IMPORTANT NOTICE

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the offering memorandum accessed from this page, attached to this email or otherwise received as a result of such access and you are therefore advised to read this disclaimer page carefully before reading, accessing or making any other use of the attached offering memorandum. In accessing the attached offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: You have been sent the attached offering memorandum on the basis that you have confirmed to Deutsche Bank AG, London Branch, ING Bank N.V., London Branch, J.P. Morgan Securities plc, SIB (Cyprus) Limited, UniCredit Bank AG and VTB Capital plc (collectively the "**Initial Purchasers**" and each an "**Initial Purchaser**"), being the sender or senders of the attached, and DTEK Finance plc (the "**Issuer**") that (i) you are either (a) a "**qualified institutional buyer**" (as defined in Rule 144A under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**")), or (b) not a U.S. person (as defined in Regulation S under the U.S. Securities Act), or acting for the account or benefit of a U.S. person, and that the electronic mail address you have given to us and to which this electronic transmission been sent is not located in the United States; (ii) you consent to delivery by electronic transmission; and (iii) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any notes issued by the Issuer (the "**Notes**"). By accepting this electronic transmission and accessing the offering memorandum, you shall be deemed to have made the above representation.

This offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently the Initial Purchasers and any person who controls any Initial Purchaser, the Issuer and DTEK Holdings B.V., and any of their respective directors, officers, employers, employees, agents, affiliate or subsidiaries do not accept any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers. Failure to comply with this directive may result in the violation of the U.S. Securities Act and/or any applicable laws of other jurisdictions.

You are reminded that the attached offering memorandum has been delivered to you on the basis that you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to deliver this offering memorandum to any other person. You will not transmit the attached offering memorandum (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Initial Purchasers.

Restrictions: Nothing in this electronic transmission constitutes an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of Notes in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this offering memorandum who intend to subscribe for or purchase securities are reminded that any subscription or purchase may only be made on the basis of the information contained in this offering memorandum. Any securities to be issued will not be registered under the U.S. Securities Act, or the securities law of any State or other jurisdiction of the United States, and may not be offered or sold in the United States or to or for the account or benefit of U.S. persons (as such terms are defined in Regulation S under the U.S. Securities Act) unless registered under the U.S. Securities Act or pursuant to an exemption from such registration requirements of the U.S. Securities Act and any applicable state or local securities laws. Notwithstanding the foregoing, prior to the expiration of a 40-day distribution compliance period (as defined under Regulation S under the U.S. Securities Act) commencing on the closing date, the securities may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons, except pursuant to another exemption from the registration requirements of the U.S. Securities Act.

This offering memorandum has been prepared on the basis that all offers of the Notes will be made pursuant to an exemption under Article 3 of Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU) (the "**Prospectus Directive**"), as implemented in member states of the European Economic Area (the "**EEA**"), from the requirement to produce a prospectus for offers of the Notes. Accordingly, any person making or intending to make any offer within the EEA of the Notes should only do so in circumstances in which no obligation arises for the issuer or any of the Initial Purchasers to produce a prospectus for such offer. Neither the Issuer nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of the Notes through any financial intermediary, other than offers made by the Initial Purchasers which constitute the final placement of the Notes contemplated in this offering memorandum.

US$600,000,000 7.875% Senior Notes due 2018

issued by

DTEK Finance plc

Unconditionally and irrevocably guaranteed on a senior basis by

DTEK Holdings B.V., DTEK Holdings Limited and DTEK Trading Limited

with certain operating subsidiaries of the **DTEK Group** providing sureties in respect of the Issuer's obligations under the Notes and the Guarantors' obligations under the Guarantees

The 7.875% senior notes due 2018 (the "**Notes**") will be the senior obligations of DTEK Finance plc (the "**Issuer**"), a company organized under the laws of England and Wales and wholly-owned by DTEK Holdings B.V. ("**Holdings B.V.**"). The Notes will bear interest at a rate of 7.875% per annum. Interest on the Notes will accrue from their date of issuance and will be payable semi-annually in arrears on April 4 and October 4 of each year, commencing October 4, 2013. The Notes will mature on April 4, 2018 (the "**Maturity Date**"). Prior to the Maturity Date, the Issuer may redeem (i) all or part of the Notes by paying a "make whole" premium and/or (ii) up to 35% of the aggregate principal amount of the Notes with the net proceeds from certain equity offerings. The Issuer may also redeem all of the Notes at a price equal to their principal amount plus accrued and unpaid interest, if any, upon the occurrence of certain changes in applicable tax law.

The Notes will be the senior obligations of the Issuer and will rank equal in right of payment with all of the Issuer's existing and future senior indebtedness and senior in right of payment to any of the Issuer's existing and future indebtedness that is expressly subordinated in right of payment to the Notes. The Notes will be fully and unconditionally and jointly and severally guaranteed on a senior basis by Holdings B.V., DTEK Holdings Limited ("**Holdings Ltd**") and DTEK Trading Limited ("**Trading Ltd**" and, together with Holdings Ltd and Holdings B.V., the "**Guarantors**"). The guarantee provided by Holdings B.V. shall be referred to as the "**Holdings B.V. Guarantee**", the guarantee provided by Holdings Ltd shall be referred to as the "**Holdings Ltd Guarantee**" and the guarantee provided by Trading Ltd shall be referred to as the "**Trading Ltd Guarantee**", and the Holdings B.V. Guarantee, the Holdings Ltd Guarantee and the Trading Ltd Guarantee together shall be referred to as the "**Guarantees**". The Guarantees will rank equal in right of payment to all of the existing and future senior indebtedness of Holdings Ltd, Holdings B.V. and Trading Ltd, respectively, and senior in right of payment to all of the existing and future indebtedness of Holdings Ltd, Holdings B.V. or Trading Ltd that is expressly subordinated in right of payment to the Guarantees. In addition, the following operating subsidiaries of the DTEK Group will each provide a deed of surety (each a "**Deed of Surety**" and together, the "**Deeds of Surety**") in respect of the Issuer's obligations under the Notes and the Guarantors' obligations under the Guarantees: DTEK Limited Liability Company ("**DTEK LLC**"), DTEK Trading Limited Liability Company ("**Trading LLC**"), DTEK Skhidenergo Limited Liability Company ("**Skhidenergo**"), DTEK Pavlogradugol, Public Joint-Stock Company ("**Pavlogradugol**"), Limited Liability Company "Servis-Invest" ("**Servis-Invest**"), DTEK Mine Komsomolets Donbassa, Public Joint-Stock Company ("**Komsomolets Donbassa**"), Tehrempostavka Limited Liability Company ("**Tehrempostavka**"), DTEK Dobropolyeugol Limited Liability Company ("**Dobropolyeugol**"), DTEK Rovenkyanthracite Limited Liability Company ("**Rovenkyanthracite**"), DTEK Sverdlovanthracite Limited Liability Company ("**Sverdlovanthracite**"), Public Joint-Stock Company "DTEK Dniproenergo" ("**Dniproenergo**"), Public Joint-Stock Company "DTEK Zakhidenergo" ("**Zakhidenergo**") and Public Joint-Stock Company "Kyivenergo" ("**Kyivenergo**") (each a "**Surety**" and together, the "**Sureties**"). The Deeds of Surety will constitute direct, general, joint and several, full and unconditional and senior obligations of the Sureties. In certain circumstances, the Guarantors and the Sureties may be released from their respective obligations as Guarantors and Sureties in accordance with the provisions of the Indenture and the applicable Deed of Surety, respectively (see *"Description of the Notes—Guarantees—Guarantee Release"*), and certain operating subsidiaries may be required to become Guarantors or Sureties, as the case may be (see *"Description of the Notes—Certain Covenants—Additional Guarantees"*).

The net proceeds of this offering of Notes will be used (i) to finance the purchase of up to US$300,000,000 of the outstanding US$500,000,000 principal amount 9.50% notes due 2015 (the "**Existing Notes**") issued by DTEK Finance B.V. ("**Finance B.V.**"), a wholly-owned subsidiary of Holdings B.V., pursuant to an indenture dated April 28, 2010 (the "**Existing Indenture**") and tendered and accepted for purchase in accordance with the terms and conditions of the tender offer and consent solicitation launched by Finance B.V. on March 12, 2013, pursuant to a tender offer and consent solicitation statement of the same date (the "**Tender Offer and Consent Solicitation**"), (ii) to finance the payment of certain consent payments to holders of Existing Notes who deliver valid consents in accordance with the terms and conditions of the Tender Offer and Consent Solicitation in respect of certain amendments to the Existing Indenture, and (iii) for general corporate purposes, including but not limited to, financing ongoing capital expenditure programs and working capital and repaying certain indebtedness, and, to a lesser extent, to pursuing attractive growth opportunities through investments and acquisitions, as set out in "*Use of Proceeds*".

The Issuer is a company that was formed for the purpose of issuing the Notes and has no revenue-generating operations of its own. In order to make payments on the Notes or meet other obligations, it will be dependent upon receiving payments from other members of the DTEK Group.

This document constitutes the listing particulars (the "**Listing Particulars**") in respect of the application for admission of the Notes to the Official Listing of the Irish Stock Exchange and to trading on the Global Exchange Market of the Irish Stock Exchange. Application has been made to the Irish Stock Exchange for the approval of this document as Listing Particulars. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List of the Irish Stock Exchange and for trading on the Global Exchange Market which is the exchange-regulated market of the Irish Stock Exchange. There can be no assurance that any such application will be successful or that any such listing will be granted or maintained. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC.

See *"Risk Factors"* beginning on page 20 for a discussion of certain factors that you should consider in connection with an investment in the Notes.

The Notes, the Guarantees and the Deeds of Surety have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**"), or any state securities laws and are subject to U.S. tax law requirements. Subject to certain exception, the Notes, the Guarantees and the Deeds of Surety may not be offered, sold or delivered within the United States or to U.S. persons. Accordingly, the Notes are being offered and sold only to qualified institutional buyers in accordance with Rule 144A under the U.S. Securities Act ("**Rule 144A**") and outside the United States to non-U.S. persons in accordance with Regulation S under the U.S. Securities Act ("**Regulation S**"). Prospective purchasers that are qualified institutional buyers in the United States are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. For a description of certain restrictions on transfers of the Notes, see *"Plan of Distribution"* and *"Transfer Restrictions"*.

Issue Price: 98.989%, plus accrued and unpaid interest from the issue date, if any

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The Notes will be issued in registered form in the denomination of US$200,000 and integral multiples US$1,000 in excess thereof. The Notes will be represented on issue by one or more global Notes which will be delivered through the facilities of the Depositary Trust Company, Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme on or about April 4, 2013. Interests in each global Note will be exchangeable for the relevant definitive Notes in certain limited circumstances. See *"Book Entry; Delivery and Form"*.

Joint Lead Managers

Deutsche Bank ING J.P. Morgan Sberbank CIB UniCredit Bank VTB Capital

The date of this offering memorandum is April 2, 2013

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS iv
PRESENTATION OF FINANCIAL AND OTHER INFORMATION v
MARKET AND INDUSTRY DATA vii
COAL RESERVES REPORTING vii
DISCLOSURE OF OPERATING DATA viii
ENFORCEABILITY OF JUDGMENTS ix
CURRENCY PRESENTATION AND EXCHANGE RATES xii
AVAILABLE INFORMATION xiii
OVERVIEW 1
SUMMARY HISTORICAL FINANCIAL INFORMATION AND OTHER DATA 13
RISK FACTORS 20
USE OF PROCEEDS 65
CAPITALIZATION 66
SELECTED HISTORICAL FINANCIAL DATA 67
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS 69
HISTORY OF OUR GROUP 103
INDUSTRY 108
BUSINESS 116
REGULATION 146
SUPERVISORY BOARD AND MANAGEMENT 155
PRINCIPAL SHAREHOLDERS 163
THE ISSUER AND THE GUARANTORS 164
RELATED PARTY TRANSACTIONS 175
DESCRIPTION OF THE NOTES 177
BOOK-ENTRY, DELIVERY AND FORM 222
TAXATION 226
TRANSFER RESTRICTIONS 237
PLAN OF DISTRIBUTION 240
LEGAL MATTERS 244
INDEPENDENT ACCOUNTANTS 244
LISTING AND GENERAL INFORMATION 245
GLOSSARY OF TECHNICAL TERMS 248
INDEX TO FINANCIAL STATEMENTS F-1

IMPORTANT INFORMATION

IN CONNECTION WITH THIS OFFERING OF NOTES, J.P. MORGAN SECURITIES PLC MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT J.P. MORGAN SECURITIES PLC WILL UNDERTAKE ANY SUCH STABILIZATION ACTION. SUCH STABILIZATION ACTION, IF COMMENCED, MAY BEGIN ON OR AFTER THE DATE OF ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES AND MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE DATE ON WHICH THE ISSUER RECEIVED THE PROCEEDS OF THE ISSUE AND 60 CALENDAR DAYS AFTER THE DATE OF ALLOTMENT OF THE NOTES.

You should rely only on the information contained in this offering memorandum. Neither we nor the Initial Purchasers have authorized anyone to provide you with information that is different. This offering memorandum may only be used where it is legal to sell the Notes. The information in this offering memorandum may only be accurate on the date hereof.

The Notes, the Guarantees and each Deed of Surety have not been registered with, recommended by or approved by the U.S. Securities and Exchange Commission (the "**SEC**") or any other securities commission or regulatory authority, nor has the SEC or any such securities commission or authority passed upon the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offence in the United States.

This offering memorandum is being provided for informational use solely in connection with consideration of a purchase of the Notes (1) by U.S. investors that are "**qualified institutional buyers**" as defined in Rule 144A and (2) by certain persons in offshore transactions complying with Rule 903 or Rule 904 of Regulation S. Its use for any other purpose is not authorized. This offering memorandum may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents be disclosed to anyone other than the qualified institutional buyers described in (1) above or to persons considering a purchase of the Notes in offshore transactions described in (2) above.

This offering memorandum is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "**Financial Promotion Order**"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) in connection with the issue or sale of any Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "**relevant persons**"). This offering memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

This offering memorandum has been prepared on the basis that all offers of the Notes will be made pursuant to an exemption under Article 3 of Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU) (the "**Prospectus Directive**"), as implemented in member states of the European Economic Area (the "**EEA**"), from the requirement to produce a prospectus for offers of the Notes. Accordingly, any person making or intending to make any offer within the EEA of the Notes should only do so in circumstances in which no obligation arises for the Issuer or any of the Initial Purchasers to produce a prospectus for such offer. Neither the Issuer nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of the Notes through any financial intermediary, other than offers made by the Initial Purchasers which constitute the final placement of the Notes contemplated in this offering memorandum.

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the U.S. Securities Act and all other applicable securities laws. See *"Transfer Restrictions"*. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

We have prepared this offering memorandum solely for use in connection with this offering. In the United States, you may not distribute this offering memorandum or make copies of it without our prior written consent other than to people you have retained to advise you in connection with this offering.

You are not to construe the contents of this offering memorandum as investment, legal or tax advice. You should consult your own counsel, accountant and other advisers as to legal, tax, business, financial and related aspects of a purchase of the Notes. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Notes. We are not, and the Initial Purchasers are not, making any representation to you regarding the legality of an investment in the Notes by you.

Prior to making any decision as to whether to purchase the Notes, prospective investors should read this offering memorandum in its entirety and, in particular, "*Risk Factors*". In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantors, the Sureties and their respective affiliates, the terms of the offering of the Notes and the merits and risks involved.

The information contained in this offering memorandum has been furnished by us and other sources we believe to be reliable. No representation or warranty, express or implied, is made and no responsibility or liability is accepted by the Initial Purchasers as to the accuracy or completeness of any of the information set out in this offering memorandum, and nothing contained in this offering memorandum is or shall be relied upon as a promise or representation by the Initial Purchasers, whether as to the past or the future. This offering memorandum contains summaries, believed to be accurate, of some of the terms of specified documents, but reference is made to the actual documents, copies of which will be made available by us upon request, for the complete information contained in those documents. Copies of such documents and other information relating to the issuance of the Notes will also be available for inspection at the specified offices of the paying agent in the United Kingdom. All summaries of the documents contained herein are qualified in their entirety by this reference.

The Issuer, each of the Guarantors and each of the Sureties accept responsibility for the information contained in this offering memorandum. To the best of the knowledge of the Issuer, each of the Guarantors and each of the Sureties (each of which has taken all reasonable care to ensure that such is the case) the information contained in this offering memorandum is in accordance with the facts and contains no omission likely to affect the import of such information.

No person is authorized in connection with any offering made pursuant to this offering memorandum to give any information or to make any representation not contained in this offering memorandum, and, if given or made, any other information or representation must not be relied upon as having been authorized by us or the Initial Purchasers. The information contained in this offering memorandum is current as of the date hereof. Neither the delivery of this offering memorandum at any time nor any subsequent commitment to enter into any financing shall, under any circumstances, create any implication that there has been no change in the information set out in this offering memorandum or in our affairs since the date of this offering memorandum.

We reserve the right to withdraw this offering of the Notes at any time, and we and the Initial Purchasers reserve the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to you less than the full amount of Notes subscribed for by you.

The distribution of this offering memorandum and the offer and sale of the Notes may be restricted by law in some jurisdictions. Persons into whose possession this offering memorandum or any of the Notes come must inform themselves about, and observe any restrictions on the transfer and exchange of the Notes. See *"Plan of Distribution"* and *"Transfer Restrictions"*.

NOTICE TO UKRAINIAN RESIDENTS

Each Initial Purchaser has represented, warranted and agreed that the Notes shall not be offered by any of them for circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine. Accordingly, nothing in this offering memorandum or any other documents, information or communications related to the Notes shall be interpreted as containing any offer or invitation to, or solicitation of, any such circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains "forward-looking statements," as that term is defined by the U.S. federal securities laws, relating to our business, financial condition and results of operations. You can find many of these statements by looking for words such as "may," "will," "expect," "anticipate," "believe," "estimate," "foresee," "intend," "plan," "continue" or the negatives of these terms or variations of them and similar words used in this offering memorandum.

By their nature, forward-looking statements are subject to numerous assumptions, risks and uncertainties. Accordingly, actual results may differ materially from those expressed or implied by the forward-looking statements. We caution readers not to place undue reliance on the statements, which speak only as of the date of this offering memorandum.

The cautionary statements set forth above should be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue. We do not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this offering memorandum.

