,009**	**15.7**

FINANCIAL PERFORMANCE OVERVIEW

Staff costs declined by 1.0% to UAH2,647m in 2009. The reduction in staff costs is a result of downsizing the headcount.

Raw materials costs grew by 29.2%, to UAH2,325m, as a result of increased purchases of coal on the external and internal markets for generation.

Depreciation rose by 31.2% to UAH1,391m in 2009 as a result of the revaluation of fixed assets in 2008, as well as of the large-scale capital investment program being implemented at DTEK's operating companies during recent years.

Operating expenses
The most significant items in operating expenses were the cost of sales, and general and administrative expenses. Distribution costs rose by 42.9% to UAH110m in 2009; the main cost item (58%) is represented by the increased transportation costs resulting from coal exports.

Structure of DTEK's cost of sales, UAHm

General and administrative costs grew by 12.4% to UAH598m. The principal cost, 60%, in general and administrative expenses is staff costs, including payroll taxes.

Based on 2009 results, other elements of operating activities are "Other operating income" (UAH129m, 11% increase compared with 2008), including mainly reversal of previously written-off receivables, and "Other operating costs" (UAH192m, 40% decrease compared with 2008), including social payments to staff, losses from writing-off or sale of fixed assets, social infrastructure maintenance costs and charity.

Balance sheet

Assets
In 2009, DTEK's total assets increased by 11.9% to UAH20.2bn. The book value of non-current assets grew by 3.8% to UAH16.2bn. Non-current assets rose at the expense of the increased value of investments in associated companies, in particular following improvements in partially consolidated Donetskoblenergo OJSC's income.

Current assets increased by 62.6%, to UAH4.0bn (2008: UAH2.5bn) in 2009. This essential increase is due, primarily, to a 108% increase in trade and other receivables, to UAH2.1bn (2008: UAH1.0bn). Trade receivables comprise the debt of Energorynok for electricity supplied, and the debt of large and mid-sized Ukrainian companies. Based on the yearly results, trade receivables grew by 11.9%, to UAH905m (2008: UAH809m). Prepayment to suppliers also grew to UAH572m (2008: UAH70m) as a result of increased prepayments for coal.

Cost of sales, UAHm

	2008	2009	Change 09/08, %
Cost of electricity purchased for resale	3,482	4,353	25.0
Staff cost, including payroll taxes	2,675	2,647	-1.0
Raw materials	1,799	2,325	29.2
Depreciation of property, plant and equipment, net of amortisation of government grants	1,060	1,391	31.2
Cost of merchandise	83	6	-92.8
Cost of coal purchased for resale	37	754	1937.8
Production overheads	81	99	22.2
Taxes, other than income tax	141	174	23.4
Transportation services and utilities	481	608	26.4
Equipment maintenance and repairs	102	103	1.0
Change in finished goods and work in progress	-35	-15	-57.1
Other costs	15	2	-86.7
Total	**9,921**	**12,447**	**25.5%**

Distribution costs, UAHm

	2008	2009	Change 09/08, %
Transportation	46	64	39.1
Staff costs, including payroll taxes	16	16	0.0
Depreciation	3	6	100.0
Other costs	12	24	100.0
Total	**77**	**110**	**42.9**

General and administrative costs, UAHm

	2008	2009	Change 09/08, %
Staff costs, including payroll taxes	324	357	10.2
Professional services	99	126	27.3
Office costs	31	53	71.0
Transportation	14	14	0.0
Depreciation	17	20	17.6
Taxes, other than income tax	11	7	-36.4
Other costs	36	21	-41.7
Total	**532**	**598**	**12.4**

The 3% increase in the value of inventories, to UAH633m (2008: UAH614m), was insignificant and illustrated focus on inventory management.

Cash and cash equivalents totalled UAH739m, 24.2% above the previous year.

Liabilities and equity
Changes in the Company's liabilities are mainly as a result of the increased debt – non-current loans and borrowings reduced slightly to UAH807m (2008: UAH992m), while current loans grew by 32.2%, to UAH3,621m, (2008: UAH 2,739m). More details on debt are in "Company's debt".

DTEK's pension liabilities rose by 31.2% in 2009 to UAH1.4bn, primarily as a result of estimates update for liabilities calculation.

Trade and other payables of the Company reduced by 10.3% to UAH1.1bn reflecting phasing of Capex payments.

Equity increased by 8% to UAH10,793m (2008: UAH9,989m), Share premium of UAH9,909m in the equity structure was a result of the reorganisation of the Group's structure and the establishment of DTEK Holdings B.V. (The Netherlands) in 2009, as the Group's parent company. Share premium was recognised as a transfer from one equity category to another and did not affect the total equity value.

Company's debt
The Company's gross debt increased in 2009 rose by 18.7%, to UAH4,428m, (2008:UAH3,731m). Within the reporting year the non-current debt of the Company reduced by 18.6% after reclassification to current borrowings, to UAH807m (2008: UAH992m), while current debt increased by 32.2%, to UAH3,621m (2008:UAH2,739m).

FINANCIAL PERFORMANCE OVERVIEW

A large part of the debt is denominated in USD and EUR; borrowings in Ukrainian hryvnia (UAH) and Russian roubles (RUR) are relatively small – in hryvnia, UAH484m, 10.9% of the total, in roubles – UAH57m, 1.3% of the total. The debt denominated in US dollars is equal to UAH2,514m, or 56.8% of the total credit portfolio. Borrowings in EUR are equal to UAH1,373m, or 31.0% of the total.

The Company's debt is mostly current, with repayment terms of up to one year; current borrowings in the total credit portfolio equal 82%. The majority of DTEK's USD and EUR borrowings are made at a floating rates linked to LIBOR or EURIBOR respectively.

The increase in the cost of debt, compared with 2008, results from the situation in the world's financial markets; nevertheless, the situation remains within comfortable limits.

In 2009 DTEK raised bank loans for UAH3,160m.

Borrowings in various currencies, UAHm

Borrowings, UAHm

	2008		2009		Change 09/08, %
	In UAHm	%	In UAHm	%	
Non-current borrowings	992	26.6	807	18.2	-18.6
Current borrowings	2,726	73.1	3,596	81.2	31.9
Interest accrued	13	0.3	25	0.6	92.3
Total	**3,731**	**100.0**	**4,428**	**100.0**	**18.7**
Borrowings denominated in:					
USD	2,387	64.0	2,514	56.8	5.3
EUR	1,007	27.0	1,373	31.0	36.3
UAH	337	9.0	484	10.9	43.6
RUR	0	0.0	57	1.3	n/a
Total	**3,731**	**100.0**	**4,428**	**100.0**	**18.7**

Effective interest rates of loans

	2008			2009			
	USD	EUR	UAH	USD	EUR	UAH	RUR
	LIBOR 1m+4%–1m+12%	EURIBOR 1m+4.5%–1m+18%	14%–25%	LIBOR 3m+3%–3m+18%	EURIBOR 6m+1.7%–6m+18%	14%–26.5%	22%
Borrowings, UAHm	2,387	1,007	337	2,514	1,373	484	57

Financial ratios

	2008	2009	Change 09/08, %
Net profit, UAHm	119	856	619.33
Adjustments:			
(+) Non-operational losses from exchange rate difference	1,307	203	-84.47
(+) Impairment of property, plant and equipment	354	—	-100.00
(+) Single effect of application of new labour legislation	205	41	-80.00
Adjusted net profit	1,985	1,100	-44.58
Total assets (at year end), UAHm	18,070	20,214	11.86
Total assets (year average), UAHm	15,736	19,142	21.64
Return on assets (ROA), %	12.6	5.7	—
Equity (at year end), UAHm	9,989	10,793	8.05
Equity (year average), UAHm	9,232	10,391	12.55
Return on equity (ROE), %	21.5	10.6	—
EBIT, UAHm	2,019	2,132	5.6
Capital employed (at year end), UAHm	13,625	14,489	6.34
Capital employed (year average), UAHm	12,126	14,057	15.92
Return on capital employed (ROCE), %	16.7	15.2	—

Financial ratios
The key financial ratios used for analysing performance efficiency remained at an acceptable level in 2009, notwithstanding the general deterioration in Ukraine's economic situation. Return on assets (ROA) totalled 5.7% against 12.6% in 2008. Return on equity (ROE) totalled 10.6% against 21.5% in 2008.

Return on capital employed (ROCE) in 2009 totalled 15.2% (2008: 16.7%) primarily due to an increase in equity.

Cash flow, liquidity and financial solvency
Cash flow
DTEK's cash flow in 2009 was stable and covered the financial and investment needs of the Company. The cash balance on the accounts increased, net increase in cash and cash equivalents in 2009 reached UAH127m and liquidity and financial solvency indicators remained at a high level.

The operating cash flow was positive, although it declined by 26%, to UAH 2.1bn (2008: UAH 2.6bn. The reduction was the result of reduced output which, in turn, was the result of a fall in demand.

The investment cash flow also reduced against the previous year by 21%, to UAH2.5bn (2008: UAH3.1bn). The main reason for this change was a reduction in purchases of financial investments.

The financial cash flow in the reporting period was positive, at UAH471m. In 2009, the Company repaid and raised number of loans.

Net increase in cash and cash equivalents totalled UAH127m. Cash assets and equivalents in the books opened at UAH595m and closed at UAH739m, an increase of 22%.

FINANCIAL PERFORMANCE OVERVIEW

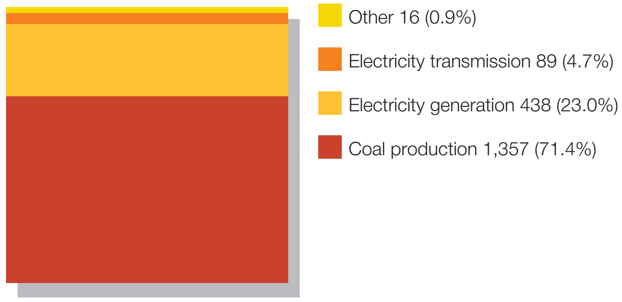
Investment activities

DTEK's investment program in 2009 increased by 0,5% and amounted to UAH1,900m (2008: UAH1,890m). The economic crisis in Ukraine has not significantly restricted the implementation of the program.

The majority of investments were allocated to our coal producing division and totalled UAH1,357m, a 0.4% increase over 2008. The investment program in the generation division totalled UAH438m, a UAH19m increase versus previous year. UAH89m, 4.7% of entire Capex was invested in distribution, and other investments accounted for UAH16m, 0.9% of investment.

More details on DTEK's investment program is in "Investment Activity" on page 66.

Investment program, UAHm



Liquidity and Financial solvency

DTEK's liquidity and financial stability in the reporting period confirms the Company's stable financial position. The current liquidity ratio rose from 0.56 in 2008 to 0.71 in 2009, while the absolute liquidity ratio remained almost unchanged at 0.13.

Key indicators of the Company's financial solvency in 2009 remained stable, reflecting Company's stable cash flow. The Net debt/Adjusted EBITDA[1] ratio was 1.03, which, in the opinion of DTEK's management, is at comfortable level. The Net debt/Equity ratio was 0.34, a conservative indicator for a large industrial company.

The Adjusted EBITDA[1]/ Interest payments ratio in 2009 was 7.41. This is below the 11.21 in 2008, and was within safe and acceptable limits.

Liquidity and financial solvency, UAHm

	2008	2009
Adjusted EBITDA[1]	3,452	3,566
Equity (year end)	9,989	10,793
Net debt	3,136	3,689
Net debt/Adjusted EBITDA[1]	0.91	1.03
Net debt/Equity	0.31	0.34
Total debt	3,731	4,428
Total debt/Adjusted EBITDA[1]	1.08	1.24
Total debt/Equity	0.37	0.41
Interest paid	308	481
Adjusted EBITDA[1]/Net interest paid	11.21	7.41
Liquidity:		
Current liquidity	0.56	0.71
Absolute liquidity	0.13	0.13

[1] Adjusted EBITDA represents profit for the year after excluding the following non-operating income statement items: foreign exchange losses less gains from borrowings, certain finance costs, income tax expense, depreciation and amortization and impairment of property, plant and equipment.

UAH1900m

investment program deployed in 2009

Credit ratings

In February 2009, the International Rating Agency, Fitch Ratings, raised the national long-term rating of DTEK Holdings Limited (DTEK) from "AA-" to "AA+" with "stable" outlook. The main reason for the rating revision was a significant improvement in the Group's credit portfolio. In addition, Fitch Ratings confirmed the short-term currency rating of DTEK at "B+" and reduced the long-term currency rating from "B+" to "B". This reduction was, primarily, as a result of the revision of Ukraine's sovereign rating.

In November 2009, Fitch reduced the long-term currency rating from "B" to "B-" with "negative" outlook, again as a result of a revision in Ukraine's sovereign rating.

In 2009 the international rating agency, Moody's Investors Service, assigned DTEK Holdings Limited, the holder of the corporate rights of DTEK's assets, "B2" long-term corporate rating (Corporate Family Rating) with a forecast change to "negative". The negative rating outlook was because of a possible future revision of Ukraine's credit rating.

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

Credit Rating

Rating	Fitch	Moody's
Long-term (currency)	B— / negative	B2 / negative
Short-term (currency)	B	—
Long-term (national)	AA+ / Stable	

Risk Management

DTEK has a comprehensive system designed to reveal potentially unfavourable events, which could have a negative effect on the forecasting, assessment and achievement of its goals. The system is also designed to minimize the possibility of these occurrences and their consequences.

Risk management is in force at all levels, from the Corporate Centre to the operating companies, and covers various areas of performance, from setting and implementing strategic and operational tasks to non-recurrent projects. Key decisions on acceptable levels of risk, and measures aimed at minimizing them, are made by the Executive Board and are based on recommendations from the Risk Committee. Qualitative (based on the experts' questionnaires and scored by probability and potential damage) and quantitative (based on statistical methods of analysis and financial-economic modeling) approaches are used.

To reveal and minimize each group of risks a standard procedure is adopted within DTEK, including:

- the formation of task forces, involving experts in all profile areas;
- revealing of risks based on agreed targets, existing processes and their coverage with resources;
- qualitative, quantitative and mixed assessment of risk exposure;
- ranging of risks based on assessment;
- development of points and methods of internal control for preventing the occurrence of risk events, as well as measures for reducing risk exposure and response in case of their occurrence.

In 2009, approaches to risk assessment and management of IT and investment projects were developed; the approach to managing risks which could influence the achievement of business plan targets and to corresponding control and response procedures was changed. In addition, procedures for regulatory risks were developed. Work on forming a unified approach to revealing, assessing and managing all types of risks is in progress. A Risk Committee was established to develop recommendations for the Executive Board on risk management. The committee participates in the planning and the development of risk management and internal control strategy, and directly in analysing risks assessment methods, statistical data on the occurrence of negative and unforeseen events and measures aimed at reducing risk exposure.

In the mid-term it is expected that the risk management system will be focusing on operational and environmental risks, IT risks, financial and strategic risks, and compliance risks. DTEK also plans to introduce a systematic approach to the management of reputation and market risks. Exposure to external and regulatory risks, which have a significant influence on the operation of the entire Ukrainian fuel-energy sector, is currently of most importance to DTEK. Even in this situation, however, the Company has developed approaches to revealing those risks and reducing exposure.

Market Risks
The Company is exposed to changes in market prices for electricity and coal supplied to the wholesale market. We have reduced market risks by changing our sales structure and expanding our markets for coal and electricity sales. In addition, our vertical integration structure minimizes market risk by reducing the risks related to supplying raw stock to our generating facilities.

Several task forces were established to manage these risks, at top and middle management levels. They meet on regular basis to review current market situation, and adopt measures aimed to reduce risk exposure.

Operational risks
DTEK pays special attention to monitoring and minimizing operational risks. Within the Company, programs aimed at operational costs reduction and increase efficiency of production processes are being implemented; plans to address emergency situations at the operating companies are developed. Operational risk management involves several areas of the Company's performance. In a company which operates in a number of activities, we pay particular attention to the risks associated with achieving key performance indicators and to the security of our resources, as well as to risks involved in the business process.

Risk management activities in the Company are combined with Internal Audit, Safety and Security functions to enable efficient decisions to be made on improving the risk management and internal control system.

We insure against risk to reduce our exposure.

Financial risks
Liquidity and currency risks are the most significant financial risks for the Company. We are currently implementing several initiatives to minimize financial risks.

A SAP system is being implemented, it will allow flexibility in liquidity and cashflow management. In addition, measures are being implemented to reduce currency risk exposure, including internal currency hedging, increasing hryvna based contracts, and similar measures.

We manage the risk of non-payment at operating-company level, form corresponding reserves for depreciation, perform centralised management of the funds-raising process and the loans portfolio, and take steps to diversify sources of earnings and currency risks by entering the international markets.

Regulatory risks
Since pricing in Ukraine's the coal and electricity markets is regulated by the State, DTEK is exposed to the risks associated with changes in legislation and regulatory policy. Since regulatory risk is one of the most likely risks to have an influence our business, we consider it a top priority to monitor and eliminate them at Group level.

Internal initiatives are developed to track our exposure to these risks and to respond to potential or actual events. A task force at top management level has been established, the management process is operating and we are introducing a method of reporting on the monitoring and exposure to these risks.

Compliance risks
This group of risks is closely related to regulatory risks. We have developed a plan to minimize them. In 2010 we propose disclosing our exposure to risks in all areas, where we need to comply with regulations and instructions, and what systems we will develop to control and report on them.

Environmental risks
One of the Company's most important strategic tasks is the management of environmental risks and the compliance with all legislative requirements and recommendations in this area. A task force has been established with the objective of developing and introducing a systematic approach to revealing and assessing our environmental risks. These processes are scheduled to be implemented during 2010.

IT risks
IT-related risks include those associated with the performance of the Company's IT services. We are in the process of creating a centralised IT infrastructure and services management system. While we were implementing this project in 2009 we developed a method to calculate the cost of failures in our IT services. IT risks are monitored and controlled at the level of management procedures (annual independent audit of IT procedures, organizational requirements to information security, etc) and at the process level (data backup and restoration, outsourcing of critical services, etc).

Reputational risks
Management of this group of risks is at the top level of the Company and is being implemented through initiatives in internal and external PR, as well through information security management. Reputational risks will be mitigated by the adoption of the Corporate Ethics Code in 2009.

What is the advantage of the Ukrainian market?

The principal advantage is Ukraine's geographical location as an energy transportation corridor between Russia and Europe. The European economy is characterised by intense energy use, while Russia and Ukraine have surplus energy resources that can be exported at a competitive price.

Macroeconomics

The past year was not easy for Ukraine. In 2009 the country's economy was seriously affected by a double shock caused by a reduction in steel demand (main export item) at the same time as a collapse in world credit markets. The effect of the world economic crisis was most critical in late 2008 and the first half of 2009. From second half 2009, the situation began to improve. Goverment statistics body estimated that Ukraine's GDP reduced by 15.9% in 2009 to UAH914.7bn.

The commercial production index reduced by 21.9%, after a 5% fall in 2008. The most significant fall was in steelmaking and machine building – the industries most dependant on external demand and the availability of credit. Since steelmaking comprises about 25% of Ukraine's industrial production, and machine building comprises about 15%, the influence of the world economic crisis on the Ukrainian economy was crucial. In second half 2009, however, industrial production began to recover.

Ukraine's external trade balance was negative in 2009 at (-) USD4.6bn or (-) 3.9% of GDP against 6.6% in 2008. This was the result of three factors: a fall in prices and demand for metals, the country's principal export; Russia's increased prices for gas; and a reduction in customer demand.

The average exchange rate of the hryvnia (UAH), Ukraine's national currency, in 2009 was UAH7.83 to the dollar (2008: UAH7.70 to the dollar). According to the Ministry of finance of Ukraine, public debt at the end of 2009 was USD26.5bn or about 32,9% of 2009's GDP. At the same time, the consolidated external debt of the corporate sector and banks was USD80bn, or about 87% of 2009's GDP.

Inflation slowed during the year to 12.3% (2008: 22.3%). The increased manufacturers' price index base was 14.3% (2008: 23.0%). The slowdown in inflation was primarily the result of a concomitant slowdown in effective consumer demand; for example, the real wage index in 2009 reduced by 10% against 2008.

In 2010 the world economy is expected to continue its recovery. In Ukraine's 2010 draft budget GDP is forecast to grow at 3.7%, while the budgeted deficit is about 4%.

Coal market

Demand and supply

The volume of run-of-mine (ROM) coal produced in Ukraine in 2009 was 72.3m tonnes, a 7% reduction on the previous year. The principal reason for the decline in production was the reduction in demand for thermal and coking coal from all key customers – steelmaking companies and thermal energy companies. In total, in 2009 46.5m tonnes of thermal coal were produced in Ukraine – 8.8% below the output in 2008. Production of coking coal reduced by 3.7% to 25.8m tonnes.

The maximum fall in demand in the internal market was in first half 2009. From second half 2009, demand gradually recovered as activity in all sectors of the economy increased.

The reduction in demand for coking coal was 11% for imported and Ukrainian coal; demand for Ukrainian coal reduced by 5%. The main reason was the 26.6% reduction in steelmaking companies' production, against the previous year. Notwithstanding the reduced demand, Ukraine continued to import coking coal during the year, 7.5m tonnes was imported. In 2010, the consumption of Ukrainian and foreign coking coal is expected to increase by 13–14%.

Consumption of thermal coal by generating companies also reduced by 11% in 2009 against the previous year, principally because of a fall in electricity consumption by industrial companies.

In first half 2009 there was a surplus of about 500 thousand tonnes of anthracite (grade "A") thermal coal; in second half demand and supply evened out. In first half there was a 300–400 thousand tonnes surplus of gaseous coal, but the gradual recovery of the Ukrainian economy in second half and an increase in electricity consumption resulted in a 600 thousand tonnes shortage of gaseous coal. A surplus of anthracite currently compensates for the shortage of gaseous coal.

In 2010 coal consumption by generating companies is expected to increase by 7–8%.

Despite the expected increase in demand for coking and thermal coal, a significant growth in output in 2010 is unlikely because the lack of investment in the sector in 2009 resulted in the non-preparation and non-commissioning of new longwalls.

The price of thermal coal concentrate was unchanged in 2009. In second half the price of coking coal was at 2008's level. From October, however, the price increased by 70–100%.

One of the promising lines of development in the coal sector is the increase in coal exports from Ukraine. The volume of anthracite supplied abroad has remained stable over a number of years, at an average of 3m tonnes a year. Exports of coking coal in 2009 were at about 0.4m tonnes – much more than in previous years, although we do not expect a significant increase in exports of this type of coal in the foreseeable future. Exports of thermal coal in 2009 totalled 1.5m tonnes – 39% more than in 2008. Increased coal export volume is primarily as a result of DTEK's entering Ukraine's export market.

MARKETS AND THE COMPETITIVE ENVIRONMENT

Market volume, key participants
Today the Ukrainian thermal coal market is divided between State-run and independent companies. The independent companies sell direct to customers, while the State companies' product is all sold through the State Enterprise, "Ugol Ukrainy".

The independent companies produced 33.9m tonnes in 2009 – 1.5m tonnes above the previous year. Their market share also increased, to 46.8%, 5.1% more than in 2008. The increased market presence of the independent companies is primarily due to the privatisation of the Belozerskaya, Belorechenskaya, and Chapayeva mines, as well as to a reduction in production by the companies of the Ministry of Coal Industry.

DTEK, with an annual output of 17.6m tonnes and 24.4% market share, is Ukraine's largest independent producer of coal.

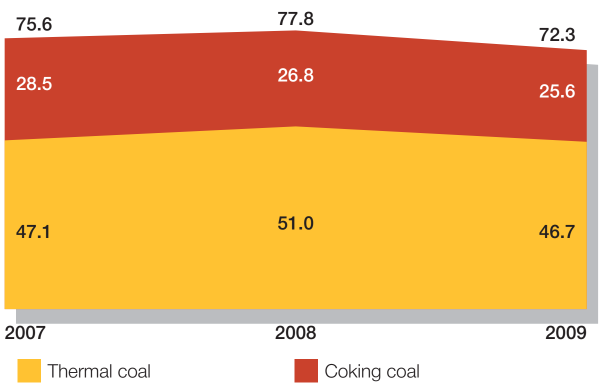
In 2010, the main task of Ukraine's coal mining sector will be to maintain coal production to at least the 2009's level, as well as preparing new longwalls to increase output in 2011.

In the medium term, an equally important task is the technical re-equipment of the coal sector to raise the competitiveness of Ukrainian coal and reduce the cost of production.

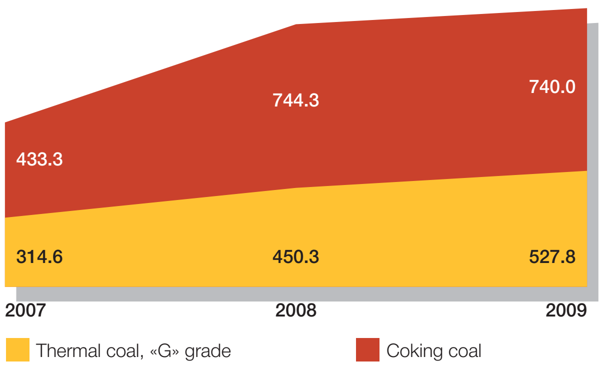
Coal market regulation and State support measures
In 2009 there was a trend towards strengthening State regulation of the coal market. The majority of statutory documents passed by the Cabinet of Ministers in 2009, gave preference to market control to the detriment of market mechanisms. The main reason for strengthening State regulation was the government's wish to support "Ugol Ukrainy", which appeared to be in a difficult situation as a result of the economic crisis, and to avoid problems which could have been caused by the mass layoff of miners and delays in paying wages.

In March 2009, in order to support the State mines the Cabinet of Ministers decided to form a State reserve of thermal coal. It planned to spend UAH800m to finance this reserve from the stabilisation fund. In addition, the government instructed the Energy Company of Ukraine, which manages the majority of energy-generation companies, only to buy coal from the State mines which were incorporated in "Ugol Ukrainy".

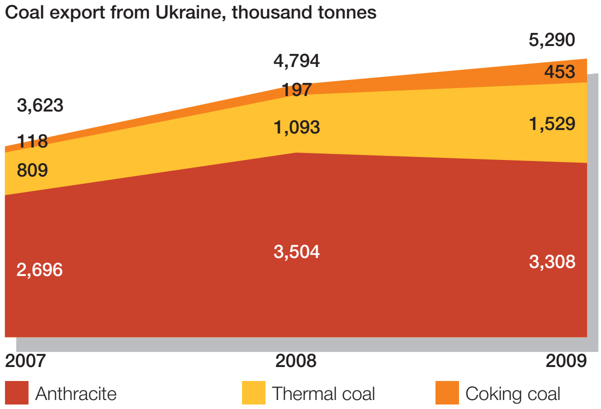
Coal output in Ukraine, m tonnes



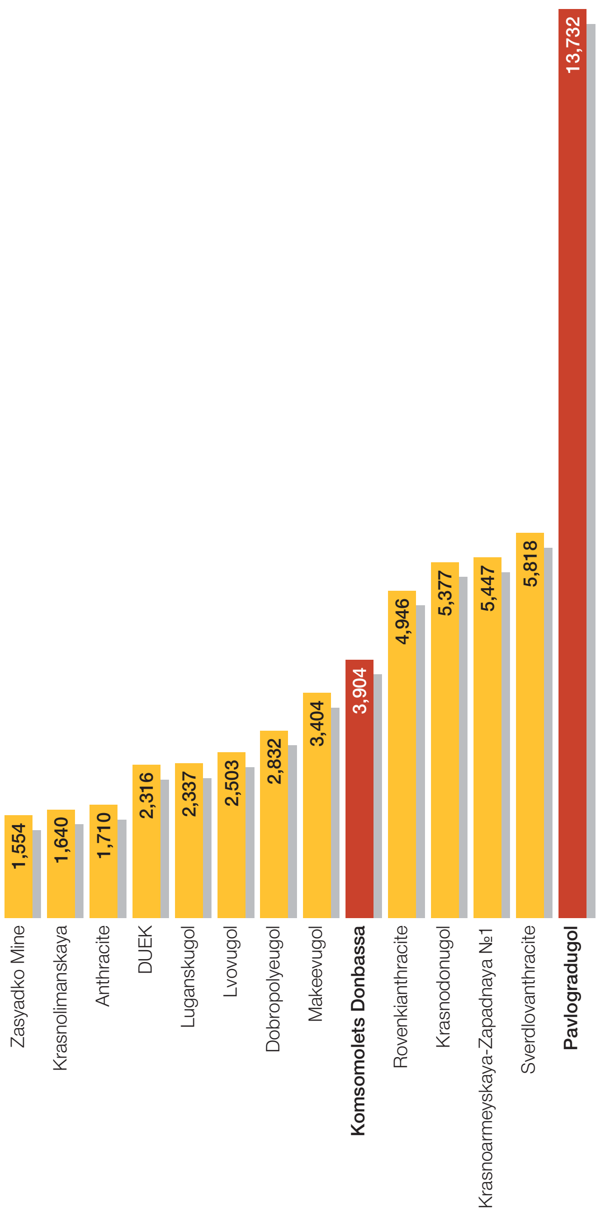
Coal concentrate price trend in Ukraine, yearly average, UAH/tonne



Coal export from Ukraine, thousand tonnes



Ukraine's largest coal mining companies in 2009, thousand tonnes



In the opinion of some market participants, one of the necessary conditions for creating a truly competitive environment, and for increasing the coal mining companies' efficiency, is the privatisation of the sector. In late April 2009, the Ministry of Coal Industry and the State Property Fund began to develop provisions for holding open auctions for the sale of 99 State coal mining companies. These auctions were not, however, held. In addition, work on the draft law on the privatisation of coal industry companies, which was supposed to become the key regulatory document for the privatisation processes, was suspended.

In 2009, because of the economic crisis, almost all the funds budgeted for the coal sector were allocated to the payment of wages. In 2010, however, the government plans to extend more extensive support to the State coal mining companies. The draft law "On the State Budget 2010" provides the modernization of the coal sector. UAH1.1bn has been allocated for the maintenance of construction and the technical re-equipment of coal mining companies.

