DTEK Holdings B.V.

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

31 December 2010

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Independent Auditor's report

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying special purpose consolidated financial statements of DTEK Holdings B.V. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of 31 December 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Special Purpose Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying special purpose consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

LLC PricewaterhouseCoopers Audit

17 March 2011

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DTEK Holdings B.V.
Special Purpose Consolidated Balance Sheet

In millions of Ukrainian Hryvnia	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	9	11,575	10,954
Intangible assets	10	731	700
Investments in associates	11	4,099	3,025
Financial investments	12	1,279	1,054
Deferred income tax assets	34	1,041	428
Other non-current assets		38	16
Total non-current assets		**18,763**	**16,177**
Current assets			
Inventories	13	1,157	633
Trade and other receivables	14	2,984	2,070
Financial investments	12	1,040	595
Cash and cash equivalents	15	1,693	739
Total current assets		**6,874**	**4,037**
TOTAL ASSETS		**25,637**	**20,214**
EQUITY			
Share capital	16	-	-
Share premium	16	9,909	9,909
Other reserves	17	(865)	(696)
Retained earnings		4,166	1,507
Net assets attributable to the equity holders		**13,210**	**10,720**
Non-controlling interest in equity		**70**	**73**
TOTAL EQUITY		**13, 280**	**10,793**
LIABILITIES			
Non-current liabilities			
Liability to non-controlling participants	18	3	2
Eurobonds issued	19	3,889	-
Borrowings	19	620	807
Other financial liabilities	20	118	221
Indebtedness under amicable agreement	21	93	126
Government grants	22	9	42
Retirement benefit obligations	23	1,582	1,379
Provisions for other liabilities and charges	24	311	160
Deferred income tax liability	34	1,540	959
Total non-current liabilities		**8,165**	**3,696**
Current liabilities			
Borrowings	19	993	3,621
Other financial liabilities	20	485	607
Prepayments received		320	80
Trade and other payables	25	1,961	1,055
Current income tax payable		273	205
Other taxes payable	26	160	157
Total current liabilities		**4,192**	**5,725**
TOTAL LIABILITIES		**12,357**	**9,421**
TOTAL LIABILITIES AND EQUITY		**25,637**	**20,214**

Approved for issue and signed on behalf of the Management Board on 17 March 2011

Maksym Timchenko
Director

FTC Trust B.V.
Director

Signed on behalf of the Management Board on 31 March 2011.

Oleg Popov

Natalia Izosimova

Sergey Korovin

Irina Mykh

Robert Sheppard

Roman Bugayov

In millions of Ukrainian Hryvnia	Note	2010	2009
Revenue	27	24,294	15,009
Cost of sales	28	(18,936)	(12,447)
Gross profit		**5,358**	**2,562**
Other operating income	29	298	129
Distribution costs	30	(196)	(110)
General and administrative expenses	31	(851)	(598)
Other operating expenses	32	(262)	(192)
Net foreign exchange (loss)/gain (other than on borrowings)		(21)	83
Operating profit		**4,326**	**1,874**
Foreign exchange gains less losses from borrowings		119	(203)
Finance income	33	113	71
Finance costs	33	(920)	(798)
Recognition of AFS reserve on transfer to associate	17	(72)	-
Share of result and impairment of associates	11	406	231
Profit before income tax		**3,972**	**1,175**
Income tax expense	34	(1,115)	(319)
Profit for the year		**2,857**	**856**
Profit/(loss) is attributable to:			
Equity holders of the Company		2,860	863
Non-controlling interest		(3)	(7)
Profit for the year		**2,857**	**856**

Special Purpose Consolidated Statement of Comprehensive Income

In millions of Ukrainian Hryvnia	2010	2009
Profit for the period	2,857	856
Other comprehensive income		
Financial investments:		
- Fair value gain (loss) (Note 17)	234	(109)
- Recognition of AFS reserve on transfer to associate (Note 17)	72	-
- Result of associates (Note 17)	5	-
Property, plant and equipment:		
- Change in estimate for asset retirement obligation (Note 24)	(13)	59
Income tax relating to components of other comprehensive income (Note 34)	(36)	(2)
Total comprehensive income for the period	**3,119**	**804**
Total comprehensive income attributable to:		
Equity holders of the Company	3,122	811
Non-controlling interest	(3)	(7)
Total comprehensive income for the period	**3,119**	**804**

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 2009	**-**	**-**	**7,545**	**2,364**	**9,909**	**80**	**9,989**
Total comprehensive income for 2009	**-**	**-**	**(52)**	**863**	**811**	**(7)**	**804**
Incorporation of DTEK Holdings B.V. (Note 16)	**-**	9,909	(7,545)	(2,364)	**-**	**-**	**-**
Property, plant and equipment:							
- Realised revaluation reserve	**-**	**-**	(859)	859	**-**	-	**-**
- Deferred tax related to realised revaluation reserve	**-**	**-**	215	(215)	**-**	-	**-**
Balance at 31 December 2009	**-**	**9,909**	**(696)**	**1,507**	**10,720**	**73**	**10,793**
Total comprehensive income for 2010	-	-	**262**	**2,860**	**3,122**	**(3)**	**3,119**
Property, plant and equipment:							
- Realised revaluation reserve	-	-	(572)	572	**-**	-	**-**
- Deferred tax related to realised revaluation reserve	-	-	141	(141)	**-**	-	**-**
Dividends declared (Note 16)	-	-	-	(632)	**(632)**	-	**(632)**
Balance at 31 December 2010	**-**	**9,909**	**(865)**	**4,166**	**13,210**	**70**	**13,280**

In millions of Ukrainian Hryvnia	Note	2010	2009
Cash flows from operating activities			
Profit before income tax		**3,972**	**1,175**
Adjustments for:			
Depreciation and impairment of property, plant and equipment and amortisation of intangibles, net of amortisation of government grants		1,479	1,429
Losses less gains on disposals of property, plant and equipment	29	(4)	17
Assets received free of charge	29	(41)	(28)
Reversal of provision for impairment of trade and other receivables and prepayments made	29	(149)	(55)
Change in provisions for other liabilities and charges	24	134	(3)
Non-cash operating charge to retirement benefit obligation	23	128	250
Extinguishment of accounts payable		(2)	(1)
Share of result and impairment of associates	11	(406)	(231)
Recognition of AFS reserve on transfer to associate	17	72	-
Unrealised result on associate	11	37	(5)
Unrealised foreign exchange (gain) loss		(8)	86
Realised foreign exchange (gain) loss on financing activities		(101)	114
Finance costs, net	33	807	727
Operating cash flows before working capital changes		**5,918**	**3,475**
Increase in trade and other receivables		(881)	(353)
(Increase)/decrease in inventories		(486)	19
Increase in prepayments received		237	25
Increase/(decrease) in trade and other payables		89	(102)
Decrease in other financial liabilities		-	(6)
Decrease in other liabilities		(26)	-
Increase/(decrease) in taxes payable		57	(85)
Cash generated from operations		**4,908**	**2,973**
Income taxes paid		(1,115)	(284)
Defined employee benefits paid	23	(157)	(144)
Interest paid		(456)	(423)
Interest received		55	24
Net cash generated from operating activities		**3,235**	**2,146**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(2,214)	(1,893)
Proceeds from sale of property, plant and equipment		19	3
Purchase of financial investments		(71)	(469)
Purchase of investments in associates		(289)	-
Proceeds from sale of financial investments		-	28
Withdrawal of restricted cash	15	13	-
Redemption/(acquisition) of deposit certificates		175	(187)
Dividends received from associates	11	2	29
Deposits placed and financial aid or loan provided		(675)	(177)
Repayment of deposits and loans provided		114	176
Net cash used in investing activities		**(2,926)**	**(2,490)**
Cash flows from financing activities			
Proceeds from borrowings		6,139	3,160
Repayment of borrowings		(5,057)	(2,699)
Repayment of debts under amicable agreement		(52)	(16)
Resale of bonds of own issue		-	26
Dividends paid		(371)	-
Net cash generated from financing activities		**659**	**471**
Net increase in cash and cash equivalents		**968**	**127**
Cash and cash equivalents at the beginning of the year	15	**725**	**595**
Exchange gains/(losses) on cash and cash equivalents		**(1)**	**3**
Cash and cash equivalents at the end of the year	15	**1,692**	**725**

The accompanying notes on pages 5 to 54 are an integral part of these financial statements.

1 The Organisation and its Operations

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

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

The principal subsidiaries are presented below:

Name	% interest held as at 31 December		Segment	Country of incorporation
	2010	2009		
DTEK Finance B.V.*	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
Pavlogradugol OJSC	99.92	99.92	Coal Mining	Ukraine
Komsomolets Donbassa OJSC	94.64	94.64	Coal Mining	Ukraine
Eastenergo LLC	100.00	100.00	Power generation	Ukraine
Tehrempostavka LLC	100.00	100.00	Power generation	Ukraine
Servis-Invest LLC	100.00	100.00	Electricity distribution	Ukraine
PES-Energougol OJSC	91.12	91.12	Electricity distribution	Ukraine
CCM Kurahovskaya LLC	99.00	99.00	Coal Mining	Ukraine
CCM Pavlogradskaya LLC	99.00	99.00	Coal Mining	Ukraine
Mospino CPE LLC	99.00	99.00	Coal Mining	Ukraine
CCM Dobropolskaya OJSC	60.06	60.06	Coal Mining	Ukraine
CCM Oktyabrskaya OJSC	60.85	60.85	Coal Mining	Ukraine
Pershotravensky RMZ LLC	99.92	99.92	Coal Mining	Ukraine
Sotsis LLC	99.00	99.00	Other	Ukraine
Ekoenergoresurs LLC	99.00	99.00	Coal Mining	Ukraine
Servis Enterprise LLC	99.00	99.00	Other	Ukraine
DTEK Trading LLC	100.00	100.00	Other	Ukraine
DTEK Trading Limited	100.00	100.00	Other	Cyprus
Wind Power LLC	100.00	100.00	Power generation	Ukraine
Power Trade LLC	100.00	100.00	Other	Ukraine
DTEK Dobropolyeugol LLC*	100.00	100.00	Coal Mining	Ukraine
Power Trade Hungary Kft.*	100.00	100.00	Other	Hungary

* - entity created by the Group in 2010

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 2010, the Group employed approximately 42 thousand people (31 December 2009: 42 thousand people).

