ENERGY
IN ACTION

Annual report 2012

Contents

Message from **Oleg Popov,** DTEK Supervisory Board Chairman

Dear colleagues and partners,

I am proud to present to you the DTEK Annual Report for 2012, which was a landmark year for our energy business. DTEK reached a fundamentally new scope, widened its geography significantly and moved into new energy segments. I can rightly say that today DTEK is a national energy champion committed to delivering real and visible results for the people and the country.

DTEK has been investing in the modernisation of its production facilities to lead Ukraine's energy industry today and in the long term and become a stronger competitor in international markets. Our ambitious goal is to make DTEK's plants the most efficient in Ukraine, matching the best international peers.

To this end, we invested USD 1.275 billion in 2012 to upgrade and reconstruct DTEK's facilities. This is more than half of all of the investments of SCM Group last year. This was an investment in the present and future of the energy holding, and in the present and future of the nation. This was an investment not only in technology, buildings and production infrastructure. This was an investment in people, their living and working conditions, the environment, efficiency and productivity; in the security of the national energy system, and in available and clean energy in Ukraine.

As an example, note our renewable energy project. DTEK is rightly proud of having launched the first stage of Ukraine's biggest wind farm in Botievo. It covers the electricity needs of the southern region of Zaporizhya and part of Crimea, and reduces CO_2 emissions equivalent to 730,000 tonnes.

Intensive investment in modernisation increased the output of our energy businesses. In 2012, DTEK produced 39.7 million tonnes of coal and 51.4 billion kWh of electricity delivering light and heating to millions of Ukrainians. We paid USD 1.93 billion in taxes — three times as much as last year.

These results were achieved by 140,000 professionals working on DTEK's team across nine regions of Ukraine and in Russia. I truly believe that their actions are fundamental to the success of DTEK today and in the future.

That is why we are committed to creating decent working conditions at DTEK's plants (workplaces must be safe, modern and comfortable) and paying good salaries. We want the cities and towns where DTEK operates to have decent living infrastructure, including hospitals, schools and roads.

To meet this objective, we rolled out a social partnership programme in 2012 for all of the Group's businesses. Its objective is to ensure comfortable living conditions in cities where we operate. As part of this initiative, DTEK developed three-year partnership strategies with local communities and governments in 2012, and will spend USD 43.75 million over the next three years to deliver them. The Company's social investments amounted to USD 7.87 million in 2012. Our declared priority is to help cities and towns to move from tackling individual issues to developing and implementing long-term social and economic strategies.

Today DTEK is confident about its future and now is thinking what the company should be like in 10–15 years, how it should contribute to the development of the country and the towns where it operates, what people it should employ and on which markets it should to compete.

Yet, regardless of the details of the strategy, I believe that our primary goal will remain the same: DTEK will be a national energy champion, a dynamic and effective company able to realise its potential and help the country and partners to unlock theirs, and a company where people work for people.

I want to thank the entire team of the energy holding, every one of the 140,000 employees for their work in 2012. I hope that we will continue our drive to success together, increasing the productivity and efficiency of DTEK's businesses.

Message from **Maxim Timchenko,** DTEK CEO

Dear colleagues,

We are proud to present the results of our work in 2012, which was the last year in which DTEK's five-year strategy was implemented. Despite a variety of external and internal challenges, we achieved nearly all of our strategic targets and became the leader of the Ukrainian energy sector.

Today DTEK employs 140,000 people, and our companies work in regions with over 25 million residents. We operate in seven regions of Ukraine, the capital city of Kyiv, the Autonomous Republic of Crimea, and in the Russian Federation.

In 2012, we produced 39.7 million tonnes of coal, generated 51.4 billion kWh of electricity, and distributed 53.9 billion kWh of electricity to our consumers. Our financial results imply that DTEK has grown from one of many large utilities into one of the largest companies not only in Ukraine, but globally.

DTEK invested more than USD 1.275 billion in modernisation and development in 2012. Most of the funds were allocated to enhance operational safety, to reduce our negative environmental impact and to protect the health of people living in the regions where we operate. Our investments improved the reliability of the national energy system and developed new areas of business and employment.

In 2013, we will present to the public DTEK Strategy 2030. We have defined the priority areas for our work as “Energy”, “Consumers“, ”Ukraine +”, “Efficiency”, “People”, and “Society”. I would like to explain more about what these words mean to us and what we already achieved in each area in 2012 below.

Energy remains DTEK’s core business. We constantly strive to improve in-house supplied fossil-fuel generation by developing our operating capacities. This is accomplished through upgrading facilities and improving environmental friendliness. We also actively diversify our asset portfolio through participating in renewable energy projects.

In 2012, we upgraded seven electricity generation units at DTEK’s thermal power plants, and seven more units were taken out of service for reconstruction. In the process, we effectively upgrade a unit’s entire set of equipment, in particular, by replacing electrostatic precipitators with new ones to significantly reduce emissions. The upgraded units have increased capacity and flexible operating range, and reduced fuel consumption and air pollution.

In November 2012, the U.S. Trade and Development Agency awarded a grant to DTEK for the development of a feasibility study on the construction of modern thermal electricity generation units. The project is intended to improve the efficiency and environmental performance of electricity generation units by reducing emissions of dust, SO_x and NO_x. In order to obtain the grant, DTEK completed due diligence in the United States, which attests to the transparency of our business and correspondence of our procedures with global practices.

One of our most notable achievements in 2012 was the completion and commissioning of the first stage of the Botievo Wind Farm, the largest in Ukraine with a design capacity of 200 MW. Fundraising in the amount of EUR 107 million for Botievo’s first stage was recognised as the “Deal of the Year in 2012” by London-based Euromoney’s Trade Finance magazine and Global Trade review magazine.

In 2012, we continued comprehensive equipment renovation programmes at our coal mining companies. The main objectives were to improve miners’ safety (investments into fresh air shafts and in-mine transportation) and to increase longwall productivity.

DTEK is also developing its oil and gas business, primarily to provide secure fuel resources for our companies. As the first step on this road, we acquired a stake in the share capital of Naftohazvydobuvannya, a natural gas and condensate producer in Poltava region, Ukraine. The company estimates its output at over 1 billion cubic metres of gas per year. DTEK also continues to study non-conventional gas production projects and their applicability to Ukraine.

Our **Consumers** are 5.2 million people who use the services of our five electricity distribution companies in Kyiv, Crimea, Donetsk and Dnipropetrovsk regions. We began systematic work in 2012 to improve the quality of services. Kyivenergo approved a consumer strategy and opened its first modern service centre. Our targets are to ensure consumer satisfaction of the quality of service by at least 50% and product quality by at least 70% by 2015.

We are continuously upgrading our substations and electricity transmission lines to ensure reliable uninterrupted power supply. In 2012, we commissioned the most advanced substation in Kyiv, Moskovska. This facility is unmatched in Ukraine in the last 20 years. Thanks to our efforts and investment in modernization, all of the new facilities commissioned for the UEFA European Football Championship in 2012 in Kyiv and Donetsk had the required power capacities.

Recently, we turned our attention to energy efficiency and savings as areas of cooperation with our clients. We want people to buy exactly as much electricity as they need and not to pay for losses. Jointly with the Kyiv City Administration, we designed an optional course on energy efficiency for schools to promote the importance of sustainable electricity consumption among children and their parents.

Ukraine remains our core market. Priority areas for further growth will be Central and Eastern European and CIS countries. We laid the foundation for this growth in 2012: we almost doubled our exports of Ukrainian electricity to 9.7 TWh. Increased exports also mean higher utilisation of the capacities of Ukrainian power plants and mines. DTEK became the main exporter of Ukrainian electricity to Europe and proved itself as a reliable partner to international companies.

Last year we made our first acquisitions abroad. DTEK bought three mines and a coal processing plant in Rostov region of the Russian Federation in July. These companies produce low-sulphur anthracite coal, which makes it possible to improve the environmental parameters of our power plants and increase coal exports.

Efficiency of operations, investment and governance will become the basis for DTEK's successful development. The scale of our business activities made us review our business processes. We restructured the manag ement system at our coal mining, electricity generation and distribution companies and moved to a two-tier management model. This allowed for reducing the number of management layers, streamlining decision-making, and speeding up our investment process. Furthermore, when making decisions, now we consider the impact not only on a particular company, but on the end-to-end value chain of the entire group.

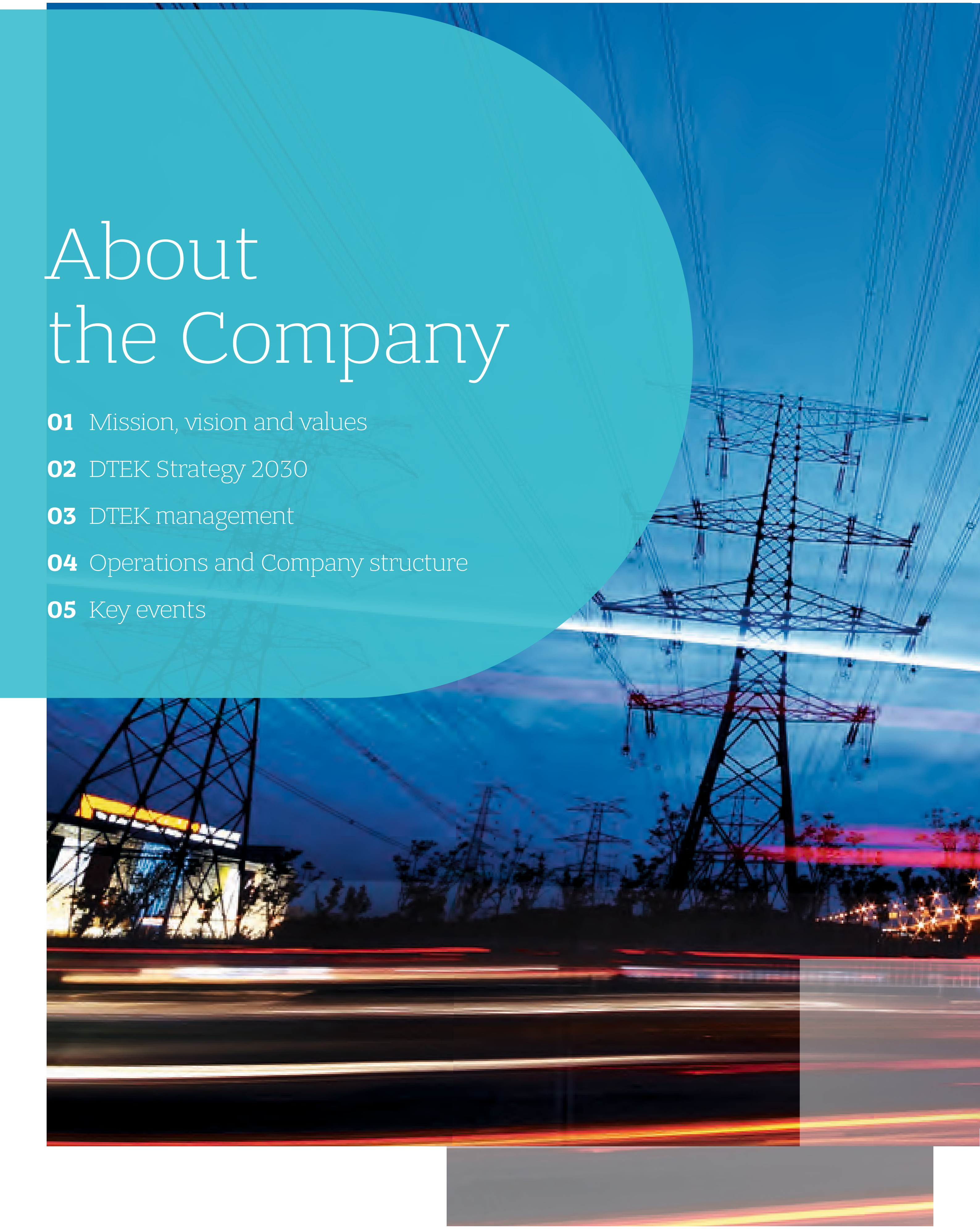
People are the key driver of DTEK's development and our main asset. We strive to pay decent wages and salaries, ensure good working conditions, and invest in the development of our employees. This year, 83% of managerial vacancies were filled from within our internal Talent Pool.

In 2012, we made several important steps forward in personnel management. We approved the HR Strategy of DTEK to 2030 and started the comprehensive roll-out around DTEK Group of the grade-based remuneration system designed according to methodology from the Hay Group. We also designed a development concept for our corporate university, DTEK Academy. This institution is turning into a platform for the development of not only senior executives and office employees, but also on-site specialists. We are reforming our training system in the operating companies and want to step up DTEK's personnel development system to a new level in line with modern European standards.

Society means that an important part of DTEK's efforts is devoted to social projects. We are well aware of the role of the energy sector in the national economy. Leadership for us is not only recognition of our merits, but also a great responsibility. Tackling social issues of the regions where our companies operate is not charity, but a business necessity. We understand that without addressing health care, educational and recreational problems, we cannot develop our companies in the future. That is why, in 2012, we arranged open discussions with local communities and developed three-year social partnership strategies with towns and cities where DTEK operates. In 2013 to 2015, we will allocate USD 43.75 million for the development of the highest priority projects of local communities in five areas: energy efficiency in the public utility sector, healthcare, social infrastructure, development of the business environment, and support for local community initiatives.

The scale of DTEK's business also enables us to support large international energy initiatives. In September 2012, DTEK, together with twenty of the world's leading energy companies, acted as a co-founder of the Energy for Society Initiative of the World Economic Forum. The international energy leaders committed to five principles: secure and affordable access to energy; efficient energy systems; responsible citizenship; contributing to economic development; and promoting energy literacy.

To sum up, I would like to express my gratitude to our 140,000 DTEK employees for their support of the difficult process of business development and restructuring, and their positive attitude and readiness to accept changes. Today DTEK is the undisputed leader of the Ukrainian energy industry and credit for this rightly goes to the entire team. We will continue to grow as a responsible national investor, endeavouring to achieve tangible results and improve living standards in Ukraine, and building the future of our country.



About the Company

DTEK is the largest energy company in Ukraine. DTEK's enterprises operate effectively in coal mining and processing, and electricity generation and distribution. The Company also develops its oil&gas and renewable energy businesses. The Company is part of System Capital Management (SCM), a leading Ukrainian financial and industrial group.

DTEK is Ukraine's largest employer, with 140,000 employees. The Company follows the principles of sustainable social development and is a member of the UN Global Compact.

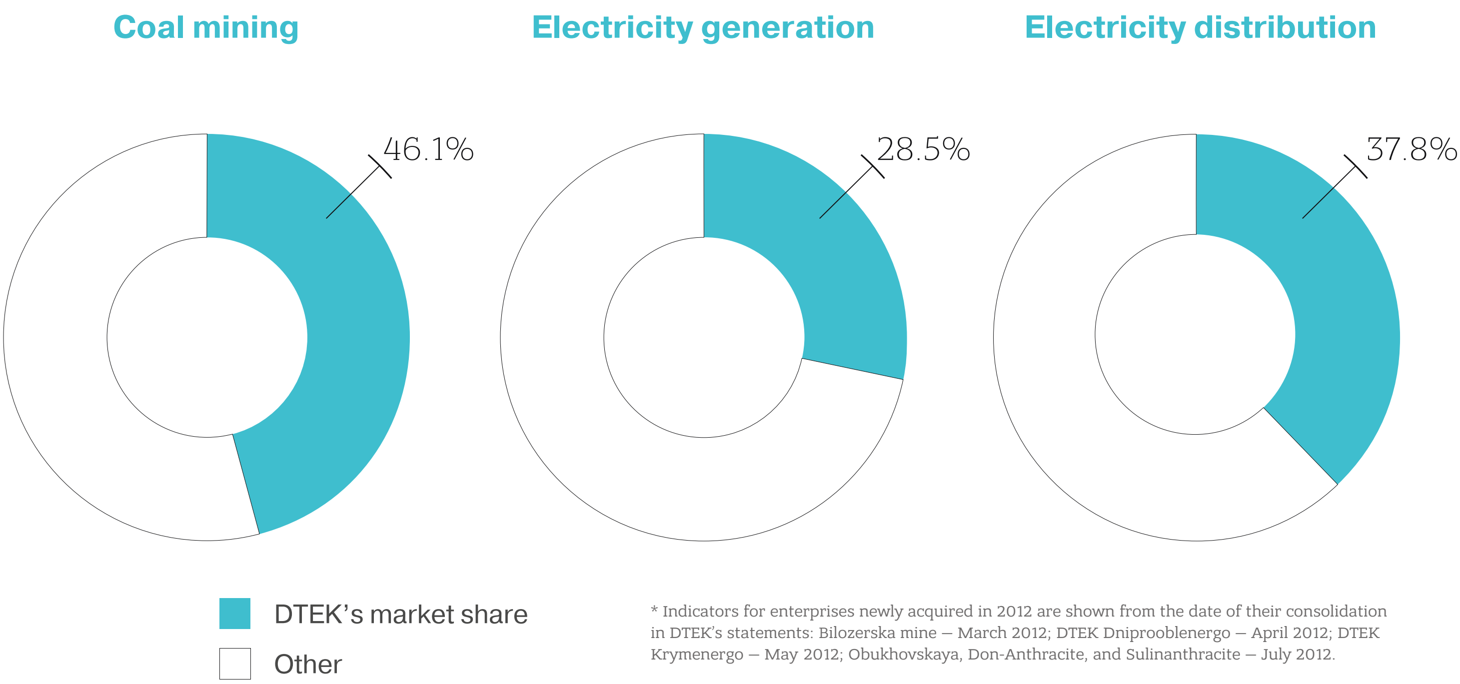
DTEK is an active participant in European industrial and business associations, including EURELECTRIC, EURACOAL and EFET.

DTEK efficiently communicates with key European institutions through its permanent representative office in Brussels.

DTEK is actively promoting electricity market reform in Ukraine. DTEK and the European Business Association held a series of events in June 2012 to present the draft law On the Operating Principles of the Electricity Market of Ukraine to the European Parliament.

DTEK upholds the principles of business transparency. The Company passed due diligence by the US Government (the U.S. Trade and Development Agency, USTDA) in 2012.

Proportional market share*



* Indicators for enterprises newly acquired in 2012 are shown from the date of their consolidation in DTEK's statements: Bilozerska mine – March 2012; DTEK Dniprooblenergo – April 2012; DTEK Krymenergo – May 2012; Obukhovskaya, Don-Anthracite, and Sulinanthracite – July 2012.

Production performance*

Coal output

39.7
million tonnes

Run-of-mine coal processing

27.7
million tonnes

Coal concentrate output

18.3
million tonnes

Electricity generation

51.4
billion kWh

Electricity distribution

53.9
billion kWh

Financial performance

Revenues

10,332
USD million

EBITDA

2,119
USD million

Net profit

741
USD million

CAPEX

1,275
USD million

* Indicators for enterprises newly acquired in 2012 are shown from the date of their consolidation in DTEK's statements:
Bilozerska mine – March 2012;
DTEK Dniprooblenergo – April 2012;
DTEK Krymenergo – May 2012;
Obukhovskaya, Don-Anthracite, and Sulinanthracite – July 2012.

Key achievements in 2012

- Approval of DTEK's Long-Term Development Strategy to 2030
- Acquisition and consolidation of new assets:
  DTEK Zakhidenergo,
  DTEK Dniproenergo,
  DTEK Dniprooblenergo,
  DTEK Donetskoblenergo,
  DTEK Krymenergo,
  Public Mining Corporation Obukhovskaya
- Record coal output by DTEK Pavlogradugol (17 million tonnes) and DTEK Mine Komsomolets Donbassa (4.5 million tonnes)
- Electricity exports more than doubled
- Commissioning of the first stage of the Botievo Wind Farm (90 MW)
- Introduction of DTEK's new business management model

We are working in the name of progress and social prosperity.

Our energy brings people light and warmth

01 Mission, vision and values

Mission

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

Vision

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

Values

Professionalism

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

Responsibility

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

Pursuit of excellence

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

Unity

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

Openness

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

02 DTEK Strategy 2030

Development Concept

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

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

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

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

Energy

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

Society

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

People

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

Efficiency

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

Ukraine "Plus"

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

Consumers

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

Stages and priorities of DTEK Strategy 2030

In 2013, DTEK will present its long-term strategy of the Company development till 2030. The document sets the key business development directions, management projects and technologies that the Company will apply to its activities in the long-term.

DTEK Strategy 2030 envisages implementation in three stages

Stage 1
2013–2015

Integration. Infrastructure. Reforms.

During this stage, the Company will focus on introducing a new management model, setting up and/or unifying business processes at acquired assets, investing in the reconstruction of facilities and improving operational efficiency.

This will be the key stage for the implementation of energy market reforms, the introduction of the incentive tariff-setting system for electricity distribution and changes in housing and public utilities regulation principles.

Companies whose potential for rapid improvement has been mostly exhausted will become the platforms for the implementation of pilot projects that deal with structural changes in efficiency and innovations: introduction of LEAN*, smart-technologies, etc.

During this stage DTEK will create a basis for new businesses development; it will form teams and launch pilot projects.

Stage 2
2015–2020

Efficiency

The second stage is focused on rolling-out successful efficiency programmes, first of all, expanding the application of LEAN* concepts. This project will require changes in the corporate culture at all levels, and to increase the involvement of people in all internal processes in the Company.

The current assets' development programmes will be completed (reconstruction of energy facilities and coal mines), and pilot projects to build new power units will be implemented. During this period, it will be possible to develop the business by starting to actively invest in facilities abroad.

This stage will become one of active growth for new businesses: building the target project portfolio. The key task of the new businesses for this period is to ensure self-financing.

Stage 3
2020–2030

Innovation

The final stage of the long-term strategy is aimed at applying advanced technologies in all areas of the Company's activities. The application of new technologies will be focused on safe processes and automation, electricity sales, and selling related services.

We also expect a large-scale programme to build power units will be implemented during this stage.

DTEK will continue to expand, via both new business and geographic diversification.

* LEAN refers to lean production, a concept for managing an operating company by continuously eliminating waste

03 DTEK management

Maxim Timchenko
Chief Executive Officer

Mr. Timchenko has been the head of DTEK since July 2005. He combines his position as CEO with Chairman of DTEK's Management Board.

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

He, along with the heads of the world's 20 largest energy companies, was one of the founding signatories of Energy for Society, a global initiative by the World Economic Forum. The five key principles for interaction between the energy businesses and society were signed during the annual World Economic Forum on 11 September 2012. Articles by the head of DTEK — Pros and Cons of Ukrainian Energy, and Energy for Economic Growth: New Insights into the Energy Sector in 2012 — were included in a WEF report in partnership with IHS CERA.

Mr. Timchenko was ranked by Ukrainian National Top-100 Ratings as the best top-manager in the energy sector in 2012 and 2013. Last year Forbes and Kompanion magazines rated him one of the 10 best senior executives in the country and Gvardia named him the best manager in Ukraine in its Corporations category.

He supervised the acquisition of 15 mines and seven coal processing plants, four thermal power plants, three electricity distribution companies and DTEK Kyivenergo from December 2011 to July 2012. Mr. Timchenko also initiated large-scale organizational changes in DTEK's management system that applied to all business directions and was aimed at improving the Company's efficiency and competitiveness (the Vertical Project).

Yuriy Ryzhenkov
Chief Operating Officer

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

Mr. Ryzhenkov joined DTEK in September 2007 as CFO. He was the Deputy Chief Financial Officer and then the Chief Financial Officer of ISTIL Group (Donetsk–London) from 2002–2007. He was appointed a manager of the Economic Analysis and Information Technology Department at ISTIL's Mini Steel Mill (Ukraine) in 2000. He started his career as an assistant to the CFO of Donetsk Iron and Steel Works in 1996.

As the COO, Mr. Ryzhenkov is responsible for DTEK's entire production business. Guided by him, the Company significantly increased its production indicators in 2012 and is implementing an equipment upgrade programme at its coal and energy enterprises. At Mr. Ryzhenkov's initiative, DTEK's enterprises initiated the introduction of collective responsibility for safety and reformed the safety training system.

Vsevolod Starukhin
Chief Financial Officer

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

Mr. Starukhin was the Chief Financial Officer of the alumina division of Rusal in 2008–2009. He worked at Schlumberger in 2006–2008 as a Chief Financial Officer responsible for Russia. He headed the financial departments of Mars in Russia, Hungary, the Netherlands and South America in 1996–2006. He began his career in 1995 at Kraft Jacobs Suchard as a financial manager.

In 2012, & Financier magazine named him for the second time the best Chief Financial Officer in Ukraine, while Investgazeta named him the best Chief Financial Officer. His achievements for the year included raising DTEK's largest syndicated loan of EUR 416 million, and the EUR 107 million loan for the construction of the first stage of the Botievo Wind Farm, which London-based Euromoney's Trade Finance magazine and Global Trade review magazine called the Deal of the Year 2012.

Andrey Favorov
Commercial Director

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

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

The establishment of the Commercial Division in 2012 helped change DTEK's approach to commercial decisions, centralizing and uniting all trading functions of the company: selling coal, electricity, greenhouse gases emission quotas, natural gas supplies, and forming the optimal value of products along the whole chain from coal production to electricity sales. In 2012, thanks to Mr. Favorov's efforts, the Company doubled electricity exports (to 9.7 TWh), entered the coal markets in Bulgaria and Ethiopia and expanded its market in Brazil. DTEK's electricity exports in February 2012 helped balance the load in the energy system during peak consumption times and prevent blackouts.

Andrey Smirnov
Coal Production Director

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

Before coming to DTEK, Mr. Smirnov was general director of En+ Coal (Russia). He was in charge of the reconstruction and construction of mines and thermal power plants in the Rostov and Tula regions of Russia in 2007–2008 and an advisor on the fuel and energy sectors to the Tula region governor. He held the position of general director at Southern Coal-Mining Company (Rostov Region, Russia) from 2004 to 2007. He started his career in 1989 at the Vorgashorskaya Mine (Vorkutaugol) where he advanced from a surveyor to general director. He was awarded the "Miner of Russia" Golden Medal for his personal contribution to the development of mining; he is a Full Cavalier of the "Miners' Glory" Order.

Among his achievements in 2012 — the acquisition of coal-mining companies in the Rostov region of the Russian Federation (DTEK's first assets abroad), the increase in coal output by 65%, and the introduction of the new management model at all coal enterprises of the Company.

Sergei Tazin
Electricity Generation Director

Mr. Tazin has been the head of the Electricity Generation Division since November 2012. He is a member of the Management Board.

Mr. Tazin was the general director of E.ON Russia, the Russian unit of E.ON AG, in 2008–2012. He was the executive director of Wholesale Generation Company-3 in 2007–2008, and before that general director of EuroSibEnergo in 2005–2007 (both companies in Moscow, Russia). Prior to that, Mr. Tazin held various positions at AES and General Electric. He started his career as a junior engineer at Consolidated Edison (New York, USA).

Mr. Tazin completed implementation of the 2012 investment programme in the electricity generation segment of DTEK's business. In September 2012, DTEK successfully passed due diligence by the USA and the U.S. Trade and Development Agency (USTDA) awarded a grant to DTEK for the development of a feasibility study for the construction of modern thermal power plant units at Burshtyn TPP.

Igor Maslov
Electricity Distribution and Sales Director

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

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

In 2012, a team led by Mr. Maslov developed a long-term development strategy for the electricity distribution and sales business, implemented a project to integrate business processes at DTEK Donetskoblenergo, and launched integration projects at DTEK Dniproblenergo and DTEK Krymenergo. His division also reviewed its approach to customer servicing at DTEK's electricity generation enterprises and shifted toward a stronger focus on customer expectations: Kyivenergo approved its customer strategy and DTEK arranged to open its first customer service centres (CSC).

Evgeny Bogomolsky
Large Projects Director

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

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

In 2012, the Large Projects Division, led by Mr. Bogomolsky, assumed control of the management of projects to reconstruct 21 power units at DTEK's thermal power plants. Last year, seven units were reconstructed, and seven more were taken out of service for subsequent reconstruction.

Alexander Tolkach
Director for External Affairs

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

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

Among the 2012 achievements of his division are the development and approval of DTEK's non-market strategy and positioning strategy and social partnership strategy in areas where DTEK operates for 2013–2015 and an occupational medicine strategy. DTEK's External Affairs Division set up a regional policy function and developed its internal and brand communications functions in 2012.

Aleksander Kucherenko
Human Resources Director

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

Mr. Kucherenko, before being appointed HR director permanently, had been HR and corporate communications director of DTEK since July 2010. He joined DTEK in 2009 as the deputy director of HR and was in charge of establishing a knowledge management centre at the company, DTEK Academy, as well as programs for personnel appraisal and development. Before coming to DTEK, he worked for Unilever and InBev; at the latter, he advanced to training and development director for the Eastern European region. He also held the position of head of training and development at Raiffeisen Bank Aval.

Under Mr. Kucherenko's leadership, DTEK's corporate centre launched a project to implement a new remuneration system based on Hay Group methodology in 2012. Last year the Company also approved the HR Strategy to 2030 and a new concept for DTEK Academy. The development of DTEK's corporate university and the launch of a project to reform industrial training were important achievements, which brought DTEK's personnel development system to a new level.

Dmitry Sakharuk
Legal Support Director

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

Mr. Sakharuk joined the company in March 2010 as deputy head of the legal support department, and was later appointed acting legal support director of DTEK. Before joining DTEK, he worked for Squire, Sanders & Dempsey L.L.P.

Among the legal support division's most important achievements of 2012 were providing legal support to M&A deals, including privatisation and fundraising; and restructuring DTEK's legal service in line with the new governance model.

Sergey Polyanskiy
Security Director

Mr. Polyanskiy has been the head of the Security Division since April 2007.

Mr. Polyanskiy joined DTEK in 2005 as deputy head of DTEK's security service. He was later became head of the department for economic security. He held executive positions in the criminal investigation department of the Ministry of Internal Affairs prior to that, dating back to 1994. During his service there, he undertook special training courses on anti-terrorism operations and explosives and firearms offences as part of an international training system in the US, UK and Turkey.

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

In 2012, Mr. Polyanskiy supervised the establishment of security units at newly acquired thermal power plants and recently founded mine groups, and managed the adoption of security standards at DTEK Dniprooblenergo and DTEK Krymenergo as part of integration projects.

04 Operations and Company structure.

Coal production and processing

DTEK's portfolio of coal mining assets includes 31 mines and 13 coal processing plants in Donetsk, Dnipropetrovsk and Luhansk regions of Ukraine, as well as in Rostov region of the Russian Federation. In 2012, DTEK's Ukrainian mines produced 39.7 million tonnes of coal. The volume of processed run-of-mine coal (ROM coal) amounted to 27.7 million tonnes.

DTEK produces thermal and coking coal, which is processed by the Company's own enterprises. The Company's range of coal products includes G, DG, T and A coal grades. ROM coal and coal concentrate are used in the electricity generation and coking industries; and sorted fuel is supplied for household needs. DTEK is one of the largest players in the post-Soviet coal market and the European anthracite market.

The aggregate reserves of DTEK's mines amount to 1,699.7 million tonnes of coal. The reserves of DTEK's mines are sufficient for 54 years on average, and for a maximum of 94 years (at the mines of DTEK Dobropolyeugol).

In 2012, DTEK acquired several new coal production enterprises: in March - Mine Bilozerska; in July – coal assets outside Ukraine, including three mines and a coal processing plant from Rostovsky Antracite LLC. Bilozerska Mine is located in Donetsk region near DTEK's Dobropolyeugol mine group. The mine's coal production capacity is 800,000 tonnes per year; industrial reserves are 71.6 million tonnes of coal, which are sufficient for 90 years of operation.

Public Mining Corporation Obukhovskaya (consisting of a mine and a coal processing plant), Public Company Don-Anthracite (Dalnyaya mine) and Sulinantracite LLC (mine 410) are located in Rostov region of the Russian Federation. The enterprises produce and process low-sulphur anthracite coal. The industrial reserves of the three aforementioned enterprises are estimated at 136.0 million tonnes; in 2011, their aggregate coal output was about 0.5 million tonnes. DTEK plans to increase the output of these mines to 2.0 million tonnes per year.

Since 2011, DTEK has been introducing organisational changes in its management system, involving all of the Company's businesses. In particular, our mines were incorporated into mine groups and subordinated to DTEK's corporate centre. This will create a closer connection between the corporate centre and the enterprises and enhance management efficiency.

Electricity generation

The production assets of DTEK's electricity generation business consist of ten thermal power plants (TPP) located in the eastern, central and western Ukraine. The group also has two combined heating and power plants (CHPP) at Kyivenergo.

The total installed capacity of DTEK's electricity generation companies exceeds 18 GW. All generated electricity is supplied to the wholesale electricity market (WEM).

The aggregated electricity supplied by DTEK's generation companies to the WEM was 51.4 TWh.

In 2012, DTEK acquired a controlling stake in DTEK Zakhidenergo. The production assets of DTEK Zakhidenergo include three thermal power plants and one hydro power plant: Burshtynska TPP in Ivano-Frankivsk region, Dobrotvirska TPP in Lviv region, and Ladyzhynska TPP and Ladyzhynska HPP in Vinnytsia region.

Burshtyn TPP is vital for electricity supplies to Slovakia, Hungary, and Romania. The power plant is part of the so-called Burshtyn Energy Island, which successfully operates in the European Network of Transmission System Operators for Electricity (ENTSO-E), providing for exports of 555 MW of electricity. Dobrotvir TPP generates electricity to satisfy domestic demand and exports to Poland.

Electricity distribution

DTEK's electricity distribution companies purchase electricity from the WEM and supply it to end consumers in Donetsk city, Donetsk and Dnipropetrovsk regions, and the Autonomous Republic of Crimea. One of DTEK's companies, Kyivenergo, provides a full range of electricity and heating supplies to the Ukrainian capital.

DTEK's electricity distribution companies service over 5.2 million clients, both individuals and legal entities. Our clients are public and private companies in the mining, iron and steel making, engineering and other industries, national and municipal authorities, public utilities and households. The total length of DTEK's electricity networks is 159,000 kilometres. In 2012, our distribution companies purchased about 53.9 TWh from the WEM.

In the reporting year, three new distribution companies — DTEK Donetskoblenergo, DTEK Dniproenergo and DTEK Krymenergo — joined DTEK.

Heating

DTEK's heating production and supply business is primarily represented by Kyivenergo, which has a combined cycle of heating and electricity generation, transmission and sales and provides a full range of heating services to Kyiv. DTEK Dniproenergo supplies heating to the towns of Energodar and Zelenodolsk and some districts of the city of Dnipropetrovsk.

DTEK sells heating services to public utilities, legal entities and households. Heating is distributed and transmitted through heating pipelines, which are mostly the property of municipalities.

Trading

In 2012, DTEK set up its Commercial Division, which combined all trading functions at the Company: sales of coal, electricity, emission reduction units, and natural gas supplies. The reorganisation streamlined the entire value chain from coal production to electricity sales.

DTEK's coal is supplied to power plants, coke plants and iron and steel works in Ukraine, as well as to power plants and industrial companies in Europe, Asia, North and South Americas, and Africa. DTEK is one of the largest players in the post-Soviet countries and Europe in the anthracite market.

DTEK's coal exports from Ukraine total about 3 million tonnes per year.

DTEK exports electricity to Hungary, Slovakia, Romania, Poland, Moldova, and Belarus. In 2012, the Company exported 9.7 billion kWh of electricity, almost double 2011 sales.

Electricity exported to European countries is produced by DTEK power plants (Burshtynska and Dobrotvirska TPPs).

DTEK supplies Hungary about 10% of its national consumption.

Breakdown of DTEK electricity exports in 2012, bln kWh

	2012
Belarus	4.05
Hungary	3.60
Poland	1.01
Moldova	0.85
Romania	0.16
Slovakia	0.10
Total	**9.75**

The development of electricity exports by DTEK not only increases currency revenues in the country, but also supports the domestic coal sector due to the increased utilisation of Ukrainian power plants. At the same time, DTEK's power plant modernisation makes coal combustion at our power plants more environmentally friendly.

DTEK has business relations with key European energy players: EDF Trading (France), Gazprom Marketing & Trading (UK), Alpiq (Switzerland), Energy Financing Team (Switzerland), Mercuria (Switzerland), CEZ Group (Czech Republic), AxpoEGL (Switzerland), E.ON Energy Trading (Germany).

DTEK's successful international partnerships with key players reinforce the company's reputation as a reliable electricity supplier and improve the business reputation of the entire Ukrainian fuel and energy industry.

Renewable energy

Apart from conventional generation, DTEK has been actively developing alternative energy. Increasing the share of renewable energy sources is one of the Company's strategic priorities. Today DTEK focuses on the development of its wind power segment. This business is implemented via subsidiary Wind Power LLC.

Wind Power's current project portfolio in Zaporizhia and Donetsk regions includes the planned construction of two wind parks: DTEK Pryazovskyi Wind Park and DTEK Mangush Wind Park, with a total rated capacity of about 1.2 GW. The project portfolio is expected to be increased to 2.0 GW by 2030.

DTEK's first wind power plant, the Botievo Wind Farm,with a designed capacity of 200 MW, has become the largest wind power project in Ukraine. DTEK launched the project in July 2011, and, on 4 October 2012, the commissioning ceremony of the first wind farm turbines took place. The producer of the wind turbines was Vestas Deutschland, German arm of Dutch Vestas Wind Systems AS, a global leader in wind turbine manufacturing. The construction of the second stage of the Botievo Wind Farm (110 MW) is expected to be completed by mid-2014. Total investments in the Botievo Wind Farm will amount to about EUR 350 million.

The Botievo Wind Farm is the first wind farm of the DTEK Pryazovskyi Wind Park (located in Zaporizhia region), which also includes planned wind farms in Berdiansk (150 MW) and Primorsk (200 MW). At present, electricity collection facilities are being constructed on the territory of the aforementioned future plants. Investments in the three wind farms of the DTEK Pryazovskyi Wind Park will total about EUR 900 million.

Full-scale commissioning of the wind park is planned by the end of 2016.

DTEK is continuing a wind monitoring study on the territory of the DTEK Mangush Wind Park (Donetsk region).

Oil & Gas

In 2011, DTEK established subsidiary DTEK Oil & Gas and formed a team of professionals to run and develop offshore and onshore hydrocarbon exploration and production projects. In-house gas production is intended to secure fuel resources for DTEK companies. In particular, Kyivenergo requires 3.0 billion cubic metres of gas per year. Gas could be supplied to the presently mothballed gas-fired units of DTEK Dniproenergo and other DTEK TPPs. The total demand of DTEK's generation companies is up to 3.5 billion cubic meters per year.

DTEK agreed to purchase shares of Naftohazvydobuvannya from its current shareholders. SCM decided to transfer its 25% stake in Naftohazvydobuvannya to DTEK. The deal between DTEK and Naftohazvydobuvannya shareholders is to be closed after obtaining a permit from the Antimonopoly Committee of Ukraine. After deal closure, DTEK will hold a controlling stake in the aforementioned company.

DTEK holds a stake in Vanco Ukraine Ltd., which allows participation in hydrocarbon exploration and production projects at the Prykerchenska block of the Black Sea. We believe that the project is not only promising in terms of oil and gas production, but also vital for Ukraine's economic development and energy security.

According to preliminary expert assessments, potential annual output may reach about 4.5 billion cubic meters of gas and 4.0 million tonnes of oil. The project will be implemented under a production sharing agreement.

One of DTEK's strategic obectives is to develop nonconventional gases in Ukraine. We have been implementing pilot projects on underground methane utilisation since 2007. Projects are currently in progress at the Stepova mine and DTEK Mine Komsomolets Donbassa. We are studying a method of methane utilisation by drilling boreholes from the surface to coal seams. DTEK Mine Komsomolets Donbassa plans to conduct a feasibility study of the method's application and carry out pilot works. Subject to successful testing, we plan to roll out the method at our other mining companies.