In addition, in order to upgrade the sector, the draft law "On the State Budget 2010" provides guarantees, totalling UAH6.5bn, for attracting finance. These are expected to reduce interest rates to 3-4% a year.

In combination with "Ugol Ukrainy", the Ministry of Coal Industry is developing a State leasing company to introduce an efficient system for renewing coal mining companies' technical equipment.

The electricity market

Market leaders

The installed capacity of Ukraine's power plants is 52.6 GW, the major part of which is provided by thermal energy sector. Thermal power plants (TPPs) and combined heating and power plants (CHPPs) have an installed capacity of 33.6 GW, 64% of the entire capacity of the energy system, while nuclear power plants (NPPs) share does not exceed 13.8 GW, or 26%. At the same time, NPPs' share of electricity generation is larger because of the operational conditions of the process and their base load maintenance.

In 2009, electricity generation in Ukraine reduced as a result of a fall in demand from industrial companies – particularly the steelmaking and processing industries. Electricity consumption was 172.9bn kWh, 9.8% below that of 2008. According to statistics from the Ministry of Fuel and Energy, the largest reductions in demand were in the steelmaking industry (-17.2%), the chemical industry (-29.3%), the machine building industry (-26.9%) and in construction materials (34.3%). At the same time, household consumption grew by 7.7%.

MARKETS AND THE COMPETITIVE ENVIRONMENT

The nuclear energy sector is the largest electricity generator in Ukraine. As a rule, priority is given to electricity generated by NPPs because of its lower cost, which enables the wholesale price on the energy market to be maintained. During the economic crisis, the regulator attempted to restrain increases in tariffs in order to support consumers. As a result, NPPs' share of generation increased to 48% (2008: 46%). NPPs' installed capacity utilisation rate (ICUR) was 68.4%.

Generators of thermal power are the second most-important electricity producers. In 2009, TPPs produced 56.1bn kWh of power, thermal generation held a 41.1% share of the market, and its ICUR was 26.6%. Thermal generation is used for ensuring the base load and balancing the peak load. Based on 2009 figures, which are 11% higher than those of 2008, TPPs tariffs were, on average, UAH367.5/MWh (2008: UAH332.4/MWh) (net of VAT).

One of the prospective developments for the Ukrainian energy sector is export to the European Union. This would increase profits by increasing the loading of capacity. In addition, it would facilitate the formation of market indicators for development of the sector, since defined "rules of the game" would ensure an adequate return on investments in the market – an incentive that is a prerequisite for successful implementation of export projects.

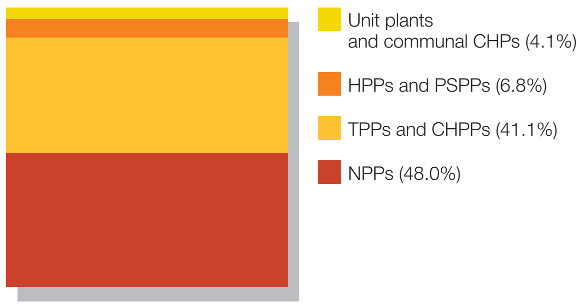
Market regulation
Currently, Ukraine's Wholesale Electricity Market (WEM) is organised on a "pool" model – the market operator, the State company Energorynok, buys all the output from generators and sells it to suppliers.

The law "On Energy Industry", adopted in 1997, is the principal statutory regulatory mechanism for Ukraine's wholesale electricity market. Licenses and regulations on electricity generation, transmission and supply are approved by resolutions of the National Electricity Regulatory Commission (NERC), as well as an Agreement between the participants in the wholesale market, as amended, signed in 1996.

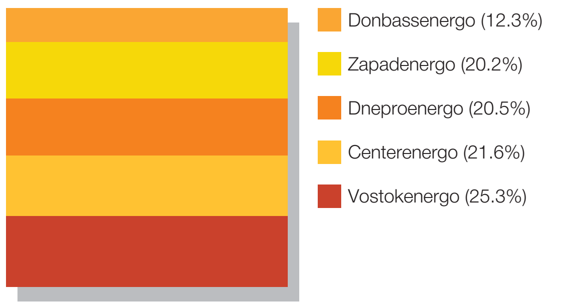
The NERC is the main body which regulates the electricity market. The commission participates in the formation of national policy on the development and regulation of the energy market; it regulates the natural monopolies in the energy sector, sets the tariff and pricing policy, and issues licenses for electricity generation, transmission and supply businesses.

In accordance with the agreement, the main issues related to the functioning of the electricity market are resolved by calling a general meeting of participants. In the periods between meetings, issues are resolved by the representative authority – the Board of WEM of Ukraine. The Board comprises five

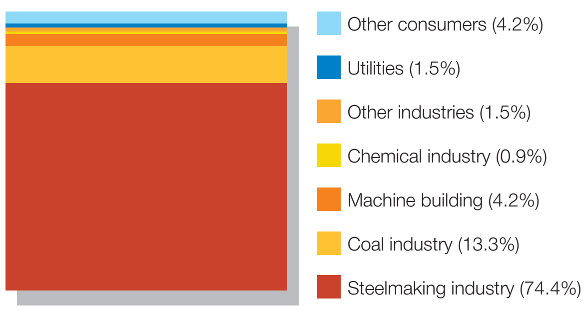
Generation in Ukraine's unified energy grid in 2009



TPPs' electricity supply structure in 2009



Structure of DTEK's productive supply to consumers



voting directors from the generating companies and five voting directors from electricity suppliers.

The regulated market segment, which occupies about 68% of the entire market, comprises the generators whose the tariffs are regulated by the NERC of Ukraine. These include the NPPs, HPPs, CHPPs and others. In the competitive segment (about 32% of the market) the TPPs and several CHPPs operate (Kiev CHPP-5 and CHPP-6, Kharkov CHPP-5 – until November 2009). The tariff for these generators is based on the limit price of the system which, in turn, is based on hourly price bids for each power unit.

The wholesale price for energy supplying companies is formed based on the average weighted price in terms of the volumes of electricity purchase from the generators, the costs of maintaining Energorynok and Ukrenergo (system operator), an investment mark-up, export and import supply prices, and subsidy certificates[1].

The electricity transmission and supply tariffs are regulated by the NERC and are based on the economically justified costs of a distributing company for a period of one calendar year. The tariffs can be revised on the initiative of the NERC and of the distribution companies.

The principal problems in the regulation of Ukraine's energy sector which prevent the market from functioning normally are the high cross-subsidies and the domination of non-market regulation and price-setting mechanisms. The need to prepare the procedure for switching to incentive regulation of the energy supplying companies, and reforming the wholesale electricity market, has been apparent for some time. Nevertheless, no significant moves in this direction were observed during the year.

Tariff setting

During the world economic crisis, the President of Ukraine issued a decree to stabilise the financial and economic situation. A moratorium on raising prices of goods and services supplied by natural monopolies was introduced. In addition, the Cabinet of Ministers of Ukraine, and mining, steelmaking and chemical sector companies signed a Memorandum of Understanding, under which the Cabinet of Ministers of Ukraine agreed to freeze electricity tariffs at 2008's level. As a result, the NERC introduced additional subsidies to certain customers in the wholesale market price structure. Subsidies to the electricity suppliers to compensate for losses engendered by selling non-regulated tariffs increased by more than UAH130m a month. The level of subsidy certificates was more than 33% in the wholesale market price structure.

Export

In 2009 positive steps were taken to begin the liberalise the electricity export market. In March the part of the law "On Energy Industry" which related to export regulation, was amended and work began on bringing subordinate legislation into line, and on adopting the new documents required. The work on establishing the new legal mechanisms was, however, protracted and the first auctions aimed at achieving access to the throughput capacity for electricity export did not take place until December 2009.

Reforming the electricity sector

The concept of reforming the electricity market which was adopted, is aimed at liberalisation of the market, switching to market mechanisms on pricing, and limiting State regulation. The main focus of the transformation is on changing the system to one of bilateral market contracts between electricity generators and suppliers. In addition, as a result of reforming the capacity market, system services, a day-ahead market and a balancing market will emerge.

It is assumed that the existing energy-market model will be reformed in several stages, in the course of which the mechanisms of suppliers' and consumers' interaction, and of real-time balancing will be introduced. Finally, load schedules will be switched from being centralised at WEM to being independently controlled. As a result, Ukraine's electricity market will become fully competitive and will be based on the same model as that in the majority of countries in continental Europe.

A new electricity market will enable participants not only to base forecasts of electricity supply and demand on market mechanisms, but also to make long-term plans and investments in modernization and extension of production capacities.

In 2007, within the framework of the Interdepartmental Commission for the co-ordination of activities, related to the

[1] Subsidy certificates are the instrument of implementing the cross subsidies of electricity tariffs for households at the expense of the electricity tariffs for other consumers' categories.

functioning and development of Ukraine's wholesale electricity market, the following task forces were formed:

- legislative basis and regulation of WEM's performance;
- mechanisms of financial settlements between participants in WEM and ensuring financial liabilities' performance;
- organisational structure, formalisation of the contractual system of relationship and basis of WEM self-regulation;
- economic basis of WEM functioning and development;
- production and process scheme to ensure WEM performance.

In accordance with the recommendations of the Interdepartmental Commission within the structure of the current system operator, market operator and other WEM players, separate divisions were formed. Their principal task was to introduce the new functioning of the energy market. In Ukrenergo (a system operator) a Balancing Market Department was established with a remit to develop regulations and software for a balancing market, and a system services market. In Energorynok (a market operator) a department for long-term development was established to advise the companies how to operate in a bilateral contract market and balancing market. It is planned that, in future, the department will establish an electricity Exchange and Settlement Operator.

In 2009 the NERC approved the schedule for the preparation of the first stage of switching to a bilateral contracts market, subject to which draft changes to current legislation are being developed and the documents necessary for the bilateral contracts market introduction are being prepared.

Market mechanisms introduced at the reforming stage (DTEK assessment)	Introduction of the mechanisms of electricity generators and suppliers interaction
1st stage (2008–2011)	
< Conclusion of the first bilateral contracts between generating companies and qualified consumers < Continuation of the mass work via WEM < Regulation of imbalances via WEM	< Pilot stage aimed at development of the mechanisms of counterparties' co-operation under the new conditions
2nd stage (2012–2013)	
< Introduction of real-time balancing market mechanism < Regulation of imbalances using imbalance end-prices mechanism	< Independent planning and forecasting of market participants demand, and assessment of risks related to imbalances
3rd stage (2014–2016)	
< Switching from centralised scheduling of loads via WEM to independent scheduling < Formation of daily electricity exchange used by market participants to verify own positions in readiness for physical supply and ensuring a price-reference point for bilateral contracts < Market operator changed from WEM to Electricity Exchange	< Market participants responsible for preparing own load schedules; operator does not interfere with market participants' co-operation
4th stage (from 2017)	
< Completely liberalised market based on bilateral-contract system < Voluntary regulation of imbalances through electricity exchange	< Complete market model of participants' interaction < Market regulation of imbalances creates new incentives for suppliers and generators to minimise own imbalances

As a supporter of the principles of transparency and fair competition, DTEK takes an active part in the process of reforming the energy market. Our representatives participate in the meetings of the Interdepartmental Commission and task forces.

Within DTEK a steering group for the analysis of documents and the development of the Company's key positions has been established, and task forces at Vostokenergo, Service-Invest, and PES-Energougol have been formed. DTEK's Executive Board is kept informed of the progress of the implementation of the WEM concept. To prepare the Company for working within the new energy market, training and seminars are held for managers and specialists.

How did we achieve the lowest-cost production of coal in Ukraine?

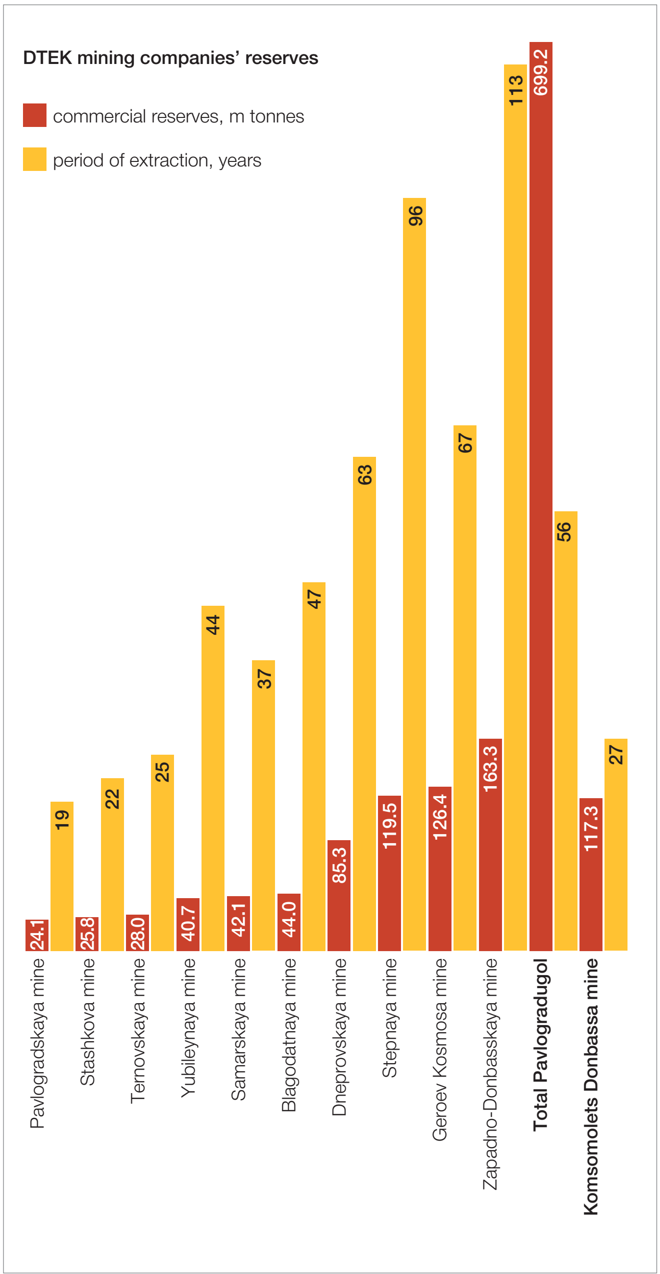
The cost of producing coal is one of the main efficiency factors in Ukraine. We achieved the lowest production cost in the country through continual upgrading of our mining equipment, expansion of our production capacities, and a reduction in accidents.

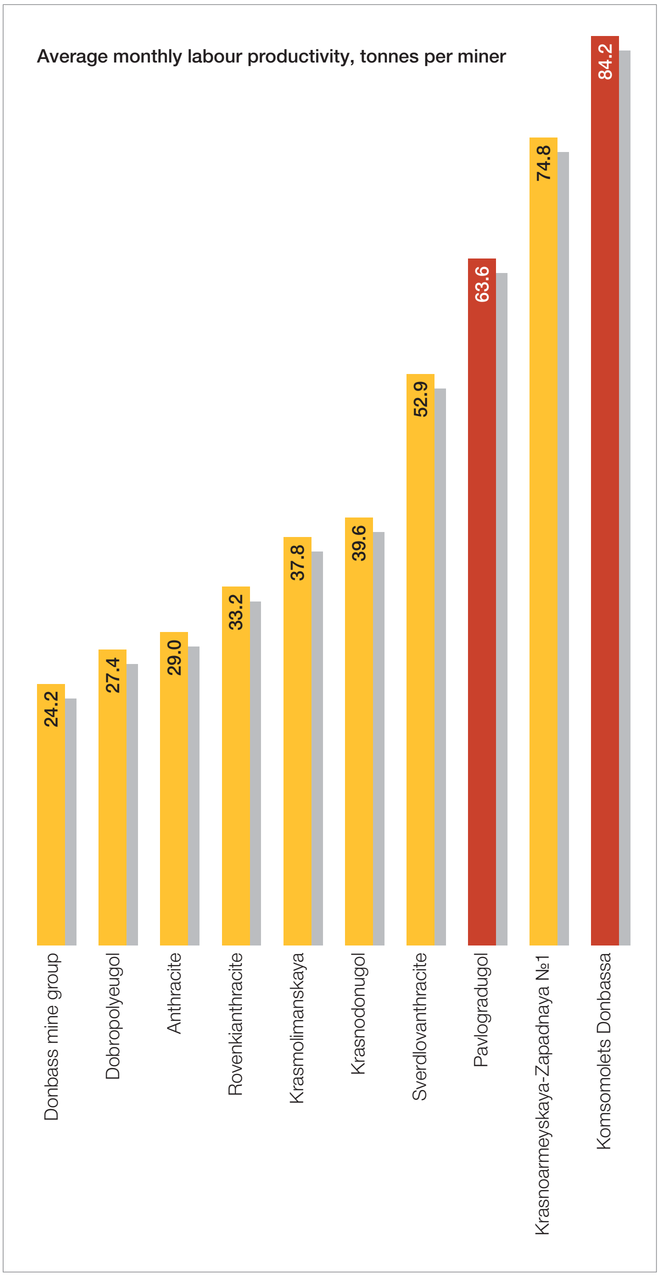
Production capacities of coal mining
Our production capacities are represented by two of Ukraine's largest mining companies: Pavlogradugol OJSC, and Komsomolets Donbassa mine OJSC.

In 2009, our coal mining companies retained output at the level of the previous year (17.6m tonnes), regardless of the recession in the sector. Our share of total coal output increased to 24.4% (2008: 22.6%).

During the year, Pavlogradugol produced 13.7m tonnes of coal – 3.5% less than in 2008 – but its market share increased to 19% (2008:18.2%). Komsomolets Donbassa mine increased production by 13.7% to 3.9m tonnes, while its share in Ukraine's total output increased to 5.4% (2008: 4.4%).

Our coal mining companies are characterised by highly-efficient production processes, high labour productivity and low production cost compared with other coal mining companies in Ukraine.





Company Profile

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COAL PRODUCTION AND ENRICHMENT

Pavlogradugol

Pavlogradugol is in an area of vast coal deposits in the Pavlogradsko-Petropavlovskiy area of the Western Donbass. The majority of its mining is thermal coal, but it also produces coking coal. It has commercial reserves of 699.2m tonnes. Based on existing production levels, these reserves will last for 56 years. The company inclues ten mines, as well as transport and production infrastructure divisions.

In 2009, Pavlogradugol produced 13.7m tonnes – 10.7m tonnes of which were thermal coal of “G” and “DG” grades. It also produced 3.0m tonnes of “G” grade coking coal. Production reduced by 4% in the year, compared with a peak of 14.2m tonnes in 2008, but remained above the 2007 indicator of 12.4m tonnes. The reduction in output during the year was insignificant, particularly against the background of the generally difficult situation in the sector, and is evidence of the company’s efficiency, as well as of the good performance of the sales division. Pavlogradugol’s share of Ukraine’s coal output in 2009 was 19.0% (2008: 18.2%).

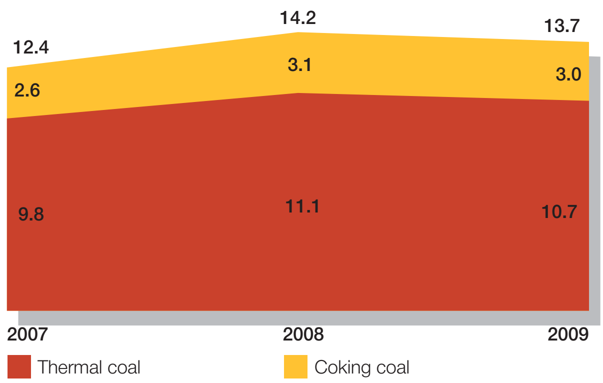
The main customers for Pavlogradugol’s product are Ukraine’s energy generating companies – Vostokenergo, Dneproenergo and Zapadenergo – which buy 69% of the thermal coal. The main customers for the company’s coking coal are the companies incorporated into Metinvest Holding.

In second half 2009 there was a reduction in demand from traditional consumers and in the internal market in general. Finding new sales markets and entering the external market enabled Pavlogradugol to overcome this difficult period – exports in 2009 increased to 0.9m tonnes (2008:0.2m tonnes). The internal market began to recover during second half 2009 and export sales subsequently reduced. By the year end there was a shortage of “G” coal on the market.

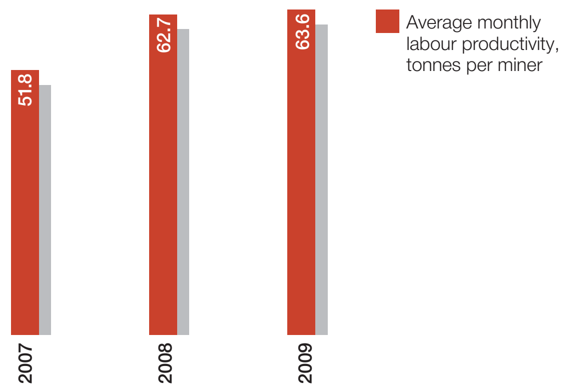
Productivity at Pavlogradugol’s mines is one of the highest in Ukraine: in 2009 it reached 63.6 tonnes per miner in a month, making Pavlogradugol one of Ukraine’s most efficient coal mining companies. During the year, the company tunnelled 93.9 km of mine workings and commissioned 38 new longwalls. The average headcount of the Company in 2009 was 26,000, 8.3% below the previous year.

The production upgrade and development program continued at Pavlogradugol during 2009. It covers all the company’s mines with the objective of replacing outdated equipment, increasing efficiency, improving the reliability and safety of infrastructure, and extending the mines’ useful lives.

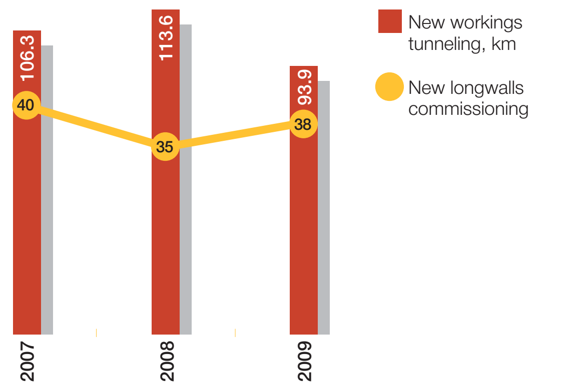
ROM coal production at Pavlogradugol, m tonnes



Production indicators at Pavlogradugol



Production indicators at Pavlogradugol



84.2 tonnes

Average monthly productivity at Komsomolets Donbassa mine

ROM coal production is expected to increase to 19.1m tonnes by 2014 and tunnelling to be 124.2 km a year against 93.9 km in 2009. In addition, the company plans to achieve an increase in miner's monthly productivity from the current 63.6 tonnes to 110.3 tonnes. To achieve these goals Pavlograugol plans to invest at least UAH1.3bn into the maintenance and upgrading of production capacities each year.

Komsomolets Donbassa Mine
Komsomolets Donbassa is the largest thermal coal producer in Ukraine. The commercial reserves of the Company are 117.3m tonnes which, based on existing production level, will last for 27 years. The company has its own coal-enrichment facility, which ensures that coal delivered to customers has a low ash content.

ROM coal production at Komsomolets Donbassa increased by 13.7% in the year, to 3.9m tonnes. The company's share of Ukraine's general output increased to 5.4% (2008: 4.4%).

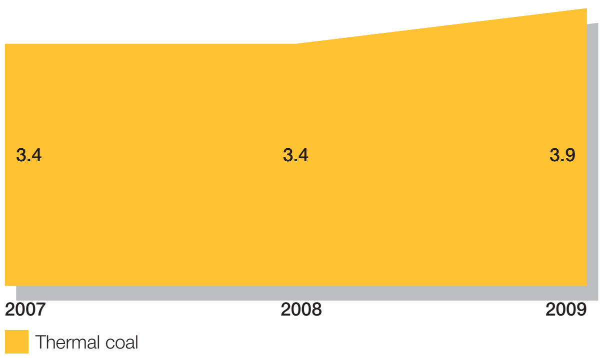
Komsomolets Donbassa produces "T" (lean) grade thermal coal, which has a high specific heat value. The main customers of the company are Vostokenergo and Dneproenergo, to which 99% of all supplies were delivered in 2009. Demand for the company's coal remained stable during the year.

Productivity at Komsomolets Donbassa increased in 2009 by 17.4% to reach 84.2 tonnes per miner in a month making it the most efficient of Ukraine's coal mining companies. In 2009, 19.1 km were tunnelled and five new longwalls were commissioned; these figures are similar to 2008. The average headcount at the mine reduced by 3.5% to 5,013.

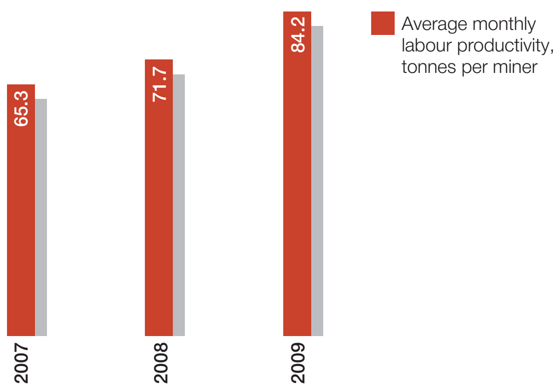
A number of large-scale investment projects are being implemented at the mine. The largest is aimed at upgrading the enrichment facility, the introduction of the automated production management system, and the development of a mine degassing system.

Komsomolets Donbassa mine's strategy is to increase production volumes, and to improve the quality of the finished product. By 2014 the company plans to increase annual ROM production from 3.9m to 5.0m tonnes, and to increase productivity from the current 84.2 to 122.7 tonnes per miner in a month. At the same time tunnelling is planned to increase from 19.1 km to 27.0 km a year. To achieve these objectives, Komsomolets Donbassa intends to invest UAH250-300m a year into development.

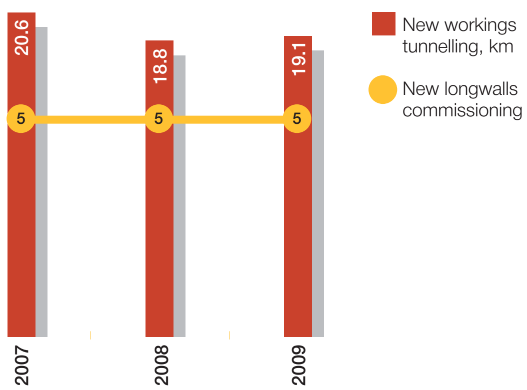
ROM coal production at Komsomolets Donbassa mine, m tonnes



Production indicators at Komsomolets Donbassa mine



Production indicators at Komsomolets Donbassa mine



COAL PRODUCTION AND ENRICHMENT

Production capacities of the coal enrichment segment
The production capacities of DTEK's coal enrichment segment comprise five enrichment plants – Pavlogradskaya CEP, Kurakhovskaya CEP, Oktyabrskaya CEP, Dobropolskaya CEP, Mospinskoye CEP – together with Ecoenergoresource, which cleans the tailings storage for the Pavlogradskaya CEP.

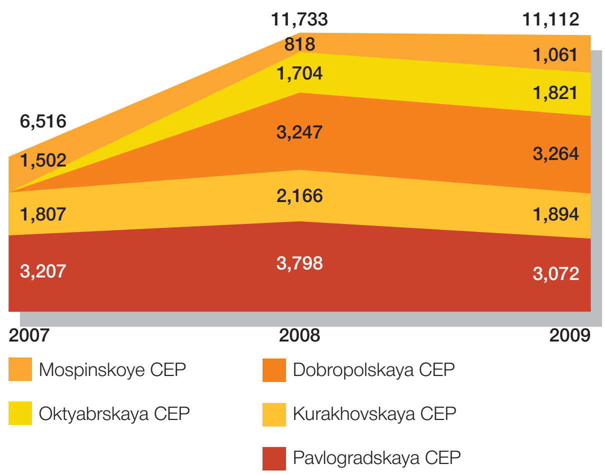
The aggregate amount of coal processed by the coal enrichment plants in 2009 was maintained at 2008's level of 11.6m tonnes. The volume of coal concentrate reduced by 5.4% against 2008. Production capacities loading in 2009 was 67.4%.

The principal company in the segment is Pavlogradskaya CEP, which enriches coal of "G" grade. It is one of the most modern coal enrichment companies in Ukraine, it has an annual capacity of 5.3m tonnes. The plant is currently in the process of upgrading its water and slurry scheme, using the flotation and classification of slurries in hydrocyclones. Pavlogradskaya CEP's product is shipped as coal concentrate to the thermal energy sector, as well as household fuel. Processing in 2009 totalled 3.1m tonnes and 2.2m tonnes of concentrate were produced. Capacity loading was at 58.5%.

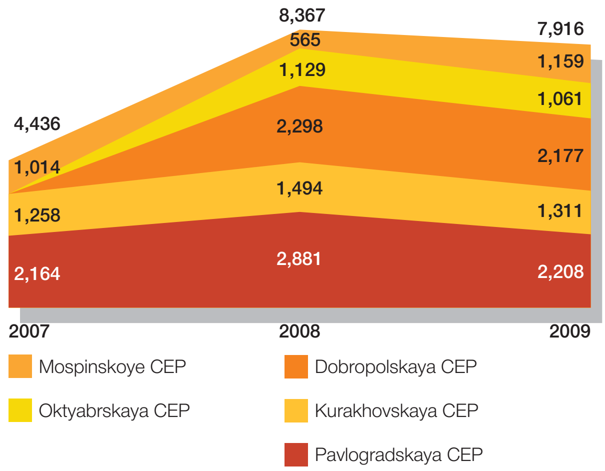
Kurakhovskaya CEP also enriches "G" grade coal. The plant's production capacity is 2.5m tonnes a year. The process at Kurakhovskaya CEP enables the enrichment of coal class 13–100 mm and 0.5–13 mm. Product is shipped in the form of coal concentrate to the thermal energy sector and as household fuel. In 2009 the plant processed 1.9m tonnes of ROM coal and produced 1.3m tonnes of coal concentrate. Capacity loading was at 75.8%.