2 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. In 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 35). 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.

3 Summary of Significant Accounting Policies

Basis of preparation. DTEK Holdings B.V. will prepare its first statutory financial statements for the 19 months to 31 December 2010. These consolidated financial statements prepared using the predecessor basis for the 12 months ended 31 December 2010 are considered "special purpose financial statements" until the statutory financial statements are prepared.

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

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

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

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

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

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

As at 31 December 2010, the exchange rate used for translating foreign currency balances was USD 1 = UAH 7.96 (31 December 2009: USD 1 = UAH 7.99); EUR 1 = UAH 10.57 (31 December 2009: EUR 1 = UAH 11.45). 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.

3 Summary of Significant Accounting Policies (Continued)

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 identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income (Note 3).

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.

Change in accounting policy

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2010 when the revised IFRS 3, 'Business combinations', the revised IAS 27, 'Consolidated and separate financial statements', and the revised IAS 28, 'Investments in associates', became effective.

Previously transactions with non-controlling interests were treated as transactions with parties external to the group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously, when the group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The group has applied the new policy prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

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

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

3 Summary of Significant Accounting Policies (Continued)

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.

Change in accounting policy

The Group has changed its accounting policy for step acquisition of associates from 1 January 2010 when the revised IFRS 3, 'Business combinations', the revised IAS 27, 'Consolidated and separate financial statements', and the revised IAS 28, 'Investments in associates', became effective. Previously, cost of an associate acquired in stages was measured as the sum of consideration paid for each purchase and goodwill on acquisition of associates was determined at each stage of the acquisition. Under the new accounting policy the cost of an associate acquired in stages is measured as the sum of the fair value of the interest previously held plus the fair value of any additional consideration paid. The new accounting policy is applied prospectively. It was therefore not necessary to make any adjustments to any of the amounts previously recognised in the financial statements.

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 of 1 August 2008. Subsequent additions to property plant and equipment are recorded at cost. Cost includes expenditure directly attributable to acquisition of the items. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Starting from 1 January 2009 the cost of acquired and self-constructed qualifying assets includes borrowing costs.

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

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

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

Depreciation. Depreciation is charged to the consolidated income statement on a straight-line basis to allocate costs of individual assets to their residual value over their estimated useful lives. Depreciation commences on the date of acquisition or, in respect of 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

3 Summary of Significant Accounting Policies (Continued)

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

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

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.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

A provision for impairment of loans and accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The amount of the provision is recognised in the income statement.

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

Income taxes. Income taxes have been provided for in the financial statements in accordance with Ukrainian, 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.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Trade and other payables. Trade and other payables are recognised and initially measured under the policy for financial instruments mentioned above. Subsequently, instruments with a fixed maturity are re-measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any transaction costs and any discount or premium on settlement. Financial liabilities which do not have a fixed maturity are subsequently carried at fair value.

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

Management incentive program. In January 2009, the Group introduced a long-term incentive bonus program for top executives. This cash-settled share based compensation is based upon 2% of the Group's incremental value (net worth) increase over a benchmark amount, assessed at the vesting dates of 31 December 2010 and 31 December 2012, and 31 December 2014. 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 calculated by external valuer based on the forecasted valuation of the Group's net worth performed by the Group management.

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

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

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

4 Critical Accounting Estimates and Judgements

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

Impairment of available-for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price and liquidity in the Ukrainian markets. In addition, impairment may be appropriate when there is evidence of changes in technology or a deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would have suffered an additional loss for the year of UAH 152 million (2009: 422 million).

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

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

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

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

Revaluation of property, plant and equipment. As at 1 August 2008, the Group's management decided to carry out the revaluation of property, plant and equipment based on changes in economic conditions of business environment and an increase of the inflation rate. Fair value of property, plant and equipment and remaining useful lives as at 31 August 2008 were determined by an independent appraiser. The carrying value and depreciation of property, plant and equipment are effected by the estimates of replacement cost, depreciated replacement cost and remaining useful life. Changes in these assumptions could have a material impact to the fair value of property, plant and equipment (Note 9). No independent revaluation was performed in 2010, however management believes, based on internal assessment, that the fair value of property, plant and equipment does not differ significantly from the recorded carrying amounts as at 31 December 2010.

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.

4 Critical Accounting Estimates and Judgements (Continued)

Post-employment and other employee benefit obligations. Management assesses post-employment and other employee benefit obligations using the Projected Unit Credit Method based on actuarial assumptions which represent management's best estimates of the variables that will determine the ultimate cost of providing post-employment and other employee benefits. Since the plan is administered by the State, the Group may not have full access to information and therefore assumptions regarding when, or if, an employee takes early retirement, whether the Group would need to fund pensions for ex-employees depending on whether that ex-employee continues working in hazardous conditions, the likelihood of employees transferring from State funded pension employment to Group funded pension employment could all have a significant impact on the pension obligation. The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The major assumptions used in determining the net cost (income) for pensions include the discount rate and expected salary increases. Any changes in these assumptions will impact the carrying amount of pension obligations. Since there are no long-term, high quality corporate or government bonds issued in Ukrainian Hryvnias, significant judgement is needed in assessing an appropriate discount rate. Key assumptions and sensitivities are presented in Note 23.

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

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

Tax legislation. Ukrainian tax, currency and customs legislation continues to evolve. Conflicting regulations are subject to varying interpretations. Management believes its interpretations are appropriate and sustainable, but no guarantee can be provided against a challenge from the tax authorities (Note 34).

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.

The tax base of the property, plant and equipment will also be changed from 1 April 2011 with the aim to remove existing differences between tax and accounting bases. The Group has treated the respective change in tax legislation regarding the tax base of the property, plant and equipment as a non-adjusting event for the current financial statements. Had the Group measured the tax base of the property, plant and equipment according to the provisions of the new Tax Code, the deferred tax liability related to the property, plant and equipment as at 31 December 2010 in amount of UAH 730 million would have been derecognised, the deferred tax asset related to the property, plant and equipment would have been increased by UAH 24 million, the revaluation reserve in equity would have been increased by UAH 1,241 million and the deferred tax charge in the statement of the comprehensive income would have been increased by UAH 487 million.

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

Investment in Dniproenergo OJSC. As discussed in Note 11, the additional 34.24% share issue of Dniproenergo OJSC ("Dniproenergo") made in October 2007 was registered on 11 July 2008, taking the Company's interest to approximately 47.5%, and accordingly the Company has applied the equity method of accounting to its registered interest in Dniproenergo. If this additional share issue is successfully challenged, the recoverability of the Company's investment which totals UAH 2,666 million at 31 December 2010, may become doubtful.

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4 Critical Accounting Estimates and Judgements (Continued)

Heat tariff compensation received by Kyivenergo JSC. The Group's equity investment - Kyivenergo JSC is required to supply heat to the Kyiv consumer market at regulated tariffs that are below cost. In accordance with existing legislation, Kyivenergo is entitled to claim heat tariff compensation which is computed as the difference between the "economically grounded" heat tariff and that imposed by the Kyiv City State Administration. Such claims are subject to additional Governmental, Budget and City approvals, the timing of which is uncertain. Kyivenergo accounts for such heat tariff compensation as government grants and due to the uncertainty of when the compensation becomes receivables records all amounts as income only when received. During 2010, Kyivenergo received UAH 1,902 million of heat tariff compensation related to 2008, 2009 and 2010. This amount was received following the change in accounting for Kyivenergo from available-for-sale to equity accounting and accordingly, the Group recorded its share of this gain. Due to the significance of the heat tariff compensation and the sporadic timing of receipt, Kyivenergo's income/loss for any period will fluctuate significantly based on when this compensation is received.

5 Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods:

IFRS 3 (revised), Business Combinations, and consequential amendments to IAS 27 *Consolidated and separate financial statements*, IAS 28 *Investments in associates*, and IAS 31 *Interests in joint ventures*, are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the 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. All acquisition-related costs are expensed.

IAS 27 (revised), Consolidated and separate financial statements, requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

IAS 1 (amendment), Presentation of Financial Statements. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

IAS 36 (amendment), Impairment of Assets. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8 *Operating segments* (that is, before the aggregation of segments with similar economic characteristics).

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable.