In November 2012, DTEK started cooperation with Linc Energy (Australia) on underground coal gasification, a method that produces synthetic gas, a substitute for natural gas. The parties signed a memorandum of understanding and an agreement for the development of a project feasibility study. The environmentally clean method of synthetic gas production makes it possible to extract coal reserves not feasible for extraction by traditional methods. According to experts, the production cost of synthetic gas is lower than that of shale gas and close to the cost of natural gas produced in Ukraine. Synthetic gas can be used not only in the electricity sector, but also for the production of motor fuel, oils, fertilisers, and components for the pharmaceutical industry. The project is expected to produce its first synthetic gas in 2014.

DTEK Oil & Gas is considering participation in shale gas projects in Ukraine, in tenders for acquiring exploration and extraction licenses for subsoil blocks in the undistributed fund, and the acquisition of promising operational oil and gas assets.

Company structure

Right now DTEK's organisational structure is changing. The objective – to improve the Company's competitiveness by improving efficiency and management flexibility. As part of these changes, a transition from a three-tier to a two-tier management model is being carried out. The mine groups (composed of several neighbouring mines), coal processing plants, thermal power plants, and electricity distribution companies will report to DTEK's corporate centre.

The following enterprises are part of DTEK:

13 Mine groups

(including 31 mines and 6 coal processing plants):

Pershotravenske MG
Pavlohradske MG
Dniprovske MG
Ternivske MG
Geroiv Kosmosu MG
Bilozerske MG
Dobropilske MG
Komsomolets Donbassa MG
Rovenkivske MG
Chervonopartyzanske MG
Sverdlovske MG
Iasenivske MG
Obukhovske MG

10 Thermal power plants

Kurakhovska TPP
Luganska TPP
Zuivska TPP
Kryvorizka TPP
Zaporizka TPP
Prydniprovska TPP
Burshtynska TPP
Dobrotvirska TPP
Ladyzhynska TPP
Myronivska TPP

5 Electricity distribution companies

DTEK Donetskoblenergo (DTEK Energougol ENE)
DTEK Dniprooblenergo
DTEK Krymenergo
Kyivenergo
Service-Invest

7 Coal processing plants

Pavlogradskaya CCM
Mospino Coal Preparing Enterprise
Kurahovskaya CCM
Komendantska CPP
Dobropil's'ka CEP Oktyabrs'ka CEP
Sverdlovska CPP

Renewable energy

Botievo Wind Farm
(Wind Power LLC)

Oil&gas

DTEK Oil & Gas

05 Key events

January

DTEK purchased a stake in Zakhidenergo

The tender commission of the State Property Fund of Ukraine unanimously announced DTEK Holdings Ltd. as the winner of the auction for the sale of a 45.103% stake in Zakhidenergo. The price of the stake was USD 241.5 million. Following the transaction, DTEK concentrated 70.91% of shares in the generation company.

DTEK concentrated 71.34% of Donetskoblenergo

DTEK won an auction by the State Property Fund of Ukraine for the sale of a 40.061% stake in Donetskoblenergo. The tender was held with public offers and bids. The company paid USD 58.5 million for the stake. Following the transaction, DTEK increased its stake in the distribution company to 71.34%.

February

DTEK started cooperation with the National Academy of Science of Ukraine

DTEK and the National Academy of Science of Ukraine decided to design a Programme to Implement Technological Projects for DTEK aimed at domestically generating scientific solutions and technologies in the area of rock condition forecasting, developing methods of rock abandonment in mines, improving the efficiency of gas drainage systems in mines, etc.

March

DTEK increased its stake in Bilozerska Mine

DTEK purchased the corporate rights of Bilozerska Mine as part of the Company's effort to recreate an effective coal production system at Dobropillia. The current stake of DTEK Holdings B.V. in Bilozerska Mine ALC is 95.4%.

DTEK concentrated a 72.9% stake in Dniproenergo

DTEK signed an agreement with the State Property Fund of Ukraine to purchase a 25.0% stake in Dniproenergo. Payment for the stake to the state budget amounted to USD 147.5 million. Following the transaction, DTEK concentrated 72.9% of shares in the generation company.

Power unit No.8 at Kurakhovska TPP was upgraded

The upgrading of power unit No.8 at Kurakhovska TPP has become one of the largest projects in the history of independent Ukraine. The upgrading was accomplished in record-breaking time; its cost totalled USD 65.8 million. The turbine and its wheel space were practically replaced, the generator was upgraded, and the transformer and over 70% of the boiler equipment was also replaced.

April

DTEK won the tender for a stake in Dniprooblenergo

DTEK confirmed its readiness to implement a strategy to expand in the electricity distribution business via open competition. DTEK won a tender by the State Property Fund of Ukraine for the sale of 50% in Dniprooblenergo and paid USD 82.5 million for the shares. DTEK concentrated 51.505% of Dniprooblenergo.

May

DTEK won the tender for a stake in Krymenergo

DTEK Holdings Ltd. won the tender for the sale of a 45.0% stake in Krymenergo. The starting price for the stake was USD 30.7 million. DTEK Holdings Ltd. won the tender by offering USD 32.0 million for the stake. The Group currently holds 57.6% of Krymenergo.

June

DTEK made its first acquisition of coal assets outside Ukraine

DTEK purchased three mines and one coal processing plant from the Russian company Rostovsky Anthracite. The deal envisages the acquisition of the corporate rights to the Obukhovska Mine Group (Obukhovskaya mine and coal processing plant), Public Company Don-Anthracite (Dalniaia mine) and Sulinanthracite Company of Limited Responsibility (mine No.410, mothballed). Estimated commercial reserves of coal at the acquired assets amount to 136.0 million tonnes.

Botievo Wind Farm construction —

one of DTEK's largest investment projects and first renewable energy project

August

Upgrading of power unit No.1 at DTEK Zaporizka TPP was completed

DTEK Zaporizka TPP completed the retrofit of power unit No.1. The cost of the retrofit was USD 61.6 million. This resulted in an increase in the installed capacity of the power unit from 300 MW to 325 MW. Specific standard fuel consumption dropped from 365 g/kWh to 340 g/kWh and dust concentration in exhaust gases dropped by six times (from 320 mg/m^3 to 50 mg/m^3).

DTEK started coal supplies to Africa

DTEK became the first Ukrainian company to enter the African continent. Since August, DTEK Trading has been supplying low volatile coal to a cement plant owned by the Ethiopian Petroleum Enterprise (the Federal Republic of Ethiopia).

September

DTEK started international cooperation in ash and slag utilisation

DTEK, the Polish Union for Coal Combustion Products and Ekotech IP, with the assistance of the Polish-Ukrainian Chamber of Commerce, signed a Memorandum of Understanding for ash and slag handling in Ukraine. Utilizing coal combustion products helps reduce the impact on the environment and produce affordable construction materials required for the development of the economy and infrastructure of Ukrainian regions, creating new workplaces.

DTEK supported the World Economic Forum's Energy for Society Initiative

DTEK, in partnership with the world's 20 largest energy companies, started the global initiative "Energy for Society." Five basic principles for cooperation between energy businesses and the society were developed: secure & affordable access to energy, efficient energy systems, responsible citizenship, contributing to economic development, and promoting energy literacy.

DTEK expanded its presence in the coal markets of South America

DTEK Trading entered into a contract for coal supplies to Brazilian iron and steel plants belonging to the largest regional steel company, Gerdau. Previously, DTEK supplied anthracite coal to Brazil for Usiminas, Value, and ArcelorMittal.

DTEK passed due diligence in the US and obtained a grant from USTDA

The U.S. Trade and Development Agency awarded a grant to DTEK for the development of a feasibility study for the construction of advanced power units at Burshtynska TPP instead of four power units with 200 MW each. The project is intended to improve the efficiency and environmental performance of the power plant. The old power units will be replaced, allowing for a significant reduction in emissions of dust, SO_x and NO_x. In order to obtain the grant, DTEK passed due diligence in the US.

October

DTEK launched the largest Ukrainian wind farm

Construction of the Botievo Wind Farm is one of DTEK's largest investment projects and its first in renewable energy. Investments in construction of the wind farm with 200 MW of installed capacity will amount to EUR 350 million. The first stage of the wind farm (30 wind turbines of 90 MW installed capacity) was connected to the United Energy System of Ukraine. By the end of 2013, DTEK plans to commission another 110 MW at the Botievo Wind Farm. After reaching its designed capacity of 200 MW, the wind farm will produce an average of 686 GWh per year, which will be sufficient to supply electricity to 960,000 households.

DTEK raised EUR 416 mln in borrowings

DTEK signed an agreement for a syndicated credit line of EUR 416 million, arranged by Sberbank CIB, Gazprombank PJSC, ING Bank NV and UniCredit Bank Austria AG. The facility has two tranches with tenors of three and five years, respectively. Funds received from the syndicated loan will be used to finance the modernization of the Company's production facilities and for other purposes.

DTEK developed three-year social partnership programmes with cities where it operates

DTEK, together with the mayors of cities where DTEK companies operate, experts and local communities designed and presented three-year partnership strategies. For the first time in Ukraine, DTEK will have medium-term continuous cooperation in social development spheres in regions where it operates.

December

As part of the programme on energy efficiency in the utility sector, DTEK, together with USAID and the Kyiv City Administration, opened an energy-efficient kindergarten in Kyiv

Kindergarten No. 573 became the first pre-school educational establishment in Kyiv where comprehensive energy saving measures were implemented. Thermal insulation of the building allowed for a reduction in energy consumption by 60.0%, thus ensuring annual savings of up to USD 118,750 from the city budget.

DTEK and Linc Energy agreed to cooperate in syngas production

DTEK and Linc Energy (Australia) agreed to cooperate in the application of an underground coal gasification method in Ukraine to produce synthetic gas that can be used as a substitute for natural gas. Subsidiary DTEK Oil&Gas will implement the project.

Kyivenergo commissioned the Moskovska substation

Kyivenergo commissioned the new 110/10 kV Moskovska substation in the Holosiivskyi district of Kyiv. It is the largest facility of this voltage class constructed in Ukraine in the past 20 years. Financing for the construction totaled USD 28.5 million.

Industry review

01 Macroeconomic indicators

02 Coal market

03 Electricity market

01 Macroeconomic indicators

Ukrainian economic growth slowed in 2012 due to a decline in production in key industries: steel and iron works, chemicals, and agriculture. Real gross domestic product (GDP) expanded by 0.2% in comparison to the planned 3.9%. GDP grew by 5.2% in 2011.

1094

2010

The country retained its stable positions in the region: according to the UN, Azerbaijan was the only one of 18 transition economies (Georgia, CIS and Southeast European countries) to experience GDP growth, fueled by investments into the countries' oil sector. As of the end of the year, Ukraine managed to avoid a decline in GDP. UN experts expect muted growth in Ukraine's GDP in 2013–2014.

Ukraine's nominal GDP reached USD 176 billion in 2012. This was the third largest index in the region after Russia and Kazakhstan, whose economic success is attributable to exports of energy products and raw materials. In comparison to EU countries, Ukraine's nominal GDP was higher than Bulgaria's, Hungary's, or the three Baltic states' combined, but lower than Romania's and Poland's.

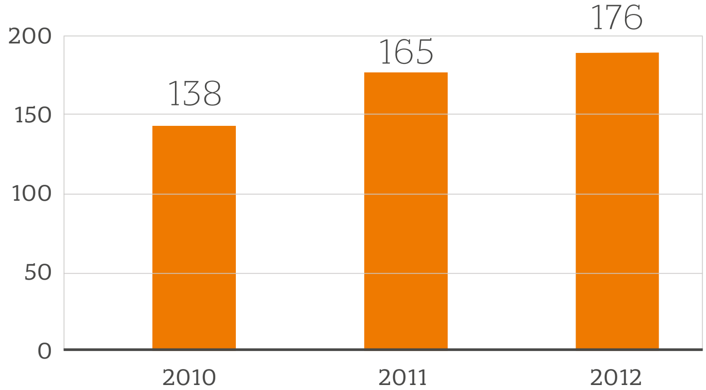
The Ukrainian government is targeting 3% GDP growth in 2013. This optimistic projection is based on an expected revival in the global economy. The UN Department of Economic and Social Affairs forecasts 2.3% global GDP growth in 2013, similar to the level of 2012. EU, Asian and Latin American countries might see an economic upturn. In the CIS, GDP growth will slow to 3.3%, compared to 3.5% in 2012.

Ukraine's GDP*, in UAH bln

1317 | 1409

2011 | 2012

Ukraine's GDP*, in USD bln



* Data from the UN Statistics Division and the State Statistics Committee of Ukraine

176
USD bln
Ukraine's nominal GDP in 2012

The Ukrainian government continues to pay particular attention to the domestic market. Retail trade turnover grew by 15.9% in 2012, compared to 14.8% in 2011 and 7.8% in 2010. This is attributable to an increase in real wages (by 14.4% YoY in comparison to 8.7% YoY in 2011) and price stability.

Ukraine saw deflation in 2012, of 0.2%, for the first time since 2002, when it was 0.6%. In the CIS, consumer prices declined below 100% only in Ukraine and Azerbaijan. Deflation can have a negative impact on economic activity and employment. Unemployment is low now: 1.8% in 2012 (December), similar to 2011, while it was 3.0% in 2008, the year of the financial crisis.

To mitigate the adverse effects of deflation, the government plans to deviate from its strict monetary policy and allow moderate inflation. Experts do not rule out that the government can loosen its administrative controls on setting tariffs for energy and utility products. To boost economic growth in 2013, Ukraine plans to raise USD 6.0 billion via state guarantees to implement large projects.

The state has an important role as a domestic investor. State expenditures on economic activity rose by 9.2% YoY in 2012 to USD 7.8 billion.

Ukraine's export of goods exceeded USD 68.8 billion in 2012 (compared to USD 68.4 billion in 2011), while imports totaled USD 84.7 billion (compared to USD 82.6 billion in 2011). The negative trade balance grew to USD 15.8 billion (compared to USD 14.2 billion in 2011). The deficit was compensated by a surplus of trade in services, amounting to USD 6.8 billion, and an inflow of foreign direct investments, totaling USD 5.1 billion.

There was a positive trend in VAT refunds, which was an important issue for exporters. VAT compensation grew by 7.4% to USD 5.7 billion in 2012, which was a good indicator, taking into account the considerable volume of VAT compensation in 2011, when volumes increased by 1.8 times YoY.

Ukraine's foreign currency reserves dropped by 22.8% to USD 24.6 billion In 2012. According to the government, the decline in the reserves was caused by considerable repayments of foreign debt, too high prices for imported energy products and adverse conditions in foreign goods markets.

There were only minor UAH currency rate fluctuations. The UAH/USD rate was 7.99 in 2012 (compared to 7.97 in 2011 and 7.94 in 2010).

Ukraine's budget revenues increased by 10% to USD 43.3 billion, while expenditures rose by 18.7% to USD 49.5 billion. The budget deficit totaled USD 6.7 billion, compared to USD 2.8 billion in 2011 and USD 8.4 billion in 2010. The 2013 plan is to reduce the deficit to USD 6.3 billion.

Ukraine's national debt grew by 1.1% YoY at the end of 2012 to 28.5% of GDP. The average national debt of European countries was 85.1% in the third quarter of 2012. Ukraine's national debt is expected to reach USD 60.4 billion by the end of 2013, which is 30.6% of the national GDP.

The state borrowed USD 13.7 billion in 2012, of which USD 8.4 billion was from domestic lenders and USD 5.3 billion from foreign lenders, including USD 500 million invested in joint projects with international financial organizations.

Ukraine's state budget collected about USD 850 million from privatization.

A positive signal for investors might be the resumption of Ukraine's program with the IMF, which has been reluctant to lend to Ukraine since 2011 due to different opinions on gas price increases for households. In February, the European Union and Ukraine signed a bilateral EUR 600 million loan agreement to ensure the stability of Ukraine's financial and economic systems.

The majority of experts, including the UN and EBRD, agree that Ukraine will be able to maintain its economic growth rate in 2013.

02 Coal market

Coal market overview

Ukraine's proven coal reserves amount to 34.0 billion tonnes, 3.3%–3.9% of global reserves and 10.0% of European reserves. The coal reserves of operating mines total 6.1 billion tonnes, including 3.5 billion tonnes of thermal coal and 2.6 billion tonnes of coking coal.

The main deposits are located in the Donetsk, Lviv-Volyn and Dnipro coal basins, as well as in the Dnipro-Donets and Zakarpattia coal depressions. The deposits are deep in thin seams (0.8–1.0 m).

Before 1970, coal-fired thermal power plants generated about 75% of Ukrainian electricity. As the nuclear power industry developed, the share coal-fired TPPs decreased to 41.5% in 2012. Ukraine's Energy Strategy to 2030 envisages increasing the installed capacity of coal-fired TPPs as a result of retrofitting operating units and the construction of new ones.

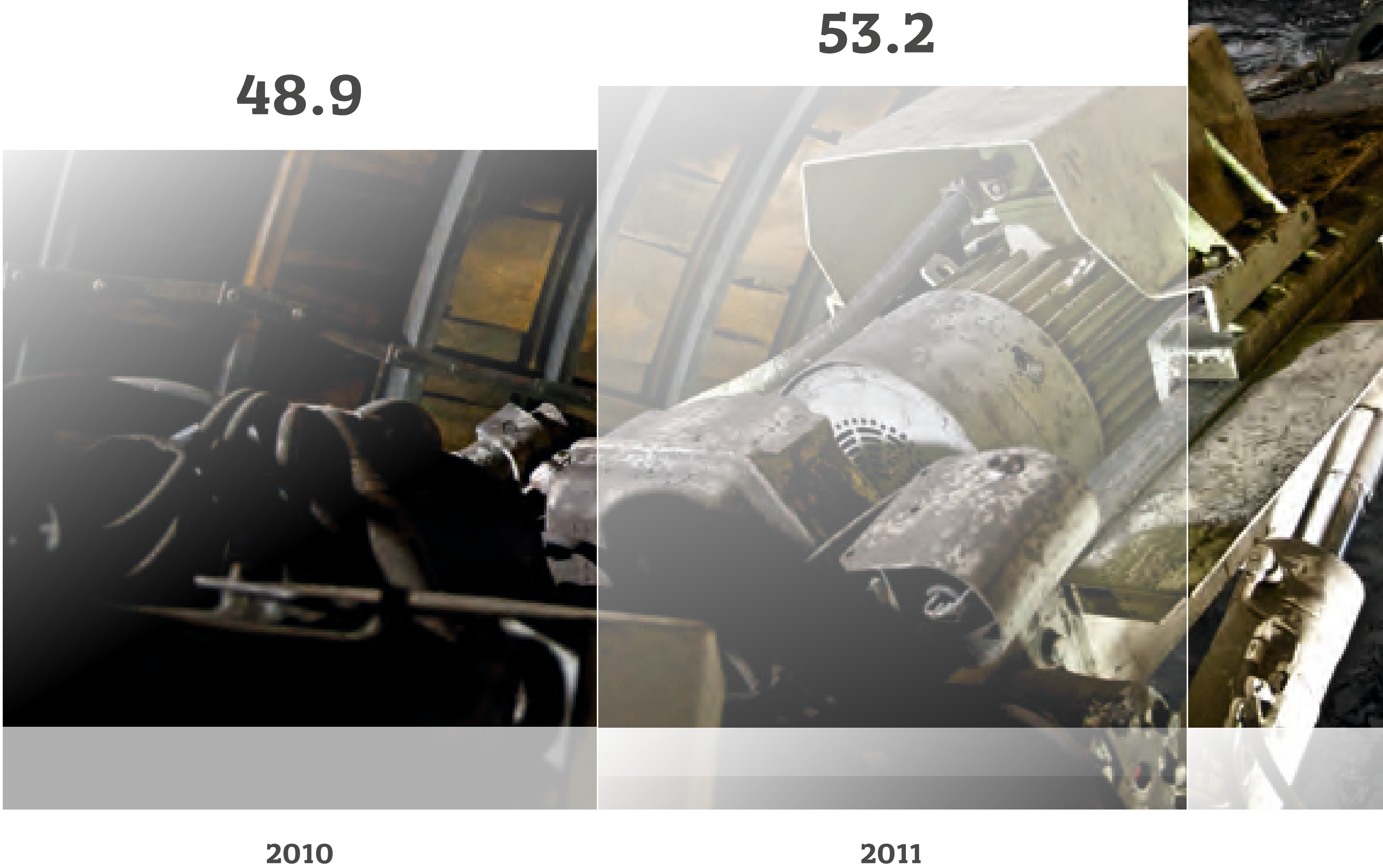
Largest producers of hard coal in Europe *, mln tonnes

	2011	2012	Δ, %
Poland	75.7	78.1	3.7
Ukraine	62.7	64.7	3.2
Great Britain	18.3	16.8	-9.3
Germany	13.0	11.6	-10.8
Czech Republic	11.3	11.4	0.9
Spain	6.6	6.1	-3.0

* Euracoal Market Report 1/2013, April 2013.

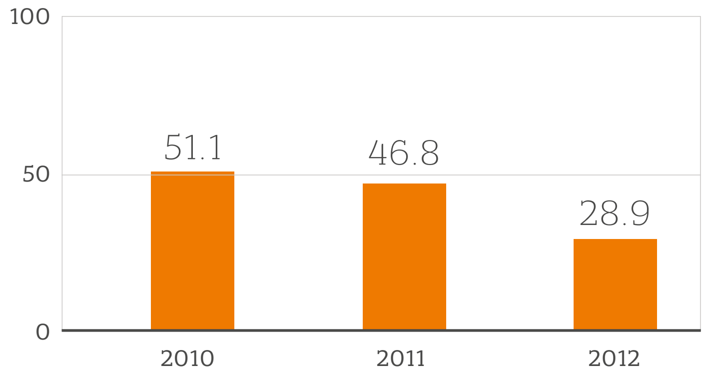
Structure of coal production in Ukraine by ownership*

Private mines, %



* Data of the UN Statistics Division and the State Statistics Committee of Ukraine

State mines, %



71.1

2012

Today, more than 350 companies are involved in coal, lignite and peat production, including about 250 companies that produce and process hard coal. There are more than 145 mines in Ukraine, including 43 private ones.

The number of people employed in the industry declined by 5,500 to 248,000 in 2012. For comparison: the same number of people is employed in the mining enterprises of all EU countries. The Polish coal industry, which produces more coal than Ukraine's, employs 130,000 people, while Ukrainian state-owned mines employ about 156,000 people alone. The difference in the number of employees is explained by the superior technical characteristics of Polish deposits, which allow for full mechanization of the production process.

The average salary in Ukraine's coal, lignite and peat production industry remains the highest among similar industries due to difficult working conditions. The indicator rose 11.5% in 2012, compared to 32.8% in 2011. In December 2012, miners' salaries reached USD 689.50 per month, which is 1.4 times higher than the average salary in the coal production industry.

The volume of coal, lignite and peat sales by Ukrainian enterprises grew by 9% YoY to USD 6.3 billion in 2012. The share of coal industrial sales grew from 4.1% in 2011 to 4.5%. Ukraine is Europe's leader in hard coal production.

Coal production volumes by leading Ukrainian producers *, mln tonnes

ROM (run-of-mine) coal production	2011	2012	Δ
DTEK Pavlogradugol	15.4	17.0	1.6
DTEK Sverdlovanthracite	6.6	6.9	0.3
Krasnodonugol	5.6	5.4	-0.2
DTEK Rovenkyanthracite	7.3	7.3	-
Krasnoarmiiska–Zakhidna No. 1 (Pokrovske mine group)	6.9	8.3	1.4
DTEK Mine Komsomolets Donbassa	4.3	4.5	0.2
DTEK Dobropolyeugol	3.3	3.3	-
Makeevugol	2.9	2.2	-0.7

* According to the Ministry of Energy and Coal Industry of Ukraine

Coal production and trading*, mln tonnes

	2011	2012	Δ, %
Production	82.0	85.7	+4.5
Processing	63.1	65.6	+4.0
Import	12.7	14.8	+16.5
Total: processed coal and import	**75.8**	**80.4**	**+6.1**
Export	6.9	6.1	-11,6
Energy	37.0	41.2	11.4
Iron and steel works	28.9	28.6	-1.0
Other	3.0	4,5	+50.0
Total: consumption	**75.8**	**80.4**	**6.1**

* According to the Ministry of Energy and Coal Industry of Ukraine, industry associations, and DTEK calculations.

Coal production and trading

According to the Ministry of Energy and Coal Industry, coal production in Ukraine increased by 4.8% YoY to 85.9 million tonnes in 2012. Thermal coal production grew by 7.3% to 61.1 million tonnes and coking coal production decreased by 0.8% to 24.8 million tonnes. The labour productivity of miners increased by 1.8 tonne per month to 33.5 tonnes per month.

A total of 227 mining faces are in operation. During the year, 122 new faces were commissioned, and 121 were put out of service.

The higher coal production and lower consumption resulted in a surplus of coal. The state is planning to diversify the areas where coal products are used, including synthesis gas production and as a raw material for the chemical industry. It is planned to put out of service for retrofitting about 15 coal enterprises in order to decrease the market load.

Average annual price per tonne of concentrate (ash: 23.0%, moisture: 8.9%) in Ukraine*

	2010	2011	2012
Total, UAH/t	596.50	712.50	717.70
Total, USD/t	75.10	89.50	89.70

*According to the Ministry of Energy and Coal Industry of Ukraine

Price for A grade coal (anthracite, ash: 19.8%, moisture: 7.6%) and G grade coal (ash: 24.0%, moisture: 13.5%) in Ukraine and globally*, USD/t

A grade	2010	2011	2012
DAP Ukraine**	88	116	119
Domestic market	75	96	102
G grade	**2010**	**2011**	**2012**
DAP Ukraine**	69	91	94
Domestic market	68	88	94

* According to the Ministry of Energy and Coal Industry of Ukraine

** DAP Ukraine – coal imports to Ukraine

State-run companies increased production by 1.3% to 24.8 million tonnes in 2012, including 17.7 million tonnes of thermal coal (+3.9%) and 7.2 million tonnes of coking coal (–4.4%). The share of state-owned companies in total coal production is going down due to industry reforms and increased investments by private mine operators.

The capital expenditures of DTEK Rovenkyanthracite and DTEK Sverdlovanthracite alone (DTEK obtained the rights for the concessionary use of these two companies in December 2011) exceeded USD 150.0 million in 2012. Capital investments at all state-owned mines for the same period amounted to USD 56.1 million.

The privatisation of coal mining companies in Ukraine is continuing. According to the Ministry of Finance, proceeds to the national budget from privatisation and granting concessionary rights to coal companies will reach at least USD 588.0 million.

Ukraine conducted coal export-import transactions with 68 countries in 2012 (vs. 64 in 2011). The country imported 15.3 million tonnes of coal for USD 2.9 billion, including 14.8 million tonnes of hard coal for USD 2.6 billion, 501,000 tonnes of coke for USD 146.0 million, and small volumes of peat and lignite. The largest coal suppliers to Ukraine were Russia, the USA, and Kazakhstan. Imports of hard coal amounted to 12.7 million tonnes for USD 2.8 billion in 2011. Coal purchases dropped in monetary terms due to reduced coal prices.

Coal exports reached 8.7 million tonnes or USD 1.2 billion. The biggest lots were supplied to Bulgaria, India, Turkey, and Russia. Hard coal supplies decreased by 12.5% YoY to 6.1 million tonnes, while proceeds from hard coal supplies dropped by 21.4% to USD 609.4 million. Coke exports increased by 29.7% to 2.6 million tonnes in volume terms, but decreased in monetary terms by 16.9% to USD 626.0 million.

According to DTEK's preliminary assessment, Ukraine consumed about 74.3 million tonnes of coal in 2012, out of which 41.2 million tonnes was used in the energy sector, and 28.6 million tonnes was used by the iron and steel making industry.

Pricing

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

About 65% of all coal supplies from state enterprises are sold under contracts with Ugol Ukrainy. The wholesale market operator distributes coal products at fixed prices, which results in cross-subsidisation of loss-making mines at the expense of profitable ones. Private companies set prices for their products based on supply and demand in Ukraine, taking into account the general trends on international markets.

The wholesale price of one tonne of marketable coal product dropped by 15.0% to USD 69.30 million in 2012. The production cost reduced by 3.4% to USD 120.50. The state allocated USD 1.3 billion from the national budget to partially cover this gap.

Sector regulation

The Ministry of Energy and Coal Industry is the main governmental body influencing the operation of the coal mining sector and coal market.

When setting and implementing mid-term targets, the Ministry is governed by the 2010–2014 Presidential Program of Economic Reforms “Prosperous Society, Competitive Economy, and Efficient Government.” The five key goals of the aforementioned program are:

- to liberalise the coal market
- to improve mechanisms of governmental support
- to speed up the process of companies’ restructuring
- to set up a system of social support for miner towns and employees made redundant after mining operations terminate or cut-back
- to privatise coal mining companies and provide for various measures to make them more attractive for investors.

The benchmark for setting long-term goals is the updated draft of the Energy Strategy of Ukraine to 2030.

Public discussions on the draft have taken place, and now the draft strategy is in the final approval stage.

To ensure the attainment of the sector’s strategic goals, the draft Energy Strategy envisages three development stages:

- a period of reforms, completion of privatisation, implementation of public-private partnership mechanisms and closure or mothballing of unfeasible mines — to 2015, inclusive
- a period of intensive upgrading of mines and coal processing companies — 2015–2020
- a period of steady industry growth — 2020–2030.

An important factor for reform is the adoption of a law on governmental support for the coal sector. The draft law is at the approval stage and is expected to be adopted by the Ukrainian Parliament (Verkhovna Rada) in 2013.

Key events of 2012

- Parliament adopted the Law “On Specific Features of the Privatisation of Coal Mining Companies.”
- The Cabinet of Ministers of Ukraine approved the procedure for governmental monitoring of prices for thermal and coking coal on domestic and external markets. The Ministry of the Energy and Coal Industry will monitor wholesale prices for Ukrainian coal, coal selling prices of the main state-owned coal producers in domestic and international markets, wholesale market prices, and coal freight costs on key sea routes.
- The Cabinet of Ministers of Ukraine approved the list of mines the concessionary rights to which can be granted to private operators and included 95% of state-owned coal mining facilities in the list (more than 85 mines and mine groups).

- A concept of social support was designed for employees of coal mining companies that are in the process of liquidation.
- Ukraine introduced coal exchange trading.
- Ukraine and China started the implementation of a joint project on brown coal production and electricity generation therefrom in Kirovohrad region.
- An agreement was signed to obtain USD 3.7 billion from the State Bank of China for projects to substitute natural gas with domestic coal and for the construction of coal gasification plants.

Tasks and challenges of the coal mining industry in 2013

Liberalisation of the coal market, selling and pricing mechanisms, including:

- to reduce the regulator's impact on the coal market by liquidating the wholesale market operator, Ugol Ukrainy, and setting up a mechanism to ensure the performance by market participants of their financial obligations
- to introduce a mechanism of setting coal prices depending on coal quality (calorific value)
- to launch trading on the Ukrainian Energy Exchange, in accordance with the "Concept for Transitioning to Coal Exchange Trading", approved by the Cabinet of Ministers.

Improvement of governmental support to the coal industry, including:

- to gradually abolish subsidies for financing the operating expenses of state-run mines and, at the same time, to increase funding for finding jobs and social support for coal industry workers and residents of mining regions where coal mining and processing companies are in the process of liquidation (mothballing) to streamline governmental support
- to streamline governmental support for coal mining and bring it in line with EU standards, which is planned to be achieved through the adoption of draft Law of Ukraine "On Governmental Support for the Coal Industry" in 2013.

Preparation for privatisation, namely:

- The State Property Fund of Ukraine has started the preparation of 11 coal mines and five coal processing plants for sale. According to the effective legislation, a precondition for privatization is the sale of all shares held by the government in the authorised capital of joint-stock companies founded in the process of privatisation or corporatisation of state-owned coal mining companies.

Closure of unfeasible coal mining companies, which requires:

- to complete the liquidation of unfeasible mines by 2016
- to streamline liquidation costs by making amendments to the effective legislation

03 Electricity Market

Electricity market overview

Ukraine's electricity grid is Europe's sixth largest, after Germany, France, Italy, Spain, and the United Kingdom. By capacity of thermal power plants, Ukraine ranks fifth. The installed capacity of Ukrainian TPPs in 2012 was 53.8 GW, up 481 MW YoY. Maximum capacity utilisation was 32.0 GW.

The system's reserve is estimated to be 30.0%, taking into account the need for retrofits. Ukraine's thermal power plants and combined heating/power plants account for 33.9 GW or 63.0%. Nuclear power plants have an aggregate capacity of 13.8 GW or 25.7% of the total capacity. The utilisation of nuclear energy is higher since nuclear power plants form the base load. The aggregate capacity of hydroelectric power plants and pumped storage power plants is 5.5 GW, 10.2% of the total.

The installed capacity of Ukrainian power plants has increased over the last three years due to unit upgrades at TPPs by private investors, and the commissioning of hydro, wind, and solar power plants. According to experts, the share of state-run power plants in electricity generation dropped from 84.0% in 2011 to 68.0% in 2012. This was due to the privatisation of generation companies Zakhidenergo and Dniproenergo in early 2012.

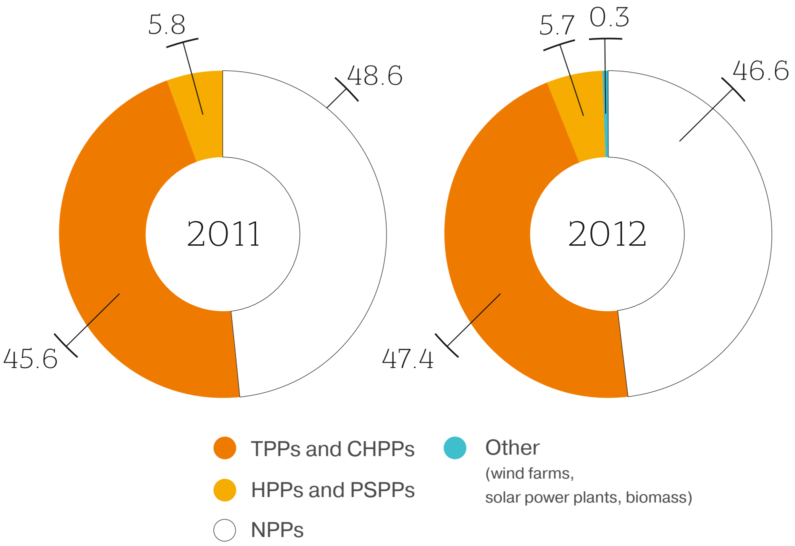
The government owns nuclear and hydro power plants and is so far not planning to sell them. In the thermal generation segment, there are six main companies, that produce 95.0% of the segment's electricity output. Four of them were privately owned in 2012: DTEK Skhidenergo, DTEK Dniproenergo, DTEK Zakhidenergo, and Kyivenergo. The privatisation of Centrenergo and Donbasenergo was postponed from 2012 to 2013.

Over 150 companies are involved in electricity generation, supply and distribution. About 200,000 people are employed by the sector. The average salary in the industry is one of the highest.

In December 2012, the salary reached USD 567.20 for employees of electricity, gas and water production and distribution companies, up 9.5% YoY. The salary level rose by 20.1% in 2011 (higher salaries can only be found in the mining industry).

Market players income from electricity generation and distribution amounted to USD 20.7 billion in 2012, an increase of 14.5% YoY. The share of this business in total industrial products sales amounted to 14.8% (vs. 12.9% in 2011).

Electricity generation in Ukraine*, %



* According to the Ministry of Energy and Coal Industry of Ukraine.

Electricity balance

Ukraine increased electricity generation by 2.1% to 198.1 billion kWh in 2012. The growth was attributed to electricity exports. Generation by nuclear power plants dropped by 0.1% to 90.1 billion kWh. TPPs and CHPPs increased production by 4.5% to 88.6 billion kWh; generation by HPPs and PSPPs increased by 0.5% to 10.8 billion kWh.

Electricity generation by solar power plants amounted to 332.6 billion kWh, by wind farms to 238.7 billion kWh and by biomass power plants to 17.1 TWh.

Electricity consumption by households and industries remained unchanged year-on-year at 151.0 billion kWh and was higher than the indicators before the crisis in 2007–2008. Electricity consumption by the production and transportation sectors declined in 2012, while that by the agroindustrial complex, construction industry and households increased.

Electricity process losses in grid networks reached 21.4 billion kWh in 2012.

Installed capacities of power plants*, %

	2011	2012	Δ
Thermal power plants	51.2	51.0	-0.2
Nuclear power plants	25.9	25.7	-0.2
Combined heating/power plants and isolated generation plants	12.0	12.0	-
Hydro power plants	8.6	8.6	-
Pumped storage plants	1.6	1.6	-
Solar power plants	0.3	0.6	0.3
Wind farms	0.2	0.5	0.3

*According to National Energy Company Ukrenergo.

The indicator was up 1.1% YoY due to increased electricity generation. Measures to decrease the losses resulted in their share in electricity supply to the grid dropping to 11.8% in 2012 (vs. 11.9% in 2011).

Electricity exports from Ukraine grew by 51.4% YoY to 9.75 billion kWh in 2012 due to increased supplies to Belarus, Hungary, Poland and Moldova. In monetary terms, supplies reached USD 575.0 million (vs. USD 400.0 million in 2011). Belarus accounted for USD 231.0 billion of that amount and Hungary for USD 224.0 million. Electricity imported from Russia and Moldova amounted to USD 5.7 million (vs. USD 1.0 million from Russia in 2011).

Market model

Generated electricity is sold to the wholesale electricity market, which is operated by State Enterprise Energorynok. Ukraine intends to move from a unified customer model to a bilateral contract and balancing market from 2013 to 2016.

The only competitive segment of the electricity market today is the thermal generation segment, which operates on price bids based on the day-ahead principle. Energorynok prepares a merit order from the lowest to the highest costs based on the bids submitted per each TPP power unit and the consumption forecast for the following day. The power units with the lowest price bid are loaded first. The last satisfied bid determines the benchmark price for electricity for each TPP power unit included in the merit order. Thus, the generation companies with the lowest production cost get more loaded and the largest margins.

Tariffs for other electricity generation companies are set by the National Electricity Regulation Commission (NERC).

State Enterprise Energorynok calculates the hourly wholesale electricity price for electricity distribution companies, taking into account all administrative costs and subsidies. Electricity for end consumers is supplied at fixed prices set by NERC depending on the voltage class.

Independent suppliers that do not own any networks and are able to distribute electricity at an unregulated tariff are also present on the market. Their share in the market does not exceed 15.0%.

Electricity exports from Ukraine*, billion kWh

	2011	2012	Δ, %
Belarus	2.56	4.05	58.2
Hungary	2.47	3.60	45.7
Moldova	0.67	0.85	26.9
Slovakia	0.59	0.10	-83.1
Russia	0.06	0.00	-100.0
Poland	0.06	1.01	1583.3
Romania	0.03	0.16	433.3
Total	**6.44**	**9.75**	**51.4**

* According to the Ministry of Energy and Coal Industry of Ukraine.

Electricity tariffs for households

Common tariffs for consumers of the first voltage class were increased by 6.5% YoY to 74.4 kopiyok per 1 kWh in 2012; tariffs for consumers of the second class voltage were raised by 5.6% YoY to 94.7 kopiyok per 1 kWh. The previous year, common tariffs for consumers of the first voltage class rose by 16.8% YoY to 67.1 kopiyok per 1 kWh; tariffs for consumers of the second class voltage increased by 21.6% YoY to 87.6 kopiyok per 1 kWh.

Preferential tariffs are applied to the following categories:

- households
- companies that supply electricity for street lighting
- public electric transportation units
- coal producing companies
- recreation centers for children: Artek and Moloda Hvardiia
- facilities that implement innovative projects.

The level of subsidies for these categories totalled USD 4.3 billion in 2012 which is an increase of USD 800 million from 2011. Last year, 29.2% of the wholesale market price for electricity was attributed to subsidies. The level of subsidies also grew in 2011, by USD 627 million YoY.