Risks and uncertainties that could cause actual results to vary materially from those anticipated in the forward-looking statements included in this offering memorandum or could otherwise adversely affect our ability to repay the Notes include factors such as:

- title to any company or assets we acquire through privatization may be successfully challenged and we may lose our ownership interest in such company or assets;
- our exploration, development and production licenses and lease agreements may be suspended, amended or terminated and may not be renewed;
- estimates of our industrial coal reserves may not be accurate;
- our power generation and electrical distribution businesses are subject to comprehensive regulation and price controls;
- changes to the regulatory framework of the Ukrainian electricity generation and distribution sectors may benefit our competitors and adversely affect our business;
- our power generation business does not have a diversified customer base;
- we may not be able to successfully integrate or manage our acquired assets;
- we may not be able to recruit and retain key personnel;
- we may be unable to obtain permits and authorization required for our business and such permits and authorization may be revoked;
- our business may be affected by factors over which we have no control, such as weather conditions and Ukrainian and global macroeconomic conditions;

- we may not be able to raise sufficient funds on favorable terms, or at all, in order to finance our planned capital expenditure and/or new acquisitions;
- we may be unable to extract coal from our undeveloped coal reserves or acquire additional coal reserves;
- our mining operations are subject to hazards and risk inherent in the operation of mines and our business could be adversely affected if we fail to comply with applicable health and safety laws;
- our business may be adversely affected by the introduction of more stringent environmental laws, standards and regulations;
- our insurance coverage may be inadequate;
- we do not control any entity in which we have a minority investment and we may be unable to resolve any disagreements that may arise with our fellow shareholders and/or joint venture partners;
- we may not be able to successfully expand our business outside of Ukraine;
- we have limited experience of developing and operating renewable energy assets and the generation of power from renewable resources may not be economically viable;
- we have limited experience of participating in oil and gas exploration and production activities;
- our free cash flow declined in 2012 and may continue to do so;
- our customers may not pay for the electricity they purchase from us in a timely manner, or at all;
- high gas prices may adversely affect our operations;
- certain of our newly acquired subsidiaries are involved in legal proceedings with the Ukrainian tax authorities;
- our business may be adversely affected by changes in government regulation, governmental policies and actions and the international economic and political situation;
- we may be adversely affected by changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); and
- we may experience increased competition in the markets in which we compete.

Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realized. See *"Risk Factors"*.

All forward-looking statements attributable to the Issuer, the Guarantors or the Sureties, or persons acting on their behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this offering memorandum. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements. These forward-looking statements speak only as at the date of this offering memorandum. The Issuer, each of the Guarantors and each of the Sureties expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in their expectations with regard thereto or any change in events, conditions or circumstances on which any of such statements are based.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Holdings B.V., the holding company of the DTEK Group, was incorporated under the laws of the Netherlands on April 16, 2009. Statutory consolidated financial statements for Holdings B.V. were prepared as of and for the 19-month period ended December 31, 2010 (the "**2010 Statutory Financial Statements**"), the year ended December 31, 2011 (the "**2011 Statutory Financial Statements**") and the year ended December 31, 2012 (the "**2012 Statutory Financial Statements**" and together with the 2010 Statutory Financial Statements and 2011 Statutory Financial Statements, the "**Statutory Financial Statements**"). In accordance with the laws of the Netherlands the 2011 Statutory Financial Statements contain the 19-month 2010 Statutory Accounts as comparatives. The Statutory Financial Statements are not included in this offering memorandum.

In addition to the Statutory Financial Statements, in order to display comparable information for twelve month periods, consolidated financial statements labeled special purpose were prepared for Holdings B.V.

as of and for the year ended December 31, 2010 (the "**2010 Special Purpose Financial Statements**") and as of and for the year ended December 31, 2011 (the "**2011 Special Purpose Financial Statements**" and, together with the 2010 Special Purpose Financial Statements, the "**Special Purpose Financial Statements**").

The Special Purpose Financial Statements and the consolidated financial statements of Holdings B.V. as of and for the year ended December 31, 2012 (the "**2012 Financial Statements**" and, together with the Special Purpose Financial Statements, the "**Consolidated Financial Statements**") are included in this offering memorandum as the consolidated financial statements of Holdings B.V. as of and for the periods ended December 31, 2010, 2011 and 2012, and were prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the European Union (the "**EU**"). The 2012 Financial Statements are consistent with the 2012 Statutory Financial Statements; however they do not contain a directors' report or parent company only financial statements. The Special Purpose Financial Statements were audited by PwC Ukraine (as defined on page 244 herein) and the 2012 Financial Statements were audited by PwC Netherlands (as defined on page 244 herein). The Consolidated Financial Statements are presented in hryvnia, the national currency of Ukraine.

Notwithstanding the above it should be noted that the Consolidated Financial Statements are prepared on a comparable basis, in accordance with IFRS.

Presentation of Non-IFRS Financial Information

In this offering memorandum, we present certain financial information and measures which are not calculated in accordance with IFRS, such as "Adjusted EBITDA". As presented herein, Adjusted EBITDA represents our profit for the year after excluding the following income statement items: foreign exchange losses less gains from borrowings, certain finance costs, income tax expense, depreciation and amortization, recognition of loss from fair valuation of associate on transfer to subsidiary, recognition of available-for-sale ("**AFS**") reserve on transfer to associate, impairment of investment in associates, gain on a bargain purchase, impairment of property, plant and equipment and certain foreign exchange differences.

Our Adjusted EBITDA is a supplemental measure of our performance and liquidity that is not required by or presented in accordance with IFRS. Furthermore, Adjusted EBITDA should not be considered as an alternative to income after taxes, income before taxes or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities as a measure of our liquidity or as a measure of cash available to us to invest in the growth of its business.

We present Adjusted EBITDA because we believe it is frequently used by securities analysts, investors and other interested parties in evaluating similar issuers, most of which present Adjusted EBITDA when reporting their results. We also present Adjusted EBITDA as a supplemental measure of our ability to service our indebtedness. Nevertheless, Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation from, or as a substitute for, analysis of our results of operations. As a measure of performance, Adjusted EBITDA presents some limitations for the following reasons:

(a) it does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;

(b) it does not reflect changes in, or cash requirements for, our working capital needs;

(c) it does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

(d) although depreciation, depletion and amortization are non-cash charges, the assets being depreciated, depleted and amortized will often have to be replaced in the future and Adjusted EBITDA does not reflect any cash requirements for such replacements;

(e) it does not reflect foreign exchange gains or losses; and

(f) other companies in our industry may calculate Adjusted EBITDA differently from the way in which we do, limiting its usefulness as comparative measures.

For a reconciliation of Adjusted EBITDA to profit for the year, as calculated in accordance with IFRS, see footnote 2 to "*Summary Historical Financial Information and Other Data*".

MARKET AND INDUSTRY DATA

This offering memorandum contains estimates and projections regarding market and industry data that were obtained from internal company surveys; official governmental sources of Ukraine, including the National Bank of Ukraine (the "**NBU**"), the Ministry of Economic Development and Trade of Ukraine (the "**Ministry of Economic Development**"), the Ministry of Coal and Energy of Ukraine (the "**Ministry of Energy**") and the State Statistics Service of Ukraine (the "**State Statistics Service**"); market research; consultant surveys; publicly available information; and industry publications and surveys, including as produced by Energobiznes. See *"Risk Factors—Risks Relating to Ukraine—Official statistics and other data published by Ukrainian state authorities may not be reliable*". This offering memorandum also contains management's estimates and projections regarding (i) market and industry data based on data from various third party sources and internally generated data, as well as assumptions made by us and (ii) certain other financial and performance metrics relating to our business. We believe the information provided or made available by these third parties is generally reliable. However, market data is subject to change and cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey, interpretation or presentation of market data and management's estimates and projections. In addition, projections are often wrong. As a result, you should be aware that market data set forth herein, and estimates, projections and beliefs (i) based on such data and (ii) relating to certain financial and performance metrics presented herein, may not be reliable. We have not independently verified any of the data from third party sources nor have we ascertained the underlying economic assumptions relied upon therein and neither we nor the Initial Purchasers can guarantee its accuracy or completeness. Similarly, internal group surveys, which we believe to be reliable, are based upon management's knowledge of the industry as of the date of such surveys and have not been verified by any independent sources. Accordingly, whilst we accept responsibility for accurately reproducing such information, we cannot guarantee the accuracy or completeness of any such information and you should not place undue reliance on such information when making your investment decision. So far as we are aware and able to ascertain from such information, no facts have been omitted which would render any reproduced information inaccurate or misleading.

COAL RESERVES REPORTING

In determining the feasibility of developing and operating our coal mines, we estimate our coal reserves based on our legal right to mine specified coal mines pursuant to our state licenses.

Ukraine's coal mining rights belong to the state, which then grants such rights to third-parties who have applied for and been granted a license to mine. Our reserve estimates include only those mines for which we have received a mining license. When the state issues a coal mining license, the license sets forth the mine's coal reserves at the time of the issuance of such license based on the state's estimation of the reserves located in the licensed area, which is calculated in accordance with various laws and regulations. See *"Regulation—Coal Mining Regulations In Ukraine—Determining Coal Reserves"*. We present in this offering memorandum our estimated "industrial reserves", which are the recoverable reserves that we believe are economically feasible to mine and which are greater than 60 centimeters in thickness. We do not present in this offering memorandum our "non-industrial reserves," which are recoverable reserves that are less than 60 centimeters thick or which we or the state believes are not economically feasible to mine, such as reserves located under heavily populated areas. See *"Regulation"*.

We estimate our industrial reserves for each of our coal mines as of December 31 of each year in accordance with the reporting requirements prescribed by Ukrainian law which differ significantly from both (i) the internationally accepted reserve estimation standards under the Petroleum Resources Management System sponsored by the Society for Petroleum Engineers, the American Association of Petroleum Geologists, World Petroleum Council and the Society for Petroleum Evaluation Engineers and (ii) the reserves classifications permitted by the SEC, in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. We implement such Ukrainian requirements by taking the original amount of balance reserves estimated by the state when that coal mine's license was originally issued and deducting (i) the amount of balance reserves that we consider should not be classified as industrial reserves, (ii) the amount of industrial reserves extracted from the mine in each subsequent year and (iii) any industrial reserves that we subsequently determine to have been improperly classified as industrial reserves and by adding (i) any additional industrial reserves that we have

discovered during the course of mining or (ii) any additional industrial reserves that we have acquired from third parties or from the state. We rely exclusively on the state's initial estimates of our coal mine reserves when the licenses were issued and our subsequent adjustments as set forth above after taking into account our knowledge, experience and industry practice without the input of third party reserves engineers or the benefit of further reviews by the state's reserve engineers. The reserves data contained in this offering memorandum, unless otherwise stated, is taken from reserves analyses prepared in accordance with Ukrainian law by our professional engineering staff. Our industrial coal reserves estimates may require future revision based upon actual production experience, operating costs, world coal prices and other factors that we are unable to foresee. As a result, our estimates of our coal resources or reserves that appear valid when made may change significantly in the future when new information becomes available. See *"Risk Factors—Risks Relating to our Operations and Business—We face numerous uncertainties in estimating our industrial coal reserves and, as a result, such estimates may not be accurate".*

DISCLOSURE OF OPERATING DATA

We do not have a 100% equity interest in each of our operating subsidiaries. We own (i) 94.64% of Komsomolets Donbassa, 99.92% of Pavlogradugol and 95.44% of Bilozerska, certain of our key coal production operating subsidiaries, (ii) 73.30% of Dniproenergo, 72.19% of Zakhidenergo, and 72.33% of Kyivenergo, certain of our key power generation subsidiaries, and (iii) 94.24% of Energougol, 51.51% of Dniprooblenergo, 71.35% of Donetskoblenergo and 57.60% of Krymenergo, certain of our key electricity distribution subsidiaries. However, all of the information on our reserves, our production, generation and distribution volumes, and our wells and acreage under development contained in this offering memorandum is presented on a total basis—*i.e.*, the actual interest or amount held, produced or distributed by each of our operating subsidiaries since they became a subsidiary of the Group without deduction for the minority shareholders' economic interest in it. However, our consolidated results of operations are presented after deducting the minorities' share of profits and losses for each of our operating subsidiaries.

Cautionary Note to United States Investors Concerning Coal Reserve Data

There are differences between reporting regimes for reserve estimates in the United States compared to Ukraine. The principal difference between our reporting regimes is that in Ukraine, the state estimates a mine's available reserves in accordance with the law on subsurface resources, the decree of the Cabinet of Ministers of Ukraine on the approval of the regulations on the procedure of righting-off the subsoil reserves at the mining business segments and amendments thereto and regulations on accounting of the subsoil reserves and on filling the balance reports and we subsequently adjust each of our mine's available reserves based on our own estimations and each mine's production history without retaining the services of a third party reserves engineer, see *"Regulation—Coal Mining Regulations in Ukraine—Determining Coal Reserves"* and *"Risk Factors—Risks Relating to our Operations and Business—We face numerous uncertainties in estimating our industrial coal reserves and, as a result, such estimates may not be accurate".* In contrast, in the United States, reserves are estimated under the requirements as adopted by the SEC in its Industry Guide 7—Description of Property by Issuers Engaged or to be Engaged in Significant Mining Operations ("**Industry Guide 7**"), which provides that only proved (measured) or probable (indicated) reserves can be reported.

The SEC has applied the following reporting definitions to reserves under Industry Guide 7:

- A "reserve" is "that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Reserves are customarily stated in terms of "ore" when dealing with metalliferous minerals; when other materials such as coal, oil, shale, tar, sands, limestone, etc. are involved, an appropriate term such as "recoverable coal" may be substituted.
- "Proven (measured) reserves" are "reserves for which:
  (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling; and

(b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established".

- "Probable (indicated) reserves" are "reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation".

THIS OFFERING MEMORANDUM USES THE TERMS "BALANCE RESERVES", "INDUSTRIAL RESERVES," AND "NON-INDUSTRIAL RESERVES". UNITED STATES INVESTORS ARE ADVISED THAT, WHILE SUCH TERMS MAY BE RECOGNIZED BY SOME INVESTORS, THE SEC DOES NOT RECOGNIZE THEM OR THE STANDARDS OR METHODS BY WHICH THEY ARE DETERMINED.

ENFORCEABILITY OF JUDGMENTS

Each of the Sureties is a company organized under the laws of Ukraine, Trading Ltd and Holdings Ltd are organized under the laws of Cyprus, Holdings B.V. is organized under the laws of The Netherlands and the Issuer is organized under the laws of England and Wales. All of the directors and officers of the Issuer, the Guarantors and the Sureties named herein reside in Ukraine, The Netherlands, Cyprus or the United Kingdom and all or a significant portion of the assets of such persons may be, and substantially all of the assets of the Issuer, the Guarantors and the Sureties are, located in Ukraine, The Netherlands, Cyprus or the United Kingdom. As a result, it may not be possible for investors to affect service of process upon such persons or entities outside Ukraine, The Netherlands, Cyprus or the United Kingdom or to enforce against them in the courts of jurisdictions other than Ukraine, The Netherlands, Cyprus or England and Wales any judgments obtained in such foreign courts that are predicated upon the laws of such other jurisdictions.

Enforcement of court judgments in the United Kingdom

The Issuer is a public limited company incorporated under the laws of England and Wales and all of its directors and executive officers reside outside of the United States, and all or a substantial portion of the assets of the Issuer and such persons are located outside the United States. As a result, service of process within the United States upon the Issuer or any of its directors or executive officers, or enforcement against them, or obtaining recognition for any judgments of U.S. courts predicated upon civil liability provisions of the U.S. federal or state securities laws would be possible only under certain conditions.

If a judgment were obtained in a U.S. court against the Issuer or any of its directors or executive officers, investors would need to enforce such judgment in jurisdictions where the Issuer has assets. Even though the enforceability of U.S. court judgments outside the United States is described below in respect of the United Kingdom, you should consult with your own advisors in any pertinent jurisdictions as needed to enforce a judgment in those jurisdictions or elsewhere outside the United States.

The United States and the United Kingdom currently do not have a treaty between them providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Consequently, a final judgment for payment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, would not automatically be enforceable in the United Kingdom. In order to enforce any U.S. judgment in the United Kingdom, new proceedings must be initiated by way of a common law action before a court of competent jurisdiction in the United Kingdom. In a common law action, an English court might order summary judgment, on the basis that there is no defense to the claim for payment, and grant an enforcement order, but only subject to the following conditions:

(a) the U.S. court having had jurisdiction over the original proceeding according to English conflicts of laws principles, regardless of jurisdiction according to US conflict of laws principles;

(b) the judgment being final and conclusive on the merits in the court which pronounced it and being for a debt for a definite sum of money;

(c) the judgment not contravening English public policy and not violating the Human Rights Act 1998;

(d) the judgment being not for a sum payable in respect of tax, or other charges of a like nature in respect of a penalty or fine;

(e) the judgment not having been arrived at by doubling, trebling or otherwise multiplying a sum assessed as compensation for the loss or damaged sustained and not being otherwise in breach of Section 5 of the Protection of Trading Interests Act 1980;

(f) the judgment not having been obtained by fraud or in breach of English principles of natural justice;

(g) the judgment not having breached a jurisdiction or arbitration clause;

(h) there not having been a prior judgment by an English court between the same parties concerning the same issues; and

(i) enforcement proceedings having been instituted within six years from the date of judgment.

Subject to the foregoing, investors may be able to enforce judgments in the United Kingdom, in civil and commercial matters that have been obtained from U.S. federal or state courts. However, note that (a) we cannot assure you that those judgments will be enforceable; (b) it is unclear whether an English court would accept jurisdiction and impose civil liability if proceedings were commenced in the United Kingdom in an original action predicated solely upon U.S. federal securities laws; (c) it may not be possible to obtain an English judgment or to enforce the judgment if the judgment debtor is subject to any insolvency or similar proceedings, or if the judgment debtor has any set-off or counterclaim against the judgment creditor; and (d) in any enforcement proceedings, the judgment debtor may raise any counterclaim that could have been brought if the action had been originally brought in the United Kingdom unless the subject of the counterclaim was in issue and denied in the U.S. proceedings.

Enforcement of court judgments in Ukraine

In accordance with Article 390 of the Civil Procedure Code of Ukraine (the "**Civil Procedure Code**"), the courts of Ukraine will not recognize or enforce any judgment obtained in a court established in a country other than Ukraine unless such enforcement is envisaged by an international treaty to which Ukraine is a party providing for enforcement of such judgments, and then only in accordance with the terms of such treaty. There is no such treaty between the United Kingdom and Ukraine or between the United States of America and Ukraine providing for enforcement of judgments.

In the absence of an international treaty providing for enforcement of judgments, the courts of Ukraine may only recognize or enforce a foreign court judgment on the basis of the principle of reciprocity. Under Article 390 of the Civil Procedure Code, unless proven otherwise the reciprocity is deemed to exist in relations between Ukraine and the country where the judgment was rendered. The Civil Procedure Code does not provide for any clear rules on the application of the principle of reciprocity and there is no official interpretation or established court practice of these provisions of the Civil Procedure Code. Accordingly, there could be no assurance that the courts of Ukraine will recognize or enforce a judgment rendered by the courts of the United Kingdom or the United States of America on the basis of the principle of reciprocity. Furthermore, the courts of Ukraine might refuse to recognize or enforce a foreign court judgment on the basis of the principle of reciprocity on the grounds provided in the Civil Procedure Code.

Enforcement of court judgments in The Netherlands

Holdings B.V. is a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of The Netherlands and all of its directors and executive officers reside outside of the United States, and all or a substantial portion of the assets of Holdings B.V. and such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process, including judgments, upon Holdings B.V. or such persons outside of The Netherlands or within the United States. It may also be difficult for investors to enforce against Holdings B.V. judgments obtained in non-Dutch courts.

In respect of a judgment of a federal or state court in the United States against Holdings B.V., the following applies. The United States and The Netherlands do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than arbitral awards) in civil and commercial matters and therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability would not be enforceable in The Netherlands and new proceedings on the merits must be initiated before a Dutch court. However, if the party in whose favor

such final judgment is rendered brings a new suit in a competent court in The Netherlands, such party may submit to a Dutch court the final judgment that has been rendered in the United States. If the Dutch court finds that the jurisdiction of the federal or state court in the United States has been based on grounds that are internationally acceptable and that proper legal procedures have been observed, the Dutch court will, in principle, uphold such final judgment and regard it as conclusive evidence, without substantive re-examination or re-litigation on the merits of the subject matter thereof, unless such judgment contravenes public order in The Netherlands. There is doubt as to whether courts of The Netherlands will uphold judgments predicated upon the civil liability provisions of the U.S. federal securities laws or the securities laws of any state within the United States.