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

5 Adoption of New or Revised Standards and Interpretations (Continued)

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The amendments did not have a material impact on these financial statements.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

6 New Accounting Pronouncements

Listed below are new standards and interpretations that have been published and are mandatory for the Group accounting periods beginning on or after 1 January 2011 or later periods and which the Group has not early adopted:

- ***IFRS 9, Financial Instruments Part 1: Classification and Measurement*****,** issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU.
- ***Amendment to IAS 24, Related Party Disclosures,*** issued in November 2009. It supersedes IAS 24 *Related party disclosures*, issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. However, the standard has not yet been endorsed by the EU.
- ***Classification of Rights Issues - Amendment to IAS 32***, issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer.
- ***IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments***, effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap).
- ***Prepayments of a minimum funding requirement (amendment to IFRIC 14).*** The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. The amendments should be applied retrospectively to the earliest comparative period presented.
- ***Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).***
- ***Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).***

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

7 Segment Information

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

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

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

- Coal mining
- Power generation
- Electricity distribution

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

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

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

7 Segment Information (Continued)

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

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

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

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

In millions of Ukrainian Hryvnia	Coal mining	Power generation	Electricity distribution	Other	Total
2009					
Energorynok SE	-	5,543	-	-	**5,543**
Dniproenergo OJSC	2,692	-	-	-	**2,692**
Entities under common control of SCM	810	-	2,426	-	**3,236**
Total	**3,502**	**5,543**	**2,426**	**-**	**11,471**

7 Segment Information (Continued)

Geographical information

In millions of Ukrainian Hryvnia	**2010**	**2009**
Ukraine	21,927	14,671
Other countries	2,367	338
Total consolidated revenues	**24,294**	**15,009**

8 Balances and Transactions with Related Parties

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2010 are detailed below. At 31 December, the outstanding balances with related parties were as follows:

				2010				**2009**
In millions of Ukrainian Hryvnia	Entities under common control of SCM	Associates of Parent Company	Associates	Other related parties	Entities under common control of SCM	Associates of Parent Company	Associates	Other related parties
Gross amount of trade and other receivables	268	1	285	1	470	-	242	-
Promissory notes receivable	3	-	-	-	3	-	-	-
Financial aid provided	2	-	-	-	26	-	-	-
Deposits placed with a maturity of more than three months	55	-	-	-	86	-	-	-
Loans granted and interest accrued	5	-	15	-	5	-	1	-
Prepayment for financial investments	107	-	-	-	107	-	-	-
Cash and cash equivalents – current account	184	-	-	-	202	-	-	-
Investment obligation relating to Dniproenergo:								
- Non-current	-	-	(83)	-	-	-	(157)	-
- Current	-	-	(414)	-	-	-	(307)	-
Bonds issued:								
- Non-current	(18)	-	-	-	(12)	-	-	-
- Current	(12)	-	-	-	-	-	-	-
Trade and other payables	(44)	-	-	-	(86)	-	-	-
Prepayments received	(3)	-	-	-	(1)	-	-	-
Loan received (US dollar denominated interest-free)	-	-	-	-	(300)	-	-	-
Dividends payable	(261)	-	-	-	-	-	-	-

8 Balances and Transactions with Related Parties (Continued)

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

	2010				2009			
In millions of Ukrainian Hryvnia	Entities under common control of SCM	Associates of Parent Company	Associates	Other related parties	Entities under common control of SCM	Associates of parent Company	Associates	Other related parties
Sales of electricity	3,234	10	-	1	2,426	-	-	-
Sales of coking coal	825	-	-	-	810	-	-	-
Sales of steam coal	9	-	4,153	-	-	-	2,692	-
Sales of inventory	-	-	-	-	4	-	2	-
Purchase of goods for resale	(251)	-	-	-	(846)	-	-	-
Purchase of raw materials and equipment	(9)	-	(5)	(67)	(74)	-	(5)	-
Purchase of services	(101)	-	-	-	(25)	-	-	-
Interest income on bank deposits	13	-	-	-	8	-	-	-
Interest expense on bonds issued	(1)	-	-	-	-	-	-	-
Interest expense on long-term payables	(27)	-	-	-	(1)	-	-	-
Gain on initial recognition of promissory note	-	-	-	-	11	-	-	-
Interest income on loans provided	-	-	-	-	5	-	-	-
Loss on sale of promissory note	-	-	-	-	(4)	-	-	-

Revenue, trade and other receivable

The trade receivable balances as at 31 December 2010 due from entities under common control and an associates are non-interest bearing. The balances outstanding from related parties as at 31 December 2010 and 2009 are unsecured and settlements are made either in cash, in the form of a debt set-off or by means of exchanging promissory notes issued by the settling counterparties or third parties to the transaction. The Group created no provision for impairment of accounts receivable due from related parties as of 31 December 2010 and 2009.

As at 31 December 2010, no intragroup sales of coal are pledged as collateral for bank borrowings (2009: UAH 2,000 million).

Purchases, trade and other payables

Purchases and outstanding trade and other payables as at 31 December 2010 and 2009 comprised balances due to related parties for supplies of iron shoring for mines, raw materials and steaming coal. Balances payable are non-interest bearing and are repayable in the normal course of business.

Key management personnel compensation

Key management personnel consist of seven top executives (2009: nine top executives). In 2010 total compensation to key management personnel included in administrative expenses amounted to UAH 31 million (2009: UAH 40 million). Compensation to the key management personnel consists of salary, bonus payments and termination benefits.

Effective 1 January 2009, the Group entered into a management incentive program with certain top executives. Under the program, top executives are entitled to 2% of the Group's incremental value (net worth) increase over a benchmark amount. Total available under the program is capped at USD 100 million depending on the increase in the value of the Group, this amount is further capped by individual employee caps. The valuation of the Group would be performed by quoted price, if the Group's shares are publically traded, or by reference to independent appraisal using techniques approved by the Supervisory Board. 30% of the bonus is payable based on the interim valuation date of 31 December 2010 for the majority of participants, and the remaining 70% payable in 2012, although participants can defer receipt until the final vesting period. The Group engaged external valuers to assess the probable obligation as of 31 December 2010 using the forecasted internal valuation of the Group's net worth performed by the Group management. As at 31 December 2010, UAH 129 million has been recorded as a provision in these financial statements.

9 Property, Plant and Equipment

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

In millions of Ukrainian Hryvnia	Mining assets	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
At 1 January 2009						
Cost	2,088	3,644	4,227	317	943	**11,219**
Accumulated depreciation	(57)	(123)	(382)	(74)	-	**(636)**
NBV at 1 January 2009	**2,031**	**3,521**	**3,845**	**243**	**943**	**10,583**
Additions	21	50	1,535	64	195	**1,865**
Disposals	-	(3)	(14)	(2)	(1)	**(20)**
Depreciation charge	(157)	(318)	(927)	(72)	-	**(1,474)**
Transfer	79	68	263	17	(427)	**-**
NBV at 31 December 2009	**1,974**	**3,318**	**4,702**	**250**	**710**	**10,954**
At 31 December 2009						
Cost or valuation	2,188	3,757	5,995	384	710	**13,034**
Accumulated depreciation	(214)	(439)	(1,293)	(134)	-	**(2,080)**
NBV at 31 December 2009	**1,974**	**3,318**	**4,702**	**250**	**710**	**10,954**
Additions	16	73	898	79	1,113	**2,179**
Disposals	(2)	(8)	(17)	(2)	(4)	**(33)**
Depreciation charge	(164)	(303)	(984)	(74)	-	**(1,525)**
Transfer	224	33	197	4	(458)	**-**
NBV at 31 December 2010	**2,048**	**3,113**	**4,796**	**257**	**1,361**	**11,575**
At 31 December 2010						
Cost or valuation	2,413	3,851	7,023	453	1,361	**15,101**
Accumulated depreciation	(365)	(738)	(2,227)	(196)	-	**(3,526)**
NBV at 31 December 2010	**2,048**	**3,113**	**4,796**	**257**	**1,361**	**11,575**
NBV without revaluation at:						
31 December 2009	**1,219**	**776**	**3,003**	**141**	**563**	**5,702**
31 December 2010	**1,369**	**750**	**3,496**	**182**	**1,074**	**6,871**

During 2008, the Group engaged independent appraisers to determine the fair value of its property, plant and equipment. Fair value was determined with reference to depreciated replacement cost or market-based evidence, in accordance with International Valuation Standards.

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

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

As at 31 December 2010, buildings, plant and machinery carried at UAH 1,129 million (31 December 2009: UAH 2,966 million) have been pledged to third parties as collateral for borrowings (Note 35).

In 2010, the depreciation expense of UAH 1,447 million (2009: UAH 1,387 million), net of amortisation of government grants, was included in cost of sales, UAH 18 million (2009: UAH 15 million) in general and administrative expenses, UAH 4 million (2009: UAH 6 million) in distribution expenses, and nil (2009: UAH 12 million) in other operating expenses.

10 Intangible assets

As at 31 December, intangible assets comprise:

In millions of Ukrainian Hryvnia	2010	2009
Goodwill	633	633
Other intangible assets	98	67
Total	**731**	**700**

Goodwill Impairment Test

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

In millions of Ukrainian Hryvnia	2010	2009
Coal mining	590	590
Energy distribution	43	43
Total	**633**	**633**

The recoverable amount has been determined based on a value in use calculation. Cash flow projections, based on financial budgets approved by senior management covering a five-year period, and third party prices were used to determine projected sales. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The following table summarises key assumptions on which management has based its cash flow projections to undertake the impairment testing of goodwill.

	2010	2009
Coal mining		
Pre-tax discount rate	17%-16%	23%-16%
Revenue growth rate for the five-year period	13%-25%	5%-30%
Revenue growth rate after the five-year period	2%-8%	4%-5%
Gross margin	38%	25%
Energy distribution – PES-Energougol		
Pre-tax discount rate	17%-16%	23%-16%
Revenue growth rate for the five-year period	3%-28%	6%-17%
Revenue growth rate after the five-year period	5%-8%	7%-10%
Gross margin	15%	15%

In assessing goodwill impairment management used a multi-period discount rate ranging from 16.2% in 2011 to 17.2% in 2014, which stabilizes at 15.7% in 2015 and onwards.

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

No impairment was recognised as a result of the assessment.

During 2010 and 2009, the movements of other intangible assets, primary software and associated rights, were as follows:

In millions of Ukrainian Hryvnia	Cost	Accumulated amortisation and impairment	Net book value
As at 1 January 2009	**49**	**(8)**	**41**
Additions / (Charge) for the year	35	(9)	26
As at 31 December 2009	**84**	**(17)**	**67**
Additions / (Charge) for the year	41	(10)	31
As at 31 December 2010	**125**	**(27)**	**98**

In 2010 the amortisation expenses of UAH 4 million (2009: UAH 4 million) was included in cost of sales and UAH 6 million (2009: UAH 5 million) in general and administrative expenses.