Electricity consumption in Ukraine*, billion kWh

Consumers	2011	2012	Δ, bln kWh	Δ, %	2011, share, %	2012, share, %
Electricity consumption (gross)	**187,671.7**	**188,436.1**	**764.4**	**0.4**		
Electricity consumption (net), including:	150,768.3	150,721.0	-47.3	-0.03	100.0	100.0
1. Industry, including:	73,001.3	70,761.4	-2,239.9	-3.1	48.4	46.9
Iron and steel	37,733.7	36,936.0	-797.7	-2.1	25.0	24.5
Fuel	9,519.8	8,935.5	-584.3	-6.1	6.3	5.9
Machine building	6,399.7	5,833.6	-566.1	-8.8	4.3	3.9
Chemical and oil & gas	6,248.5	5,993.0	-255.5	-4.1	4.1	4.0
Food and processing	4,648.6	4,713.8	65.2	1.4	3.1	3.1
Construction materials	2,705.5	2,530.4	-175.1	-6.5	1.8	1.7
Other	5,745.5	5,819.1	73.6	1.3	3.8	3.8
2. Agricultural consumers	3,547.8	3,830.9	283.1	8.0	2.3	2.5
3. Transport	9,887.1	9,279.1	-608	-6.1	6.6	6.2
4. Construction	954.7	1,013.4	58.7	6.1	0.6	0.7
5. Utilities	18,334.9	18,508.1	173.2	0.9	12.2	12.3
6. Other non-industrial consumers	6,583.0	7,061.4	478.4	7.3	4.4	4.7
7. Households	38,459.5	40,266.7	1,807.2	4.7	25.5	26.7

* According to National Energy Company Ukrenergo and the Ministry of Energy and Coal Industry of Ukraine

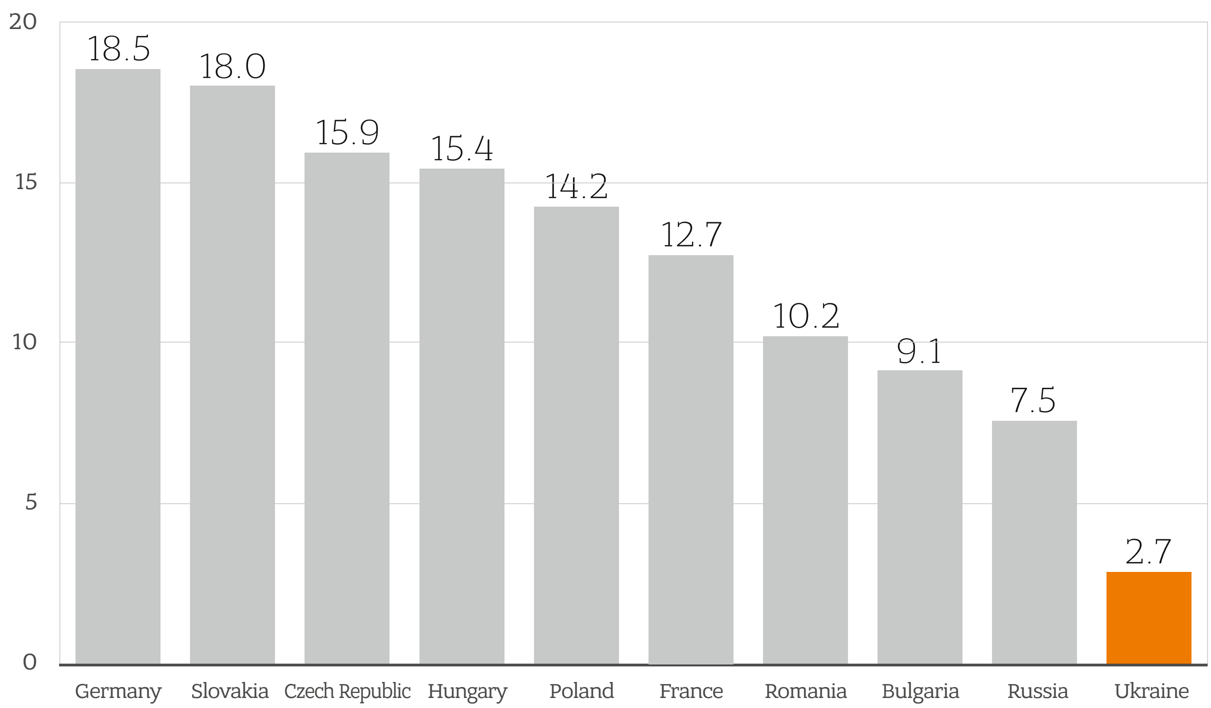
In 2011, NERC introduced differentiated tariffs for households:

- for electricity consumption up to 150 kWh per month (250 kWh per month for consumers using electric cooking appliances and electric heaters)
- for electricity consumption above 150 kWh per month (250 kWh per month for consumers using electric cooking appliances and electric heaters).

The tariff for consumers of the first category increased by 15.0% in April 2011. The tariff increase for consumers of the second category was implemented in two stages: 30.0% in February 2011 and an additional 15.0% in April 2011. The tariff for consumers of the first category amounts to 2.9 US cents per 1 kWh net of VAT (2.2 US cents per 1 kWh for consumers using electric cooking appliances and electric heaters). The tariff for consumers of the second category shall be paid at a rate of 3.8 US cents per 1 kWh (2.9 US cents per 1 kWh for consumers using electric cooking appliances and electric heaters).

The tariffs for households were not revised in 2012. At the same time, NERC introduced a separate tariff for wealthy households who consume over 800 kWh per month in May 2012 of 10 US cents per 1 kWh.

Retail tariffs for households*, US cents per kWh



* According to DTEK, as of November 2012

53.8 GW

Installed capacity of Ukraine’s power plants in 2012


D.TEK

Electricity distribution

Methodological approaches to electricity distribution and sales tariff setting via local networks and the tariffs for supply to power supplying companies in 2012 remained unchanged:

- a "cost plus" method was applied to most companies
- an approach based on the principles of regulation by the rate of profit with certain incentives was applied to five regional distribution companies that were privatised in 2001 by the strategic investors (Kyivoblenergo, Rivneoblenergo, Kirovohradoblenergo, Sevastopoloblenergo, and Zhytomyroblenergo).

In 2012, NERC revised the tariffs for electricity distribution and supply several times, mainly due to average salary growth. Within a year, the tariff for consumers of the first class increased by 4.0% to 2.4 US cents per MWh; the tariff for consumers of the second class grew by 7.6% to 15.4 US cents per MWh. The supply tariff came up by 9.4% to 0.66 US cents per MWh.

Industry regulation

The main state body regulating the energy industry of Ukraine is the National Electricity Regulatory Commission (NERC).

The NERC is authorized to:

- participate in the development of state policy for wholesale electricity market development and functioning
- regulate natural monopolies' activity in the energy industry
- carry out a price and tariff setting policy and licensing
- protect electricity consumers' rights.

In 2012, implementation of the presidential economic reform program "Prosperous Society, Competitive Economy, and Efficient Government" for 2010–2014 continued.

Key events in 2012

- The draft Law "On Operating Principles of the Electricity Market of Ukraine" was registered and passed in the first reading in Parliament. The law sets the main principles of wholesale electricity market liberalization and establishment of an efficient competitive environment in the market, taking into account the general requirements of EU legislation.
- The Law of Ukraine "On Natural Monopolies" was amended. The law envisages incentive tariff regulation as well as a one-time revaluation of the assets with the purpose of determining their regulatory basis.
- As part its work to implement provisions of that law, the State Property Fund of Ukraine developed a draft methodology for evaluating the assets of natural monopolies. The draft was published in October 2012 and is currently being updated and agreed on. The new methodology was used for the revaluation of the assets of four pilot regional electricity distribution companies in 2012 (including DTEK Dniprooblenergo).
- Legislation was amended to regulate relations between electricity distribution companies and consumers in the process of their connection to the electricity networks, to ensure tariff setting transparency, to determine the sources of financing for the investment programmes of

electricity distribution companies, and to settle specific issues dealing with connections to networks, i.e. green energy facilities.

- Privatisation of energy companies continued. In January–October 2012, the following stakes were sold via tenders:
  - 45.103% stake in Zakhidenergo for UAH 1.93 billion
  - 40.061% stake in Donetskoblenergo for UAH 467.6 million
  - 45.0% stake in Chernovtsyoblenergo for UAH 70.0 million
  - 50.0% stake in Vinnytsiaoblenergo for UAH 176.2 million
  - 50.0% stake in Zakarpattiaoblenergo for UAH 140.7 million
  - 25.0% stake in Dniproenergo for UAH 1.18 million
  - 50.0% stake in Dniprooblenergo for UAH 660.1 million
  - 45.0% stake at Krymenergo for UAH 256.1 million
  - 94.48% stake in Kharkivska CHPP-5 for UAH 339.9 million.

DTEK purchased the stakes in Zakhidenergo, Donetskoblenergo, Dniproenergo, Dniprooblenergo and Krymenergo.

Besides the aforementioned events, the following changes took place in the legislative framework regulating the energy sector of Ukraine in 2012:

- Changes to the Law "On Prices and Price-Setting" were adopted. This Law determines the basis of the pricing policy, and regulates the process of setting, approving and applying prices. The Law clearly defines the price-setting powers of the Cabinet of Ministers of Ukraine, and executive and local governance bodies.

- Changes were introduced to the Law of Ukraine "On the Electricity Industry" aimed at ensuring reliable (uninterrupted) electricity supply to consumers and infrastructure investments. The objective was to bring Ukraine's legislation in compliance with the requirements of Directive 2005/89/EC.

- Approval of the Law "On the Location, Design and Construction of Power Units No. 3 and No. 4 of the Khmelnitsk Nuclear Power Plant," which determines the site for the power units' location, the number of reactors, their types and characteristics, as well as general requirements to the design and construction of the power units.

- Adoption of the following Laws of Ukraine: "On Ratifying the Agreement between Ukraine and the European Investment Bank ('Construction of the 750 kV Zaporizska NPP — Kakhovka overhead transmission line' project);" "On Ratifying the Facility Agreement ('Rehabilitation of Hydro Power Plants' project) between Ukraine and the European Bank of Reconstruction and Development;" and "On Ratifying the Agreement between the Cabinet of Ministers of Ukraine and the Government of the Federal Republic of Germany on Financial Cooperation, 'Improving the Efficiency of Electricity Transmission (Substations Upgrading)' project."

Changes were introduced to the Law of Ukraine "On the Electricity Industry" regarding incentives for renewable electricity generation.

Electricity sector reforms in Ukraine in 2012

The preparation of electricity market reforms continued in 2012. The draft Law "On the Operating Principles of the Electricity Market of Ukraine" was registered and accepted during the first reading in June 2012. It was designed taking into account the 2012 National Action Plan on implementing the presidential economic reform program, "Prosperous Society, Competitive Economy, and Efficient Government" for 2012–2014 and the Protocol on Ukraine's Accession to the Energy Community Treaty.

The draft Law lays the foundation for liberalisation of the wholesale electricity market and the creation of an efficient competitive environment in the electricity market, taking into account the main requirements of Directive 2003/54/EC concerning common rules for the internal market in electricity and Regulation 1228/2003 regarding access to the network for cross-border exchanges. These requirements include:

- free choice of electricity suppliers by consumers
- equal rights for purchasing and selling electricity, and equal access to main, cross-border and/or local electric networks
- functioning of competitive electricity market segments: bilateral contracts market, day-ahead market, balancing market, ancillary services market, retail electricity market
- ensuring uninterrupted electricity supply to consumers by regulating the activities of guaranteed electricity suppliers
- providing state guarantees for the development of electricity generation from renewable energy sources
- ensuring the gradual abandonment of cross-subsidies.

The draft Law complies with the obligations Ukraine undertook when it joined the European Energy Community regarding EU legislation in the energy sector.

The Secretariat of the European Energy Community supported the draft Law and notes that the document is the key achievement in the liberalisation of the energy sector Ukraine has had during its years of membership in the organisation.

Objectives and challenges of the energy sector in 2013

- Improvement of Ukrainian electricity market efficiency:
  - to prepare and approve a procedure for the functioning of the electricity market during the transition period
  - to draft the Law of Ukraine "On the Specifics of Paying Debts for Electricity Accumulated to the Wholesale Electricity Market"
  - to hold a tender to design software and hardware for the functioning of the balancing market
  - to adopt acts on choosing/establishing/reorganising companies to perform the functions of electricity transmission entities, system operators, settlements administrators, commercial metering administrators and on the reorganisation of the wholesale electricity supplier and setting up a day-ahead market operator on its basis
  - to approve the fundamental documents of the new market: electricity market rules, rules of the day-ahead electricity market, code of electric networks, code of commercial electricity metering; to approve the terms and conditions and rules of centralised dispatching of the united energy system of Ukraine; and to introduce amendments to licensing conditions.
- Introduction of incentive regulation for regional electricity distribution companies (Oblenergos):

- to arrange an independent assessment of the natural monopolies in the electricity sector to determine the regulatory basis for the assets
- to approve the long-term parameters of tariff regulation
- to approve the procedure for determining the overall and individual efficiency indicators for the operational controlled costs of licensees.

- Preparation and introduction of regulatory acts for the gradual reduction of cross-subsidies in the energy sector (including for coal-mining companies, street lighting for populated areas, and for households).

- Privatisation of energy companies and improved efficiency of state-owned energy company management:
  - to adopt regulatory acts on the privatisation of thermal electricity generation and distribution companies
  - to arrange the sale of stakes in electricity distribution companies to be privatized in 2013
  - to corporatize the state-owned company NEC Ukrenergo.

- Performance of Ukraine's obligations under the Energy Community Treaty.

- Connecting the United Energy System of Ukraine to the European Network of Transmission System Operators for Electricity (ENTSO-E).

Updating of the Energy Strategy to 2030

The Energy Strategy of Ukraine to 2030 was updated in 2012. The draft document has passed the stage of public discussions and is awaiting final approval by ministries and departments.

The Energy Strategy implementation will help achieve the following key objectives:

- satisfying the growing demand for electricity by upgrading TPPs, extending the service life of NPPs, investing considerably in the modernisation and expansion of the country's utilities, and after 2018 — by introducing new generation capacity

- increasing gas extraction to 40–45 billion cubic meters per year and satisfying 90% of domestic demand for gas, subject to the finalisation of the license issuing procedure, production sharing agreements, taxation and active efforts to attract investors

- raising cost-effective thermal coal production to 75 million tonnes per year, and coking coal — to 40 million tonnes per year due to maximum privatisation and enhancement of mines' efficiency, and further closure of non-privatised loss-making mining companies

- considerably reducing state expenses to subsidize the industries, while simultaneously raising the efficiency of fuel and energy sector companies

- introducing complex programmes to raise energy efficiency and reduce specific energy resource consumption in the economy by 30–35% by 2030, which will considerably reduce the load upon the economy, enhance the energy security of the country and competitiveness of its GDP

- attract necessary investments (about USD 200 billion) as a result of energy market liberalisation, a considerable reduction in cross-subsidies, and the creation of conditions for receiving fair returns on invested capital.

Performance Results

01 Operations

DTEK's enterprises mined 39.7 million tonnes and processed 27.7 million tonnes of coal in 2012. The volume of electricity supplied by its generation companies was 51.4 billion kWh, while the volume of electricity bought from the wholesale electricity market totaled 53.9 billion kWh. DTEK's production indicators increased significantly in 2012 due to the acquisition of new companies and the implementation of upgrade programmes.

From December 2011 to July 2012, DTEK incorporated fifteen mines, seven processing plants, seven power plants, three electricity distribution companies and Kyivenergo. The Company continues to integrate the acquired enterprises and bring their processes in line with DTEK's uniform business standards, with a special focus on industrial safety and business ethics.

Key production indicators*

Indicators	Unit	2011	2012	Δ	Δ, %
Coal production	ths tonnes	24,001.4	39, 693.3	15,691.9	65.4%
Coal processing:					
ROM coal processing	ths tonnes	13,690.0	27,692.3	14,002.3	102.3%
Concentrate output	ths tonnes	8,729.8	18,311.1	9,581.3	109.8%
Electricity generation	mln kWh	17,135.1	51,382.7	34,247.6	199.9%
Electricity purchased from WEM	mln kWh	14,066.1	53,918.4	39,852.3	283.3%
Electricity exports	mln kWh	5,091.9	9,707,0	4,615.1	90.6%
Coal exports	ths tonnes	3,396.0	2,745.1	-650.9	-19.2%
Coal imports	ths tonnes	569.0	1.4	-567.6	-99.8%

* Since 2012, DTEK's production indicators include companies from the moment of their acquisition and does not include associated companies' results for previous periods. Thus, in the 2012 annual report:

1)˜2011 production indicators include the performance of DTEK Rovenkyantharcite and DTEK Sverdlovanthracite for December 2011 and do not include the results of DTEK Dniproenergo, DTEK Zakhidenergo, Kyivenergo, DTEK Donetskoblenergo, DTEK Dniprooblenergo and DTEK Krymenergo.

2)˜2012 indicators include the results of all companies since January 2012, except for Mine Bilozerska (since March 2012), DTEK Dniprooblenergo (since April 2012), DTEK Krymenergo (since May 2012), and Public Mining Corporation Obukhovskaya, Don-Anthracite and Sulinanthracite (since July 2012).

Commercial coal reserves by grade, as of 31 December 2012

Coal grade	Commercial reserves, mln tonnes	Production capacity, mln tonnes	Available reserves, years
D/DG/G	1,092.3	17.2	63
A	496.5	11.9	42
T	110.9	2.6	43
Total	**1,699.7**	**31.7**	**54**

Structure of coal mined in 2012, ths tonnes

Coal grade	Total	including	
		thermal	coking
G/DG	20,775.0	19,928.6	846.4
A	14,412.1	14,412.1	-
T	4,506.4	4,506.4	-
Total	**39,693.5**	**38,847.1**	**846.4**

G – gaseous coal, DG – long flame gaseous coal, A – anthracite coal, T – lean coal.

Coal production and processing

DTEK's mines increased coal production by 65.4% YoY in 2012. Coal processing and concentrate output both increased more than twofold to 27.7 million tonnes and 18.3 million tonnes, respectively.

Growth drivers:

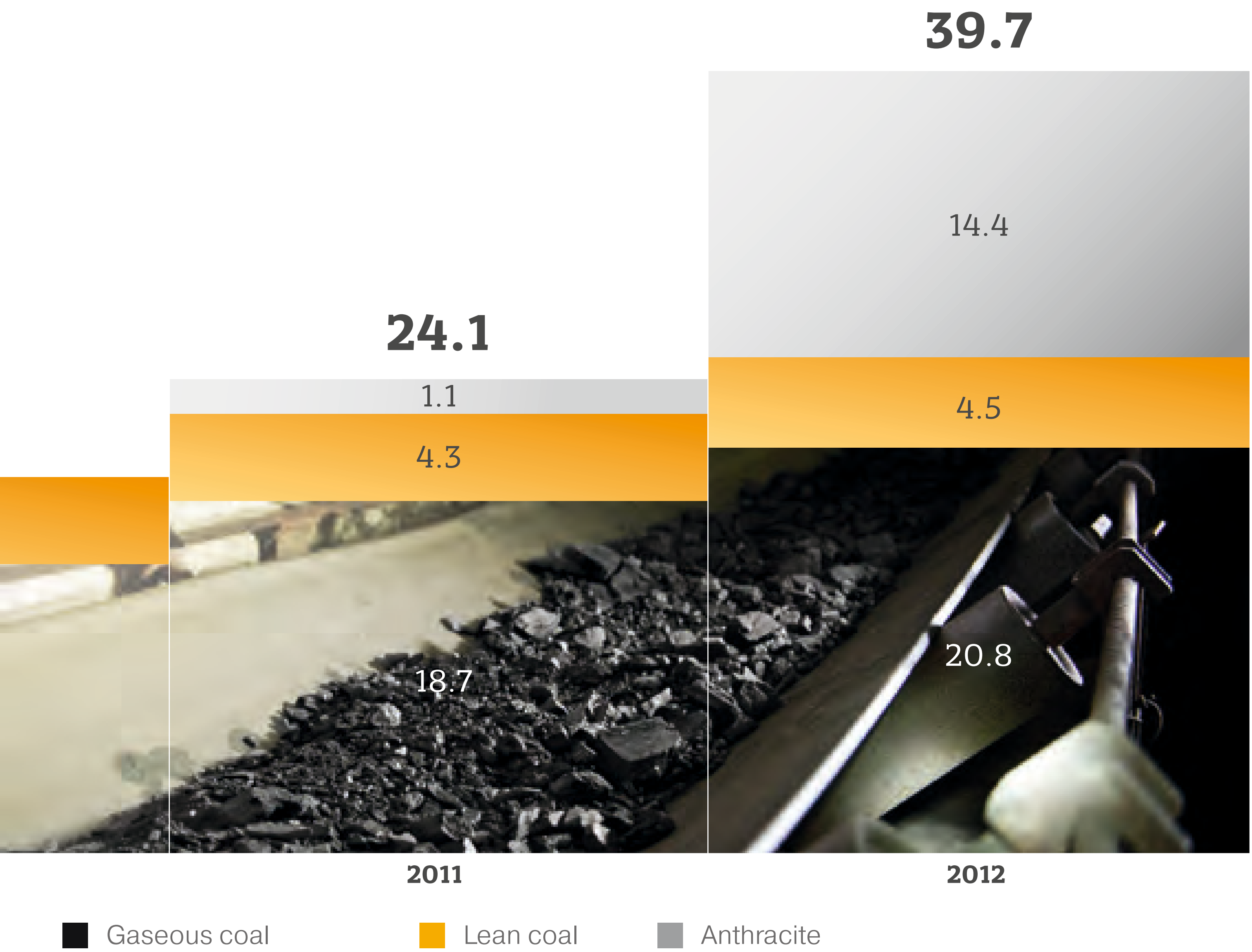
- Concessionary use of new coal assets — DTEK Rovenkyanthracite and DTEK Sverdlovanthracite (11 mines) since December 2011.
- Acquisition of Russian enterprises (three mines and one processing plant) in July 2012.
- Stable growth of annual coal production at DTEK Pavlogradugol mines and DTEK Mine Komsomolets Donbassa (10.3% and 5.9%, respectively). DTEK Pavlogradugol's coal output reached a record high of 17 million tonnes.

Coal production, mln tonnes

	2010		2011		2012	
	K	E	K	E	K	E
Gaseous coal	1.1	8.1	0.9	11.8	0.6	13.7
Lean coal	-	3.1	-	3.2	-	3.3
Anthracite coal	-	-	-	0.8	-	9.8

E – thermal coal, K – coking coal.

Coal production, mln tonnes



Electricity Generation

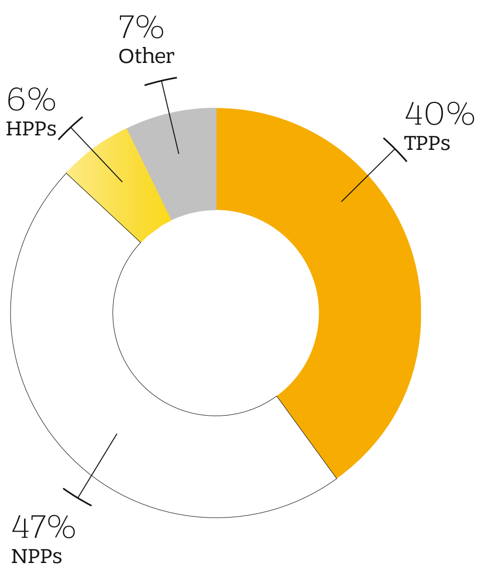
DTEK's generation companies doubled their electricity output to 51.4 billion kWh in 2012.

Growth drivers:

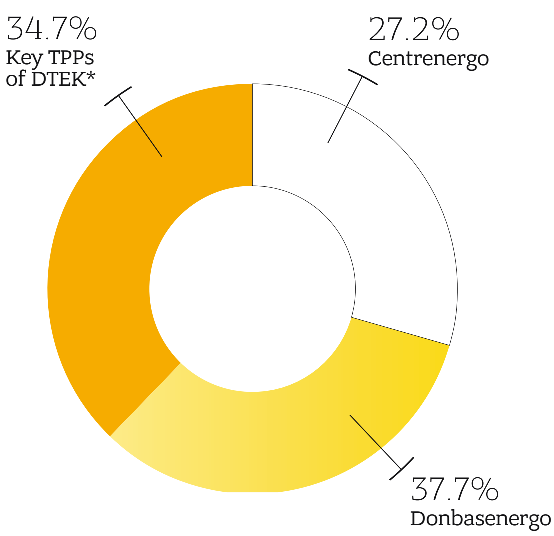
- Acquisition of new enterprises: three TPPs of DTEK Zakhidenergo and Myronivska TPP of DTEK Donetskoblenergo. The Company has been consolidating DTEK Dniproenergo's performance since 2012.
- Higher electricity exports resulting in higher electricity generation, primarily by DTEK Dobrotvirska TPP and DTEK Burshtynska TPP.

DTEK's production facilities consist of nine thermal power plants: Zuivska, Kurakhovska, Luhanska, Zaporizka, Kryvorizka, Prydniprovska, Burshtynska, Dobrotvirska, and Ladyzhynska TPPs. The power plants are located in Donetsk, Luhansk, Dnipropetrovsk, Zaporizhia, Lviv, Ivano-Frankivsk and Vinnytsia regions. Myronivska TPP of DTEK Donetskoblenergo and two combined heating and power plants (CHPPs) of Kyivenergo are also part of DTEK.

Electricity generation in Ukraine,
%, 2012



Installed capacity utilization rate (ICUR) of thermal generation plants of Ukraine,
%, 2012



* net of CHPPs of Kyivenergo and Myronivska TPP of DTEK Donetskoblenergo

Key operational indicators of DTEK TPPs, mln kWh

Company	Indicators	2011	2012	Δ
Kurakhovska TPP	Electricity output	6,656.6	6,006.0	-650.6
	Auxiliary energy consumption, %	10.3	10.6	0.3
	Electricity supply	5,969.6	5,370.8	-598.8
	ICUR, %	51.1	45.8	-5.3
Zuivska TPP	Electricity output	6,728.3	5,271.7	-1,456.6
	Auxiliary energy consumption, %	7.1	7.5	0.4
	Electricity supply	6,253.8	4,875.3	-1,378.5
	ICUR, %	61.7	48.2	-13.5
Luhanska TPP	Electricity output	5,509.8	6,095.6	585.8
	Auxiliary energy consumption, %	10.8	10.9	0.1
	Electricity supply	4,912.5	5,428.2	515.7
	ICUR, %	44.1	48.3	4.2
Prydniprovska TPP	Electricity output	4,076.7	4,084.1	7.4
	Auxiliary energy consumption, %	10.7	11.1	0.4
	Electricity supply	3,640.1	3,629.0	-11.1
	ICUR, %	38.9	38.9	0.0
Zaporizka TPP	Electricity output	4,908.9	4,710.4	-198.5
	Auxiliary energy consumption, %	7.6	8.1	0.5
	Electricity supply	4,535.0	4,330.7	-204.3
	ICUR, %	46.9	43.9	-3.0
Kryvorizka TPP	Electricity output	8,299.4	8,896.5	597.1
	Auxiliary energy consumption, %	7.6	7.7	0.1
	Electricity supply	7,668.9	8,210.4	541.5
	ICUR, %	42.0	44.9	2.9
Burshtynska TPP	Electricity output	8,658.6	9,632.0	973.4
	Auxiliary energy consumption, %	9.7	9.8	0.1
	Electricity supply	7,818.0	8,691.3	873.3
	ICUR, %	43.0	47.6	4.6
Dobrotvirska TPP	Electricity output	1,790.1	2,346.3	556.2
	Auxiliary energy consumption, %	10.5	9,6	-0,9
	Electricity supply	1 602,4	2,120.2	517.8
	ICUR, %	38.9	53.4	14.5
Ladyzhynska TPP	Electricity output	3,508.0	4,575.8	1,067.8
	Auxiliary energy consumption, %	8.3	7.9	-0.4
	Electricity supply	3,215.1	4,215.3	1,000.2
	ICUR, %	22.2	28.9	6.7

Production capacities of DTEK power plants, as of 31 December 2012

Unit No.	Installed capacity, MW	Date of commissioning/last major overhaul or retrofit	Hours in service	Major overhaul/retrofit
DTEK Zuivska TPP				
1	325	1982/2010	179,234	Retrofit in 2008–2010 increased the installed capacity by 25 MW
2	320	1982/2008	175,345	Retrofit in 2007–2009 increased the installed capacity by 20 MW
3	300	1986/2006	159,322	Retrofit in 2011–2014 to increase the installed capacity by 25 MW.
4	300	1988/2013	143,929	Retrofit in 2010–2013 to increase the installed capacity by 25 MW
Total	**1,245**			
DTEK Kurakhovska TPP				
3	200	1972/2007	262,136	Retrofit in 2015–2017 to increase the installed capacity by 15 MW
4	210	1973/2004	242,012	Retrofit in 2014–2015 to increase the installed capacity by 15 MW
5	222	1973/2008	224,785	Retrofit in 2007–2009 increased the installed capacity by 12 MW
6	210	1973/2005	218,474	Retrofit in 2011–2013 to increase the installed capacity by 15 MW
7	225	1974/2010	230,322	Retrofit in 2008–2010 increased the installed capacity by 15 MW
8	225	1974/2012	226,890	Retrofit in 2010–2012 to increase the installed capacity by 15 MW
9	210	1975/2006	231,847	Retrofit in 2012–2014 to increase the installed capacity by 15 MW
Total	**1,502**			
DTEK Luhanska TPP				
9	200	1962/2007	308,563	Retrofit in 2015–2016 to increase the installed capacity by 10 MW
10	210	1962/2012	294,245	Retrofit in 2008–2012 to increase the installed capacity by 35 MW
11	200	1963/2004	307,421	Retrofit in 2014 to increase the installed capacity by 10 MW
12	-		199,661	Mothballed. It is physically impossible to generate electricity at this unit
13	175	1968/2003	274,033	Retrofit in 2010–2013 to increase the installed capacity by 35MW
14	200	1968/2006	268,419	Retrofit in 2014–2016 to increase the installed capacity by 10 MW
15	200	1969/2005	277,624	Retrofit in 2012–2015 to increase the installed capacity by 10 MW
Total	**1,185**			

Unit No.	Installed capacity, MW	Date of commissioning/last major overhaul or retrofit	Hours in service	Major overhaul/retrofit
DTEK Zaporizka TPP				
1	300	1972/2012	256,223	Retrofit in 2011–2012 to increase the installed capacity by 30 MW
2	300	1972/2006	251,175	Retrofit in 2016–2017 to increase the installed capacity by 30 MW
3	300	1972/1999	257,639	Retrofit in 2014–2015 to increase the installed capacity by 30 MW
4	300	1973/2002	237,717	Retrofit in 2015–2016 to increase the installed capacity by 30 MW
5	800	1975/1995	148,989	Oil and gas power unit
6	-	1976/1993	127,365	Mothballed
7	800	1977/1992	133,184	Oil and gas power unit
Total	**2,800**			
DTEK Kryvorizka TPP				
1	282	1965/1993	296,135	Retrofit in 2013–2014 to increase the installed capacity by 33 MW
2	282	1966/1998	295,559	Retrofit in 2018 to increase the installed capacity by 33 MW
3	282	1966/2012	254,052	Retrofit in 2007–2012 to increase the installed capacity by 18 MW
4	282	1968/2004	232,955	Retrofit in 2017 to increase the installed capacity by 33 MW
5	282	1968/1994	278,420	Retrofit in 2014–2015 to increase the installed capacity by 33 MW
6	282	1969/1995	240,473	Retrofit in 2015–2016 to increase the installed capacity by 33 MW
7	-	1970/1991	190,390	No retrofit is planned (dismantled)
8	282	1970/1996	248,582	No retrofit is planned (dismantled)
9	-	1972/1994	178,750	Retrofit in 2012–2013 to increase the installed capacity by 33 MW
10	282	1973/1992	189,679	No retrofit is planned (dismantled)
Total	**2,256**			
DTEK Prydniprovska TPP				
7	150	1959/2000	320,194	No retrofit is planned (dismantled)
8	150	1960/2007	339,359	No retrofit is planned (dismantled)
9	150	1960/2012	305,089	Retrofit in 2008–2012. No installed capacity increase is planned
10	150	1961/2006	317,823	No retrofit is planned (dismantled)
11	310	1963/2001	254,850	Retrofit in 2017–2018 to increase the installed capacity by 5 MW
12	-	1964/1990	221,579	No retrofit is planned (dismantled)
13	285	1965/1997	289,673	Retrofit in 2016–2017 to increase the installed capacity by 30 MW
14	-	1966/1993	246,384	Retrofit in 2012–2016 to increase the installed capacity by 30MW
Total	**1,195**			

Unit No.	Installed capacity, MW	Date of commissioning/last major overhaul or retrofit	Hours in service	Major overhaul/retrofit
DTEK Burshtynska TPP				
1	195	1965/2010	274,530	Major overhaul in 2016. Retrofit in 2020–2021 to increase the installed capacity by 15 MW
2	185	1965/2008	258,574	Major overhaul in 2014. Retrofit in 2019–2020 to increase the installed capacity by 25 MW
3	185	1966/2008	272,030	Major overhaul in 2013.
4	195	1966/2007	290,639	Major overhaul in 2013. Retrofit in 2018–2019 to increase the installed capacity by 15 MW
5	195	1967/1998	286,117	Retrofit in 2012–2013 to increase the installed capacity by 13 MW. Major overhaul in 2018.
6	185	1967/2010	284,298	Major overhaul in 2015.
7	206	1968/2012	267,637	Retrofit in 2007–2012 to increase the installed capacity by 21 MW
8	195	1968/2009	287,294	Retrofit in 2016–2017 to increase the installed capacity by 15 MW
9	195	1968/2006	269,494	Retrofit in 2015–2016 to increase the installed capacity by 15 MW
10	195	1969/2004	281,215	Retrofit in 2014–2015 to increase the installed capacity by 15 MW
11	195	1969/2011	244,988	Retrofit in 2017–2018 to increase the installed capacity by 15 MW
12	195	1969/2012	238,615	Major overhaul in 2012. Retrofit in 2018–2019 to increase the installed capacity by 15 MW
Total	**2,321**			
DTEK Dobrotvirska TPP				
5	100	1960/2010	320,577	Major overhaul in 2015 and 2020
6	100	1961/2009	313,159	Major overhaul in 2014 and 2019
7	150	1963/2011	323,964	Retrofit in 2013–2014 to increase the installed capacity by 10 MW
8	150	1964/2007	304,379	Retrofit in 2012–2013 to increase the installed capacity by 10 MW
Total	**500**			
DTEK Ladyzhynska TPP				
1	300	1970/2007	231,201	Major overhaul in 2017 to increase the installed capacity by 10 MW
2	300	1971/2009	223,363	Retrofit in 2018 to increase the installed capacity by 10 MW
3	300	1971/2011	210,413	Retrofit in 2019 to increase the installed capacity by 10 MW
4	300	1971/2001	225,311	Retrofit in 2015 to increase the installed capacity by 25 MW
5	300	1971/2003	210,408	Retrofit in 2016 to increase the installed capacity by 10 MW
6	300	1971/2004	222,892	Retrofit in 2017 to increase the installed capacity by 10 MW
Total	**1,800**			

Key operating indicators of Kyivenergo's combined heat and power plants (CHPP-5, CHPP-6), mln kWh

Company	Indicators	2011	2012	Δ
CHPP-5	Electricity output	2,701.8	2.520.5	-181.3
	Electricity supply	2,355.7	2,189.5	-166.2
	Auxiliary energy consumption (for electricity generation), %	5.9	5.8	-0.1
	Auxiliary energy consumption (for heat generation), kWh /Gcal	44.6	44.3	-0.3
	ICUR, %	44.1	41.0	-3.1
CHPP-6	Electricity output	2,406.4	2,171.6	-234.8
	Electricity supply	2,126.1	1,915.2	-210.9
	Auxiliary energy consumption (for electricity generation), %	4.9	4.9	0,0
	Auxiliary energy consumption (for heat generation), kWh /Gcal	47.4	47.5	0.1
	ICUR, %	54.9	49.4	-5.5
Kyivenergo	Electricity output	5,108.2	4,692.2	-416
	Electricity supply	4,481.7	4,104.7	-377
	Auxiliary energy consumption	630.8	603.5	-27.3
	ICUR, %	48.6	44.5	-4.1

Fuel supply of DTEK's CHPPs

DTEK's power plants are mostly coal-fired plants. Coal accounts for 97.7% of the overall fuel balance of the Company's nine power plants: Zuivska, Kurakhovska, Zaporizka, Burshtynska, Dobritvirska and Ladyzhynska power plants use gaseous coal, Luhanska and Prydniprovska power plants use anthracite and lean coal, while Kryvorizka power plant burns lean coal. The share of other fuels — gas and oil fuel — in the fuel balance is 2.3%.

Actual consumption by DTEK's nine power plants of coal was 24.8 million tonnes in 2012. DTEK Trading was the main coal supplier with 96.3%. The remaining 3.7% were purchased from other suppliers.

Fuel supply of Kyivenergo

To generate electricity and heating, Kyivenergo consumed a total of 2,778.6 million cubic meters of natural gas in 2012.

The gas was purchased from Naftogaz of Ukraine.