Dobropolskaya CEP is designed for ROM gaseous coal enrichment with concentrate yield for coking and energy segment purposes. Following reconstruction the plant's capacity increased from 1.7m to 4.5m tonnes per year. The process used at the plant enables enrichment of coal classes 0–13 and 13–100 mm, as well as slurries 0–0.5 mm. Production in 2009 was 3.3m

DTEK's ROM coal enrichment, thousand tonnes



DTEK's Concentrate yield, thousand tonnes



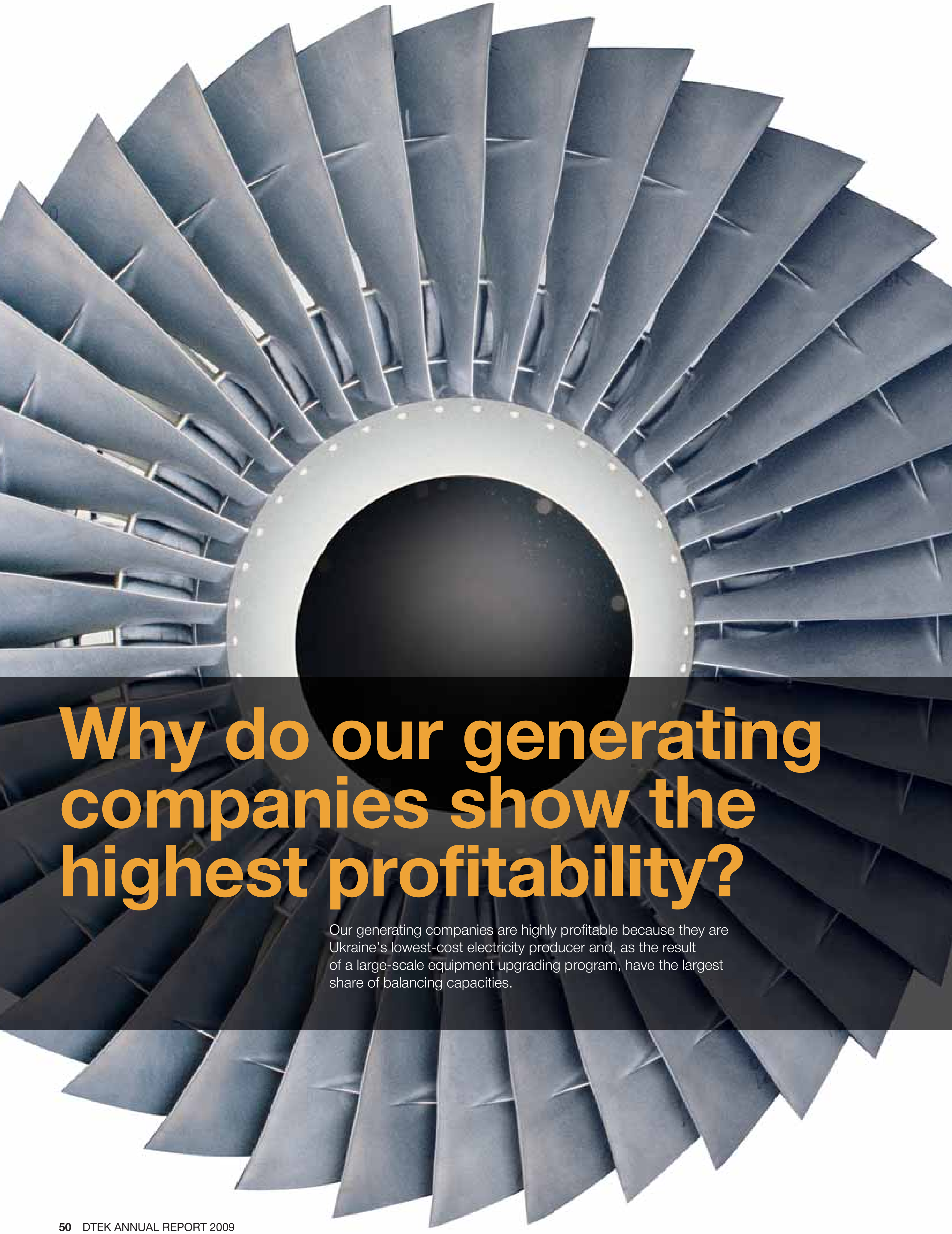
Production capacity loading — enrichment segment companies, %

	2007	2008	2009
Pavlogradskaya CEP	61.1	72.3	58.3
Kurakhovskaya CEP	72.3	86.6	75.8
Dobropolskaya CEP		72.1	72.5
Oktyabrskaya CEP		68.2	72.8
Mospinskoye CEP	60.1	32.7	63.0
Enrichment segment total	63.6	68.0	67.4

tonnes; 2.2m tonnes of coal concentrate were shipped to customers. Production capacity loading was at 72.5%.

Oktyabrskaya CEP, which has a production capacity of 2.5m tonnes, enriches ROM coal and produces concentrate for coking and the energy sector. The plant enriches coal of classes 13–100 mm and 0.5–13 mm, as well as coal slurries. Processing volume at Oktyabrskaya CEP in 2009 was 1.8m tonnes. At the same time 1.1m tonne of concentrate was produced. Production capacity loading was at 72.8%.

Mospinskoye CEP enriches "T" grade ROM coal and gaseous coal with concentrate yield for thermal energy purposes. The plant has a capacity of 2.5m tonnes a year. Mospinskoye CEP enriches coal of classes 13–100 mm and 0.5–13 mm, as well as slurries. Product is shipped in the form of coal concentrate for the thermal energy sector and as household fuel. In 2009 Mospinskoye CEP increased its coal processing volume twice – up to 1.6m tonnes. Concentrate production was at 1.1m tonnes. Production capacity loading increased from 32.7% to 63%.



Why do our generating companies show the highest profitability?

Our generating companies are highly profitable because they are Ukraine’s lowest-cost electricity producer and, as the result of a large-scale equipment upgrading program, have the largest share of balancing capacities.

DTEK's production capacities in the power generation sector are represented by Vostokenergo LLC and Dneproenergo OJSC[1]. Vostokenergo, Ukraine's largest independent electricity generating company, supplied 14.5 TWh in 2009, a share of 25.3% in thermal generation in Ukraine and a 9.3% share of the total power generation industry. In 2009, Dneproenergo, one of the leading Ukrainian producers of electricity and heat, supplied 11.5 TWh, had a 20.5% share of thermal generation, and a 7.5% share of the power industry as a whole.

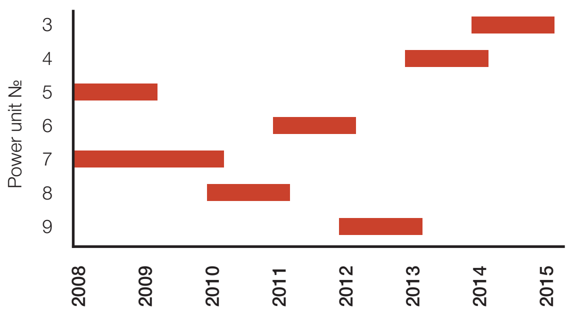
Vostokenergo

Production assets
Vostokenergo's production capacity includes three thermal power plants – Kurakhovskaya, Zuevskaya and Luganskaya TPPs. Kurakhovskaya and Zuevskaya TPPs are located in the Donetsk region, one of the largest industrially developed regions of Ukraine, Luganskaya TPP is located in the Lugansk region.

During 2009 the installed capacity of Vostokenergo's power plants increased to 4,117 MW. An additional 32 MW of installed capacity were obtained as a result of a successful reconstruction. Capacity was further increased by 20 MW after the reconstruction of Zuevskaya TPP power unit No 2 was completed, and another 12MW were obtained after the recalibration of Kurakhovskaya TPP power unit No 5 was done. The two power units of Luganskaya TPP – unit No 4, which has a capacity of 100MW, and unit No 12, which has a capacity of 175MW, were mothballed and did not take part in load maintenance. As a result, the company's actual working capacity was 275 MW below installed capacity.

Starting in 2007 Vostokenergo implemented a large modernization program which is expected to be completed in 2016.

Kurakhovskaya TPP, reconstruction of power units



Kurakhovskaya TPP

Power unit №	Installed capacity, MW	Date of commissioning/ last major overhaul	Wear at the end of 2009 (thousand hours)	Major overhauls/ reconstructions
3	200	1972/2007	243.754	Reconstruction 2014–2015. Expected increase in installed capacity – 12 MW.
4	210	1973/2004	223.278	Reconstruction 2013–2014. Expected increase in installed capacity – 12 MW.
5	222	1973/2009	207.032	Reconstruction accomplished in 2009. Installed capacity of power unit increased by 12 MW.
6	210	1973/2005	206.668	Reconstruction 2011–2012. Expected increase in installed capacity – 12 MW.
7	210	1974/2004	216.877	Reconstruction 2008–2010. Expected increase in installed capacity – 12 MW.
8	210	1974/2003	215.894	Reconstruction 2010–2011. Expected increase in installed capacity – 12 MW.
9	210	1975/2006	213.238	Reconstruction 2012–2013. Expected increase in installed capacity – 12 MW.
Total	**1472**		**1526.741**	

[1] DTEK has a 47.55% interest in Dneproenergo.

ELECTRICITY POWER GENERATION

Electricity generation and supply

Electricity generation by Vostokenergo reached 16.0 TWh in 2009, 14% less than in 2008. Electricity supplied to the market in 2009 was 14.5 TWh, 13.6% below supplied in 2008. The reduction in generation and supply is principally as a result of a fall in demand from the largest customers which, in turn, was a result of a reduction in production in Ukraine. Nevertheless, Vostokenergo's low generation cost, when compared with its competitors, ensures that it continues to be one of the most successful thermal generation companies in the energy market.

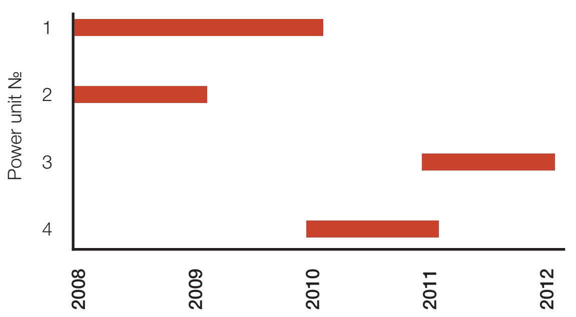
Zuevskaya TPP

Power unit №	Installed capacity, MW	Date of commissioning/ last major overhaul	Wear at the end of 2009 (thousand hours)	Major overhauls/ reconstructions
1	300	1982/2004	160.362	Reconstruction 2008–2010. Expected increase in installed capacity – 20 MW.
2	320	1982/2009	156.348	Reconstruction accomplished in 2009. The installed capacity of power unit increased by 20 MW.
3	300	1986/2006	139.083	Reconstruction 2011–2012. Expected increase in installed capacity – 20 MW.
4	300	1988/2005	130.112	Reconstruction 2010–2011. Expected increase in installed capacity – 20 MW.
Total	**1,220**		**585.905**	

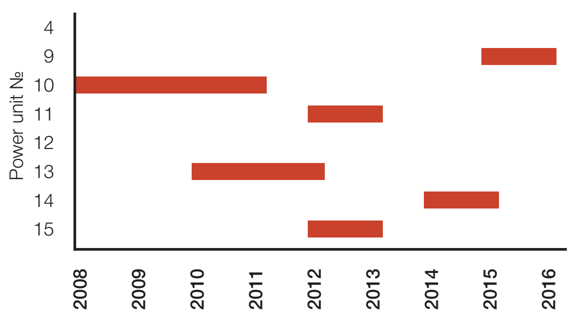
Luganskaya TPP

Power unit №	Installed capacity, MW	Date of commissioning/ last major overhaul	Wear at the end of 2009 (thousand hours)	Major overhauls/ reconstructions
4	100	1956/ long-term reserve	—	Turbo generator is mothballed (long-term reserve). No generation possible.
9	200	1962/2007	288.852	Reconstruction 2015–2016. Expected increase in installed capacity – 10 MW.
10	175	1962/2009	284.895	Reconstruction 2008–2011. Expected increase in installed capacity – 35 MW.
11	200	1963/2004	289.032	Reconstruction 2012–2013. Expected increase in installed capacity – 10 MW.
12	—	1967/long-term reserve		Unit is mothballed (long-term reserve). No generation possible.
13	175	1968/2003	255.771	Reconstruction 2010–2012. Expected increase in installed capacity – 35 MW.
14	200	1968/2006	248.648	Reconstruction 2014–2015. Expected increase in installed capacity – 10 MW.
15	200	1969/2005	257.768	Reconstruction 2012–2013. Expected increase in installed capacity – 10 MW.
Total	**1,150**		**1,624.966**	

Zuevskaya TPP, power units' reconstruction



Luganskaya TPP, power units' reconstruction

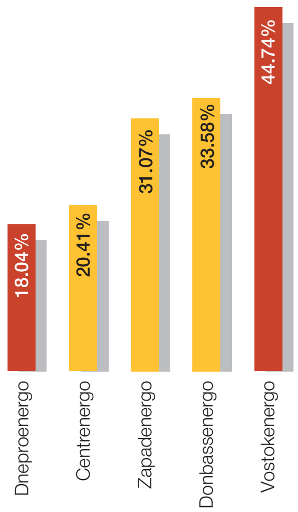


Key performance indicators of Vostokenergo's plants, m kWh

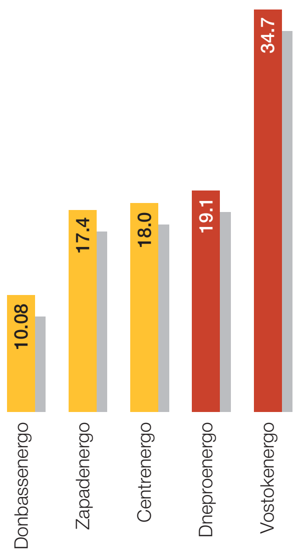
		2007	2008	2009	Change, 09/08	Change, 09/08, %
Zuevskaya TPP	Electricity generation	6,470.6	5,459.2	5,225.7	-233.6	-4.3
	Supply	6,026.6	5,071.2	4,846.5	-224.6	-4.4
	Electricity self-consumption	443.2	387.2	378.3	-8.9	-2.3
	— in %	6.9	7.1	7.2		
	ICUR, %	61.6	51.8	49.4		
Kurakhovskaya TPP	Electricity generation	7,000.7	6,469.6	5,181.0	-1,288.7	-19.9
	Supply	6,314.7	5,806.6	4,633.1	-1,173.6	-20.2
	Electricity self-consumption	679.1	657.3	541.9	-115.4	-17.6
	— in %	9.7	10.2	10.5		
	ICUR, %	54.7	50.5	40.5		
Luganskaya TPP	Electricity generation	6,436.3	6,590.0	5,636.7	-953.3	-14.5
	Supply	5,777.5	5,911.0	5,025.1	-885.9	-15.0
	Electricity self-consumption	655.9	676.1	608.7	-67.4	-10.0
	— in %	10.2	10.3	10.8		
	ICUR, %	52.6	53.1	45.2		
Vostokenergo	Electricity generation	19,907.6	18,518.8	16,043.3	-2,475.5	-13.4
Total	Supply	18,118.8	16,788.8	14,504.7	-2,284.1	-13.6
	Electricity self-consumption	1,777.8	1,720.7	1,528.9	-191.8	-11.1
	— in %	8.9	9.3	9.5		
	ICUR, %	56.0	51.8	44.7		

ELECTRICITY POWER GENERATION

2009 installed capacity utilisation rate (ICUR) of Vostokenergo and Dneproenergo compared with other power generating companies in Ukraine, %



Share of balancing capacity, % of total installed capacity



In 2009, Zuevskaya TPP's supply made up 4.8 TWh (-4.4% year-on-year), Kurakhovsksya TPP – 4.6 TWh (-4.4%), Luganskaya TPP – 5.0 TWh (-15%). In 2009, Vostokenergo's self-consumption of electricity as a whole totalled 1.5 TWh or 9.5%. The reduction in electricity generation and supply by Kurakhovskaya TPP and Zuevskaya TPP is principally because the units were shut down for reconstruction. Reconstruction of unit No 1 at Zuevskaya TPP and unit No 7 at Kurakhovskaya TPP took seven months (May-December). In addition, a fall in electricity demand in Ukraine and more intensive loading of nuclear capacities by the regulator contributed to the reduction in supply by Vostokenergo, as well as other Ukrainian power stations.

In 2009, the average installed capacity utilisation rate (ICUR) at Vostokenergo plants was at 44.7%. While this is below 2008's 51.8%, it is still the highest of Ukraine's thermal generation companies. In the sector, the average ICUR for 200 MW units is 36%, and for 300 MW units about 29%. The lower ICUR is because of a decrease in electricity consumption in Ukraine and an increase in NPPs' share of electricity generation.

In 2009, our share of potential balancing capacity in installed capacity was 21.5% (2008: 21.3%). The increase in potential was the result of the recalibration of unit No 2 at Zuevskaya TPP.

In the EWMMA (Electricity Wholesale Market Members' Agreement) Market Rules, there are incentives which result in flexible services being in demand: companies which provide intensively flexible services have the opportunity to make higher profits. In 2009, Vostokenergo manoeuvered its units, which are particularly flexible, by 32% more than other Ukrainian thermal generation companies – in 2008 it had been 41% more.

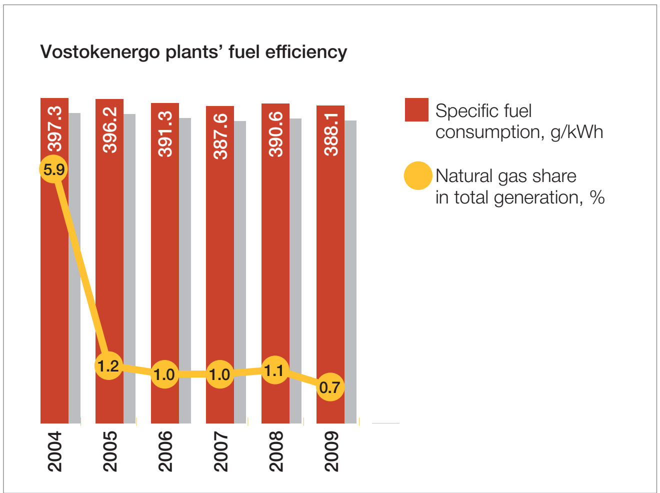
Provision of Fuel
DTEK's generating companies have the advantage of providing their own coal. This not only ensures stable supplies and quality control, but also enables them to maintain their lowest-cost production against other thermal generation companies.

Vostokenergo's principal fuel is coal, produced by DTEK's coal mining enterprises. Zuevskaya and Kurakhovskaya TPPs use "G" grade coal, while Luganskaya TPP uses anthracite and lean coal. In 2008, a 76.5% or 5.8m tonnes of coal was purchased from DTEK, with the remainder bought from third-party suppliers. Quality control of the purchased coal enabled Vostokenergo to obtain coal supplies of sufficient quality and, as a result, gas and fuel oil were not needed in the coal combustion process.

Since 2005, natural gas at Vostokenergo TPPs has been used only to start power units. In the first half of 2009, when

44.7%

ICUR of Vostokenergo plants in 2009



the price of fuel oil was lower than natural gas, as a tonne of fuel equivalent, Vostokenergo used fuel oil for units start-ups. Taking the price of oil products into account, however, this subsequently resulted in a higher fuel oil price and, from July 2009, Vostokenergo turned back to natural gas. In 2009 actual coal consumption was 8,039,000 tonnes, fuel oil was 52,000 tonnes, and natural gas was 34.4m cubic metres. In 2009, coal purchases represented 94% of all Vostokenergo's fuel expenses.

For some years, Vostokenergo's power plants have implemented programs to increase power units' fuel efficiency. In 2003, the specific fuel consumption per 1kWh was 399.6g, and consumption of gas, which was used in the production process, was 6.9%. From 2002 (when the company was privatised) natural gas consumption has been decreasing. Currently, it is not used at Vostokenergo's plants to generate electricity; it is used only to ensure the plants' flexibility during units' start-ups.

In 2007, a large-scale reconstruction of the power units of all Vostokenergo plants began. By 2016, the program should significantly improve the fuel efficiency of Vostokenergo's energy capacities. In particular, a specific reduction in fuel consumption of 10-48g (– 5-8%) is expected at the power units, and natural gas consumption will remain as low as 1%.

In second half 2009, the first reconstructed unit, unit No 2 at Zuevskaya TPP, was recommissioned. Its performance showed a reduction in specific fuel consumption from 354.3g/kWh to 342.1g/kWh. Turbine upgrading, implemented by Turboatom (Ukraine), was crucially important in achieving this result. The scientific-technical solutions used at Zuevskaya TPP's unit turbine were awarded the Research and Development State Award in 2009.

Maintenance and Overhauls

To ensure the reliable operation of power equipment and to extend its useful life, Vostokenergo carries out annual maintenance of its all fixed production assets. The maintenance program is developed on the basis of a preliminary analysis, the requirements set out under normative documents, and the many years of experience in operating this equipment.

During 2009, two major overhauls (reconstructions) of unit No 1 at Zuevskaya TPP and unit No 7 at Kurakhovskaya TPP, as well as six middle-life overhauls and nine routine maintenance programs, were completed.

In addition, in 2009, the following maintenance work on power units and general plant equipment was performed:

Zuevskaya TPP: mid-life overhaul of power unit No 3, and a routine maintenance of power units Nos 2 and 4.

Kurakhovskaya TPP: mid-life of power units Nos 5, 6 and 8, routine maintenance of power units Nos 3, 4 and 9.

Luganskaya TPP: mid-life of power units Nos 10 and 15, routine maintenance of power units Nos 9, 11, 13 and 14.

As a result of production process optimization, it was possible to reduce the time required for maintenance work. The routine maintenance of power unit No 4, Zuevskaya TPP, was completed nine working days earlier than expected, and the mid-life overhaul of power unit No 10, Luganskaya TPP, was 14 working days shorter. Because of the additional scope of work caused by identified flaws, the timelines of mid-life overhauls of power unit No 3, Zuevskaya TPP, and of power unit No 8, Kurakhovskaya TPP, and routine maintenance of power unit No 11, Luganskaya TPP, took longer than estimated.

Vostokenergo uses its own labour force for maintenance, as well as contractors which, in 2009, performed 11.3% of the work. In 2009, the cost of the maintenance and overhaul campaign was UAH261.5m, which is comparable to previous year.

Power units' upgrading and reconstruction program

In 2009, Vostokenergo continued to implement its large power-equipment upgrading program, begun in 2007, which is aimed at extending its service life. On 4 May 2009, reconstruction of power unit No 1, Zuevskaya TPP, and power unit No 7, Kurakhovskaya TPP, began. During the year, power unit No 10, Luganskaya TPP, was also upgraded.

It took seven months to reconstruct Zuevskaya TPP power unit No 1, the main equipment – the boiler, turbine and generator –

as well as ancillary equipment – the electric precipitators – were upgraded and an Automatic Process Control System (APCS) was installed. The APCS is based on a Siemens software-technical set, which is the most up-to-date available on the market. It was the first time the set had been used at 300MW power units. The introduction of the APCS should increase the equipment's reliability, useful life and quality of operation by minimising the need for human participation in controlling the power unit process. On 8 December 2009, the unit was reconnected to the grid.

Some ancillary work to the reconstruction of the unit will be carried out in early 2010. It is projected that upgrading the unit will extend the service life of its equipment by 15 to 25 years, will increase the unit's installed capacity by 20MW, expand its flexibility range from 135 MW to 170MW, decrease specific fuel consumption by 2.3%, and reduce emissions of dust by 50%. The total investment in the reconstruction was UAH183.5m.

In 2009, a boiler unit, a turbine, a generator and a transformer were reconstructed at Kurakhovskaya TPP's unit No 7. Work is scheduled to be completed in 2010. The power unit will also have an APCS installed, and its electric precipitators will be reconstructed. In 2009, UAH163.7m was invested in upgrading this power unit.

The total scale of the reconstruction of unit No 10 at Luganskaya TPP is similar to the projects to upgrade units 1, at Zuevskaya TPP, and 7, at Kurakhovskaya TPP. The unit's transformer was reconstructed in 2009; other work will be completed in 2010. UAH21.7m was invested in the project during 2009.

Dneproenergo

Production capacity
Dneproenergo's production capacities include three thermal power stations: Pridneprovskaya, Krivorozhskaya and Zaporozhskaya. In addition to generating electricity, Dneproenergo supplies heat to communities in the Dnepropetrovsk region. DTEK holds 47.55% of Dneproenergo shares.

Dneproenergo plants' total installed capacity, at 8,185 MW, did not change in 2009; it represents 30% of the installed capacity of Ukraine's thermal power plants. A significant proportion of the capacity is, however, from gas and oil-fired power units (GOU); electricity generation costs from these generators are higher than from coal-fired generators. As a result, electricity generated by some units, is not in high demand on the Energorynok, and the units themselves are in conservation. Currently, power units No 12 and No 14, Pridneprovskaya TPP (285 MW each), units No 7 and No 9, Krivorozhskaya TPP (282 MW), and power unit No 6, Zaporozhskaya TPP (800 MW) are mothballed. The total installed capacity of the mothballed units is 1,934MW.

In 2009, Dneproenergo generated 12.9TWh of electricity, 19.5% less than in 2008. In 2009, the company's electricity supply to Energorynok fell by 19.9% to 11.8TWh. The scale of electricity generation and sales was affected by the drop in demand caused by the country's decrease in consumption during the economic crisis.

In 2009, the thermal power supply increased by 9% to 627.7m Gcal compared with 625.4m Gcal in 2008.

In 2009, Pridneprovskaya TPP's supply amounted to 3.1TWh (14.2% down on 2008), Krivorozhskaya TPP – 4.7TWh (19.7% down on 2008) and Zaporozhskaya TPP – 4.0TWh (24.2% down on 2008). Dneproenergo's electricity self-consumption was 1.0TWh, or 7.8%.

In 2009, the installed capacity utilisation rate (ICUR) at Dneproenergo plants was 18.0% (2008: 22.3%). The UCUR drop in the reporting year is a result of a reduction in the electricity generated because there was less demand from industrial customers.

In 2009, the balancing capacity of Dneproenergo was one 150MW unit at Pridneprovskaya TPP a part of a 300MW unit at Krivorozhskaya TPP, subject to TPPs operating with a set of equipment above the minimum permissible. In 2009, potential balancing did not change and was 17.1%.

Since the demand for Dneproenergo's balancing capacity depends on the level of electricity consumption reaching the overnight minimum, DTEK is aiming to increase profit by providing additional balancing services. In 2009 the actual share of balancing capacity was 19.1% (2008: 17.1%). The actual balancing capacity of Dneproenergo was higher than that of most other state generating companies in Ukraine.

Provision of fuel
The main fuel used at Dneproenergo plants is thermal coal. The company uses "A" (anthracite), "T" (lean) and "G" (gaseous) grades of coal; as well as fuel oil of M-100 grade, and natural gas. DTEK coal mining companies supply the majority – in 2009, 98.5% – of the coal used by Dneproenergo.

30%

Dneproenergo's installed capacity share of the total of all of Ukraine's TPPs

In 2009, actual coal consumption was 5.730,9 tonnes, fuel oil consumption was 26.8 thousand tonnes, and natural gas consumption was 57.4m cubic metres. Coal represented 97.9% of Dnenproenergo's fuel, gas represented 1.4%.

Maintenance and overhauls
In 2009, 91% of maintenance and repairs was carried out by the Company's own maintenance team. Outside contractors – which won tenders on the basis of relevant licenses and experience, and guaranteed high-quality service – were used for the rest of the work.

All maintenance and repair work on the TPPs' equipment was completed in line with 2009's maintenance and overhaul schedule – there were no deviations from the approved schedule.