Enforcement of court judgments in Cyprus

Neither the United States nor Cyprus currently has a bilateral or other treaty with the other, providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. A final and conclusive judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, would not be automatically recognized or enforceable in Cyprus. In order to obtain a judgment which is enforceable in Cyprus, the party in whose favor a final and conclusive judgment of a U.S. court has been rendered must file, under principles of Common Law and in accordance with the principles of private international law, its claim as a new, separate action with a court of competent jurisdiction of Cyprus in order to obtain an enforceable judgment. If the party in whose favor such final judgment is rendered brings a new suit in a competent court in Cyprus, such party may submit to such Cypriot court the final judgment that has been rendered in the respective jurisdiction and, if a Cypriot court finds that the respective Court had jurisdiction over a matter in accordance with the principles of private international law as applied by Cypriot courts, then such judgment would be sufficient to form the basis of proceedings in Cyprus. In such proceedings, the Cypriot court would not rehear the case on its merits except in accordance with such principles of private international law which, for example, but without limitation, would include circumstances where the judgment of the foreign court had been obtained by fraud or otherwise than in accordance with principles of natural justice or where that judgment is contrary to public policy in Cyprus or if proceedings in the relevant foreign court were not duly served on the defendant to the original proceedings or where the foreign court is deemed not to have jurisdiction over the defendants.

Subject to the foregoing and service of process in accordance with applicable treaties, investors may be able to enforce in Cyprus judgments in civil and commercial matters obtained from U.S. federal or state courts. However, no assurance can be given that those judgments will be enforceable. In addition, even if a Cypriot court has jurisdiction, it is uncertain whether such court will impose civil liability in an original action commenced in Cyprus and predicated solely upon U.S. federal securities laws.

The above applies *mutatis mutandis* to any creditor who holds a judgment in his favor for a debt, or definite sum of money (not being a sum payable in respect of taxes or other charges of a like nature or in respect of a fine or other penalty) seeking to enforce a final and conclusive foreign judgment in Cyprus given in a court of a country with which Cyprus has not concluded a bilateral treaty nor is connected with a convention for recognition and enforcement of judgments in Cyprus.

Enforcement of Arbitral Awards in Ukraine, The Netherlands, Cyprus or the United Kingdom

Ukraine, The Netherlands, Cyprus and the United Kingdom are each a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). The courts of The Netherlands, Cyprus and England and Wales will recognize as valid any arbitral award and enforce any final, conclusive and enforceable arbitral award obtained by arbitration in accordance with the relevant arbitration provisions of any agreement provided any such enforcement is in accordance with the provisions of the New York Convention. However, Ukraine is a member of the New York Convention with a reservation to the effect that, in respect of awards made in a state which is not a party to the New York Convention, Ukraine will only apply the New York Convention on a reciprocal basis. Consequently, a foreign arbitral award obtained in a state which is party to the New York Convention should be recognized and enforced by a Ukrainian court (under the terms of the New York Convention). The indenture governing the Notes (the "**Indenture**"), the Guarantees and the Deeds of Surety contain provisions allowing for arbitration of disputes with New York, New York designated as the seat of arbitration. Since the United States is a party to the New York Convention, respective arbitral

awards may be enforced in Ukraine under provisions of the New York Convention and subject to compliance with applicable Ukrainian procedural requirements.

In practice, reliance upon international treaties or the principle of reciprocity may meet with a lack of understanding on the part of a Ukrainian court or other officials, thereby introducing delay and unpredictability into the process for enforcing any foreign judgment or any foreign arbitral award in Ukraine.

CURRENCY PRESENTATION AND EXCHANGE RATES

References to "hryvnia" or "UAH" are to the currency of Ukraine. References to "U.S. dollars," "dollars," "$" and "US$" refer to the currency of the United States of America. References to "€," "Euro" or "euro" refer to the currency introduced on January 1, 1999 at the start of the third stage of the European economic and monetary union pursuant to the treaty establishing the European Community, as amended from time to time. References to "Rubles", "Roubles", "RUR" or "RUB" are to the currency of the Russian Federation.

The following tables set forth, for the periods indicated, certain information regarding the exchange rate between the hryvnia and the dollar. This information is based on the official exchange rate quoted by the NBU, which is set by the NBU without the NBU assuming any obligations to buy or sell the foreign currency at such exchange rate. The hryvnia is generally not convertible outside Ukraine, and we do not represent that the hryvnia amounts referred to below could be or could have been converted into dollars at any particular rate indicated or any other rate.

	Ukrainian hryvnia per US$1.00			
Year	**High**	**Low**	**Average**	**Period End**
2008	7.8788	4.8400	5.2672	7.7000
2009	8.0148	7.6100	7.7912	7.9850
2010	8.0100	7.8861	7.9356	7.9617
2011	7.9899	7.9300	7.9676	7.9898
2012	7.9930	7.9840	7.9910	7.9930

	Ukrainian hryvnia per US$1.00			
Month	**High**	**Low**	**Average**	**Period End**
January 2013	7.9930	7.9930	7.9930	7.9930
February 2013	7.9930	7.9930	7.9930	7.9930
March 2013 (through March 15)	7.9930	7.9930	7.9930	7.9930

The official exchange rate quoted by the NBU for March 15, 2013 was 7.9930 hryvnia per U.S. dollar.

AVAILABLE INFORMATION

For so long as any of the Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, we will, during any period in which we are neither subject to the reporting requirements of Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**U.S. Exchange Act**"), nor exempt from the reporting requirements of the U.S. Exchange Act under Rule 12g3-2(b) thereunder, provide to the holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, in each case upon the written request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the U.S. Securities Act.

We are not currently subject to the periodic reporting and other information requirements of the U.S. Exchange Act. However, pursuant to the Indenture and so long as the Notes are outstanding, we will furnish periodic information to holders of the Notes. See *"Description of the Notes—Certain Covenants—Reports to Holders"*.

For so long as the Notes are listed on the Global Exchange Market of the Irish Stock Exchange and the rules of that exchange so require, copies of the Issuer's organizational documents, the indenture relating to the Notes and our most recent consolidated financial statements published by us may be inspected and obtained at the office of the listing agent in Ireland. See *"Listing and General Information"*.

OVERVIEW

This section highlights selected information about the Issuer, the DTEK Group and the offering of the Notes contained in this offering memorandum. This overview does not contain all of the information that you should consider before investing in the Notes. You should read this entire offering memorandum, including "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of the Operations" and our Consolidated Financial Statements as of and for the years ended December 31, 2010, 2011 and 2012 and the related Notes included elsewhere in this offering memorandum.

In this offering memorandum, all references to "we," "our," "us," the "group", the "Group", "DTEK" and "DTEK Group" refer to, unless the context otherwise requires or it is otherwise indicated, Holdings B.V. and its consolidated subsidiaries.

Overview

We are the largest energy company in Ukraine as measured by metric tons of coal produced, net output of electricity and electricity distributed, according to Energobiznes and the Ministry of Energy. We comprise four principal business segments: coal mining (which includes coal enrichment), power generation, heat generation and electricity distribution and sales. Our enterprises form an efficient production chain that focuses principally on coal mining for further supply to our power generation facilities. We distribute electricity through our networks and sell energy and coal to end customers, including in Ukraine, Europe and Russia. We believe that the integration of the operations of our coal mining and our power generation business segments, which has been enhanced through the introduction of advanced technologies, professional management and a social policy that we believe strengthens our relations with our employees and the areas in which we operate, has enabled us to become a leader in the fuel and energy markets in Ukraine. In 2010, 2011 and 2012, we generated revenue and heat tariff compensation of UAH24,294 million, UAH39,594 million and UAH82,581 million, respectively, and Adjusted EBITDA of UAH6,210 million, UAH10,281 million and UAH16,936 million, respectively.

Coal mining

We own, or lease or have concession rights in respect of, and operate 31 coal mines and 13 coal enrichment plants, including three mines and one coal enrichment plant in Russia. In 2010, 2011 and 2012, our coal mines collectively produced 19.1 million, 24.1 million and 39.7 million metric tons of coal, respectively, which accounted for approximately 25.5%, 28.0% and 46.1% of Ukraine's total coal production (measured by metric tons of coal produced), respectively, according to Energobiznes. Based on the Ukrainian government's estimate of our coal reserves as of the date the respective production licenses were granted, and as further adjusted by us to reflect extraction, reserves reclassifications, new coal discoveries and acquisitions, as of December 31, 2012, we had an estimated 1699.7 million metric tons of industrial reserves. See *"Coal Reserves Reporting"* and *"Business—Business Segments—Coal mining"*.

Our operating subsidiary, Pavlogradugol, is the largest coal mining company in Ukraine as measured by metric tons of coal produced, producing approximately 17.0 million metric tons of coal in 2012, according to the Ministry of Energy. Pavlogradugol operates 10 mines and an integrated mining complex, including transportation and production infrastructure, located in the Dnipropetrovsk region of Ukraine, which, as at December 31, 2012, had aggregate industrial reserves of 652.9 million metric tons and an average reserve life of 52 years, assuming current extraction and production rates. Our subsidiary, Komsomolets Donbassa, operates one mine and coal enrichment plant located in the Donetsk region of Ukraine which had industrial reserves of 110.9 million metric tons and a reserve life of 43 years, assuming current extraction and production rates, as at December 31, 2012.

In 2011, we entered into two 49-year concession agreements with the Ministry of Energy and one 49-year lease agreement with the State Property Fund of Ukraine (the "**State Property Fund**"), pursuant to which our subsidiaries, Rovenkyanthracite, Sverdlovanthracite and Dobropolyeugol, operate six mines and an integrated mining complex, including three coal enrichment plants, located in the Donetsk and Lugansk regions of Ukraine, five mines and an integrated mining complex, including three coal enrichment plants, located in the Dolzhano-Rovenetskyi region of Ukraine, and five mines and an integrated mining complex located in the Donbass region of Ukraine, respectively. As at December 31, 2012, Rovenkyanthracite, Sverdlovanthracite and Dobropolyeugol had industrial reserves of 162.9 million metric tons, 208.0 million metric tons and 367.8 million metric tons, respectively, and an average reserve life of 33 years, 40 years and 94 years, respectively, assuming current extraction and production rates.

In February 2012, we acquired a 95.4% interest in our subsidiary, Bilozerska, which operates one mine located in the Dobropolsky region of Ukraine. As at December 31, 2012, the Bilozerska mine had industrial reserves of 71.6 million metric tons and a reserve life of 90 years, assuming current extraction and production rates. Further, in 2012, we acquired three mines located in the Rostov region of Russia which, as at December 31, 2012, had aggregate industrial reserves of 125.6 million metric tons and an average reserve life of 73 years, assuming current extraction and production rates. Our three Russian mines are operated through our subsidiaries, Obukhovskaya, Don-Anthracite and Sulinanthracite.

We are the largest producer of steam coal (which is coal typically used for generating steam for power plants; see *"Business—Business Segments—Coal mining—Types of coal produced"*) in Ukraine based on our production of 16.1 million metric tons and 26.7 million metric tons of marketable steam coal in 2011 and 2012, respectively. In 2012, approximately 73% of our steam coal production was supplied to our thermal power plants (each a "**TPP**") in our power generation subsidiaries to maximize the synergies from our vertically integrated business, with the remainder being sold to third parties in Ukraine and exported outside Ukraine. Our coal mines produced approximately 0.9 million metric tons and 0.6 million metric tons of marketable coking coal in 2011 and 2012, respectively.

In the years ended December 31, 2010, 2011 and 2012, we exported 2 million, 3.4 million and 2.8 million metric tons of coal, respectively, through our subsidiary, Trading LLC, primarily to consumers in Turkey, India, Egypt, Russia, the United States and countries in Europe for use in thermal power plants and for industrial use.

Power generation

We are the leading privately owned thermal power generation company in Ukraine. Our power generation subsidiaries, Skhidenergo, Dniproenergo, Zakhidenergo and Kyivenergo, and our electricity distribution subsidiary, Donetskoblenergo, operate ten thermal power generation plants and two heat and power plants comprising 66 power generation units with a total installed capacity of 18.2GW. In 2010, 2011 and 2012, we generated a total net output of 16.3TWh, 17.1TWh and 51.4TWh of electricity, respectively, which accounted for approximately 9.5%, 9.7% and 28.5% of total Ukrainian power generation (measured by net output of electricity), respectively, according to Ukrenergo.

Our subsidiary, Dniproenergo, generated 16.2TWh of electricity in 2012 (in terms of net generation), which accounted for approximately 9.0% of total Ukrainian power generation according to Ukrenergo. Dniproenergo operates three power plants located in the Zaporizhya and Dnipropetrovsk regions of Ukraine which have aggregate installed capacity of 8,185MW. Our subsidiaries, Skhidenergo, Zakhidenergo and Kyivenergo operate three power plants located in the Donetsk and Lugansk regions of Ukraine, three power plants located in the Lvovskaya, Ivano-Frankovskaya and Vinnitskaya regions of Ukraine and two power plants located in Kiev, respectively, which have installed capacity of 4,157MW, 4,707.5MW and 1,200MW, respectively. In addition, our electricity distribution subsidiary, Donetskoblenergo, also operates a power plant, Myronovskaya TTP, which is located in the Donetsk region of Ukraine and has installed capacity of 275MW. Zakhidenergo's TPP, Burshtynskaya, is connected to the UCTE/CENTREL unified European power system through which it exports up to 650MW of electricity to European markets in addition to supplying electricity within Ukraine, and, in addition to generating and transmitting electricity, Kyivenergo, Dniproenergo and Donetskoblenergo distribute and transport heat to customers and have total installed heat capacity of 8,700Gcal per hour, 1,983Gcal per hour and 350Gcal per hour, respectively.

Our power plants benefit from a steady supply of coal, which is primarily purchased from our coal mines. Although the coal produced by our coal mines is generally sufficient to meet the demand of our power plants, our power generation subsidiaries sometimes purchase coal from third parties when coal prices are more favorable. Further, although we currently produce more anthracite coal than our power stations require and our internal demand for, and production of, steam coal is generally evenly balanced, we consume more coking coal than we produce and, therefore, are required to purchase coking coal from third parties. We believe that our power plants have the lowest production cost in the Ukrainian thermal power generation industry. Under the terms of our power generation licenses, our thermal power plants sell all of the electricity they produce to Energorynok, the Ukrainian government-owned electricity metering and distribution pool ("**Energorynok**"), at prices determined daily by the National Electricity Regulatory Commission ("**NERC**") through a bidding system. The volume of electricity our power generation business segment produces is determined by the competitive bidding process through which we sell electricity to Energorynok. We produce electricity only to the extent our bids are accepted by

Energorynok, and our ability to submit competitive bids is, to a large extent, dependent upon our production costs. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Our Results of Operations—Prices for our products in each of our business segments—Power generation".*

Electricity distribution

We are the largest electricity distribution company in Ukraine based on the volume of electricity distributed to our end customers, which include households and commercial consumers in the Donetsk, Dnepropetrovsk and Crimean regions of Ukraine, and Kiev. In the years ended December 31, 2010, 2011 and 2012, we distributed approximately 13.3TWh, 14.1TWh and 53.9TWh, respectively, to our end customers which accounted for a 9.1%, 9.5% and 37.8% proportional share of electricity distribution in Ukraine (measured by TWh of electricity distributed) during each of those respective periods, according to the NERC. We purchase all our electricity from Energorynok on the wholesale electricity market. As of December 31, 2012, our power networks extended over a distance of approximately 158,700 kilometers.

We own and operate six electricity distributing companies, Servis-Invest, Energougol, Krymenergo, Donetskoblenergo, Dniprooblenergo and Kyivenergo. Our subsidiary, Dniprooblenergo, is the largest electricity distribution company in Ukraine based on the volume of electricity purchased and distributed. In 2012 it distributed 23.7TWh to customers, which accounted for a 14.9% proportional share of electricity distribution in Ukraine in 2012. Dniprooblenergo operates 12,466 transformer substations with a total transformer capacity of 11,218MVA and 47,181 kilometers of electricity lines in the Dnepropetrovsk regions of Ukraine. Our subsidiary, Energougol, has 1,178 kilometers of electricity lines in the Donetsk region of Ukraine and total transformer capacity of 471MVA, Servis-Invest has 2,719 kilometers of electricity line in the Donetsk and Dnepropetrovsk regions of Ukraine and total transformer capacity of 2,708MVA and Krymenergo has 30,502 kilometers of electricity lines in the Crimea and total transformer capacity of 6,044MVA. Our subsidiaries, Donetskoblenergo and Kyivenergo, have 63,209 kilometers of electricity lines in the Donetsk region and 11,378 kilometers of electricity lines in Kiev, respectively, and total transformer capacity of 12,291MVA and 6,929MVA, respectively.

We export electricity to Poland, Hungary, Romania, Slovakia, Moldova and Belarus through our subsidiaries, DTEK Power Trade LLC ("**DTEK Power Trade**"), Skhidenergo and Trading LLC. In the years ended December 31, 2010, 2011 and 2012, we exported 1.2TWh, 5.1TWh and 9.7TWh, respectively. In 2012, our largest electricity export markets were Belarus (4.1TWh), Hungary (3.6TWh) and Poland (1.0TWh).

Our Strengths

We believe that our principal competitive strengths are as follows:

Leading market position in our fuel and energy markets in Ukraine

Our coal mining and enrichment, power generation and electricity distribution and sales business segments each hold the leading market position in Ukraine in their respective markets, according to Energobiznes and the Ministry of Energy. Our coal mines accounted for 46.1% and 28.0% of total Ukrainian coal production in 2012 and 2011, respectively, based on metric tons of coal produced, our power plants accounted for 28.5% and 9.7% of total Ukrainian power generation in 2012 and 2011, respectively, based on net output of electricity, and our electricity distribution and sales business accounted for 37.8% and 9.5% of total Ukrainian electricity distribution in 2012 and 2011, respectively, based on TWh of electricity distributed. We have consolidated our leading market position in recent years by acquiring new coal production assets and by participating in recent energy asset privatizations in the Ukrainian market to acquire additional interests in power generation and distribution and sales businesses. As a result, both our fuel resources base and our generation and distribution capacity have expanded relative to the rest of the Ukrainian market.

We believe that our strong reputation as the leading fuel and energy company in Ukraine and our large balance sheet of energy assets gives us an advantage over our smaller Ukrainian competitors when seeking to raise finance from banks and in the international capital markets, including for the purpose of acquiring additional assets and financing capital expenditure. In addition, in highly regulated sectors such as power generation and distribution, we consider that our established market presence and substantial operating experience is an advantage when bidding to acquire privatized assets (both in Ukraine and foreign markets,

such as Russia) and when seeking to gain access to new international markets (such as Eastern Europe and the CIS) to make sales of coal and electricity.