Production capacities of Kyivenergo combined heat and power plants (CHPP-5, CHPP-6), as of 31 December 2012

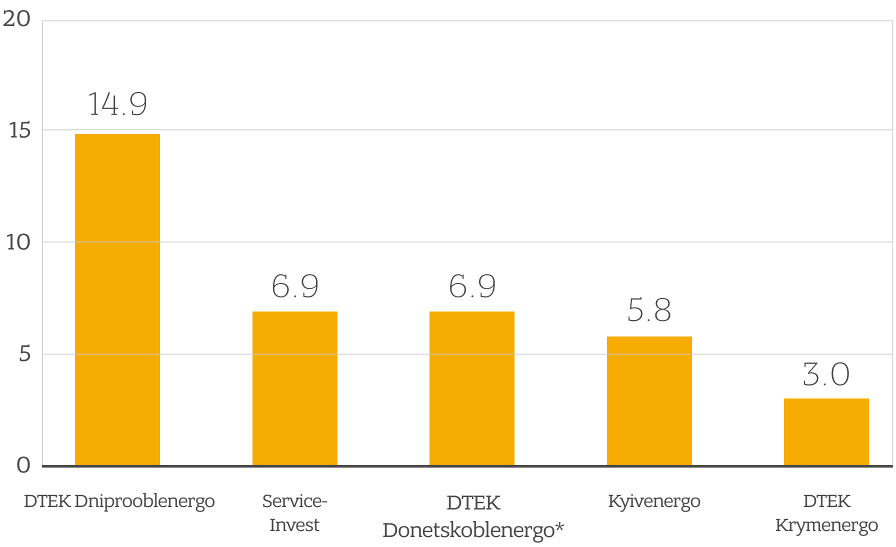
Unit No.	Installed capacity, MW	Date of commissioning/ last major overhaul or retrofit	Hours in service	Major overhaul/ retrofit
Electricity generation				
CHPP-5				
Unit 1	100	25.12.1971/2009	292,075	2009 / -
Unit 2	100	30.06.1972/2012	284,384	2012 / -
Unit 3	250	29.12.1974/2010	254,761	2010 / -
Unit 4	250	25.11.1976/2008	216,362	2008 / -
Total	**700**		**1,047,582**	
CHPP-6				
Unit 1	250	28.02.1982/2009	202,402	2009 / -
Unit 2	250	18.09.1984/2012	190,074	2012 / -
Total	**500**		**392,476**	
Heating generation				
CHPP-5 Kyivenergo — 1,874 Gcal/hour				
Unit 1	160	25.12.1971/2009	292,075	2009 / -
Unit 2	160	30.06.1972/2012	284,384	2012 / -
Unit 3	324	29.12.1974/2010	254,761	2010 / -
Unit 4	330	25.11.1976/2008	216,362	2008 / -
180 PTVM boiler 1	180	01.02.1972/2008	30,090	2008 / -
180 PTVM boiler 2	180	26.12.1972/1994	23,470	1994 / -
180 PTVM boiler 3	180	30.11.1977/1997	37,764	1997 / -
180 PTVM boiler 4	180	29.12.1992/-	43,635	- / -
180 PTVM boiler 5	180	29.12.1998/-	29,443	- / -
CHPP-6 Kyivenergo — 1,740 Gcal/hour				
Unit 1	330	28.02.1982/2009	202,402	2009 / -
Unit 2	330	18.09.1984/2012	190,074	2012 / -
180 KVGM boiler 1	180	30.06.1981/2010	50,175	2010 / -
180 KVGM boiler 2	180	28.09.1982/2011	46,773	2011 / -
180 KVGM boiler 3	180	22.12.1983/2011	43,271	2011 / -
180 KVGM boiler 4	180	21.12.1986/2010	42,067	2010 / -
180 KVGM boiler 5	180	25.12.1998/-	7,665	2012 / -
Alstom NAS-209-150 boiler 6	180	28.12.2004/-	4,360	- / -

Electricity distribution

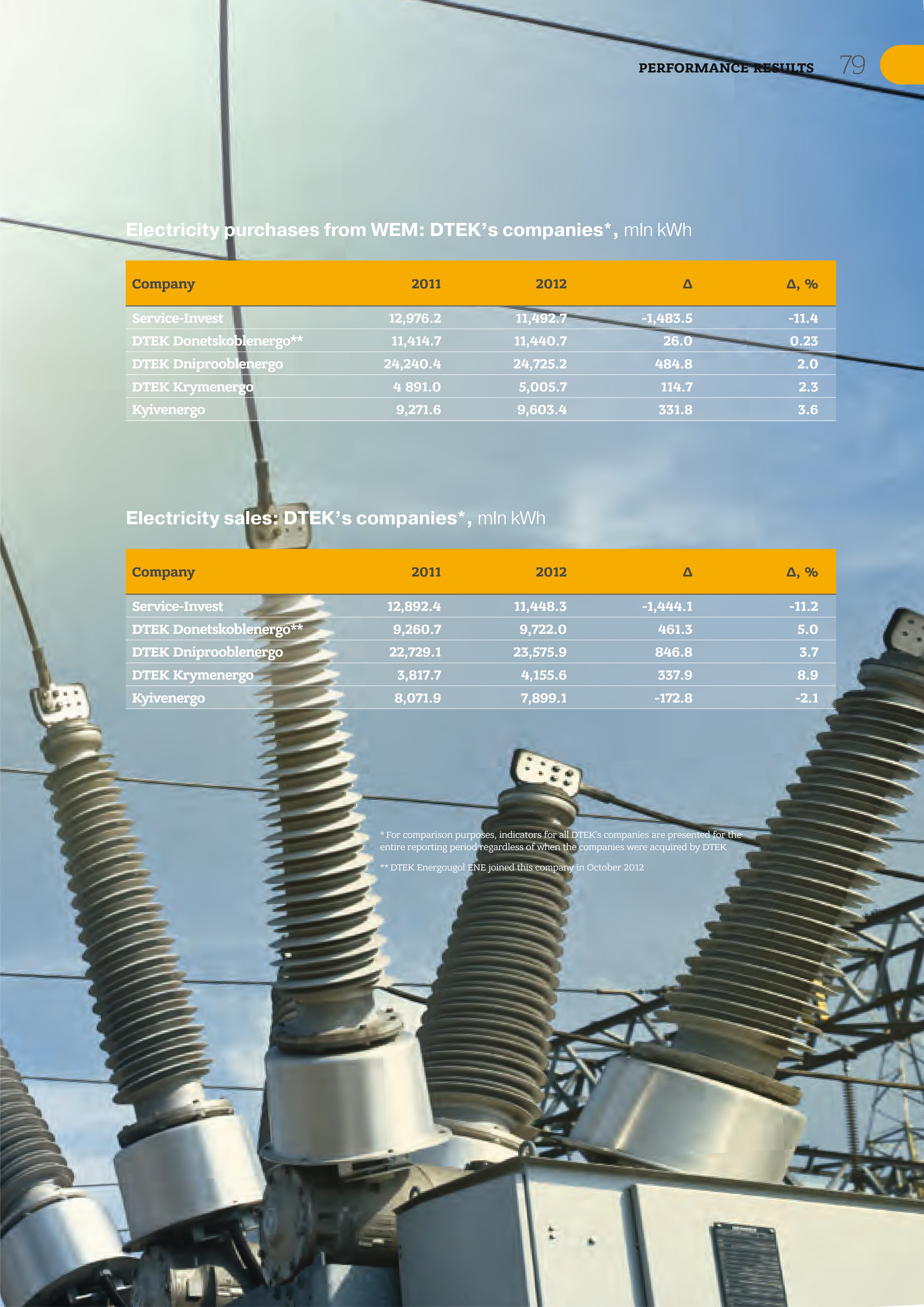
DTEK is Ukraine's largest purchaser of electricity for distribution to end consumers. DTEK's electricity distribution business is represented by five large companies: Service-Invest, DTEK Donetskoblenero (DTEK Energougol ENE), DTEK Dniprooblenergo, DTEK Krymenergo and Kyivenergo. The electricity networks of the companies are located in Donetsk and Dnipropetrovsk regions, Crimea and the capital — Kyiv. The overall length of DTEK's networks is 159,000 kilometers.

DTEK's electricity distribution companies purchase electricity from the wholesale market and supply it to end consumers — steel, coal and engineering companies, as well as organizations and households in Kyiv. DTEK's electricity distribution companies service over five million consumers, both businesses and individual clients. DTEK purchased a total of 53.9 billion kWh from the wholesale energy market in 2012 (the indicators of DTEK Dniprooblenergo and DTEK Krymenergo are included starting from April and May, respectively).

DTEK's share in purchases from WEM, %



*DTEK Energougol ENE joined the company in October 2012



Electricity purchases from WEM: DTEK's companies*, mln kWh

Company	2011	2012	Δ	Δ, %
Service-Invest	12,976.2	11,492.7	-1,483.5	-11.4
DTEK Donetskoblenergo**	11,414.7	11,440.7	26.0	0.23
DTEK Dniproblenergo	24,240.4	24,725.2	484.8	2.0
DTEK Krymenergo	4 891.0	5,005.7	114.7	2.3
Kyivenergo	9,271.6	9,603.4	331.8	3.6

Electricity sales: DTEK's companies*, mln kWh

Company	2011	2012	Δ	Δ, %
Service-Invest	12,892.4	11,448.3	-1,444.1	-11.2
DTEK Donetskoblenergo**	9,260.7	9,722.0	461.3	5.0
DTEK Dniproblenergo	22,729.1	23,575.9	846.8	3.7
DTEK Krymenergo	3,817.7	4,155.6	337.9	8.9
Kyivenergo	8,071.9	7,899.1	-172.8	-2.1

* For comparison purposes, indicators for all DTEK's companies are presented for the entire reporting period regardless of when the companies were acquired by DTEK

** DTEK Energougol ENE joined this company in October 2012

Electricity transmission: DTEK enterprises*, mln KWh

Enterprise	2011	2012	Δ	Δ, %
Service-Invest	13,040.8	12,123.1	-917.7	-7.0
DTEK Donetskoblenergo**	9,729.1	9,753.7	24.6	0.3
DTEK Dniprooblenergo	22,854.2	23,674.4	820.2	3.6
DTEK Krymenergo	4,224.5	4,548.3	323.8	7.7
Kyivenergo	8,088.8	7,928.9	-159.9	-2.0

* For comparison purposes, indicators for all DTEK enterprises are presented for the entire reporting period, regardless of when the companies were acquired by DTEK

** DTEK Donetskoblenergo includes DTEK Energougol ENE since October 2012

Actual transmission losses: major enterprises, %

Enterprise	2011	2012	Δ	Δ, %
Krymenergo	15.96%	15.75%	-0.21	-1.30%
DTEK Donetskoblenergo**	15.03%	14.41%	-0.62	-4.12%
Kyivenergo	10.31%	9.89%	-4.43	-4,13%
DTEK Dniproblenergo	4.77%	4.52%	-0.26	-5.35%
Service-Invest	1.01%	1.07%	-0.06	-5.87%
Average for DTEK	**9.18%**	**7.40%**	**-1.78**	**-19.39%**
Average for Ukraine	**11.94%**	**11.82%**	**-0.12**	**-1.01%**

** DTEK Donetskoblenergo includes DTEK Energougol ENE since October 2012.

Characteristics of DTEK electricity distribution companies

Service-Invest owns 2,719 km of transmission lines and 93 transformer substations with a total capacity of 2,708 MVA. The Company's networks are located in Donetsk and Dnipropetrovsk regions. Service-Invest provides services to 1,000 major industrial consumers in the Donbass region, approximately 8% of which are iron and steel works. In 2012, 69.3% of the Company's electricity supplies were provided to Metinvest Group enterprises and 7.9% to DTEK Group enterprises (mainly, DTEK Pavlogradugol). Ilyich Iron and Steel Works of Mariupol has been the major customer of Servis-Invest, consuming 17.6% of the company's total supplies in 2012.

DTEK Donetskoblenergo's transmission lines are 63,209 km long; the Company uses 13,112 transformer substations (369 of them TS 35–110 kV and 12,743 TS and DS with a capacity of 6–10 kV) with a total capacity of 12,291 MVA. The Company supplies electricity to consumers in Donetsk region. DTEK owns a 71.3% stake in DTEK Donetskoblenergo. The Company's wide consumer range includes households, which accounted for 41% of total power supplies in 2012.

The Company supplies electricity to budget and housing and communal services organizations, and utility companies, which accounted for 20% of total electricity supplies in 2012, and iron and steel works for 7.5%. State-owned water supply company Voda Donbassa, Elektrostal LLC and PJSC Yenakiieve Iron and Steel Works are the largest consumers of DTEK Donetskoblenergo.

DTEK Energougol ENE, which is included in DTEK Donetskoblenergo, operates 1,178 km of transmission lines, 11 transformer substations (35–110 kV) and 396 transformer and distribution substations (6–10 kV), with an aggregate capacity of 471 MVA. DTEK Energougol ENE's transmission lines are located in Donetsk region. The Company provides services to 26,800 end consumers, which include 1,600 legal entities and 25,200 households. The consumers are coal mining and engineering enterprises (approximately 60% of the total volume of electricity consumption in 2012), as well as enterprises in the light and food industry, housing and communal utilities, state-owned budget organizations and households in Donetsk region. DTEK Energougol ENE also provides specific services, including testing of power equipment, installation, setup and repair of the equipment, construction and setup activities.

DTEK Dniprooblenergo owns 47,181 km of transmission lines of all voltage classes and 12,466 transformer substations (66 of them with a capacity of 150 kV, 268 TS with a capacity of 35–110 kV and 12,132 TP and DS have a capacity of 6–10 kV). The aggregate capacity of its substations amounts to 11,034 MVA. It is Ukraine's largest electricity distribution company. DTEK Dniprooblenergo supplies electricity to consumers in Dnipropetrovsk region. DTEK owns 51.6% of DTEK Dniprooblenergo's shares. Industrial enterprises, 62% of which are iron and steel works, are the major clients of the company, accounting for 74% of its total supplies in 2012.

The company's major customers are also PJSC ArcelorMittal Kryvyi Rih, PJSC Nikopol Ferroalloy Plant, and Ingulets Iron Ore Enrichment Works.

DTEK Krymenergo operates 30,502 km of transmission lines and 8,988 substations with an aggregate capacity of 6,044 MVA in Crimea. DTEK's stake in DTEK Krymenergo is 57.6%. Approximately 65% of its total electricity supplies in 2012 were consumed by households, housing and communal utility enterprises and budget organizations in Crimea. The largest consumers of electricity supplied by DTEK Krymenergo are Krymvodokanal, Krymteplokomunenergo, and the Managing Office of the Severo-Krymskogo Canal.

The total length of **Kyivenergo's** overhead and cable electricity transmission lines is 11,742 km. The company operates 3,643 transformer substations (of which 61 TS have a capacity of 35–110 kV and 3,582 TS and DS — 6–10 kV). The aggregate capacity of the substations amounts to 6,929 MVA. Kyivenergo supplies electricity to consumers in Ukraine's capital. Kyiv households, utility enterprises and budget organizations, as well as industrial consumers and city electric transportation are among the major consumers of the electricity supplied by Kyivenergo.

02 Investments

Coal production and preparation

DTEK continued to implement comprehensive programs to modernize production in 2012.

The largest investment projects of 2012 included the continued construction of air supply wells at the Dobropilska Mine (with a total project budget of about USD 9.5 million). With coal bed gas content increasing, the construction of the well should facilitate the supply of the required amount of air to the mine to maintain the current intensive utilization of the breakage face, thus improving safety for miners. In addition, in 2012, DTEK resumed construction of two air supply shafts at the mines of DTEK Rovenkyanthracite. This project will make it possible to increase coal output by the Frunze Mine by 3.7 million tonnes in 2017–2021 and maintain the annual production capacity of Vakhrusheva Mine at the level of 1.25 million tonnes based on currently mined coal seams. Planned investments to complete the construction of the facilities amount to USD 42.6 million.

DTEK started implementation of a project to increase the throughput capacity of the coal winding machine at the Heroiv Kosmosu Mine in 2012. The modernization will make it possible to improve equipment reliability and increase its annual capacity to 3 million tonnes starting from 2015. The total investment will amount to USD 14.6 million.

The project to retrofit the water-slurry system of the coal preparation facility at DTEK Mine Komsomolets Donbassa was implemented in 2012. The objective was to increase total coal yield through processing fine-class coal. In addition, this will improve environmental performance through the reduction of waste in the rock dump due to the elimination of slurry water discharge into the settling pond. The total investment into the project was USD 14.6 million.

Another project started in 2012 was the commissioning of a new longwall at Public Mining Corporation Obukhovskaya (Russia). About USD 19.4 million will be allocated to procure new longwall equipment. Implementation of the project will make it possible to increase the coal output of the mine by up to 1.2 million tonnes in 2013.

Electricity generation

DTEK continued the full-scale equipment modernization of its electricity generation companies in 2012. The Company retrofitted Units No. 10 at Luhanska TPP, No. 8 at Kurakhovska TPP, No. 4 at Zuivska TPP, No. 9 at Prydniprovska TPP, No. 1 at Zaporizka TPP, No. 3 at Kryvorizka TPP and No. 7 at Burshtynska TPP. The total cost of these projects equalled over USD 325.4 million.

In 2012, modernization works were commenced at Units No. 6 at Kurakhovska TPP, No. 3 at Luhanska TPP, No. 5 at Burshtynska TPP and No. 8 at Dobrotvirska TPP.

As part of the modernization, almost all of the equipment of the power units will be upgraded or replaced: boilers, turbines, generators, and transformers; automated process control systems will be introduced. This makes it possible to extend the service life of the TPPs' equipment at least by 15 years and to raise the installed capacity and the units' flexible operating range. The upgrades are necessary for the reliable operation of the Ukrainian power system in general. Moreover, a reduction in specific fuel consumption is achieved, which positively influences the production cost of one kWh of electricity and the environmental impact characteristics of the TPPs.

Starting from 2012, all power units' electric precipitators will be reconstructed to reduce dust emissions to 50 mg/m^3 in accordance with Directive 2001/80/EU, which is several times less than the initial level.

In addition to dust emission requirements, Directive 2001/80/EU contains provisions for the emissions of SO_4 (400 mg/m^3) and NO_x (200 mg/m^3). Currently, the Company is selecting technologies for sulphur and nitrogen capture to be introduced at all of DTEK's TPPs. It is planned to build one of the first units with a total installed capacity of 800 MW at Burshtynska TPP as part of the replacement of four 200 MW units being decommissioned. In 2012, a grant of USD 0.6 million was provided to DTEK by the United States Trade and Development Agency (USTDA) to develop a feasibility study. The feasibility study will include the justification of the selected technologies (including the fuel base analysis and regulatory requirements of Ukraine and ENTSO-E).

As part of environmental protection programs, DTEK is building additional tiers at the ash dumps of its power plants, which makes it possible to increase their capacity without occupying new areas, to ensure the uninterrupted operation of TPPs and to avoid water pollution. In particular, such activities are being performed at Ash Dump No. 3 of Luhanska TPP, the ash dump in Kalmytska valley (Zuiv TPP) and the ash dump of Kryvorizka TPP.

DTEK signed a memorandum of understanding with the Polish Union for Coal Combustion Product and Ekotech IP with the assistance of the Polish-Ukrainian Chamber of Industry and Commerce in September 2012. The collaboration will involve the implementation of pilot projects to utilize the ash and slag materials of Burshtynska TPP for road construction in Ivano-Frankivsk region.

Electricity and heating distribution

In 2012, the replacement of worn out equipment via investment programs involved 11 substations of Service-Invest LLC and electricity transmission lines of the Donetsk power grid. Investments into these facilities totalled USD 16.6 million. Modern SF6 and vacuum circuit breakers were installed at the substations, as well as new relay protection terminals and power transformers. Moreover, Service-Invest LLC purchased 110 kV substations Pochtovy GPP-1 and Pochtovy GPP-2 (the investment totalled USD 1.3 million), and started work to bring the equipment of these substations into compliance with current operational standards to ensure reliable power supply to the Kyivsky district of the city of Donetsk.

DTEK Donetskoblenergo implemented over 150 investment projects in 2012. The most significant projects included: “Retrofit and modernization of the Scherbakovska substation” and “Retrofit of the 110 kV Kalinovka substation.” The modernization made it possible to reduce electricity outages in the central districts of Donetsk (Kalininsky and Voroshilovsky) and to increase equipment service life (the projects' budget totalled USD 2.1 million). A pilot project “Introduction of Electricity Commercial Metering Systems for Household Consumers of DTEK

Donetskoblenergo was also implemented. The project is aimed at reducing electricity losses and improving the quality of power supply to the company's private consumers (the project budget was USD 1.7 million).

DTEK Krymenergo implemented the project "Construction of the new 110 kV Kubanska substation" in 2012. This project will make it possible to improve the reliability of power supply to the city of Simferopol. The budget of this project totalled USD 4.1 million.

DTEK Dniprooblenergo implemented a number of significant investment projects in 2012, including: "Retrofit of its own section of the Neftoprovod substation – Kakhovska HPP 150 kV line L-68/69," "Retrofit of the Podgorodne-35 substation," "Construction of the Mezherichi 35 kV substation," "KuWPP supervision data display system," and "Purchase of the Stroymash 150 substation." The total cost of these projects was about USD 12.5 million.

DTEK Energougol ENE invested about USD 2.1 million in 2012 into the modernization of equipment to ensure power supply to Euro-2012 facilities.

Kyivenergo

Kyivenergo implemented several important projects in the area of electricity and heating generation and distribution in 2012.

In particular, as part of the program to develop and prepare the city of Kyiv to host the European Football Championship in Ukraine, the 110/10 kV Moskovska substation and 110/10 kV Universitetska substation with a 110 kV line were built and put into operation, and the CHPP-6 Livoberezhna substation high voltage 110 kV transit line was reconstructed. Implementation of these projects ensures reliable power supply to the capital, in particular to its central and left bank areas, and avoids power outages resulting from power network overload.

The project "Retrofit of the 330 kV Outdoor Switchgear" at CHPP-5 was started in 2012 and is planned to be completed in 2014. Its implementation enables reliable performance during high-temperature periods and coverage of power consumption shortages in the central districts of Kyiv.

The Company modernized the power networks with a total length of 33.9 kilometres, and upgraded heating station equipment.

Investments, USD mln | VAT not included

Business segment	2011	2012	Δ	Δ, %
Coal production and preparation[1]	318	482	164	51.6
Electricity generation[2]	169	403	234	138.4
Electricity distribution, including Kyivenergo[3]	33	187	154	474.8
Other, including Wind Power[4]	21	203	182	853.1
Total	**541**	**1 275**	**734**	**135.7**

[1] Includes the following companies:
2011 – DTEK Pavlogradugol, DTEK Komsomolets Donbassa Mine, DTEK Dobropolyeugol, CCM Pavlogradskaya, CCM Kurakhovskaya, DTEK Dobropilska CEP, DTEK Oktyabrska CEP, Mospino CPE. DTEK Rovenkyanthracite (December 2011), DTEK Sverdlovanthracite (December 2011)
2012 – DTEK Pavlogradugol, DTEK Komsomolets Donbassa Mine, DTEK Dobropolyeugol, CCM Pavlogradskaya, CCM Kurakhovskaya, DTEK Dobropil's'ka CEP, DTEK Oktyabrs'ka CEP, Mospino CPE. DTEK Rovenkyanthracite, DTEK Sverdlovanthracite, Bilozerske Mine Group, Public Mining Corporation Obukhovskaya, Don-Anthracite, Sulinanthracite

[2] Includes the following companies:
2011 – DTEK Skhidenergo, Tehrempostavka
2012 – DTEK Skhidenergo, DTEK Zakhidenergo, DTEK Dniproenergo, Tehrempostavka

[3] Includes the following companies:
2011 – Service-Invest, DTEK Energougol ENE, Kyivenergo (December 2011).
2012 – Service-Invest, DTEK Energougol ENE, Kyivenergo, DTEK Donetskoblenergo, DTEK Dniprooblenergo, DTEK Krymenergo.

[4] Includes the following companies:
2011 and 2012 – DTEK, Wind Power, DTEK Service, Sotsis, Pershotravenskyi Repair and Engineering Plant, Ekoenergoresurs.

03 Financial performance

Strong growth in the key financial indicators of the Company in 2012 was ensured by increased coal production due to capital investments, in addition to the acquisition of new coal mining, electricity generation, and electricity distribution enterprises.

DTEK's consolidated revenue (including compensation for the difference in tariffs) for the reporting period grew by 107.9% to USD 10,332 million compared to USD 4,969 million in 2011. The cost of goods manufactured increased by 135.5% to USD 8,860 million compared to USD 3,762 million in 2011. Gross profit increased by 22.0% to USD 1,472 million, compared to USD 1,207 million in 2011.

Profit before tax increased by 30.6% YoY to USD 929 million in 2012 due to an increase in profitability from operations, including from the acquisition of new companies in 2012 and an increase in net financial expenses by USD 315 million in 2012. A positive, one-off effect from the acquisition of new companies in 2012 totalled USD 20 million, compared to a loss from similar operations in the amount of USD 86 million a year earlier. Net profit grew by 67.6% to USD 741 million in 2012 from USD 442 million in 2011.

Income

DTEK's income is generated from wholesale electricity sales to State Enterprise Energorynok, coal sales, and from the distribution and supply of electricity and heating energy to end consumers.

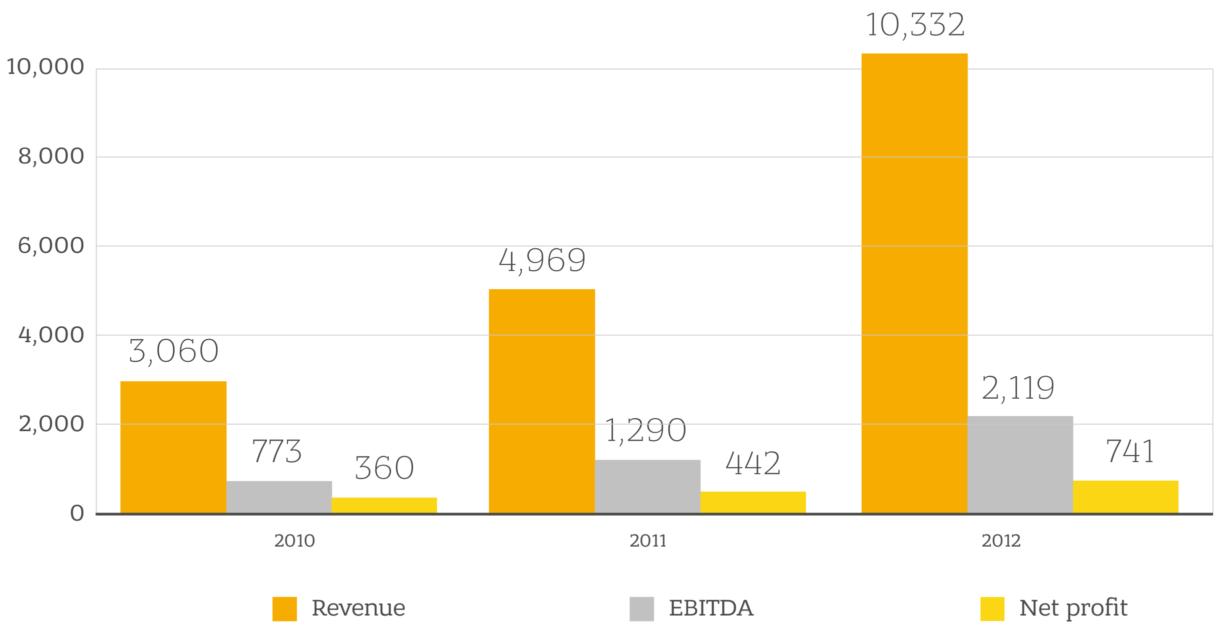
Income from electricity sales to end consumers and electricity exports in 2012 equalled 44.6% of consolidated revenue, from wholesale electricity sales — 37.2%, from sales of heating energy to end consumers and compensation for the difference in heating tariffs — 9.6%, and from coal sales — 8.5%, while the share of other operating revenue was 0.1%.

The Company generated the bulk of its income — 90.6% (including compensation for the difference in tariffs) domestically. Income from exports increased 19.2% (from USD 814 million to USD 970 million) in 2012. The share of exports in DTEK's consolidated income reached 9.4%.

In the reporting year, DTEK implemented the Group's expansion plans to take part in tenders for the privatization of electricity generation and distribution enterprises. The following were the changes in income from the key business segments in 2012:

- Income from coal sales shrank by 57.7% to USD 917 million compared to USD 2,170 million in 2011, mostly through the consolidation of DTEK Dniproenergo and DTEK Zakhidenergo, which were the main external coal buyers in 2011. Income from coal exports amounted to USD 345 million compared to USD 448 million in 2011.
- Income from electricity generation increased by 196.1% to USD 3,846 million from USD 1,299 million in 2011, including growth of USD 2,614 million through the consolidation of DTEK Dniproenergo and DTEK Zakhidenergo.
- Income from electricity supply and distribution grew by 270.3% to USD 3,984 million from USD 1,076 million in 2011.

DTEK financial performance, USD mln



Cost of sales

DTEK's cost of sales increased by USD 5,098 million to USD 8,860 million in 2012. The growth was the result of the following factors:

- The cost of electricity purchased by distribution companies from State Enterprise Energorynok for subsequent sale to end consumers grew by USD 2,796 million or by 209.8% to USD 4,129 million (including an increase of USD 2,508 million resulting from companies acquired in 2012).
- The cost of purchasing raw materials rose by USD 1,074 million or by 165.7% to USD 1,722 million compared to USD 648 million in 2011 (including an increase of USD 1,247 million from companies acquired in 2012).
- Personnel costs increased by USD 942 million or by 222.7% to USD 1,365 million (including an increase of USD 762 million from companies acquired in 2012).
- Depreciation allowances for fixed and intangible assets increased by USD 473 million or by 180.5% to USD 735 million (including an increase of USD 369 million from companies acquired in 2012).

The increase in gross profit in 2012 amounted to USD 265 million (growth of 22.0% compared to 2011). The gross profit margin decreased from 24.3% to 14.2% in 2012, which primarily was due to a significant increase in the share of proceeds from the electricity distribution segment. The gross profit margin of this segment was considerably lower than that in other segments because of the public regulation of tariffs for purchasing, supplying and distributing electricity. One more reason for the general decrease in the margin was the relatively low operating efficiency of the newly acquired enterprises.

Operating expenses and income

The most significant operating expenditure and income items in 2012 were general administrative and other costs, as well as other operating income.

General administrative expenditures increased by 88.0% to USD 279 million in 2012 (including USD 111 million in expenditures associated with companies acquired in 2012). The main item of the general and administrative expenditures was personnel cost, including taxes on salaries that amounted to 67.5% of all general and administrative expenditures in 2012.

Other operating expenditures grew by 105.8% to USD 176 million, including through an increase in costs for the development of social infrastructure and charity by USD 54 million, and through growth in costs due to the early repayment of restructured tax liabilities and accounts payable according to Resolution No.517 of the Cabinet of Ministers of Ukraine approved in June 2012.

Other operating income rose by 532.1% to USD 408 million. This was mainly caused by the recognition of revenue from the recovery of bad debt provisions in the amount of USD 322 million. A significant part of these revenues was connected with the settlement of debts between electricity generation companies, electricity distribution companies and coal sector companies in Ukraine pursuant to the aforementioned Resolution No. 517 of the Cabinet of Ministers of Ukraine.

Assets

DTEK's assets increased by 35.5% in 2012 to USD 9,559 million compared to USD 7,052 million in 2011. The balance sheet value of non-current assets grew by 51.0% to USD 7,325 million. Growth of non-current assets was mostly accounted for by the consolidation of new companies acquired in 2012 and by higher goodwill as a result of these acquisitions. That said, investments in associated companies decreased by 99.8% in 2012 mostly because investments were transferred from associated companies to subsidiaries.

The Company's current assets grew by USD 31 million from USD 2,234 million in 2011 to USD 2,203 million in 2012. These trends were the result of a substantial increase in the balance sheet value of inventories from USD 277 million to USD 632 million in 2012 (including USD 276 million from the consolidation of new companies), and an increase in the balance sheet value of accounts receivable from USD 577 million to USD 884 million in 2012 (including USD 218 million from the consolidation of new companies), which were compensated by lower balances of cash funds and equivalents decreasing from USD 1,305 million to USD 671 million as of year-end 2012. The decrease was a result of the program to acquire new companies and scale up capital investments.

Liabilities and equity

Changes in DTEK's liabilities were mostly connected with the growing debt burden: long-term loans and credits increased from USD 1,553 million to USD 2,159 million as of year-end 2012, whereas short-term loans rose from USD 335 million to USD 426 million. Notable borrowings in 2012 included a long-term USD 548 million club loan and a USD 130 million credit facility to finance construction of the Botievo Wind Farm.

DTEK's long-term financial liabilities rose 47.6% in 2012 mainly due to the growing amount of restructured trade accounts payable to Energorynok as a result of the consolidation of the new electricity distribution companies. Short-term financial liabilities declined by 60.3% in 2012 mostly due to investments in DTEK Dniproenergo and its consolidation as a subsidiary in the reporting year.

DTEK's accounts payable rose by 40.3% as of year-end 2012 from USD 728 million to USD 1,021 million, mainly as a result of the consolidation of the new companies.

Advance payments received in 2012 increased by 228.1% to USD 369 million, due to the consolidation of the new companies.

DTEK's equity rose by 31.6% in 2012 to USD 4,089 million, mostly as a result of generated profit in the amount of USD 741 million.

Cash flow

Net cash flow from operating activities grew 39.3% to USD 1,045 million in 2012. The main growth factors were as follows:

- higher profit before tax and non-cash adjustments (taking into account the payment of restructured tax liabilities and accounts payable), resulting in a USD 251 million increase in net operating cash flow
- changes in the current assets of the Company (less payments of restructured tax liabilities and accounts payable), which led to net operating cash flow increasing by USD 279 million
- more interest paid as a result of an increase in the Group's loan portfolio, which caused a decline in net operating cash flow by USD 125 million
- higher income tax payments (as a result of growth in the Group's profit), which resulted in net operating cash flow decreasing by USD 76 million.

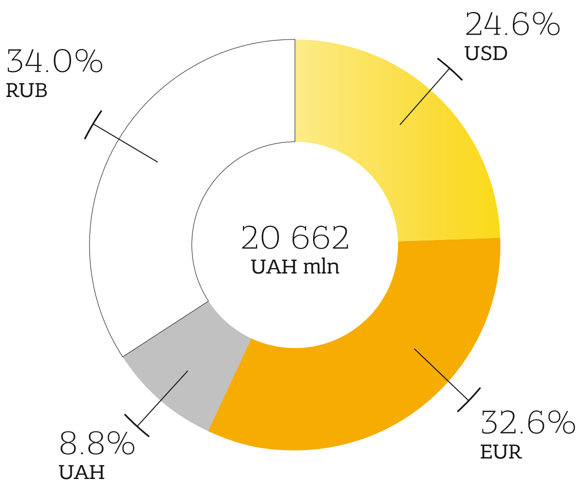
Investment activity payments amounted to USD 1,338 million in 2012. The main factors contributing to the growth of this indicator included an increase in the budget for the investment programs of the Group's new enterprises (USD 398 million) and the construction of the Botievo Wind Farm (USD 177 million).

Net cash generated from the Company's financial activities amounted to USD 122 million in 2012, which is 85.6% lower than in 2011. The main factor affecting the decrease was a decline in net cash flow from borrowings and loan payments in 2012 of USD 581 million and an increase in dividend payments of USD 141 million.

Loan portfolio

Most of DTEK's debt as of year-end 2012 was denominated in RUB, EUR and USD. Borrowings denominated in RUB amounted to USD 879 million, which was equivalent to 34.0% of the loan portfolio; in EUR – USD 844 million or 32.6%; in USD – USD 636 million or 24.6%. Debt denominated in UAH amounted to USD 226 million or 8.8% of the loan portfolio. The Company's debts were mostly long-term liabilities: the average repayment period as of year-end 2012 was 3.3 years; the largest part of the Company's debt was comprised of Eurobonds, bilateral bank loans and the club loan. The share of long-term liabilities in the overall loan portfolio was 83.5%. Borrowings in USD and UAH were arranged at fixed interest rates; the EUR loans were mostly at a floating interest rate linked to Euribor, and the RUB loans at a floating interest rate linked to Mosprime. In 2011 and 2012, DTEK entered into agreements to swap RUB loans issued at a floating interest rate into USD loans at a fixed interest rate. The share of unsecured loans amounted to 98.7% of the Group's overall loan portfolio.

Debt currency profile
as of 31 December 2012, %



The key ratios of DTEK's equity to borrowed funds as of 31 December 2012 were as follows
as of 31 December 2012, %

	2010	2011	2012
Total debt/EBITDA	0.9	1.65	**1.36**
Net debt/EBITDA	0.6	0.63	**1.04**
EBITDA/Interest expenses	13.5	16.7	**10.9**

The net debt/EBITDA ratio increased from 0.63 to 1.04 as of year-end 2012, mostly due to an increase of USD 698 million in the loan portfolio and a decrease in cash and equivalents of USD 634 million. The total debt/EBITDA ratio declined from 1.65x to 1.36x, mostly as a result of EBITDA growth by USD 829 million.

Credit ratings

Moody's Investors Service, after reviewing Ukraine's rating in December 2012, assigned DTEK Holdings B.V. a long-term credit rating of "B3", with an outlook of "Negative". In January 2013, Fitch Ratings gave DTEK Holdings Limited a long-term credit rating of "B" with an outlook of "Stable".

Sustainable Development

01 Social Development Strategies for regions where DTEK operates

02 Working conditions and occupational safety

03 Personnel development

04 Environmental protection

01 Social Development Strategies for regions where DTEK operates

Improving the quality of living standards in regions where DTEK operates is an integral part of the Company's sustainable business development. The Social Partnership Strategies also pursue this goal.

The following are the principles of social partnership between DTEK, local self-government bodies and the general public:

- maintaining and developing relations with employees and residents of the regions of operation
- strengthening local communities;
- raising the efficiency of self-governance and resources utilization
- developing the potential
- analysing the needs and expectations of employees and residents and developing strategic cooperation with communities.

In 2012, DTEK decided to apply mid-term planning and develop three-year social partnership strategies. This approach is important for improving the efficiency of social investments, planning for the sustainable development of cities and towns, and improving living and working standards of the population and employees.

The strategies were based on discussions of all problems in the regions, ranking them, and then selecting the most pressing issues. Eighteen Working Groups were established, consisting of 747 representatives of local authorities, business and the general public. The Working Groups took into account the findings of a sociological survey among the experts and residents. Strategic planning specialists were engaged to provide methodological assistance. This cooperation on the selected projects helped the communities to set up an organizational system capable of raising funds to implement projects and to engage the general public in tackling local issues. This approach will contribute to the future development of the towns and help to reduce their economic and social dependence on town-forming enterprises.

All stakeholders participated in drafting the 2013–2015 social partnership strategies between DTEK and the regions where it operates, and the documents were approved by the local councils of the towns of Kurakhovo (including Mariinskyi district), Zugres, Shchastia (including the Petrivka settlement), Energodar, Zelenodolsk, Dobrotvir, Burshtyn, Ladyzhin, Pavlograd, Pershotravensk, Ternivka, Kirovske, Dobropillia (including the towns of Bilozerske, Bilytske, and the Novodonetske settlement), Mospino, Rovenky, Sverdlovsk, in addition to the Pavlograd and Petropavlovsk districts of Dnipropetrovsk region.

The three-year budget of the social partnership programmes is USD 53.75 million. The Company has already allocated over USD 15.75 million for 2013.

The key areas for social investments for 2013–2015 are:

- Energy efficiency in the public utilities sector (improving energy efficiency of the public utilities sector, improving the quality of energy and heating-supplying services)
- Health care (making quality medical services more accessible, promoting healthy lifestyles among the population);
- Socially relevant infrastructure (improving pre-school and school education opportunities, as well as opportunities for cultural recreation and sports)
- Development of the business environment (creating new employment opportunities, higher revenues for the budget, wider range of services, development of social entrepreneurship)
- New direction: increasing community participation (engaging population in tackling community problems by encouraging initiatives, self-organization of local residents and implementation of mini-projects by groups of active citizens).

The progress made in implementing the 2012 social partnership programme confirmed that we were right in pursuing on-going strategic cooperation with communities. In 2012, DTEK invested about USD 7.9 million in regions where it operates.

Energy efficiency in the public utilities sector

In 2012, as part of energy efficiency programmes, DTEK implemented projects aimed at improving the heat-supply systems in regions where it operates. The following energy efficiency practices were introduced to the public utilities sector: energy audits of the towns’ heating-supplying systems, energy audits of standard buildings, designing energy plans for the towns, building up the energy management system, and implementing energy-saving measures.

Our most notable achievements included the project to comprehensively improve the thermal efficiency of Kindergarten No. 573 of Obolon district of Kyiv as part of the Memorandum of Understanding between DTEK, the Kyiv City Administration and the USAID Municipal Heating Reform in Ukraine project. The roof and external walls of the kindergarten were insulated, the lighting system was reconstructed, a solar system was built, and a remote energy consumption meter was installed. A similar project is being implemented at Comprehensive School No. 233 of Obolon district of Kyiv, which will be completed in 2013.

In 2012, we also finalized preparations for the “Energy Efficient Schools” project. As a part of the project, students of Kyiv schools will learn some theoretical information and gain practical skills in energy efficiency. After completing the course, students will prepare thermal upgrade projects for their schools. The five best projects will be financed by DTEK. The programme has been launched in 2013.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Healthcare

DTEK's healthcare projects are intended to improve the availability and quality of medical services provided to DTEK's employees and people living in regions where the Company operates. Since DTEK's enterprises are located mainly in small towns and settlements, residents have limited access to high quality medical aid. This problem can be solved by creating a national telemedicine network and a healthcare information support system.

In 2012, the Company, jointly with Rinat Akhmetov's Foundation for Development of Ukraine, MTS, the Healthcare Ministry and the Academy of Medical Sciences, continued implementation of the Telemedicine project. The project allows district practitioners to promptly get diagnosis and treatment advice from their colleagues in regional health and research centres, and at the same time enables highly qualified professionals to share their knowledge and expertise with less experienced district practitioners. In 2012, one Burstyn and three Lviv hospitals were connected to the network. In 2013, it is planned to connect hospitals in the towns of Pavlograd, Dobropillia, Ladyzhin, Sverdlovsk and Kirovske.

As part of the Telemedicine Project, Lviv Municipal Children's Hospital implemented an information support system to create a complete electronic document management and electronic medical records for each patient. The system facilitates the transfer of information from one doctor to the next. In the future, patients will also have access to these electronic medical records. Electronic document workflow allows for a more than twofold reduction in hospital administrative costs. DTEK equipped 57 workplaces and purchased 39 computers and 22 printers for hospital practitioners. The Company also introduced an electronic medical information system. To ensure its efficient operation, DTEK designed and launched an internal computer network and installed a data storage server. Apart from this, special reports and templates were drawn up based on hospital needs. The staff got special training.