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	2010	2009
Carrying amount at 1 January	**3,025**	**2,811**
Acquisition of associates	612	-
Additional contribution to associate	-	7
Transfer from AFS investment to associate	90	-
Share of after tax results of associates	406	1,105
Share in other reserves of associates	5	-
Unrealised profit on operations with associate	(37)	5
Impairment of associate	-	(874)
Dividends declared by associate	(2)	(29)
Carrying amount at 31 December	**4,099**	**3,025**

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

2010

In millions of Ukrainian Hryvnia	Country of incorporation	% of ownership	Carrying value	Total assets	Total liabilities	Revenue	Profit/ (loss)
Dniproenergo JSC	Ukraine	47.55%	2,666	3,018	1,916	6,228	187
Donetskoblenergo JSC	Ukraine	30.59%	404	1,612	2,495	3,809	25
Kyivenergo JSC	Ukraine	39.98%	1,002	4,411	2,900	10,217	659
Other	Ukraine	various	27	45	13	-	(20)
Total			**4,099**				

2009

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

Dniproenergo

The Group's interest in Dniproenergo, a majority State owned power generating company located in Zaporizhzhya, was acquired via a) a series of transactions on the over the counter market over a number of years resulting in total interest acquired of 13.31% at a total cost of UAH 1,276 million and b) via a share issue by Dniproenergo in 2007, as a result of an amicable agreement to bring the entity out of bankruptcy, resulting in a 34.24% interest for a capital contribution of UAH 1,052 million and a commitment to fund Dniproenergo's investment program totalling UAH 1,010 for the period 2008 through 2012.

This capital contribution resulted in the dilution of existing shareholders and certain minority shareholders had challenged the validity of this share issue in the Courts. The Court ruling and appeals have found both for and against the additional share issue. However in 2009, at the annual shareholder meeting, the shareholders voted in accordance with the registered number of shares including the additional share issuance; the shareholder also approved a new share registrar, management and supervisory board members and dividends of UAH 61 million (UAH 10 per ordinary share) were declared.

At the last Highest Commercial Court of Ukraine ruling on 26 May 2010, the Group's interest in Dniproenergo was upheld. While a new challenge/appeal from the minority shareholders cannot be precluded, management believes they will be able to successfully defend their ownership interest.

11 Investments in Associates (Continued)

Impairment assessment for Dniproenergo

At 31 December 2010, the quoted market price for the Group's interest in Dniproenergo was UAH 3,689 million (31 December 2009: UAH 1,950 million). Due to the illiquid local capital markets, management has used the fair value approach involving valuation techniques to assess impairment.

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

	2010	2009
Post-tax discount rate	17%-16%	23%-16%
Revenue growth rate 2011 - 2015	5%-34%	11%-19%
Revenue growth rate 2016 - onwards	3%-11%	2%-5%
Gross margin	10%-23%	20%

No impairment was recognised as a result of the assessment.

Donetskoblenergo

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

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

Impairment assessment for Donetskoblenergo

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

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

	2010	2009
Post-tax discount rate	17%-16%	28% -14%
Revenue growth rate 2011 - 2015	4%-74%	5%-23%
Revenue growth rate 2016 - onwards	7%-8%	5%
Gross margin	9%-12%	12%

No impairment was recognised as a result of the assessment.

11 Investments in Associates (Continued)

Kyivenergo

Kyivenergo JSC ("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 Group increased its interest in Kyivenergo from 6.12% to 24.90% on 2 September 2010, which was further increased to 39.98% on 6 December 2010. Total consideration for the incremental 33.86% interest was UAH 590 million. The Group has elected to use the fair value as deemed cost at the date of acquisition to account for this transfer from Available for sale securities to the equity method of accounting and recognized UAH 72 million of negative available for sale reserve in profit and loss (Note 17).

In addition to the normal supply of electricity and heat to the Kyiv market, the company also periodically receives heat tariff compensation which is calculated as the difference between economically grounded heat tariffs as determined by the Law of Ukraine "About heat supply" dated 2 June 2005 and those imposed by Kyiv City State Administration. The receipt of such compensation is subject to various regulatory approvals, and is accounted for as a government grant when received. Kyivenergo received heat tariff compensation totalling UAH 1,445 million on 3 September 2010, and a further UAH 458 million on 6 December 2010. This compensation effectively relates to heat supplied during 2008 through 2010, however such had not been accrued due to the uncertainty with respect gaining the required governmental, budget and local council approvals, and accordingly was recorded in income when received. The Group's share in the financial results of Kyivenergo totalling UAH 318 million includes heat tariff compensation recognised after the Group gained significant influence over Kyivenergo.

Impairment assessment for Kyivenergo

At 31 December 2010, the quoted market price for the Group's interest in Kyivenergo was UAH 563 million. Due to the illiquid local capital markets, management has used the fair value approach involving valuation techniques to assess impairment.

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

	2010
Post-tax discount rate	17%-16%
Revenue growth rate 2011 – 2015	14%-42%
Revenue growth rate 2016 – onwards	4%-9%
Gross margin	(8%)-15%

No impairment was recognised as a result of the assessment.

12 Financial Investments

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

In millions of Ukrainian Hryvnia	**2010**	**2009**
Equity securities:		
- quoted	1,247	784
- illiquid	-	252
Prepayment for other shares	15	15
Loans receivable	17	3
Total	**1,279**	**1,054**

As a result of the recent volatility in financial markets, as discussed in Note 2, on 31 December 2009 fair value of certain Ukrainian electricity distribution companies have been determined by reference to the discounted operating cash flows of the investee and other valuation techniques based on independent third party assessment, as there were no regularly occurring transactions in certain equity shares quoted on PFTS or Ukrainian Exchange, the Ukrainian stock exchange market. As at 31 December 2010, the fair value of all available-for-sale securities have been determined based on quoted prices, as the number and frequency of transactions increased and the liquidity of the Ukrainian stock exchange market improved significantly in 2010.

12 Financial Investments (Continued)

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

In millions of Ukrainian Hryvnia	2010	2009
Deposits placed with a maturity of more than three months	756	142
Loans receivable (net of provision for impairment of UAH 17 million)	48	114
Prepayment for shares	236	339
Total	**1,040**	**595**

In millions of Ukrainian Hryvnia	2010 Other	2010 Deposits	2009 Other	2009 Deposits
Rating by Moody's Investors Service				
- B3 rated	-	97	-	128
- Baa2 rated	-	578	-	-
Non-rated	284	81	453	14
Total	**284**	**756**	**453**	**142**

As at 31 December 2010, the Group prepaid UAH 236 million to various stockbrokers to acquire equity interest in other Ukrainian energy companies. UAH 43 million from loans receivable are represented by financial aid provided to third parties. UAH 5 million loan provided to the supplier of coal.

As at 31 December 2010, deposits placed with a maturity of more than three months of UAH 711 million were denominated in US dollars (31 December 2009: UAH 85 million).

As at 31 December 2010, UAH 713 million of term deposits were pledged as collateral for borrowings or bank guarantees received (31 December 2009: UAH 142 million).

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

13 Inventories

As at 31 December, inventories were as follows:

In millions of Ukrainian Hryvnia	2010	2009
Coal	643	253
Raw materials	196	150
Spare parts	210	152
Goods for resale	10	21
Work in process	98	57
Total inventories	**1,157**	**633**

The amount of inventory write down recognised as an expense in 2010 was UAH 19 million (2009: UAH 17 million). As at 31 December 2010 no inventories have been pledged as collateral for borrowings (31 December 2009: UAH 228 million).

14 Trade and Other Receivables

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

In millions of Ukrainian Hryvnia	**2010**	**2009**
Trade receivables	1,405	1,333
Less impairment provision	(272)	(428)
Trade receivables - net	**1,133**	**905**
Other financial receivables	151	135
Less impairment provision	(95)	(89)
Receivables under commission agreements:		
- with third parties	372	-
- with SCM entities	45	83
Receivable for sale of financial instruments	80	428
Total financial assets	***1,686***	***1,462***
Prepayments to suppliers	1,223	572
Less impairment provision	(4)	(4)
VAT recoverable	44	15
Other	39	29
Less impairment provision	(4)	(4)
Total non-financial assets	***1,298***	***608***
Total trade and other receivables	**2,984**	**2,070**

As at 31 December 2010, 15% of trade and other receivables are denominated in USD (31 December 2009: 4%).

As at 31 December 2010 prepayments of the Group included UAH 1,075 million of prepayments for coal (31 December 2009: UAH 239 million of prepayments for coal and UAH 250 million of prepayments under commission agreements with related parties under common control). Remaining amount includes prepayments for electricity subsequently sold for export, transportation and other services, and inventories.

As at 31 December 2010 the Group entered commission transactions to purchase and export goods on behalf of SCM entities and various third parties for cash flow management. Since such transactions do not represent revenue generating activity for the Group, they have been presented on a net basis with any gain or loss presented in other operating income/(expenses). Accounts receivable and payable from such transactions are presented gross and are disclosed separately within Trade and other receivables and Trade and other payables. The associated payable balance totalling UAH 375 million is included in trade and other payables (31 December 2009: UAH 36 million).

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

In millions of Ukrainian Hryvnia	**2010**	**2009**
Provision for impairment at 1 January	**525**	**588**
Provision for impairment during the year	119	145
Reversal of provision	(268)	(200)
Amounts written off during the year as uncollectible	(1)	(8)
Provision for impairment at 31 December	**375**	**525**

14 Trade and Other Receivables (Continued)

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

In millions of Ukrainian Hryvnia	Trade receivables	Receivables under commission agreements	Receivable for sale of financial instruments	**2010** Other financial receivables	Trade receivables	Receivables under commission agreements	Receivable for sale of financial instruments	**2009** Other financial receivables
Current and not impaired – exposure to								
- Energorynok SE	412	-	-	-	415	-	-	-
- Large Ukrainian corporates	132	14	-	-	134	83	14	-
- Medium sized companies	226	358	-	29	105	-	334	14
Total current and not impaired	**770**	**372**	**-**	**29**	**654**	**83**	**348**	**14**
Past due but not impaired								
- less than 30 days overdue	225	-	-	-	-	-	4	3
- 30 to 90 days overdue	33	-	-	3	157	-	-	2
- 90 to 180 days overdue	100	-	-	-	-	-	-	6
- 180 to 360 days overdue	1	-	80	3	6	-	76	20
- over 360 days overdue	4	45	-	21	88	-	-	1
Total past due but not impaired	**363**	**45**	**80**	**27**	**251**	**-**	**80**	**32**
Individually determined to be impaired (gross)								
- over 360 days overdue	272	-	-	95	428	-	-	89
Total individually impaired	**272**	**-**	**-**	**95**	**428**	**-**	**-**	**89**
Less impairment provision	**(272)**	**-**	**-**	**(95)**	**(428)**	**-**	**-**	**(89)**
Total	**1,133**	**417**	**80**	**56**	**905**	**83**	**428**	**46**

15 Cash and Cash Equivalents

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

In millions of Ukrainian Hryvnia	**2010**	**2009**
Bank balances payable on demand	594	517
Term deposits with original maturity of less than three months	1,098	208
Restricted cash	1	14
Total cash and cash equivalents	**1,693**	**739**

As at 31 December 2010, cash and cash equivalents of UAH 813 million were denominated in US dollars (31 December 2009: UAH 253 million), UAH 43 million were denominated in EUR (31 December 2009: 105 million).