We expect to be able to retain our leading market position in the Ukrainian fuel and energy markets in the near term as our competitors face significant barriers to entry into such markets, including the high cost of construction and the high cost of compliance with government regulation. We have invested in and modernized our coal mining and power generation facilities over the past few years in order to increase the efficiency of such assets, thereby giving us a competitive advantage over state-owned and newly privatized coal mines and power generation companies, as well as over potential new market entrants who would be required to make significant investments over time to improve the efficiency of any coal mines and/or thermal power plants they acquire. In particular, we have invested in the modernization of our newly acquired energy assets in order to improve their productivity and we expect to continue to do so. See "*Our Strategy—Continue to invest in the modernization of our facilities and improve productivity and operational efficiency*". We believe that our leading market position and large portfolio of vertically integrated fuel and energy assets enables us to extract significantly higher synergies and maintain lower production costs than our Ukrainian competitors.

Efficient balanced vertically integrated group structure that results in increased profitability

We are the only vertically integrated energy group in Ukraine and one of the largest in Eastern Europe. Our vertically integrated organizational structure enables us to maximize the efficiency of our individual enterprises and helps us to ensure the quality and reliability of our production chain. For example, our coal production and coal enrichment business benefits from sales of steam coal, flexible coal stocks management, optimization of coal enrichment and transportation logistics as a result of stable sales to our power generation segment which, in turn, benefits from stable coal supplies. Vertical integration also enables us to minimize storage and transportation costs, centralize administrative functions, such as accounting, and access and allocate resources efficiently to maximize our production and profitability. We are able to extract synergies across our business units and reduce production costs relative to our smaller and non-integrated Ukrainian competitors. We believe this provides us with a significant advantage when submitting bids to Energorynok for sales of electricity produced by our power generation plants and enables us to increase our sales of electricity. Our portfolio of coal production and enrichment, power generation and electricity distribution and sales assets are carefully balanced, and we intend to ensure that such balance across our operating segments is maintained in the future as we continue to seek to expand our business, including through the acquisition of attractive new assets.

Strong financial performance

We recorded revenue and heat tariff compensation, Adjusted EBITDA and net profit of UAH82,581 million, UAH16,936 million and UAH5,922 million, respectively, for the period ended December 31, 2012, representing an increase of 108.57%, 64.73% and 68.14%, respectively, against the period ended December 31, 2011. Our revenue and Adjusted EBITDA increased by a compound annual growth rate of 84% and 65%, respectively, for the period 2010 to 2012. We believe that this increase is primarily the result of positive price and tariff dynamics and our strategic acquisition of energy assets and our management team's ability to integrate such acquisitions into our Group and extract synergies and improve operational efficiency. Despite this acquisition-driven expansion and the continued implementation of modernization and development programs at our production assets, our key financial leverage ratios have only increased moderately over the same period. In particular, our net debt to Adjusted EBITDA ratio increased from 0.61 in 2010 to 0.92 in 2012, and our gross debt to Adjusted EBITDA ratio increased from 0.89 in 2010 to 1.24 in 2012. We have achieved this strong financial performance despite volatile global and Ukrainian economic conditions and the challenge of integrating our newly acquired assets. We expect that our healthy financial position will enable us to raise additional financing on commercially attractive terms from bank lenders and in the international capital markets to fund our capital expenditure projects and to effect acquisitions, in order to improve our productivity, consolidate our leading market position in Ukraine and expand our business.

Experienced and committed strategic ownership

We are owned and controlled by SCM, a leading financial and industrial group in Ukraine, established and controlled by Mr. Rinat Akhmetov. We believe that our private ownership allows us to pursue innovation and respond to market changes more effectively than our primary competitors, which are state-owned enterprises, affording us a competitive advantage. Further, SCM manages and controls over 90 companies

in the mining and metals, coal mining, power generation, electricity distribution, banking and insurance and telecommunications markets. Although the development of our businesses is entrusted to independent management at Holdings B.V., we still derive substantial benefit from the experience and strategic vision of our ultimate beneficial shareholder, Mr. Akhmetov, and from senior management at SCM, which continues to assist us in an advisory capacity.

Highly qualified management team and strong corporate governance

Our senior management team has a proven track record of identifying and acquiring attractive assets, increasing productivity and reducing costs. Our management team has helped us to successfully expand, restructure and integrate our businesses and operations and, as a result, has positioned us to continue to successfully implement our growth strategy. We believe that our senior management team is highly regarded by other industry participants and by our customers. In each of 2010, 2011 and 2012, our chief executive officer, Maksym Timchenko, was ranked in the top ten in the "Top 100 Best Top Managers of Ukraine" by Ukrainian magazine, Ekonomika, and in May 2009, he was ranked first in the "Top 100 Best Top Managers of Ukraine" by Ukrainian magazine, TOP-100 Rating. Our management has also established a strong corporate governance structure in accordance with international standards and practices, which consists of three branches: our holding company (Holdings B.V.), our corporate center (DTEK LLC) and our production enterprises. In addition, in 2010 and 2011, we implemented a new management model (separating responsibility for the Group's various commercial activities, centralizing procurement, and establishing a new management center with responsibility for discrete large project (such as the Botievo wind farm)) and a new Compliance Office and compliance policy. We believe that the resulting corporate structure and systems of checks and balances help to achieve an efficient and transparent governance system and corporate property ownership structure, create efficient mechanisms for making and transmitting strategic decisions in accordance with best international practice, improve operational efficiency at our production assets, reduce internal control risks and increase competitiveness and shareholder value.

Leader in implementing socially responsible policies that attract and retain high quality employees and improve safety and environmental performance

We maintain a social policy that we believe fosters positive relations with our employees, our trade unions and the communities in which we operate, which we believe has enabled us to attract and maintain high quality managers and staff. We have also implemented a strategic human resources program focused on retaining our employees and ensuring that we have a stable management structure, as well as ensuring efficient succession of management with high qualifications and experience. In recognition of our achievements in this area, we were voted "HR-Brand Ukraine 2011" in 2011. In addition, we believe that our focus on improving safety and environmental performance and achieving international standards has resulted in a lower likelihood of the occurrence of accidents involving our employees and less disruption of production at our mines, which leads to higher productivity and improved financial performance.

Our Strategy

Our strategy focuses on strengthening our position as the market leader in the fuel and energy sectors in Ukraine and expanding our operations into Europe, Turkey, Russia and the CIS. We aim to achieve our strategy by pursuing the following:

Continue to pursue privatization acquisition opportunities in Ukraine

We have significantly increased our fuel resource base and power generation and distribution capacity in recent years by acquiring assets through the Ukrainian government's privatization process. We intend to continue to seek opportunities to acquire additional privatized assets in the Ukrainian energy sector in the future, provided that any such acquired assets must complement our vertically integrated structure and enable us to extract operational synergies and efficiencies. Our management team and employees have considerable expertise and a strong track record of successfully integrating such acquisitions into our Group and implementing appropriate modernization and development programs and best practices in order to reduce production costs. Further, as a result of our large balance sheet and relatively moderate debt profile, we expect to continue to be able to raise more finance than our Ukrainian competitors (and on more attractive terms) to acquire such privatized assets and fund the capital expenditure necessary to modernize and further develop them.

Pursue selective growth in Europe, Turkey and the CIS

In addition to expanding our market presence in Ukraine, which will remain the key market for the Group in the foreseeable future, we intend to continue to seek to expand our business in Europe, Turkey and the CIS, both through organic growth and new acquisitions (to the extent attractive opportunities can be identified). The vast majority of our energy assets are located in Ukraine, which is ideally situated in an important energy corridor between Europe and Russia. We intend to utilize this geographical advantage by, in particular, seeking to continue to expand our distribution and sales of electricity in Europe and increasing our coal reserves through the acquisition of coal mines in Western Russia. Coal mines in Western Russia would be suitable to service our existing thermal power plants in Ukraine and would not create significant logistical transportation problems as they would be located close to the Ukrainian border and near to our existing power plants. In June 2012, we acquired three coal mines in the Rostov region of Russia in order to increase our coal production and our coal reserves. Further, in the past two years we have started to expand our distribution and sales of electricity into European countries close to Ukraine, including Slovakia, Hungary, Romania, Belarus, Moldova and Poland. We generated revenue of UAH7,756 million from export sales in the year ended December 31, 2012, representing 9.9% of our total revenue.

Diversify our energy generation portfolio

We shall seek to further diversify our energy generation portfolio to ensure that we have a robust business model and that we maintain a fully-balanced vertically integrated group structure. As part of our long-term strategy, we intend to develop renewable sources of energy and are currently focused on the wind energy segment. For example, since 2011, we have committed a total of UAH1,826 million to develop renewable energy assets. Upon the completion of the Botievo wind farm, which is anticipated to commence operations in the first quarter of 2013, the project is expected to consist of 65 wind turbines with a total generation capacity of 195MW. By 2030, we intend to compile a renewable energy portfolio with a total capacity of 2000MW. Further, we currently have a 25.5% equity interest in Vanco Ukraine Limited ("**Vanco**"), a company created for the purpose of participating in an offshore oil and gas exploration and production project in the Prykerchenska subsoil block located in the continental shelf of the Black Sea (the "**Prykerchenska Block**"). On November 27, 2012, we entered into a share purchase agreement (the "**Vanco SPA**") under which we agreed to purchase additional shares in Vanco, such purchase being conditional on the satisfaction of certain closing conditions set out therein, and which, if consummated, would result in our total shareholding exceeding 50%. We may also be interested in entering into other joint ventures with oil and gas companies where consistent with our business model and investment strategy.

Continue to invest in the modernization of our facilities and improve productivity and operational efficiency

We intend to continue to implement best practices and invest in the modernization of our facilities (in particular, the facilities of our newly privatized entities which, in general, are older and more inefficient than our other facilities), which we believe will enhance our competitiveness in the fuel and energy markets and help us to comply with international environmental and health and safety standards. In particular, our capital expenditure will be focused on the development and modernization of our coal mines and power generation assets. Although we are already an industry leader in Ukraine in terms of operational efficiency and productivity, we understand that further improvements are required to bring our performance in line with prevailing European levels. This improvement will be vital as we seek to expand our business into European markets. We believe that further investments in advanced production technologies will further improve our facilities and provide long-term operational efficiency. We expect energy consumption to increase in the coming years and we believe that upgraded equipment and advanced technologies at our plants will allow us to satisfy consumer demand and compete with leading European power generation companies. In 2010, 2011 and 2012 we spent UAH2,220 million, UAH4,323 million and UAH10,193 million, respectively, on capital expenditures, and we currently expect to spend approximately UAH12,272 million and UAH10,846 million on capital expenditures in 2013 and 2014, respectively.

Focus on customer service in advance of the liberalization of the Ukrainian electricity market

We are seeking to create and implement a strong customer-centered culture with a focus on high levels of customer satisfaction and related policies and procedures. We believe that this will enhance our competitiveness. Although it is not yet clear exactly when and in what form the Draft WEM Law, the Amendments to the Law on Natural Monopolies and the Law on Connection to Networks will enter into force, we anticipate that the regulatory framework of the Ukrainian electricity and power generation

market will change significantly over the next two to three years. We expect that the Ukrainian electricity market will switch from a single buyer (Energorynok) model to a more competitive model in which power generation companies will be able to sell electricity directly to end users and vertically integrated power generator and electricity distribution companies, such as the Group, will be required to unbundle their transmission and sales business in order to facilitate competition. We believe that by focusing on our customer service, our environmental compliance and our operational efficiency at this early stage, and in contrast to many of our competitors, we will gain valuable experience and knowledge which we expect will benefit us in the anticipated competitive environment if and when it is established.

The Issuer, the Guarantors and the Sureties

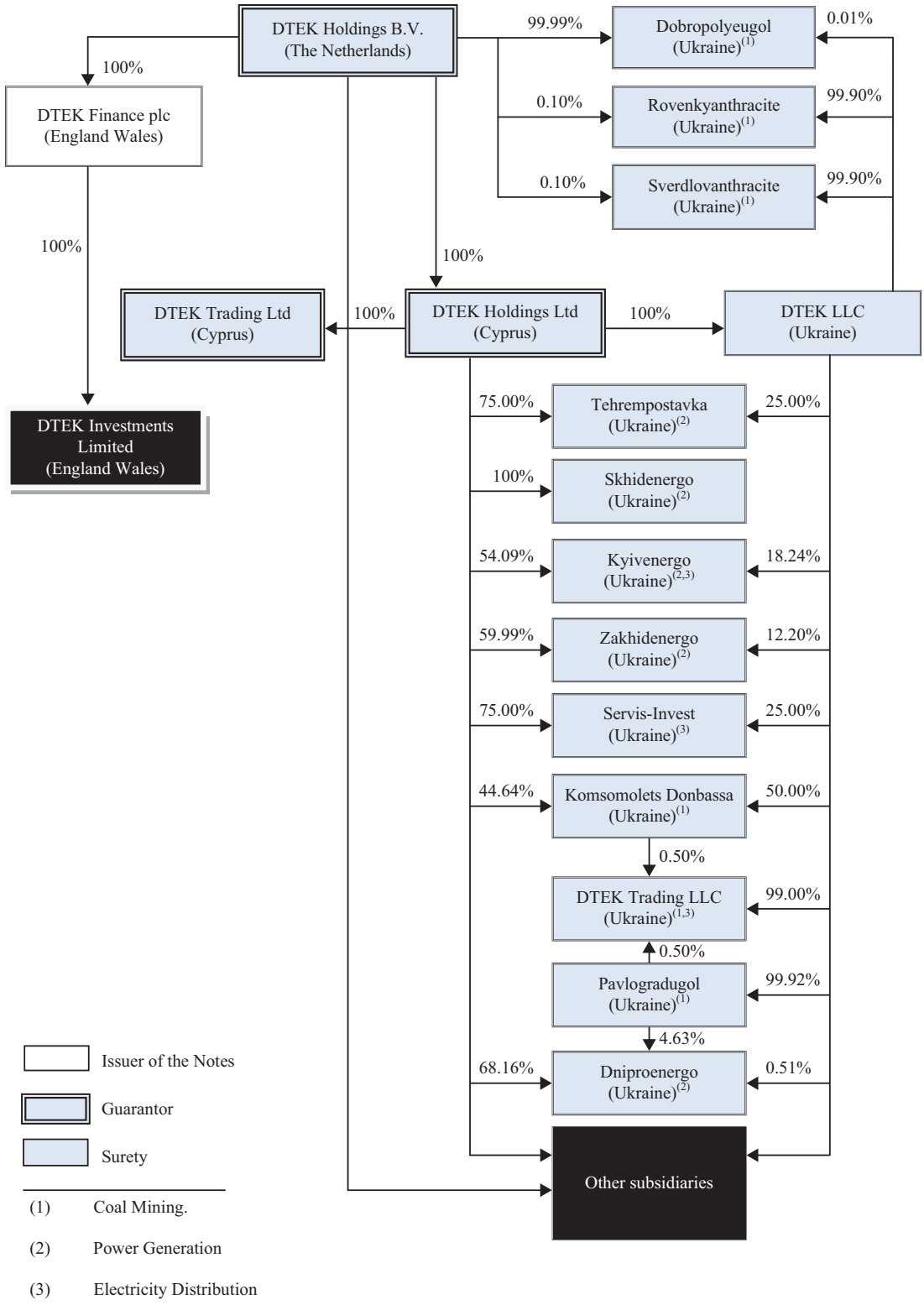
The Issuer was incorporated under the laws of England and Wales on February 27, 2013. The Issuer has conducted no operations or other activities prior to the issue of the Notes. For information on the Issuer, the Guarantors and the Sureties, see *"Listing and General Information"*.

Risk Factors

Investing in the Notes involves substantial risks. In evaluating an investment in the Notes and prior to making an investment in the Notes, you should carefully consider, along with the other information provided to you in this offering memorandum, the specific risk factors set forth under *"Risk Factors"* beginning on page 20.

Summary Corporate Structure

The following diagram summarizes our corporate structure (including the Guarantors and the Sureties). For further information, see *"Principal Shareholders"* and *"Description of the Notes"*.



The Offering

The following summary of the offering contains basic information about the Notes, the Guarantees and the Deeds of Surety. It is not intended to be complete and it is subject to important limitations and exceptions. For a more complete understanding of the Notes, the Guarantees and the Deeds of Surety, including certain definitions of terms used in this summary, please refer to the section of this offering memorandum entitled "Description of the Notes".

Issuer	DTEK Finance plc
Notes offered	US$600 million aggregate principal amount of 7.875% Notes due 2018. The Issuer may issue additional Notes in the future, subject to compliance with the covenants in the indenture.
Issue Price	98.989%, plus accrued and unpaid interest from the issue date, if any.
Maturity Date	April 4, 2018.
Interest Payment Dates	Interest on the Notes will accrue from their date of issuance and will be payable semi-annually in arrears on April 4 and October 4 of each year, commencing on October 4, 2013.
Denomination	The Notes will have minimum denominations of US$200,000 and any integral multiples of US$1,000 in excess thereof.
Ranking of Notes	The Notes will be the senior obligations of the Issuer and will: • rank equally in right of payment with any existing and future indebtedness of the Issuer that is not subordinated to the Notes; • rank senior in right of payment to any existing and future subordinated obligations of the Issuer; • be guaranteed by the Guarantors and the Sureties, as described below under the section entitled *"—Guarantee and Surety Obligations";* and • be effectively subordinated to any existing and future secured indebtedness of the Issuer, to the extent of the value of the property and assets securing such indebtedness.
Guarantee and Surety Obligations	The Notes will be guaranteed, subject to certain limitations, on a senior basis by Holdings B.V., Holdings Ltd and Trading Ltd. In addition, the following operating subsidiaries of the DTEK Group will execute Deeds of Surety, subject to certain limitations, in respect of the Issuer's obligations under the Notes and the Guarantors' obligations under the Guarantees: • DTEK LLC; • Trading LLC; • Skhidenergo; • Pavlogradugol; • Servis-Invest; • Komsomolets Donbassa; • Tehrempostavka; • Dobropolyeugol; • Rovenkyanthracite; • Sverdlovanthracite; • Dniproenergo; • Zakhidenergo; and • Kyivenergo.

	Each Deed of Surety will constitute a suretyship under Ukrainian law. Payment of amounts due under the Deeds of Surety will require compliance with certain Ukrainian currency control regulations. In certain circumstances, the Guarantors and the Sureties may be released from their respective obligations as Guarantors and Sureties in accordance with the provisions of the Indenture and the applicable Deed of Surety, respectively (see *"Description of the Notes—Guarantees—Guarantee Release"*), and certain operating subsidiaries may be required to become Guarantors or Sureties, as the case may be (see *"Description of the Notes—Certain Covenants—Additional Guarantees"*).
Ranking of the Guarantees and Sureties	The Guarantees in respect of the Notes by the Guarantors and the Deeds of Surety provided by the Sureties will be general obligations of the Guarantors or Sureties, as the case may be, and will: • rank equally in right of payment with all existing and future indebtedness of each Guarantor and each Surety that is not subordinated to the such Guarantor's Guarantee or such Surety's obligations under its Deed of Surety; • rank senior in right of payment to any existing and future subordinated obligations of each Guarantor and each Surety; and • be effectively subordinated to any existing and future secured indebtedness of each Guarantor and each Surety that is secured with property or assets that do not secure such Guarantor's Guarantee or the obligations of the Sureties under the Deed of Surety, to the extent of the value of the property and assets securing such indebtedness and effectively subordinated to all indebtedness and other liabilities (including trade payables) of our subsidiaries that are not Guarantors or Sureties. The Guarantees and the Deeds of Surety will be subject to release under certain circumstances. As of December 31, 2012, the Issuer, Guarantors and Sureties had a total of UAH265 million of secured indebtedness outstanding.
Use of Proceeds	We intend to use the net proceeds from the offering to finance the Tender Offer and Consent Solicitation. The remaining net proceeds will be used for general corporate purposes, including but not limited to financing ongoing capital expenditure programs and working capital and repaying certain indebtedness, and, to a lesser extent, to pursuing attractive growth opportunities through investments and acquisitions, as set out in "*Use of Proceeds*".
Tax Redemption	If certain changes in the law of any relevant taxing jurisdiction become effective that would impose or increase withholding taxes or other deductions on the payment on the Notes, the Guarantees or the Sureties, the Issuer may redeem the Notes in whole, but not in part, at any time, at a redemption price equal to their principal amount, plus accrued and unpaid interest, if any, and additional amounts, if any, to the date of redemption.
Original Issue Discount	The Notes may be treated as issued with original issue discount. If so, U.S. holders will be required to include the original issue discount in gross income for U.S. federal income tax purposes on a constant yield to maturity basis. For more information, see "*Taxation—Certain United States Tax Considerations for U.S. Holders*."
Change of Control	If we experience a change of control, you will have the right to require us to purchase the Notes at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any.