In 2012, as part of the Telemedicine project, DTEK, in partnership with the Charity Fund "You Are Not Alone" launched a project to provide social and medical services using the telemedicine equipment. Through the project, 418 children (92 in Lviv, 194 in Dobrotvir and 132 in Burshtyn) were recipients of professional medical advice. They were examined and treated by Ukrainian practitioners and advised by leading foreign experts. When preparing for difficult surgeries, Ukrainian health professionals used the telemedicine equipment to find out their foreign colleagues' opinions. In Lviv, children from vulnerable social groups were examined.

In Dobrotvir and Burstyn, medical examinations were available for all residents. Following the findings of the examinations, 85 children were given free medical aid. Specialists from Poland assisted in surgeries and treatments.

Development of social infrastructure

In 2012, DTEK implemented a number of projects to improve the social infrastructure in the regions where the company operates. In 2012, due to the joint efforts of the Company and the Kurakhovo town government, the following was achieved: a family medicine centre was completely renovated; the facade of the building of the town classical school was refurbished; windows were replaced at the Cosmonaut kindergarten and School #1; and two computer classrooms were equipped at School #2 and a local branch of the Power Engineering Technical School. In November 2012, a football pitch of 942 m^2 with quality artificial turf suitable for any season was opened in Pivdennyi district. All Kurakhovo football players can use the pitch for free.

With DTEK's financing, the settlement of Dobrotvir created an original playground with wood sculptures, an outdoor performance stage, decorative benches, and slides for children. Local residents actively participated in the project: both adults and children were eager to help the playground's creator.

Development of the business environment

Most towns where DTEK has its production companies are single-industry towns and, respectively, depend significantly on one company — the town's main employer. This inefficient model was inherited from Soviet times. The Company committed itself to facilitate the development of the business environment in these towns to reduce the community's dependence on the main employer's business processes. This project is aimed at promoting a variety of development opportunities, attracting investors, and creating small and medium businesses.

In 2012, DTEK financially supported the establishment of local development agencies in the towns of Burshtyn, Dobrotvir, and Ladyzhin. The objective of the agencies is to help the towns to create conditions for the development of small and medium businesses, raise investments for setting up new jobs and external funding to improve municipal infrastructure, and promote local community initiatives. After agency employees were trained as part of the community programme "Socially Responsible Business" (the city of Lviv) and received practical training at the operating local development agencies of Donetsk, Slavutych, and Vynohradiv towns, they proceeded to actively implement community projects.

One of the first projects of the Burshtyn Local Development Agency was a summer camp where children could learn English and business basics. The project was supported by DTEK, the educational centre of the Burshtyn Local Council and the non-governmental organisation "Women for the Future"; AIESEC volunteers from Malaysia and China also took part in the project.

The Kamianka-Buzkyi District Local Development Agency in Lviv Region submitted its project "Replacement of the Lighting System in Entrances of Residential Buildings in Dobrotvir Settlement" to take part in the competition "Transforming the Market for Efficient Lighting" organised by

the United Nations Development Programme and obtained funding of over USD 3,500. DTEK allocated an additional USD 2,500 to co-fund the project.

Promotion of local community initiatives

A new area for the Company is engaging local residents in addressing today's challenges. Participation in projects makes local residents feel part of the on-going positive changes, gain confidence that together the community can improve local living standards and, most importantly, appreciate and take care of the results of the joint projects.

The goal in this new area is to make local residents more responsible for their future and the future of their town or village. DTEK supports initiatives of local communities, communicates the importance of their contribution to the positive changes in the region, and promotes new motivation and values for local residents.

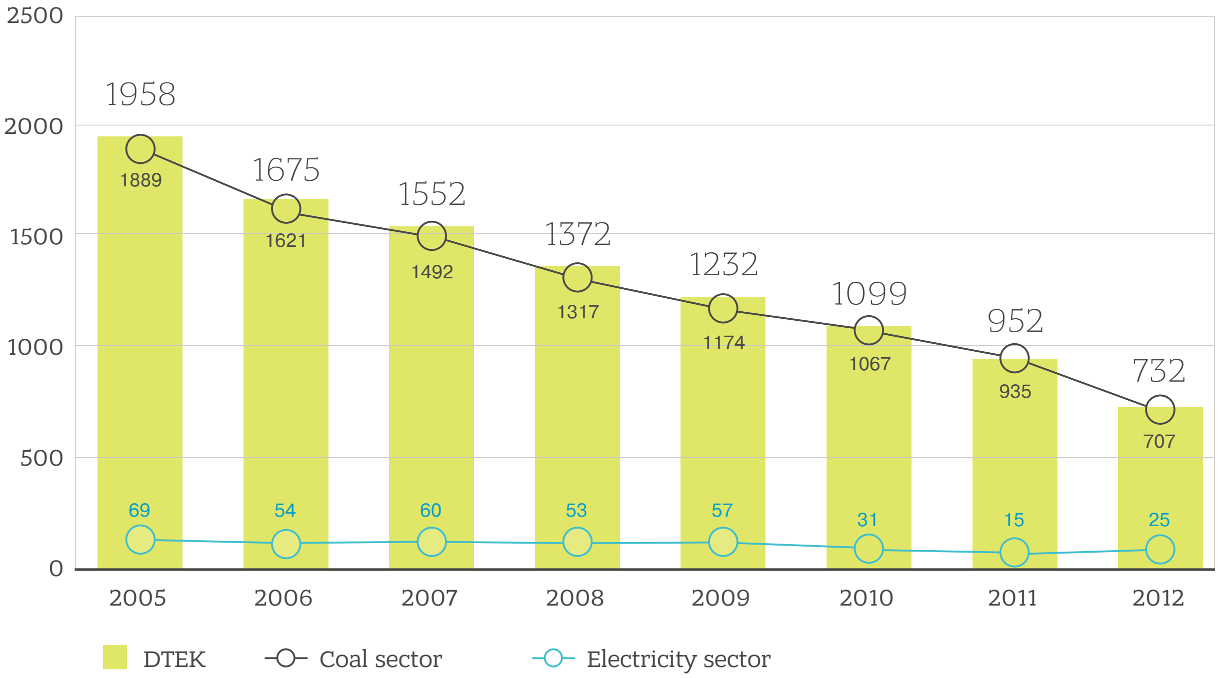
DTEK plans to allocate over USD 1 million to support community initiatives as part of the 2013-2015 Strategy. Funds will be used for the "Your Hometown in Your Hands" grant programme for the "New Generation" project to foster a proactive approach to life among the young people, and for the study tours and programmes for local government officials.

02 Working conditions and occupational safety

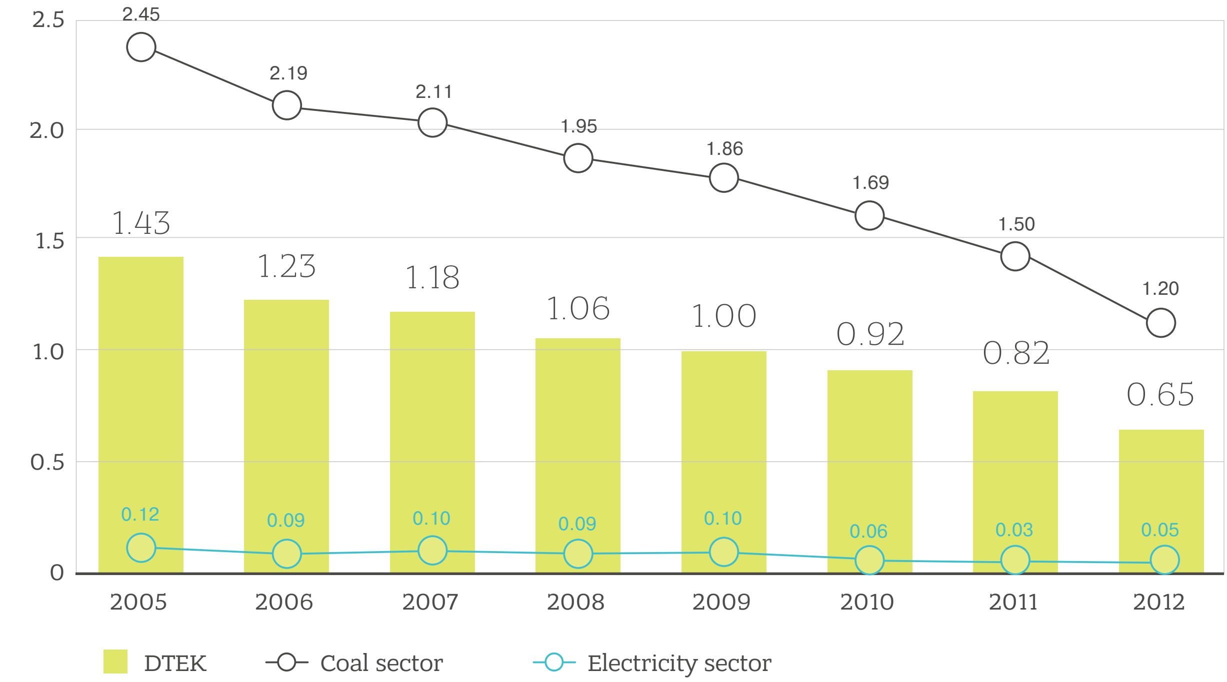
Comparative analysis of occupational injuries for in 2012 vs. 2011:

- total injuries level decreased by 23.1% — from 952 to 732 cases;
- the accident frequency rate fell by 20.7% — from 0.82 to 0.65 cases.

Total injuries,
number of injured people



Accident frequency rate,
number of injured people per 100 employees



Coal production

Significant occupational safety activities in 2012:

1. DTEK Pavlogradugol and DTEK Mine Komsomolets Donbassa passed a recertification audit of their safety management systems, confirming compliance with the OHSAS 18001:2007 standard.

2. DTEK Rovenkyanthracite and DTEK Sverdlovanthracite started implementing a safety management system designed in accordance with OHSAS 18001:2007.

3. DTEK Mine Komsomolets Donbassa and our coal processing plants completed a pilot project to implement corporate personnel protection equipment (PPE).

4. We reviewed common procedures for conducting internal accident investigations and adapted them for the coal production division, and reviewed regulations on the Occupational Safety Committee of the Coal Production Division and corporate PPE standard.

5. DTEK Dobropolyeugol and DTEK Sverdlovanthracite created a system for video safety briefings.

6. We started the development of a computer-based training and testing system for coal mining personnel.

Industrial injury indicators

		2010	2011	2012
1	Number of lost time occupational injuries	1 067	935	707
2	Lost time injury frequency rate per 200,000 person-hours	1.69	1.50	1.20

Occupational and industrial safety investments amounted to USD 59 million in 2012.

Electricity generation

Significant occupational safety activities in 2012:

1. DTEK's generation companies set up the structure of an occupational safety department as part of the "Vertical" project.

2. As part of the "Vertical" project, we reviewed the safety management system procedures.

3. DTEK Dniproenergo had its system certified in accordance with the OHSAS 18001:2007 standard.

4. DTEK Skhidenergo confirmed its certificate proving compliance of its system with OHSAS 18001:2007.

5. DTEK Zakhidenergo conducted a diagnostic audit and developed an action plan to obtain certification of its system as compliant with OHSAS 18001:2007.

6. DTEK Dniproenergo and DTEK Zakhidenergo implemented the corporate PPE standard.

7. DTEK Dniproenergo and DTEK Zakhidenergo are implementing the project “Incentives for Employees’ Safety Efforts.”

8. We launched a project to prevent the use of asbestos and asbestos-containing materials.

In 2012, in the electricity generation business:

– total injuries increased from 3 to10 cases;

– the accident frequency rate (per 200,000 person-hours) increased from 0.02 to 0.06.

Occupational and industrial safety investments amounted to USD 12.12 million in 2012.

Electricity distribution

Occupational and industrial safety investments enabled the distribution companies:

1. To prevent job-related injuries, accidents and occupational diseases;

2. To comply with effective occupational safety legislation, inter-sectoral and industrial regulations, as well as job descriptions and technical specifications in terms of work and equipment operation safety;

3. To provide for safe maintenance of machinery, equipment, vehicles, technological processes;

4. To buy required fire, collective and personal protection equipment;

5. To prepare on-the-job technical specifications in accordance with safety regulations;

6. To hold safety training sessions and briefings on time, and to certify the safety knowledge of officials and employees engaged in hazardous works;

7. To provide employees with personal and collective protection equipment, special dietary meals (milk or nutritious products), washing agents and detergents, amenities; to arrange special water consumption schedules; and to grant employees benefits and compensation stipulated by legislation related to harmful working conditions;

8. To carry out safety activities, comply with the company’s resolutions and instructions, recommendations and requirements for citations and incident investigation reports intended to ensure safe operations.

Occupational and industrial safety investments amounted to USD 5.87 million in 2012.

03 Personnel development

The basis for DTEK's sustainable development is highly qualified personnel. Currently, DTEK employs over 140,000 people.

DTEK accomplished its strategic goal — to fill at least 80% of top and middle management vacancies with internal personnel by 2013. Internal candidates took 86% of managerial positions, 6 percentage points above the target.

Looking toward the future, DTEK is creating a solid foundation today for dynamic development tomorrow. The Company's policy on career planning and filling key positions envisages the development of in-house specialists. The Talent Pool and Top-50 programmes were introduced to evaluate and develop the competences of our employees with managerial potential. In 2012, 74 employees from the Talent Pool were appointed to new positions in the Company.

In 2012, 61 participants of the Top-50 programme, which prepares successors for key positions, were approved as possible successors. The appointments of successors to target positions in line with their career plans also proved the programme's success.

DTEK's main personnel development activities in 2012:

- DTEK's Corporate Centre launched a project to implement a new remuneration system, developed by the Hay Group. It is based on job classifications and depends on the importance of each individual position to the Company as a whole.

- We developed and introduced a new approach to payroll calculation. The new payroll planning model is based on the principle of optimal payroll expenses and salaries of DTEK employees and maintains a balance between competitive remuneration, the Company's performance and compliance with labour law.

- The Company began elaborating its policy on paying bonuses as part of employee remuneration. We made a list and classification of bonuses and estimated their values.

- We designed online training programmes to evaluate personnel competencies and held a "Golden Rules of Evaluation" training course for managers at various levels. More than 1,200 employees received special training to prepare them for annual performance reviews, which allowed us to improve the quality of personnel appraisal.

- 21,600 employees completed training courses at DTEK Academy, which was twice as many as in 2011 (12,200 employees). Since DTEK Academy was founded in 2009, 40,600 employees have completed training programmes on competencies development, module programmes, special training, and e-learning programmes.

- DTEK Academy started the process of accreditation for compliance with international corporate learning standard CLIP, which will further improve the quality of training.

- DTEK Academy held 23 training workshops for external clients and, in November, it hosted the First International Conference “Corporate Learning: Challenges and Prospects.” The Conference gathered directors of corporate universities and the heads of HR development and training units of Ukrainian, Russian and European companies. The Conference showed that DTEK Academy is an efficient platform for sharing knowledge and best practices not only between DTEK Group enterprises, but also with companies from other countries.

- The project “Upgrading the in-service training system at DTEK enterprises” was launched in 2012. The existing training centres were reorganised into DTEK Academy branches. DTEK Education Departments were established in cooperation with leading higher educational institutions of Ukraine to provide methodical support and elaborate education standards. We plan to update the material and technical facilities, as well as the methodical base of the training centres. The first stage envisages development and introduction of education standards for three key blue-collar jobs and elaboration of training programmes aimed at the professional advancement of coaches at our training centres. As a result, all training centres will adopt unified innovative training programmes to prepare qualified employees for DTEK enterprises.

- DTEK concluded an agreement on scientific and technical cooperation with Lviv Polytechnic National University. This university became the fourth educational establishment to sign a cooperation agreement with DTEK. Since 2009, the Company has been efficiently collaborating with Donetsk National Technical University, Dnipropetrovsk National Mining University, and National Technical University Kyiv Polytechnic Institute.

- Three laboratories were equipped at National Technical University Kyiv Polytechnic Institute as part of the launched partnership programme, with about USD 87,500 invested into the project.

- Seven DTEK enterprises enrolled students in training courses aimed at preparing them for future work with the Company.

- A programme on assessing the social and psychological climate among company employees was implemented. This annual assessment analysed employees’ satisfaction with the working environment, financial and non-financial motivation systems, relations among employees and with managers, and loyalty and involvement.

- The assessment provides information to further improve internal communication and develop the corporate culture.

21,600 employees

completed training at DTEK Academy in 2012

86%

of managerial positions were filled by in-house specialists, 6 percentage points above the target.

04 Environmental protection

DTEK is an environmentally responsible company. The Company's development strategy envisages further improvement of environmental safety and growth in assets' capitalisation due to reliable and environmentally friendly operations.

Environmental activities and the ecological balance are an integral part of the success of DTEK's operations. The Company seeks to prevent and minimise the environmental impact at all the stages of its production process: starting from coal extraction and processing to electricity generation and distribution.

In 2012, DTEK updated its Policy on Environmental Protection Management. The Policy determines the Company's long-term environmental objectives:

- prevention and minimisation of the negative impact on the environment
- introduction of a unified approach to environmental protection management at all DTEK enterprises based on an advanced environmental management system
- creation of an efficient system for monitoring environmental impact and managing environmental hazards
- checks of equipment and production processes for conformity with the requirements of applicable environmental laws.

Environmental management system

The environmental management systems of DTEK enterprises comply with the principles and requirements of the international standard ISO 14001:2004.

- In 2012, independent auditors from Moody International confirmed the compliance of the environmental management systems (EMS) with international standard ISO 14001:2004 at thirteen DTEK enterprises. A compliance audit at DTEK Dniproenergo was carried out in March 2013.
- DTEK Kyivenergo passed a certification audit for compliance of its environmental management system with the requirements of ISO 14001:2004 in 2012.
- A preliminary audit of the environmental management system of DTEK Dniprooblenergo was carried out in December 2012; certification is planned for 2013.
- DTEK Dobropolyeugol and DTEK Krymenergo began implementing environment management systems in 2012; the process is planned to be completed by the end of 2014.

Other important environmental achievements of 2012:

- A Memorandum of Understanding and Cooperation on handling of coal combustion products between DTEK, Polish CCP Union and EKOTECH IP was signed during a visit of the President of Poland to Ukraine on 20 September 2012 under the auspices of the Polish-Ukrainian Chamber of Commerce and Industry. The Memorandum is aimed at the implementation of joint initiatives to encourage the utilisation of coal combustion products.
- On 20 November 2012, DTEK held the round table “Use of the Coal Combustion Products of Mining Stations” to analyse the prospects for the broader use of coal combustion products at Ukrainian energy companies and to exchange knowledge and practices of coal combustion product utilisation at coal-fired TPPs.
- Since 2012, the Company has been a member of the project “Integrated Approval System in Ukraine,” implemented as one of the Ukraine-Sweden partnership initiatives. The project focuses on bringing Ukrainian environmental law in line with the integrated approval system adopted in EU countries.
- On 24–26 April 2012, DTEK participated in the International Environmental Forum “Environment for Ukraine – 2012” and was given several diplomas and awards.
- On World Environment Day, DTEK and Kyivenergo employees took part in clean-up events in Kyiv and Donetsk. More than 150 participants of this initiative gathered, sorted and transferred for processing over 4.5 tonnes of household waste from recreation areas.
- The project “Green Office” was launched in five offices of the DTEK Corporate Centre (Donetsk). Its main objectives included the promotion of sustainable use of resources and socially responsible behaviour. Separate collection and transfer for processing of recyclable office waste was arranged as part of the project. Throughout the year, 2.5 tonnes of waste paper, 58 kg of plastic and other polymeric waste and 120 kg of glass were collected and delivered for processing.

As a part of the project, the Company carried out an information campaign, including the online training course “DTEK Green Office,” information stands, posters, stickers, and switched over to purchasing recycled office materials, including paper and stationery. To check the possibility for switching over to environmentally friendly transportation, DTEK Service acquired three electric cars in 2012, which were successfully tested and put into use. The Company’s employees can use the electric cars for business trips in Donetsk.

Results of DTEK’s environmental protection activities in 2012:

Air protection

In 2012, DTEK initiated meetings with representatives of the Ministry of Energy and Coal Mining Industry and the Ministry of Ecology and Natural Resources to discuss current problems in the heating generation sector of Ukraine. The parties discussed inter alia the necessity of the adoption of a State Programme on limiting TPP and CHPP emissions and fundraising to resolve issues in the heating generation sector. A draft of a special-purpose state programme was developed; currently the document is being approved by corresponding ministries.

To comply with the requirements of Directive 2001/80/EC on the limitation of emission of certain pollutants into the air from large combustion plants, DTEK replaced and retrofitted electric precipitators at eight power units in 2012. DTEK launched retrofitting of gas treatment equipment at four electricity generation units of TPPs. The Company has been studying and evaluating available technologies for desulphurization and denitrification. All retrofitted gas treatment equipment was installed with systems to continuously monitor emissions into the air.

2012 DTEK achievements in limiting of emissions in the atmospheric air:

- The electric precipitators were retrofitted at power unit #8 of DTEK Kurakhovska thermal power plant (TPP), resulting in a reduction of dust concentration in atmospheric emissions from 2449 mg/nm^3 to 50 mg/nm^3.
- The upgrade of the wet separator at power unit #10 of DTEK Luganska TPP reduced residual dust concentration in exhaust gases from 2526 mg/nm^3 to 370 mg/nm^3.
- Due to the retrofit of electric precipitators at power unit #1 at DTEK Zaporizka TPP, dust concentration in atmospheric emissions decreased from 320 mg/nm^3 to 50 mg/nm^3.
- The retrofit of the electric precipitators at power unit #7 of DTEK Burshtynska TPP resulted in a reduction of dust concentration in atmospheric emissions from 954 mg/nm^3 to 44 mg/nm^3.

To meet the requirements of solid substances emission standards while generating thermal energy, bag cyclone filters were installed as the second stage of flue gas treatment at the boiler houses of Samarska and Ternovska mines. The design efficiency of flue gas treatment by cyclone filters is 98% and the concentration of solid particles after cyclone filters does not exceed 20 mg/m^3, which is in compliance with the standards currently in force.

DTEK Dobropolyeugol eliminated its two pollutant emission sources by connecting the heating system of the Community Centre of the Dobropilska mine to the municipal heating networks and by implementing a project to use electric heating systems at social assets.

Reduction of greenhouse gas emissions

DTEK production companies are implementing projects to reduce greenhouse gas emissions.

Implementation of the project on using captured methane at mine boiler houses and utilization of surpluses at flare units of DTEK Mine Komsomolets Donbassa resulted in a total reduction of greenhouse gas emissions by 551,280,000 tonnes in 2009–2012.

Retrofits of the main and auxiliary equipment at DTEK's TPPs allowed for a reduction in greenhouse gas emissions and resulted in a drop in specific fuel consumption and greenhouse gas emissions into the atmosphere, respectively.

In 2008–2012, 20,844,000 ERU (emission reduction units) were verified at DTEK's electricity distribution and sales companies Kyivenergo, DTEK Dniproblenergo, and DTEK Krymenergo, resulting in the replacement and upgrade of high and low voltage power transmission lines, transformer substations and heating systems.

In 2012, the first stage of the Botievo Wind Farm, with 195 MW of installed capacity was commissioned, which will help to reduce greenhouse gas emissions by 500,000 tonnes annually.

DTEK is implementing 13 projects under the Kyoto protocol. 22,225,000 ERUs were verified in 2012.

Protection and efficient use of water resources

DTEK's environmental policy is aimed at reducing discharge and improving the quality of waste water, as well as a rational process for using mine and recycled water. To meet the aforementioned requirements, the quality of discharge water at DTEK's companies is constantly controlled. The companies are implementing projects to upgrade treatment facilities, use recycled discharge water for technological cycles, and clean cooling ponds from bed silt.

Tekhnostream LLC developed a project to retrofit the storm and industrial sewage systems at DTEK Prydniprovska TPP. The project envisages two start-up facilities, with the first to be implemented in 2013. The Kyiv City Research and Development Institute, Energoproject, and the Scientific Research Institute of Environmental Issues of Ukraine prepared a project for the storm water treatment facilities at DTEK Ladyzhynska TPP; implementation of that project is planned for 2013.

In 2012, the retrofit of the clarified water pump house of ash dump #2 at DTEK Luganska TPP was completed. Sewage water from the drain trench are no longer discharged into the Ievsuh River.

As part of the retrofit of power unit #6 at DTEK Kurakhovska TPP, eight oil coolers were replaced in order to prevent the contamination of surface water facilities with oil products.

In order to reduce potable water loss at DTEK Skhidenergo TPPs, potable water pipelines are being changed on a constant basis and consumption is being monitored with meters. In 2007–2012, the rate of drinking and domestic water consumption at DTEK Skhidenergo was reduced by 66%, from 2,660,700 m^3 in 2007 to 1,601,400 m^3 in 2012.

Works to prevent untreated mine water discharge to water bodies and alternative uses for technological purposes (dust suppression) are ongoing at DTEK's coal companies. Water treatment equipment (Plamia-2) was commissioned at the Zakhidno-Donbaska mine. Sodium hypochlorite dosing units were purchased and installed at the Bilytska, Novodonetska and Pioneer mines.

In order to prevent unauthorized discharge of untreated potable and domestic water discharge at the Kharkivska mine, engineering facilities for the biological treatment of sewage waters were constructed and commissioned.

In 2012, a range of operations to replace the pipelines at DTEK's coal producing and processing companies was carried out, including:

- replacement of two pipelines of the sewage header coming from the mine site of downcast ventilation shaft #3 to the sewage networks of Kirovske town with a length of 3.5 km each. A domestic water sewage pump station was installed at DTEK Mine Komsomolets Donbassa
- replacement of the clarified water pipeline from the slurry pond with a length of 2.5 km at DTEK Dobropil's'ka CEP
- replacement and repair of critical sections of tailings pipelines with a length of 2.9 km at CCM Pavlogradska.

DTEK Service purchased environmentally friendly phosphate free detergents in order to prevent the contamination of sewage waters discharged into the municipal sewage network.

Waste disposal

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

Coal-fired thermal power plants of Ukraine produce approximately 8 million tonnes of ash and slag annually, of which 6 million tonnes is produced by DTEK's TPPs. This is the reason DTEK's environmental policy envisages increased volumes of coal combustion product utilization. For this purpose, in 2012, the quality indicators of ash and slag mixes were examined and the technical possibility of ash, slag and coal combustion product sales were determined for the TPPs of DTEK Dniproenergo and DTEK Zakhidenergo. Programmes to increase the utilisation of fly ash, slag and coal combustion products for 2012–2020 were developed and are being implemented at all DTEK TPPs.

In 2012, a project was launched to ship coal combustion products produced by DTEK Zuivska TPP from the waste heap at Kalmytska gully to external consumers for the production of clinker at the Amvrosiivka branch of PJSC HeidelbergCement in Ukraine. This resulted in growth in the utilization of coal combustion products produced by DTEK Zuivska TPP from 0.06% to 4.1% in 2012.

In order to prevent the allotment of new land for waste heaps, operations to top waste heaps are ongoing at DTEK's TPPs.

In 2012, capital investments into topping waste heaps amounted to USD 9.58 million.

The Mospino Coal Processing Company developed project documentation to purchase and install a belt filter press for the dewatering of liquid coal processing waste and the exclusion of external settling areas from the company's technological scheme. Project implementation is planned for 2013.

A project to clean the sludge ponds of Kurakhovska CPP, including coal component extraction was developed with the purpose of further concentrate production. Construction and installation works on the production site are being carried out to provide for the extraction of the coal component. Cleaning of sludge ponds will be carried out until 2017.

A project to extinguish the burning waste heap at Vakhrusheva CPP was prepared. Implementation is planned for 2013.

Land reclamation

In order to preserve and recover forest planation disturbed as a result of the mining operations of Blagodatna, Samarska, Ternovska and Pavlogradska mines, compensatory forest planting on a territory of 17 hectares was carried out. The Blagodatna mine carried out biological reclamation of 32 hectares of land and Ternovska mine carried out technical land reclamation. The volume of utilized rock was 118,400 m^3.

To restore lands disturbed by Zakhidno-Donbaska mining operations, and to prevent flooding of the territories by the waters of the Ternovka River, work on cleaning and deepening the river bed are being carried out. In 2012, 9.2 km of the river were cleared.

In 2012, the following works were carried out:

- 110 trees and 650 bushes were planted on the territory of Mospino Coal Processing Company
- 550 trees and 1,000 bushes were planted on the slopes of the waste heap and the adjacent territory of DTEK Dobropilska CEP
- one hectare of the territory of the eastern slope of Kurakhovska CPP was landscaped
- 410 trees and 140 bushes were planted on the production site of DTEK Oktyabrs'ka CEP
- 612 trees and 1,342 bushes were planted by DTEK Pavlogradugol companies.

Handling of hazardous substances and materials

In 2012, DTEK companies continued to make efforts to minimize the use of hazardous substances and materials.

The chemical water treatment system at CHPP-5 of Kyivenergo was retrofitted. The reverse osmosis unit (stage 1 of the retrofit) has been on-going since early 2011; it produces desalted feed water for the boilers. In 2011–2012, stage 2 of the project to install membrane technologies (ultrafiltration and filter press) was implemented, allowing for a reduction in sulphuric acid consumption by 67% (from 178.53 tonnes in 2010 to 59.776 tonnes in 2012), and caustic soda reduction by 87% (from 104.32 tonnes in 2010 to 13.421 tonnes in 2012). The aforementioned retrofit also resulted in a reduction in lime sludge production by 30% (from 345 tonnes in 2011 to 241 tonnes in 2012). In 2012, capital investments amounted to USD 1.0 million. A similar retrofit of the chemical water treatment system is being carried out at CHPP-6 of Kyivenergo. In 2012, a retrofit project was developed, and its implementation in 2013 will require a USD 1.3 million capital investment.

In the process of upgrading the potable water treatment system of the pumping and filtering system of DTEK Prydniprovska TPP, liquid chlorine was substituted with less hazardous sodium hypochlorite.

Repair of the heat insulation of equipment and pipelines at DTEK Zuivska TPP resulted in replacing asbestos-containing materials (asbestos and cement plaster coat) used as a cover layer of heating insulation with asbestos-free materials (aluminium shells). In 2012, the scope of replaced materials amounted to 3,800.6 m^2. Asbestos and asbestos-containing materials at DTEK Kurakhovska TPP and DTEK Luganska TPP were replaced with foil plastic, folma-tissue and thermally expanded graphite products in the amount of 3.5 tonnes.

Oil-filled equipment (158 units) at DTEK's four electricity distribution companies (DTEK Donetskoblenergo, DTEK Dniproobllenergo, DTEK Krymenergo and Service-Invest) were replaced with vacuum and gas-insulated units, which eliminates any potential oil-product spills.

Corporate governance

01 Corporate governance structure

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

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

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

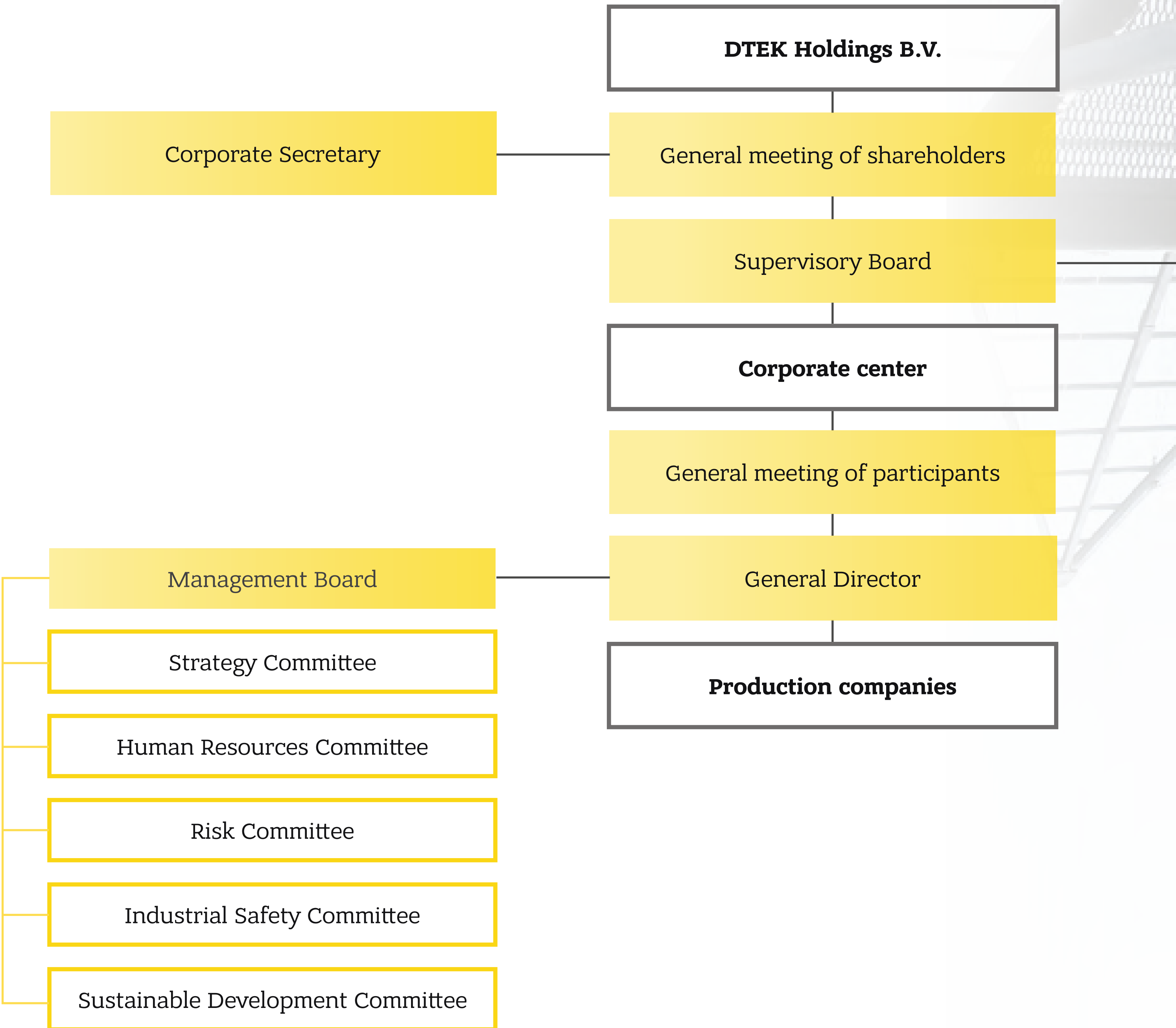
This structure ensures an efficient and transparent corporate management and ownership system; sets up mechanisms for making and communicating strategic decisions in line with the best international practices; and improves the competitiveness and shareholders' value of DTEK.

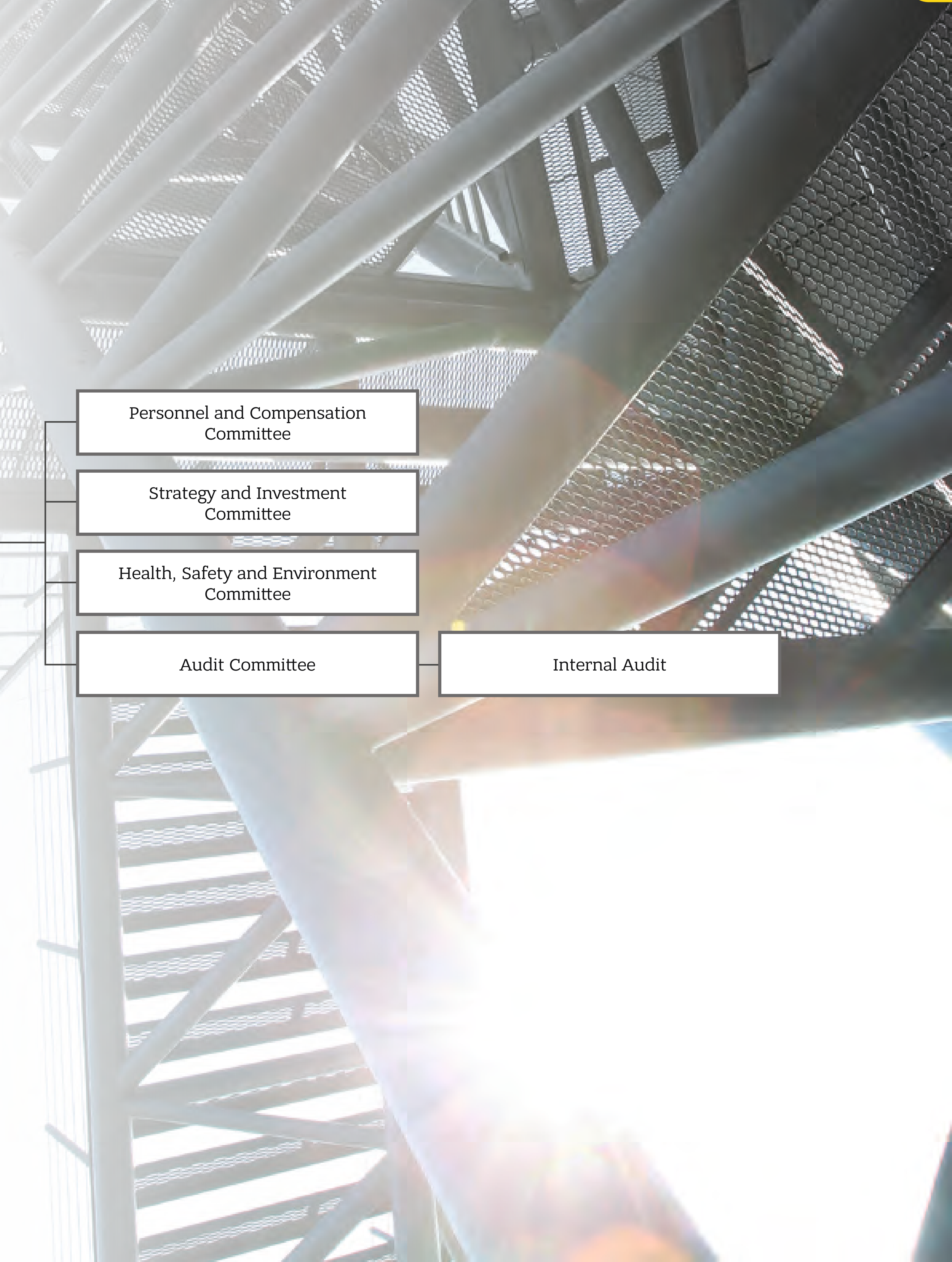
SCM (System Capital Management) is a shareholder of DTEK Holdings B.V.

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

Quality corporate governance promotes successful development and makes the Company more attractive to investors

DTEK corporate governance structure




Personnel and Compensation Committee
Strategy and Investment Committee
Health, Safety and Environment Committee
Audit Committee
Internal Audit

02 Supervisory Board

Oleg **Popov**

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

Oleg Popov graduated from the Donetsk Polytechnic Institute in 1991 and from the Donetsk State University in 1996. From 1991 to 2000, Oleg Popov worked in various state institutions. He came to SCM in 2000 as deputy chief executive and in 2001-2006 served as executive director. Oleg Popov took the position of SCM's chief executive officer in January 2006. At SCM Oleg Popov chairs the Supervisory Boards of the company's energy business and the Shakhtar football club. He also represents SCM on the Supervisory Boards of FUIB. He takes and approves key financial, investment and personnel decisions related to SCM and the Group's assets and assesses performance of their chief executives.

Damir **Akhmetov**

Member of the Supervisory Board

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

The Company's Supervisory Board is made up of eight directors, including three independent directors.

Johan **Bastin**

Member of the Supervisory Board, Independent Director, CEO of CapAsia

Dr. Bastin holds a Ph. D. in Regional Planning with a speciality in public finance from the Université de Montréal in Canada and an M, Sc. in Urban Planning from the Eindhoven University of Technology in the Netherlands. He was also enrolled in the MBA programme at McGill University in Montreal. Dr. Bastin was based in Indonesia from 1985 until 1992 where he served as Resident Team Director of Harvard University's Institute for International Development (HIID) heading a team of advisors to Indonesia's Minister of Finance. From 1993 until 2002, Dr. Bastin held several senior management positions with the European Bank for Reconstruction and Development in London lastly as Business Group Director Infrastructure with prime responsibility for EBRD's investments in infrastructure, transport and energy utilities, municipal and environmental services and energy efficiency. Before joining CapAsia in July 2009, Dr. Bastin was Managing Director at Darby Private Equity – a global private equity firm owned by Franklin Templeton. Currently Johan Bastin is the CEO of CapAsia and is based in Singapore.