As at 31 December 2010, UAH 426 million of term deposits with original maturity of less than three months were pledged as collateral for borrowings or bank guarantees received (31 December 2009: UAH 165 million).

As at 31 December 2010, UAH 1 million of cash is restricted in use under letter of credit arrangement (31 December 2009: UAH 14 million). For the purposes of the cash-flow statements this amount is not included in cash and cash equivalents balance.

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

			2010			**2009**
In millions of Ukrainian Hryvnia	Bank balances payable on demand	Term deposits	Restricted cash	Bank balances payable on demand	Term deposits	Restricted cash
Rating by Moody's Investors Service						
- A3 rated	-	-	-	64	9	14
- Aa3 rated	3	-	-	-	2	-
- B1 rated	-	-	-	1	-	-
- Ba1 rated	-	-	-	-	-	-
- Baa2 rated	86	-	1	-	-	-
- B2 rated	-	-	-	-	80	-
- B3 rated	474	984	-	441	107	-
- Caa1 rated	-	103	-	-	-	-
Non-rated	31	11	-	11	10	-
Total	**594**	**1,098**	**1**	**517**	**208**	**14**

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 2010 and 2009, the issued and fully paid share capital comprised 3,000 ordinary shares.

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

On 2 September 2010 DTEK Holdings B.V. declared a dividend of USD 80 million (UAH 632 million), that was partially paid by 31 December 2010. Dividends payable as at 31 December 2010 of USD 33 million (UAH 261 million) are included in trade and other payables (Note 25).

17 Other Reserves

In millions of Ukrainian Hryvnia	Additional paid in capital	Revaluation reserve	AFS reserve	Total
Balance at 1 January 2009	**3,346**	**4,504**	**(305)**	**7,545**
Incorporation of DTEK Holdings B.V. (Note 16)	(7,545)	-	-	**(7,545)**
Financial investments:				
- Fair value gains less losses	-	-	(109)	**(109)**
Property, plant and equipment:				
- Change in estimate relating to asset retirement provision recorded in equity	-	59	-	**59**
- Realised revaluation reserve	-	(859)	-	**(859)**
Income tax recorded in equity	-	201	12	**213**
Balance at 31 December 2009	**(4,199)**	**3,905**	**(402)**	**(696)**
Financial investments:				
- Fair value gains less losses	-	-	234	**234**
- Recognition of AFS reserve on transfer to associate	-	-	72	**72**
- Result of associates	5	-	-	**5**
Property, plant and equipment:				
- Change in estimate relating to asset retirement provision recorded in equity	-	(13)	-	**(13)**
- Realised revaluation reserve	-	(572)	-	**(572)**
Income tax recorded in equity	-	140	(35)	**105**
Balance at 31 December 2010	**(4,194)**	**3,460**	**(131)**	**(865)**

During 2010, unrealised fair value gain on available-for-sale investments totalling UAH 234 million (2009: UAH 109 million loss) was recorded directly in other reserves.

During 2010, historic fair value losses totalling UAH 72 million related to Kyivenergo, recognised while this asset was recorded as an available-for-sale investment, have been recycled to profit and loss, following its transfer to equity accounting.

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

18 Liability to non-controlling participants

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

19 Borrowings

In millions of Ukrainian Hryvnia	2010	2009
Non-current		
Eurobonds	3,889	-
Bank borrowings	620	807
	4,509	**807**
Current		
Bank borrowings	919	3,596
Interest accrual	74	25
	993	**3,621**
Total borrowings	**5,502**	**4,428**

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 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. The majority proceeds of the Eurobonds were used to repay existing indebtedness.

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

In millions of Ukrainian Hryvnia		2010	2009
Borrowings denominated in:	- UAH	474	484
	- US Dollars	4,545	2,514
	- Euros	483	1,373
	- Roubles	-	57
Total borrowings		**5,502**	**4,428**

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

	Maturity		Interest re-pricing	
In millions of Ukrainian Hryvnia	2010	2009	2010	2009
Loans and borrowings due:				
- within 1 year	993	3,621	1,477	4,261
- between 1 and 5 years	4,509	807	4,025	167
Total borrowings	**5,502**	**4,428**	**5,502**	**4,428**

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

	2010			2009			
In % per annum	UAH	USD	EUR	UAH	USD	EUR	RUB
Bank borrowings	14%-22%	LIBOR 1m+6% - 9.5%	EURIBOR 6m+1.7%-EURIBOR 6m+5.15%	14%-26.5%	LIBOR 3m+3%-18%	EURIBOR 6m+1.7%-18%	22%
Total borrowings	**474**	**4,545**	**483**	**484**	**2,514**	**1,373**	**57**

As at 31 December 2010, borrowings totalling UAH 1,409 million (31 December 2009: UAH 2,368 million) were secured with property, plant and equipment, financial investments, cash and cash equivalents and inventories (Note 9, 12, 13 and 15).

20 Other Financial Liabilities

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

In millions of Ukrainian Hryvnia	2010	2009
Investment obligation relating to Dniproenergo	83	156
Bonds issued	-	26
Restructured trade payables	21	17
Other payables	14	22
Total non-current other financial liabilities	**118**	**221**

As discussed in Note 11, upon recognition of the Group's additional 34.24% interest in Dniproenergo, the Group has recorded 52,5% of its obligation to fund Dniproenergo's investment program at a fair value of UAH 399 million (UAH 1,010 million at nominal value of 100%). As at 31 December 2010 UAH 414 million is recorded as short-term. An expense associated with the unwinding of discount on the investment obligation totalling UAH 34 million (31 December 2009: UAH 41 million) was included in finance costs (Note 33).

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

In millions of Ukrainian Hryvnia	2010	2009
Investment obligation relating to Dniproenergo	414	307
Bonds issued	71	-
Interest-free loan from related parties	-	300
Total current other financial liabilities	**485**	**607**

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

21 Indebtedness under Amicable Agreement

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

A summary of the restructured obligations is presented below:

In millions of Ukrainian Hryvnia	Nominal value	2010 Amortised cost	Nominal value	2009 Amortised cost
Promissory notes issued	140	93	220	126
Total indebtedness under amicable agreement		**93**		**126**

During 2010, included in finance costs is UAH 19 million (2009: UAH 18 million) related to the unwinding of the discount on this restructured obligation.

22 Government Grants

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

Movements in government grants during 2010 and 2009 are summarised as follows:

In millions of Ukrainian Hryvnia	**2010**	**2009**
As at 1 January	**42**	**76**
Expenditures incurred	(2)	(3)
Amortisation of government grants to match related depreciation	(31)	(31)
As at 31 December	**9**	**42**

23 Retirement Benefit Obligations

The Group's production companies have a legal obligation to compensate the Ukrainian state pension fund for additional pensions paid to certain categories of former employees of the Group. There are also lump sum benefits payable upon retirement and post-retirement benefit programs.

In 2010 the defined benefit plan covers 45,500 people, including 8,030 ex-employees (2009: approximately 44,000 and 7,090 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	**2010**	**2009**
Present value of unfunded defined benefit obligations	1,912	1,655
Unrecognised net actuarial loss	(118)	(22)
Unrecognised past service cost	(212)	(254)
Liability in the consolidated balance sheet	**1,582**	**1,379**

In millions of Ukrainian Hryvnia	**2010**	**2009**
Retirement benefits	1,567	1,311
Retirement benefits - coal support	248	270
Lump sum payments	97	74
Total balance sheet obligations	**1,912**	**1,655**

The amounts recognised in the income statement were as follows:

In millions of Ukrainian Hryvnia	**2010**	**2009**
Current service cost	91	138
Interest cost	232	222
Recognised past service cost	41	41
Recognized actuarial (gains) losses	(4)	74
Curtailment	-	(3)
Total	**360**	**472**

23 Retirement Benefit Obligations (Continued)

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

In millions of Ukrainian Hryvnia	2010	2009
Defined benefit obligation as at 1 January	**1,655**	**2,041**
Current service cost	91	138
Actuarial losses/(gains)	91	(599)
Interest cost	232	222
Benefits paid	(157)	(144)
Curtailment	-	(3)
Defined benefit obligation as at 31 December	**1,912**	**1,655**

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

In millions of Ukrainian Hryvnia	2010	2009
As at 1 January	**1,379**	**1,051**
Acquisition of subsidiaries	-	-
Benefits paid	(157)	(144)
Net expense recognised in the income statement	360	472
As at 31 December	**1,582**	**1,379**

Past service cost arose as a result of changes in the pension legislation introduced in 2008, which increased the benefits payable. To the extent that the benefits were already vested immediately following the changes to a defined benefit plan, past service cost was recognized in 2008 financial statements in the amount of UAH 205 million with the remaining UAH 295 million past service cost being recognised as an expense on a straight-line basis over the average period until the benefits become vested. In 2010 UAH 41 million of past service cost was recognised in income statement (2009: UAH 41 million).