Certain Covenants	We will issue the Notes under an indenture among the Issuer, the Guarantors, the Sureties and BNY Mellon Corporate Trustee Services Limited, as trustee. The Indenture will contain certain covenants that, among other things will limit our ability to: • incur or guarantee additional indebtedness; • pay dividends or make other distributions or repurchase or redeem our stock; • transfer or sell assets; • make investments; • create liens; • enter into certain transactions with affiliates; • enter into agreements that restrict our restricted subsidiaries' from paying dividends or making loans to the Issuer, the Guarantors or other restricted subsidiaries; and • consolidate, merge or sell all or substantially all of our assets. All of these limitations will be subject to important exceptions and qualifications.
Form of Notes	The Notes will initially be issued in the form of global Notes. Global Notes, whether sold in reliance on Rule 144A or on Regulation S, will be deposited with a custodian for, and registered in the name of, a nominee of the Depositary Trust Company ("**DTC**").
Notice to Investors	The Notes have not been registered under the U.S. Securities Act or any other applicable securities laws and are subject to restrictions on transferability and resale.
Absence of a public market for the Notes	The Notes are new securities and there is currently no established trading market for the Notes. Accordingly, there can be no assurances as to the development or liquidity of any market for the Notes. The Initial Purchasers have advised us that they intend to make a market in the Notes. However, they are not obligated to do so, and may discontinue any market making at any time at their sole discretion and without notice.
Ratings	It is expected that the Notes will be rated B3 by Moody's Investors Service Ltd ("**Moody's**") and B by Fitch Ratings Limited ("**Fitch**"). Holdings B.V. has been given a long-term (foreign currency) corporate credit rating of "B" with outlook "Stable" and a long-term (local currency) corporate credit rating of "B+" with outlook "Stable" by Fitch. Holdings Ltd has been given a corporate family rating of "B3" with outlook "Negative" by Moody's Investors Service. Credit ratings included or referred to in this offering memorandum have been issued by Fitch and Moody's, each of which is established in the EU and registered under Regulation (EC) No 1060/2009, as amended (the "**CRA Regulation**"). As such, each of Fitch and Moody's are included in the list of credit rating agencies published by the European Securities and Markets Authority (the "**ESMA**") on its website in accordance with the CRA Regulation. Credit ratings assigned to the Notes do not necessarily mean they are a suitable investment for you. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any

	market price. Any change in the credit ratings of the Notes or Holdings B.V. could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. We recommend that you analyze the significance of each rating independently from any other rating.
Listing	Application has been made to the Irish Stock Exchange for the approval of this document as Listing Particulars. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List of the Irish Stock Exchange and for trading on the Global Exchange Market, which is the exchange-regulated market of the Irish Stock Exchange.
Governing Law and Jurisdiction	The Notes, the Guarantees and the Indenture will be governed by, and shall be construed in accordance with New York law. The Deeds of Surety will be governed by and construed in accordance with English law. The Indenture, Guarantees, Notes and Deeds of Surety contain provisions allowing for arbitration of disputes under the Arbitration Rules of the International Chamber of Commerce, with the Borough of Manhattan, City of New York designated as the seat of arbitration.
Trustee	BNY Mellon Corporate Trustee Services Limited
Principal Paying Agent and Transfer Agent	The Bank of New York Mellon, London Branch
Registrar	The Bank of New York Mellon (Luxembourg) S.A.

SUMMARY HISTORICAL FINANCIAL INFORMATION AND OTHER DATA

The summary consolidated historical income statement information and the summary consolidated historical financial position information presented below as of and for each of the financial years ended December 31, 2010, 2011 and 2012 have been derived from our Consolidated Financial Statements as of and for the financial years ended December 31, 2010, 2011 and 2012, which were prepared in accordance with IFRS and are included elsewhere in this offering memorandum. You should read this section in conjunction with the information contained in *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* and the financial statements and the related Notes thereto, also included elsewhere in this offering memorandum.

	Year ended December 31,			Year ended December 31,
	2010	2011	2012	2012
	UAH millions, except other operating data and ratios			US$ millions[1] (unaudited)
Income Statement Data:				
Revenue	24,294	39,594	78,340	9,801
Heat tariff compensation	—	—	4,241	531
Cost of sales	(18,936)	(29,976)	(70,816)	(8,860)
Gross Profit	**5,358**	**9,618**	**11,765**	**1,472**
Other operating income	298	515	3,265	408
Distribution costs	(196)	(203)	(594)	(74)
General and administrative expenses	(851)	(1,184)	(2,233)	(279)
Other operating expenses	(262)	(682)	(1,408)	(176)
Net foreign exchange (loss)/gain (other than on borrowings)	(21)	124	705	88
Impairment of property, plant and equipment	—	(198)	—	—
Operating profit	**4,326**	**7,990**	**11,500**	**1,439**
Foreign exchange gains less losses from borrowings	119	(84)	(448)	(56)
Finance income	113	222	602	75
Finance costs	(920)	(1,283)	(4,183)	(523)
Gain on a bargain purchase	—	—	604	76
Recognition of loss from fair valuation of associate on transfer to subsidiary	—	(334)	(385)	(48)
Recognition of AFS reserve on transfer to associate	(72)	(349)	(63)	(8)
Share of after tax results of associates	406	(48)	(205)	(26)
Impairment of investments in associates	—	(446)	—	—
Profit before income tax	**3,972**	**5,668**	**7,422**	**929**
Income tax expense	(1,115)	(2,146)	(1,500)	(188)
Profit for the year	**2,857**	**3,522**	**5,922**	**741**
Other Financial and Operating Data (unaudited):				
Adjusted EBITDA[2]	6,210	10,281	16,936	2,119
Additions to property, plant and equipment	2,179	4,323	10,193	1,275
Interest expense[3]	548	654	1,548	194
Gross debt[4]	5,502	15,082	20,946	2,621
Net debt[5]	3,809	4,656	15,586	1,950
Ratio of net debt to Adjusted EBITDA	0.61	0.45	0.92	—
Ratio of Adjusted EBITDA to interest expense	11.33	15.72	10.94	—
Ratio of net debt to equity[6]	0.29	0.19	0.48	—

(1) For the purpose of translation of the relevant hryvnia amounts into U.S. dollars, an exchange rate of 7.993 to one U.S. dollar (representing the official exchange rate quoted by the NBU on December 31, 2012) was used.

(2) Adjusted EBITDA represents our profit for the year after excluding the following income statement items: foreign exchange losses less gains from borrowings, certain finance costs, income tax expense, depreciation and amortization, recognition of loss from fair valuation of associate on transfer to subsidiary, recognition of AFS reserve on transfer to associate, impairment of investment in associates, gain on a bargain purchase, impairment of property, plant and equipment and certain foreign exchange differences. Adjusted EBITDA is included because it is frequently used by certain investors, securities analysts and other interested parties in evaluating similar companies. However, because all companies do not calculate Adjusted EBITDA identically, our presentation of Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Adjusted EBITDA is not an item recognized under IFRS and should not be considered as an alternative to profit from operations, operating income or any other indicator of a company's operating performance required by IFRS. Adjusted EBITDA should not in any way be compared to the operating income, net income or cash flow resulting from our activities nor should it be used as an indicator of our past or future profitability or liquidity. Adjusted EBITDA has limitations as an

analytical tool, and potential investors should not consider it in isolation, or as a substitute for analysis of our operating results as reported under IFRS. Some of these limitations include:

- Adjusted EBITDA does not reflect the impact of financing or financing costs on our operating performance, which can be significant and could further increase if we were to incur more debt;
- Adjusted EBITDA does not reflect the impact of income taxes on our operating performance; and
- Adjusted EBITDA does not reflect the impact of depreciation and amortization on our operating performance.

The assets of our businesses which are being depreciated and/or amortized will have to be replaced in the future. By excluding this expense from Adjusted EBITDA, it does not reflect our future cash requirements for these replacements. Adjusted EBITDA also does not reflect the impact of a loss on disposal of property, plant and equipment. Adjusted EBITDA is a non-IFRS measure.

Adjusted EBITDA is reconciled to profit for the year as follows:

	Year ended December 31,		
	2010	2011	2012
	UAH millions		
Profit for the year	**2,857**	**3,522**	**5,922**
Foreign exchange losses less gains from borrowings	(119)	84	448
Certain finance costs*	827	1,240	3,204
Income tax expense	1,115	2,146	1,500
Depreciation and amortization	1,479	2,136	6,024
Recognition of loss from fair valuation of associate on transfer to subsidiary	—	334	385
Recognition of AFS reserve on transfer to associate	72	349	63
Impairment of investment in associates	—	446	—
Gain on a bargain purchase	—	—	(604)
Impairment of property, plant and equipment	—	198	—
Other costs, not included in Adjusted EBITDA**	(21)	(174)	(6)
Adjusted EBITDA	**6,210**	**10,281**	**16,936**

* We do not include all of our finance costs as presented in our income statement in our Adjusted EBITDA calculation. For a reconciliation of our total finance costs to our finance costs excluded from Adjusted EBITDA, please see the following table.

** We exclude a certain portion of foreign exchange gains related to cash and cash equivalents and finance income/costs on minority stakes in limited liability companies from our calculation of Adjusted EBITDA.

Finance costs reconciliation:

	Year ended December 31,		
	2010	2011	2012
	UAH millions		
Finance cost	**920**	**1,283**	**4,183**
Loss on initial recognition of long-term receivables	(86)	(43)	(2)
Loss on early repayment of long-term payables	(7)	—	(977)
Finance costs excluded from Adjusted EBITDA	**827**	**1,240**	**3,204**

(3) Interest expense represents interest expense on borrowings (both current and non-current) and bonds issued.

(4) Gross debt represents borrowings both current and non-current and gross-settled derivative financial instruments.

(5) Net debt represents gross debt less cash and cash equivalents.

(6) Net debt to equity equals net debt divided by total equity.

The following table sets forth the Group's summary statement of financial position data as of December 31, 2010, 2011 and 2012.

	Year ended December 31,			Year ended December 31,
	2010	2011	2012	2012
	UAH millions			US$ millions[1] (unaudited)
Total non-current assets	18,763	38,749	58,550	7,325
Total current assets	6,874	17,599	17,854	2,234
Total assets	**25,637**	**56,348**	**76,404**	**9,559**
Equity attributable to owners of the parent	13,210	24,425	27,670	3,462
Non-controlling interest in equity	70	401	5,017	628
Total equity	**13,280**	**24,826**	**32,687**	**4,089**
Liabilities				
Total non-current liabilities	8,165	20,080	27,439	3,433
Total current liabilities	4,192	11,442	16,278	2,037
Total liabilities	**12,357**	**31,522**	**43,717**	**5,469**
Total liabilities and equity	**25,637**	**56,348**	**76,404**	**9,559**

(1) For the purpose of translation of the relevant hryvnia amounts into U.S. dollars, an exchange rate of 7.993 to one U.S. dollar (representing the official exchange rate quoted by the NBU on December 31, 2012) was used.

Summary Reserves, Production and Distribution Information

Coal Reserve Estimates

The table below summarizes each of our coal mines' industrial reserves for 2010, 2011 and 2012 which are reflected in our annual standard form reports submitted to the relevant state authorities as required pursuant to our coal mining licenses issued by the Ukrainian government as of the date of such licenses. Such reports are based on the balance reserve amounts set forth in our coal mining licenses issued by the Ukrainian government, as subsequently adjusted by us by deducting (i) the amount of balance reserves that we consider should not be classified as industrial reserves, (ii) the amount of industrial reserves extracted from the mine in each subsequent year and (iii) any industrial reserves that we subsequently determine to have been improperly classified as industrial reserves and by adding (i) any additional industrial reserves that we have discovered during the course of mining or (ii) any additional industrial reserves that we have acquired from third parties or from the state. See "*Coal Reserves Reporting*", "*Cautionary Note to United States Investors Concerning Coal Reserve Data*" and "*Risk Factors—Risks Relating to our Operations and Business—We face numerous uncertainties in estimating our industrial coal reserves and, as a result, such estimates may not be accurate".*

	Year ended December 31,					
	2010		2011		2012	
	Reserves	Percentage	Reserves	Percentage	Reserves	Percentage
	Million metric tons, except percentages					
Pavlogradugol	671.1	85.4%	649.7	43.0%	652.9	38.5%
Komsomolets Donbassa	114.8	14.6%	114.7	7.6%	110.9	6.5%
Dobropolyeugol[1]	—	—	369.5	24.5%	367.8	21.6%
Rovenkyanthracite[2]	—	—	165.3	10.9%	162.9	9.6%
Sverdlovanthracite[3]	—	—	211.9	14.0%	208.0	12.2%
Bilozerska[4]	—	—	—	—	71.6	4.2%
Obukhovskaya, Don-Anthracite and Sulinanthracite[5]	—	—	—	—	125.6	7.4%
Total	**785.9**	**100.0%**	**1,511.1**	**100.0%**	**1,699.7**	**100.0%**

(1) On January 4, 2011 we entered into a 49-year lease agreement with the State Property Fund in respect of the mining assets operated by Dobropolyeugol. Dobropolyeugol's reserves data and production and sales volumes have been fully consolidated in our reserves data and production and sales volumes since January 1, 2011.

(2) On December 1, 2011, we entered into a 49-year concession agreement with the Ministry of Energy in respect of the mining assets operated by Rovenkyanthracite. Rovenkyanthracite's reserves data and production and sales volumes have been fully consolidated in our reserves data and production and sales volumes since December 1, 2011.

(3) On December 1, 2011, we entered into a 49-year concession agreement with the Ministry of Energy in respect of the mining assets operated by Sverdlovanthracite. Sverdlovanthracite's reserves data and production and sales volumes have been fully consolidated in our reserves data and production and sales volumes since December 1, 2011.

(4) On February 17 and 24, 2012 we completed transactions resulting in the acquisition of 95.4% of the share capital of Bilozerska. Bilozerska's reserves data and production and sales volumes have been fully consolidated in our reserves data and production and sales volumes since March 1, 2012.

(5) On June 30, 2012, we acquired the entire share capital of Obukhovskaya, Don-Anthracite and Sulinanthracite. Obukhovskaya's, Don-Anthracite's and Sulinanthracite's reserves data and production and sales volumes have been fully consolidated in our reserves data and production and sales volumes since July 1, 2012.

Coal Production

The table below summarizes the amount of coal produced by our coal mining subsidiaries (and as a percentage of the total produced) for the periods listed below:

	Year ended December 31,					
	2010		2011		2012	
	Metric tons	Percentage	Metric tons	Percentage	Metric tons	Percentage
	Million metric tons, except percentages					
Pavlogradugol	15.0	78.5%	15.4	64.2%	17.0	42.8%
Komsomolets Donbassa	4.1	21.5%	4.3	17.5%	4.5	11.3%
Dobropolyeugol	—	—	3.3	13.7%	3.3	8.3%
Rovenkyanthracite	—	—	0.5	2.1%	7.3	18.4%
Sverdlovanthracite	—	—	0.6	2.5%	6.9	17.4%
Bilozerska	—	—	—	—	0.5	1.3%
Obukhovskaya, Don-Anthracite and Sulinanthracite	—	—	—	—	0.2	0.5%
Total	**19.1**	**100.0%**	**24.1**	**100.0%**	**39.7**	**100.0%**

In 2010, 2011 and 2012, our coal mines produced approximately 25.5%, 28.0% and 46.1% of Ukraine's total coal production (measured by metric tons of coal produced), respectively, according to Energobiznes.

The following table sets out the average prices of coal produced by certain of our coal mining subsidiaries for the years ended December 31, 2010, 2011 and 2012:

	Year ended December 31,					
	2010		2011		2012	
	Coking coal	Steam Coal	Coking coal	Steam Coal	Coking coal	Steam coal
	UAH / metric ton					
Pavlogradugol (G grade coal)	912.0	602.1	1051.0	798.5	870.7	856.1
Komsomolets Donbassa (A grade coal)	—	593.0	—	752.7	—	845.8
Komsomolets Donbassa (T grade coal)	—	606.8	—	773.1	—	868.9
Dobropolyeugol, including Bilozerska (G grade coal)	—	—	1051.0	798.5	870.7	856.1
Rovenkyanthracite (A grade coal)	—	—	—	752.7	—	845.8
Rovenkyanthracite (T grade coal)	—	—	—	773.1	—	868.9
Sverdlovanthracite (A grade coal)	—	—	—	752.7	—	845.8
Sverdlovanthracite (T grade coal)	—	—	—	773.1	—	868.9
Obukhovskaya (A grade calorie coal)	—	—	—	—	—	492.7
Obukhovskaya (A grade carbon coal)	—	—	—	—	—	1131.4
Don-Anthracite and Sulinanthracite	—	—	—	—	n/a	n/a

Power generation

The volume of electricity our power generation business segment produces is determined by the competitive bidding process through which we sell electricity to Energorynok, as we currently have significantly more generation capacity than is required to meet market demands. We produce electricity

only to the extent our bids are accepted by Energorynok, and our ability to submit competitive bids is, to a large extent, dependent upon our production costs. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations Key Factors Affecting Our Results of Operations—Prices for our products in each of our business segments—Power generation"*. In 2010, 2011 and 2012 our power plants collectively generated net output (calculated as the total gross volume of electricity produced less the volume of electricity used by our power plants) of 16.3TWh, 17.1TWh and 51.4TWh, respectively, which accounted for approximately 9.5%, 9.7% and 28.5% of total Ukrainian power generation (measured by net output of electricity), respectively, according to Ukrenergo. Our largest power generation subsidiaries, Dniproenergo, Skhidenergo and Zakhidenergo, taken together had an average capacity utilization rate of 34.7% in 2012.

The following table summarizes the net output of electrical power generated by our main power generation subsidiaries for the years ended December 31, 2010, 2011 and 2012:

	Year ended December 31,		
	2010	2011	2012
	Power generated / TWh		
Skhidenergo	16.3	17.1	15.7
Dniproenergo[1]	—	—	16.2
Zakhidenergo[2]	—	—	15.0
Kyivenergo[3]	—	—	4.5
Total	**16.3**	**17.1**	**51.4**[4]

(1) Dniproenergo's production volumes have been fully consolidated in our production volumes since March 1, 2012 as we acquired a controlling interest in Dniproenergo in March 2012. We currently own 73.30% of the share capital of Dniproenergo.