Dneproenergo plants: key performance indicators, m kWh

		2007	2008	2009	Change, 09/08	Change, 09/08, %
Pridneprovskaya TPP	Electricity generation	3,942.7	4,066.6	3,502.8	-563.8	-13.9
	Supply	3,523.6	3,638.4	3,121.6	-516.8	-14.2
	Electricity self-consumption	359.2	367.2	326.1	-41.1	-11.2
	— in %	9.1	9.0	9.3		
	ICUR, %	25.5	26.2	22.7		
Krivorozhskaya TPP	Electricity generation	6,318.0	6,333.8	5,106.0	-1,227.8	-19.4
	Supply	5,844.3	5,853.3	4,699.8	-1,153.5	-19.7
	Electricity self-consumption	449.2	445.3	370.9	-74.6	-16.7
	— in %	7.1	7.0	7.3		
	ICUR, %	25.6	25.6	20.7		
Zaporozhskaya TPP	Electricity generation	6,327.8	5,661.1	4,324.6	-1,336	-23.6
	Supply	5,910.6	5,234.1	3,967.2	-1,266.9	-24.2
	Electricity self-consumption	368.9	375.3	310.9	-64.4	-17.2
	— in %	5.8	6.6	7.2		
	ICUR, %	20.1	17.9	13.7		
Dneproenergo	Electricity generation	16,588.5	16,061.5	12,933.4	-3,128.1	-19.5
Total	Supply	15,278.5	14,725.8	11,788.6	-2,937.2	-19.9
	Electricity self-consumption	1,177.8	1,186.9	1,007.9	-179.4	-15.1
	— in %	7.1	7.4	7.8		
	ICUR, %	23.1	22.3	18.0		

ELECTRICITY POWER GENERATION

Krivorozhskaya TPP

Power unit No	Installed capacity, MW	Date of commissioning /last major overhaul	Wear at the end of 2009 (thousand hours)	Major overhauls/ reconstructions
1	282	1965/1993	280.900	Reconstruction in 2013. Increase in reliability and equipment exploitation efficiency, decrease in emission.
2	282	1966/1998	276.936	Reconstruction in 2014. Increase in reliability and equipment exploitation efficiency, decrease in emission.
3	282	1968/1993	252.773	Reconstruction in 2010–2011. Increase in reliability and equipment exploitation efficiency, decrease in emission.
4	282	1968/2005	216.461	Reconstruction in 2015. Increase in reliability and equipment exploitation efficiency, decrease in emission.
5	282	1968/1994	261.519	Reconstruction in 2012. Increase in reliability and equipment exploitation efficiency, decrease in emission.
6	282	1969/1995	232.786	Reconstruction in 2016–2017. Increase in reliability and equipment exploitation efficiency, decrease in emission.
7	282	1970/long-term reserve	190.390	The unit is in conservation (long-term reserve). No generation possible.
8	282	1970/1996	238.410	
9	282	1972/ long-term reserve	178.750	The unit is in conservation (long-term reserve). No generation possible.
10	282	1973/1992	173.230	Reconstruction in 2013. Increase in reliability and equipment exploitation efficiency, decrease in emission.
TOTAL	2820			

Zaporozhskaya TPP

Power unit No	Installed capacity, MW	Date of commissioning /last major overhaul	Wear at the end of 2009 (thousand hours)	Major overhauls/ reconstructions
1	300	1972/1996	246.945	Major overhaul in 2010, reconstruction in 2011–2012. Increase in reliability and equipment exploitation efficiency, decrease in emission.
2	300	1972/2006	233.216	Reconstruction in 2014. Increase in reliability and equipment exploitation efficiency, decrease in emission.
3	300	1972/1999	239.414	Major overhaul in 2011. Increase in reliability and equipment exploitation efficiency, decrease in emission.
4	300	1973/2002	220.983	Reconstruction in 2015. Increase in reliability and equipment exploitation efficiency, decrease in emission.
5	800	1975/1995	148.888	
6	800	1976/long-term reserve	127.365	The unit is in conservation (long-term reserve). No generation possible.
7	800	1977/1992	133.159	
TOTAL	3600			

Pridneprovskaya TPP

Power unit No	Installed capacity, MW	Date of commissioning /last major overhaul	Wear at the end of 2009 (thousand hours)	Major overhauls/ reconstructions
7	150	1959/2000	307.752	
8	150	1960/2007	319.495	
9	150	1960/1995	303.583	Reconstruction in 2010–2011. Increase in reliability and equipment exploitation efficiency, decrease in emission.
10	150	1961/2006		Reconstruction in 2013. Increase in reliability and equipment exploitation efficiency, decrease in emission.
11	310	1963/2001	238.725	Reconstruction in 2015. Increase in reliability and equipment exploitation efficiency, decrease in emission.
12	285	1964/long-term reserve	221.579	The unit is in conservation (long-term reserve). No generation possible.
13	285	1965/1997	278.884	Major overhaul in 2013. Reconstruction 2016–2017. Increase in reliability and equipment exploitation efficiency, decrease in emission.
14	285	1966/ long-term reserve	246.384	The unit is in conservation (long-term reserve). No generation possible. Major overhaul in 2012–2014 including K-310 turbine reconstruction. Expected capacity increase by 10 MW.
TOTAL	1765			

How will we increase income of our transmission and supply companies?

We will increase our distribution companies' income through the liberalisation of the electricity market and the move to bilateral contracts, which will increase the importance of our electricity distribution business. To improve this segment's profitability, we intend to develop electricity transmission and supply businesses separately, to introduce more thorough control of operating expenses, and to develop a commercial function.

7.7%

DTEK's share of tradable electricity purchased from WEM in 2009

Production capacities of the electricity transmission and supply segment
DTEK's electricity transmission and supply resources are represented by Service-Invest LLC and PES-Energougol OJSC. The companies' networks are in the industrially-developed Donetsk and Dnepropetrovsk regions. The aggregate length of the networks is 3.8 thousand km, and the total transmission capacity is more than 2.8 thousand MVA.

Service-Invest is the leading enterprise in DTEK's transmission and supply business. It manages 2,593km of electric transmission lines (1.964 km of high-voltage lines – including 154kV and 110kV lines) and 69 transformer substations, which have a total capacity of 2,372,000MVA. In 2009, the average headcount of Service-Invest was 670, compared with 639 in 2008. The increase in headcount is explained by an expansion of activities in the Dnepropetrovsk region and the establishment of a new electric networks unit.

PES-Energougol's resources include 11 transformer substations and 381 distribution points, which have a total capacity of 452MVA, as well as 1,224km of transmission lines. In 2009, the average headcount was 922, compared with 957 in 2008. The reduction in headcount is a result of 11 substations being serviced remotely and equipped with burglar alarms.

Electricity purchasing and transmission
The main customers for the electrical power supplied by the Service-Invest and PES-Energougol networks are the industrial enterprises in the Donetsk and Dnepropetrovsk regions of Ukraine. These are primarily ore mining and smelting, coal production, and machine-manufacturing companies. In 2009, the total transmission via DTEK networks fell by 11.3% to 11,984m kWh.

Transmission through Service-Invest's networks reduced by 11.7% in 2009, resulting from the fall in electricity consumption

Production capacity of electricity transmission and supply

	Service-Invest	PES-Energougol	Total
Lines' length, km			
154kV	434	—	434
110kV	1,530	18	1,548
35kV	507	8	515
6–10kV	122	882	1,004
0,4kV	—	317	317
Total	**2,593**	**1,225**	**3,818**
Number of substations			
110kV	35	5	40
35kV	13	6	19
SB 6-10kV	16	65	81
TS, SB 6/0.4kV	5	316	321
Total	**69**	**392**	**461**
Transformer capacity, MVA			
110 kV	2,091	159	2,250
35 kV	264	96	360
6–10 kV	17	197	214
Total	**2,372**	**452**	**2,824**

ELECTRICITY TRANSMISSION AND SUPPLY

by ore-mining and coal-mining complexes. Productive supply to its own consumers increased, however, by 8.3% to 10,665m kWh. Service-Invest is connected to a number of large customers, such as OJSC Concern Stirol and OJSC Ilyich Iron and the Steel Works of Mariupol, which switched to a regulated electricity supply tariff.

In 2009, Service-Invest's principal customers continued to be ore-mining and smelting companies – they used 81.2% of total consumption. The coal-mining and machine-manufacturing sectors also consume considerable volumes – their respective shares were 8.9% and 4.6%. Enterprises in the Metinvest Holding LLC Group, in particular the Azovstal Iron and Steel Works, Severniy GOK, Centralniy GOK and Yenakievo Steel, consumed more than half (52.2%) of the supply produced. In 2009, electricity supply to DTEK Group enterprises comprised 7.3% of Service-Invest's total production.

Electricity transmission to PES-Energougol customers decreased by 66.2m kWh (6.5%) to 951m kWh. The reduction was a result of lower electricity consumption by industrial enterprises, in particular by mines and mining equipment machine-manufacturing plants. Electricity supply to household consumers increased by 3.5m kWh.

Measures to minimize electricity losses

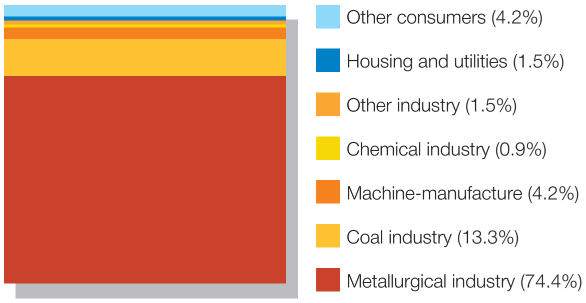
DTEK's electricity transmission and supply companies continue to focus on reducing and controlling electricity losses in their networks.

During 2009, implementation of special measures, aimed at reducing commercial losses, continued at PES-Energougol. In particular, it included metering segmentation to identify problem points; the feeder-based metering program was implemented and around 25km of 0.4kV power lines, including the self-supporting insulated conductor, were reconstructed. In addition, the company's specialists installed 1,216 new electricity meters, making it possible to check data, control consumption, and disconnect non-paying customers, remotely; 123 electricity meters installed within the framework of the AECMS project, can be used to meter electricity on an hourly basis (during certain time slots) at 16 substations.

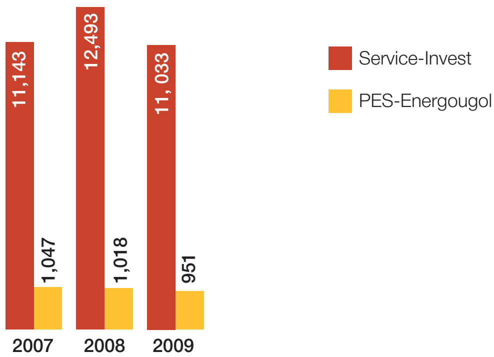
The actual electricity losses in PES-Energougol's networks in 2009 reduced by 1.8% year-on-year to 70.9m kWh.

As of today, Service-Invest has achieved the minimal possible level of process losses, which cannot be lowered further. At the same time, the enterprise continues to improve the metering of electricity supplied. In 2009, an automated electricity commercial metering system (AECMS) was introduced; this is currently

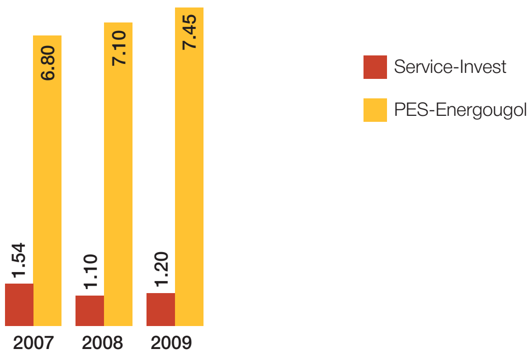
DTEK's Electricity transmission and supply segment: structure of productive supply to customers



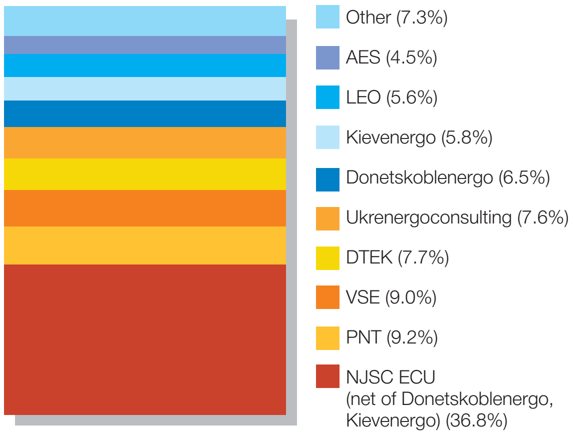
Electricity transmission in networks, m kWh



Process loss dynamics in networks, %



Share of electricity purchase from WEM



used for test-running the software designed by the company's specialists. In 2010 we plan to make the AECMS fully operational on a commercial basis.

Purchasing electricity from the Energorynok

In 2009, DTEK companies' share of electricity bought from Ukraine's WEM increased by 1.2% to 7.7% (2008: 5.5%) of the total saleable electricity supply in Ukraine. The increase in DTEK's market share took place against a background of a drop in Ukraine's electricity supply. The total electricity purchased by the Company's electricity transmission and supply enterprises from the WEM was 11.8m kWh, 7.3% up on 2008.

The increase in the amount of electricity purchased by Service-Invest following a decrease in the supply by Gencos, is as a result of other electricity companies operating an unregulated tariff switch to supply from Service-invest.

Developing and improving the quality of customer service

Improved quality of customer support, and the development of service and additional assistance, are the key tasks of our electricity transmission and supply enterprises.

Service-Invest

In 2009, Service-Invest continued to expand its client-information consulting centres, which were set up in 2008. In addition, it made considerable progress in implementing the means of examining the external electricity supply schemes of industrial customers, and in designing and implementing joint-investment projects aimed at improving the reliability of their electricity supply. In particular, a joint project on the reconstruction of the electricity supply networks to Yenakievo Steel was launched during the year.

During the past three years, the process of monitoring and analysing the quality of electricity supply to customers has been organised and supported. The monitoring methodology is based on the best international practices; in particular, such indicators as SAIFI, SAIDI, and CAIDI, which are unified standards for foreign electricity transmission and supply companies, are monitored.

In order to ensure full and timely payments for electricity supplied, and to minimise accounts receivable, the Service-Invest Receivables and Payables Committee resumed its activities in early 2009. The committee designed mutual debt redemption schemes – with the participation of DTEK enterprises – restructured arrears, developed measures to improve efficiency, and made decisions on restricting power supply to non-payers.

Energougol ENE

In 2009, the Internet-Shop technology was introduced at Service-Invest as a part of the information-consulting services development. The technology makes it possible for industrial customers to access their accounts remotely through the internet. This new service saves significant time in verification and payments for electricity, and improves clients' support.

During the reporting period, in order to develop Service-Invest's service infrastructure further, consulting services, call-centre and engineering sections were introduced on the model of the Donetsk information centre. They will help to centralize the provision of additional services.

Why did we reinforce the IT function?

DTEK treats information technologies not just as a service, but as a real means of increasing business efficiency. In 2009, we created the Information Technology Division and began the process of introducing an enterprise resource planning (ERP) system, based on SAP software. We believe this will considerably improve our operating efficiency.

As a large, diversified and vertically-integrated business, the establishment of an up-to-date IT-structure is an integral part of DTEK's development strategy. In 2009, we began the implementation of our IT development strategy, which we had designed in collaboration with Deloitte consultants. The primary task of the new organisational unit, the IT division, is to use IT to aid our business activity and development.

One of the division's important tasks is the establishment of an up-to-date service infrastructure, to provide IT services to comply with best international practice and to meet the Group's business needs. In 2008, we decided to improve efficiency by centralising the function and, by late 2009, two-thirds of our enterprises were serviced by the centralised IT unit. This resulted in user satisfaction in 2009 increasing to 92%, from 70-75%, despite a 12% reduction in the headcount of IT personnel.

In 2009, service catalogue management, incident management and change management processes were introduced, in line with an information technology infrastructure library (ITIL) and Microsoft office framework (MOF) recommendations. We introduced an adequate configuration management database (CMDB) and a service desk – a centralised user-support service, which processed more than 12,000 requests during the year. Now all users' applications go to the IT service through a single access point, where the parameters of their processing are documented.

During the year, server capacities and applications were consolidated. This included the Company's enterprises in the Donetsk region, where one data processing centre has helped to release around 20% of server capacity. As a result of consolidating applications, we have managed to reduce the cost of ownership of some information systems by 30%.

The introduction of new information services is the second important aspect of the IT division's activity. In mid-2009, it began to implement a long-term program to establish a unified corporate information management system (ERP system). We chose SAP AG as the solutions supplier at Company level. During the first stage, which will last until the end of 2010, the SAP ERP system was launched at Pavlogradugol, and SAP HCM (human resources management) and SAP BI/BPC (business planning and consolidation) at our corporate centre.

By 2013, SAP solutions will be in place at all our enterprises. The scale and implementation schedule of the project is unique in Ukraine: no other company has simultaneously introduced SAP solutions on such a scale. The general information management system will unite DTEK's coal and power enterprises in four regions of Ukraine. The introduction of SAP solutions will enable us to tackle management tasks and systematise business processes efficiently, and will ensure that our operations are transparent.

In 2010, the division's principal task is to complete the large-scale projects begun in 2009. We plan to complete the centralisation of our IT functions and the automation of our IT management operating processes, including items such as change management and configuration management. We plan to set up problem-management and configuration-management processes, and to develop and conclude service level agreements (SLAs) with our business units.

During 2010, we will also complete the installation of a centralised corporate infrastructure, based on Microsoft technologies. This will help to create a unified information space, to standardise services and to build an efficient infrastructure management system. A full-fledged data processing centre will also be established. In addition, we are developing a unified technical policy for network infrastructure and telecommunications, and plan to start its implementation during the current year.

Why did we continue our investment program during the crisis?

We believe investment is one of the key drivers in our business competitiveness. Following decline in electricity and coal demand in 2009, we revised completion dates some of the projects in our investment program, avoiding cancelations. Our Capex program increased by 1%, driven by modernization of generating and coal-mining capacities projects.

Since 2006, DTEK has been carrying out a large-scale investment program aimed at extending and upgrading its production facilities. The objectives are to increase production volume, reduce cost, improve productivity, and introduce better safety conditions for our employees.

DTEK plans to expand its business organically and through acquisitions, including targets outside Ukraine. Our prime focus is on electricity generation, distribution and coal-mining enterprises that will be integrated smoothly into the current structure of our vertically-integrated business.

Our investment program did not change significantly in 2009, despite difficult economic situation in the country. Main changes related to revision of the completion dates of some projects, avoiding cancellation. During the year, our investments totalled UAH1,926.2m, 11% more than in 2008. The bulk of investments was in coal-mining – UAH1,359m– and electricity generation – UAH434,8m. Investments in our electricity distribution business totaled UAH89.9m.

Investment in coal mining
In 2009, we spent UAH1.3bn on our coal-mining business investment program, 12.8% up on 2008. The bulk of the investment was at Pavlogradugol, where large-scale mine modernization projects continued.

Pavlogradugol Company
A number of projects – aimed at increasing production capacity and reducing production costs – were implemented at Pavlogradugol during the year.

While implementing the next stage of strategic development plan at the Stepnaya mine, a DBT plough was installed. Commissioning of the new equipment will enable workload of the longwall to be increased from 1,200 tonnes to 3,000 tonnes a day, and will simultaneously reduce production costs. The mother conveyor was upgraded; a degassing system constructed and personnel were trained within the project's framework. Investment totalled UAH345.7m.

In addition, during the year, a new shearer MB-12/410 was purchased for the Stepnaya mine, as well as a CZK scraping conveyor, Ostroj-powered supports and other mining equipment, to increase production volumes. The total cost of the new equipment for this project was UAH164m, including UAH11.6m in 2009.

Similar equipment was also purchased for the Blagodatnaya mine in 2009. The installation and commissioning of the new facilities enabled the mine to work in two breakage faces instead of three, and the workload of the longwall increased from 1,200 tonnes to 2,000 tonnes a day. During the year, the longwall produced 147,000 tonnes against a planned 95,000 tonnes. In 2009 UAH173.9m was invested in the project.

Investment program, UAHm (net of VAT)

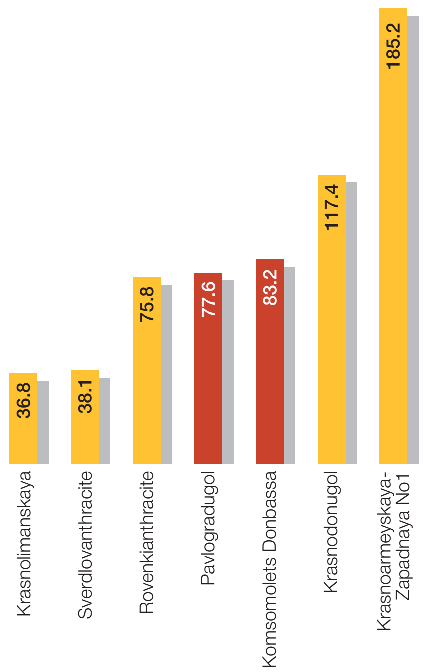
	2007	2008	2009	Change, 09/08, %
Coal production	804	1,352	1,357	0.4%
Electricity generation	123	419	438	4.5%
Electricity transmission and supply	79	107	89	-16.8%
Other	37	12	16	33.3%
Total	**1,043**	**1,890**	**1,900**	**0.5%**

Coal mining investment program, UAHm (net of VAT)

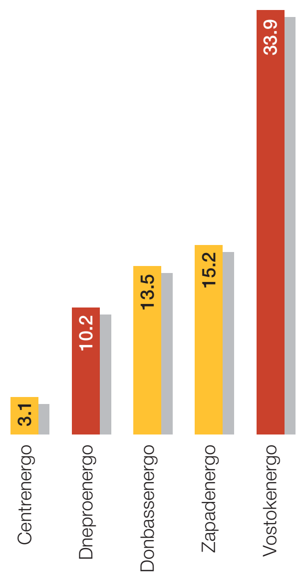
	2007	2008	2009	Change, 09/08, %
Pavlogradugol	651.3	1,113.4	1,035.4	-7.0%
Komsomolets Donbassa	118.2	196.5	311.5	58.5%
Total	**769.5**	**1,309.9**	**1,346.9**	**2.8%**

INVESTMENT ACTIVITY

Comparative indicators of specific investments in largest coal-mining enterprises in 2009, UAH/tonne



Comparative indicators of specific investments in thermal generation companies in 2009, UAH/MWh



During 2009, the Pavlogradskaya mine's equipment was also upgraded: a new MB-444P shearer, CZK, Ostroj-powered supports, and other equipment were purchased. This resulted in the production of the longwall increasing to 112,000 tonnes against planned 90,000 tonnes. In 2009 UAH171.9m was invested in the project.

We also began to plan the construction of air hole No 3 at the Yubileynaya mine, during the year. We believe that an overall investment of more than UAH300m in the implementation of this project – which will be completed in 2013 – will help to increase commercial coal reserves by 46.2m tonnes and extend the mine's life to 2028. UAH18.2m will be invested during 2010.

Komsomolets Donbassa Mine
New Ostroj-powered supports were purchased as part of Komsomolets Donbassa Mine's technological development program. Their installation will help to increase the production from 1,200 to 1,900 tonnes a day and, since they have a longer service life, will reduce the cost of future major overhauls. In 2009, UAH124.4m was invested in the project. An additional UAH46.6m was invested in the major overhaul of BMV-14-powered supports, which had been in operation since 1999. By the end of the year, all repairs on the supports were successfully completed and the equipment was re-commissioned.

Investment program in the electricity generation segment

Vostokenergo
Vostokenergo is one of the few generating companies in Ukraine that is in the midst of a large-scale upgrading and capital construction program. In the past five years, investment increased fourfold, as a result of which Vostokenergo's power plants are among the most advanced in Ukraine. One of the most important aspects of the upgrading program is the reconstruction of the plant's power units, to renew their project capacity, increase flexibility and improve economic characteristics. Five power units were reconstructed during the year.

In 2009, capital investment in Vostokenergo was UAH434.8m, 20% more than in 2008. The economic crisis in Ukraine did not affect the company's plans and capability to implement its investment program. We plan to reconstruct two or three units, element-by-element, each year until 2016.

The element-by-element reconstruction of power unit No 2, Zuevskaya TPP, which began in 2008, was completed in 2009 and the unit was re-commissioned. Following the State Commission's approval, it was recalibrated from 300MW to 320 MW, and its flexibility range increased from 135MW to 170 MW. As the result of the unit reconstruction, specific fuel

Investment program in coal enrichment (included in coal production segment)

	2007	2008	2009
Pavlogradugol			
Purchase of mining equipment for Stepnaya mine		152.4	11.6
Purchase of DBT plough at Stepnaya mine			345.7
Purchase of mining equipment for Blagodatnaya mine			173.9
Purchase of mining equipment for Pavlogradskaya mine			171.9
Construction of airvent No 3 at Yubileynaya mine			0.5
Purchase of drilling equipment	3.4	4.3	3.7
Purchase and installation of mine safety systems	4.6	2.0	
Komsomolets Donbassa mine			
Purchase of Ostroj-powered supports			124.4
Major overhaul of BMV-14-powered supports sections			46.6
Purchase of DM-powered supports sections			70.0

Investment program in coal enrichment (included in coal production segment), UAHm (net of VAT)

	2007	2008	2009
Pavlogradskaya CEP	18.8	16.1	6.0
Kurakhovskaya CEP	5.8	8.0	0.6
Dobropolskaya CEP		10.8	1.3
Oktyabrskaya CEP		5.9	1.8
Mospinskoye CEP	2.2	0.2	0.1
Ecoenergoresource	1.1	1.0	0.4
Total	**27.9**	**42.1**	**10.1**

Vostokenergo’s investment program, UAHm (net of VAT)

	2007	2008	2009
Zuevskaya TPP	9.4	142.8	181.7
Kurakhovskaya TPP	60.8	194.7	197.5
Luganskaya TPP	46.5	24.1	54.7
Headquarters	2.1	2.1	0.9
Total	**118.9**	**363.7**	**434.8**

consumption decreased by 3% and its service life was extended for at least 15 years. Investment in the project in 2009 was UAH1.3m. Total investments in the project was UAH95.4m.

In addition, in 2009, power unit No 1, Zuevskaya TPP, was reconstructed. The main scope of the work was completed during the year at a total cost of UAH165.3m. We expect the technical implementation parameters of the unit to be similar to those of power unit No 2.

Reconstruction of power unit No 5, Kurakhovskaya TPP, which was completed during the year, extended its service life for at least 15 years. Equipment was commissioned and all the required guarantee tests were held. The reconstruction of the unit will result in its capacity increasing from 210MW to 222MW, its flexibility range growing from 80MW to 122MW, and specific fuel consumption falling by 20%. UAH14.0m was invested in the project during the year. Total investment in the project was UAH154.1m.

Reconstruction of power unit No 7, Kurakhovskaya TPP, also began in 2009. The turbine, transformer, generator and boiler unit were upgraded, and an APCS was installed.

In 2010, electrical equipment will be upgraded, a desulphurization system will be introduced, and other work will be carried out. Reconstruction of the power unit will increase its installed capacity from 210MW to 222MW and will improve its competitiveness in the Ukrainian wholesale electricity market, specific fuel consumption for electricity generated will be reduced by 12%, and its flexibility range (from 70MW to 122MW) will be improved. UAH160.9m was invested in the project in 2009.

Vostokenergo began reconstruction of power unit No 10, Luganskaya TPP, during the year. Transformers were replaced, with the rest of the work scheduled for 2010. Implementation of the project will enable the installed capacity of the unit to be increased from 175MW to 210MW, efficiency to be raised (specific fuel consumption is expected to reduce by 14%) and flexibility increased, from 45MW to 80MW. UAH21.7m was invested in the project in 2009.

Dneproenergo

During the implementation of the program, scheduled to finish in 2016, we plan to invest UAH8.8m in our generation facilities. Large-scale modernisation of power equipment will result in an extension of its service life, for 15-25 years; will increase its installed capacity, flexibility and efficiency of power units; and will reduced its production costs and environmental impact.

Vostokenergo's largest investment projects, UAHm (net of VAT)

	2007	2008	2009
Zuevskaya TPP			
Element-by-element reconstruction of power unit No 2	3.2	90.9	1.3
Reconstruction of power unit No 1			165.3
Major overhaul of elements of cooling tower No 2		30.9	
Kurakhovskaya TPP			
Construction of section No 1 of the 2nd tier of ash dump in Sukhaya gully	6.5		
Major overhaul of power unit No 3	32.6		
Element-by-element reconstruction of power unit No 5	4.9	135.3	14.0
Major overhaul of power unit No 4		34.5	
Power unit No 7 reconstruction			160.9
Luganskaya TPP			
Major overhaul of power unit No 9	35.6		
Power unit No 10 reconstruction			21.7

A program to optimize Dneproenergo enterprises' technical-economic indicators was implemented during 2009. It resulted in a saving of 8,325.2 tonnes of standard fuel (tsf) a year: 2,036 tsf at Pridneprovskaya TPP, 5,495 tsf at Krivorozhskaya TPP, and 794.2 tsf at Zaporozhskaya TPP.

During implementation of the program, firing of "A+T" grades of coal mixture (50*50%) was introduced at Pridneprovskaya TPP, making it possible to reduce specific fuel consumption by 13.8 g/kWh, and to decrease gas consumption by 112.2m cubic metres. It is assessed that the work will have a positive effect of UAH200m per year.

The maintenance and repair of power equipment, as well as work on extending its service life, is carried out regularly at Dneproenergo enterprises. In 2009, we extended the service life of equipment, particularly elements of the pipeline, and components of boiler units and turbine units, which were spent. That work took place at Pridneprovskaya TPP, Krivorozhskaya TPP and Zaporozhskaya TPP power units. In 2009 UAH253.3m was invested in the repairs.

Dneproenergo has scheduled a 2010 repair and maintenance campaign. As a part of implementing the campaign, we plan to continue replacing the heating surface of steam generators, the control and diagnostics of the metal elements in pipelines, the high and low pressure fittings, and turbine components – restoring or replacing those which are defective. We will also repair generators, ancillary units and plant equipment, and refurbish buildings and constructions. Equipment that cannot be repaired will be replaced, and that which has exhausted its resource will have its service life extended.

In 2010, we plan to continue upgrading power unit No 9, Pridneprovskaya TPP and power unit No 3, Krivorozhskaya TPP.

Dneproenergo's largest investment projects, UAHm (net of VAT)

	2007	2008	2009
Pridneprovskaya TPP			
Building an ash dump in Zapadnaya gully	31.3	27.1	17.3
Expansion of ash dump in Zapadnaya gully	0.6	26.9	19.5
Technical re-equipment of power unit No 9	0.7	7.9	3.2
Krivorozhskaya TPP			
Technical re-equipment of power unit No 3, together with the reconstruction of the electric precipitators, and development of desulphurisation and nitrogen treatment facilities.	2.3	12.4	11.7
Zaporozhskaya TPP			
Reconstruction of HAR system (hydraulic ash removal)	4.9	13.6	7.1

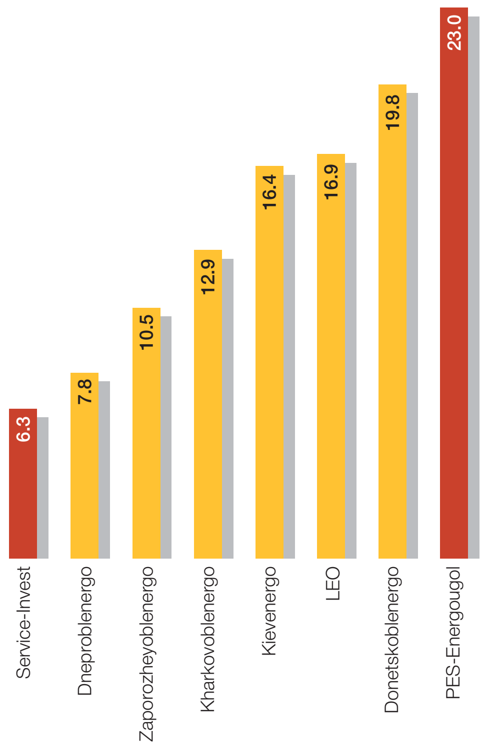
Dneproenergo investment program, UAHm (net of VAT)

	2007	2008	2009
Pridneprovskaya TPP	70.8	61.2	44.1
Krivorozhskaya TPP	11.3	35.6	21.1
Zaporozhskaya TPP	15.3	28.5	10.88
Administrative-managerial personnel and other divisions	14.5		9.7
Total	**111.9**	**165.2**	**85.8**

INVESTMENT ACTIVITY

Investment program in electricity transmission and supply segment
DTEK's electricity transmission and supply companies carry out a number of investment projects to increase the efficiency of their production capacities, to connect new customers and to reduce losses. In 2009, the capital investment program in the electricity transmission and supply segment was UAH89.9m (2008: UAH110.0m).