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

	2010	2009
Nominal discount rate	14%	15%
Nominal salary increase	9%	9%
Nominal pension entitlement increase	9%	9%

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

	2010	2009
Nominal discount rate increase/decrease by 1%	(6.35%) / 7.14%	(6.48%) / 7.18%
Nominal salary increase increase/decrease by 1%	5.31% / (4.82%)	7.17% / (6.37%)
Employee turnover increase/decrease by 1%	(0.08%) / 0.09%	(0.13%) / 0.14%

Experience adjustments for 2010 do not exceed UAH 91 million (2009: UAH 599 million). Payments in respect of post-employment benefit plan obligations expected to be made during the year ending 31 December 2011 are UAH 209 million (2010: UAH 181 million).

24 Provisions for Other Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

In millions of Ukrainian Hryvnia	Assets retirement provision	Provision for legal claims	Other provisions	Total
At 1 January 2009	**200**	**15**	**-**	**215**
Change in estimates	(59)	-	-	(59)
Arising during the year	3	2	-	5
Unwinding of discount	6	-	-	6
Reversal of provision	-	(4)	-	(4)
Utilised	(3)	-	-	(3)
At 31 December 2009	**147**	**13**	**-**	**160**
Change in estimates	13	-	-	13
Arising during the year	2	4	129	135
Unwinding of discount	8	-	-	8
Reversal of provision	-	(1)	-	(1)
Utilised	(4)	-	-	(4)
At 31 December 2010	**166**	**16**	**129**	**311**

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

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

Other provisions represent a provision for long-term incentive bonus program for top executives. The fair value of the liability at the reporting date is calculated by external valuer based on the forecasted valuation of the Group's net worth performed by the Group management (Note 8).

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

	2010	2009
Pre-tax discount rate	17%	15%
Inflation long-term	5%	4%
Inflation middle-term	7%	8%

25 Trade and Other Payables

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

In millions of Ukrainian Hryvnia	**2010**	**2009**
Trade payables	734	431
Wages and salaries payable	149	126
Payables under commission agreements		
- to third parties	375	-
- to SCM entities	-	36
Liabilities for purchased securities	27	43
Promissory notes payable	1	6
Liabilities for purchased property, plant and equipment	135	191
Dividends payable	261	-
Other creditors	39	42
Total financial payables	**1,721**	**875**
Accruals for employees' unused vacations	218	174
Other payables	22	6
Total non-financial payables	**240**	**180**
Total	**1,961**	**1,055**

2010 *In millions of Ukrainian Hryvnia*	**Trade payables**	**Wages and salaries payable**	**Payables under commission agreements**	**Liabilities for purchased securities**	**Promissory notes payable**	**Liabilities for purchased property, plant and equipment**	**Dividends payable**	**Accrued liabilities and other creditors**
Currency analysis:								
UAH denominated	718	149	375	27	1	126	-	36
USD denominated	16	-	-	-	-	-	261	2
EUR denominated	-	-	-	-	-	-	-	1
RUB denominated	-	-	-	-	-	9	-	-
Total	**734**	**149**	**375**	**27**	**1**	**135**	**261**	**39**
Future undiscounted cash flow analysis:								
Up to 3 months	708	149	375	1	-	113	-	38
From 3 to 6 months	26	-	-	-	1	4	261	1
From 6 to 12 months	-	-	-	26	-	18	-	-
Total	**734**	**149**	**375**	**27**	**1**	**135**	**261**	**39**

2009 *In millions of Ukrainian Hryvnia*	**Trade payables**	**Wages and salaries payable**	**Payables under commission agreements**	**Liabilities for purchased securities**	**Promissory notes payable**	**Liabilities for purchased property, plant and equipment**	**Dividends payable**	**Accrued liabilities and other creditors**
Currency analysis:								
UAH denominated	424	126	36	43	6	151	-	42
USD denominated	6	-	-	-	-	-	-	-
EUR denominated	1	-	-	-	-	28	-	-
RUB denominated	-	-	-	-	-	12	-	-
Total	**431**	**126**	**36**	**43**	**6**	**191**	**-**	**42**
Future undiscounted cash flow analysis:								
Up to 3 months	414	126	36	43	6	157	-	36
From 3 to 6 months	1	-	-	-	-	2	-	-
From 6 to 12 months	16	-	-	-	-	32	-	6
Total	**431**	**126**	**36**	**43**	**6**	**191**	-	**42**

26 Other Taxes Payable

As at 31 December other taxes payable were as follows:

In millions of Ukrainian Hryvnia	**2010**	**2009**
Payroll taxes	60	53
Value-added tax	33	41
Other taxes	67	63
Total other taxes payable	**160**	**157**

27 Revenue

Analysis of revenue by category is as follows:

In millions of Ukrainian Hryvnia	**2010**	**2009**
Sale of steaming and coking coal	9,612	4,678
Sale of electricity to electricity pool	7,845	5,543
Sale of electricity to final customers	6,208	4,672
Sale of electricity abroad	571	-
Sales of merchandise products	-	8
Other sales	58	108
Total	**24,294**	**15,009**

Analysis of revenue by regions is as follows:

In millions of Ukrainian Hryvnia	**2010**	**2009**
Domestic sales	21,927	14,671
Export sales	2,367	338
Total	**24,294**	**15,009**

28 Cost of Sales

In millions of Ukrainian Hryvnia	**2010**	**2009**
Cost of electricity purchased for resale	6,419	4,353
Raw materials	3,787	2,325
Cost of coal purchased for resale	3,209	754
Staff cost, including payroll taxes	2,955	2,647
Depreciation of property, plant and equipment and amortisation of intangible assets net of amortisation of government grants	1,451	1,391
Transportation services and utilities	715	608
Taxes, other than income tax	206	174
Equipment maintenance and repairs	144	103
Production overheads	168	99
Cost of merchandise	9	6
Change in finished goods and work in progress	(134)	(15)
Other costs	7	2
Total	**18,936**	**12,447**

29 Other Operating Income

In millions of Ukrainian Hryvnia	**2010**	**2009**
Reversal of provision for impairment of trade and other receivables and prepayments made	142	55
Gain on sales of inventory	74	3
Assets received free of charge	41	28
Income from recovery on previously written off trade receivables	7	23
Gain on sales of property, plant and equipment	4	-
Other	30	20
Total	**298**	**129**

30 Distribution Costs

In millions of Ukrainian Hryvnia	**2010**	**2009**
Consulting services	67	-
Transportation	60	64
Staff cost, including payroll taxes	16	16
Depreciation	4	6
Other costs	49	24
Total	**196**	**110**

31 General and Administrative Expenses

In millions of Ukrainian Hryvnia	**2010**	**2009**
Staff cost, including payroll taxes	589	357
Professional fees	124	126
Office costs	57	53
Depreciation of property, plant and equipment and amortisation of intangible assets	24	20
Transportation	18	14
Taxes, other than income tax	17	7
Other costs	22	21
Total	**851**	**598**

32 Other operating expenses

In millions of Ukrainian Hryvnia	**2010**	**2009**
Social payments	115	102
Loss on sales of services	33	-
Net loss on disposal and write-off of equipment	-	17
Non-recoverable VAT	13	11
Charitable donations and sponsorship	15	11
Maintenance of social infrastructure	7	7
Other	79	44
Total	**262**	**192**

33 Finance Income and Finance Cost

In millions of Ukrainian Hryvnia	**2010**	**2009**
Interest income		
- bank deposits	55	25
Gain on initial recognition of long term accounts payable	32	3
Interest income on long-term restructured accounts receivable	26	9
Gain on sales of promissory notes	-	19
Gain on early repayment of promissory notes issued	-	15
Total finance income	**113**	**71**
Interest expense		
- bank borrowings	255	460
- promissory notes payable	19	18
- bonds issued	274	3
- long-term payables	5	8
- investment obligation relating to Dniproenergo (Note 11)	34	41
Unwinding of discounts on pension obligations	232	222
Loss on initial recognition of long-term restructured accounts receivable	86	18
Loss on early repayment of long-term payables	8	14
Loss on early repayment of long-term promissory notes	-	8
Other finance costs	7	6
Total finance costs	**920**	**798**

34 Income Taxes

Income tax expense comprises the following:

In millions of Ukrainian Hryvnia	**2010**	**2009**
Current tax	1,183	478
Deferred tax	(68)	(159)
Income tax expense	**1,115**	**319**

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

In millions of Ukrainian Hryvnia	**2010**	**2009**
Change in asset retirement obligation	(1)	(14)
Unrealised gain on available-for-sale financial assets	(35)	12
Income tax reported in equity	**(36)**	**(2)**

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine). In 2010 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25% (2009: 25%). In 2010, the tax rate for Cyprus operations was 10% (2009: 10%) on worldwide income.

On 2 December 2010 new Tax Code was adopted in Ukraine effective from 1 January 2011. According to the new Tax Code the rates for corporate income tax 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.