(2) Zakhidenergo's production volumes have been fully consolidated in our production volumes since January 1, 2012 as we acquired a controlling interest in Zakhidenergo in January 2012. We currently own 72.19% of the share capital of Zakhidenergo.

(3) Kyivenergo's production volumes were fully consolidated in our production volumes in January 1, 2012 as we acquired a controlling interest in Kyivenergo in December 2011. We currently own 72.33% of the share capital of Kyivenergo.

(4) Donetskoblenergo's (Myronovskaya TPP's) production volumes have been fully consolidated in our production volumes since January 2012, as we acquired an additional 40.061% interest in Donetskoblenergo in January 2012. We currently own 71.35% of the share capital of Donetskoblenergo. Donetskoblenergo's (Myronovskaya TPP's) production volume of 494kWh for 2012 is included in the calculation of our total production volume of TWh 51.4 for 2012, but it is not shown separately in the above table as it represents a *de minimis* amount in comparison to our total production volume for 2012 and is effectively eliminated when presented in TWh and rounded to one decimal place.

Power Generation Sales Tariffs

The following table sets out the average electricity tariffs applied to the electricity generated by our thermal power stations and sold to Energorynok for the years ended December 31, 2010, 2011 and 2012:

	Year ended December 31,		
	2010	2011	2012
	UAH / MWh		
Skhidenergo	456.6	547.2	572.2
Dniproenergo	—	—	532.0
Zakhidenergo	—	—	635.6

Electricity Distribution

The following table sets out the volumes of electricity purchased from Energorynok by our electricity distribution subsidiaries and distributed to end customers (and as a percentage of the total purchased and distributed by the Group) for the periods listed below:

	Year ended December 31,					
	2010		2011		2012	
	TWh	Percentage	TWh	Percentage	TWh	Percentage
	Millions, except percentages					
Servis-Invest	12.2	91.7	13.0	92.2	11.5	21.3
Energougol[1]	1.1	8.3	1.1	7.8	1.1	2.0
Dniprooblenergo[2]	—	—	—	—	18.2	33.8
Donetskoblenergo[3]	—	—	—	—	10.3	19.2
Krymenergo[4]	—	—	—	—	3.2	5.9
Kyivenergo[5]	—	—	—	—	9.6	17.8
Total	**13.3**	**100%**	**14.1**	**100%**	**53.9**	**100%**

(1) We currently own 94.24% of the share capital of Energougol.

(2) Dniprooblenergo's distribution volumes have been fully consolidated in our distribution volumes since April 2012, as we acquired a 50% interest in Dniprooblenergo pursuant to a privatization tender on April 17, 2012. We currently own 51.51% of the share capital of Dniprooblenergo.

(3) Donetskoblenergo's distribution volumes have been fully consolidated in our distribution volumes since January 2012, as we acquired an additional 40.061% interest in Donetskoblenergo in January 2012. We currently own 71.35% of the share capital of Donetskoblenergo.

(4) Krymenergo's distribution volumes have been fully consolidated in our distribution volumes since May 2012, as we acquired a 45.0% interest in Krymenergo pursuant to a privatization tender on May 4, 2012. We currently own 57.60% of the share capital of Krymenergo.

(5) Kyivenergo's distribution volumes have been fully consolidated in our distribution volumes since January 1, 2012, as we acquired an additional 25.5% interest in Kyivenergo on December 13, 2011. We currently own 72.33% of the share capital of Kyivenergo.

Servis-Invest, Energougol, Donetskoblenergo, Dniprooblenergo, Krymenergo, Kyivenergo accounted for approximately 37.8% of total Ukrainian electricity distribution of 142.6TWh in 2012, based on TWh of electricity purchased from Energorynok and distributed to customers.

Electricity Distribution Purchase Tariffs

The following table sets out the average purchase price of electricity purchased from Energorynok by our electricity distribution subsidiaries in the years ended December 31, 2010, 2011 and 2012:

	Year ended December 31,		
	2010	2011	2012
	UAH / MWh		
Servis-Invest	477.0	593.6	701.7
Energougol	427.5	520.6	594.3
Dniprooblenergo	396.8	511.0	586.3
Donetskoblenergo	266.0	326.3	377.7
Krymenergo	246.7	287.3	322.2
Kyivenergo	391.4	453.1	542.6

Electricity Distribution Sales Tariffs

The following table sets out the average electricity tariffs for electricity sold to end customers by our electricity distribution subsidiaries for the years ended December 31, 2010, 2011 and 2012:

	Year ended December 31,		
	2010	**2011**	**2012**
	UAH / MWh		
Servis-Invest	497.1	626.9	728.0
Energougol	570.8	694.9	819.7
Dniprooblenergo	460.8	581.6	670.0
Donetskoblenergo	412.1	505.4	575.8
Krymenergo	412.4	495.4	567.8
Kyivenergo	475.2	586.3	664.9

RISK FACTORS

An investment in the Notes involves certain risks. Prior to making an investment decision, prospective purchasers of the Notes should carefully read the entire offering memorandum. In addition to the other information in this offering memorandum, prospective investors should carefully consider, in light of their own financial circumstances and investment objectives, the following risks before making an investment in the Notes. If any of the following risks actually occur, our business, results of operations and financial condition could be materially adversely affected, the market value of the Notes may be adversely affected and we may not be able to meet our financial obligations to the noteholders or to otherwise fully perform our obligations under the Notes, the Guarantees and the Deeds of Surety. In addition, factors that are material for the purpose of assessing the market risks associated with the Notes are also described below.

Prospective investors should note that the risks described below are the principal risks that we face. These are not the only risks we face but are the risks that we currently consider to be material. There may be additional risks that we currently consider to be immaterial or of which we are currently unaware, and any of these risks could have similar effects to those set forth below.

Risks Relating to our Operations and Business

In the event that the title to any company or assets that we acquire through privatization is successfully challenged, we may lose our ownership interest in that company or its assets

Almost all of our production assets consist of companies that have been acquired through privatization. Privatization legislation in Ukraine is vague, often internally inconsistent and in conflict with other elements of legislation. As a result, most, if not all, privatizations are arguably deficient and vulnerable to challenge. For example, in 2005, the results of the privatization of Kryvorizhstal OJSC ("**Kryvorizhstal**"), an entity acquired jointly by SCM and a joint venture partner in a privatization tender, were cancelled, a new tender was announced and Kryvorizhstal was re-sold to another private investor. However, no privatization tenders in Ukraine have been cancelled since this occurrence in 2005.

Prior to June 2007, Dniproenergo, the largest power generation company in Ukraine, in which we then owned an 18.19% interest, (with the Ukrainian government owning 76.04% and the remaining 5.77% being held by other minorities), entered into bankruptcy. As a result, in June 2007, we agreed to contribute UAH1,052 million to Dniproenergo to repay its creditors and undertook to contribute an additional UAH1,010 million to Dniproenergo by 2012 in exchange for an additional 34.24% stake in the company in the form of new share issuances. Our investment in Dniproenergo received significant publicity, and was criticized by certain members of the Ukrainian government as an illegal privatization at a below market price, and as a result, significant minority shareholder litigation commenced. After numerous court rulings both for and against our position in 2008, at least one minority shareholder continued to challenge the validity of the issuance of the new shares to us, and on June 23, 2009, the Supreme Court of Ukraine declared the issuance of those shares to be void. However, on August 7, 2009, the Zaporizhia Economic Court of Appeal, and on November 24, 2009, the Supreme Economic Court of Ukraine each validated the plan of financial rehabilitation contemplating the new share issuance. In addition, on March 5, 2010, the Zaporizhia Economic Court of Appeal, upon the retrial of the case on the basis of newly discovered circumstances, reversed its own judgment which had been previously upheld by the Supreme Court of Ukraine on June 23, 2009, and made a new judgment confirming the validity of the new share issuance, which judgment was subsequently upheld by a ruling of the Zaporizhia Economic Court of Appeal on May 26, 2010. This ruling has not been challenged and we are not currently subject to further litigation in connection with our ownership interest in Dniproenergo. Following the acquisition of a further 25% interest in Dniproenergo in March 2012, through our participation in a privatization tender, we now hold a 73.30% interest in Dniproenergo.

The Ukrainian government has pursued an aggressive policy of privatization in the Ukrainian energy sector since 2011. We have taken advantage of this opportunity and, since December 2011, we have acquired interests in a number of power generation and distribution companies through participation in privatization tenders, including the acquisition of a 25% interest in Kyivenergo, a 45.10% interest in Zakhidenergo, a 25% interest in Dniproenergo, a 40.06% interest in Donetskoblenergo, a 50% interest in Dniprooblenergo and a 45% interest in Krymenergo. The Ukrainian government's decision to proceed with these privatizations at a time when the Ukrainian stock exchange, international markets and general investor sentiment have been relatively depressed, which in turn adversely impacted energy asset valuations, has attracted criticism from some Ukrainian business and political figures. More specifically, it has been alleged that certain of the privatization tenders in which we have participated have been

deliberately designed to favor us. For example, we were the sole permitted participant in the privatization tender in respect of stakes in Dniproenergo and Zakhidenergo, Ukraine's largest and third largest power generation companies, respectively. However, while we believe that we have complied with applicable legislation, regulations and our contractual obligations with respect to share purchases and the acquisitions of our assets through privatization and we are not aware of any legal challenges to our shareholdings in any of our newly privatized subsidiaries, it is not uncommon for privatization acquisitions to be challenged in court, including by minority shareholders of the privatized company and/or other potential investors or participants in the privatization tender, and the outcome of such litigation is impossible to predict. Litigation can be costly, protracted and could potentially divert the attention of management from our core business. Further, it is possible that any subsequent Ukrainian government may seek to challenge or annul the results of the privatizations effected under the current administration, including by reversing the decisions and actions of the previous administration with respect to the privatization process. If any of our existing or future acquisitions are challenged on the basis that they have been improperly conducted and we are unable to defend successfully against such claims, we may lose our ownership interests, which could materially adversely affect our business, financial condition, results of operations and prospects.

Our business may be adversely affected by the introduction of more stringent environmental laws, standards and regulations

Our coal mining and power generation operations could adversely affect the environment, resulting from, among other factors, our water use, disposal of overburden, water runoff from our mining pits and production of emissions. In particular, coal contains impurities, including sulphur, mercury, chlorine and other elements and compounds, many of which are released into the air when coal is burned or require expensive scrubbing technology to remove. We are subject to strict Ukrainian environmental and health and safety laws, regulations and other legal requirements enacted or adopted by the Ukrainian government and regional governments that not only govern our current operations and products, but may also impose potential liability on us for our past operations. These laws govern discharge of substances into the air and water, the management and disposal of hazardous substances and wastes, site cleanup, groundwater quality and availability, plant and wildlife protection, and reclamation and restoration of mining properties after mining is completed. The costs associated with complying with these laws have had, and will continue to have, a significant impact on our operating costs and competitive position. In addition, we may be required to incur substantial costs or penalties as a result of violations of, or liabilities under, environmental and health and safety laws. In the past, we have been fined for certain violations of environmental legislation in respect of our operations at Pavlogradugol, Rovenkyanthracite and Komsomolets Donbassa and certain other of our operating subsidiaries, although our licenses were not suspended as a result of any such violations. These violations have included over-standard emissions and excessive discharge of mine water. Furthermore, according to the Resolution of the Cabinet of Ministers No. 615 dated May 30, 2011, permission to carry on mining operations may be suspended or revoked if there is evidence of a failure to comply with current legal norms on the development of mineral resources or a breach of environmental safety rules. See *"Regulation—Coal mining regulations in Ukraine".*

Further, Ukraine and more than 190 other nations are signatories to the 1992 United Nations Framework Convention on Global Climate Change (the "**UN Framework Convention**"), the key objective of which is to stabilize greenhouse gas ("**GHG**") concentrations in the atmosphere in order to limit anthropogenic interference with the climate system. In 1997, in Kyoto, Japan, the signatories to the UN Framework Convention established specific targets for cutting greenhouse gas emissions for developed nations for the period from 2008 to 2012 (the "**Kyoto Protocol**"). In 2012, in Doha, Qatar, the parties adjusted and reconfirmed their willingness to decrease GHG emissions during the period from 2013 to 2020. In order to ensure compliance with such revised emission targets, the Ukraine government may consider it necessary to enact and implement additional legislation and regulatory measures designed to control GHG emissions. Such measures could restrict the use or production of coal in Ukraine, our primary market. In addition, new EU legislation on environmental protection, the Directive 2010/75/EU on industrial emissions (the "**IED Directive**"), came into force in January 6, 2011 and contains emission limits for certain types of industrial activities, including combustion plants used in power stations. As a result, the existing Directive 2001/80/EC of the European Union Parliament on limitation of emissions of certain pollutants from large combustion plants (the "**LCP Directive**") will be repealed on January 1, 2016. We are currently implementing an environmental safety strategy introduced in 2012 that is scheduled for completion in 2030 to ensure that our power generation operations are in line with the LCP Directive. As part of this strategy, we are currently taking measures to reduce dust emissions from our power generation activities to levels acceptable under the LCP Directive by 2020 and to be fully compliant with the LCP

Directive by 2030. Although we are currently not obliged to comply with the IED Directive, which contains stricter emission limits as compared to the LCP Directive, the Ukrainian government may enact and implement additional legislation aimed at bringing local emission requirements in line with the new EU regulations. Compliance with stricter environmental laws and regulations introduced by the Ukrainian government may require additional significant capital expenditures and increase operating costs at our production facilities, whilst non-compliance with the IED Directive in the future may potentially subject us to penalties and restrictions on production and/or exporting our coal and electricity into EU markets. Stricter environmental regulations of emissions from power generation plants and other industrial plants could increase the costs of using coal, thereby reducing demand for coal as a fuel source, the volume of our coal sales and our coal sales prices. Stricter regulations and evolving political and public preferences could make coal a less attractive fuel alternative in the planning and building of power generation plants in the future, thereby reducing demand for coal, which could have a material adverse effect on our business, financial condition, and results of operations.

The requirements for compliance and remediation under existing environmental laws and regulations may be materially increased by new laws or regulations or changes in the interpretation or implementation of existing laws and regulations. Any material increase in the cost of environmental compliance and remediation could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our licenses and lease agreements for the exploration, development and production of mineral resources may be suspended, amended or terminated prior to the end of their terms or may not be renewed and may not be transferable to third parties

The licensing regime in Ukraine for the exploration, development and production of mineral resources is governed primarily by the Subsoil Code of Ukraine dated July 27, 1994 (the "**Subsoil Law**"), and regulations issued under the Subsoil Law. We currently conduct our operations under numerous production licenses, licenses for subsoil use and pilot development and lease agreements. Generally, our licenses provide that they may be terminated prior to the expiry of their stated term if the license holder fails to comply with license terms, does not make timely payments of levies and taxes for the use of the subsoil, systematically fails to provide information, files for bankruptcy or fails to fulfill any capital expenditure and/or production obligations. The Ukrainian government periodically reviews compliance of Ukrainian mining companies with the terms of their licenses. We believe that we have complied and are currently in compliance with all of the terms of our licenses; however, if government regulators decide that a license holder has failed to fulfill the specific terms of a license or has operated in the licensed area in a manner that violates Ukrainian law, they may impose fines or suspend, amend or immediately terminate the license, which may have a material adverse effect on our business, results of operations and financial condition. In addition, under Ukrainian law, transfer of our licenses to third parties is prohibited. This may make any bankruptcy, reorganization or liquidation of us or our assets more difficult in the event we become insolvent. The terms of certain of our significant licenses expire in 2016, including certain of our coal mining license held by Obukhovskaya, Rovenkyanthracite and Sverdlovanthracite. We will seek to renew such licenses prior to their expiry, however, there can be no assurance that we will be able to obtain renewed licenses on similar or more favorable terms, on a commercially reasonable basis, without significant delay, or at all.

In 2011, we entered into two 49-year concession agreements with the Ministry of Energy and one 49-year lease agreement with the State Property Fund to acquire the 16 mines and related mining complexes that are currently operated by our subsidiaries, Dobropolyeugol, Rovenkyanthracite and Sverdlovanthracite. Under the terms of these concession/lease agreements, we are required to implement a UAH2,000 million investment program at Dobropolyeugol by 2015, a UAH2,998 million investment program at Rovenkyanthracite by 2016, and a UAH2,729 million investment program at Sverdlovanthracite by 2016. Further, it is a condition of these and certain other purchase agreements into which we have entered with the Ukrainian state in respect of Ukrainian assets acquired by the Group following our successful participation in privatization tenders that we fulfill a number of social, economic and health and safety obligations with respect to such acquired assets on an ongoing basis. If we fail to fulfill these investment or other obligations, or if we breach any other material term or condition of a concession/lease or purchase agreement, fines may be levied upon us and/or relevant state authorities may immediately seek to suspend, amend or terminate the relevant concession/lease or privatization agreement, which could have a material adverse effect on our business, financial condition, results of operations, and prospects.

We face numerous uncertainties in estimating our industrial coal reserves and, as a result, such estimates may not be accurate

In determining the feasibility of developing and operating our mines, we use estimates of coal reserves that are based on our legal right to mine specified coal mines pursuant to our state licenses, the state's classification of the available reserves and our internal analysis of the available reserves. We estimate our industrial reserves for each of our coal mines as of December 31 of each year in accordance with the guidelines prescribed by Ukrainian law by taking the original amount of balance reserves estimated by the state when that coal mine's license was originally issued and deducting (i) the amount of balance reserves that we consider should not be classified as industrial reserves, (ii) the amount of industrial reserves extracted from the mine in each subsequent year and (iii) any industrial reserves that we subsequently determine to have been improperly classified as industrial reserves and by adding (i) any additional industrial reserves that we have discovered during the course of mining or (ii) any additional industrial reserves that we have acquired from third parties or from the state. This methodology differs significantly from both (i) the internationally accepted reserve estimation standards under the Petroleum Resources Management System sponsored by the Society for Petroleum Engineers, the American Association of Petroleum Geologists, World Petroleum Council and the Society for Petroleum Evaluation Engineers and (ii) the reserves classifications permitted by the SEC, in particular with respect of the manner in which and the extent to which commercial factors are taken into account in calculating reserves. We rely exclusively on the state's initial estimates of our coal mine reserves when the licenses were issued and our subsequent adjustments as set forth above after taking into account our knowledge, experience and industry practice, without the input of third party reserves engineers or the benefit of further reviews by the state's reserve engineers. Therefore, our coal reserves estimates may require revision based upon actual production experience, changes in operating or extraction costs, changes in world coal prices and other factors that we are unable to foresee. As a result, our estimates of our coal reserves that appear valid when made may change significantly in the future when new information becomes available.

The coal reserve estimates we have included in this offering memorandum are only estimates of the coal deposits that we believe can be economically and legally recovered. Numerous uncertainties inherent in estimating quantities and the value of coal reserves exist, including many factors beyond our control. As a result, estimates of reserves are, by their nature, uncertain. When calculating reserves estimates, we make assumptions about:

- geological conditions;
- historical production from the mining area compared with production from other producing areas;
- the effects of regulations and taxes by governmental agencies;
- future prices; and
- historical and assumed future operating costs.