Comparative indicators of specific investments in the largest distribution companies 2009, UAH/MWh



Service-Invest
During the year, reconstruction of the PS-35kV Rutchenkovo substation continued, and it was switched to 110kV voltage. Moving the substation, one of the Donetsk's main feeder centres, to a higher voltage class will not only enable it to increase the reliability of electricity supply to its current customers, but will also enable it to connect new ones. In addition to the work on the substation, the project included the construction of a 110kV cable power line. The work was completed in December 2009. We plan to commission the substation expected to be renamed "Vozrozhdeniye" ("Revival") 110kV, and connected in 2010. UAH31.4m was invested in the project in 2009.

PES-Energougol
In 2009, the reconstruction of 0.4kV power lines and a major overhaul project continued as part of PES-Energougol's program of improving and developing its electric networks. The program's objective is to reduce process losses and to ensure the required voltage in the electric network. Investment in the project totalled UAH3.0m.

The company invested UAH0.9m into improving its electricity metering systems during the year. The program's goal is to minimise commercial losses, reduce non-balances, eliminate electricity theft, and to make all electricity metering points compliant with the legislative requirements.

In 2009, work on connecting the new customer, Real Estate F.K.A.U. LLC, to electric networks was completed. It included the construction of a new substation, Budenovskaya 35/6kV. The project is aimed at improving reliability at the power point and securing an increase in the electric load in Donetsk and Makeevka districts. Investment in the project was UAH8.2m.

Affiliated companies

Donetskoblenergo
DTEK is the largest minority shareholder, with a stake of 30.59%, in Donetskoblenergo. The Company considers Donetskoblenergo to be a strategic asset that is able to provide a new impetus to its electricity transmission and sales, and is seeking opportunities to increase its equity in the company.

Investment program in electricity transmission and supply segment

	2007	2008	2009
Service-Invest	52.1	73.7	69.4
PES-Energougol	17.0	36.3	20.5
Total	**69.1**	**110.0**	**89.9**

As of at end of 2009, the entire length of Donetskoblenergo's power lines was 69.4m km, including 7.4m km of 110 kV and 35 kV lines. The company operates 373 transformer substations with a total capacity of 8 458MVA. The average headcount at Donetskoblenergo in the year was 10,129.

Electricity purchase and transmission
Donetskoblenergo's major customers are households (40.5%) and the housing and communal sector (18.1%). The share of industrial customers does not exceed 20%.

Electricity transmitted in 2009 decreased by 10% to 8,235.8m kWh, this included an 8.4% reduction in supplies to its own customers and a 74.4% drop in non-regulated tariff supplies. The reduction in supplies to its own customers was a result of the decline in manufacturing output. The fall in non-regulated tariff supplies was primarily a result of the Donetsk Railway securing a licence to supply regulated tariff electricity.

Donetskoblenergo's share of electricity purchases in the market, at 6.5%, was only 0.1% below that of the previous year. The principal factor in this was the reduction in transmission volumes and an improvement in electricity losses.

Actual losses of electricity in 2009, at 1.734.5m kWh, were 18.5% below those of 2008. During the year, we managed to reduce the percentage of network losses to 23.2% (2008: 21.1%). The problem of above-standard losses still remains, however, as one of the most important issues for Donetskoblenergo.

In 2009 the company demonstrated significant progress in this endeavour – above-standard losses reduced by 63.5%, from 360.0m kWh to 131.4m kWh.

Donetskoblenergo is implementing a range of measures to reduce electricity losses. These include the updating of metering tools and their protection from unauthorised access, reconstruction of power lines using self-supporting wires, and the equipping of transformer substations with intrusion-detection systems.

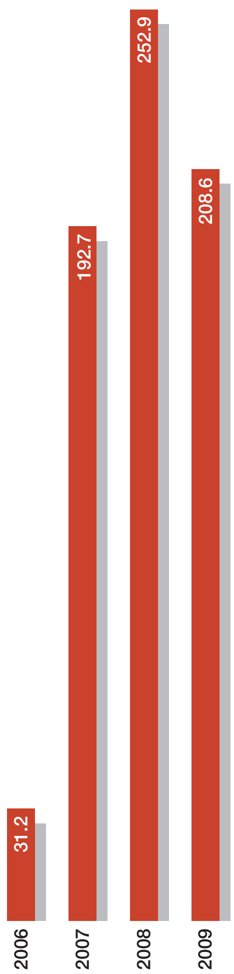
Production capacities of Donetskoblenergo

	2007	2008	2009
Lines' length, km			
110kV	3,761	3,768	3,750
35kV	3,703	3,710	3,689
6–10kV	20,416	20,309	20,224
0.4kV	41,953	41,918	41,730
Total	**69,834**	**69,705**	**69,393**
Number of substations			
110kV	112	112	114
35kV	260	259	259
SB 6–10kV	338	342	344
TS,SB 6/0.4kV	12,592	12,640	12,698
Total	**13,302**	**13,353**	**13,415**
Transformer capacity, MVA			
110kV	5,356	5,364	5,516
35kV	2,952	2,946	2,942
6–10kV	3,661	3,716	3,750
Total	**11,968**	**12,026**	**12,208**

BUSINESS DEVELOPMENT PROJECTS

Transmission volume and electricity losses in Donetskoblenergo's networks

Investment program of Donetskoblenergo, UAH m (including VAT)



Investment projects
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Wind power

Renewable energy in Europe
Developed economies are showing an increasing interest in renewable energy generation – principally wind and solar energy. Despite the fact that electricity is now predominantly produced from fossil fuels, and this will continue for some time, the trend towards environmentally-friendly generation is increasing. According to the International Energy Agency (IEA) forecast for the EU, a recognised world leader in the production of green energy, fossil-fuelled energy will decline from the current 84% to 63% by 2030.

In line with the IEA's forecasts for the EU, annual electricity generation over this period will go up by 833TWh, while renewable generation will grow by 993 TWh: the increasing demand for electricity will primarily be covered by renewables.

Renewables will also compensate for the decommissioning of end-of-life TPPs and NPPs. According to the IEA, 61% of new generation capabilities built in Europe during 2009 were green generation facilities. Wind and solar energy are the most important types of renewable generation which are contributing to the increase in generating capacity: their respective shares in the newly-commissioned facilities were 64% and 27% respectively.

1,000MW

The portfolio of DTEK's wind generation projects by the end of 2009

The tendency towards thermal energy is influenced by, among other factors, developed countries' systematic efforts to facilitate the development and industrial deployment of new technologies in the renewables field. By using fiscal and tariff regulation, governments are attracting investment in new facilities and in the development of advanced technologies that would improve the competitive position of environmentally-friendly generation. Today, the production cost of renewable energy is still higher than conventional generation. At the same time, the forecast is that large-scale development and industrial deployment of green projects and technologies will bring the cost of alternative energy down.

Wind generation in Ukraine
One of Ukraine's top strategic tasks is the development of electricity production from renewable and clean energy sources. This is conditioned by a wish to follow environmental sustainability trends, by climate change observed in developed countries, and by the fact that Ukraine's economy is one of the world's most energy-hungry economies.

The share of renewable energy in Ukraine is currently less than 1%, although by 2030 this is expected to increase to 13%.

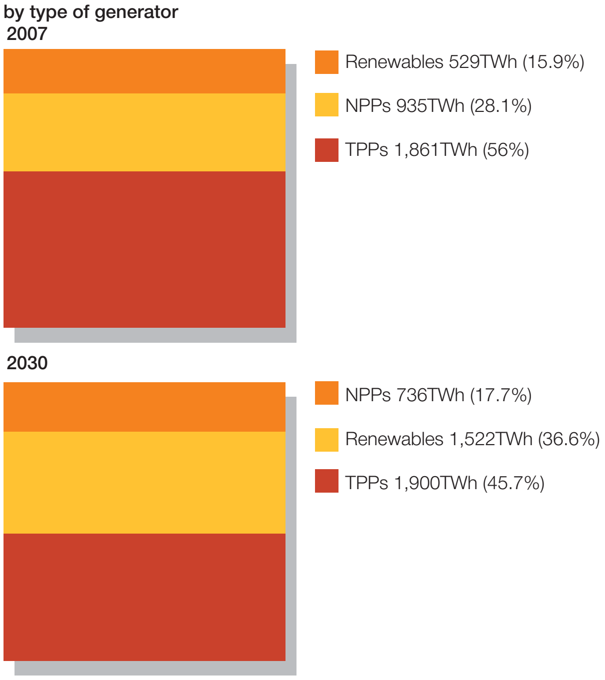
The wind energy sector in Ukraine is poorly developed: there are only a few inefficient wind farms which operate with obsolescent equipment. The total installed capacity of all wind farms in Ukraine is about 83MW. In common with many European countries, Ukraine's legislation provides beneficial tariffs for clean energy generators, including wind farms.

Wind power project
DTEK considers the alternative energy sector to be a strategic option which promotes business diversification, and increases market share, at the expense of high-growth rates in new energy fields.

In 2008 we approved the concept of a wind power business. In the same period we established a company, Wind Power, to manage the development of our wind energy business. By the end of 2009 the portfolio of our projects was about 1,000MW, an unprecedented figure for us and for Ukraine's energy sector.

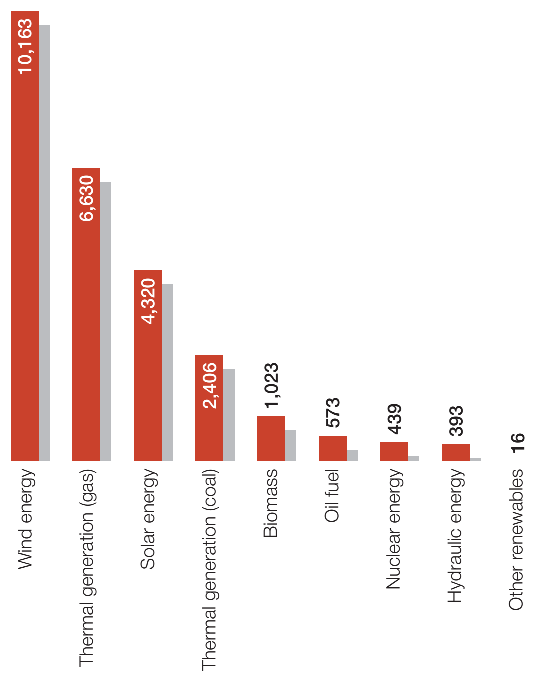
The first phase of the project was launched during the year – potential sites for wind monitoring were defined, wind monitoring equipment was procured, and the wind metering procedure was launched. Our total investment in this project was UAH10.4m in 2009.

Forecast increase in electricity generation in the EU-27, by type of generator



Source: IEA World Energy Outlook 2009

Newly-commissioned facilities in EU-27, 2009

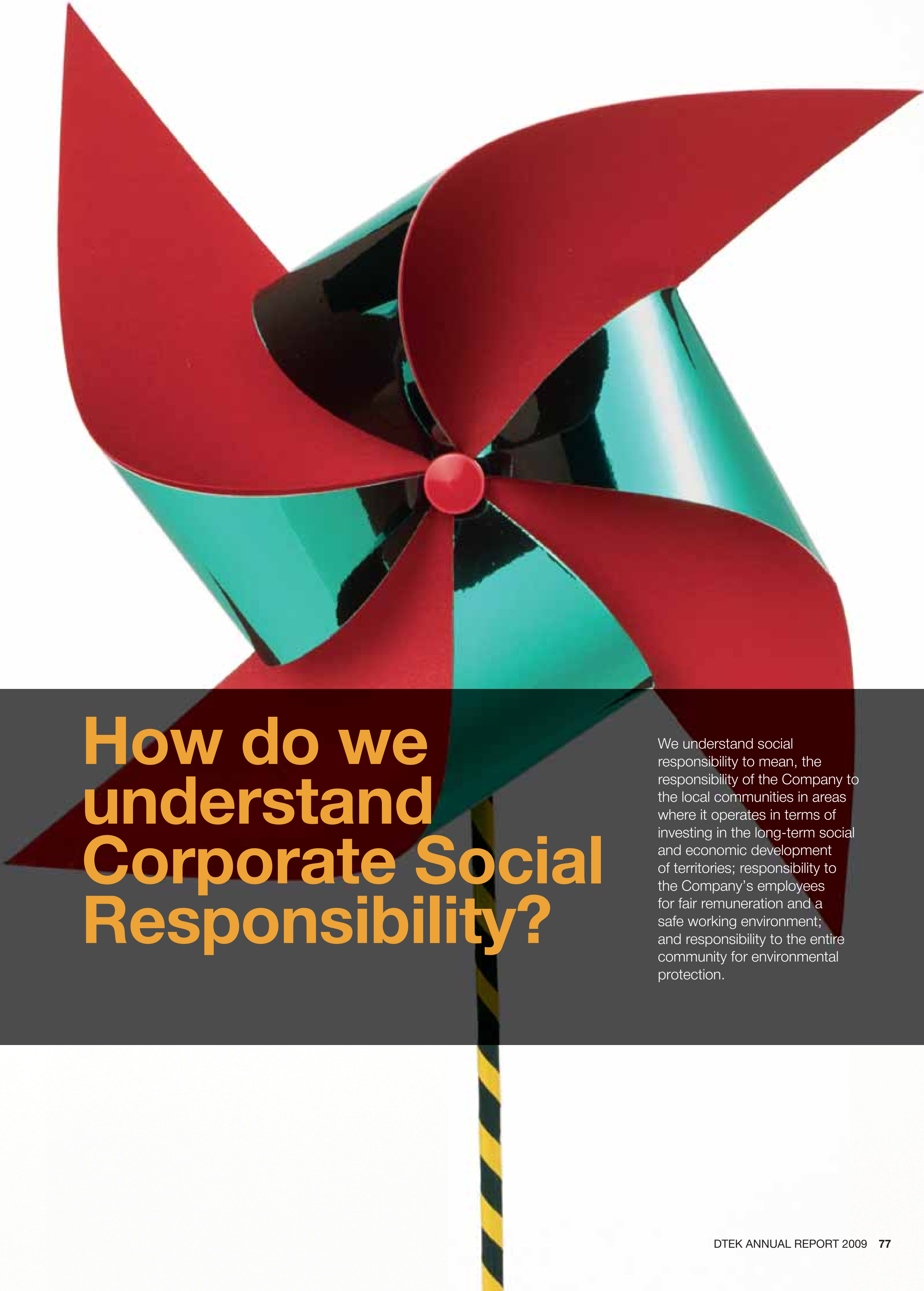


Source: EWEA Wind in power – European statistics 2009

BUSINESS DEVELOPMENT PROJECTS

During 2010 we intend to continue wind monitoring, assess results and complete a project feasibility study based on this data. At the same time, the process of preparing project documentation will be launched in line with EU industry standards.

In addition to the economic and strategic benefits for DTEK, development of clean energy will have a remarkable social effect on Ukraine which will contribute to the sustainable development of the Company. This will be realised though the creation of additional jobs in the innovation sector of the economy, and will have a positive impact on the environment.



How do we understand Corporate Social Responsibility?

We understand social responsibility to mean, the responsibility of the Company to the local communities in areas where it operates in terms of investing in the long-term social and economic development of territories; responsibility to the Company's employees for fair remuneration and a safe working environment; and responsibility to the entire community for environmental protection.

SUSTAINABLE DEVELOPMENT

Corporate social responsibility
The information and data in this section will be disclosed in more detail in DTEK's Sustainable Development Report for 2008-2009, which will be published in line with the Company's public commitment in regard to its social responsibilities and interaction with stakeholders.

Corporate social responsibility (CSR) is inherent in all DTEK's activities. This is conditioned by several factors, but mostly by the fact that the Company's products have a clear social character, and the efficiency of DTEK in many respects defines the level of social and economic development of the areas in which we operate. Electricity and heat produced by the Company's facilities form the basis for the living conditions of many millions of people. The great attention DTEK pays to CSR proceeds from the outstanding that solutions in sustainable development, and their implementation, are critical to the Company's long-term success.

DTEK is systematic in CSR development and considers it to be a business process tailored to solve measurably specific business tasks. The main aspects of the Company's activities in social responsibility are:

- *Corporate governance*
  Transparency of the structure and business-processes makes DTEK a transparent and attractive company.
- *Labour conditions*

Investments in HR facilitate the attraction and retention of the best employees, and increase the qualifications and experience of staff. Close attention to professional education and labour safety enables the injury rate to be brought down to the minimum level and productivity to be increased.

- *Environment*
  A responsible approach to our environmental impact enables costs to be reduced and increases energy efficiency. Environmental responsibility also improves local communities' attitude to our enterprises and enables the natural world to be preserved for future generations.
- *Local communities*
  Efficient co-operation with local communities ensures good living conditions for our employees and families, as well as creating good potential for our future development.

By approaching these areas systematically, DTEK is aiming to comply with international CSR standards; to be a responsible employer and social investor; and to facilitate the social and economic development of territories without taking on State responsibilities. A reputation as a successful, reliable and responsible company is an important competitive advantage in the current macroeconomic and market environment.

In April 2009, DTEK was ranked second in the CSR rating of "GVardiya" national business magazine that analyzed more than 60 Ukrainian companies.

The level of development of the Company's corporate social responsibility was highly praised by the international community in 2009. In May 2009, the Company's report on its progress in implementing the UN Global Compact (GC) was ranked as "notable". By that time, only 274 companies out of more than 5,000 had received such recognition. DTEK was the only Ukrainian company to be acknowledged by the GC Secretariat.

Our achievements include – fulfillment of our obligations to our employees, including the implementation of OHSAS industrial safety standards, environmental protection, and the development of corporate governance.

The status of a leader in CSR in Ukraine places additional responsibilities on DTEK in developing best practice. In January 2009, the Company co-chaired the CSR Committee in the European Business Association and supported the First Eurasian Summit on "Corporate Social Responsibility: Strategy and Best Practices of Sustainable Development in Eurasian Countries". In November 2009 we supported the parliamentary hearing of the Verkhovna Rada Committee on industry, regulatory policy and entrepreneurship, "Social Responsibility of Business. Current Situation in Ukraine and Future Prospects".

CSR management policy
In December 2008, DTEK's CSR policy was approved. This public document is open to all stakeholders. It sets out the Company's tasks and objectives in CSR, and defines the guidelines for its development. According to the document, the activities for sustainable development will be aimed at building efficient interaction with the priority target groups which share their interests with DTEK. They include stakeholders and investors State and local authorities, employees, business partners and public associations. The Company aims to understand the expectations of these groups and to accommodate their interests by offering a comprehensive range of interactions, from dialogues to joint activities and programs.

Our main CSR principles are:

- adherence to Rule of Law in all aspects of business and in respect for human rights;
- responsible attitude to the environment;
- prioritization of labour safety, HR and other CSR-programs relating to the Company's employees a priority;
- aligning the scope and focus of our social investments together with the potential business development in the areas of our operation;
- compliance with best practice and international experience in CSR;
- openness and transparency in public dialogue.

The philosophy of corporate social responsibility is spread throughout DTEK's business processes. The Company follows this philosophy at all management levels, both in strategic planning and in its day-to-day operations. Unconditional compliance with the underlying philosophy of risk management is an efficient tool in the prevention and mitigation of negative situations. Today, corporate social responsibility is an integral element in our corporate business-planning system, including the planning of social project costs, and the optimization and feasibility analysis of the costs.

The involvement of stakeholders in the development and implementation of social programs, and the analysis of their efficiency, is our guiding principle in CSR. Joint management of projects enables the interests of all parties to be harmonised and ensures the maximum return on investment.

The Company's corporate social responsibility is of a public nature. This translates into transparency of the social projects implemented by the Company, and the possibility of obtaining detailed explanations on every aspect which pertains to CSR.

Regular social reporting is further evidence of our commitment to transparency. In 2008, we became the first industrial company in Ukraine to prepare its sustainability report in line with international standards, and verified by an independent audit. We undertook to issue such reports every other year.

Social partnership

When structuring relations with local communities, DTEK adheres to the principles of partnership by involving representatives of the local authorities and population in the development of social programs and the assessment of their performance. This principle is the foundation of the Social Partnership Declaration, which we adopted in 2008, and confirms our willingness to support local authorities in the development of strategic economic plans, which in the long run, should enhance the cities' competitiveness and investor attractiveness. The declaration is open available for any other parties, which share our values, to join. The declaration has been signed by four of our enterprises – Pavlogradugol, Komsomolets Donbassa, Vostokenergo and Dobropolskaya CEP, and nine local authorities.

To ensure the transparent and efficient implementation of our social partnership programs, we have established a Steering Committee. This Committee deals with the planning and control of the declaration members' joint activities. The Committee is composed of the management of enterprises and heads of local authorities. Its governing body, the Bureau, has three permanent members – representatives from DTEK's functional subdivisions, and two rotating members, who are heads of local authorities.

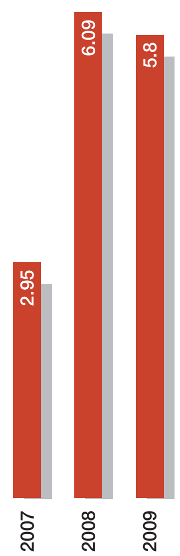
In 2008, in co-operation with the experts and consultants of USAID, the development of municipal economic development strategic plans was begun. Special Expert committees were formed from DTEK's specialists, local council deputies, and representatives of local authorities. As a result, by the beginning of 2009, the sessions of the municipal Councils approved the strategic plans of economic development prepared by the experts. These plans are ready for the towns of Pavlograd, Ternovka, Pershotravensk, Zugres, Kurakhovo, and Schastye. The strategic plans for Pavlograd and Petropavlovsk regional development were updated during the year.

In February 2009, the Steering Committee – with the participation of all Declaration members – summarised the performance of the social partnership program in 2008; the roles and tasks of CSR in the framework of the economic crisis were defined; the 2009 social partnership programs were discussed as was the prospect of further implementation of the project on the local economic development. The participants at the meeting agreed unanimously that size of social investments should be preserved and a stricter control over the efficiency of their use should be exercised. Late in the year, there were two meetings of the working groups, in which the members of the Committee analyzed the actual progress of the implementation of projects in 2009, and presented and discussed the draft programs for 2010.

Social investments

About UAH5.8m was invested in social programs during the implementation of the Declaration in 2009 – twice as much as in 2007 and almost equal to 2008.

Social investments, UAHm



In 2009 DTEK was nominated the winner in the category "Local Communities Development" of the First All-Ukrainian Competition of CSR Projects.

Social and economic development of towns and territories
During the year, the principal investment in the social partnership program in Western Donbass was the repair of social assets. In Pavlograd, DTEK funded the major overhaul of gymnasiums, and sports equipment for school No 15. In Ternovka, the former school building was reconstructed and the Aesthetic School was launched. In Pershotravensk, the Room of the Great Patriotic War veterans was repaired, the surgery of the central municipal hospital was overhauled, and medical equipment was purchased. In the central regional clinic of Pavlograd, similar aid was provided to the children's service. Repair work was carried out in schools in the Petropavlovsk region. The total amount of assistance to these towns and territories in 2009 was more than UAH3.0m.

In the towns of Zugres and Kurakhovo, DTEK helped solve problems in the community. Funds were invested in reconstructing the heating grid in Kurakhovo (UAH1.0 m), and pipes were laid, the municipal park was improved, and roofs were repaired in Zugres. We continued to finance the sports section in Kurakhovo (UAH150,000) and the orphanage, which was opened in 2008 (UAH40,000). In Schastye, DTEK helped to buy IT equipment and furniture for local schools. The overall investment in Kurakhovo, Zugres and Schastye was UAH1.75m.

In 2009, the Komsomolets Donbassa mine supported the Central Municipal Clinics of Kirovskoye (an ambulance and medical equipment were bought and four rooms in the clinic were repaired), the local education authority, vocational school, and local stadium. The total cost of the work and equipment was UAH737,000. Despite the difficult economic environment, Komsomolets Donbassa continued supporting the motorbike football team "Anthracite" (UAH400,000 in 2009).

Pavlogradugol regularly supports Pavlograd's Municipal Recreational and Leisure Centre by sponsoring festivals, and helping local bands and talents. In 2009 more than UAH220,000 was spent on these items.

In October 2009, Kirovskiy Leisure Centre, supported by DTEK, hosted the IX International Festival of Children and Youth, "We are young and we are equal". More than 300 people, aged seven to 25, took part. They live in the Donetsk, Zaporozhye and Lugansk regions of Ukraine. For the third year running, the Company acted as a partner to this bright event, the only festival in Ukraine where handicapped children participate alongside talented youth. The main aim of this festival is to help these children to become creative.

Personnel
Since our people are the basis for our sustainable development, efficient HR management, constant improvement of professionalism, and increased motivation of personnel are among the Company's top priorities. Our principal HR management philosophy is available to all employees and affiliated parties, and is documented in our internal regulations as well as in individual and collective agreements.

In 2008, the CSR policy, which determines the principles of the Company's interaction with its employees, was formulated. We believe that spirited staff are our main asset and our most important stakeholder group. We pay close attention to the recruitment and retention of talented employees, and to their training, as well to having a clear policy on social and labour relations.

Key objectives of DTEK's HR policy:
- recruitment and retention of talented and innovative employees;
- regular updates of knowledge and development of skills is required for the implementation of current and potential business tasks;
- development of management potential to ensure high-quality and stable management;
- creating favourable labour conditions to ensure the health and safety of all employees.

The Company adheres to the following key principles in HR management:
- compliance with the current labour codes and respect of human rights;
- competitive remuneration to employees based on their professionalism, the complexity of their functions and their responsibilities;
- investment in education and training of employees to discover their potential and to make a strong contribution to the success of the Company;
- social support of our employees.

Personnel development
Taking the contribution of the good qualifications of our staff in our competitive advantage and long-term value creation into account, in 2009 we continued the initiatives aimed at staff development and broader opportunities for their personal fulfillment.

During the year, more than 7000 employees were trained, re-trained and upgraded. To ensure a broader reach of the educational process, and for cross-training, DTEK involved internal resources in the training program, including top managers, many of whom have lecturing experience.

UAH19.2m

Investment in the training and development of DTEK's personnel in 2009

The Company invested UAH19.2m in personnel development in the year. The most important projects were the launch of the DTEK Academy, further development of the TOP-50 program, and development of the talent pool.

The concept of our own training centre – the DTEK Academy – was approved by the Supervisory Board in November 2009. Currently, all the concept's planned initiatives are being pursued, and the first program under the DTEK Academy umbrella, "The Power of Knowledge", was ear-marked for the talent pool. The TOP-50 program was launched in December 2009. "The Power of Knowledge", a long-term innovative project, is based on the optimal combination of modern theoretical training and corresponds to an MBA; it guarantees the exchange of the best managerial expertise at the Company. The lecturers are drawn from DTEK Directors and its partners, Kyiv-Mohyla Academy Business School and Ward Howell. The Academy was housed in new premises, specially equipped for our training events, in first quarter 2010.

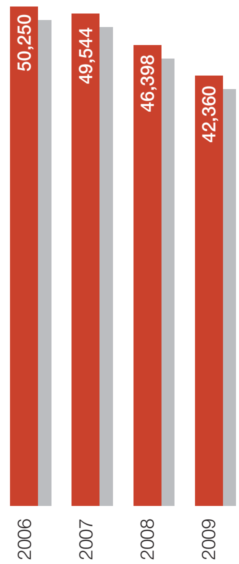
By the end of 2009, 26 DTEK employees were participating in the TOP-50 program. Each has an individual development plan designed for him/her, a mentor from among top-managers, as well as personal development plans. The development of the future senior managers of the Company is made in several ways: independent development, training at open workshops, and working with mentors. At the end of the year the program implementation schedule had been met when individual development plans had been completed by 40-50% of the participants.

In 2009, the talent pool was formed. As a result, 93 employees out of the 1,100 who were appraised were included. In 2010, the formation of the talent pool will continue. The talent pool was updated at headquarters, in parallel with the activities at the enterprises.

Within the framework of implementation, 108 employees from the corporate centre and the first two tiers from production enterprises' management were appraised: 39 of them were listed as DTEK talent pool.

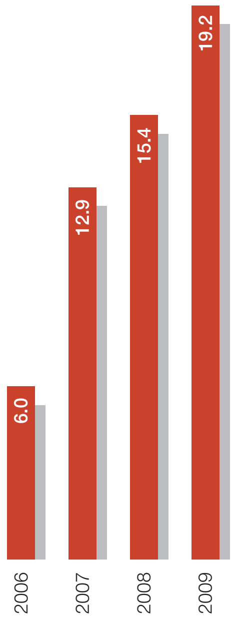
By the end of 2009, 68 participants of the talent pool and TOP-50 program attended the first module of "The Power of Knowledge" program at the DTEK Academy, which is designed to take up 18 months. In 2010, other participants will join the program.

Dynamics of headcount in DTEK, persons*



*excluding Dneproenergo

Investments in training and development of personnel, UAHm



Remuneration and motivation
Employees' remuneration is a combination of salaries, bonuses, payments guaranteed by legislation, and benefits.