Natalia **Izosimova**

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

Natalia Izosimova graduated from Moscow State Pedagogical University. Having taken the degree of master in English and American literature, Natalia was employed as a coordinator of International forum under UNESCO Committee concerning culture in Moscow, and then she worked as the chief editor in "Foreign literature" magazine. In 1994 she was employed as a communication manager by Moscow division of McKinsey&Company.
In 1998 Natalia Izosimova held the position of Eastern Europe Professional Development Director in Moscow office of McKinsey&Company. Starting from January 2005 Natalia Izosimova was appointed HR Director of joint-stock company System Capital Management, and from July 2005 – Corporate Reorganization Director. Starting from August 2007 Natalia Izosimova has been the Managing Director of the Foundation for Effective Governance founded by Rinat Akhmetov.

Sergey **Korovin**

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

In 1993 Sergey Korovin graduated with Honours from the Faculty of Applied Mathematics and Cybernetics of Lomonosov Moscow State University. In 2002–2008 he worked at Danish and Russian offices of the leading international consultancy McKinsey&Company, where he took positions from a consultant to junior partner. Since 2008 Mr. Korovin had managed work with telecommunications organizations and was member of the Board of Microsoft office in Russia. Sergey Korovin has served as Director of Energy Business Development of SCM JSC since 2010.

Irina **Mykh**

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

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

Catherine **Stalker**

Member of the Supervisory Board, Independent Director

Catharine Stalker holds a Masters degree from the London School of Economics in International Political Economy, and a Bachelors (honours) in languages from Heriot Watt University in Edinburgh. Catherine began her career from 1991 to 1995 in the Bank of England as a research analyst and then banking supervisor. From 1995 to 2007, she worked in PricewaterhouseCoopers in Moscow and Berlin, and was the Partner in charge of HR Management and Reward services in the CEE-CIS region. She currently provides management consulting services in the areas of executive compensation, organisational restructuring, and increasing the effectiveness of human resource policies and processes.

Robert **Sheppard**

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

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

The Supervisory Board's committees

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

1. Personnel and Compensation Committee

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

- To support senior executives in improving the efficiency of DTEK's HR system.
- To monitor the company's performance and advise management on the company's non-market strategy (social initiatives, reputation management, social partnership, GR).
- To monitor the company's performance and advise management on implementation of best practices in motivation, appraisal, remuneration and development of DTEK's senior executives.
- To prepare recommendations to the Supervisory Board on appointment of DTEK's senior executives.
- To prepare recommendations to the Supervisory Board on selection of members of the Supervisory Board and its committees.

In 2012, the Committee had eight meetings and considered 20 agenda items.

2. Strategy and Investment Committee

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

- To analyze the Company's long-term perspectives (10 to 20 years), as well as its position in view of economic development and changes in the legislative and technological environment.
- To set main tasks and plans for their fulfillment.
- To assess investments, large investment projects and M&A projects; to assess compliance of projects with the strategy and monitor project implementation.
- To prevent and mitigate strategic risks.

In 2012, the Committee had 17 meetings and considered 37 agenda items.

3. Health, Safety and Environment Committee

Chairperson: R. Sheppard
Committee member: I. Mykh
Main tasks:

- To identify risks in labor safety and environmental protection.
- To prepare measures for mitigation of such risks.
- To develop approaches to promote safe behavior.
- To hold emergency drills at DTEK enterprises.

In 2012, the Committee had six meetings and considered 33 agenda items.

4. Audit Committee

Chairperson: S. Korovin
Committee member: I. Mykh
Main tasks:

- To control internal risk and management system and the external and internal audit.
- To analyze and make decisions regarding the reliability and accuracy of financial statements and other reporting.
- To consider issues regarding operation of the risk management, internal audit and compliance systems.
- To prepare recommendations to the Supervisory Board regarding the selection of auditors for DTEK's financial statements.
- To assess the scope and quality of audit procedures as well as the independence and credibility of the auditor.

In 2012, the Committee had 12 meetings, eight in presentia and four in absentia, and considered 72 agenda items.

03 Management Board

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

Members as of June 2013 are as follows:

- CEO/Chairman of the Board — M. Timchenko.
- COO — Yu. Ryzhenkov.
- CFO — V. Starukhin.
- Commercial Director — A. Favorov.
- Coal Production Director — A. Smirnov.
- Electricity Generation Director — S. Tazin.
- Electricity Distribution and Sales Director — I. Maslov.
- Director for External Affairs — A. Tolkach.
- Large Projects Director — E. Bogomolsky.
- HR Director — A. Kucherenko.
- Legal Support Director — D. Sakharuk.

There are five committees under the Board:

1. Strategy Committee

Chairperson: M. Timchenko
Committee member: Yu. Ryzhenkov
Committee member: A. Favorov
Committee member: V. Starukhin
Committee member: A. Tolkach

Main tasks:

- To develop long-term development plans for DTEK, analyze changes in the internal and external environment and DTEK's position in the market, and identify and develop new strategic directions for the development of DTEK and its standalone businesses.
- To make recommendations to the Management Board and the Strategy and Investment Committee of the Supervisory Board (depending on the authority) on approval of M&A projects and start-ups.
- To make recommendations to the Management Board on approval of macroeconomic forecasts and market development forecasts.
- To make recommendations to the Strategy and Investment Committee of the Supervisory Board on approval of development strategies for DTEK Group, its separate assets and businesses (coal mining, electricity generation, sales and distribution, etc.) or functional divisions (finance, IT, services, etc.).
- To make recommendations to the Strategy and Investment Committee of the Supervisory Board on approval of DTEK's business valuation.
- Monitor fulfillment of strategic initiatives included in the business plan.

In 2012, the Committee had 15 meetings and considered 59 agenda items.

2. Human Resources Committee

Chairperson: A. Kucherenko
Committee member: M. Timchenko
Committee member: Yu. Ryzhenkov
Committee member: D. Sakharuk

Main tasks:

- To make recommendations to the Management Board on approval of the results of annual performance appraisal at DTEK and its assets (the 1st and the 2nd levels of management).
- To make recommendations to the Management Board and the Personnel and Compensation Committee of the Supervisory Board on appointments to key positions and the selection of successors for the Top 50 program.
- To make recommendations to the Management Board on inclusion of employees to the DTEK Talent Pool based on the results of appraisal and development centers.
- To make recommendations to DTEK's HR director on approval of procedures for staff recruitments and remuneration, personnel appraisal and development, organizational management, corporate culture and internal communications management.
- To make recommendations to the Management Board on approval of regulations for staff recruitment, remuneration, personnel appraisal and development, organizational management, corporate culture and internal communications management.
- To make recommendations to the Management Board on approval of appointment and dismissal of DTEK employees according to the list of positions approved by the Management Board.
- To make decisions on managing DTEK Academy as its Academic Council.
- To approve business schools for the Energy of a Leader and Power of Knowledge programs.
- To consider other matters regarding HR in DTEK.

In 2012, the Committee had 10 meetings, and considered 56 agenda items.

3. Risk Committee

Chairperson: V. Starukhin
Committee member: D. Sakharuk
Committee member: A. Favorov
Committee member: E. Bogomolsky

Main tasks:

- To consider and approve the policies, methodologies and instruments to identify and manage risks in DTEK Group, including such processes as:
  - strategic planning
  - budgeting
  - investments
  - commercial operations
  - external affairs
  - HR
  - financial borrowings and deposits
  - corporate legal support
  - assets' security
  - environmental protection
  - compliance management
  - management and provision of IT services
  - information security.
- as well as other risks:
  - large project risks
  - regulatory and legal risks
  - counterparty risks of the Commercial Division (as well as monitoring of observance of limits for counterparties)
  - risks of compliance with the State Property Fund requirements in terms of obligations undertaken by DTEK in the course of privatization
  - financial risks (currency, trade, price, interest and liquidity risks).
- To consider and monitor DTEK's exposure to material risks and its risk appetite.
- To approve the list of DTEK's counterparties and credit limits for commercial operations.
- To monitor fulfillment and efficiency of the mitigation of identified risks.
- To approve methodologies and instruments for insurance and selection of DTEK's Group insurance program.
- To consider and approve the results of insurance tenders.

- To monitor major insurance events and loss settlements.
- To control internal investigations of economic matters.
- To analyze the information received via the hotline and control responses to such calls.
- To monitor internal compliance in DTEK Group.
- To consider the findings of external audits of internal controls.
- To consider the implementation status and the results of projects associated with the risk management system and internal control in DTEK.
- To consider other matters related to risk management and control.

In 2012, the Committee had 21 meetings (including 10 in absentia) and considered 124 agenda items.

4. Occupational safety committee

Chairperson: Yu. Ryzhenkov
Committee member: A. Smirnov
Committee member: I. Maslov
Committee member: A. Kucherenko
Committee member: S. Tazin

Main tasks:

- To assess the risks associated with occupational safety and approval of mitigation measures.
- To assess the implementation of projects aimed at occupational safety improvement in DTEK.
- To consider reports and make decisions on taking disciplinary measures toward managers and employees violating occupational safety requirements set by the regulator and by DTEK.
- To approve the occupational safety budget that is included in DTEK's investments programme.
- To make decisions on holding target audits and studies for assessment of the occupational safety systems in DTEK.
- To analyze the results of occupational safety audits carried out by the DTEK Director at DTEK's enterprises.
- To control introduction of the occupational safety management system at DTEK.
- To listen to the performance reports of the heads of safety committees of DTEK Group enterprises and approve the results.
- To consider other matter related to occupational safety at DTEK.

In 2012, the Committee had 10 meetings and considered 61 agenda items.

5. Sustainable Development Committee

Chairperson: A. Tolkach
Committee member: A. Smirnov
Committee member: I. Maslov
Committee member: S. Tazin

Main tasks:

- To analyze the social development problems of towns and regions where DTEK operates.
- To approve long-term strategies for cooperation with towns where DTEK operates.
- To approve plans for reforming the social assets on DTEK's books.
- To manage occupational medicine development in the Company.
- To manage DTEK's reputation by setting out a comprehensive system for managing the company's regional policies.
- To manage DTEK's environmental protection strategy.
- To consider other matters that are not directly connected to DTEK's production and financial operations but may influence the fulfillment of the Group's business tasks.

In 2012, the Committee had 11 meetings (including four in absentia) and considered 47 agenda item.

04 Dividend policy

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

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

DTEK Holdings B.V.

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

31 December 2012

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The accompanying summary financial statements, which comprise the summary consolidated balance sheet as at 31 December 2012, the summary consolidated income statement, the statements of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of DTEK Holdings B.V. for the year 2012. We expressed an unqualified audit opinion on those financial statements in our report dated 6 March 2013. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain the Company financial statements as required by International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code. Reading the summary financial statements, therefore, is not a Substitute for reading the complete audited financial statements of DTEK Holdings B.V.

Management board's responsibility

The management board is responsible for the preparation of a summary of the audited financial statements.

Auditor's responsibility

Our responsibility is to express an opinion on the summary financial statements and the related explanatory notes based on our procedures, which we conducted in accordance with Dutch Law, including the Dutch Standard 810 «Engagements to report on summary financial statements».

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of DTEK Holdings B.V. for the year 2012 are consistent, in all material respects, with those financial statements.

Amsterdam, 6 March 2013
PricewaterhouseCoopers Accountants N. V.

A. J. Brouwer RA

PricewaterhouseCoopers Accountants N.V., Thomas R. Malthusstraat 5,1066 JR Amsterdam, P.O. Box 90357,
1006 BJ Amsterdam, The Netherlands
T: +31 (0) 88 792 00 20, F: +31 (0) 88 792 96 40, www.pwc.nl

Consolidated Balance Sheet

In millions of Ukrainian Hryvnia	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	8	50,752	30,627
Intangible assets	9	1,985	183
Goodwill	10	4,563	1,116
Investments in associates	11	12	5,574
Financial investments	12	289	563
Deferred income tax asset	31	899	549
Other non-current assets		50	137
Total non-current assets		**58,550**	**38,749**
Current assets			
Inventories	13	5,055	2,214
Trade and other receivables	14	7,068	4,608
Financial investments	12	99	328
Current income tax		272	23
Cash and cash equivalents	15	5,360	10,426
Total current assets		**17,854**	**17,599**
TOTAL ASSETS		**76,404**	**56,348**

In millions of Ukrainian Hryvnia	Note	31 December 2012	31 December 2011
EQUITY			
Share capital	16	0	0
Share premium		9,909	9,909
Other reserves	17	3,470	5,731
Retained earnings		14,291	8,785
Equity attributable to owners of the parent		**27,670**	**24,425**
Non-controlling interest in equity		**5,017**	**401**
TOTAL EQUITY		**32,687**	**24,826**
LIABILITIES			
Non-current liabilities			
Liability to non-controlling participants		5	4
Borrowings	18	17,256	12,405
Other financial liabilities	19	3,860	2,615
Retirement benefit obligations	20	4,241	3,519
Provisions for other liabilities and charges	21	578	600
Deferred income tax liability	31	1,499	937
Total non-current liabilities		**27,439**	**20,080**
Current liabilities			
Borrowings	18	3,406	2,677
Other financial liabilities	19	300	756
Prepayments received		2,951	899
Trade and other payables	22	8,162	5,814
Current income tax payable		375	356
Other taxes payable	23	1,084	940
Total current liabilities		**16,278**	**11,442**
TOTAL LIABILITIES		**43,717**	**31,522**
TOTAL LIABILITIES AND EQUITY		**76,404**	**56,348**

Signed by entire Management Board
on [6 March 2013].

Maksym Timchenko
Director

Vistra (Amsterdam) B.V.
Director

Approved for issue and signed by entire Supervisory Board
on [6 March 2013].

Oleg Popov
Natalia Izosimova
Sergey Korovin
Irina Mykh
Robert Sheppard
Damir Akhmetov
Catherine Stalker
Johan Bastin

Consolidated Income Statement

In millions of Ukrainian Hryvnia	Note	2012	2011
Revenue	24	78,340	39,594
Heat tariff compensation	24	4,241	–
Cost of sales	25	(70,816)	(29,976)
Gross profit		**11,765**	**9,618**
Other operating income	26	3,265	515
Distribution costs	27	(594)	(203)
General and administrative expenses	28	(2,233)	(1,184)
Other operating expenses	29	(1,408)	(682)
Net foreign exchange (loss)/gain (other than on borrowings)		705	124
Impairment of property, plant and equipment	8	–	(198)
Operating profit		**11,500**	**7,990**
Foreign exchange losses less gains from borrowings		(448)	(84)
Finance income	30	602	222
Finance costs	30	(4,183)	(1,283)
Gain from a bargain purchase	33	604	–
Recognition of loss from fair valuation of associate on transfer to subsidiary (2011: on transfer from AFS investments to associate)	11	(385)	(334)
Recognition of AFS reserve on transfer to subsidiary (2011: on transfer to associate)	17	(63)	(349)
Share of after tax results of associates	11	(205)	(48)
Impairment of investments in associates	11	–	(446)
Profit before income tax		**7,422**	**5,668**
Income tax expense	31	(1,500)	(2,146)
Profit for the year		**5,922**	**3,522**
Profit/(loss) is attributable to:			
Equity holders of the Company		4,680	3,555
Non-controlling interest		1,242	(33)
Profit for the year		**5,922**	**3,522**

Consolidated Statement of Comprehensive Income

In millions of Ukrainian Hryvnia	Note	2012	2011
Profit for the period		5,922	3,522
Other comprehensive income			
Financial investments:			
– Fair value gain/(loss)	17	60	(334)
– Income tax recorded on available-for-sale financial assets	17	(4)	36
– Recognition of AFS reserve on transfer to subsidiary (2011: to associate)	17	63	349
– Reversal of Income tax recorded in equity due to transfer of AFS to associate	17	–	(64)
Share of other equity movements of associates	17	–	24
Property, plant and equipment:			
– Change in estimate for asset retirement obligation	17	(9)	2
– Revaluation of property plant and equipment	8	–	6,027
– Income tax recorded on revaluation of property plant and equipment	31	–	(1,052)
– Share in revaluation of PPE of associates	17	–	1,887
Reversal of Income tax recorded in equity due to change in tax legislation	31	–	1,228
Currency translation reserve	17	42	–
Total other comprehensive income		**152**	**8,103**
Total comprehensive income for the period		**6,074**	**11,625**
Total comprehensive income attributable to:			
Equity holders of the Company		4,832	11,593
Non-controlling interest		1,242	32
Total comprehensive income for the period		**6,074**	**11,625**

Consolidated Statement of Changes in Equity

In millions of Ukrainian Hryvnia	Attributable to equity holders of the Company					Non-controlling interest	Total Equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2011	**0**	**9,909**	**(865)**	**4,166**	**13,210**	**70**	**13,280**
Profit for 2011	–	–	–	3,555	**3,555**	(33)	**3,522**
Other comprehensive income for 2011 (Note 17)	–	–	8,038	–	**8,038**	65	**8,103**
Total comprehensive income for 2011	**–**	**–**	**8,038**	**3,555**	**11,593**	**32**	**11,625**
Property, plant and equipment:							
– Realised revaluation reserve (Note 17)	–	–	(888)	888	**–**	–	**–**
– Deferred tax related to realised revaluation reserve	–	–	106	(106)	**–**	–	**–**
– Share in realised revaluation reserve of associates (Note 17)	–	–	(127)	127	**–**	–	**–**
Transfer of associates to subsidiary – recycling of equity reserves (Note 17)	–	–	(533)	533	**–**	–	**–**
Acquisition of subsidiary (Note 33)	–	–	–	–	**–**	315	**315**
Acquired non-controlling interest	–	–	–	2	**2**	(16)	**(14)**
Dividends declared	–	–	–	(380)	**(380)**	–	**(380)**
Balance at 31 December 2011	**0**	**9,909**	**5,731**	**8,785**	**24,425**	**401**	**24,826**
Profit for 2012	–	–	–	4,680	**4,680**	1,242	**5,922**
Other comprehensive income for 2012 (Note 17)	–	–	152	–	**152**	–	**152**
Total comprehensive income for 2012	**–**	**–**	**152**	**4,680**	**4,832**	**1,242**	**6,074**
Property, plant and equipment:							
– Realised revaluation reserve (Note 17)	–	–	(1,356)	1,356	**–**	–	**–**
– Deferred tax related to realised revaluation reserve	–	–	195	(195)	**–**	–	**–**
Transfer of associates to subsidiary – recycling of equity reserves (Note 17)	–	–	(1,252)	1,252	**–**	–	**–**
Acquisition of subsidiary (Note 33)	–	–	–	–	**–**	3,461	**3,461**
Acquired non-controlling interest	–	–	–	(3)	**(3)**	(34)	**(37)**
Dividends declared	–	–	–	(1,584)	**(1,584)**	(53)	**(1,637)**
Balance at 31 December 2012	**0**	**9,909**	**3,470**	**14,291**	**27,670**	**5,017**	**32,687**

Consolidated Statement of Cash Flows

In millions of Ukrainian Hryvnia	Note	2012	2011
Cash flows from operating activities			
Profit before income tax		7,422	5,668
Adjustments for:			
Depreciation and impairment of property, plant and equipment and amortisation of intangibles, net of amortisation of government grants		6,024	2,334
Losses less gains on disposals of property, plant and equipment	29	83	35
Assets received free of charge	26	(95)	(73)
Net movement in provision for impairment of trade and other receivables and prepayments made	26, 29	(2,576)	48
Gain from sale of investments available-for-sale		2	–
Impairment of non-current prepayments for shares		–	15
Change in provisions for other liabilities and charges	21	(112)	214
Non-cash operating charge/(credit) to retirement benefit obligation	20	242	(244)
Extinguishment of accounts payable	26	(114)	(122)
Share of result and impairment of associates	11	205	494
Recognition of AFS reserve on transfer to subsidiary	17	63	–
Recognition of AFS reserve on transfer to associate	17	–	349
Loss from fair valuation of associate on transfer to subsidiary	11, 17	385	334
Loss on disposal of associate	11	15	–
Unrealised result on associate	11	(8)	42
Gain from a bargain purchase	33	(604)	–
Unrealised foreign exchange (gain)/loss		6	133
Realised and unrealised foreign exchange (gain)/loss on financing activities		448	12
Finance costs, net	30	3,581	1,061
Operating cash flows before working capital changes		**14,967**	**10,300**
Decrease/(increase) in trade and other receivables		886	(282)
Increase in inventories		(1,390)	(499)
Increase/(decrease) in prepayments received		544	(195)
Increase/(decrease) in trade and other payables		264	(1,011)
Repayment of restructured obligations		(2,678)	(38)
Increase in other financial liabilities		769	135
(Decrease)/increase in taxes payable		(415)	280

In millions of Ukrainian Hryvnia	Note	2012	2011
Cash generated from operations		**12,947**	**8,690**
Income taxes paid		(2,763)	(2,150)
Defined employee benefits paid	20	(582)	(223)
Interest paid		(1,482)	(486)
Interest received		263	157
Provisions utilised		(28)	(8)
Net cash generated from operating activities		**8,355**	**5,980**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(9,698)	(3,580)
Proceeds from sale of property, plant and equipment		15	6
Purchase of financial investments		–	(34)
Purchase of additional interest in associates		–	(25)
Acquisition of associates	11	–	(280)
Prepayment for acquisition of subsidiaries	12	(160)	(355)
Withdrawal/(placement) of restricted cash	12,15	(171)	1
Capitalised borrowings cost paid		(124)	–
Redemption/(acquisition) of deposit certificates		–	12
Dividends received from associates	11	–	45
Finance lease related to acquisitions paid		(21)	–
Deposits placed and financial aid or loan provided		(169)	(128)
Repayment of deposits and loans provided		332	599
Acquisition of subsidiary	33	(4,653)	(451)
Cash acquired in business combination	33	261	497
Deferred consideration related to acquisitions paid		(103)	(91)
Net cash used in investing activities		**(14,491)**	**(3,784)**
Cash flows from financing activities			
Proceeds from borrowings		20,989	12,016
Repayment of borrowings		(18,148)	(4,550)
Commitment fee paid		(52)	–
Repayment of debts under amicable agreement		(12)	(90)
Dividends paid		(1,766)	(641)
Acquisition of non–controlling interest		(37)	(14)
Net cash generated from financing activities		**974**	**6,721**
Net (decrease) increase in cash and cash equivalents		**(5,162)**	**8,917**
Cash and cash equivalents at the beginning of the year	**15**	**10,426**	**1,692**
Exchange gains/(losses) on cash and cash equivalents		5	(183)
Cash and cash equivalents at the end of the year	**15**	**5,269**	**10,426**

We draw your attention that this report only contains the consolidated financial statements. The complete annual accounts also comprise the company financial statements and the directors report. For a better understanding of the company's financial position and results, we emphasise that the consolidated financial statements 2012 should be read in conjunction with the statutory financial statements of DTEK Holdings B.V., which include the directors report, company only financial statements 2012 and other information.

01 The Organisation and its Operations

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

DTEK is a vertically integrated power generating and distribution group. Its principal activities are coal mining for further supply to its power generating facilities and finally distribution of electricity to end customers primarily in Ukraine. The Group 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 of incorporation
	2012	2011		
Management companies				
DTEK Finance B.V.	100.00	100.00	Management	Netherlands
DTEK Investments B.V.	100.00	100.00	Management	Netherlands
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
Coal mining				
DTEK Pavlogradugol PJSC	99.92	99.92	Coal Mining	Ukraine
DTEK Mine Komsomolets Donbassa PJSC	94.64	94.64	Coal Mining	Ukraine
DTEK Dobropolyeugol LLC	100.00	100.00	Coal Mining	Ukraine
Bilozerska Mine ALC	95.44	–	Coal Mining	Ukraine
DTEK Rovenkiantracyte LLC	100.00	100.00	Coal Mining	Ukraine
DTEK Sverdlovantracyte LLC	100.00	100.00	Coal Mining	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
DTEK Dobropolskaya CEP PJSC	60.06	60.06	Coal Mining	Ukraine
DTEK Oktyabrskaya CEP PJSC	60.85	60.85	Coal Mining	Ukraine
Pershotravensky RMZ LLC	99.92	99.92	Coal Mining	Ukraine
Ekoenergoresurs LLC	99.00	99.00	Coal Mining	Ukraine
Public company Don-Anthracite	100.00	–	Coal Mining	Russian Federation
Public Mining Corporation Obukhovskaya	100.00	–	Coal Mining	Russian Federation
Sulinathracite LLC	100.00	–	Coal Mining	Russian Federation

Name	% interest held as at 31 December		Segment	Country of incorporation
	2012	2011		
Power generation				
Eastenergo LLC	100.00	100.00	Power generation	Ukraine
Tehrempostavka LLC	100.00	100.00	Power generation	Ukraine
Wind Power LLC	100.00	100.00	Power generation	Ukraine
DTEK Dniproenergo PJSC	73.30	47.93	Power generation	Ukraine
DTEK Zakhidenergo PJSC	72.19	25.83	Power generation	Ukraine
Electricity distribution				
Servis-Invest LLC	100.00	100.00	Electricity distribution	Ukraine
DTEK Energougol ENE PJSC	94.24	94.24	Electricity distribution	Ukraine
Kyivenergo JSC	72.33	72.33	Electricity distribution	Ukraine
DTEK Donetskoblenergo PJSC	71.35	31.28	Electricity distribution	Ukraine
DTEK Dniprooblenergo PJSC	51.51	1.51	Electricity distribution	Ukraine
DTEK Krymenergo PJSC	57.60	12.49	Electricity distribution	Ukraine
Other				
Sotsis LLC	99.00	99.00	Other	Ukraine
DTEK Servis LLC	99.00	99.00	Other	Ukraine
DTEK Trading LLC	100.00	100.00	Other	Ukraine
DTEK Trading Limited	100.00	100.00	Other	Cyprus
Power Trade LLC	100.00	100.00	Other	Ukraine
DTEK Neftegaz LLC	100.00	100.00	Other	Ukraine
DTEK Hungary Power Trade LLC	100.00	100.00	Other	Hungary

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 2012, the Group employed approximately 142 thousand people (31 December 2011: 104 thousand people).

02 Operating Environment of the Group

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

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

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

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

03 Summary of Significant Accounting Policies

Basis of preparation

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

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 2012, the exchange rates used for translating foreign currency balances were USD 1 = UAH 7.99 (31 December 2011: USD 1 = UAH 7.99); EUR 1 = UAH 10.54 (31 December 2011: EUR 1 = UAH 10.30); RUB 10 = UAH 2.63 (31 December 2011: RUB 10 = UAH 2.50). Exchange restrictions in Ukraine are limited to compulsory receipt of foreign receivables within 180 days of sales. Foreign currency can be easily converted at a rate close to the National Bank of Ukraine rate. At present, the UAH is not freely convertible outside Ukraine.

Consolidated financial statements

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

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

If subsidiary is acquired in stages it is measured as the sum of the fair value of the interest previously held plus the fair value of any additional consideration transferred as of the date when the investment became an associate. Relative gain or loss from valuation of previously held interest is recognised in the income statement.

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

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

Transactions with non-controlling interests

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

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

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

Common control business combinations

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

Investments in associates

Associates are entities over which the Group has significant influence but not control, generally presumed for shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

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

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

Segment reporting

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

Property, plant and equipment

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

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

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

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

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

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

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

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

Leases

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

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

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

Asset retirement obligations

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

Goodwill

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

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

Other intangible assets

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

Impairment of non-financial assets

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

Classification of financial assets

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

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

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

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

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

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

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

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

Subsequent measurement of financial instruments

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

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

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

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

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

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

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

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

Derecognition of financial assets

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

Income taxes

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

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

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

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

Inventories

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

Trade and other receivables

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

Prepayments

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

Promissory notes

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

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

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

Cash and cash equivalents

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

Share capital

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

Dividends

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

Value added tax ("VAT")

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

Borrowings and other financial liabilities

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

Government grants

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

Trade and other payables

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

Prepayments received

Prepayments received are carried at amounts originally received.

Provisions for liabilities and charges

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

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

Contingent as iPad 4 16Gb Wi-Fi + Cellular (чёрный) sets 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's generating companies 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 ("NCRE"). The Group's distribution companies buy electricity from Energorynok and sell it to the end-customers, at prices determined by NCRE. 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. Revenue from sale of electricity to end customers is recognised on a gross basis.

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.

Recognition of expenses

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

Finance income and costs

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

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

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

Management incentive program

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

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

Employee benefits: Defined Contributions Plan

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

Employee benefits: Defined Benefit Plan

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

Changes in presentation

Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

The effect of reclassifications for presentation purposes was as follows on amounts at 31 December 2011:

In millions of Ukrainian Hryvnia	As originally presented	Reclassification	As reclassified at 31 December 2011
Intangible assets	1,299	(1,116)	183
Goodwill	-	1,116	1,116
Other financial liabilities – non-current	1,961	654	2,615
Restructured obligations – non-current	651	(651)	-
Government grants	3	(3)	-
Other financial liabilities – current	604	152	756
Restructured obligations – current	152	(152)	-

The effect of reclassifications for presentation purposes was as follows on amounts at 1 January 2011:

In millions of Ukrainian Hryvnia	As originally presented	Reclassification	As reclassified at 1 January 2011
Intangible assets	731	(633)	98
Goodwill	-	633	633
Other financial liabilities – non-current	118	102	220
Restructured obligations – non-current	93	(93)	-
Government grants	9	(9)	-

Changes in reclassification require presenting a statement of financial position as of 1 January 2011. The statement of financial position as of 1 January 2011 is not presented in these financial statements. Management considered materiality and concluded that it is sufficient for an entity to present information about the reclassifications made only in this note. The omission of the statement of financial position as of 1 January 2011 is therefore, in management's view, not material.

04 Critical Accounting Estimates and Judgements

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

Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price and liquidity in the Ukrainian markets. In addition, impairment may be appropriate when there is evidence of changes in technology or a deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would have suffered an additional loss for the year of UAH 25 million (2011: 148 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.

Fair value of previously held interests

The fair value of the previously held interest in the acquirees is assessed by the management with the reference to the quotes of the respective securities on active markets. Due to the illiquid nature of the Ukrainian capital markets the management assessed whether there exists an active market of the acquirees' securities on a case by case basis. Where the acquirees shares were determined not to be quoted in active markets, the fair values of previously held interests in acquirees were determined by reference to the prices of recent purchase transactions including for the privatisation for Zakhidenergo PJSC, Donetskoblenergo PJSC, Dniprooblenergo PJSC, Krymenergo PJSC and in case of Dniproenergo PJSC by independent appraisers using different valuation techniques.

Impairment of property, plant and equipment and goodwill

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

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

The recoverable amount of goodwill and cash-generating units were estimated based on a fair value less costs to sell calculations. Additional information is disclosed in Note 10.

Revaluation of property, plant and equipment

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

Revenue measurement

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

Impairment of trade and other accounts receivable

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

Post-employment and other employee benefit obligations

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

Deferred tax asset recognition

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

Interest rates applied to long-term liabilities

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

Tax legislation

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

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

Related party transactions

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

Heat tariff compensation received by Kyivenergo JSC.

In accordance with existing legislation, Kyivenergo is entitled to claim heat tariff compensation which is computed as the difference between the heat tariff required to cover all production costs plus reasonable margin and that imposed by the National Electricity Regulatory Committee of Ukraine. Such claims are subject to additional Governmental, Budget and City approvals, prescribed by the state regulations. In October 2012 the Cabinet of Ministers of Ukraine approved Resolution #968 stating that the compensations of the difference between the "economically grounded" tariffs and that imposed by the state should be calculated by the companies entitled to such compensations and approved by the state regularly. Kyivenergo accounts for such heat tariff compensation as government grants and records amounts of compensation receivable on accrual basis starting from November 2012. During 2012, Kyivenergo recorded UAH 3,962 million of heat tariff compensation related to 2011 and 2012, of which UAH 3,672 million was received in cash.

05 Adoption of New or Revised Standards and Interpretations

There no new standards, amendments to standards or interpretations that are effective for the first time for the financial periods beginning on or after 1 January 2012 that would be expected to have any significant effect on the Group's consolidated financial information.

The following new standards and amendments to standards which are relevant to the Group's consolidated financial statements have been adopted by the European Union, but are not effective for the financial periods beginning on or after 1 January 2012 and have not been early adopted by the Group:

- IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- Amended IAS 28, Investments in Associates and Joint Ventures (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- IFRS 12, Disclosure of Interest in Other Entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- IFRS 13, Fair Value Measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- Amendments to IAS 1, Presentation of Financial Statements (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012).
- Amended IAS 19, Employee Benefits (issued in June 2011 and effective for annual periods beginning on or after 1 January 2013). The Group is currently assessing the impact of such change on its financial statement.

The following new standards, amendments to standards, and interpretations which are relevant to the Group's consolidated financial statements have been issued, but are not yet effective for the financial periods beginning on or after 1 January 2012 and have not been adopted by the European Union (EU):

- IFRS 9, Financial Instruments Part 1: Classification and Measurement (not yet adopted by European Union).

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

06 Segment Information

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

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

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

- Coal mining
- Power generation
- Electricity distribution
- Heat generation, (following acquisition of Kyivenergo (Note 33).

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

Segment information for the main reportable business segments of the Group for the year ended 31 December 2012 is as follows:

In millions of Ukrainian Hryvnia	Coal mining	Power generation	Electricity distribution	Heat generation	Other	Elimination	Total
2012							
Sales – external	7,059	30,733	36,836	3,647	65	–	78,340
Sales to other segments	19,186	–	796	2	1,473	(21,457)	–
Total revenue	**26,245**	**30,733**	**37,632**	**3,649**	**1,538**	**(21,457)**	**78,340**
Heat tariff compensation	**–**	**–**	**–**	**4,241**	**–**	**–**	**4,241**
Segment results	3,824	4,224	1,972	1,945	309	(699)	11,575
Unallocated expenses							(75)
Operating profit							**11,500**
Finance costs, net							(3,581)
Foreign exchange losses less gains from borrowings							(448)
Gain from a bargain purchase							604
Recognition of loss from fair valuation of associate on transfer to subsidiary							(385)
Recognition of AFS reserve on transfer to associate							(63)
Share of results of associates							(205)
Profit before income tax							**7,422**
As at 31 December 2012							
Segment assets	26,994	29,888	13,114	3,335	4,419	(4,938)	72,812
Investments in associates	–	–	–	–	12	–	12
Available for sale investments	–	–	–	–	45	–	45
Current / deferred tax assets							1,171
Other unallocated assets							2,364
Total assets							**76,404**
Capital expenditure	3,855	3,222	1,337	158	1,621	–	10,193
Depreciation and amortisation	2,949	1,876	999	142	58	–	6,024

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

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

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

In millions of Ukrainian Hryvnia	Coal mining	Power generation	Electricity distribution	Total
2012				
Energorynok SE	–	30,733	–	**30,733**
Entities under common control of SCM	901	–	7,238	**8,139**
Total	**901**	**30,733**	**7,238**	**38,872**
2011				
Energorynok SE	–	10,356	–	**10,356**
Dniproenergo JSC	5,353	–	–	**5,353**
Zakhidenergo JSC	3,973	–	–	**3,973**
Entities under common control of SCM	875	–	5,398	**6,273**
Total	**10,201**	**10,356**	**5,398**	**25,955**

Geographical information

In millions of Ukrainian Hryvnia	2012	2011
Ukraine	74,825	33,110
Western Europe	3,779	2,738
Eastern Europe	3,349	2,179
Other	628	1,567
Total revenues and heat tariff compensation	**82,581**	**39,594**

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

07 Balances and Transactions with Related Parties

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

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 2012 are detailed below. At 31 December, the outstanding balances with related parties were as follows:

In millions of Ukrainian Hryvnia	2012				2011			
	Parent	Entities under common control of SCM	Asso-ciates	Other	Parent	Entities under common control of SCM	Asso-ciates	Other
Gross amount of trade and other receivables	–	349	–	848	–	127	451	–
Financial aid provided	–	–	–	–	–	8	–	–
Loans granted and interest accrued	–	–	–	–	–	–	135	–
Cash and cash equivalents – current account	–	1,295	–	–	–	2,788	–	–
Investment obligation relating to Dniproenergo (Note 19):								
– Current	–	–	–	–	–	–	(519)	–
Trade and other payables	–	(313)	–	(62)	–	(183)	(3)	–
Prepayments received	–	(34)	(4)	(176)	–	(3)	(1)	–

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

In millions of Ukrainian Hryvnia	2012				2011			
	Entities under common control of SCM	Associates of SCM	Asso-ciates	Other	Entities under common control of SCM	Associates of SCM	Asso-ciates	Other
Sales of electricity	7,238	279	–	175	5,398	14	–	–
Sales of coking coal	739	–	–	–	815	–	–	–
Sales of steam coal	162	–	1,300	–	60	3,368	6,010	–
Sales of inventory	1	–	1	–	1	–	6	–
Purchase of raw materials and equipment	(380)	–	–	–	(255)	–	–	–
Purchase of non-current assets	(368)	–	–	–	–	–	–	–
Purchase of services	(693)	–	–	–	(47)	–	–	–
Interest income on bank deposits	43	–	–	–	29	–	–	–
Interest expense on bonds issued	–	–	–	–	(1)	–	–	–
Interest expense on bank loans	(16)	–	–	–	–	–	–	–
Interest income on loans provided	–	–	3	–	–	–	–	8

Revenue, trade and other receivable

The trade receivable balances as at 31 December 2012 due from entities under common control and associates are non-interest bearing. The balances outstanding from related parties as at 31 December 2012 and 2011 are unsecured and settlements are made either in cash, in the form of debt set-off or by means of exchanging promissory notes issued by the settling counterparties or third parties to the transaction. The Group created no provision for impairment of accounts receivable due from related parties as at 31 December 2012 and 2011.

Purchases, trade and other payables

Purchases and outstanding trade and other payables as at 31 December 2012 and 2011 comprised mainly balances due to related parties for supplies of iron shoring for mines, raw materials and steaming coal. Balances payable are non-interest bearing and are repayable in the normal course of business.

Key management personnel compensation

Key management personnel consist of eleven top executives (2011: seven top executives).

In 2012 total compensation to key management personnel included in administrative expenses amounted to UAH 62 million (2011: UAH 31 million). Compensation to the key management personnel consists of salary and bonus payments.

Effective 1 January 2009, the Group entered into a management incentive program with certain top executives. Under the program, top executives are entitled to 2% of the Group's incremental value (net worth) increase over a benchmark amount. Total available under the program is capped at USD 100 million depending on the increase in the value of the Group, this amount is further capped by individual employee caps which total 39% of the maximum available. The valuation of the Group as of the respective dates would be performed by quoted price, if the Group's shares are publically traded, or by the Supervisory Board decision based on internationally recognised non-public entity valuation practices. All participants deferred interim vesting and accordingly 100% are vested as at 31 December 2012. Probable obligation as at 31 December 2012 was assessed using the forecasted internal valuation of the Group's net worth performed by the Group management. As at 31 December 2012, UAH 312 million has been accrued in these financial statements (2011: UAH 312 million), no additional charge was recognised in administrative expenses during 2012 (2011: UAH 183 million).