Actual factors may vary considerably from the assumptions we use in estimating our reserves. For these reasons, our actual recoverable and marketable reserves and our actual production, costs, revenue and expenditures related to our reserves may vary materially from our estimates. Our estimates may not accurately reflect our actual reserves or be indicative of future production, costs, revenue or expenditures.

Our recovery rates will vary from time to time, which will result in variations in the volumes of coal that we can sell from period to period. Should we encounter coal seams or formations different from those predicted by past drilling, sampling and similar examinations and exploration activities, our reserve amounts may have to be adjusted. Also, our reserve amounts have been determined based on assumed coal prices and historical and assumed operating costs. Some of our reserves may become unprofitable or economically prohibitive to develop if there are unfavorable long-term market price fluctuations for coal, or if there are significant increases in our operating costs and capital expenditure requirements. Our exploration activities may not result in the discovery of additional coal deposits that can be mined profitably. Our coal products may not continue to meet the quality specifications in our coal supply agreements. Any significant reduction in the volumes and grades of the coal reserves we recover from what we have estimated could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our power generation and electrical distribution businesses are subject to comprehensive regulation and price controls

The Ukrainian electricity market is characterized by a high level of state regulation of prices and exports. The Ukrainian wholesale electricity market is a single-buyer market operated by Energorynok, the state-owned electricity metering and distribution pool. Consequently, we are only able to sell and purchase electricity in the wholesale electricity market through Energorynok.

We generate the majority of our electricity through thermal power generation, although we intend to continue to diversify our sources of power generation, including by developing our renewable energy power generation capabilities. The only competitive segment of the wholesale electricity market is the thermal power generation segment; Energorynok imposes a fixed tariff on sales of electricity generated by the remaining power generation segments—nuclear, hydro, combined heat and power generation and renewables—and also imposes fixed investment obligations on companies operating in such segments. In the thermal power generation segment, all operators of thermal power generation plants in Ukraine, including the Group, are required to submit 'bids' to Energorynok each day setting out the price at which they are prepared to sell the electricity they produce. Based on its calculation of the immediate consumption demands of the Ukrainian market, Energorynok only accepts sufficient bids to meet such demands; any excess capacity will not be acquired by Energorynok and cannot otherwise be sold in the Ukrainian market. Energorynok acquires the electricity offered at the lowest bid prices first, but the bid price of the highest accepted bid determines the based price for electricity acquired from each power plant. Therefore, if our production costs increase, including as a result of any inability to implement our development and modernization programs at our mines and power generation plants or to successfully integrate our new acquisitions and extract synergies across our group, and we are unable to provide competitive bids to Energorynok for sales of electricity, our bids may not be accepted. In this event we would either have to reduce our bid prices, thereby adversely impacting our profitability, or we would experience a decline in our sales of electricity in Ukraine. Further, even if the bids we submit to Energorynok have the lowest bid prices in the market (as is frequently the case), we are unable to sell more electricity in Ukraine than Energorynok will agree to purchase from us, based on its calculation of demand. Consequently, we are often unable to sell all of the electricity we produce and we are unable to increase our sales of electricity for distribution in the Ukrainian market without the agreement and cooperation of Energorynok.

Proposals set out in the Draft WEM Law are expected to result in a reduction of the level of state regulation and price control imposed by Energorynok in the power generation and electricity distribution market, including by permitting power generation companies to enter into direct contracts with end users for the sale and purchase of electricity in Ukraine. However, the Ukrainian Parliament has only passed the first reading of the Draft WEM Law and we do not expect it to come into force until 2016. Further, there is no guarantee that the Draft WEM Law will be adopted into law in Ukraine in its current form, or at all, or that the market liberalization measures set out therein will take effect as currently envisaged.

Currently, all electricity distribution companies in Ukraine must purchase electricity for distribution from Energorynok at prices set by Energorynok based on prevailing electricity generation costs across all power generation segments. Further, Energorynok also controls the prices at which we sell electricity to end customers (both commercial and households) through the imposition of sales tariffs which generally only enable distributing companies to cover their costs. As a result, we have little control over the price at which we purchase and sell electricity in the Ukrainian market; even if our production and/or other costs increase, we are substantially constrained in our ability to increase the price at which we sell our electricity or reduce the price at which we acquire it in order to offset such increase in costs.

However, pursuant to the Amendments to the Law on Natural Monopolies adopted in June 2012, electricity distribution companies may soon be able to elect to switch to an alternative sales tariff system under which the applicable tariff is calculated to ensure the distributor receives an amount that represents a specific rate of return on the value of its investment in its distributing assets. Although the precise methodology of the new tariff system has not yet been confirmed, we expect that the new tariff system will enable us to increase the profitability of our electricity distribution business. We anticipate that the new system shall be operational by 2014 and we intend to seek to switch our distribution companies to such tariffs if and when this occurs.

Nevertheless, we are currently dependent on government policy in respect of electricity prices. If anticipated changes to the tariff and regulatory structure of the wholesale electricity market are not implemented as expected, or at all, or if the Ukrainian government otherwise passes legislation that results

in Energorynok paying lower prices to electricity generation companies for the electricity it purchases from them, increases the prices Energorynok charges for electricity sold to electricity distribution companies on the wholesale electricity market and/or decreases the prices that we may charge for the electricity our electricity distribution subsidiaries sell to end users, this could have a material adverse effect on our business, financial condition, results of operations and prospects.

Changes to the regulatory framework of the Ukrainian electricity generation and distribution sectors may benefit our competitors and adversely affect our business

If the Draft WEM Law is adopted by the Ukrainian Parliament in its current form and enters into force, it could fundamentally alter the operation of the Ukrainian power generation and electricity distribution sector. The Draft WEM Law would permit power generation companies to conclude electricity sales contracts directly with end users, thereby eliminating the role of Energorynok as the sole purchaser of electricity and introducing competitive tension into the electricity generation and sales market. Ukrainian power generation companies would be able to compete with one-another for sales to end users, including on the basis of price, quality, reliability and terms of supply. Although we believe we are well positioned to benefit from the liberalization of the power generation and distribution market and the introduction of competition, there can be no guarantee that we will be able to offer more attractive terms than, or otherwise successfully compete with, our competitors, who may increase their proportionate share of such markets at our expense. The introduction of the measures envisaged in the Draft WEM Law may initially disrupt the operation of the electricity market, which could adversely affect our sales and operations. In addition, we may also be required to unbundle our electricity transmission and sales businesses and permit our competitors to use our transmission capacity to sell electricity to end users. We may incur costs and lose synergies and efficiencies by effecting such unbundling or encounter other unanticipated challenges or adverse consequences as a result of these regulatory changes, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our power generation business does not have a diversified customer base

Our power generation business does not have a diversified customer base because, under the Electricity Act, we are only permitted to sell the electricity generated by our thermal power plants to Energorynok. This requirement exposes us to a liquidity risk in the event Energorynok defaults on or otherwise delays payment to us or if the Ukrainian government passes legislation which decreases the amount of electricity it is willing to buy from us. We have had to commence legal proceedings in the past to obtain payments due to us from Energorynok and there can be no assurance that we will not need to resort to such proceedings in the future. Although we may be able to reduce our reliance on Energorynok to the extent the Draft WEM Law is implemented, thereby enabling electricity generation and distribution companies to enter into direct contracts for the sale and purchase of electricity in Ukraine, unless and until such changes are made to the operation of the Ukrainian wholesale electricity market we will not be able to diversify our customer base and, consequently, any failure by Energorynok to make timely payments to us or any decrease in the amount of electricity it is willing to buy from us may have a material adverse effect on our business, financial condition, results of operations and prospects.

We have recently acquired new energy assets, and may make further acquisitions in the future, which we may not be able integrate or manage successfully

We have undertaken acquisitions in the past and may undertake acquisitions again in the future, including through participation in privatization tenders, in order to take advantage of attractive opportunities to expand our reserves base and further grow our business. In 2011, we acquired control of 16 new mines and mining complexes in Ukraine through our operating subsidiaries, Dobropolyeugol, Rovenkyanthracite and Sverdlovanthracite, pursuant to two 49-year concession agreements entered into with the Ministry of Energy and one 49-year lease agreement entered into with the State Property Fund. Dobropolyeugol, Rovenkyanthracite and Sverdlovanthracite have each committed to implement an investment and modernization program at the mines they operate under which they are required to invest UAH2,000 million, UAH2,998 million and UAH2,729 million, respectively, by 2016. In 2012, we acquired our mining subsidiaries, Bilozerska, Obukhovskaya, Don-Anthracite and Sulinanthracite, and we may acquire additional core business assets in the future. Although our management team has significant experience of incorporating new assets into our group structure and extracting synergies and improving production and operational efficiency at our new acquisitions, including by introducing new technologies and equipment, innovative processes and best practices, we cannot assure you that these, or any of our

other of our past or future acquisitions, will be accretive to earnings or otherwise meet our operational or strategic expectations. Acquired businesses may not achieve the levels of revenue, profit or productivity we anticipate or otherwise perform as we expect. Acquisitions involve special risks, including the potential assumption of unanticipated liabilities and contingencies and difficulties in integrating acquired businesses. Moreover, if we are not able to successfully integrate and/or manage any acquired company, the transaction may fail to achieve the desired benefits. We may be unable to manage these risks and management's attention may be diverted away from other ongoing business concerns.

The integration of newly acquired businesses outside of Ukraine may be particularly difficult for a variety of reasons, including different management cultures and styles, poor records or internal controls of the company being acquired, difficulties in integrating differing accounting methods and information technology systems, difficulty in establishing immediate control over cash flows and our limited experience operating outside of Ukraine. As we continue to seek to expand our business outside of Ukraine, including through the acquisition of coal and power generation assets in Russia and Europe, there is no guarantee that we will be able to integrate such non-Ukrainian assets into our Group as efficiently as if they were Ukrainian assets, or at all.

Additional acquisitions could increase the overall complexity of our business and significant cash expenditures may be required to integrate such acquisitions and recruit qualified management and other key personnel. The inability to successfully integrate or manage acquisitions may have a material adverse effect on our business, financial condition, results of operations and prospects.

We are reliant on key personnel

We believe that our ability to successfully implement our business strategy and to operate profitably largely depends on the quality, experience and productivity of our employees and senior management teams. In the future there could be a shortage of employees qualified to work in our industry and competition for such employees is intense, which makes finding and retaining qualified employees more difficult. Although we have a strategic human resources program focused on retaining our employees, which includes training multiple staff members for the same key positions as well as general job training, there can be no assurance that we will continue to attract and retain the qualified personnel necessary for our business. If members of the management teams or other key employees become unable or unwilling to continue in their present positions or we are unable to find a sufficient number of experienced employees for our business operations, our business operations may be disrupted. We also may not be able to replace such employees with equally skilled workers in a timely manner or at all, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our business requires many permits and authorizations, which may not be issued or may be revoked

The business environment in Ukraine is highly bureaucratic. To comply with the terms of our licenses and authorizations, and to operate our business as currently contemplated, we, like other Ukrainian companies, are required to obtain permits and authorizations to conduct operations, such as land allotments, approvals of design and feasibility studies, pilot projects and development plans and for the construction of any facilities. We may not be able to obtain, in due time or at all, or retain all required permits and authorizations, which may have a material adverse effect on our business, financial condition, results of operations and prospects.

Factors over which we have little or no control may cause fluctuations in our revenue

One of our main business activities is electricity distribution, the demand for which is affected by a number of factors which are outside of our control, including weather conditions and global and Ukrainian economic conditions and the strength of Ukrainian industry and Ukrainian industrial output. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting our Results of Operations—Seasonality and weather conditions"* and *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting our Results of Operations—Recent trends in the Ukrainian economy".* For example, during the global economic crisis of 2008 and 2009, electricity consumption in Ukraine declined by 1.0% and 9.8%, respectively, and although electricity consumption increased in 2010, industrial consumption has not yet recovered to its pre-crisis levels. As a result of this decline in consumption, our electricity sales declined by 11.2% in 2009. Conversely, in 2011 and 2012, our electricity sales increased by approximately 69.9% and 17.6%, respectively, (excluding all increases resulting from our acquisition of electricity distribution companies in 2011 and 2012), including

as a result of stronger macro-economic conditions in Ukraine and Europe, which resulted in an increase in demand for electricity from commercial consumers and households. Because we have little or no control over these factors, we can provide no assurance that our sales of electricity, and hence our revenue, will not decline in the future or fluctuate from period to period based on these factors. Thus, a period-to-period comparison of our revenue may not reflect long-term trends in our business and may not prove to be a relevant indicator of future earnings. Further, there can be no assurance that our future earnings will be consistent with historical results or investors' forecasts or expectations.

We may not be able to raise sufficient funds on favorable terms, or at all, in order to finance our planned capital expenditures and/or make additional acquisitions

The mining of coal and production and distribution of electricity is a capital-intensive business. We invest heavily in the maintenance and modernization of our facilities which better enables us to maintain high levels of productivity and operational efficiency and to create a safer and more environmentally-friendly working environment. Although capital expenditure programs for the modernization of our power generation assets and electricity distribution assets which are approved by Energorynok are partially and fully funded, respectively, through sales tariff increases granted by Energorynok, we spent UAH2,220 million, UAH4,323 million and UAH10,193 million in 2010, 2011 and 2012, respectively, on capital expenditure. As a result of the rapid expansion of our business over the past two years and the acquisition of numerous new assets, each of which typically requires a comprehensive investment program to bring its productivity and efficiency levels into line with the remainder of the Group, our capital expenditure has increased significantly: by 94.7% in 2011 and by 135.8% in 2012. Further, under the terms and conditions of the three 49-year concession/lease agreements in respect of the 16 mines operated by our operating subsidiaries, Dobropolyeugol, Rovenkyanthracite and Sverdlovanthracite, we are required to invest an aggregate total amount of UAH7,727 million in development and modernization programs between 2011 and by 2016. We expect to finance approximately UAH12,272 million and UAH10,846 million of capital expenditure in 2013 and 2014, respectively, (of which approximately UAH5,810 million and UAH3,158 million, respectively, is discretionary and could be deferred if so required), primarily on the modernization and development of our coal mines and power generation plants. However, capital expenditure programs are subject to a variety of potential problems and uncertainties, including changes in economic conditions, delays in completion, cost overruns and defects in design or construction. Accordingly, we may not be able to complete the modernization of and improvements to our facilities as originally planned or on schedule and the costs of expanding and maintaining our infrastructure may exceed projected costs and result in unforeseen funding requirements.

We intend to fund our capital expenditures and any additional acquisitions of new energy assets that we may decide to make, including through participation in Ukrainian privatization tenders, primarily through borrowings, as well as through cash flow from our operating activities. Our ability to obtain finance and the cost of capital depend on a number of factors, many of which are beyond our control, including (i) general market conditions and the condition of the capital markets, (ii) the availability of bank loans, (iii) investor confidence, and (iv) our results of operations and prospects. Therefore, there can be no assurance that we will be able to obtain sufficient financing on favorable terms, or at all, to finance our planned capital expenditure or any additional acquisitions of energy assets.

Although a proportion of our anticipated capital expenditure for 2013 and 2014 is discretionary and can be cancelled or delayed if required, if we are not able to finance our planned capital expenditure in whole or in part for any reason, we may not be able to modernize and develop our assets as we intend, which could adversely affect their productivity and efficiency, and we may breach the terms of our asset lease agreements and/or licenses which could result in their suspension or termination. If we are not able to finance additional acquisitions, we may be unable to expand our business as we intend. Any inability to implement our planned capital expenditure program or acquire additional energy assets could have a material adverse effect on our business, financial condition, results of operations and prospects.

The interests of Mr. Rinat Akhmetov, our principal shareholder, may result in conflicts of interest or actions adverse to those of the holders of the Notes

As of the date of this offering memorandum, Mr. Akhmetov directly and indirectly controls 100% of the outstanding shares of Holdings B.V. See *"Principal Shareholders".* Accordingly, as principal shareholder, Mr. Akhmetov is, and is expected to continue to be, able to control the DTEK Group and to decide all matters submitted to a vote of our shareholders, including the power, among other things, to affect our legal and capital structure, as well as the ability to elect and change our management and to approve any

other changes to our operations that may require shareholder approval. Furthermore, Mr. Akhmetov may, through his ability to influence the composition of our board of directors, exercise disproportionate influence over our operations and be in position to indirectly cause us to incur additional indebtedness or pursue acquisitions or divestitures or other transactions that could enhance the value of his equity interest, even though such transactions may involve risks to holders of Notes.

We may not be able to produce sufficient amounts of coal to fulfill our customers' requirements due to unexpected disruptions, which could harm our customer relationships or cause our results of operations to fluctuate across fiscal periods

In addition to supplying coal to entities within our group and to other Ukrainian entities, our coal is exported for use in thermal power plants and for industrial use, including to Turkey, India, Egypt, Russia, the United States and countries in Europe. Our mining operations are subject to events and operating conditions that could disrupt our production, loading and transportation of coal at or from our mines for varying lengths of time. As a result, we may not be able to produce sufficient amounts of coal to meet our customers' demands, or the amount we are required to deliver under our coal supply agreements. These events and conditions may be due to many factors, including:

- variations in coal seam thickness, the amount and type of rock and soil (overburden) overlying the coal seam and other discrepancies to our geological models;
- delays or disruptions in our coal chains, shipments of our coal products or importation of equipment and spare parts;
- changes in geological conditions and geotechnical instability;
- labor disputes; and
- failure of reserve estimates to prove correct.

Any inability to satisfy our contractual obligations and our customers' demands in the future could result in customers initiating claims against us or otherwise harm our relationships with our customers, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our business may be adversely affected in the long-term if we are unable to extract coal from our undeveloped coal reserves or if we are unable to acquire additional coal reserves

Our coal reserves will decline as mining continues if we are unable to obtain new reserves at the same rate we are using our current reserves. Our future growth will be dependent on our ability to extract coal from our undeveloped coal reserves and acquire new coal reserves. Although we have exploration programs underway at all of our projects, there is no assurance that new coal reserves will be found, that such coal reserves would be economically recoverable or that the Ukrainian government would approve the expansion of our mining operations. Our inability to obtain new coal reserves would have a material adverse effect on our business, financial condition, results of operations and prospects.

Even if we discover additional coal reserves, it could take us a number of years from the initial phases of exploration until exploitation is possible, during which the economic viability of production may change. It takes substantial time and expenditures to:

- establish coal reserves through exploration;
- determine appropriate mining processes for optimizing the recovery of the coal;
- obtain environmental and other licenses required in order to obtain and maintain mining licenses;
- construct mining and processing facilities for greenfield properties; and
- mine and market the coal.

If a project proves not to be economically feasible by the time we are able to exploit it, we may incur substantial write-offs. In addition, potential changes or complications involving mining and other logistical processes arising during the life of a project may result in cost overruns that may render the project not economically feasible.

Whether a project is economically viable will depend in part on the price of coal, which is subject to volatility, and, in turn, our results of operations may be adversely affected in the event that we are unable to produce enough coal to supply our thermal power plants.

As a result of any of these factors, we may not discover any viable resources, we may be unable to exploit any resources discovered, or we may not be able to recover all or any portion of our investments in those exploration activities.