DTEK participates in industrial agreements in the coal-mining and electricity sectors Collective bargain agreements within the Company stipulating additional social guarantees, including minimum salary levels, social benefits, additional one-off payments to employees and pensioners, as well as the responsibility for training and safety. In 2009, despite the difficult economic situation, the scale of social guarantees to DTEK employees was maintained at the previous year's level.

Headcount
In 2009, DTEK continued to optimize its headcount, based on increasing of production efficiency and upgrading, as well as the reorganisation of business processes, including the outsourcing of some non-core functions. As a result of the work conducted, and natural wastage through retirement and the freezing of vacancies, the number of employees declined by 6.6% compared with 2008 to 42,360. We did not lay-off any employees during the year to optimize costs during the economic decline.

Labour safety
The world's most competitive companies are those which have the lowest level of occupational injuries and professional diseases. Those companies which take care of the health and safety of their employees are destined to become successful by developing employees' loyalty to a company which exhibits high-quality and safe labour practices.

Our labour safety management system, which is deeply ingrained in the general performance of the corporate center and Operating companies, is the basis for taking measures which ensure a high level of production efficiency and safety. In 2009, we proposed the implementation of measures aimed at the improvement of our labour safety management system and the reduction of injuries and accidents.

In first quarter 2009, Pavlogradugol, Komsomolets Donbassa and Vostokenergo underwent a certification audit, which confirmed the compliance of their labour safety management system with OHSAS 1800:2007[1]. Introduction of the standard was performed at DTEK's three main companies between May 2007 and December 2008. The certification audit, held by Moody International, in January and February 2009, confirmed the successful integration of the standard's requirements at our coal mining and generating companies. Currently, a similar product is being introduced at our energy supply and coal enrichment companies and is scheduled to be completed by the end of 2010, with further certification.

To prevent and minimise hazardous situations and employees' actions, the entire set of measures is being implemented. Compliance with the provisions of labour safety is controlled by the Company's management, which considers this be a strategic measure of performance. A Health, Safety and Environment Committee was established within the Supervisory Board and Executive Board of DTEK. Committees for the coal and energy segments' safety were also established.

The system of internal audits, behavioural studies and internal investigations for all accidents are functioning at DTEK's Operating companies. In addition, production risks are assessed and, on the basis of those assessments, organisational and technical measures are developed for reducing them to an acceptable level. A system for employees' motivation for achievements in the area of labour safety was introduced at the Operating companies, contractors' performance is closely controlled, and other innovative management tools are also used.

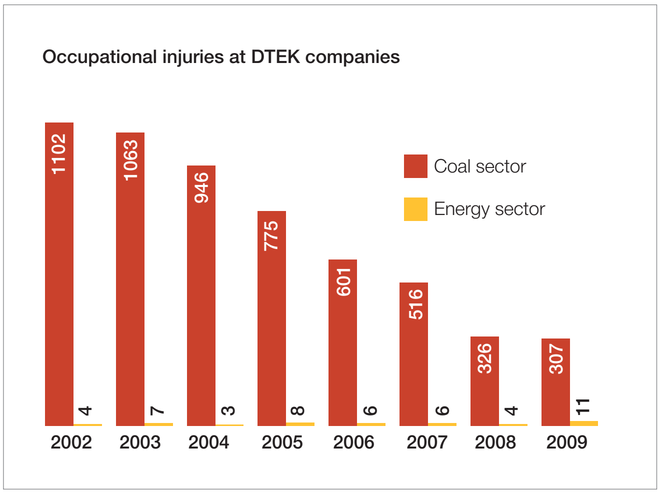
DTEK invests all the funds necessary in the maintenance and modernization of the means of ensuring labour safety (fire-fighting systems, emergency warning systems, degassing and control of mine gas content, etc), as well as sanitary-household services.

Great attention is paid to occupational health. The Operating companies have determined the so-called risk groups, which include employees with a history of cardiovascular and hypertensive diseases that could result in serious consequences under the influence of hazardous and harmful processes. Employees in the risk groups are examined before each shift before being allowed to work.

Special emphasis is laid on training. Each year, all line managers attend training sessions devoted to corporate safety standards and their knowledge is assessed. Safety simulators, safety rooms, visual aids and learning materials, and safety signs are regularly updated. All Company employees are provided with modern and effective overalls, footwear, and personal and collective protection.

The corporate standards of the safety management system controls – the Roadmap – was introduced at the coal mining and generation companies in 2009, and the safety standard –

[1] OHSAS 1800:2007 "Health and Safety Management System" is orientated at forming a company's labour safety management system as a component of its total management system.



Visualization Tools Management – was introduced at all DTEK's Operating companies. All managers and specialists in the coal mining companies have been trained in corporate safety standards. In addition, we have restored the function of safety helpers as an additional element in safety management and control.

DTEK's investments in safety in 2009 were maintained at 2008's level of UAH116.5m.

In 2010, the Company plans to focus on having its operations certified under OHSAS 18001:2007. Actions planned include compliance audits of the safety management system at Pavlogradugol, Komsomolets Donbassa mine, and Vostokenergo; and the development, introduction and certification of a safety management system in the coal processing and electricity distribution businesses. The most important standard is to prevent fatalities and reduce occupational injuries at DTEK's enterprises further.

Environment protection activities

DTEK's activities are related to production processes which have a negative effect on the environment. These include polluting and GHG emissions into the atmosphere, the disturbance of natural landscapes when extracting mineral resources, and the formation of waste water. We are fully aware of our role in the preservation of the environment for future generations and are committed to minimising our negative impact.

Ukraine's aspiration to follow EU trends in protecting the natural environment, prompts us to comply with the strictest environmental standards. Against a background of integration into the EU's energy community, and the synchronisation of the Ukrainian and EU energy systems, environmental legislation has been gradually improved to align with EU standards. DTEK is not only in full compliance with the regulatory provisions, but strives to be ahead of them.

The Company considers the preservation of the environmental balance the key factor in successful business development. Within the framework of its long-term strategy, it has determined the environmental and nature-protection tasks for 2009–2020.

In 2009, DTEK adopted its Environmental Policy. The document is closely linked to the Company's strategy and sets out its long-term environmental goals:

- introduction of an up-to-date environment safety management system;
- formation of an efficient environmental monitoring system;
- reduction in pollutant and GHG emissions into the atmosphere;
- reduced contamination of waste water and discharges into water facilities;
- sustainable use of water resources;
- increased utilisation of ash, sludge and rock wastes;
- reduced waste and ensure its environmentally-friendly disposal;
- sustainable land use and reclamation of disturbed lands;
- mine methane utilisation to obtain various types of energy;
- adequate and timely response to emergencies.

The Company implements its environmental policy and provides environmental safety management at all levels. HSE committees, which function within the Supervisory Board, Executive Board, Power Generation Division, and Coal Production and Enrichment Division, address environmental strategy and daily operational issues. All DTEK companies have a HSE Committee. In 2009, the position of Deputy Chief Engineer for Environmental Safety was introduced at the coal mining companies.

During 2009, DTEK's environmental expenses totalled around UAH192.2m, 9.3% below the level of 2008. A reduction in environmental costs is primarily a result of the postponed implementation of some investment projects.

Environmental management system

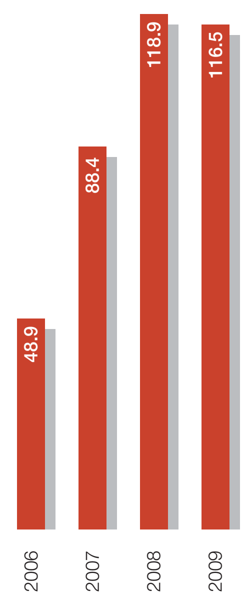
In 2009, DTEK's operating companies continued the activities initiated in 2008 aimed at the introduction of an environmental management system (EMS) in line with ISO 14001. The project is planned for completion in 2010, and will be certified by an independent auditor.

Currently the following EMS procedures have been developed and introduced:

- regulations on the Environmental Committee;
- regulations on Environmental Activities Reporting;
- environmental Aspects Identification and Assessment Procedure;
- procedure for the Identification of Access to Regulatory and Other Requirements;
- EMS Documentation Management;
- Environmental Goals, Tasks and Program;
- procedure for Environmental Accidents Investigation;
- internal audit of the Environmental Management System;
- procedure for environmental communications;
- ways of staff environmental incentivisation;
- procedure for Checking and Correcting Preventive Activities;
- monitoring and measurement of Environmental Characteristics, Process Parameters and Works;
- competence, training, awareness;
- identification of potential emergencies;
- waste disposal.

Within the framework of introducing the environmental management system, training sessions were organised for all functional managers to become acquainted with the system's provisions and statutory environmental regulations.

Investments in occupational safety and health, UAHm



Long-term environmental program in generation

Vostokenergo continued to implement its environmental safety program in accordance with the provisions of Directive 2001/80/EU and expect to be in full compliance with the requirements by 2020.

The program provides for the following measures:

- reconstruction and replacement of electric precipitators at TPPs to reduce dust and solids emissions;
- construction of plant flue gas desulphurisation and nitrogen treatment systems;
- construction of circulating fluidised bed (CFB) boilers;
- measures aimed at protecting water resources and their sustainable use;
- reconstruction of cooling ponds;
- reconstruction and construction of ash dumps and land reclamation.

The main focus of the environmental program at Vostokenergo is on treating flue gas to remove dust, sulphur oxides and nitrogen oxides.

In 2009, the TPPs' electric precipitators were reconstructed and replaced to reduce the emission of dust and solids into the atmosphere, and measures to address the issue of sulphur and nitrogen oxide emissions were developed.

The market was studied to find contractors to develop a feasibility study, and included those experienced in the design of treatment plants for coal-fired power units of 200-800MW. The international experience of treatment facilities operators in Germany and Poland was studied thoroughly. Based on the results, the advantages and disadvantages of the application of treatment facilities have been assessed and terms of reference have been drawn up for the design of a feasibility study for plants' sulphur and nitrogen removal systems.

Mine methane utilisation

Since 2007, DTEK's coal mining companies have been implementing a project on gas drainage construction and mine methane utilisation. Within the framework of this initiative, the Company is striving to cut harmful emissions into the atmosphere significantly, to earn additional income from the sale of emission reduction units (ERU) under the Kyoto Protocol, and to save coal currently used for providing mine energy. To improve the safety of coal extraction is also an important objective.

The project envisages the reconstruction of surface and underground gas drainage systems, the upgrading and replacement of mine gas drainage equipment, and the introduction of new methods for gas production. To use methane from mine gas, utilisation installations and co-generation thermal power plants will be built and the mines' boiler houses will be switched to run on methane.

Currently, Komsomolets Donbassa Mine (jointly with Eco-Alliance LLC) and Zapadno-Donbasskaya Mine (jointly with GreenGas) are implementing the project. In 2009, in the course of implementing the project, Komsomolets Donbassa mine reconstructed its gas drainage system: the gas drainage pipeline and pumping station were replaced. In addition, the method of gas drainage in extraction sections was improved and operational processes were automated. Two flares were commissioned and the necessary reconstruction to switch the mine's boiler house from coal to mine methane were conducted simultaneously.

Zapadno-Donbasskaya mine, in association with GreenGas, prepared a feasibility study as to methane utilisation. Now, the improvement of gas drainage is in progress.

Investment in the project at Komsomolets Donbassa mine in 2008-2009 totalled UAH25.8m. Gas utilisation is expected to reach 15.5m cubic metres a year and coal savings are expected to be 20,000 tonnes a year by 2012. Harmful GHG emissions in the air in CO2 equivalent are reducing as a result of methane combustion in the mine's boiler house, flares and co-generation installations. In addition, apart from reduced electricity costs and the obvious environmental benefit, the mine methane utilisation project creates a new source of income: in 2009, ERUs were generated to an amount of 84,000t CO2 equivalent and 63,000t CO_2 equivalent is under verification.

Environment protection activities

Atmospheric air protection
Atmospheric air protection is one of the priorities for DTEK's environmental activities. In 2009, the Company's generating assets conducted large-scale air protection activities, in line with Ukraine's plans of integration into the EU energy community and the synchronisation of Ukraine's grid with the ENTSO-E .

Vostokenergo's enterprises carried out the modernization of TPP electric precipitators, timely repairs and maintenance of dust and gas treatment facilities, and aspiration installations.

To reduce dust emissions, Zuevskaya TPP reconstructed the electric precipitator at energy generating unit No 2 to achieve an average 99.3% efficiency in flue gas treatment in terms of fly ash removal. As a result, ash concentration in the emissions dropped from 480 to 140.9mg a cubic metre, and gross emissions decreased by 900 tonnes. In 2009, Kurakhovskaya TPP completed the modernization of its electric precipitator at unit No 5; its efficiency improved from 92.4% to 99.2%, which enabled a reduction of 3,031 tonnes in dust emissions and a lower concentration of dust in emissions from 3,350 to 367.6 mg a cubic metre.

Water protection and sustainable use
Since DTEK's enterprises operate in regions which are short of water, the Company emphasises water protection and its sustainable use.

One of its priorities is measures aimed at reducing process and household water consumption. To cut water losses, in 2009, DTEK's enterprises installed water meters, examined pipework and eliminated leaks, briefed personnel and provided additional consumption control. As a result of its comprehensive efforts, during the year, the Company reduced household water consumption by 3,274.8m cubic metres (44%) year-on-year.

Zuevskaya TPP managed to cut household water consumption by 580.5m cubic metres (41%), and Kurakhovskaya TPP by 1,239m cubic metres (64%).

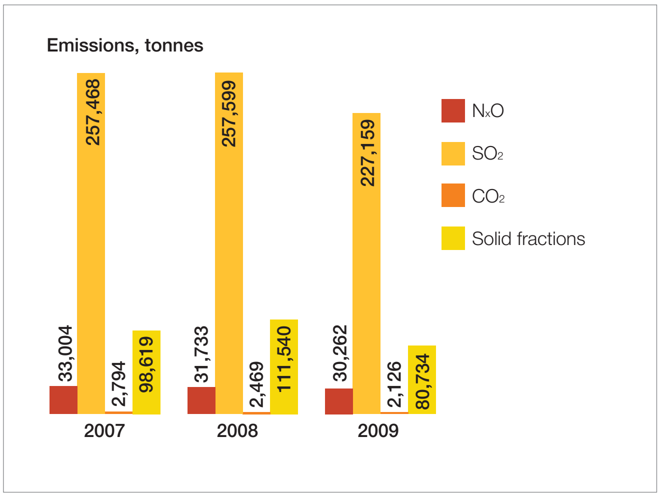
For reducing pollutant discharges, Pavlogradugol mines use water produced in the mining process, making it possible to save drinking water and decrease pressure on the Samara river. Drinking water savings in 2009 totalled about 290m cubic metres a year. A project is in progress for by-stage replacement of chlorination plants with more up-to-date and safe disinfection plants "Plamya", which were bought for ten of Pavlogradugol's mines in 2009.

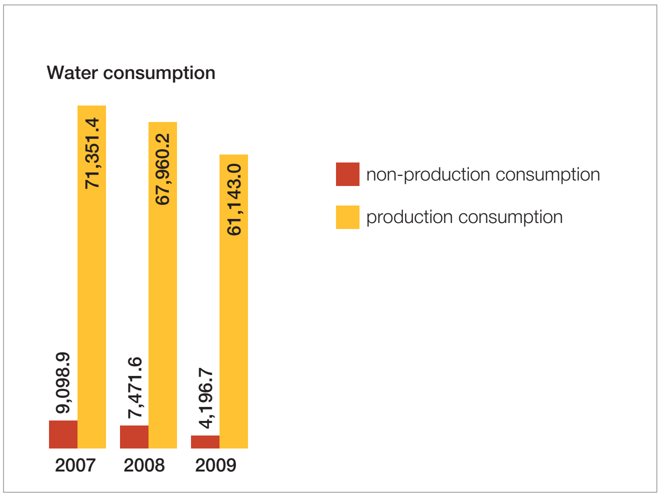
In 2009, the Pershotravensky Repair and Engineering Plant continued the installation of a galvanic effluent neutralisation plant, the commissioning of which was scheduled for January 2010.

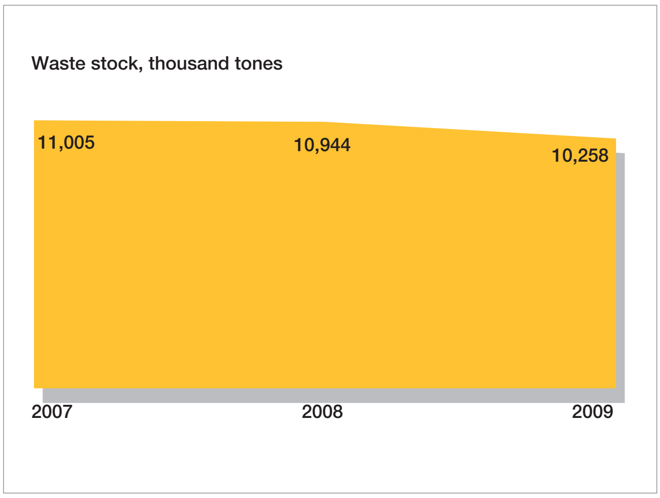
Environmental costs, UAHm

	2007	2008	2009
Capital expenditure	15.8	65.7	34.9
Current costs	70.7	136.7	145.9
Additional costs	4.8	9.7	12.0
Total	**91.3**	**212.0**	**192.8**

SUSTAINABLE DEVELOPMENT







Luganskaya TPP completed the next stage of a complex project on the termination of discharges into the Evsug river. In 2009, a pump station at ash dump No 2 was reconstructed. After the completion of all project stages, waste water will go back to the circulating hydraulic ash removal system to be recycled, making it possible completely to stop polluted water discharging into the ecosystem of the Evsug.

To collect and purify storm water at the site, in 2009 Luganskaya TPP developed a design for a storm water collection system, and is considering the construction of a storm water retention tank and storm water purification. This will increase environmental safety and prevent the discharge of polluted storm water into the environment in the near future.

Waste utilisation

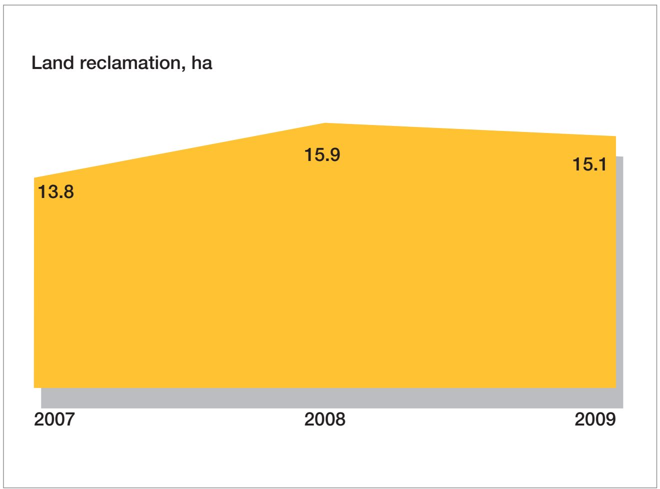
Most waste produced by DTEK enterprises is not hazardous. Nevertheless, the primary stocking of large capacity mining rock waste is a challenge because of a shortage of land in the regions where the generating and coal processing enterprises are located. To address the waste utilisation issue, in 2009 DTEK enterprises carried out work to increase the storage space of the ash dumps already in place.

Zuevskaya TPP, for example, topped the dam at the ash dump, increasing its space to 3.8m tonnes, without extending the area, and prolonging its service life by three years. Kurakhovskaya TPP implemented a similar project. Topping the ash dump at Sukhaya balka increased its volume by 3.22m tonnes and prolonged its service life by four years. The project was environmentally significant as the facilities border on agricultural lands, which constrains their extension.

In 2009, the processing of ash waste from TPP, together with coal enrichment waste, and their supply to consumers continued. This made it possible to decrease the stocking of tailings. In particular, Vostokenergo's TPPs used 83.3m tonnes of bottom ash for construction works and supplies to consumers.

The Pavlogradskaya CEP continued to improve its water-slurry circuit. In 2009, it conducted a project expert examination, and bought equipment and materials for project implementation. The trial run took place in December 2009. After the completion of construction, and set-up and start-up in 2010, the volume of processing liquid waste to be put in tailings storage is expected to reduce by 1.7%.

One of the ways to reduce the formation of hazardous wastes at our enterprises is the gradual replacement of hazardous materials with less hazardous ones. In 2009, therefore, Zuevskaya TPP replaced asbestos plates with more environmentally-friendly ones, and at Kurakhovskaya TPP, less hazardous sodium hypochlorite replaced chlorine in the process cycle.



The Company also pays a great deal of attention to the collection and recycling of recoverable waste, including waste oil, ferrous metals and worn tyres.

Land reclamation

Since DTEK has significant coal deposits under the Samara river high-water beds and its tributaries, coal mining in the regional mines is associated with land subsidence, flooding and water logging. It explains the special attention the Company pays to the sustainable use and protection of land resources. Reclamation of land disturbed by mining operations is one of its activities in this area.

A specialised waste-heap extinguishing and land reclamation company, which operates as part of Pavlogradugol, deals with the restoration of the land disturbed by mining operations.

Land reclamation means filling the caved areas of the surface with rock and covering the top with fertile soil. Using mine rock for land reclamation has made it possible to dispose of waste heaps – which have a negative impact on the environment – at the majority of Pavlogradugol's mines. In 2009, the enterprise used 2.14m tonnes of mine rock. The mining and reclamation process is followed by soil restoration and the sowing of cover crops. During the year, 15.1 ha of land were restored, and 7.88 ha were transferred to land reserve.

In order to improve reclamation measures, a project on the monitoring of reclaimed land and the improvement of reclamation efficiency was launched jointly with Dnepropetrovsk National University. The project is expected to improve the ecosystem of Ternovskaya and Pavlogradskaya mines' mining allotments.

In addition, DTEK enterprises carry out compensatory greenery planting together with land reclamation. In 2009, Pavlogradugol planted greenery at Pavlogradskaya, Samarskaya, and Blagodatnaya mines' fields, which resulted in the regional forest fund growing by 9.6 ha.

DTEK Holdings B.V.
International Financial Reporting Standards
Special Purpose Consolidated Financial Statements and
Independent Auditor's Report
31 December 2009

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of DTEK Holdings B.V.
We have audited the accompanying special purpose consolidated financial statements of DTEK Holdings B.V. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of 31 December 2009 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the rpecial purpose consolidated financial statements
Management is responsible for the preparation and fair presentation of these special purpose consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of special purpose 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 special purpose consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the special purpose consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special purpose consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the special purpose consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the special purpose consolidated financial statements.

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

Opinion
In our opinion, the accompanying special purpose consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

19 March 2010

DTEK HOLDINGS B.V.
SPECIAL PURPOSE CONSOLIDATED BALANCE SHEET

In millions of Ukrainian Hryvnia	Note	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	9	10,954	10,583
Intangible assets	10	700	674
Investments in associates	11	3,025	2,811
Financial investments	12	1,054	1,268
Deferred income tax asset	34	428	229
Other non-current assets		16	22
Total non-current assets		**16,177**	**15,587**
Current assets			
Inventories	13	633	614
Trade and other receivables	14	2,070	995
Current income tax prepayments		—	22
Financial investments	12	595	257
Cash and cash equivalents	15	739	595
Total current assets		**4,037**	**2,483**
TOTAL ASSETS		**20,214**	**18,070**
EQUITY			
Share capital	16	—	—
Share premium	16	9,909	—
Other reserves	17	(696)	7,545
Retained earnings		1,507	2,364
Net assets attributable to the equity holders		**10,720**	**9,909**
Minority interest in equity		**73**	**80**
TOTAL EQUITY		**10,793**	**9,989**
LIABILITIES			
Non-current liabilities			
Liability to minority participants	18	2	2
Borrowings	19	807	992
Other financial liabilities	20	221	267
Indebtedness under amicable agreement	21	126	116
Government grants	22	42	76
Retirement benefit obligations	23	1,379	1,051
Provisions for other liabilities and charges	24	160	215
Deferred income tax liability	34	959	917
Total non-current liabilities		**3,696**	**3,636**
Current liabilities			
Borrowings	19	3,621	2,739
Other financial liabilities	20	607	200
Prepayments received		80	55
Trade and other payables	25	1,055	1,176
Current income tax payable		205	33
Other taxes payable	26	157	242
Total current liabilities		**5,725**	**4,445**
TOTAL LIABILITIES		**9,421**	**8,081**
TOTAL LIABILITIES AND EQUITY		**20,214**	**18,070**

Approved for issue and signed on behalf of the Board of Directors on 19 March 2010.

Maksym Timchenko
Director

FTC Trust B.V.
Director

The accompanying notes on pages 95 to 136 are an integral part of these financial statements.

DTEK HOLDINGS B.V.
SPECIAL PURPOSE CONSOLIDATED INCOME STATEMENT

In millions of Ukrainian Hryvnia	Note	2009	2008
Revenue	27	15,009	12,969
Cost of sales	28	(12,447)	(9,921)
Gross profit		**2,562**	**3,048**
Other operating income	29	129	116
Distribution costs	30	(110)	(77)
General and administrative expenses	31	(598)	(532)
Other operating expenses	32	(192)	(321)
Impairment of property, plant and equipment	9	—	(354)
Net foreign exchange gain (other than on borrowings)		83	112
Operating profit		**1,874**	**1,992**
Foreign exchange losses less gains from borrowings		(203)	(1,307)
Finance income	33	71	64
Finance costs	33	(798)	(469)
Share of result and impairment of associates	11	231	(32)
Profit before income tax		**1,175**	**248**
Income tax expense	34	(319)	(129)
Profit for the year		**856**	**119**
Profit/(loss) is attributable to:			
Equity holders of the Company		863	119
Minority interest		(7)	—
Profit for the year		**856**	**119**

SPECIAL PURPOSE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In millions of Ukrainian Hryvnia	2009	2008
Profit for the period	856	119
Other comprehensive income		
Financial investments:		
– Fair value loss (Note 17)	(109)	(905)
– Disposals or transfer of AFS to associates (Note 17)	—	(752)
Property, plant and equipment:		
– Revaluation (Note 9)	—	3,862
– Change in estimate for asset retirement obligation (Note 24)	59	(57)
Income tax relating to components of other comprehensive income (Note 34)	(2)	(821)
Total comprehensive income for the period	**804**	**1,446**
Total comprehensive income attributable to:		
Equity holders of the Company	811	1,408
Minority interest	(7)	38
Total comprehensive income for the period	**804**	**1,446**

The accompanying notes on pages 95 to 136 are an integral part of these financial statements.

DTEK HOLDINGS B.V.
SPECIAL PURPOSE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						
In millions of Ukrainian Hryvnia	**Share capital**	**Share capital**	**Other reserves**	**Retained earnings**	**Total**	**Minority interest**	**Total Equity**
Balance at 1 January 2008	**—**	**—**	**4,775**	**2,265**	**7,040**	**29**	**7,069**
Total comprehensive income for 2008	—	—	1,289	119	1,408	38	1,446
Capital contributions (Note 16)							
– reinvestment of dividends	—	—	466	—	466	—	466
– conversion of shareholder obligations to equity	—	—	1,406	—	1,406	—	1,406
Property, plant and equipment:	—	—					
– Realised revaluation reserve	—	—	(522)	522	—	—	—
– Deferred tax related to realised revaluation reserve	—	—	131	(131)	—	—	—
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**
Total comprehensive income for 2009	—	—	(52)	863	811	(7)	804
Incorporation of DTEK Holdings B.V. (Note 16)	—	9,909	(7,545)	(2,364)	—	—	—
Property, plant and equipment:							
– Realised revaluation reserve	—	—	(859)	859	—	—	—
– Deferred tax related to realised revaluation reserve	—	—	215	(215)	—	—	—
Balance at 31 December 2009	**—**	**9,909**	**(696)**	**1,507**	**10,720**	**73**	**10,793**

The accompanying notes on pages 95 to 136 are an integral part of these financial statements.

DTEK HOLDINGS B.V.
SPECIAL PURPOSE CONSOLIDATED CASH FLOW STATEMENT

In millions of Ukrainian Hryvnia	Note	2009	2008
Cash flows from operating activities			
Profit before income tax		**1,175**	**248**
Adjustments for:			
Depreciation and impairment of property, plant and equipment and amortisation of intangibles, net of amortisation of government grants		1,429	1,080
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	17	46
Assets received free of charge	29	(28)	(34)
Gain from sale of investments available-for-sale		—	(1)
Impairment of trade and other receivables	29, 32	(55)	114
Change in provisions for other liabilities and charges		(3)	16
Net increase in retirement benefit obligation	23	250	348
Extinguishment of accounts payable		(1)	(1)
Share of result and impairment of associates	11	(231)	32
Unrealised result on associate	11	(5)	16
Unrealised foreign exchange loss		86	1,084
Realised foreign exchange loss on financing activities		114	181
Finance costs, net	33	727	405
Operating cash flows before working capital changes		**3,475**	**3,887**
Increase in trade and other receivables		(353)	(15)
(Decrease)/Increase in inventories		19	(99)
increase/(Decrease) in prepayments received		25	(2)
(Decrease)/Increase in trade and other payables		(102)	50
(Decrease) in other financial liabilities		(6)	(15)
(Decrease)/Increase in taxes payable		(85)	68
Cash generated from operations		**2,973**	**3,874**
Income taxes paid		(284)	(624)
Defined employee benefits paid	23	(144)	(112)
Interest paid		(423)	(289)
Interest received		24	43
Net cash generated from operating activities		**2,146**	**2,892**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(1,893)	(1,733)
Proceeds from sale of property, plant and equipment		3	4
Purchase of financial investments		(469)	(1,359)
Proceeds from sale of financial investments		28	34
Acquisition of minority interest and subsidiary		—	(4)
Acquisition of deposit certificates		(187)	—
Dividends received from associates		29	—
Deposits placed		(177)	(422)
Deposits received		176	339
Net cash used in investing activities		**(2,490)**	**(3,141)**
Cash flows from financing activities			
Proceeds from borrowings		3,160	2,713
Repayment of borrowings		(2,699)	(2,275)
Repayment of debts under amicable agreement		(16)	(4)
Resale of bonds of own issue		26	—
Net cash generated from financing activities		**471**	**434**
Net increase in cash and cash equivalents		**127**	**185**
Cash and cash equivalents at the beginning of the year	15	**595**	**368**
Exchange gains/(losses) on cash and cash equivalents		3	42
Cash and cash equivalents at the end of the year	15	**725**	**595**

The accompanying notes on pages 95 to 136 are an integral part of these financial statements.