34 Income tax (Continued)

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

In millions of Ukrainian Hryvnia	2010	2009
Profit before income tax, including	**3,972**	**1,175**
Profit before income tax of Ukrainian companies	3,652	1,365
Profit/(loss) before income tax of non-Ukrainian companies	320	(190)
Income tax at statutory rates of 25% (Ukrainian operations)	**913**	**355**
Profit taxed at different rates 25.5% (Dutch operations)	**(4)**	**-**
Profit taxed at different rates 10% (Cyprus operations)	**34**	**-**
Effect of changes in income tax rates in Ukraine	134	-
Tax effect of items not deductible or assessable for taxation purposes:		
- non-deductible expenses	133	155
- non-taxable income	(31)	(94)
Property, plant and equipment indexation for tax purposes	-	(39)
Share of result and impairment of associates	(64)	(58)
Income tax expense	**1,115**	**319**

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	2010	2009
Deferred tax liability	(1,540)	(959)
Deferred tax asset	1,041	428
Net deferred tax liability	**(499)**	**(531)**

In millions of Ukrainian Hryvnia	1 January 2010	Credited/ (charged) to income	Charged to equity	31 December 2010
Tax effect of deductible temporary differences				
Trade and other payables	82	(48)	-	34
Other provisions for liabilities and charges	38	6	-	44
Retirement benefit obligations	312	(78)	-	234
Prepayments received	377	72	-	449
Inventories	2	(2)	-	-
Financial investments	100	(13)	(35)	52
Gross deferred tax asset	**911**	**(63)**	**(35)**	**813**
Tax effect of taxable temporary differences				
Property, plant and equipment	(821)	92	(1)	(730)
Inventories	-	(23)	-	(23)
Other financial liabilities	(99)	72	-	(27)
Prepayments made	(478)	(53)	-	(531)
Trade and other receivables	(44)	43	-	(1)
Gross deferred tax liability	**(1,442)**	**131**	**(1)**	**(1,312)**
Recognised deferred tax asset/(liability)	**(531)**	**68**	**(36)**	**(499)**

34 Income Tax (Continued)

In millions of Ukrainian Hryvnia	1 January 2009	Credited/ (charged) to income	Charged to equity	31 December 2009
Tax effect of deductible temporary differences				
Trade and other payables	55	27	-	82
Other provisions for liabilities and charges	49	(11)	-	38
Retirement benefit obligations	238	74	-	312
Prepayments received	83	294	-	377
Inventories	27	(25)	-	2
Financial investments	127	(39)	12	100
Gross deferred tax asset	**579**	**320**	**12**	**911**
Tax effect of taxable temporary differences				
Property, plant and equipment	(1,019)	212	(14)	(821)
Other financial liabilities	(114)	15	-	(99)
Prepayments made	(76)	(402)	-	(478)
Trade and other receivables	(58)	14	-	(44)
Gross deferred tax liability	**(1,267)**	**(161)**	**(14)**	**(1,442)**
Recognised deferred tax asset/(liability)	**(688)**	**159**	**(2)**	**(531)**

As at 31 December 2010, the Company has not recorded a deferred tax liability in respect of taxable temporary differences of UAH 502 million (31 December 2009: UAH 262 million) associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

35 Contingencies, Commitments and Operating Risks

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

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. As discussed in Note 11, in 2009 as a result of the restructuring of its accounts payable to SE Energorynok on the basis of the respective court decisions, the Group's associate reversed UAH 1,687 million provision for penalties and fines to Energorynok. It is possible that the court's decisions in respect of the penalties and fines may be challenged by Energorynok. However, management believes that no material losses will be incurred in respect of claims.

State property of Kyivenergo not subject to privatisation. Since its formal incorporation in 1995, The Group associate Kyivenergo (Note 11) has been using land and property, plant and equipment that are owned by the Kyiv City State Administration. In 1995, Kyivenergo was privatised in accordance with the Government privatisation programme; however, these particular assets were excluded from the list of assets to be privatised in accordance with the decision of the Ministry of Energy of Ukraine. As a result, assets owned by the State were transferred to and put under the operating management of Kyivenergo. Kyivenergo manages these assets and pays a tax for the use of land. Kyivenergo does not have legal ownership of these assets and generally is not allowed to dispose them. The agreement with the Kyiv City State Administration on operational use of the property, plant and equipment was signed till 31 December 2017. This agreement established the fee, which Kyivenergo has to pay for using the property, plant and equipment in amount of 10% of net profit for the previous year defined in accordance with Ukrainian Accounting Standards, but not less than UAH 2 million. Since substantially all risks and rewards are transferred to Kyivenergo, these assets are recognised in Kyivenergo statement of financial position when received.

As at 31 December 2010, the net book value of the State and the Kyiv City State Administration property, plant and equipment operated by Kyivenergo and included in Kyivenergo consolidated statement of financial position was UAH 1,092 million.

35 Contingencies, Commitments and Operating Risks (Continued)

Capital expenditure commitments. As at 31 December 2010 and 2009, the Group does not have contractual capital expenditure commitments in respect of property, plant and equipment.

As discussed in Note 11, the Group is committed to fund Dniproenergo's investment program totalling UAH 1,010 million till 2012.

Purchase commitments. As at 31 December 2010 and 2009, 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	Asset pledged	2010 Related liability	Asset pledged	2009 Related liability
Cash and cash equivalents (Note 15)	423	400	165	80
Financial investments (Note 12)	673	84	142	43
Property, plant and equipment (Note 9)	1,129	925	2,966	2,126
Inventory (Note 13)	-	-	228	119
Total	**2,225**	**1,409**	**3,501**	**2,368**

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

Compliance with covenants. The Group is subject to certain covenants related primarily to its Eurobonds and bank borrowings. Non-compliance with such covenants may result in negative consequences for the Group, including increase in the cost of borrowings, declaration of default and demand for immediate repayment of borrowings. The Group is in compliance with the covenants as at 31 December 2010 and 2009.

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

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

In millions of Ukrainian Hryvnia	2010	2009
Not later than 1 year	-	8
Later than 1 year and not later than 5 years	12	3
Total operating lease commitments	**12**	**11**

Lease of land. The Group leases the land on which its assets are located. The annual lease payment in 2010 amounted to UAH 17 million (2009: UAH 15 million). Those payments are cancellable lease commitments.

36 Business Combinations

No significant acquisitions of subsidiaries and non-controlling interests were completed in 2010 or 2009.

37 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management policies seek to minimise the potential adverse effects on the Group's financial performance for those risks that are manageable or noncore to the power generating business.

Risk management is carried out by a centralised treasury department working closely with the operating units, under policies approved by the supervisory board. The Group treasury identifies, evaluates and proposes risk management techniques to minimise these exposures.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

Credit risk is managed on an entity by entity basis with oversight by the Group. Credit risk arises from cash and cash equivalents, financial instruments and deposits with banks, as well as credit exposure to wholesale and retail customers, including outstanding receivables and committed transactions. For Banks only SCM related banks or upper tier Ukrainian banks are accepted, which are considered at time of deposit to have minimal risk of default. Customers can be analysed between Energorynok SE, which buys 100% of electricity generated, Industrial consumers and other. Due to the monopolistic nature of electricity supply by region, the Group cannot choose its customers, and instead must supply all customers within its distribution network. Sales are metered and management monitors ageing of receivables for industrial customers on a regular basis and ultimately may cut-off supply for delinquent customers. For supply to municipal and general populous, due to the insignificant tariff structure and the political nature of disrupting supply management will continue supply and use non payment as justification for higher tariff increases for Industrial customers. With respect to coal sales, these are primarily to related parties and Dniproenergo OJSC (Note 8) and credit exposure is considered to be minimal. Management has no formal credit policy in place for other customers and the exposure to credit risk is approved and monitored on an ongoing basis individually for all significant customers. The Group does not require collateral in respect of trade and other receivables.

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

The maximum exposure to credit risk at the reporting date is UAH 4,489 million (2009: UAH 2,830 million) being carrying value of financial investments, trade and other receivables and cash. The Group does not hold any collateral as security.

37 Financial Risk Management (Continued)

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

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

Counterparty	Classification in the balance sheet	31 December 2010	31 December 2009
Prominvest Bank OJSC*	Cash and cash equivalents	977	30
Prominvest Bank OJSC*	Financial investment	43	43
Marfin Popular Bank	Financial investment	577	-
Marfin Popular Bank	Cash and cash equivalents	87	86
OTP Bank CJSC*	Cash and cash equivalents	164	159
State Savings Bank of Ukraine JSCB*	Cash and cash equivalents	133	136
Dongorbank CJSC**	Cash and cash equivalents	122	195
Dongorbank CJSC**	Financial investment	54	85
VAB Bank OJSC	Cash and cash equivalents	103	-
VTB Bank OJSC*	Cash and cash equivalents	2	-
VTB Bank OJSC*	Financial investment	81	-
First Ukrainian International Bank*	Cash and cash equivalents	62	-
State Company Energorynok	Trade and other receivables	412	435
Dniproenergo OJSC (Note 11)	Trade and other receivables	385	242
Scanwell Commodities	Trade and other receivables	342	-
Metinvest Holding LLC**	Trade and other receivables	71	226
Azovstal Steel Works OJSC**	Trade and other receivables	13	183

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

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

Currency risk. The Group primarily operates within Ukraine and accordingly its exposure to foreign currency risk is determined mainly by borrowings, cash balances and deposits, the majority of which are denominated in US dollars. As a result of the global financial crisis, the Ukrainian economy experienced reduced level of capital inflow and decrease in demand for exports. Additionally, the country ratings by international rating agencies were downgraded in October 2008. These factors, together with increasing domestic uncertainty, led to volatility in the currency exchange market and resulted in significant downward pressure on the Ukrainian Hryvnia relative to major foreign currencies. While management monitors this exchange exposure, the Group does not hedge its US dollar currency positions.

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

	At 31 December 2010		At 31 December 2009	
In millions of Ukrainian Hryvnia	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 25% (2009: 25%)	(729)	(729)	(538)	(538)
USD weakening by 25% (2009: 25%)	729	729	538	538
Euro strengthening by 25% (2009: 25%)	(117)	(117)	(353)	(353)
Euro weakening by 25% (2009: 25%)	117	117	353	353

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

37 Financial Risk Management (Continued)

Interest rate risk. As the Group has no significant interest bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rate. The Group's interest rate risk rises from long-term borrowings. Borrowings issued at variable interest rates expose the Group to interest rate risk. Borrowings at fixed rate expose the Group to fair value interest rate risk.

At 31 December 2010 and 2009, the majority of the Group's variable interest debt is USD and EUR denominated. As at 31 December 2010, 20% of the total borrowings was provided to the Group at floating rates (31 December 2009: 70 %).

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

The borrowing activities are reviewed on a 12 month revolving budget. Long-term investing activities and associated funding are considered separately.

The maturity dates and effective interest rates of financial instruments are disclosed in Note 19. Re-pricing for fixed rate financial instruments occurs at maturity of fixed rate financial instruments. Re-pricing of floating rate financial instruments occurs continually.