08 Property, Plant and Equipment

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

In millions of Ukrainian Hryvnia	Mining assets	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
At 1 January 2011						
Cost or valuation	2,413	3,851	7,023	453	1,361	15,101
Accumulated depreciation	(365)	(738)	(2,227)	(196)	–	(3,526)
NBV at 1 January 2011	**2,048**	**3,113**	**4,796**	**257**	**1,361**	**11,575**
Acquisition of subsidiaries (Note 33)	4,489	2,770	2,417	360	1,110	11,146
Additions	327	190	1,468	192	2,146	4,323
Disposals	(6)	(15)	(26)	(3)	(13)	(63)
Depreciation charge	(268)	(352)	(1,447)	(116)	–	(2,183)
Revaluation recorded in equity	1,384	1,358	3,017	79	189	6,027
Impairment of property, plant and equipment	(29)	–	(141)	(4)	(24)	(198)
Transfer	52	19	166	2	(239)	–
NBV at 31 December 2011	**7,997**	**7,083**	**10,250**	**767**	**4,530**	**30,627**
At 31 December 2011						
Cost or valuation	8,255	7,412	11,569	1,032	4,530	32,798
Accumulated depreciation	(258)	(329)	(1,319)	(265)	–	(2,171)
NBV at 31 December 2011	**7,997**	**7,083**	**10,250**	**767**	**4,530**	**30,627**
Acquisition of subsidiaries (Note 33)	1,147	6,637	5,850	302	2,013	15,949
Additions	451	1,060	4,062	509	4,111	10,193
Disposals	–	(15)	(118)	(4)	(7)	(144)
Depreciation charge	(443)	(1,191)	(3,760)	(518)	–	(5,912)
Foreign exchange differences	27	4	7	1	–	39
Transfer	235	234	2,082	39	(2,590)	–
NBV at 31 December 2012	**9,414**	**13,812**	**18,373**	**1,096**	**8,057**	**50,752**

In millions of Ukrainian Hryvnia	Mining assets	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
At 31 December 2012						
Cost or valuation	10,111	16,021	24,606	2,039	8,057	60,834
Accumulated depreciation	(697)	(2,209)	(6,233)	(943)	–	(10,082)
NBV at 31 December 2012	**9,414**	**13,812**	**18,373**	**1,096**	**8,057**	**50,752**
NBV without revaluation at 31 December 2011	**5,938**	**3,701**	**6,710**	**673**	**4,372**	**21,394**
NBV without revaluation at 31 December 2012	**7,550**	**10,684**	**15,858**	**1,026**	**7,911**	**43,029**

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

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

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

As at 31 December 2012, buildings, plant and machinery carried at UAH 555 million (31 December 2011: UAH 1,127 million) have been pledged to third parties as collateral for borrowings (Note 32).

In 2012, the depreciation expense of UAH 5,733 million (2011: UAH 2,083 million), net of amortisation of government grants, was included in cost of sales, UAH 101 million (2011: UAH 30 million) in general and administrative expenses, UAH 10 million (2011: UAH 7 million) in distribution expenses.

During 2012 the Group continued the construction of qualifying assets. This construction is financed through special-purpose and other borrowings. Borrowing costs capitalized during the 2012 were UAH 124 million (2011: UAH 29 million). The rate in the range between 9.60% and 16.00% was used to estimate borrowing costs subject to capitalisation (2011: between 7.80% and 15.50%).

09 Intangible Assets

As at 31 December, intangible assets comprise:

In millions of Ukrainian Hryvnia	2012	2011
Burshtyn electricity island	1,687	–
Other intangible assets	298	183
Total	**1,985**	**183**

The movements of other intangible assets, primarily unique capability of Zakhidenergo Burshtyn thermal plant to supply the Central European market with electricity ("Burshtyn electricity island", Note 33) were as follows:

In millions of Ukrainian Hryvnia	Cost	Accumulated amortisation and impairment	Net book value
As at 1 January 2011	**125**	**(27)**	**98**
Additions / (Charge) for the year	109	(24)	85
As at 31 December 2011	**234**	**(51)**	**183**
Acquisition of subsidiaries (Note 33)	1,869	(4)	1,865
Additions / (Charge) for the year	137	(200)	(63)
As at 31 December 2012	**2,240**	**(255)**	**1,985**

In 2012, the amortisation expense of UAH 145 million (2011: UAH 3 million), net of amortisation of government grants, was included in cost of sales, and UAH 35 million (2011: UAH 13 million) in general and administrative expenses.

10 Goodwill

The movements of goodwill were as follows:

In millions of Ukrainian Hryvnia	2012	2011
Book amount as at 1 January	**1,116**	**633**
Acquisition of DTEK Dniproenergo PJSC (Note 33)	1,999	–
Acquisition of DTEK Zakhidenergo PJSC (Note 33)	1,265	–
Acquisition of DTEK Donetskoblenergo PJSC (Note 33)	136	–
Acquisition of DTEK Dniproblenergo PJSC (Note 33)	47	–
Acquisition of Kyivenergo JSC (Note 33)	–	483
Book amount as at 31 December	**4,563**	**1,116**

Goodwill Impairment Test

Goodwill is allocated to cash-generating units ("CGUs") which represent the lowest level within the Group at which goodwill is monitored by management.

Management allocated goodwill to seven main CGUs:

In millions of Ukrainian Hryvnia	2012	2011
Coal mining:		
– DTEK Pavlogradugol PJSC	590	590
Electricity generation:		
– DTEK Dniproenergo PJSC	1,999	–
– DTEK Zakhidenergo PJSC	1,265	–
Energy distribution		
– Kyivenergo JSC	483	483
– DTEK Dniproblenergo PJSC	47	–
– DTEK Donetskoblenergo PJSC	136	–
– DTEK Energougol ENE PJSC	43	43
Total	**4,563**	**1,116**

The recoverable amount has been determined based on a fair value less costs to sell calculations. Cash flow projections, based on financial budgets approved by senior management covering an eight-year projection period for all entities except Kyivenergo, and market prices were used to determine projected sales. Cash flows beyond the projected period are extrapolated using the estimated growth rates stated below. Cash flow projections for Kyivenergo cover eighteen-year period due to longer period of capital expenditures recovery and due to transition of electricity distribution segment to return-on-asset based tariff setting system starting from 2014 till 2016.

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

	2012	2011
Coal mining — DTEK Pavlogradugol PJSC		
Post-tax discount rate	17%–16%	17%–15%
Revenue growth rate for the five-year period	6%–19%	3%–21%
Revenue growth rate after the five-year period till eighth year	2%–6%	5%–6%
Gross margin	35%–47%	34%–45%
Electricity generation — DTEK Dniproenergo PJSC		
Post-tax discount rate	17%–16%	–
Revenue growth rate for the five-year period	(6%)–31%	–
Revenue growth rate after the five-year period till eighth year	(5%)–18%	–
Gross margin	11%–25%	–
Electricity generation — DTEK Zakhidenergo PJSC		
Post-tax discount rate	17%–16%	–
Revenue growth rate for the five-year period	13%–29%	–
Revenue growth rate after the five-year period till eighth year	3%–12%	–
Gross margin	16%–29%	–
Electricity distribution — DTEK Energougol ENE PJSC		
Post-tax discount rate	17%–16%	17%–15%
Revenue growth rate for the five-year period	(33%)–20%	3%–19%
Revenue growth rate after the five-year period till eighth year	(16%)–2%	4%–5%
Gross margin	10%–27%	11%–14%
Electricity distribution — DTEK Kyivenergo PJSC		
Post-tax discount rate	17%–16%	17%–15%
Revenue growth rate for the five-year period	(17)%–33%	9%–28%
Revenue growth rate after the five-year period till eighteenth year	2%–11%	3%–7%
Gross margin	4%–13%	(9%)–15%

	2012	2011
Electricity distribution — DTEK Donetskoblenergo JSC		
Post-tax discount rate	16%	–
Revenue growth rate for the five-year period	(3%)–48%	–
Revenue growth rate after the five-year period till eighth year	(17%)–7%	–
Gross margin	12%–16%	–
Electricity distribution — Dniproblenergo JSC		
Post-tax discount rate	17%–16%	–
Revenue growth rate for the five-year period	(54%)–14%	–
Revenue growth rate after the five-year period till eighth year	3%–10%	–
Gross margin	4%–14%	–

In assessing goodwill impairment management used a multi-period post-tax discount rate ranging from 17% in 2013 down to 16% in 2020 (2030 for Kyivenergo) and onwards. For Donetskoblenergo post-tax discount rate approximates 16% for all periods from 2013 to 2020 and onwards.

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

No impairment was recognised as a result of the assessment.

For the purposes of impairment testing, goodwill on Kyivenergo acquisition is allocated to electricity distribution segment. This unit represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The above estimates are particularly sensitive in the following areas:

- a decrease in selling tariffs by more than 29.31% in 2013 would cause the Group to recognise impairment of goodwill,
- in June 2012, changes were implemented into the Law of Ukraine on Natural Monopolies (#4998-VI dated 21 June 2012). Such changes introduced new provisions concerning implementation of the incentive regulation for tariffs of natural monopolists, such as the definition of the incentive regulation, regulatory assets base and rate of return and the major tariff elements to be included by the state authorities when setting tariffs. Also a onetime assets revaluation is envisaged for the determination of the regulatory asset base. The State Property Fund developed a draft methodology for the valuation of assets of the natural monopolists in October 2012, however, it is not yet approved. If tariff setting procedure will change from that included in the projection period, it may cause impairment of goodwill.

Based on the above assumptions, management determined that the fair value less costs to sell exceeds the carrying value of goodwill as at 31 December 2012. Accordingly, no impairment of goodwill was recognised as at 31 December 2012.

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	2012	2011
Carrying amount at 1 January	**5,574**	**4,099**
Acquisition of associates	–	280
Additional investment in associates	480	149
Transfer from AFS investment to associate	–	885
Share of after tax results of associates	(205)	(48)
Share in revaluation of PPE of associates (Note 17)	–	1,887
Share in other reserves movements of associates (Note 17)	–	24
Unrealised profit on operations with associate	8	(42)
Dividends declared by associate	–	(45)
Revaluation of previously held interest to fair value (Note 33)	(385)	(334)
Reclassification to subsidiary (Note 33)	(5,445)	(835)
Impairment of investments in Donetskoblenergo	–	(446)
Disposal of associates	(15)	–
Carrying amount at 31 December	**12**	**5,574**

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)
2012							
Other	Ukraine	various	12	43	14	–	(1)
Total			**12**	**43**	**14**	**–**	**(1)**

In millions of Ukrainian Hryvnia	Country of incorporation	% of ownership	Carrying value	Total assets	Total liabilities	Revenue	Profit/ (loss)
2011							
Dniproenergo JSC	Ukraine	47.93%	3,886	6,283	2,536	8,622	232
Donetskoblenergo JSC	Ukraine	31.28%	502	2,467	988	4,863	1,078
Zakhidenergo JSC	Ukraine	25.83%	1,159	3,315	2,858	7,725	(48)
Other	Ukraine	various	27	49	13	-	(1)
Total			**5,574**	**12,114**	**6,395**	**21,210**	**1,261**

On 13 December 2011, the Group acquired 25.00% of Kyivenergo JSC in a State organised privatisation auction for a cash consideration of UAH 451 million, taking its cumulative interest to 71.82% (Note 33). The investment in Kyivenergo held prior to the acquisition was accounted for as investment in associate. Share in net loss of Kyivenergo included in the 2011 consolidated income statement till the date of acquisition totalled UAH 468 million.

On 10 January 2012 the Group acquired 45.10% of Zakhidenergo PJSC for a cash consideration of UAH 1,932 million thus taking its total share to 70.94% (Note 33). The investment in Zakhidenergo PJSC held prior to the acquisition was accounted for as investment in associate. Share in net loss of Zakhidenergo PJSC included in the consolidated income statement till the date of acquisition totalled UAH 10 million loss.

On 11 January 2012 the Group acquired 40.06% of Donetskoblenergo PJSC for a cash consideration of UAH 468 million thus taking its total share to 71.34% (Note 33). The investment in Donetskoblenergo PJSC held prior to the acquisition was accounted for as investment in associate. Share in net loss of Donetskoblenergo PJSC included in the consolidated income statement till the date of acquisition totalled UAH 1 million loss.

On 13 March 2012 the Group acquired 25.00% of Dniproenergo PJSC for a cash consideration of UAH 1,180 million thus taking its total share to 72.93% (Note 33). The investment in Dniproenergo PJSC held prior to the acquisition was accounted for as investment in associate. Share in net loss of Dniproenergo PJSC included in the consolidated income statement till the date of acquisition totalled UAH 194 million loss.

12 Financial Investments

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

In millions of Ukrainian Hryvnia	2012	2011
Equity securities:		
– quoted	45	71
Prepayment for other shares	160	355
Loans receivable	–	137
Long-term deposits	84	–
Total	**289**	**563**

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

In millions of Ukrainian Hryvnia	2012	2011
Deposits placed	18	275
Loans receivable (net of provision for impairment of UAH 17 million)	1	53
Restricted cash	80	–
Total	**99**	**328**

As at 31 December 2012, UAH 84 million deposits placed with a maturity of more than three months were denominated in US dollars (31 December 2011: UAH 245 million).

As at 31 December 2012, UAH 84 million of term deposits were pledged as collateral for gross-settled derivative financial instruments (31 December 2011: UAH 211 million for borrowings or bank guarantees received), UAH 80 million of restricted cash was pledged as collateral for the letter of credit agreement (31 December 2011: nil).

Current financial investments are neither past due nor impaired. The carrying amounts of deposits and loans approximate their fair values.

In millions of Ukrainian Hryvnia	2012		2011	
	Other	Deposits	Other	Deposits
Rating by Moody's Investors Service				
– A1 rated	–	–	–	6
– Ba3 rated	–	–	–	23
– B2 rated	–	–	–	188
– B3 rated	–	18	–	–
Non-rated	81	–	53	58
Total	**99**	**328**	**53**	**275**

Non-current financial investments are neither past due nor impaired. The carrying amounts of deposits and loans approximate their fair values.

In millions of Ukrainian Hryvnia	2012		2011	
	Other	Deposits	Other	Deposits
Rating by Moody's Investors Service				
– A2 rated	–	84	–	–
Non-rated	205	–	563	–
Total	**205**	**84**	**563**	**–**

As at 31 December, UAH 160 million out of UAH 205 million represents prepayments made for the purchase of additional shares of an associate (Note 11). The purchase is conditional upon certain regulatory approvals expected in 2013. Future commitments for the purchase of the additional shares amount to USD 30 million (UAH 240 million).

13 Inventories

As at 31 December, inventories were as follows:

In millions of Ukrainian Hryvnia	2012	2011
Coal	3,048	1,053
Spare parts	807	332
Work in progress	323	303
Raw materials	860	514
Goods for resale	17	12
Total inventories	**5,055**	**2,214**

14 Trade and Other Receivables

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

In millions of Ukrainian Hryvnia	2012	2011
Trade receivables (less provision of UAH 6,226 million) (2011: UAH 2,086 million)	4,597	3,070
Other financial receivables (less provision of UAH 589 million) (2011: UAH 364 million)	132	225
Receivables under commission agreements with SCM entities	–	45
Receivable for sale of financial instruments	–	2
Total financial assets	**4,729**	**3,342**
Prepayments to suppliers (less provision of UAH 86 million) (2011: UAH 4 million)	1,388	854
VAT recoverable (less provision of UAH 85 million) (2011: nil)	890	221
Other (less provision of UAH 45 million) (2011: UAH 8 million)	61	191
Total non-financial assets	**2,339**	**1,266**
Total trade and other receivables	**7,068**	**4,608**

As at 31 December 2012, 1% of trade and other receivables are denominated in currency, other than UAH (31 December 2011: 6%).

As at 31 December 2012, prepayments included UAH 260 million of prepayments for coal (31 December 2011: UAH 671 million). The remaining prepayments include prepayments for electricity subsequently sold for export, transportation and other services, and inventories.

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

In millions of Ukrainian Hryvnia	2012	2011
Provision for impairment at 1 January	**2,462**	**375**
Acquisition of subsidiaries	7,187	2,040
Provision for impairment during the year	2,706	164
Reversal of provision	(5,282)	(116)
Amounts written off during the year as uncollectible	(42)	(1)
Provision for impairment at 31 December	**7,031**	**2,462**

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

In millions of Ukrainian Hryvnia	2012		2011			
	Trade receivables	Other financial receivables	Trade receivables	Receivables under commission agreements	Receivable for sale of financial instruments	Other financial receivables
Current and not impaired – exposure to						
– Energorynok SE	1,824	–	1,045	–	–	–
– Large Ukrainian corporates	254	4	477	–	–	121
– Medium sized companies	1,085	20	1,015	–	2	34
Total current and not impaired	**3,163**	**24**	**2,537**	**–**	**2**	**155**
Past due and individually impaired (gross)						
– less than 30 days overdue	1,401	–	–	–	–	–
– 30 to 90 days overdue	620	34	353	–	–	24
– 90 to 180 days overdue	300	31	70	–	–	1
– 180 to 360 days overdue	1,080	72	99	–	–	30
– over 360 days overdue	4,259	560	2,097	45	–	379
Total past due and individually impaired	**7,660**	**697**	**2,619**	**45**	**–**	**434**
Less impairment provision	**(6,226)**	**(589)**	**(2,086)**	**–**	**–**	**(364)**
Total	**4,597**	**132**	**3,070**	**45**	**2**	**225**

15 Cash and Cash Equivalents

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

In millions of Ukrainian Hryvnia	2012	2011
Bank balances payable on demand	4,959	4,922
Term deposits with original maturity of less than three months	310	5,504
Restricted cash	91	–
Total cash and cash equivalents	**5,360**	**10,426**

As at 31 December 2012, cash and cash equivalents of UAH 901 million were denominated in US dollars (31 December 2011: UAH 698 million), UAH 789 million were denominated in EUR (31 December 2011: UAH 125 million), UAH 218 million were denominated in RUB (31 December 2011: 5,639).

As at 31 December 2012 and 2011, no term deposits with original maturity of less than three months were pledged as collateral for borrowings or bank guarantees received.

As at 31 December 2012, there was UAH 91 million cash restricted in use under letter of credit arrangements (31 December 2011: nil). For the purposes of the cash-flow statements this amount is not included in cash and cash equivalents balance.

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

In millions of Ukrainian Hryvnia	2012			2011		
	Bank balances payable on demand	Term deposits	Restricted cash	Bank balances payable on demand	Term deposits	Restricted cash
Rating by Moody's Investors Service						
– A1 rated	–	–	–	169	2,317	–
– Aa3 rated	–	–	–	4	–	–
– A3 rated	31	1	–	3	–	–
– A3.ua rated	730	–	–	236	–	–
– A2 rated	20	–	–	–	–	–
– B1 rated	75	–	–	–	–	–
– Ba1 rated	34	–	–	–	–	–
– Baa1 rated	271	8	–	–	–	–
– Ba3 rated	–	–	–	–	3,152	–
– A2.ua rated	–	–	–	2,788	–	–
– B2 rated	–	–	–	73	1	–
– Ba2 rated	–	–	–	80	–	–
– B3 rated	108	–	88	–	–	–
– Baa3.ua rated	2,294	296	3	–	–	–
– Caa1 rated	208	–	–	–	–	–
Non-rated	1,188	5	–	1,569	34	–
Total	**4,959**	**310**	**91**	**4,922**	**5,504**	**–**

16 Share Capital

The authorised share capital of DTEK Holdings B.V. comprises 15,000 ordinary shares with a nominal value of Euro 10 per share.

All shares carry one vote. At 31 December 2012 and 2011, the issued and fully paid share capital comprised 3,000 ordinary shares.

17 Other Reserves

In millions of Ukrainian Hryvnia	Additional paid in capital	Revaluation reserve	AFS reserve	Currency translation reserve	Total
Balance at 1 January 2011	**(4,194)**	**3,460**	**(131)**	**–**	**(865)**
Financial investments:					
– Fair value losses less gains	–	–	(334)	–	**(334)**
– Recognition of AFS reserve on transfer to associate	–	–	349	–	**349**
– Share of other equity movements of associate	24	–	–	–	**24**
Property, plant and equipment:					
– Revaluation of PPE	–	5,962	–	–	**5,962**
– Change in estimate relating to asset retirement provision recorded in equity	–	2	–	–	**2**
– Realised revaluation reserve	–	(888)	–	–	**(888)**
– Share in revaluation of PPE of associates	–	1,887	–	–	**1,887**
– Share in realised revaluation reserve of associates	–	(127)	–	–	**(127)**
Income tax recorded in equity	–	282	(28)	–	**254**
Transfer from associates to subsidiary – recycling of revaluation reserve to retained earnings	(29)	(504)	–	–	**(533)**
Balance at 31 December 2011	**(4,199)**	**10,074**	**(144)**	**–**	**5,731**
Financial investments:					
– Fair value gains less losses	–	–	60	–	**60**
– Recognition of AFS reserve on transfer to subsidiary	–	–	63	–	**63**
Property, plant and equipment:					
– Change in estimate relating to asset retirement provision recorded in equity	–	(9)	–	–	**(9)**
– Realised revaluation reserve	–	(1,356)	–	–	**(1,356)**
– Share in revaluation of PPE of associates	–	–	–	–	**–**
– Share in realised revaluation reserve of associates	–	–	–	–	**–**
Income tax recorded in equity	–	195	(4)	–	**191**
Transfer from associates to subsidiary – recycling of revaluation reserve to retained earnings	–	(1,252)	–	–	**(1,252)**
Currency translation reserve	–	–	–	42	**42**
Balance at 31 December 2012	**(4,199)**	**7,652**	**(25)**	**42**	**3,470**

During 2012, fair value gains on available-for-sale investments totalling UAH 60 million (2011: UAH 334 million losses) were recorded directly in other reserves.

During 2012, accumulated fair value losses totalling UAH 63 million related to Dniprooblenergo JSC and Krymenergo JSC, recognised while this asset was recorded as an available-for-sale investment, have been recycled to profit and loss, following its transfer to subsidiary (2011: UAH 349 million related to Zakhidenergo JSC transfer to equity accounting).

The revaluation reserve, AFS reserve and currency translation reserve are not distributable to the shareholders until they are transferred to retained earnings.

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

Other comprehensive income, net of tax, is as follows:

In millions of Ukrainian Hryvnia	Other reserves	Total	Non-controlling interests	Total other comprehensive income
2011				
Financial investments:				
– Fair value gain/(loss)	(334)	**(334)**	–	**(334)**
– Income tax recorded on available-for-sales financial assets	36	**36**	–	**36**
– Recognition of AFS reserve on transfer to associate	349	**349**	–	**349**
– Reversal of income tax recorded in equity due to transfer of AFS to associate	(64)	**(64)**	–	**(64)**
Share of other equity movements in associates	24	**24**	–	**24**
Property, plant and equipment:				
– Change in estimate for asset retirement obligation	2	**2**	–	**2**
– Revaluation of property plant and equipment	5,962	**5,962**	65	**6,027**
– Income tax recorded on revaluation of property plant and equipment	(1,052)	**(1,052)**	–	**(1,052)**
– Share in revaluation of PPE of associates	1,887	**1,887**	–	**1,887**
Reversal of Income tax recorded in equity due to change in tax legislation	1,228	**1,228**	–	**1,228**
Total	**8,038**	**8,038**	**65**	**8,103**
2012				
Financial investments:				
– Fair value gain/(loss) , net of tax	60	**60**	–	**60**
– Income tax recorded on available-for-sales financial assets	(4)	**(4)**	–	**(4)**
– Recognition of AFS reserve on transfer to subsidiary, net of tax	63	**63**	–	**63**
Property, plant and equipment:				
– Change in estimate for asset retirement obligation	(9)	**(9)**	–	**(9)**
Currency translation reserve	42	**42**	–	**42**
Total	**152**	**152**	**–**	**152**

18 Borrowings

As at 31 December, borrowings were as follows:

In millions of Ukrainian Hryvnia	2012	2011
Non-current		
Eurobonds	3,941	3,920
Bank borrowings	13,315	8,485
	17 256	**12 405**
Current		
Bank borrowings	3,109	2,453
Interest accrual	297	224
	3,406	**2,677**
Total borrowings	**20,662**	**15,082**

In April 2010, DTEK Finance B.V., a finance vehicle of the Company, issued USD 500 million (UAH 3,963 million) 5 year Eurobonds bearing a 9.5% coupon. The Eurobonds are unsecured. The bond indenture contains specific covenants, including limitation on payments to shareholders, restrictions on permissible business activities, requirements for arm's length affiliate transactions, financial disclosure requirements and maximum permissible level of leverage. Events of default are comprehensive and include cross-default to other DTEK debt.

In October 2011, the Group entered into 5-year loan agreements with Russian Commercial Bank (Cyprus) for RUB 10,000 million (UAH 2,495 million) and Sberbank (Russia) for RUB 15,714 million (UAH 3,986 million). The Group used the proceeds from both loans to finance the Group's participation in the privatisation of energy sector entities in Ukraine and to finance its capital investment programme. The loans are unsecured. The loan agreements contain specific covenants, including restrictions on permissible business activities, financial disclosure requirements and maximum permissible level of leverage. Events of default are comprehensive and include cross-default to other DTEK debt.In October 2012, the Group entered into 5-year loan agreement with ING, Gazprombank OJSC, Sberbank of Russia and UniCredit Bank for EUR 416 million (UAH 4,380 million). The Group used the proceeds from the loan to finance the capital investment programme. The loans are unsecured. The loan agreements contain specific covenants, including restrictions on permissible business activities, financial disclosure requirements and maximum permissible level of leverage. Events of default among others include cross-default to other DTEK debt.

As at 31 December, the Group's borrowings were denominated in the following currencies:

In millions of Ukrainian Hryvnia	2012	2011
Borrowings denominated in:		
– UAH	1,810	1,446
– US Dollars	5,083	5,796
– Euros	6,744	1,351
– Roubles	7,025	6,489
Total borrowings	**20,662**	**15,082**

As at 31 December, the Group's loans and borrowings maturity and re-pricing were as follows:

In millions of Ukrainian Hryvnia	Maturity		Interest re-pricing	
	2012	2011	2012	2011
Loans and borrowings due:				
– within 1 year	3,406	2,677	15,660	11,059
– between 1 and 5 years	16,852	12,405	5,002	4,021
– after 5 years	404	–	–	2
Total borrowings	**20,662**	**15,082**	**20,662**	**15,082**

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

In % per annum	2012				2011			
	UAH	USD	EUR	RUB	UAH	USD	EUR	RUB
	9.25%–21%	LIBOR 6m + 0.5% – LIBOR 1m +6.5%	EURIBOR 6m + 0.94% – EURIBOR 3m + 7.5%	Mos-prime 3m + 3.4% — 11%	13%–19.5%	LIBOR 6m + 0.5% – LIBOR 3m + 9%	EURIBOR 6m + 1.7% – EURIBOR 1m + 5.25%	Mos-prime 3m + 3.4% – 3.45%
Total borrowings	**1,810**	**5,083**	**6,744**	**7,025**	**1,446**	**5,796**	**1,351**	**6,489**

As at 31 December 2012, borrowings totalling UAH 265 million (31 December 2011: UAH 465 million) were secured with property, plant and equipment (Note 32).

19 Other Financial Liabilities

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

In millions of Ukrainian Hryvnia	2012	2011
Deferred consideration for acquisition (Note 33)	1,951	1,777
Restructured trade payables	1,303	170
Gross-settled derivative financial instruments	284	–
Payable for finance lease	230	–
Restructured taxes payable	71	642
Promissory notes issued by Pavlogradugol	–	9
Other long-term financial liabilities	21	17
Total non-current other financial liabilities	**3,860**	**2,615**

Restructured trade payables include UAH 1,178 million (31 December 2011: UAH 170 million) of restructured long-term payable to the energy seller monopolist state-owned Energorynok which sells the energy to distribution companies of the Group, and UAH 106 million of restructured trade payable for state-owned Vugillya Ukrayiny. Restructured trade payables are recognised at amortised cost and are discounted at a rate range of 13.28% to 19.30%.

During 2011 and 2012 DTEK concluded agreements for a swap of RUB loans with floating rate for a USD loan with fixed rate. Fair value loss on the derivative amounting to UAH 284 million (2011: nil) is recognised in financial costs in profit and loss (Note 30), and included in the value of non-current other financial liabilities.

As part of acquisition of Dobropolyeugol, Rovenkiantracyte and Sverdlovantracyte (Note 33), the Group assumed certain restructured tax obligations that are due between 2012 and 2030. The obligations have been discounted at an implied rate of 16.56% per annum for Dobropolyeugol, and 16.85% per annum for Rovenkiantracyte and Sverdlovantracyte, respectively.

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

In millions of Ukrainian Hryvnia	2012	2011
Current portion of restructured trade payable	146	–
Current portion of deferred consideration	65	85
Restructured taxes payable	46	152
Other current financial liabilities	23	–
Current part of payable for finance lease	20	–
Investment obligation relating to Dniproenergo	–	519
Total current other financial liabilities	**300**	**756**

20 Retirement Benefit Obligations

The Group's production companies have a legal obligation to compensate the Ukrainian state pension fund for additional pensions paid to certain categories of former employees of the Group. There are also lump sum benefits payable upon retirement and post-retirement benefit programs.

In 2012 the defined benefit plan covers 131,177 people, including 20,519 ex-employees (2011: 114,110 and 13,985 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	2012	2011
Present value of unfunded defined benefit obligations	4,433	3,894
Unrecognised net actuarial loss	(316)	(517)
Unrecognised past service cost	124	142
Liability in the consolidated balance sheet	**4,241**	**3,519**

In millions of Ukrainian Hryvnia	2012	2011
Retirement benefits	3,039	2,798
Retirement benefits – coal support	1,038	820
Lump sum payments	356	276
Present value of Retirement benefit obligation	**4,433**	**3,894**

The amounts recognised in the income statement were as follows:

In millions of Ukrainian Hryvnia	2012	2011
Current service cost	221	125
Interest cost (Note 30)	554	347
Recognised past service cost	(16)	(371)
Sequester	(19)	–
Foreign exchange losses	4	–
Recognised actuarial losses	56	2
Total	**800**	**103**

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

In millions of Ukrainian Hryvnia	2012	2011
Defined benefit obligation as at 1 January	**3,894**	**1,912**
Acquisition of subsidiaries (Note 33)	504	2,057
Current service cost	221	125
Actuarial (gains)/losses	(145)	401
Interest cost (Note 30)	554	347
Past service cost	2	(725)
Sequester	(19)	–
Foreign exchange losses	4	–
Benefits paid	(582)	(223)
Defined benefit obligation as at 31 December	**4,433**	**3,894**

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

In millions of Ukrainian Hryvnia	2012	2011
As at 1 January	**3,519**	**1,582**
Acquisition of subsidiaries (Note 33)	504	2,057
Benefits paid	(582)	(223)
Net expense recognised in the income statement	800	103
As at 31 December	**4,241**	**3,519**

Part of past service cost arose as a result of changes in the pension legislation introduced in 2011, which decreased the benefits payable. To the extent that the benefits were already vested immediately following the changes, past service cost was recognised in 2012 financial statements as credit to income statement in the amount of UAH 16 million under current accounting standard. The remaining UAH 124 million past service cost is recognised as income in accordance with IAS 19 (revised) in 2013. This amount is recorded directly as income.

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

	2012	2011
Nominal discount rate	13.53%	13.80%
Nominal salary increase	5.00%	9.00%
Nominal pension entitlement increase	5.00%	9.00%

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

	2012	2011
Nominal discount rate increase/decrease by 1%	(6.09%)/6.87%	(6.69%)/7.61%
Nominal salary increase/decrease by 1%	2.58%/(2.36%)	2.63%/(2.57%)
Nominal pension entitlement increase/decrease by 1%	2.58%/(2.36%)	2.63%/(2.57%)

Experience adjustments for 2012 do not exceed UAH 146 million (2011: UAH 400 million; 2010: UAH 91 million; 2009: UAH 599 million; 2008: UAH 402 million).

Present value of unfunded defined benefit obligations totalled to UAH 1,912 million as at 31 December 2010 (31 December 2009: UAH 1,655 million, 31 December 2008: UAH 2,041 million).

Payments in respect of post-employment benefit plan obligations expected to be made during the year ending 31 December 2013 are UAH 638 million (2012: UAH 480 million).

21 Provisions for Other Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

In millions of Ukrainian Hryvnia	Assets retirement provision	Provision for legal claims	Long-term incentive plan (Note 7)	Total
At 1 January 2011	**166**	**16**	**129**	**311**
Change in estimates	(2)	–	–	(2)
Arising during the year	11	23	183	217
Acquisition of subsidiaries	244	132	–	376
Unwinding of discount (Note 30)	21	–	–	21
Reversal of provision	–	(3)	–	(3)
Utilised	(5)	(3)	–	(8)
Transfer to current (Note 22)	–	–	(312)	(312)
At 31 December 2011	**435**	**165**	**–**	**600**
Change in estimates	9	–	–	9
Arising during the year	–	13	–	13
Acquisition of subsidiaries	44	8	–	52
Unwinding of discount (Note 30)	57	–	–	57
Reversal of provision	–	(125)	–	(125)
Utilised	(15)	(13)	–	(28)
At 31 December 2012	**530**	**48**	**–**	**578**

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

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

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

	2012	2011
Pre-tax discount rate	15.72%	16.85%
Inflation long-term	5.00%	5.00%
Inflation middle-term	7.00%	7.00%

22 Trade and Other Payables

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

In millions of Ukrainian Hryvnia	2012	2011
Trade payables	4,654	3,579
Liabilities for purchased securities	35	20
Liabilities for purchased property, plant and equipment	1,219	829
Dividends payable	51	5
Current portion of long term liabilities	–	22
Other creditors	315	245
Total financial payables	**6,274**	**4,700**
Wages and salaries payable	694	281
Accruals for employees' unused vacations	776	453
Long-term incentive bonus program for top executives (Note 7)	312	312
Other payables	106	68
Total non-financial payables	**1,888**	**1,114**
Total	**8,162**	**5,814**

Analysis by currency and future undiscounted cash flows of financial trade and other payables is as follows:

In millions of Ukrainian Hryvnia	Trade payables	Liabilities for purchased securities	Liabilities for purchased property, plant and equipment	Dividends payable	Other creditors
31 December 2012					
Currency analysis:					
– UAH denominated	4,523	35	1,128	51	301
– USD denominated	2	–	22	–	4
– EUR denominated	29	–	1	–	9
– RUB denominated	100	–	68	–	1
Total	**4,654**	**35**	**1,219**	**51**	**315**
Future undiscounted cash flow analysis:					
– Up to 3 months	4,524	35	1,211	51	290
– From 3 to 6 months	23	–	2	–	20
– From 6 to 12 months	107	–	6	–	5
Total	**4,654**	**35**	**1,219**	**51**	**315**

In millions of Ukrainian Hryvnia	Trade payables	Liabilities for purchased securities	Liabilities for purchased property, plant and equipment	Current part of long term liabilities	Dividends payable	Other creditors
31 December 2011						
Currency analysis:						
– UAH denominated	3,554	20	679	22	5	239
– USD denominated	25	–	–	–	–	–
– EUR denominated	–	–	101	–	–	6
– RUB denominated	–	–	49	–	–	–
Total	**3,579**	**20**	**829**	**22**	**5**	**245**
Future undiscounted cash flow analysis:						
– Up to 3 months	3,361	2	789	5	–	241
– From 3 to 6 months	218	–	13	6	5	–
– From 6 to 12 months	–	18	27	11	–	4
Total	**3,579**	**20**	**829**	**22**	**5**	**245**

23 Other Taxes Payable

As at 31 December other taxes payable were as follows:

In millions of Ukrainian Hryvnia	2012	2011
Payroll taxes	416	287
Value-added tax	330	490
Other taxes	338	163
Total other taxes payable	**1,084**	**940**

24 Revenue and Heat Tariff Compensation

Analysis of revenue by category is as follows:

In millions of Ukrainian Hryvnia	2012	2011
Sale of electricity to final customers	31,834	8,573
Sale of electricity to electricity pool	30,733	10,356
Heat generation	3,647	244
Sale of steaming and coking coal	7,059	17,344
Sale of electricity abroad	5,002	2,917
Other sales	65	160
Total	**78,340**	**39,594**

Analysis of revenue by regions is as follows:

In millions of Ukrainian Hryvnia	2012	2011
Domestic sales	70,584	33,110
Export sales	7,756	6,484
Total	**78,340**	**39,594**

Heat tariff compensation

Heat tariff compensation is a government grant and represents the difference between heat tariff required to cover all production costs plus reasonable margin and that imposed by the State, compensated to the Group regularly. The amount of the difference compensated to the Group by the State in 2012 was UAH 4,241 million (2011: nil), representing the tariff difference generated in 2009, 2011 and 2012.

25 Cost of Sales

In millions of Ukrainian Hryvnia	2012	2011
Cost of electricity purchased for resale	33,006	10,619
Raw materials	13,764	5,166
Staff cost, including payroll taxes	10,908	3,370
Depreciation of property, plant and equipment and amortisation of intangible assets net of amortisation of government grants	5,878	2,086
Transportation services and utilities	4,355	1,045
Cost of coal purchased for resale	1,060	6,061
Taxes, other than income tax	963	316
Equipment maintenance and repairs	713	162
Production overheads	601	261
Operating costs at Dobropolyeugol, Rovenkiantracyte, Sverdlovantracyte*	19	1,174
Change in finished goods and work in progress	(478)	(319)
Other costs	27	35
Total	**70,816**	**29,976**

*Following the conclusion of concession agreements, DTEK paid an operating fee to the State entities until all employees were transferred to DTEK.

26 Other Operating Income

In millions of Ukrainian Hryvnia	2012	2011
Net movement in provision for impairment of trade and other receivables and prepayments made (Note 14)	2,576	–
Income from write-off of provisions	124	–
Income from extinguishment of accounts payable	114	122
Penalties	102	32
Assets received free of charge	95	73
Income from recovery on previously written off trade receivables	29	20
Gain on sales of inventory	10	–
Income from sale of certified emission rights	10	222
Other	205	46
Total	**3,265**	**515**

Income from sale of certified emission rights was recognised at the moment when they were approved by the relevant authority and there was a binding contract to obtain economic benefits from their sale.

27 Distribution Costs

In millions of Ukrainian Hryvnia	2012	2011
Transportation	456	114
Staff cost, including payroll taxes	39	19
Consulting services	–	15
Depreciation	10	7
Other costs	89	48
Total	**594**	**203**

28 General and Administrative Expenses

In millions of Ukrainian Hryvnia	2012	2011
Staff cost, including payroll taxes	1,507	779
Professional fees	297	229
Depreciation of property, plant and equipment and amortisation of intangible assets	136	43
Office costs	87	45
Transportation	76	23
Taxes, other than income tax	45	30
Other costs	85	35
Total	**2,233**	**1,184**

29 Other Operating Expenses

In millions of Ukrainian Hryvnia	2012	2011
Social payments	397	167
Penalties	273	13
Maintenance of social infrastructure	150	9
Charitable donations and sponsorship	86	27
Expenses on idle capacity	84	137
Loss from disposal of non-current assets	83	35
Non-recoverable VAT	53	25
Loss on sales of services	–	102
Net movement in provision for impairment of trade and other receivables and prepayments made (Note 14)	–	48
Loss from sales of inventory	–	14
Other	282	105
Total	**1,408**	**682**

30 Finance Income and Finance Costs

In millions of Ukrainian Hryvnia	2012	2011
Gain on initial recognition of long term accounts payable	307	24
Interest income on bank deposits	256	164
Unwinding of discount on long-term restructured accounts receivable	25	19
Other finance income	14	15
Total finance income	**602**	**222**
Interest expense		
– bank borrowings	1,169	247
– bonds issued	379	400
Loss on early repayment of long-term payables	977	–
Unwinding of discounts on pension obligations	554	347
Unwinding of discounts on long term accounts payable	359	46
Change in fair value of derivative financial instruments (Note 19)	284	–
Unwinding of discounts on deferred consideration related to acquisition	273	130
Amortised cost expenses on borrowings	58	–
Unwinding of discounts on assets retirement provision	57	21
Unwinding of discounts on investment obligation relating to Dniproenergo	12	22
Loss on initial recognition of long-term restructured accounts receivable	2	43
Other finance costs	59	27
Total finance costs	**4,183**	**1,283**

31 Income Taxes

Income tax expense comprises the following:

In millions of Ukrainian Hryvnia	2012	2011
Current tax	2,517	2,226
Deferred tax	(1,017)	(80)
Income tax expense	**1,500**	**2,146**

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

In millions of Ukrainian Hryvnia	2012	2011
Change in asset retirement obligation	1	–
Unrealised gain on available-for-sale financial assets	(4)	(28)
Property, plant and equipment:		
– revaluation of property plant and equipment	–	(1,052)
– reversal of deferred tax following April 2011 change in Tax Code	–	1,228
Income tax reported in equity	**(3)**	**148**

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine). In 2012 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 21% (2011: 25% during January — March 2011, and 23% starting from 1 April 2011). In 2012, the tax rate for Cyprus operations was 10% (2011: 10%).