1. The organisation and its operations

DTEK Holdings B.V. (the "Company") is a private limited liability company incorporated in the Netherlands on 16 April 2009. As further disclosed in Note 16, the Company was formed through the contribution by System Capital Management Limited and Investcom Services Limited of their 100% equity interest in DTEK Holding Limited, a Cyprus registered entity and predecessor to the Company. The Company and its subsidiaries (together referred to as "the Group" or "DTEK") are ultimately owned by JSC System Capital Management ("SCM"), registered in Ukraine, which is ultimately controlled by Mr. Rinat Akhmetov. Mr. Akhmetov has a number of other business interests outside of the Group. Related party transactions are detailed in Note 8.

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

The principal subsidiaries are presented below:

Name	% interest held as at 31 December		Segment	Country
	2009	2008		of incorporation
DTEK Holdings Limited	100.00	100.00	Management	Cyprus
DTEK LLC	100.00	100.00	Management	Ukraine
DTEK Corporation	98.64	98.64	Management	Ukraine
Pavlogradugol OJSC	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 Mining	Ukraine
CCM Pavlogradskaya LLC	99.00	99.00	Coal Mining	Ukraine
Mospino CPE LLC	99.00	99.00	Coal Mining	Ukraine
CCM Dobropolskaya LLC	60.06	60.06	Coal Mining	Ukraine
CCM Oktyabrskaya LLC	60.85	60.85	Coal Mining	Ukraine
Pershotravensky RMZ LLC	99.92	99.92	Coal Mining	Ukraine
Sotsis LLC	99.00	99.00	Other	Ukraine
Ekoenergoresurs LLC	99.00	99.00	Coal Mining	Ukraine
Servis Enterprise LLC	99.00	99.00	Other	Ukraine
DTEK Trading LLC*	100.00	—	Coal Mining	Ukraine

* – Entity created by the Group in 2009.

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

As at 31 December 2009, the Group employed approximately 42 thousand people (31 December 2008: 44 thousand people).

2. Operating environment of the Group

The Ukrainian economy is vulnerable to market downturns and slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in considerable instability in the capital markets, significant deterioration in the liquidity of banks, much tighter credit conditions where credit is available, and a significant devaluation of the national currency against other major currencies. In the fourth quarter of 2008, international agencies began to downgrade the country's credit ratings. Whilst the Ukrainian Government is introducing various stabilising measures aimed at providing liquidity and supporting debt re-financing for Ukrainian banks, there continues to be uncertainty regarding access to capital and its cost to the Group.

The deterioration of the global steel markets and decline in commodity prices has particularly impacted the demand for Ukrainian production, which in turn reduced the demand for the Group's energy supplies. In addition, the customers of the Group may also have been affected by the deterioration in their own liquidity, which could in turn impact their ability to repay amounts due to the Group. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment. These factors could affect the Group's financial position, results of operations and business prospects.

These financial statements have been prepared on a going concerns basis that contemplates the realisation of assets and satisfaction of liabilities and commitments in the normal course of business. The Group operates in a regulated market and accordingly its ability to increase prices for electricity supplied are limited in the short-term. The Group is therefore constantly working with its leaders to extend the maturity of its debt portfolio beyond the original maturity dates or negotiate new facilities. Furthermore, the Group has rationalised its capital expenditures and its discretionary investment programs.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

3. Summary of significant accounting policies

Basis of preparation. DTEK Holdings B.V. will prepare its first statutory financial statements for the 19 months to 31 December 2010. These consolidated financial statements prepared using the predecessor basis for the year ended 31 December 2009 are considered “special purpose financial statements” until the statutory financial statements are prepared. These consolidated financial statements have been prepared on the basis that DTEK Holdings B.V. is the successor to DTEK Holdings Limited and accordingly comparative information has been presented.

These special purpose consolidated financial statements 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 financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5, Adoption of New or Revised Standards and Interpretations).

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

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

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

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

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

As at 31 December 2009, the exchange rate used for translating foreign currency balances was USD 1 = UAH 7.99 (31 December 2008: USD 1 = UAH 7.70); EUR 1 = UAH 11.45 (31 December 2008: EUR 1 = UAH 10.86). 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 National Bank of Ukraine rate. At present, the UAH is not freely convertible outside Ukraine.

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

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

Property, plant and equipment. The Group uses the revaluation model to measure property, plant and equipment. Fair value was based on valuations by external independent valuers. The frequency of revaluation will depend upon the movements in the fair values of the assets being revalued. The 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. Starting from 1 January 2009 the cost of acquired and self-constructed qualifying assets includes borrowing costs.

3. Summary of Significant Accounting Policies (Continued)

The increase in the carrying amounts resulting from revaluation are credited to other reserves in equity. Decreases that offset previously recognised increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement. 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 were 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 balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

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

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

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

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

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

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 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.

3. Summary of significant accounting policies (continued)

Impairment losses are recognised in the income statement when incurred as a result of one or more events that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an instrument below its cost is an indicator that it is impaired. The cumulative impairment loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in the income statement, is removed from equity and recognised in the income statement. Impairment losses on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through current period's income statement.

A provision for impairment of loans and accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. 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 income statement.

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

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

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

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

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

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

Trade and other receivables. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. 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. Some purchases may be settled by promissory notes or bills of exchange, which are negotiable debt instruments. Purchases settled by promissory notes are recognised based on management's estimate of the fair value to be given up in such settlements. The fair value is determined with reference to observable market information.

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

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

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

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

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

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

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

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

Trade and other payables. Trade and other payables are recognised and initially measured under the policy for financial instruments mentioned above. Subsequently, instruments with a fixed maturity are re-measured at 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.

3. Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

Management incentive program. In January 2009, the Group introduced a long-term incentive bonus program for top executives. This cash-settled share based compensation is based upon 2% of the Group’s incremental value (net worth) increase over a benchmark amount, assessed at the vesting dates of 31 December 2010 and 31 December 2012. The total long term incentive pool is capped at USD 100 million. The valuation of the Group as of the respective dates would be performed by quoted price, if the Group's shares are publicly traded, or by the Supervisory Board decision based on internationally recognised non-public entity valuation practices.

The Group measures the fair value of the services received based on the fair value of the award to be given at the reporting date. The Group remeasures the fair value of the awards for the top executives at each reporting date until settlement. Until the award is settled, the Group presents the cash-settled award as a liability and not within equity. The fair value of the liability at the reporting date is calculated by applying the Black – Scholes model with reference to the share price, exercise price, expected volatility of the Group's international peers.

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.

4. Critical accounting estimates and judgements

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

Impairment of available-for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price and liquidity in the Ukrainian markets. In addition, impairment may be appropriate when there is evidence of changes in technology or a deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would have suffered an additional loss for the year of UAH 422 million (2008: 348 million).

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

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

The Group also determines whether goodwill is impaired at least on an annual basis. This requires estimation of the value in use 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.

Revaluation of property, plant and equipment. As at 1 August 2008, the Group's management decided to carry out the revaluation of property, plant and equipment based on changes in economic conditions of business environment and an increase of the inflation rate. Fair value of property, plant and equipment and remaining useful lives as at 31 August 2008 were determined by an independent appraiser. The carrying value and depreciation of property, plant and equipment are effected by the estimates of replacement cost, depreciated replacement cost and remaining useful life. Changes in these assumptions could have a material impact to the fair value of property, plant and equipment (Note 9). No independent revaluation was performed in 2009, however management believes, based on internal assessment, that the fair value of property, plant and equipment does not differ significantly from the recorded carrying amounts as at 31 December 2009.

4. Critical accounting estimates and judgements (continued)

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

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

Post-employment and other employee benefit obligations. Management assesses post-employment and other employee benefit obligations using the Projected Unit Credit Method based on actuarial assumptions which represent management's best estimates of the variables that will determine the ultimate cost of providing post-employment and other employee benefits. Since the plan is administered by the State, the Group may not have full access to information and therefore assumptions regarding when, or if, an employee takes early retirement, whether the Group would need to fund pensions for ex-employees depending on whether that ex-employee continues working in hazardous conditions, the likelihood of employees transferring from State funded pension employment to Group funded pension employment could all have a significant impact on the pension obligation. The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The major assumptions used in determining the net cost (income) for pensions include the discount rate and expected salary increases. Any changes in these assumptions will impact the carrying amount of pension obligations. Since there are no long-term, high quality corporate or government bonds issued in Ukrainian Hryvnias, significant judgement is needed in assessing an appropriate discount rate. Key assumptions and sensitivities are presented in Note 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. 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 35).

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.

Investment in Dniproenergo OJSC. As discussed in Note 11, the additional 34.24% share issue of Dniproenergo OJSC ("Dniproenergo") 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. However, the additional share issue remains under legal challenge. If the courts ultimately rule against the share issue, the recoverability of the Company's investment, which totalled UAH 1,052 million as at 31 December 2009, may become doubtful. The Group's commitment to fund Dniproenergo's investment program totalling UAH 1,010 million over the next 3 years is also contingent upon the Group having ownership of the 34.24% shares.

5. Adoption of new or revised standards and interpretations

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:

IFRS 8, Operating Segments. The Group has adopted IFRS 8 on 1 January 2009, and amended its comparative disclosures to be consistent with the current presentation. IFRS 8 requires an entity to report financial and descriptive information about its operating segments in a manner similar to that used for internal management reporting purposes. IFRS 8 replaces IAS 14, "Segment reporting".

IAS 23, Borrowing costs. Effective 1 January 2009 the Group applies IAS 23 revised. The main change to IAS 23 is the removal of the option of immediately expensing borrowing costs that relate to assets that take a substantial period of time to construct. The group, therefore, capitalises 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. During 2009, the Group capitalised UAH 11 million of interest. The capitalisation rate was 12%.

IAS 1, Presentation of financial statements. Effective 1 January 2009, the Group applies IAS 1 revised. The main change in IAS 1 is classification of items in the income statement and statement of comprehensive income, segregating shareholder movements from non-shareholder movements, 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.

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 to reclassify a financial asset if certain conditions are met. The Group has not elected to make any of the optional reclassifications.

Improving Disclosures about Financial Instruments — Amendment to IFRS 7, Financial Instruments: Disclosures, *issued in March 2009.* The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The Group has disclosed 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.

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. IFRIC 18 is not expected to have material impact on the Group's financial statements.

6. New accounting pronouncements

Listed below are new standards and interpretations that have been published and are mandatory for the Group accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted:

- ***IAS 27, Consolidated and Separate Financial Statements*** (revised January 2008; effective for annual periods beginning on or after 1 July 2009).
- ***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).
- ***Amendment to IAS 24, Related Party Disclosures*** (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).
- ***Improvements to International Financial Reporting Standards*** (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010).
- ***IFRS 9, Financial Instruments Part 1: Classification and Measurement*** (effective for annual periods beginning on or after 1 January 2013).
- ***Additional Exemptions for First-time Adopters — Amendments to IFRS 1, First-time Adoption of IFRS*** (effective for annual periods beginning on or after 1 January 2010).
- ***Classification of Rights Issues — Amendment to IAS 32*** (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010).
- ***Eligible Hedged Items — Amendment to IAS 39, Financial Instruments: Recognition and Measurement*** (effective with retrospective application for annual periods beginning on or after 1 July 2009).
- ***Group Cash-settled Share-based Payment Transactions — Amendments to IFRS 2, Share-based Payment*** (effective for annual periods beginning on or after 1 January 2010).
- ***IFRIC 17, Distribution of Non-Cash Assets to Owners*** (effective for annual periods beginning on or after 1 July 2009).
- ***IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments*** (effective for annual periods beginning on or after 1 July 2010).

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

7. Segment information

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

The Supervisory board assesses the performance of the operating segments based on a measure of the IFRS operating profit. Transfer pricing is excluded from intersegment revenue and cost of sales for segment presentation purposes. Other information provided to the Supervisory Board is consistent with that in these financial statements.

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-segment pricing may not be determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses. Segment revenue includes transfer between business segments. Those transfers are eliminated on consolidation.

Segment information for the main reportable business segments of the Group for the year ended 31 December 2009 is as follows:

In millions of Ukrainian Hryvnia	Coal mining	Power generation	Electricity distribution	Other	Elimination	Total
2009						
Sales – external	4,711	5,604	4,672	22	—	15,009
Sales to other segments	2,253	1	357	183	(2,794)	—
Total revenue	**6,964**	**5,605**	**5,029**	**205**	**(2,794)**	**15,009**
Segment results	870	1,218	100	51	(118)	2,121
Unallocated expenses						(247)
Operating profit						**1,874**
Finance costs, net						(727)
Foreign exchange losses less gains from borrowings						(203)
Share of result of associates						231
Profit before income tax						**1,175**
As at 31 December 2009						
Segment assets	8,086	6,218	995	376	(1,388)	14,287
Investments in associates	—	2,614	398	13	—	3,025
Available for sale investments	—	784	270	—	—	1,054
Current/deferred tax assets						428
Other unallocated assets						1,420
Total assets						**20,214**
Capital expenditure	1,357	438	89	16		1,900
Depreciation and amortisation	1,053	242	123	20		1,438

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 Hryvnia	Coal mining	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						(193)
Operating profit						**1,992**
Finance costs, net						(405)
Foreign exchange loss						(1,307)
Share of result of associates						(32)
Profit before income tax						**248**
As at 31 December 2008						
Segment assets	7,409	4,743	966	162	(341)	12,939
Investments in associates	—	2,739	51	21	—	2,811
Available for sale investments	—	904	364	—	—	1,268
Current/deferred tax assets						251
Other unallocated assets						801
Total assets						**18,070**
Capital expenditure	1,352	419	107	12	—	1,890
Depreciation and amortisation	747	233	91	11	—	1,082
Impairment of property, plant and equipment	331	(20)	42	1	—	354

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

In millions of Ukrainian Hryvnia	Coal mining	Power generation	Electricity distribution	Other	Total
2009					
Energorynok SE	—	5,543	—	—	**5,543**
Dniproenergo OJSC	2,692	—	—	—	**2,692**
Entities under common control of SCM	810	—	2,426	—	**3,236**
Total	**3,502**	**5,543**	**2,426**	**—**	**11,471**
2008					
Energorynok SE	—	5,665	—	—	**5,665**
Dniproenergo OJSC	1,687	—	—	—	**1,687**
Entities under common control of SCM	1,482	—	1,943	—	**3,425**
Total	**3,169**	**5,665**	**1,943**	**—**	**10,777**

Geographical information

In millions of Ukrainian Hryvnia	2009	2008
Ukraine	14,671	12,883
Other countries	338	86
Total consolidated revenues	**15,009**	**12,969**

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 2009 are detailed below. At 31 December, the outstanding balances with related parties were as follows:

In millions of Ukrainian Hryvnia	2009 Entities under common control of SCM	2009 Associates	2008 Entities under common control of SCM	2008 Associates
Gross amount of trade and other receivables	470	242	155	186
Promissory notes receivable	3	—	3	3
Financial aid provided	26	—	14	—
Deposits placed with a maturity of more than three months	86	—	—	—
Loans granted and interest accrued	5	1	—	2
Prepayment for financial investments	107	—	—	—
Cash and cash equivalents – current account	202	—	175	—
Investment obligation relating to Dniproenergo:				
– Non-current	—	(157)	—	(222)
– Current	—	(307)	—	(200)
Bonds issued (UAH denominated bearing interest at 15%)	12	—	—	—
Trade and other payables	(86)	—	(79)	—
Prepayments received	(1)	—	—	—
Loan received (US dollar denominated interest-free)	(300)	—	—	—
Promissory notes issued	—	—	(5)	—

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

In millions of Ukrainian Hryvnia	2009 Entities under common control of SCM	2009 Associates	2008 Entities under common control of SCM	2008 Associates
Sales of electricity	2,426	—	1,943	—
Sales of coking coal	810	—	1,482	—
Sales of steam coal	—	2,692	5	847
Sales of inventory	4	2	25	1
Sales of services	—	—	15	1
Purchase of coal	—	—	—	(6)
Purchase of goods for resale	(846)	—	(186)	—
Purchase of raw materials and equipment	(74)	(5)	(133)	—
Purchase of electricity	—	—	—	(4)
Purchase of services	(25)	—	(18)	(11)
Interest income on bank deposits	8	—	5	—
Interest expense on promissory notes payable (Note 33)	—	—	(1)	—
Interest expense on bonds issued	—	—	(52)	—
Interest expense on long-term payables	(1)	—	(3)	—
Gain on initial recognition of promissory note	11	—	—	—
Interest income on loans provided	5	—	—	—
Loss on sale of promissory note	(4)	—	—	—

Revenue, trade and other receivable
The trade receivable balances as at 31 December 2009 due from entities under common control and an associates are non-interest bearing. The balances outstanding from related parties as at 31 December 2009 and 2008 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 2009 and 2008.

As at 31 December 2009, UAH 2,000 million of intragroup sales of coal are pledged as collateral for bank borrowings.

Purchases, trade and other payables

Purchases and outstanding trade and other payables as at 31 December 2009 and 2008 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 nine top executives (2008: eight top executives). In 2009 total compensation to key management personnel included in administrative expenses amounted to UAH 40 million (2008: UAH 28 million). Compensation to the key management personnel consists of salary, bonus payments and termination benefits.

Effective 1 January 2009, the Group entered into a management incentive program with certain top executives. Under the program, top executives are entitled to 2% of the Group's incremental value (net worth) increase over a benchmark amount. Total available under the program is capped at USD 100 million. The valuation of the Group would be performed by quoted price, if the Group's shares are publically traded, or by reference to independent appraisal using techniques approved by the Supervisory Board. 30% of the bonus is payable based on the interim valuation date of 31 December 2010, the remaining 70% payable in 2012.

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 1 January 2008						
Cost	1,533	2,580	3,015	248	376	**7,752**
Accumulated depreciation	(146)	(203)	(944)	(106)	—	**(1,399)**
NBV at 1 January 2008	**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)	—
NBV 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)**
NBV at 31 December 2008	**2,031**	**3,521**	**3,845**	**243**	**943**	**10,583**
Additions	21	50	1,535	64	195	**1,865**
Disposals	—	(3)	(14)	(2)	(1)	**(20)**
Depreciation charge	(157)	(318)	(927)	(72)	—	**(1,474)**
Revaluation surplus	—	—	—	—	—	—
Impairment	—	—	—	—	—	—
Transfer	79	68	263	17	(427)	—
NBV at 31 December 2009	**1,974**	**3,318**	**4,702**	**250**	**710**	**10,954**
At 31 December 2009						
Cost or valuation	2,188	3,757	5,995	384	710	**13,034**
Accumulated depreciation	(214)	(439)	(1,293)	(134)	—	**(2,080)**
NBV at 31 December 2009	**1,974**	**3,318**	**4,702**	**250**	**710**	**10,954**
NBV without revaluation at:						
31 December 2008	**1,248**	**762**	**1,942**	**110**	**647**	**4,709**
31 December 2009	**1,219**	**776**	**3,003**	**141**	**563**	**5,702**

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.

9. Property, plant and equipment (continued)

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..

As a result of the revaluation exercise, a revaluation surplus of UAH 3,862 million and specific impairments of UAH 354 million were recorded in 2008.

As at 31 December 2009, buildings, plant and machinery carried at UAH 2,966 million (31 December 2008: UAH 1,265 million) have been pledged to third parties as collateral for loans and borrowings (Note 19).

In 2009, the depreciation expense of UAH 1,391 million (2008: UAH 1,060 million), net of amortisation of government grants, was included in cost of sales, UAH 20 million (2008: UAH 17 million) in general and administrative expenses, UAH 6 million (2008: UAH 3 million) in distribution expenses, and UAH 12 million (2008: UAH 5 million) in other operating expenses.

10. Intangible assets

As at 31 December, intangible assets comprise:

In millions of Ukrainian Hryvnia	2009	2008
Goodwill	633	633
Other intangible assets	67	41
Total	**700**	**674**

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	2009	2008
Coal mining	590	590
Energy distribution	43	43
Total	**633**	**633**

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.

	2009	2008
Coal mining		
Pre-tax discount rate	23%–16%	29%–14%
Revenue growth rate for the five-year period	5%–30%	(15%)–20%
Revenue growth rate after the five-year period	4–5%	1–6%
Gross margin	25%	30%
Energy distribution — PES-Energougol		
Pre-tax discount rate	23%–16%	29%–14%
Revenue growth rate for the five-year period	6%–17%	6%–29%
Revenue growth rate after the five-year period	7–10%	1–5%
Gross margin	15%	7%

The financial crisis and slow down in global growth has had a significant impact on the Group. In assessing goodwill impairment management used a multi-period discount rate ranging from 23% in 2010 to 17% in 2012, which stabilizes at 16% 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.

During 2009 and 2008, 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 2008	**13**	**(3)**	**10**
Additions/(Charge) for the year	42	(5)	
Disposals	(6)	—	
As at 31 December 2008	**49**	**(8)**	**41**
Additions/(Charge) for the year	35	(9)	
As at 31 December 2009	**84**	**(17)**	**67**

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	2009	2008
Carrying amount at 1 January	**2,811**	**85**
Acquisition of associates	—	1,552
Additional contribution to associate	7	—
Transfer from AFS investment to associate	—	1,190
Transfer of associates to subsidiaries	—	(23)
Share of after tax results of associates	1,105	(32)
Share of results of associate while accounted for as AFS	—	19
Share in revaluation reserves of associates while accounted for as AFS	—	36
Unrealised profit on operations with associate	5	(16)
Impairment of associate	(874)	—
Dividends declared by associate	(29)	—
Carrying amount at 31 December	3,025	2,811

11. Investments in associates (continued)

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

In millions of Ukrainian Hryvnia	Country of incorporation	% of ownership	Carrying value	Total assets	Total liabilities	Revenue	Profit/ (loss)
2009							
Dniproenergo	Ukraine	47.55%	2,614	2,371	1,452	4,212	(210)
Donetskoblenergo JSC	Ukraine	30.59%	398	1,383	2,328	3,144	3,992
Other	Ukraine	various	13	52	16	—	(52)
Total			**3,025**				
2008							
Dniproenergo	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	various	21	21	9	—	—
Total			**2,811**				

Dniproenergo

In 2003, Dniproenergo, a majority State owned power generating company located in Zaporizhzhya, was under external management in accordance with the Law of Ukraine # 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 emerge from bankruptcy. In June 2007 the Arbitration Court approved the creditor committee's amicable agreement for restructuring Dniproenergo's 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. In exchange Pavlogradugol and Komsomolets Donbassa each received a 17.12% interest in Dniproenergo. 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 and Komsomolets Donbassa to commit to funding Dniproenergo's investment program totalling UAH 1,010 million for the period 2008 through 2012.

Subsequent to approval of the above amicable agreement, various parties challenged the legality of the amicable agreement, such that the additional share issue could not be recognised by the share registrar.

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

In March 2008, a new share registrar was appointed to record the share of Dniproenergo. In June 2008, the Courts overturned the decision to cancel the share issue. The new registrar completed the recovery of Dniproenergo shareholders' register in July 2008 and on 11 July 2008, Komsomolets Donbassa and Pavlogradugol 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 increasing to 46.98% (after dilution of the existing interest) and, as a 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).

On 24 March 2009, Dniproenergo held an Annual Shareholders Meeting. The shareholders voted in accordance with the registered number of shares including the additional share issuance. 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).

On 23 June 2009, the Court claimed technical deficiencies in the initial approval of the Dniproenergo additional share issue and declared the Dniproenergo shareholders meeting which approved the additional share issue as void. However, management believes that this Court decision will not have a significant effect on the Group, following the Annual Shareholders Meeting where 97% of the shareholders voted in accordance with the registered number of shares including the disputed additional share issuance. The new share issue and associated share certificates issued by the new registrar continue to be challenged in Court by a minority shareholder, however, recent Court hearing dated 5 March 2010 were resolved in favour of the Group. The Group will continue defending its position and management believes that further Court hearings will be resolved in favour of the Group.

The Group continues to purchase additional shares in Dniproenergo and as at 31 December 2009, its interest totalled 47.55%.

Impairment assessment for Dniproenergo
At 31 December 2009, the quoted market price for the Group's interest in Dniproenergo was UAH 1,950 million (31 December 2008 UAH 1,219 million). Due to the illiquid local capital markets, management has used the fair value approach involving valuation techniques to assess impairment.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources. The following table summarises key assumptions on which management has based its cash flow projections to undertake the impairment assessment of its investment: .

	2009	2008
Post-tax discount rate	23%–16%	29%–14%
Revenue growth rate 2009–2014	11–19%	9–19%
Revenue growth rate 2014 – onwards	2–5%	1–4%
Gross margin	20%	27%

No impairment was recognised as a result of the assessment.

Donetskoblenergo
Donetskoblenergo JSC ("Donetskoblenergo") is an electricity distribution company located in the Donetsk region of Ukraine. During 2000–2005, Donetskoblenergo accumulated significant obligations to Energorynok for the purchase of electricity for supply to final customers who defaulted on payment.

During 2009, Donetskoblenergo negotiated a restructuring of these obligations to Energorynok, which totalled UAH 3,595 million as at 31 December 2008. Under the Court approved restructuring plan, these obligations will be repaid, without interest, in installments through 2032. The renegotiation was accounted for as an extinguishment of the original obligation and the recognition of a new obligation. Management have assessed the fair value of the payment schedule using an effective interest rate of 19% and recorded a UAH 3,443 million gain on the initial recognition of the new financial instrument. Further, Donetskoblenergo has reversed all accrued provision for penalties and fines payable to Energorynok totalling UAH 1,687 million, and accrued UAH 765 million for possible tax claims. Consequently, the Group's share in the financial results of Donetskoblenergo totalling UAH 1,221 million was recognised in the income statement.

Impairment assessment for Donetskoblenergo
Due to the illiquid local capital markets, management has used the fair value approach involving valuation techniques to assess the possible impairment of Donetskoblenergo.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources. The following table summarises key assumptions on which management has based its cash flow projections to undertake the impairment testing of its investment in the associate.

	2009
Post-tax discount rate	28%–14%
Revenue growth rate 2010–2015	5%–23%
Revenue growth rate 2015 – onwards	5%
Gross margin	12%

As a result of this assessment, UAH 874 million of the impairment charge was recognised in the income statement.

12. Financial investments

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

In millions of Ukrainian Hryvnia	2009	2008
Equity securities:		
– qouted	784	900
– illiquid	252	349
Prepayment for other shares	15	19
Loans receivable	3	—
Total	**1,054**	**1,268**

12. Financial Investments (Continued)

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 or Ukrainian Exchange, 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 2009, equity securities with a carrying value of UAH 252 million (2008: 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:

	2009	2008
Post-tax discount rate	16%–14%	28%–15%
EBIT growth rate 2010–2012	14%–43%	(41%)–43%
Revenue growth rate 2013 – onwards	3%	3%
Gross margin 2010–2012	1%–4%	1%–4%
Gross margin 2013 – onwards	3%–5%	3%–5%

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

In millions of Ukrainian Hryvnia	2009	2008
Deposits placed with a maturity of more than three months	142	31
Loans receivable (net of provision for impairment of UAH 17 million)	114	226
Prepayment for shares	339	—
Total	**595**	**257**

In millions of Ukrainian Hryvnia	2009 Other	2009 Deposits	2008 Other	2008 Deposits
Rating by Moody's Investors Service				
– B1 rated	—	—	—	1
– B3 rated	—	128	—	—
– Caa2 rated	—	—	—	30
Non-rated	453	14	226	—
Total	**453**	**142**	**226**	**31**

As at 31 December 2009, the Group prepaid UAH 339 million to various stockbrokers to acquire equity interest in other Ukrainian energy companies. UAH 75 million from loans receivable are represented by financial aid provided for SCM companies. UAH 39 loan provided to the supplier of coal.

As at 31 December 2009, UAH 142 million of term deposits were pledged as collateral for borrowings (31 December 2008: 30).

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	2009	2008
Coal	253	341
Raw materials	150	122
Spare parts	152	109
Goods for resale	21	12
Work in process	57	30
Total inventories	**633**	**614**

The amount of inventory write down recognised as an expense in 2009 was UAH 17 million (2008: UAH 4 million). As at 31 December 2009 inventories with a value of UAH 228 million (31 December 2008: nil) 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	2009	2008
Trade receivables	1,333	1,297
Less impairment provision	(428)	(488)
Trade receivables — net	**905**	**809**
Other financial receivables	218	147
Less impairment provision	(89)	(85)
Receivable for sale of financial instruments	428	53
Total financial assets	*1,462*	*924*
Prepayments to suppliers	572	70
Less impairment provision	(4)	(10)
VAT recoverable	15	3
Other	29	13
Less impairment provision	(4)	(5)
Total non-financial assets	*608*	*71*
Total trade and other receivables	**2,070**	**995**

As at 31 December 2009, 4% of trade and other receivables are denominated in USD (31 December 2008: nil).

Included in prepayments at 31 December 2009 is UAH 235 million (net of VAT) advanced to a single supplier to secure the supply of coal in 2010.

The Group entered into commission transactions to purchase and export goods on behalf of SCM group entities for cash flow management purposes and prepaid UAH 250 million (net of VAT) for goods for resale to SCM Group companies.