At 31 December 2010, if interest rates on USD and EUR denominated borrowings had been 200 basis points higher with all other variables held constant, post-tax profit for the year would have been UAH 85 million lower (2009: UAH 53 million lower).

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

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

If the equity quotations of the Group's investments had increased by 10% as at 31 December 2010 and 2009, with all other factors being equal, the Group's equity at 31 December 2010 would have increased by UAH 125 million (31 December 2009: UAH 89 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.

37 Financial Risk Management (Continued)

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 2010 is as follows:

In millions of Ukrainian Hryvnia	Up to 6 months	6 -12 months	1 - 2 years	2 - 5 years	Over 5 years	Total
Liabilities						
Borrowings (Note 19)	720	215	384	254	-	1,573
Eurobonds (Note 19)	65	-	-	3,981	-	4,046
Other financial liabilities (Note 20)	-	494	106	-	53	653
- related party	*-*	*12*	*-*	*-*	*-*	*12*
- external	*-*	*58*	*-*	*-*	*53*	*111*
- Dniproenergo	*-*	*424*	*106*	*-*	*-*	*530*
Indebtedness under amicable agreement (Note 21)	-	-	-	140	-	140
Trade and other payables (Note 25)	1,675	46	-	-	-	1,721
Total future payments, including future principal and interest payments	**2,460**	**755**	**490**	**4,375**	**53**	**8,133**

The maturity analysis of financial liabilities at 31 December 2009 is as follows:

In millions of Ukrainian Hryvnia	Up to 6 months	6 -12 months	1 - 2 years	2 - 5 years	Over 5 years	Total
Liabilities						
Borrowings (Note 19)	3,095	865	302	568	-	4,830
Other financial liabilities (Note 20)	300	318	137	127	7	889
- related party	*300*	*-*	*12*	*-*	*-*	*312*
- external	*-*	*-*	*19*	*21*	*7*	*47*
- Dniproenergo	*-*	*318*	*106*	*106*	*-*	*530*
Indebtedness under amicable agreement (Note 21)	-	-	-	220	-	220
Trade and other payables (Note 25)	821	54	-	-	-	875
Total future payments, including future principal and interest payments	**4,216**	**1,237**	**439**	**915**	**7**	**6,814**

38 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio. This ratio is calculated as net liabilities divided by total capital under management. Net debt is calculated as total borrowing (current and long-term as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital under management equals equity as shown in the consolidated balance sheet.

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.

	31 December 2010	31 December 2009
Total net debt	3,809	3,689
Total equity	13,280	10,793
Debt to equity ratio	28.7%	34.2%

39 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Ukraine continues to display some characteristics of an emerging market, and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading and available-for-sale investments are carried in the balance sheet at their fair value. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Fair values were determined based on quoted market prices or third party valuations using discounted cash flows techniques.

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.

39 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments are as follows at 31 December 2010:

In millions of Ukrainian Hryvnia	Fair value by measurement method: Quoted price in active market	Fair value by measurement method: Valuation technique with observable market inputs	Total fair value	Carrying value
FINANCIAL ASSETS				
Cash and cash equivalents (Note 15)				
- Bank balances payable on demand	-	594	594	594
- Term deposits	-	1,098	1,098	1,098
- Restricted cash	-	1	1	1
Trade and other receivables (Note 14)				
- Trade receivables	-	1,133	1,133	1,133
- Receivables under commission agreements	-	417	417	417
- Receivable for sale of financial instruments	-	80	80	80
- Other financial receivables	-	56	56	56
Other non current assets				
- Trade and other receivables - non-current	-	38	38	38
Financial investments (Note 12)				
- Securities quoted on Ukrainian stock market	1,247	-	1,247	1,247
- Prepayment for shares	-	251	251	251
- Deposits placed with the maturity more than three months	-	756	756	756
- Loans receivable	-	65	65	65
TOTAL FINANCIAL ASSETS	**1,247**	**4,489**	**5,736**	**5,736**
FINANCIAL LIABILITIES				
Liability to non-controlling participants (Note 18)	-	3	3	3
Borrowings (Note 19)	-	5,676	5,676	5,502
Investment obligation relating to Dniproenergo – non-current (Note 20)	-	76	76	83
Other liabilities – non-current (Note 20)	-	35	35	35
Indebtedness under amicable agreement (Note 21)	-	87	87	93
Investment obligation relating to Dniproenergo – current (Note 20)	-	410	410	414
Bonds issued (Note 20)	-	71	71	71
Trade and other payables (Note 25)	-	1,721	1,721	1,721
TOTAL FINANCIAL LIABILITIES	**-**	**8,079**	**8,079**	**7,922**

39 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments at 31 December 2009 were as follows:

In millions of Ukrainian Hryvnia	Fair value by measurement method: Quoted price in active market	Fair value by measurement method: Valuation technique with observable market inputs	Total fair value	Carrying value
FINANCIAL ASSETS				
Cash and cash equivalents (Note 15)				
- Bank balances payable on demand	-	517	517	517
- Term deposits	-	208	208	208
- Restricted cash	-	14	14	14
Trade and other receivables (Note 14)				
- Trade receivables	-	905	905	905
- Receivables under commission agreements	-	83	83	83
- Receivable for sale of financial instruments	-	428	428	428
- Other financial receivables	-	46	46	46
Other non current assets				
- Trade and other receivables - non-current	-	16	16	16
Financial investments (Note 12)				
- Securities quoted on Ukrainian stock market	784	252	1,036	1,036
- Prepayment for shares	-	354	354	354
- Deposits placed with the maturity more than three months	-	142	142	142
- Loans receivable	-	117	117	117
TOTAL FINANCIAL ASSETS	**784**	**3,082**	**3,866**	**3,866**
FINANCIAL LIABILITIES				
Liability to non-controlling participants (Note 18)	-	2	2	2
Borrowings (Note 19)	-	4,301	4,301	4,428
Investment obligation relating to Dniproenergo – non-current (Note 20)	-	140	140	156
Other liabilities – non-current (Note 20)	-	64	64	65
Indebtedness under amicable agreement (Note 21)	-	114	114	126
Investment obligation relating to Dniproenergo – current (Note 20)	-	303	303	307
Interest-free loan from related parties (Note 8)	-	300	300	300
Trade and other payables (Note 25)	-	875	875	875
TOTAL FINANCIAL LIABILITIES	**-**	**6,099**	**6,099**	**6,259**

40 Reconciliation of Classes of Financial Instruments with Measurement Categories

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2010:

In millions of Ukrainian Hryvnia	Loans and receivables	Available-for-sale assets	Held to maturity	Total
ASSETS				
Cash and cash equivalents (Note 15)				
- Bank balances payable on demand	594	-	-	594
- Term deposits	1,098	-	-	1,098
- Restricted cash	1	-	-	1
Trade and other receivables (Note 14)				
- Trade receivables	1,133	-	-	1,133
- Receivables under commission agreements	417	-	-	417
- Receivable for sale of financial instruments	80	-	-	80
- Other financial receivables	56	-	-	56
Other non current assets				
- Trade and other receivables - non-current	38	-	-	38
Financial investments (Note 12)				
- Equity securities	-	1,247	-	1,247
- Prepayment for shares	251	-	-	251
- Deposits placed with the maturity more than three months	756	-		756
- Loans receivable	65	-	-	65
TOTAL FINANCIAL ASSETS	**4,489**	**1,247**	**-**	**5,736**
NON-FINANCIAL ASSETS	-	-	**-**	**19,901**
TOTAL ASSETS				**25,637**

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2009:

In millions of Ukrainian Hryvnia	Loans and receivables	Available-for-sale assets	Held to maturity	Total
ASSETS				
Cash and cash equivalents (Note 15)				
- Bank balances payable on demand	517	-	-	517
- Term deposits	208	-	-	208
- Restricted cash	14	-	-	14
Trade and other receivables (Note 14)				
- Trade receivables	905	-	-	905
- Receivables under commission agreements	83	-	-	83
- Receivable for sale of financial instruments	428	-	-	428
- Other financial receivables	41	-	5	46
Other non current assets				
- Trade and other receivables - non-current	16	-	-	16
Financial investments (Note 12)				
- Equity securities	-	1,036	-	1,036
- Prepayment for shares	354	-	-	354
- Deposits placed with the maturity more than three months	142	-	-	142
- Loans receivable	117	-	-	117
TOTAL FINANCIAL ASSETS	**2,825**	**1,036**	**5**	**3,866**
NON-FINANCIAL ASSETS	-	-	-	**16,348**
TOTAL ASSETS				**20,214**

All of the Group's financial liabilities at 31 December 2010 and 2009 are carried at amortised cost.

41 Significant non-cash transactions

As discussed in Note 11, in 2009 the Group recorded a UAH 1,221 million share of profits of associate Donetskoblenergo and a UAH 874 million impairment of its investment in Donetskoblenergo.

As discussed in Note 16, the existing shareholders of DTEK Holdings Limited incorporated DTEK Holdings B.V. with a cash contribution of EUR 30,000 and contribution of 100% of their equity interest in DTEK Holdings Limited to the Company.

42 Subsequent events

On 2 December 2010 a new Tax Code was adopted in Ukraine with most of the changes enacted being effective from 1 January 2011. Among the main changes are change in the rates for corporate income tax from 25% to 16% in several stages during 2011-2014, change in base rate for VAT starting from 1 January 2014 from 20% to 17%, change in determining the base for VAT and corporate income tax application.

On 4 January 2011, the Group entered into a 49 year lease agreement with the State Property Fund of Ukraine to lease the integrated property complex of the State Enterprise Dobropolyeugol. The Group also assumed certain assets and liabilities of Dobropolyeugol totalling UAH 271 million and UAH 1,340 million respectively. Additionally, the Group is committed to fund investment program of the property complex totalling UAH 2,000 million over the next 5 years. The Group continues to assess accounting implications of the transaction.