On 2 December 2010, a new Tax Code was adopted in Ukraine effective from 1 January 2011. According to the new Tax Code the rates for corporate income tax are due to decrease from 25% to 16% in several stages during 2011 – 2014. Deferred tax assets and liabilities are measured at the income tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates prescribed by the new Tax Code.

The tax base of the property, plant and equipment was also changed from 1 April 2011 with the aim to remove existing differences between tax and accounting bases. The Group has recognised the respective change in tax legislation regarding the tax base of the property, plant and equipment as at 1 April 2011 which resulted in a deferred tax charge of UAH 427 million in the income statement and deferred tax credit of UAH 1,228 million in other comprehensive income.

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

In millions of Ukrainian Hryvnia	2012	2011
Profit before income tax, including	**7,422**	**5,668**
Profit before income tax of Ukrainian companies	7,244	4,806
Profit/(loss) before income tax of non-Ukrainian companies	178	862
Income tax at statutory rates of 21-25% (Ukrainian operations)	1,521	1,147
Profit taxed at different rates 25% (Dutch operations)	(11)	(4)
Profit taxed at different rates 10% (Cyprus operations)	60	89
Profit taxed at different rates 20% (Russian operations)	(73)	–
Effect of changes in income tax rates in Ukraine	(74)	(9)
Effect of changes in Tax legislation in Ukraine	–	427
Tax effect of items not deductible or assessable for taxation purposes:		
– non-deductible expenses	683	278
– non-taxable income	(697)	(101)
Share of result and impairment of associates	26	114
Share of result of associate on transfer to subsidiary (2011: on transfer from AFS investment to associate) and AFS transfer to subsidiary (2011: on transfer to associate)	94	143
Unrecognised deferred tax on tax losses carried forward	32	62
Tax effect of gain from a bargain purchase	(61)	–
Income tax expense	**1,500**	**2,146**

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	2012	2011
Deferred tax asset	899	549
Deferred tax liability	(1,499)	(937)
Net deferred tax liability	**(600)**	**(388)**

In millions of Ukrainian Hryvnia	1 January 2012	Acquisition of subsidiaries (Note 33)	Credited/ (charged) to income	Charged to equity	31 December 2012
Tax effect of deductible temporary differences					
Trade and other payables	142	76	160	–	378
Provisions for other liabilities and charges	99	15	(8)	–	106
Retirement benefit obligations	552	90	46	–	688
Trade and other receivables	237	801	(29)	–	1,009
Prepayments received	44	(7)	20	–	57
Inventories	30	29	209	–	268
Deferred consideration	281	–	34	–	315
Tax losses	103	–	(50)	–	53
Financial investments	51	(3)	190	(4)	234
Gross deferred tax asset	**1,539**	**1,001**	**572**	**(4)**	**3,108**
Tax effect of taxable temporary differences					
Property, plant and equipment	(1,856)	(1,461)	623	1	(2,693)
Other financial liabilities	(61)	–	(199)	–	(260)
Prepayments made	(10)	–	(8)		(18)
Trade and other payables	–	(766)	29	–	(737)
Gross deferred tax liability	**(1,927)**	**(2,227)**	**445**	**1**	**(3,708)**
Recognised deferred tax asset/(liability)	**(388)**	**(1,226)**	**1,017**	**(3)**	**(600)**

In millions of Ukrainian Hryvnia	1 January 2011	Acquisition of subsidiaries (Note 33)	Credited/ (charged) to income	Charged to equity	31 December 2011
Tax effect of deductible temporary differences					
Trade and other payables	34	(15)	123	–	142
Provisions for other liabilities and charges	44	69	(14)	–	99
Retirement benefit obligations	234	335	(17)	–	552
Trade and other receivables	–	193	44	–	237
Prepayments received	449	7	(412)	–	44
Inventories	–	(3)	33	–	30
Deferred consideration	–	272	9	–	281
Tax losses	–	103	–	–	103
Financial investments	52	–	27	(28)	51
Gross deferred tax asset	**813**	**961**	**(207)**	**(28)**	**1,539**
Tax effect of taxable temporary differences					
Property, plant and equipment	(730)	(1,078)	(224)	176	(1,856)
Inventories	(23)	–	23	–	–
Other financial liabilities	(27)	–	(34)	–	(61)
Prepayments made	(531)	–	521	–	(10)
Trade and other receivables	(1)	–	1	–	–
Gross deferred tax liability	**(1,312)**	**(1,078)**	**287**	**176**	**(1,927)**
Recognised deferred tax asset/(liability)	**(499)**	**(117)**	**80**	**148**	**(388)**

As at 31 December 2012, the Group has not recorded a deferred tax liability in respect of taxable temporary differences of UAH 537 million (31 December 2011: UAH 747 million) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

32 Contingencies, Commitments and Operating Risks

Tax legislation

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

The Group conducts intercompany transactions. It is possible with evolution of the interpretation of tax law in Ukraine and changes in the approach of tax authorities under the new Tax Code, that such transactions could be challenged in the future. The impact of any such challenge cannot be estimated; however, management believes that it should not be significant.

The group has income tax liabilities in various countries. The ultimate tax consequences of many transactions and calculations are uncertain, partly because of uncertainty concerning their timing. The Group continually assesses such matters and where final tax sums differ from the estimates such differences are recognised as income tax provisions in the period in which the differences become apparent.

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. Management believes that it has provided for all material losses in these financial statements.

Capital expenditure commitments

As at 31 December 2012 and 2011, the Group does not have contractual capital expenditure commitments in respect of property, plant and equipment.

In December 2012 Dniproenergo issued bonds at nominal value of UAH 1,010 million following the requirements of the amicable agreement to bring the entity out of bankruptcy. The bonds bear nominal interest of 0.01% and mature in 30 years. The bonds are aimed to finance Dniproenergo investment programme. All bonds were purchased by Pavlogradugol and Komsomolets Donbassa Mine.

As discussed in Note 33, the Group is committed to fund investment programmes of newly acquired mining assets totalling UAH 7,727 million during the period 2011 through 2016. As at 31 December 2012 the outstanding commitment equals UAH 5,538 million (31 December 2011: UAH 7,093 million).

Purchase commitments

As at 31 December 2012 and 2011, the Group did not have contractual purchase commitments.

Assets pledged and restricted

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

In millions of Ukrainian Hryvnia	2012		2011	
	Asset pledged	Related liability	Asset pledged	Related liability
Financial investments (Note 12)	84	128	211	19
Property, plant and equipment (Note 8)	555	265	1,127	446
Restricted cash (Note 12 and 15)	171	–	–	–
Total	**810**	**393**	**1,338**	**465**

As at 31 December 2012, proceeds from future sale of electricity with the cap of UAH 3,005 million were pledged as security for borrowings (Note 18). The amount of future proceeds pledged is capped in the loan agreements, and depends on the outstanding balance of the loan as at the balance sheet date.

Compliance with covenants. The Group is subject to certain covenants related primarily to its Eurobonds and bank borrowings. Non-compliance with such covenants may result in negative consequences for the Group, including increase in the cost of borrowings, declaration of default and demand for immediate repayment of borrowings. The Group is in compliance with covenants as at 31 December 2012 and 2011.

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.

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 its 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	2012	2011
Not later than 1 year	236	16
Later than 1 year and not later than 5 years	6	3
Total operating lease commitments	**242**	**19**

Lease of land

The Group leases the land on which its assets are located. The annual lease payment in 2012 amounted to UAH 103 million (2011: UAH 21 million). Those payments are cancellable lease commitments.

33 Business Combinations

Dniproenergo

On 13 March 2012 the Group acquired 25.00% of Dniproenergo PJSC ('Dniproenergo') in a State organised privatisation auction, for a cash consideration of UAH 1,180 million, thus taking its total share to 72.93%.

Dniproenergo is a power generation company located in Zaporizhzhya, and was acquired via a) a series of transactions resulting in total interest acquired of 47.55% at a total cost of UAH 2,238 million, and b) via privatisation tender on 13 March 2012 resulting in additional 25% interest for a cash consideration of UAH 1,180 million.

The investment in Dniproenergo held prior to the acquisition was accounted for as investment in associate. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 206 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	4,633
Intangible assets	7
Other non-current assets	48
Inventories	623
Trade and other receivables (gross UAH 3,649 million)	1,780
Current income tax	29
Cash and cash equivalents	29
Borrowings	(1,045)
Other financial liabilities – non-current	(93)
Provisions for other liabilities and charges	(2)
Retirement benefit obligations	(198)
Deferred income tax liabilities	(261)
Trade and other payables	(998)
Other taxes payable	(227)
Fair value of 100% of net assets acquired	**4,325**
27.07% non-controlling interest	**(1,170)**
Share of net assets acquired	**3,155**
Purchase consideration:	**5,154**
Fair value of consideration paid	1,180
Fair value of previously held interest	3,974
Goodwill	**1,999**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	29
Consideration paid for acquisition of subsidiary	(1,180)
Net outflow of cash on acquisition of subsidiary	(1,151)

The non-controlling interest represents the share of the net assets of the acquiree attributable to the owners of the non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the purchase consideration and represents the expected future economic benefits from access to the Dniproenergo generation capacities due to synergies.

Revenue and net profit of Dniproenergo included in the consolidated income statement from the date of acquisition totaled UAH 7,546 million and UAH 1,355 million, respectively. If the acquisition had been completed on 1 January 2012, the revenues of the Group would be approximately UAH 1,685 million higher and net profit of the Group would be approximately UAH 400 million lower (unaudited).

Zakhidenergo

On 10 January 2012 the Group acquired 45.10% of Zakhidenergo PJSC ('Zakhidenergo') in a State organised privatisation auction, for a cash consideration of UAH 1,932 million, thus taking its total share to 70.94%.

Zakhidenergo PJSC is an electricity generation company located in Lviv.

The investment in Zakhidenergo held prior to the acquisition was accounted for as investment in associate. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 42 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment and intangible assets were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	3,031
Intangible assets	1,825
Other non-current assets	4
Inventories	528
Trade and other receivables (gross UAH 531 million)	393
Financial investments – current	30
Borrowings	(781)
Other financial liabilities – non-current	(26)
Retirement benefit obligations	(167)
Deferred income tax liabilities	(361)
Provisions for other liabilities and charges	(37)
Trade and other payables	(1,101)
Prepayments received	(640)
Other financial liabilities – current	(93)
Other taxes payable	(104)
Fair value of 100% of net assets acquired	**2,501**
29.06% non-controlling interest	**(727)**
Share of net assets acquired	**1,774**
Purchase consideration:	**3,039**
Fair value of consideration paid	1,932
Fair value of previously held interest	1,107
Goodwill	**1,265**

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the purchase consideration and represents the expected future economic benefits from access to the Zakhidenergo generation capacities due to synergies.

As a part of net assets acquired there is an intangible asset of UAH 1,823 million recognised representing the unique capability of Burshtyn thermal power plant to supply the Central European market with electricity ("Burshtyn electricity island"). This intangible asset has a definite useful life of 13 years and is depreciated on a straight line basis over this period. Respective deferred tax liability of UAH 302 million was recognised as a part of net assets acquired.

Revenue and net profit of Zakhidenergo included in the consolidated income statement from the date of acquisition totaled UAH 9,626 million and UAH 174 million, respectively. If the acquisition had been completed on 1 January 2012, the revenues of the Group would be approximately UAH 242 million higher and net profit of the Group would be approximately UAH 40 million lower (unaudited).

Donetskoblenergo

On 11 January 2012 the Group acquired 40.06% of Donetskoblenergo PJSC ('Donetskoblenergo') in a State organised privatisation auction, for a cash consideration of UAH 468 million, thus taking its total share to 71.34%.

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

The investment in Donetskoblenergo held prior to the acquisition was accounted for as investment in associate. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 137 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	1,957
Intangible assets	1
Other non-current assets	10
Inventories	46
Trade and other receivables (gross UAH 3,215 million)	367
Cash and cash equivalents	149
Borrowings	(30)
Other financial liabilities – non-current	(291)
Deferred income tax liabilities	(320)
Trade and other payables	(555)
Prepayments received	(260)
Income tax payable	(21)
Other taxes payable	(78)
Fair value of 100% of net assets acquired	**975**
28.66% non-controlling interest	**(279)**
Share of net assets acquired	**696**
Purchase consideration:	**832**
Fair value of consideration paid	468
Fair value of previously held interest	364
Goodwill	**136**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	149
Consideration paid for acquisition of subsidiary	(468)
Net outflow of cash on acquisition of subsidiary	(319)

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the purchase consideration and represents the expected future economic benefits from access to the Donetskoblenergo distribution network and the customer base due to synergies.

Revenue and net loss of Donetskoblenergo included in the consolidated income statement from the date of acquisition totaled UAH 5,355 million and UAH 168 million, respectively. If the acquisition had been completed on 1 January 2012, the revenues of the Group would be approximately UAH 169 million higher and net profit of the Group would be approximately UAH 4 million lower (unaudited).

Dniprooblenergo

On 17 April 2012 the Group acquired 50.00% shares of Dniprooblenergo PJSC ('Dniprooblenergo') in a State organised privatisation auction, for a cash consideration of UAH 660 million thus taking its total share to 51.50%.

Dniprooblenergo PJSC is an electricity distribution company located in Dnipropetrovsk.

The investment in Dniprooblenergo held prior to the acquisition was accounted for as available for sale investment. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 59 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	2,486
Intangible assets	12
Inventories	75
Trade and other receivables (gross UAH 1,813 million)	379
Cash and cash equivalents	41
Other financial liabilities – non-current	(687)
Deferred income tax liability	(83)
Trade and other payables	(586)
Prepayments received	(341)
Current income tax payable	(12)
Other taxes payable	(55)
Fair value of 100% of net assets acquired	**1,229**
48.50% non-controlling interest	**(596)**
Share of net assets acquired	**633**
Purchase consideration:	**680**
Fair value of consideration paid	660
Fair value of previously held interest	20
Goodwill	**47**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	41
Consideration paid for acquisition of subsidiary	(660)
Net outflow of cash on acquisition of subsidiary	(619)

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the purchase consideration and represents the expected future economic benefits from access to the Dniprooblenergo distribution network and the customer base due to synergies.

Revenue and net profit of Dniprooblenergo included in the consolidated income statement from the date of acquisition totaled UAH 11,230 million and UAH 268 million, respectively. Since Dniprooblenergo has not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

Krymenergo

On 5 May 2012 the Group acquired 45.00% shares of Krymenergo PJSC ('Krymenergo') in a State organised privatisation auction, for a cash consideration of UAH 256 million thus taking its total share to 57.49%.

Krymenergo PJSC is an electricity distribution company located in Simferopol, Ukraine.

The investment in Krymenergo held prior to the acquisition was accounted for as available for sale investment. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 4 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	2,322
Intangible assets	3
Financial investments – non-current	5
Other non-current assets	19
Inventories	14
Trade and other receivables (gross UAH 1,001 million)	103
Cash and cash equivalents	28
Borrowings	(21)
Other financial liabilities – non-current	(444)
Deferred income tax liability	(155)
Trade and other payables	(88)
Prepayments received	(125)
Current income tax payable	(13)
Other taxes payable	(28)
Fair value of 100% of net assets acquired	**1,620**
42.51% non-controlling interest	**(689)**
Share of net assets acquired	**931**
Purchase consideration:	**327**
Fair value of consideration paid	256
Fair value of previously held interest	71
Gain from a bargain purchase	**(604)**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	28
Consideration paid for acquisition of subsidiary	(256)
Net outflow of cash on acquisition of subsidiary	(228)

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Gain from a bargain purchase has been computed as the difference between the net assets acquired and the purchase consideration and occurred as a result of the term and conditions set out in the privatisation process used by the State Property Fund in establishing the starting price calculation. Gain from a bargain purchase is recognised in the income statement.

Revenue and net profit of Krymenergo included in the consolidated income statement from the date of acquisition totaled UAH 1,640 million and UAH 30 million, respectively. Since Krymenergo has not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

Bilozerska Mine

On 17 and 24 February 2012 the Group entered into agreements to acquire 95.44% of Bilozerska Mine ALC for a total cash consideration of UAH 202 million. Bilozerska Mine operates one coal mine located in the Donetsk region of Ukraine producing 0.60 million tons of coal per annum.

The following table summarises the preliminary fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment, including mineral reserves	1,100
Intangible assets	1
Inventories	24
Trade and other receivables (gross UAH 20 million)	20
Borrowings	(289)
Retirement benefit obligations	(94)
Other financial liabilities – non-current	(267)
Deferred income tax liability	(32)
Trade and other payables	(64)
Prepayments received	(142)
Other taxes payable	(45)
Fair value of 100% of net assets acquired	**212**
4.60% liability to non-controlling participants	**(10)**
Share of net assets acquired	**202**
Fair value of consideration paid	**202**

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Revenue and net loss of Bilozerska Mine included in the consolidated income statement from the date of acquisition totaled UAH 271 million and UAH 131 million, respectively. Since Bilozerska Mine has not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

Rostov Mines

During June 2012 the Group entered into agreement to acquire 100% of Public company Don-Anthracite, Public Mining Corporation Obukhovskaya, and Sulinathracite LLC, for a total cash consideration UAH 310 million. Those companies represent three mines located in Rostov region, Russian Federation.

The following table summarises the preliminary fair values of the net assets acquired at the date of acquisition. Management is still in process of determining the fair values of all assets and liabilities.

In millions of Ukrainian Hryvnia	
Property, plant and equipment, including mineral reserves	420
Intangible assets	16
Inventories	32
Trade and other receivables (gross UAH 46 million)	46
Cash and cash equivalents	14
Borrowings	(89)
Provisions for other liabilities and charges	(13)
Retirement benefit obligations	(45)
Deferred income tax liability	(14)
Trade and other payables	(57)
Fair value of 100% of net assets acquired	**310**
Share of net assets acquired	**310**
Fair value of consideration paid	**310**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	14
Consideration for acquiree's debt to previous owner	(307)
Consideration paid for acquisition of subsidiary	(3)
Net outflow of cash on acquisition of subsidiary	(296)

In case the subsoil exploration licences acquired in this business combination are not renewed by the Group in 2013, DTEK will have the right to claim the associated losses and expenses incurred against the previous owner of the Rostov mines. The latter will have the right to exercise a call option to buy the shares of the mines back. Until this call option agreement is terminated DTEK may not sell any of the shares or debt acquired from the previous owner or make any changes to the common shares of the entities acquired.

Revenue and net loss of Rostov Mines included in the consolidated income statement from the date of acquisition totaled UAH 102 million and UAH 387 million, respectively. Since Rostov Mines have not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

Acquisitions during 2011

Acquisitions during 2011 — Dobropolyeugol

On 4 January 2011 the Group entered an agreement with the State Property Fund of Ukraine to lease the integrated property complex of the State Enterprise Dobropolyeugol ('Dobropolyeugol').

Dobropolyeugol comprises five coal mines located in the Donetsk region of Ukraine producing 3 million tons of coal per annum. The lease term is 49 years which substantially covers most of the economic life of the coal reserves. In addition, the Group assumed all current and non-current assets and liabilities of Dobropolyeugol. As the Group assumed all risks and rewards associated with the coal produced by Dobropolyeugol, this transaction has been recorded as a business combination following acquisition method of accounting.

The lease agreement required the Group to pay a monthly rental fee of UAH 7 million for the first month with all subsequent monthly payments being adjusted for the consumer price index ("CPI") in Ukraine. DTEK recognised the net present value of future rental payments as deferred consideration totalling UAH 909 million using CPI assumption of 7.00% per annum for the next five years and 5.00% per annum thereafter and a discount rate of 16.56%. Further, the lease agreement required the Group to commit to funding Dobropolyeugol's investment program totalling UAH 2,000 million during the period 2011 through 2015. As at 31 December 2012 the commitment totals UAH 1,145 million (31 December 2011: UAH 1,548 million).

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. Fair values of defined benefit obligations were determined by independent actuary. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment, including mineral reserves	2,134
Intangible assets	32
Deferred income tax asset	168
Inventories	43
Trade and other receivables	38
Other non-current liabilities – restructured taxes payable	(153)
Borrowings	(160)
Retirement benefit obligations	(511)
Asset retirement provision	(8)
Trade and other payables	(598)
Other provisions for liabilities and charges	(76)
Fair value of 100% of net assets acquired	**909**
Fair value of deferred consideration payable	**909**

Revenue and net loss of Dobropolyeugol included in the 2011 consolidated income statement from the date of acquisition totalled UAH 580 million and UAH 183 million, respectively. If the acquisition had been completed on 1 January 2011, the revenues and net profit of the Group would not have changed significantly.

Acquisitions during 2011 – Rovenkiantracyte and Sverdlovantracyte

On 1 December 2011, the Group entered two agreements with the State Property Fund of Ukraine for concession of the integrated property complex of the State Enterprise Rovenkiantracyte ('Rovenkiantracyte') and State Enterprise Sverdlovantracyte ('Sverdlovantracyte').

Rovenkiantracyte comprises six coal mines and Sverdlovantracyte comprises five coal mines located in the Lugansk region of Ukraine, each producing 6 million tons of coal per annum. The concession term is 49 years which substantially covers most of the economic life of the coal reserves. In addition, the Group assumed current and non-current assets and liabilities of Rovenkiantracyte and Sverdlovantracyte. The Group assumed all risks and rewards associated with the coal produced by Rovenkiantracyte and Sverdlovantracyte and accordingly this transaction has been recorded as a business combination following acquisition method of accounting.

The agreement requires the Group to pay a quarterly rental fee of UAH 19 million and UAH 14 million, respectively for the first quarter with all subsequent quarterly payments being adjusted for CPI in Ukraine and decreasing by quarterly depreciation charge that should be reinvested to capital expenditures during the next 5 years. DTEK recognised the net present value of future rental payments as a deferred consideration totalling UAH 557 million and UAH 359 million, respectively using CPI assumption of 7.00% per annum for the next five years and 5.00% per annum thereafter and a discount rate of 16.85%. Further, the agreement required the Group to commit to funding Rovenkiantracyte's and Sverdlovantracyte's investment program totalling UAH 2,998 million and UAH 2,729 million, respectively during the period 2012 through 2016. As at 31 December 2012 the commitment totals UAH 2,310 million and UAH 2,083 million respectively (31 December 2011: UAH 2,845 million and UAH 2,700 million respectively). In accordance with the agreements for concession, all movable and immovable properties and property rights of the above companies are encumbered with a tax lien.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. Fair values of defined benefit obligations were determined by an independent actuary. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	Rovenkiantracyte	Sverdlovantracyte
Property, plant and equipment, including mineral reserves	3,699	2,183
Intangible assets	31	15
Trade and other receivables	146	127
Inventory	113	145
Other non-current liabilities – restructured taxes payable	(456)	(79)
Borrowings	(606)	(437)
Retirement benefit obligations	(860)	(589)
Asset retirement provision	(83)	(153)
Trade and other payables	(732)	(508)
Other current liabilities	(407)	(214)
Deferred income tax liability	(286)	(131)
Fair value of 100% of net assets acquired	**559**	**359**
Fair value of deferred consideration payable	**559**	**359**

Revenue and net loss of Rovenkiantracyte included in the 2011 consolidated income statement from the date of acquisition totalled UAH 200 million and UAH 98 million, respectively. Revenue and net loss of Sverdlovantracyte included in the 2011 consolidated income statement from the date of acquisition totalled UAH 136 million and UAH 63 million, respectively. Since Rovenkiantracyte and Sverdlovantracyte have not produced IFRS financial information for the year ended 31 December 2011, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2011.

Acquisitions during 2011 — Kyivenergo

On 13 December 2011, the Group acquired 25% of Kyivenergo JSC ('Kyivenergo') in a State organised privatisation auction for a cash consideration of UAH 451 million taking its cumulative interest to 71.82%.

Kyivenergo is an integrated complex, which generates, transmits and distributes all electricity for Kyiv. It has a monopoly in the Kyiv electricity market. In addition, Kyivenergo also supplies the majority of heat consumed in Kyiv.

The investment in Kyivenergo held prior to the acquisition was accounted for as investment in associate and as a result of revaluation of previously held interest to fair value UAH 334 million loss was recognised in the income statement (Note 11).

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	3,130
Intangible assets	3
Deferred income tax asset	132
Available for sale investments	15
Inventories	173
Trade and other receivables (gross UAH 3,632 million)	1,897
Cash and cash equivalents	497
Borrowings	(680)
Retirement benefit obligations	(97)
Long-term accounts payable	(170)
Trade and other payables	(3,122)
Prepayments received	(497)
Provisions for other liabilities and charges	(163)
Fair value of 100% of net assets acquired	**1,118**
28.18% non-controlling interest	**(315)**
Share of net assets acquired	**803**
Purchase consideration:	**1,286**
Fair value of consideration paid	451
Fair value of previously held interest	835
Goodwill	**483**
Cash flow from acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	497
Consideration paid for acquisition of subsidiary	(451)
Net inflow of cash on acquisition of subsidiary	46

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the consideration payable and is due to the expected synergies from the benefits as a result of increased revenues, and business growth by receiving more competitive position when combining Kyivenergo network with the existing distribution business of the Group.

Revenue and net loss of Kyivenergo included in the 2011 consolidated income statement from the date of acquisition totalled UAH 868 million and UAH 142 million, respectively. If the acquisition had been completed on 1 January 2011, the 2011 revenues of the Group would be approximately UAH 9,982 million higher and 2011 net profit of the Group would be approximately UAH 1,054 million lower.

34 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management policies seek to minimise the potential adverse effects on the Group's financial performance for those risks that are manageable or noncore to the power generating business.

Risk management is carried out by a centralised treasury department working closely with the operating units, under policies approved by the supervisory board. The Group treasury identifies, evaluates and proposes risk management techniques to minimise these exposures.

Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

Credit risk is managed on an entity by entity basis with oversight by the Group. Credit risk arises from cash and cash equivalents, financial instruments and deposits with banks, as well as credit exposure to wholesale and retail customers, including outstanding receivables and committed transactions. For Banks only SCM related banks or upper tier Ukrainian banks are accepted, which are considered at time of deposit to have minimal risk of default. Customers can be analysed between Energorynok SE, which buys 100% of electricity generated, industrial consumers and other. Due to the monopolistic nature of electricity supply by region, the Group cannot choose its customers, and instead must supply all customers within its distribution network. Sales are metered and management monitors ageing of receivables for industrial customers on a regular basis and ultimately may cut off supply for delinquent customers. For supply to municipal and the general populous, due to the low tariff structure and the political nature of disrupting supply management will continue to supply in the event non-payment and will use non-payment as justification for higher tariff increases for industrial customers. The exposure to credit risk for other customers 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 10,477 million (2011: UAH 14,725 million) being carrying value of financial investments, trade and other receivables and cash. The Group does not hold any collateral as security.

Credit risks concentration

The Group is exposed to concentrations of credit risk.

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

Counterparty	Classification in balance sheet	31 December 2012	31 December 2011
First Ukrainian International Bank (FUIB)**	Cash and cash equivalents	1,292	2,788
State Savings Bank of Ukraine PJSC*	Cash and cash equivalents	1,274	236
Ukrsotsbank PJSC*	Cash and cash equivalents	983	–
Subsidiary Bank Sberbank of Russia PJSC*	Cash and cash equivalents	335	–
Prominvestbank PJSC*	Cash and cash equivalents	285	2
VTB Bank PJSC*	Cash and cash equivalents	279	1,224
Marfin Popular Bank	Cash and cash equivalents	208	73
Ukreximbank PJSC*	Cash and cash equivalents	196	–
Ukrsibbank PJSC*	Cash and cash equivalents	158	233
OTP Bank CJSC*	Cash and cash equivalents	109	59
Russian Commercial Bank (CYPRUS) Limited	Cash and cash equivalents	75	3,152
Universal Bank PJSC*	Cash and cash equivalents	49	140
Erste Group Bank AG	Cash and cash equivalents	32	2,493
State Savings Bank of Ukraine PJSC*	Financial investment	17	–
Marfin Popular Bank	Financial investment	–	188
VTB Bank PJSC*	Financial investment	–	57
Prominvestbank PJSC*	Financial investment	–	23
State Company Energorynok	Trade and other receivables	1,824	1,045
Metinvest Holding LLC**	Trade and other receivables	220	45
LLC MAKO-Trading	Trade and other receivables	184	–
Azovstal Steel Works PJSC**	Trade and other receivables	13	9
State Company Belenergo	Trade and other receivables	3	83
Dniproenergo PJSC	Trade and other receivables	–	375

* These banks rank in the top 35 Ukrainian banks by size of total assets and capital (per National Bank of Ukraine).

** FUIB, Metinvest Holding and Azovstal Steel Works PJSC are subsidiaries of SCM.

Market risk

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

Currency risk

The Group primarily operates within Ukraine and accordingly its exposure to foreign currency risk is determined mainly by borrowings, gross settled derivative financial instruments, cash balances and deposits, the majority of which are denominated in or linked to US dollars. As a result of the global financial crisis, the Ukrainian economy experienced reduced level of capital inflow and decrease in demand for exports. Additionally, the country ratings by international rating agencies were downgraded in October 2008. These factors, together with increasing domestic uncertainty, led to volatility in the currency exchange market and resulted in significant downward pressure on the Ukrainian Hryvnia relative to major foreign currencies. While management monitors this exchange exposure, the Group does not hedge its US dollar currency positions.

The following table presents sensitivities of profit or loss and equity before tax 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:

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

In millions of Ukrainian Hryvnia	At 31 December 2012		At 31 December 2011	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 25% (2011: 25%)	(2,931)	(2,931)	(1,354)	(1,354)
USD weakening by 25% (2011: 25%)	2,931	2,931	1,354	1,354
Euro strengthening by 25% (2011: 25%)	(1,499)	(1,499)	(339)	(339)
Euro weakening by 25% (2011: 25%)	1,499	1,499	339	339
RUB strengthening by 25% (2011: 25%)	(96)	(96)	(56)	(56)
RUB weakening by 25% (2011: 25%)	96	96	56	56

Interest rate risk

As the Group normally has no significant interest bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rate. The Group's interest rate risk arises from long-term and short-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 2012 and 2011, the majority of the Group's variable interest debt is USD, RUB and EUR denominated. As at 31 December 2012, 69% of the total borrowings was provided to the Group at floating rates (31 December 2011: 64%).

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of issuing new debt management uses its judgment to decide whether fixed or variable rate would be more favourable to the Group over the expected period until maturity. The risk of increase in market interest rates is monitored by the Corporate Finance Department of the Company together with the Treasury Department. The Corporate Finance Department is responsible for planning the financing structure (levels of leverage) and borrowing activities. The key objective to financing is reduction of borrowing costs. As disclosed in Note 19, during 2011 and 2012 DTEK concluded agreements with Sberbank of Russia and Barclays for a swap of RUB floating rate loans for USD loans with fixed rate.

The borrowing activities are reviewed on a 12-month budget. Long-term investing activities and associated funding are considered separately.

The maturity dates and effective interest rates of financial instruments are disclosed in Note18. 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 2012, if interest rates on USD, EUR and RUB denominated borrowings had been 200 basis points higher with all other variables held constant, post-tax profit for the year would have been UAH 136 million lower (2011: UAH 118 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 into supply contracts for coal with fixed prices.

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

If the equity quotations of the Group's investments had increased by 10% as at 31 December 2012 and 2011, with all other factors being equal, the Group's equity at 31 December 2012 would have increased by UAH 4 million (31 December 2011: UAH 5 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 2012 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 18)	2,749	1,910	4,312	10,802	557	20,330
Eurobonds (Note 18)	256	194	385	4,123	–	4,958
Gross settled derivative financial instruments – outflows	214	220	1,760	5,691	–	7,885
Gross settled derivative financial instruments – inflows	(375)	(376)	(2,093)	(5,980)	–	(8,824)
Other financial liabilities – external (Note 19)	131	99	315	1,885	61,957	64,387
Trade and other payables (Note 22)	6,156	118	–	–	–	6,274
Total future payments, including future principal and interest payments	**9,131**	**2,165**	**4,679**	**16,521**	**62,514**	**95,010**

The maturity analysis of financial liabilities at 31 December 2011 is as follows:

In millions of Ukrainian Hryvnia	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years	Total
Liabilities						
Borrowings (Note 18)	2,228	724	1,415	9,350	182	13,899
Eurobonds (Note 18)	257	194	385	4,506	–	5,342
Gross settled derivative financial instruments – outflows	28	28	55	906	–	1,017
Gross settled derivative financial instruments – inflows	(42)	(43)	(85)	(951)	–	(1,121)
Other financial liabilities (Note 19)	483	156	162	522	53,469	54,792
– external	59	50	162	522	53,469	54,262
– Dniproenergo	424	106	–	–	–	530
Indebtedness under amicable agreement (Note 19)	–	–	12	–	–	12
Trade and other payables (Note 22)	4,640	60	–	–	–	4,700
Total future payments, including future principal and interest payments	**7,594**	**1,119**	**1,944**	**14,333**	**53,651**	**78,641**

Other financial liability external represents undiscounted future cash flows for deferred consideration payable related to acquisition of Dobropolyeugol, Rovenkiatrantracyte and Sverdlovantracyte, finance lease liability related to acquisition of Bilozerska Mine ALC and other balances.

35 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return on capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio. This ratio is calculated as net liabilities divided by total capital under management. Net debt is calculated as total borrowing (current and long-term as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital under management equals equity as shown in the consolidated balance sheet.

The Group has yet to determine its optimum gearing ratio. Presently, the majority of debt is due within 2–5 years and the Group is actively pursuing mechanisms to extend the credit terms to match its long-term investment strategy. The Group has obtained a credit rating that matches the Sovereign rating of Ukraine.

	31 December 2012	31 December 2011
Total net debt	15,302	4,656
Total equity	32,687	24,826
Debt to equity ratio	46.81%	18.75%

36 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Ukraine continues to display some characteristics of an emerging market, and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value

Trading and available-for-sale investments are carried in the balance sheet at their fair value. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Fair values were determined based on quoted market prices or third party valuations using discounted cash flows techniques.

Financial assets carried at amortised cost

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows, expected to be received, discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Liabilities carried at amortised cost

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

Fair values of financial instruments at 31 December 2012 were as follows:

In millions of Ukrainian Hryvnia	Measurement method:		Total fair value	Carrying value
	Quoted price in active market	Valuation using observable market inputs		
FINANCIAL ASSETS				
Cash and cash equivalents (Note 15)				
– Bank balances payable on demand	–	4,959	4,959	4,959
– Term deposits	–	310	310	310
– Restricted cash	–	91	91	91
Trade and other receivables (Note 14)				
– Trade receivables	–	4,597	4,597	4,597
– Receivables under commission agreements	–	–	–	–
– Receivable for sale of financial instruments	–	–	–	–
– Other financial receivables	–	132	132	132
Other non-current assets				
– Trade and other receivables – non-current	–	46	46	50
Financial investments (Note 12)				
– Securities quoted on Ukrainian stock market	45	–	45	45
– Prepayment for shares	–	160	160	160
– Deposits placed with the maturity more than three months	–	102	102	102
– Restricted cash	–	80	80	80
– Loans receivable	–	1	1	1
TOTAL FINANCIAL ASSETS	**45**	**10,478**	**10,523**	**10,527**
FINANCIAL LIABILITIES				
Liability to non-controlling participants	–	5	5	5
Borrowings (Note 18)	–	16,715	16,715	16,721
Eurobonds (Note 18)	4,113	–	4,113	3,941
Other liabilities – non-current (Note 19)	–	4,100	4,100	3,860
Other financial liabilities – current (Note19)	–	235	235	235
Current part of deferred consideration (Note 19)	–	65	65	65
Trade and other payables (Note 22)	–	6,274	6,274	6,274
TOTAL FINANCIAL LIABILITIES	**4,113**	**27,394**	**31,507**	**31,101**

Fair values of financial instruments at 31 December 2011 were as follows:

In millions of Ukrainian Hryvnia	Measurement method:		Total fair value	Carrying value
	Quoted price in active market	Valuation using observable market inputs		
FINANCIAL ASSETS				
Cash and cash equivalents (Note 15)				
– Bank balances payable on demand	–	4,922	4,922	4,922
– Term deposits	–	5,504	5,504	5,504
– Restricted cash	–	–	–	–
Trade and other receivables (Note 14)				
– Trade receivables	–	3,070	3,070	3,070
– Receivables under commission agreements	–	45	45	45
– Receivable for sale of financial instruments	–	2	2	2
– Other financial receivables	–	225	225	225
Other non-current assets				
– Trade and other receivables – non-current	–	137	137	137
Financial investments (Note 12)				
– Securities quoted on Ukrainian stock market	71	–	71	71
– Prepayment for shares	–	355	355	355
– Deposits placed with the maturity more than three months	–	275	275	275
– Loans receivable	–	190	190	190
TOTAL FINANCIAL ASSETS	**71**	**14,725**	**14,796**	**14,796**
FINANCIAL LIABILITIES				
Liability to non-controlling participants	–	4	4	4
Borrowings (Note18)	–	10,977	10,977	11,162
Eurobonds (Note 18)	3,670	–	3,670	3,920
Other liabilities – non-current (Note 19)	–	2,615	2,615	2,615
Current part of deferred consideration (Note 19)	–	85	85	85
Investment obligation relating to Dniproenergo – current (Note19)	–	519	519	519
Other financial liabilities – current (Note19)	–	152	152	152
Trade and other payables (Note 22)	–	4,700	4,700	4,700
TOTAL FINANCIAL LIABILITIES	**3,670**	**19,052**	**22,722**	**23,157**

37 Reconciliation of Classes of Financial Instruments with Measurement Categories

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2012:

In millions of Ukrainian Hryvnia	Loans and receivables	Available-for-sale assets	Total
ASSETS			
Cash and cash equivalents (Note 15)			
– Bank balances payable on demand	4,959	–	4,959
– Term deposits	310	–	310
– Restricted cash	91	–	91
Trade and other receivables (Note 14)			
– Trade receivables	4,597	–	4,597
– Receivables under commission agreements	–	–	–
– Receivable for sale of financial instruments	–	–	–
– Other financial receivables	132	–	132
Other non-current assets			
– Trade and other receivables – non-current	50	–	50
Financial investments (Note 12)			
– Equity securities	–	45	45
– Prepayment for shares	160	–	160
– Deposits placed with the maturity more than three months	102	–	102
– Loans receivable	1	–	1
– Restricted cash	80	–	80
TOTAL FINANCIAL ASSETS	**10,482**	**45**	**10,527**
NON-FINANCIAL ASSETS	**–**	**–**	**65,877**
TOTAL ASSETS			**76,404**

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2011:

In millions of Ukrainian Hryvnia	Loans and receivables	Available-for-sale assets	Total
ASSETS			
Cash and cash equivalents (Note 15)			
– Bank balances payable on demand	4,922	–	4,922
– Term deposits	5,504	–	5,504
– Restricted cash	–	–	–
Trade and other receivables (Note 14)			
– Trade receivables	3,070	–	3,070
– Receivables under commission agreements	45	–	45
– Receivable for sale of financial instruments	2	–	2
– Other financial receivables	225	–	225
Other non-current assets			
– Trade and other receivables — non-current	137	–	137
Financial investments (Note 12)			
– Equity securities	–	71	71
– Prepayment for shares	355	–	355
– Deposits placed with the maturity more than three months	275	–	275
– Loans receivable	190	–	190
TOTAL FINANCIAL ASSETS	**14,725**	**71**	**14,796**
NON-FINANCIAL ASSETS	**–**	**–**	**41,552**
TOTAL ASSETS			**56,348**

All of the Group's financial liabilities at 31 December 2012 and 2011 are carried at amortised cost.

38 Subsequent events

There were no significant events subsequent to the year end.

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