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

In millions of Ukrainian Hryvnia	2009	2008
Provision for impairment at 1 January	**588**	**493**
Provision for impairment during the year	145	134
Reversal of provision	(200)	(37)
Amounts written off during the year as uncollectible	(8)	(2)
Provision for impairment at 31 December	**525**	**588**

14. Trade and other receivables (continued)

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

In millions of Ukrainian Hryvnia	2009 Trade receivables	2009 Receivable for sale of financial instruments	2009 Other financial receivables	2008 Trade receivables	2008 Receivable for sale of financial instruments	2008 Other financial receivables
Current and not impaired – exposure to						
– Energorynok SE	415	—	—	271	—	—
– Large Ukrainian corporates	134	14	83	153	—	4
– Medium sized companies	105	334	14	86	53	7
Total current and not impaired	**654**	**348**	**97**	**510**	**53**	**11**
Past due but not impaired						
– less than 30 days overdue		4	3	92	—	38
– 30 to 90 days overdue	157	—	2	137	—	1
– 90 to 180 days overdue	—	—	6	5	—	2
– 180 to 360 days overdue	6	76	20	21	—	2
– over 360 days overdue	88	—	1	44	—	8
Total past due but not impaired	**251**	**80**	**32**	**299**	**—**	**51**
Individually determined to be impaired (gross)						
– less than 30 days overdue	—	—	—	—	—	—
– 30 to 90 days overdue	—	—	—	—	—	—
– 180 to 360 days overdue	—	—	—	—	—	—
– over 360 days overdue	428	—	89	488	—	85
Total individually impaired	**428**	**—**	**89**	**488**	**—**	**85**
Less impairment provision	**(428)**	**—**	**(89)**	**(488)**	**—**	**(85)**
Total	**905**	**428**	**129**	**809**	**53**	**62**

15. Cash and cash equivalents

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

In millions of Ukrainian Hryvnia	2009	2008
Bank balances payable on demand	517	373
Term deposits with original maturity of less than three months	208	222
Restricted cash	14	—
Total cash and cash equivalents	**739**	**595**

As at 31 December 2009, cash and cash equivalents of UAH 253 million were denominated in US dollars (31 December 2008: UAH 309 million).

As at 31 December 2009, UAH 165 million of term deposits with original maturity of less than three months were pledged as collateral for borrowings or bank guarantees received (31 December 2008: nil).

As at 31 December 2009, UAH 14 million of cash is restricted in use under letter of credit arrangement. For the purposes of the cash-flow statements this amount is not included in cash and cash equivalents balance.

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

	2009			2008	
In millions of Ukrainian Hryvnia	Bank balances payable on demand	Term deposits	Restricted cash	Bank balances payable on demand	Term deposits
Rating by Moody's Investors Service					
– A1 rated	—	—	—	10	—
– A3 rated	64	9	14	—	212
– Aa3 rated	—	2	—	—	—
– B1 rated	1	—	—	1	10
– Ba1 rated	—	—	—	74	—
– B2 rated	—	80	—	168	—
– B3 rated	441	107	—	—	—
– Caa2 rated	—	—	—	120	—
Non-rated	*11*	*10*	—	—	—
Total	**517**	**208**	**14**	**373**	**222**

16. Share capital

The authorised share capital of DTEK Holdings B.V. comprises 15,000 ordinary shares with a nominal value of EUR 10 per share. All shares carry one vote. At 31 December 2009, the issued and fully paid share capital comprises 3,000 ordinary shares.

On 16 April 2009, DTEK Holdings B.V. was incorporated by System Capital Management Limited and Investcom Services Limited (the existing shareholders of DTEK Holdings Limited and both ultimately wholly owned by JSC SCM), via a cash contribution of EUR 30,000. On 26 May 2009, these shareholders contributed 100% of their equity interest in DTEK Holdings Limited to DTEK Holdings B.V. at the historic carrying amount of UAH 9,909 million (EUR 912 million at the then effective exchange rate) as recorded at 31 December 2008 in the IFRS financial statements of DTEK Holdings Limited. This capital contribution was recorded as share premium and other reserves and retained earnings in these consolidated financial statements have been adjusted accordingly to reflect the new capital structure of DTEK Holdings B.V.

On 11 December 2008, DTEK Holdings Limited declared a dividend of USD 62 million (UAH 466 million), which was subsequently reinvested by the shareholders.

On 23 December 2008, DTEK Holdings Limited effectively received through a series of transactions with its shareholders a capital contribution of UAH 1406 million via the effective conversion of shareholder obligations totalling UAH 1,406 million to equity.

17. Other reserves

In millions of Ukrainian Hryvnia	Additional paid in capital	Revaluation reserve	AFS reserve	Total
Balance at 1 January 2008	**1,474**	**2,049**	**1,252**	**4,775**
Financial investments:				
– Fair value gains less losses	—	—	(905)	**(905)**
– Transfer of AFS to associates	—	—	(752)	**(752)**
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**
Incorporation of DTEK Holdings B.V. (Note 16)	(7,545)	—	—	**(7,545)**
Financial investments:				
– Fair value gains less losses	—	—	(109)	**(109)**
Property, plant and equipment:				
– Change in estimate relating to asset retirement provision recorded in equity	—	59	—	**59**
– Realised revaluation reserve	—	(859)	—	**(859)**
Income tax recorded in equity	—	201	12	**213**
Balance at 31 December 2009	**(4,199)**	**3,905**	**(402)**	**(696)**

During 2009, unrealised fair value loss on available-for-sale investments totalling UAH 109 million (2008: UAH 905 million) were recorded directly in other reserves.

During 2008, historic fair value gains totalling UAH 752 million related to Dniproenergo, while this asset was recorded as an investment, have been derecognised following its transfer to equity accounting.

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

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.

19. Borrowings

In millions of Ukrainian Hryvnia	2009	2008
Non-current		
Bank borrowings	807	992
	807	**992**
Current		
Bank borrowings	3,596	2,726
Interest accrual	25	13
	3,621	**2,739**
Total borrowings	**4,428**	**3,731**

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

In millions of Ukrainian Hryvnia		2009	2008
Borrowings denominated in:	– UAH	484	337
	– US dollars	2,514	2,387
	– Euros	1,373	1,007
	– Roubles	57	—
Total borrowings		**4,428**	**3,731**

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

In millions of Ukrainian Hryvnia	Maturity 2009	Maturity 2008	Interest re-pricing 2009	Interest re-pricing 2008
Loans and borrowings due:				
– within 1 year	3,621	2,739	4,261	3,655
– between 1 and 5 years	807	992	167	76
Total borrowings	**4,428**	**3,731**	**4,428**	**3,731**

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

In % per annum	2009 UAH	2009 USD	2009 EUR	2009 RUB	2008 UAH	2008 USD	2008 EUR	2008 RUB
Bank borrowings	14%–26.5%	LIBOR 3m+3%–18%	EURIBOR 6m+1.7%–18%	22%	14%-25%	LIBOR 1m+4%–LIBOR 1m+12%	EURIBOR 1m+4.5%–18%	—
Total borrowings	**484**	**2,514**	**1,373**	**57**	**337**	**2,387**	**1,007**	**–**

As at 31 December 2009, borrowings totalling UAH 2,368 million (31 December 2008: UAH 1,023 million) were secured with property, plant and equipment, financial investments, cash and cash equivalents and inventories (Notes 9, 12, 13 and 15).

20. Other financial liabilities

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

In millions of Ukrainian Hryvnia	2009	2008
Investment obligation relating to Dniproenergo	156	222
Bonds issued	26	—
Restructured trade payables	17	45
Other payables	22	—
Total non-current other financial liabilities	**221**	**267**

As discussed in Note 11, upon recognition of the Group's additional 34.24% interest in Dniproenergo, 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 of 100%). As at 31 December 2009 UAH 307 million is recorded as short-term. An expense associated with the unwinding of discount on the investment obligation totalling UAH 41 million (2008: UAH 23 million) was included in finance costs (Note 33).

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

In millions of Ukrainian Hryvnia	2009	2008
Investment obligation relating to Dniproenergo	307	200
Interest-free loan from related parties	300	—
Total current other financial liabilities	**607**	**200**

The interest-free loan was received from a SCM subsidiary and was repaid in January 2010.

21. Indebtedness under amicable agreement

In 2005, Pavlogradugol renegotiated the payment terms of its obligation totalling UAH 386 million over the period 2007 through 2019. The renegotiation was accounted for as an extinguishment of the original obligation and the recognition of a new obligation. The obligation was recorded at fair value using an effective interest rate of 16%.

A summary of the restructured obligations is presented below:

In millions of Ukrainian Hryvnia	2009 Nominal value	2009 Amortised cost	2008 Nominal value	2008 Amortised cost
Promissory notes issued	220	126	236	116
Total indebtedness under amicable agreement		**126**		**116**

During 2009, included in finance costs is UAH 18 million (2008: UAH 16 million) related to the unwinding of the discount on this restructured obligation.

22. Government grants

In 2004, Pavlogradugol 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 2009 and 2008 are summarised as follows:

In millions of Ukrainian Hryvnia	2009	2008
As at 1 January	**76**	**106**
Expenditures incurred	(3)	(1)
Amortisation of government grants to match related depreciation	(31)	(29)
As at 31 December	**42**	**76**

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 payable upon retirement and post-retirement benefit programs.

In 2009 the defined benefit plan covers 44,000 people, including 7,090 ex-employees (2008: approximately 47,000 and 6,002 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	2009	2008
Present value of unfunded defined benefit obligations	1,655	2,041
Unrecognised net actuarial loss	(22)	(695)
Unrecognised past service cost	(254)	(295)
Liability in the consolidated balance sheet	**1,379**	**1,051**
Retirement benefits	1,311	1,658
Retirement benefits – coal support	270	310
Lump sum payments	74	73
Total balance sheet obligations	**1,655**	**2,041**

The amounts recognised in the income statement were as follows:

In millions of Ukrainian Hryvnia	2009	2008
Current service cost	138	67
Interest cost	222	118
Recognised past service cost	41	205
Recognized actuarial losses	74	76
Curtailment	(3)	—
Total	**472**	**466**

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

In millions of Ukrainian Hryvnia	2009	2008
Defined benefit obligation as at 1 January	**2,041**	**1,320**
Current service cost	138	67
Past service cost	—	500
Acquisition of subsidiaries	—	19
Actuarial (gains)/losses	(599)	129
Interest cost	222	118
Benefits paid	(144)	(112)
Curtailment	(3)	—
Defined benefit obligation as at 31 December	**1,655**	**2,041**

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

In millions of Ukrainian Hryvnia	2009	2008
As at 1 January	**1,051**	**678**
Acquisition of subsidiaries	—	19
Benefits paid	(144)	(112)
Net expense recognised in the income statement	472	466
As at 31 December	**1,379**	**1,051**

Past service cost arose as a result of changes in the pension legislation introduced in 2008, 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 with the remaining UAH 295 million past service cost being recognised as an expense on a straight-line basis over the average period until the benefits become vested. In 2009 UAH 41 million of past service cost was recognised in income statement.

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

	2009	2008
Nominal discount rate	15%	11%
Nominal salary increase	9%	9%
Nominal pension entitlement increase	9%	9%

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

	2009	2008
Nominal discount rate increase/decrease by 1%	(6.48%)/7.18%	(7.83%)/9.00%
Nominal salary increase increase/decrease by 1%	7.17%/(6.37%)	7.17%/(6.37%)
Employee turnover increase/decrease by 1%	(0.13%)/0.14%	(0.06%)/0.07%

Experience adjustments for 2009 do not exceed UAH 599 million (2008: UAH 402 million). Payments in respect of post-employment benefit plan obligations expected to be made during the year ending 31 December 2010 are UAH 181 million (2009: UAH 163 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 2008	**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**
Change in estimates	(59)	—	—	(59)
Arising during the year	3	2	—	5
Unwinding of discount	6	—	—	6
Reversal of provision	—	(4)	—	(4)
Utilised	(3)	—	—	(3)
At 31 December 2009	**147**	**13**	**—**	**160**

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

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

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

	2009	2008
Pre-tax discount rate	15%	15%
Inflation long-term	4%	7%
Inflation middle-term	8%	12%

25. Trade and other payables

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

In millions of Ukrainian Hryvnia	2009	2008
Trade payables	431	572
Wages and salaries payable	126	136
Liabilities for purchased securities	43	102
Promissory notes payable	6	11
Liabilities for purchased property, plant and equipment	191	183
Other creditors	78	21
Total financial payables	**875**	**1,025**
Accruals for employees' unused vacations	174	148
Other payables	6	3
Total non-financial payables	**180**	**151**
Total	**1,055**	**1,176**

In millions of Ukrainian Hryvnia	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
2009						
Currency analysis:						
UAH denominated	424	126	43	6	151	78
USD denominated	6	—	—	—	—	—
EUR denominated	1	—	—	—	28	—
RUB denominated	—	—	—	—	12	—
Total	**431**	**126**	**43**	**6**	**191**	**78**
Future undiscounted cash flow analysis:						
Up to 3 months	414	126	43	6	157	72
From 3 to 6 months	1	—	—	—	2	—
From 6 to 12 months	16	—	—	—	32	6
Total	**431**	**126**	**43**	**6**	**191**	**78**
2008						
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**

26. Other taxes payable

As at 31 December other taxes payable were as follows:

In millions of Ukrainian Hryvnia	2009	2008
Payroll taxes	53	52
Value-added tax	41	139
Other taxes	63	51
Total other taxes payable	**157**	**242**

27. Revenue

Analysis of revenue by category is as follows:

In millions of Ukrainian Hryvnia	2009	2008
Sale of electricity to electricity pool	5,543	5,665
Sale of steaming and coking coal	4,678	3,407
Sale of electricity to final customers	4,672	3,736
Sales of merchandise products	8	89
Other sales	108	72
Total	**15,009**	**12,969**

27. Revenue (continued)

Analysis of revenue by regions is as follows:

In millions of Ukrainian Hryvnia	2009	2008
Domestic sales	14,671	12,883
Export sales	338	86
Total	**15,009**	**12,969**

28. Cost of sales

In millions of Ukrainian Hryvnia	2009	2008
Cost of electricity purchased for resale	4,353	3,482
Staff cost, including payroll taxes	2,647	2,675
Raw materials	2,325	1,799
Depreciation of property, plant and equipment net of amortisation and government grants	1,391	1,060
Cost of coal purchased for resale	754	37
Transportation services and utilities	608	481
Taxes, other than income tax	174	141
Equipment maintenance and repairs	103	102
Production overheads	99	81
Cost of merchandise	6	83
Change in finished goods and work in progress	(15)	(35)
Other costs	2	15
Total	**12,447**	**9,921**

29. Other operating income

In millions of Ukrainian Hryvnia	2009	2008
Reversal of provision for impairment of trade and other receivables and prepayments made	55	—
Assets received free of charge	28	34
Income from recovery on previously written off trade receivables	23	5
Gain on sales of inventory	3	21
Sales of services	—	32
Other	20	24
Total	**129**	**116**

30. Distribution costs

In millions of Ukrainian Hryvnia	2009	2008
Transportation	64	46
Staff cost, including payroll taxes	16	16
Depreciation	6	3
Other costs	24	12
Total	**110**	**77**

31. General and administrative expenses

In millions of Ukrainian Hryvnia	2009	2008
Staff cost, including payroll taxes	357	324
Professional fees	126	99
Office costs	53	31
Depreciation	20	17
Transportation	14	14
Taxes, other than income tax	7	11
Other costs	21	36
Total	**598**	**532**

32. Other operating expenses

In millions of Ukrainian Hryvnia	2009	2008
Social payments	102	80
Net loss on disposal and write-off of equipment	17	46
Non-recoverable VAT	11	12
Charitable donations and sponsorship	11	10
Maintenance of social infrastructure	7	17
Charge for impairment of trade and other receivables and prepayments made	—	114
Increase in provision for legal claims	—	7
Other	44	35
Total	**192**	**321**

33. Finance income and finance cost

In millions of Ukrainian Hryvnia	2009	2008
Interest income:		
– bank deposits	25	43
– other	9	7
Gain on sales of promissory notes	19	—
Gain on early repayment of promissory notes issued	15	14
Gain on initial recognition of long term accounts payable	3	—
Total finance income	**71**	**64**
Interest expense:		
– borrowings	460	225
– promissory notes payable	18	18
– bonds issued	3	65
– long-term payables	8	11
– investment obligation relating to Dniproenergo (Note 11)	41	23
Unwinding of discounts on pension obligations	222	118
Loss on initial recognition of promissory notes issued	18	—
Loss on early repayment of long-term payables	14	1
Loss on early repayment of long-term promissory notes	8	—
Other finance costs	6	8
Total finance costs	**798**	**469**

34. Income taxes

Income tax expense comprises the following:

In millions of Ukrainian Hryvnia	2009	2008
Current tax	478	577
Deferred tax	(159)	(448)
Income tax expense	**319**	**129**

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

In millions of Ukrainian Hryvnia	2009	2008
Change in asset retirement obligation	(14)	13
Revaluation of property, plant and equipment	—	(934)
Unrealised gain on available-for-sale financial assets	12	100
Income tax reported in equity	**(2)**	**(821)**

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine). In 2009 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25% (2008: 25%). In 2009, 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	2009	2008
Profit before income tax, including	**1,175**	**248**
Profit before income tax of Ukrainian companies	1,420	771
(Loss)/profit before income tax of non-Ukrainian companies	(190)	(523)
Income tax at statutory rates of 25% (Ukrainian operations)	355	193
Profit taxed at different rates 25.5% (Dutch operations)	—	—
Profit taxed at different rates 10% (Cyprus operations)	—	—
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	155	97
– non-taxable income	(94)	(21)
Property, plant and equipment indexation for tax purposes	(39)	(150)
Share of result and impairment of associates	(58)	8
Income tax expense	**319**	**129**

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

In millions of Ukrainian Hryvnia	2009	2008
Deferred tax liability	(959)	(917)
Deferred tax asset	428	229
Net deferred tax liability	**(531)**	**(688)**

In millions of Ukrainian Hryvnia	1 January 2009	Credited/ (charged) to income	Charged to equity	31 December 2009
Tax effect of deductible temporary differences				
Trade and other payables	55	27	—	82
Trade and other receivables	24	13	—	37
Other provisions for liabilities and charges	49	(11)	—	38
Retirement benefit obligations	238	74	—	312
Prepayments received	83	294	—	377
Inventories	27	(25)	—	2
Financial investments	127	(39)	12	100
Gross deferred tax asset	**603**	**333**	**12**	**948**
Tax effect of taxable temporary differences				
Property, plant and equipment	(1,019)	212	(14)	(821)
Other financial liabilities	(114)	15	—	(99)
Prepayments made	(76)	(402)	—	(478)
Trade and other receivables	(82)	1	—	(81)
Gross deferred tax liability	**(1,291)**	**(174)**	**(14)**	**(1,479)**
Recognised deferred tax asset/(liability)	**(688)**	**159**	**(2)**	**(531)**

In millions of Ukrainian Hryvnia	1 January 2008	Acquisition	Credited/ (charged) to income	Charged to equity	31December 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)**

As at 31 December 2009, the Company has not recorded a deferred tax liability in respect of taxable temporary differences of UAH 262 million (31 December 2008: UAH 456 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 proceeding 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. As discussed in Note 11, there are legal changes to the 34.24% interest in Dniproenergo. Also as discussed in Note 11, in 2009 as a result of the restructuring of its accounts payable to SE Energorynok on the basis of the respective court decisions, the Group's associate reversed UAH 1,687 million provision for penalties and fines to Energorynok. It is possible that the court's decisions in respect of the penalties and fines may be challenged by Energorynok. However, management believes that no material losses will be incurred in respect of claims.

Capital expenditure commitments. As at 31 December 2009, the Group does not have contractual capital expenditure commitments in respect of property, plant and equipment (31 December 2008: UAH 6 million).

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

Purchase commitments. As at 31 December 2009, the Group did not have contractual purchase commitments (31 December 2008: UAH 1 million).

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

In millions of Ukrainian Hryvnia	2009 Asset pledged	2009 Related liability	2008 Asset pledged	2008 Related liability
Cash and cash equivalents (Note 15)	165	80	—	—
Financial investments (Note 12)	142	43	30	28
Property, plant and equipment (Note 9)	2,966	2,126	1,265	995
Inventory (Note 13)	228	119	—	—
Total	**3,501**	**2,368**	**1,295**	**1,023**

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 2009 and 2008.

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

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

In millions of Ukrainian Hryvnia	2009	2008
Not later than 1 year	8	6
Later than 1 year and not later than 5 years	3	10
Total operating lease commitments	**11**	**16**

36. Business combinations

No significant acquisitions of subsidiaries and minority interests were completed in 2009 or 2008.

37. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management policies seek 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 Energorynok SE, which buys 100% of electricity generated, Industrial consumers and other. Due to the monopolistic nature of electricity supply by region, the Group cannot choose its customers, and instead must supply all customers within its distribution network. Sales are metered and management monitors ageing of receivables for industrial customers on a regular basis and ultimately may cut-off supply for delinquent customers. For supply to municipal and general populous, due to the insignificant tariff structure and the political nature of disrupting supply management will continue supply and use non payment as justification for higher tariff increases for Industrial customers. With respect to coal sales, these are primarily to related parties 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 Group does not require collateral in respect of trade and other receivables.

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

The maximum exposure to credit risk at the reporting date is UAH 2,830 million (2008: UAH 1,817 million) being fair value of financial investments, trade and other receivables and cash. The Group does not hold any collateral as security.

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

37. Financial risk management (continued)

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

Counterparty	Classification in the balance sheet	31 December 2009	31 December 2008
Prominvest Bank OJSC*	Financial investment	43	30
Prominvest Bank OJSC*	Cash and cash equivalents	30	120
State Savings Bank of Ukraine JSCB*	Cash and cash equivalents	136	72
Dongorbank CJSC**	Cash and cash equivalents	195	162
Dongorbank CJSC**	Financial investment	85	—
Marfin Popular Bank	Cash and cash equivalents	86	212
OTP Bank CJSC	Cash and cash equivalents	159	4
Artemzvetmetexport LLC	Trade and other receivables	—	34
Azovstal Steel Works OJSC**	Trade and other receivables	183	—
Dniproenergo OJSC (Note 11)	Trade and other receivables	242	153
State Company Energorynok	Trade and other receivables	435	276
Metinvest Holding LLC**	Trade and other receivables	226	134

* These banks rank top 30 Ukrainian banks by size of total assets and capital.
** Dongorbank, Metinvest Holding and Azovstal Steel Works OJSC are subsidiaries of SCM.

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

Currency risk. The Group primarily operates within Ukraine and accordingly its exposure to foreign currency risk is 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 and up to date the National Bank of Ukraine has been entering the market to support the national currency. The official UAH to USD exchange rate of the National Bank of Ukraine devalued by 5.32% from UAH 7.61 at 11 July 2009 to UAH 8.02 at 05 November 2009 (In 2008, 58.4% from UAH 4.86 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:

In millions of Ukrainian Hryvnia	At 31 December 2009 Impact on profit or loss	At 31 December 2009 Impact on equity	At 31 December 2008 Impact on profit or loss	At 31 December 2008 Impact on equity
USD strengthening by 25% (2008: 25%)	(538)	(538)	(678)	(678)
USD weakening by 25% (2008: 25%)	538	538	678	678
EUR strengthening by 25% (2008: 25%)	(353)	(353)	(296)	(296)
EUR weakening by 25% (2008: 25%)	353	353	296	296

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 2009 and 2008, the majority of the Group's variable interest debt is USD and EUR denominated. As at 31 December 2009, 70% of the total borrowings was provided to the Group at floating rates (31 December 2008: 80 %).

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

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 2009, if interest rates on USD and EUR denominated borrowings had been 400 basis points higher with all other variables held constant, post-tax profit for the year would have been UAH 12 million lower (2008: UAH 21 million lower).

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

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

If the equity quotations of the Group's investments had increased by 10% as at 31 December 2009 and 2008, with all other factors being equal, the Group's equity at 31 December 2009 would have increased by UAH 89 million (31 December 2008: UAH 125 million).

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

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are undiscounted cash flows. The maturity analysis of financial liabilities at 31 December 2009 is as follows:

In millions of Ukrainian Hryvnia	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years	Total
Liabilities						
Borrowings (Note 19)	3,095	865	302	568	—	4,830
Other financial liabilities (Note 20)	300	318	137	127	7	889
– related party	*300*	—	*12*	—	—	*312*
– external	—	—	*19*	*21*	*7*	*47*
– Dniproenergo	—	*318*	*106*	*106*	—	*530*
Indebtedness under amicable agreement (Note 21)	—	—	—	220	—	220
Trade and other payables (Note 25)	821	54	—	—	—	875
Total future payments, including future principal and interest payments	**4,216**	**1,237**	**439**	**915**	**7**	**6,813**

37. Financial risk management (continued)

The maturity analysis of financial liabilities at 31 December 2008 is as follows:

In millions of Ukrainian Hryvnia	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years	Total
Liabilities						
Borrowings (Note 19)	2,203	701	776	308	—	3,988
Other financial liabilities (Note 20)	—	212	117	243	20	592
– *related party*	—	—	—	—	3	3
– *external*	—	—	11	31	17	59
– *Dniproenergo*	—	212	106	212	—	530
Indebtedness under amicable agreement (Note 21)	—	—	—	236	—	236
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**

38. Management of capital

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

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

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.

In millions of Ukrainian Hryvnia	31 December 2009	31 December 2008
Total net debt	3,689	3,136
Total equity	10,793	9,989
Debt to equity ratio	34,2%	31,4%

39. Fair value of financial instruments

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

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

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

Fair values were determined based on quoted market prices or third party valuations using discounted cash flows techniques, 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 2009:

	Fair value by measurement method			
In millions of Ukrainian Hryvnia	Quoted price in an active market	Valuation technique with observable markets inputs	Total fair value	Carrying value
FINANCIAL ASSETS				
Cash and cash equivalents (Note 15)				
– Bank balances payable on demand	—	517	517	517
– Term deposits	—	208	208	208
– Restricted cash	—	14	14	14
Trade and other receivables (Note 14)				
– Trade receivables	—	905	905	905
– Receivable for sale of financial instruments	—	428	428	428
– Other financial receivables	—	129	129	129
Other non current assets				
– Trade and other receivables – non-current	—	16	16	16
Financial investments (Note 12)				
– Securities quoted on Ukrainian stock market	784	252	1,036	1,036
– Prepayment for shares	—	354	354	354
– Deposits placed with the maturity more than three months	—	142	142	142
– Loans receivable	—	117	117	117
TOTAL FINANCIAL ASSETS	**784**	**3,082**	**3,866**	**3,866**
FINANCIAL LIABILITIES				
Liability to minority participants	—	2	2	2
Borrowings (Note 19)	—	4,301	4,301	4,428
Investment obligation relating to Dniproenergo – non-current	—	140	140	156
Other liabilities – non-current (Note 20)	—	64	64	65
Indebtedness under amicable agreement (Note 21)	—	114	114	126
Investment obligation relating to Dniproenergo – current	—	303	303	307
Interest-free loan from related parties (Note 8)	—	300	300	300
Trade and other payables (Note 25)	—	875	875	875
TOTAL FINANCIAL LIABILITIES	**–**	**6,099**	**6,099**	**6,259**

39. Fair value of financial instruments (continued)

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

In millions of Ukrainian Hryvnia	Fair value by measurement method: Quoted price in an active market	Fair value by measurement method: Valuation technique with observable markets inputs	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 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
– Loans receivable	—	226	226	226
TOTAL FINANCIAL ASSETS	**900**	**2,162**	**3,062**	**3,066**
FINANCIAL LIABILITIES				
Liability to minority participants	—	2	2	2
Borrowings (Note 19)	—	3,266	3,266	3,731
Investment obligation relating to 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 Dniproenergo acquisition – current	—	196	196	200
Trade and other payables (Note 25)	—	1,025	1,025	1,025
TOTAL FINANCIAL LIABILITIES	**—**	**4,825**	**4,825**	**5,341**

40. Reconciliation of classes of financial instruments with measurement categories

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2009:

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	517	—	—	517
– Term deposits	208	—	—	208
– Restricted cash	14	—	—	14
Trade and other receivables (Note 14)				
– Trade receivables	905	—	—	905
– Receivable for sale of financial instruments	428	—	—	428
– Other financial receivables	124	—	5	129
Other non current assets				
– Trade and other receivables – non-current	16	—	—	16
Financial investments (Note 12)				
– Equity securities	—	1,036	—	1,036
– Prepayment for shares	354	—	—	354
– Deposits placed with the maturity more than three months	142	—	—	142
– Loans receivable	117	—	—	117
TOTAL FINANCIAL ASSETS	**2,825**	**1,036**	**5**	**3,866**
NON-FINANCIAL ASSETS	**—**	**—**	**—**	**16,348**
TOTAL ASSETS				**20,214**

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)				
– Trade receivables	809	—	—	809
– Receivable for sale of financial instruments	53	—	—	53
– Other financial receivables	59	—	3	62
Other non-current assets				
– Trade and receivables – non-current	22	—	—	22
Financial investments (Note 12)				
– Equity securities	—	1,249	—	1,249
– Unquoted securities	—		—	
– Prepayment for shares	19	—	—	19
– Deposits placed with the maturity more than three months	31	—	—	31
– Loans receivable	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 at 31 December 2009 and 2008 are carried at amortised cost.

41. Significant non-cash transactions

As discussed in Note 11, in 2009 the Group recorded a UAH 1,221 million share of profits of associate Donetskoblenergo and a UAH 874 million impairment of its investment in Donetskoblenergo.

As discussed in Note 16, the exiting shareholders of DTEK Holdings Limited incorporated DTEK Holdings B.V. with a cash contribution of EUR 30,000 and contribution of 100% of their equity interest in DTEK Holdings Limited to the Company.

As discussed in Note 16, in 2008 the DTEK Holdings Limited declared a dividend in the amount of UAH 466 million and immediately contributed this dividend in exchange for additional shares in DTEK Holdings Limited.

As discussed in Note 16, in 2008 the Group effectively converted its obligation for the purchase of Pavlogradugol totalling UAH 1,406 million to equity.

NOTES

NOTES

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