We have significant ongoing mine reclamation and rehabilitation obligations

We are required by law to dismantle and remove mines and restore mining sites to their original condition. This entails (i) eliminating the main underground tunnels; (ii) backfilling surface processing facilities; (iii) dismantling the production site; and (iv) reclaiming the land plot under the industrial area. We also are obligated to remediate the soil damaged by our underground activities. See *"Business—Environmental Protection"*. These activities are governed by numerous state and regional regulatory by-laws on environmental protection that cover coal mining, power generation and electricity distribution, and general environmental protection. Should we not comply with these obligations, we could face penalties, such as the state refusing to grant us new production licenses or monetary penalties.

Fluctuations in the value of the hryvnia against the U.S. dollar, the euro and the Ruble may materially adversely affect our financial condition and results of operations

Our products are generally priced in hryvnia with only a small portion (16% and 10% in 2011 and 2012, respectively) of our revenues being denominated in other currencies. Our direct costs, including raw materials, labor and transportation costs, are also largely incurred in hryvnia, although certain costs, such as interest expense and imported raw materials, are incurred in different currencies, including hryvnia, U.S. dollars, euro and the Ruble. Since our revenue is generated primarily in hryvnia, we are exposed to foreign exchange risk with respect to any current or future debt or other liability denominated in any currency other than hryvnia. In particular, we have current outstanding debt denominated in U.S. dollars, euro and Rubles, including the Notes offered hereby. The appreciation of the hryvnia against the U.S. dollar, euro or the Ruble generally results in a decrease in our costs relative to our revenues, while depreciation of the hryvnia against the U.S. dollar, euro or the Ruble generally results in an increase of our costs relative to our revenues. While we generally believe that our exposure to fluctuations in the hryvnia to U.S. dollar, euro and the Ruble exchange rates is moderate, if the hryvnia continues to decrease in value against the currencies in which we have to make payments, our operating costs and capital expenditures will increase as a percentage of our revenues, which may materially adversely affect our financial condition and results of operations and we may have difficulty servicing our non-hryvnia denominated debt, including the Notes offered hereby.

Labor disputes could affect our operations

Our operations and our affiliate operations depend upon the productivity of our labor force. Approximately 88% of our employees are members of trade unions, with our employees belonging to the Trade Union of Coal Industry Employees (63,388 employees), Ukrelectroprofsyuz (17,150 employees), Kyivenergo trade union (11,934 employees), the Independent Trade Union of Ukrainian Miners (9,794 employees), Donetskoblenergo trade union (9,769 employees), Dniprooblenergo trade union (7,804 employees), Krymenergo trade union (5,591 employees) and Energougol trade union (831 employees). We believe that we have good relations with our employees and trade unions; however, there can be no assurance that we will not be party to any labor-related disputes in the future. Any significant labor dispute affecting the regions in which we operate and supply electricity could have an adverse effect on our productivity and our reputation and could therefore affect our business, financial condition, results of operations and prospects.

We may acquire bankrupt or financially distressed companies or assets in which we may subsequently lose our ownership interest, or may be unable to operate for an extended period of time

We have in the past, and we may in the future, acquire companies or assets, which at the time of acquisition are in bankruptcy or financially distressed, by reaching a settlement with creditors or with the bankruptcy court whereby we make a cash payment to settle creditor claims in exchange for an equity ownership interest. However, the bankruptcy laws in Ukraine are vague and uncertain, and even though we would be required to pay cash up-front to settle creditor claims, it could take several months or even years for an asset or company in which we acquire in the bankruptcy process to emerge from bankruptcy, only after which we would acquire legal title, and in some cases, possession. Moreover, as was the case with Dniproenergo, pre-existing shareholders or dissenting creditors of a company in which we acquire an equity interest through the bankruptcy process, or in which we acquire an equity interest by first

purchasing that company's indebtedness, may contest our title to any shares or asset so acquired and delay our ability to take possession and may prevent us from obtaining legal title even though we may have already made payment.

If any such purchases and acquisitions are significantly delayed by the bankruptcy process or challenged on the basis that they have been improperly conducted, and we are unable to defend successfully against such claims or to force a bankruptcy court to permit us access to the assets or companies we have paid for, we may lose our ownership interest, or the operations of those companies may further deteriorate in value before we obtain control, either of which could materially adversely affect our business, financial condition, results of operations and prospects.

We do not control Vanco and we will not control any entity in which we make a minority investment, and all such entities are not or will not be subject to the covenants contained in the Indenture

We currently have a 25.5% interest in Vanco, although we may acquire additional shares in Vanco in accordance with the terms and conditions of the Vanco SPA, subject to the satisfaction of certain conditions set out therein, which would result in our total shareholding exceeding 50%. We also may acquire minority or non-controlling interests in other assets that will be privatized by the Ukrainian government or in joint ventures and other similar projects that permit us to expand our energy production and supply footprint both within and beyond the borders of Ukraine. To the extent we only have a minority interest in any company we invest in, we will not be able to control such company as effectively as if it were a member of our Group, and we may be unable to prevent our fellow shareholders or joint venture partners from using their ownership rights to cause the company to take decisions and actions with which we disagree. If we are unable to resolve any disputes or disagreements that we may have with our fellow shareholders or joint venture partners in relation to the business or operations of a company in which we have a minority interest, the value of our investment in such company may be impaired and we may become involved in costly and/or time consuming litigation. Additionally, if these minority investments do not become a subsidiary of ours, they will not be a "**Restricted Subsidiary**" as such term is used in the "*Description of the Notes"* and will not be subject to the covenants contained in the Indenture. As a result thereof, each of our minority investments is free to engage in any transaction without regard to the provisions of the Indenture, including without limitation incurring debt, paying dividends, disposing of assets, incurring liens and entry into other transactions which may be disadvantageous to either the Group and/or the noteholders.

We are subject to hazards and risks inherent in the operation of mines and our operations could be adversely affected if we fail to comply with applicable health and safety laws, regulations or rules

Our operations are subject to all of the hazards and risks normally associated with the exploration, development and production of natural resources, any of which could result in production losses, injury or death, or damage to property or the environment. In 2012, the total number of accidents in our coal mining segment decreased from 935 to 707 accidents, the amount of severe accidents increased from 42 to 58 accidents and the amount of fatal accidents increased from 17 to 27 accidents, as compared to 2011, primarily due to our acquisition of additional coal mining assets in 2012. In January 2013, emissions of coal and gas at the mine operated by our subsidiary, Komsomolets Donbassa, resulted in the death of three of our employees. The fatality frequency rate per 1 million metric tons of coal produced by our mines was 0.6, 0.45 and 0.67 in 2010, 2011 and 2012, respectively. We primarily engage in underground mining, which is more dangerous than open pit mining and requires the use of ventilation systems. Hazards associated with our underground mining operations include:

- cave-ins;
- underground fires and explosions, including those caused by flammable gases;
- discharges of gases and toxic chemicals; and
- other conditions that result from drilling, blasting and removing and processing materials from underground mines.

The occurrence of any of these or similar hazards could delay production, increase production costs and result in injury or death to personnel and damage to property and the environment, as well as create associated liability for us.

Violations of health and safety laws, regulations or rules or failures to comply with the instructions of the relevant health and safety authorities could lead, among other things, to more frequent workplace-related accidents or a court order or an order from the relevant regulatory authorities to shut down part or all of our operating subsidiaries' operations that are in violation of such laws, regulations, rules or instructions and/or the imposition of costly compliance procedures. Accidents resulting in deaths of our employees could also result in shutdowns. As a consequence of violating health and safety legislation and instructions and any accidents resulting from such violations, we could face fines and penalties, liability to employees and third parties for injury, illness or death, statutory liability for environmental remediation, and other financial consequences, which may be significant.

Any of the foregoing developments could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our existing proportional share of electricity generation in Ukraine may be reduced if our competitors increase their generating efficiency

Although we believe we have a lead time advantage in modernizing our facilities, if our competitors make investments and improvements in their generation facilities which increase their generating efficiency, then our proportional share of electricity generation in Ukraine may decrease, which could have a material adverse effect on our business, financial condition, result of operations and prospects.

Certain of our transactions are subject to Ukrainian transfer pricing regulations

Ukrainian transfer pricing regulations require that prices for goods and services in transactions between related parties and, under certain circumstances, between unrelated parties (for example, all cross-border transactions), are set on an arm's length basis. Ukrainian tax authorities may make transfer pricing adjustments and assess additional taxes in respect of transactions between related parties and, as applicable, unrelated parties, if the relevant prices differ from arm's length prices by more than 20%. The existing Ukrainian transfer pricing rules came into force on January 1, 2013, and establish new methods and procedures for determining arm's length prices, based on Transfer Pricing Guidelines of Organisation for Economic Cooperation and Development (the "**OECD**"). These rules also allow a broader range of sources of information to be used for transfer pricing purposes. However, these rules are vaguely drafted and leave a wide scope for interpretation by the Ukrainian tax authorities and courts. They do not provide for an offsetting adjustment in the event an adjustment is made, and, to date, there is no guidance as to their practical application.

Furthermore, the new edition of the transfer pricing rules is currently considered by the Ukrainian Parliament. The new rules provide for a more detailed explanation of the applicable transfer pricing methods and leave a narrower place for interpretation of such rules. These rules also provide for offsetting adjustments, establish significant threshold for controlled transactions, and significantly improve the administration of the transfer prices. However, they also introduce strict transfer pricing documentation and reporting requirements. Therefore, the existing practice of applying arm's length prices could change in material respects.

A substantial portion of our commercial transactions are with related parties, including entities under common control. Such commercial transactions include, among others, sales contracts for coal and electricity and other goods and services, supply contracts (including those for raw materials), equity purchases and sales, loan arrangements, guarantees and sureties in relation to property acquisitions and loans. See "*Related Party Transactions*". We intend to continue to enter into such transactions, some of which, including our intra group coal sales, are (and will be) subject to transfer pricing rules. Therefore, we will need to price our goods such that they are comparable to market prices calculated on a non-regulated arm's length basis. In addition, although we try to ensure we comply with the principles set out in the applicable transfer pricing rules, there can be no assurance that the Ukrainian tax authorities or others will not challenge our prices and, will not impose price adjustments, assess additional taxes and/or impose fines on us. If such price adjustments are assessed by the tax authorities, our effective tax rate could increase. In addition, we could face significant losses associated with the assessed amount of prior tax underpaid and related fines and penalties, which could have a material adverse effect on its business, results of operations and financial condition.

We depend on key pieces of plant, equipment and machinery to conduct our operations

Our coal mining operations depend on key pieces of equipment and machinery, such as longwall shearers, roof supports, roadheaders, face conveyors, as well as our coal crushing plants and our coal washing plant. Our power generation and electricity distribution operations also depend on key pieces of equipment and machinery, such as turbines and boilers. We have older and less technologically advanced assets than Western mining companies and energy producers, which may expose us to additional risks. Although we are in the process of modernizing and replacing our facilities and assets, in the interim they make fail, break, cause health and safety issues, shutdowns or periods of reduced productions, or otherwise impair productivity and operational efficiency. While we have spare pieces of equipment for all of our production equipment and are not dependent on any one supplier, our operations may be interrupted should we need to replace any key pieces of equipment. Failure of our equipment or machinery or any interruption or suspension of our operations may also lead to third-party damage and require the payment of compensation. Any disruption to our deliveries of coal, heat or electricity may result in the requirement to pay indemnities or contractual fines or grant discounts for breach of contract. Although we carry business interruption insurance, our coverage might not be sufficient. See *"—Our level and scope of insurance coverage may not be adequate"*. Therefore, any significant damage to, failure of, or operational difficulties with, the key components of our coal mining, power generation or electricity distribution operations could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our level and scope of insurance coverage may not be adequate

The mining industry is subject to significant risks that could result in damage to, or destruction of, coal properties or producing facilities, personal injury or death, environmental damage, delays in mining, and monetary losses and possible legal liability. The insurance industry is not yet well developed in Ukraine, and many forms of insurance protection common in more economically developed countries are not yet available in Ukraine on comparable terms or at all. As a result, although we do maintain insurance on our assets, including our equipment, buildings and constructions, as well as business interruption insurance and third party liability insurance, we do not maintain all of the types of insurance coverage that would typically be expected in more developed markets. To the extent that our operating assets are insured, the insurance may be insufficient to cover replacement costs. Accordingly, we may incur uninsured losses of production assets and may be subject to claims that would not be covered, or not sufficiently covered, by insurance, which could have a material adverse effect on our business, results of operations and financial condition. There can be no assurance that such insurance that we do carry will continue to be available, will be available at economically acceptable premiums or will be adequate to cover any resulting liability. In some cases, coverage is not available or is considered too expensive relative to the perceived risk.

If we do not effectively manage our subsidiary and affiliate operations, our business, results of operations and financial condition may be adversely affected

Certain members of the group have made and may continue to make certain capital investments, loans, advances and other commitments to support certain subsidiaries, associates and joint ventures and to acquire new interests. These investments and commitments have included, among other things, capital contributions and corporate guarantees given to lenders in order to enhance the financial condition or liquidity position of the subsidiaries of the group, its associates and joint ventures. If the business and operations of these subsidiaries, associates and joint ventures deteriorate or we are required to expend capital to support such entities, our business, financial condition, results of operations and prospects may be adversely affected.

We have weaknesses in our information technology systems, information support services and internal controls related to the preparation of our Consolidated Financial Statements which may undermine our ability to effectively operate our business and hinder our growth strategies

Our business is dependent, in part, on our information technology systems; however, we have not yet implemented a single integrated information technology system. In addition, we have not yet implemented a disaster recovery plan. Our information technology systems plays an integral part in, among other things, monitoring sales to the wholesale electricity market, distribution of electricity to end customers, sales transactions, purchases of raw materials and accounting. The continuing and uninterrupted performance of these systems is critical to our business operations. While we intend to improve our information technology systems in the future to implement a disaster recovery plan and a single integrated system, a failure of a major system could result in the loss of use of the affected facility, thereby materially adversely affecting our business, financial condition, results of operations and prospects.

Our accounting and reporting are not as sophisticated or robust as those of companies with longer history of reporting under IFRS. We are in the process of automating our accounting and reporting function, but some aspects of preparation of consolidated IFRS financial statements are manually administered, making the process more complicated and requiring significant attention from our accounting personnel. We are continuing to automate our data processing and we believe that we have implemented sufficient controls and automation of our processes in order that we will be able to produce accurate financial statements going forward.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or the DTEK Group will be unable to comply with its obligations as a company with securities admitted to the Global Exchange Market of the Irish Stock Exchange.

We may be unable to successfully implement our growth strategy outside of Ukraine

We may not be able to successfully expand our operations outside of Ukraine, consistent with our business plan. We may face regulatory and political barriers to enter new markets and may find it hard to assimilate new foreign acquisitions into our existing group structure, including because of cultural differences, legal and regulatory challenges and logistical difficulties. Equally, we may face strong competition in the jurisdictions we seek to expand into. Our competitors in such new markets may have more experience of operating in such markets, lower production costs and/or better access to financing. To the extent we are unable to overcome any such barriers to entering and competing effectively with European or Russian energy companies in such new markets, we may be unable to successfully implement our growth strategy.

Certain of our newly acquired subsidiaries are involved in legal proceedings with the Ukrainian tax authorities in respect of alleged tax liabilities and/or have deferred tax liabilities secured by tax pledges over their assets

Our subsidiary, Donetskoblenergo, is currently involved in ongoing litigation with the Ukrainian tax authorities in respect of the availability of certain deductions from tax claimed by Donetskoblenergo during the period 2003 to 2007. The aggregate amount of all such claims (including all interest and any penalties determined by Ukrainian tax authorities) is approximately UAH240 million. We have successfully defended similar claims made against Donetskoblenergo by the Ukrainian tax authorities in the past, all of which claims relate to tax liabilities incurred or alleged to have been incurred prior to the date we became a shareholder of Donetskoblenergo. However, we cannot guarantee that the Ukrainian tax authorities' claims will not be upheld, in which case we may be required to pay an amount in respect of such alleged tax liability, plus any interest and penalties, as determined by the court.

Whilst under the control of the Ukrainian state, prior to their acquisition by the Group, Rovenkyanthracite, Sverdlovanthracite and Dobropolyeugol incurred certain tax liabilities, including tax liabilities in respect of geologic exploration charges, tax liabilities in connection with the use of natural resources, penalties payable to the Pension Fund of Ukraine, fines in respect of VAT liabilities, corporate income tax liabilities and other mandatory payments, relating to the period 2008 to 2011. Pursuant to various court decisions, payment of these tax liabilities has been deferred and a tax lien has been created over the assets of Rovenkyanthracite and Dobropolyeugol as follows:

- As at February 1, 2013, Rovenkyanthracite had approximately UAH79.9 million of outstanding tax liabilities, of which approximately UAH78.5 million are deferred for payment to 2018. Rovenkyanthracite's tax liabilities are secured by a UAH36 million tax lien over its coal assets.
- As at February 1, 2013, Sverdlovanthracite had approximately UAH48.7 million of outstanding tax liabilities, all of which are deferred for payment to 2021. Sverdlovanthracite's tax liabilities are not secured by a tax lien.
- As at February 1, 2013, Dobropolyeugol had approximately UAH6.9 million of outstanding tax liabilities, all of which are deferred for payment to 2019. Dobropolyeugol's tax liabilities are secured by a UAH8.2 million tax lien over its coal assets.

Although Rovenkyanthracite, Sverdlovanthracite and Dobropolyeugol intend to contest all such deferred tax liabilities in the Ukrainian courts, there can be no guarantee that such proceedings will be successful. To the extent we are unable, or otherwise fail to pay such deferred taxation, the tax liens over assets of Rovenkyanthracite and Dobropolyeugol may be enforced and we may incur penalties and/or the Ukrainian tax authorities may commence legal proceedings against us.

Further, Dniproenergo and Zakhidenergo currently have outstanding liabilities of approximately UAH58 million in respect of penalties owing to the Ukrainian tax authorities which were incurred under sub-loan agreements (the "**Sub-Loan Agreements**") entered into with the Ministry of Finance of Ukraine (the "**Ministry of Finance**") in 1996. The Group did not have any interest in Dniproenergo or Zakhidenergo when these entities entered into the Sub-Loan Agreements and all amounts of principal and interest under the Sub-Loan Agreements are now repaid in full. Although Dniproenergo and Zakhidenergo are contesting these penalties in the Ukrainian courts, including on the basis that the Sub-Loan Agreements do not provide for the imposition of penalty payments and that Ukrainian law does not permit the Ukrainian tax authorities to impose tax penalties or liens on an entity other than in respect of tax liabilities incurred by such entity, there can be no assurance that such challenges will be successful and that Dniproenergo and Zakhidenergo will not have to pay such amounts to the Ministry of Finance. In order to secure the Ministry of Finance's claims in respect of such amounts, Ukrainian tax authorities have created tax liens of approximately UAH10 million and UAH109 million over the assets of Dniproenergo and Zakhidenergo, respectively. To the extent our claims are not successful, we may be required to pay these penalties, failing which the tax liens may be enforced and the Ukrainian tax authorities may commence legal proceedings against us.

The occurrence of the above in aggregate could have an adverse effect on our business, financial condition, results of operations and prospects.

We have limited experience of developing and operating renewable energy assets and the generation of power from renewable resources may not be economically viable

As at December 31, 2012, we had invested a total of UAH1,442 million in the development of our wind energy assets, and we expect to invest an additional UAH1,846.6 million and UAH1,774.8 million in 2013 and 2014, respectively. In addition, we are currently considering developing other renewable energy projects, including hydro-electric and solar power projects. However, our investment in renewable energy may not be successful and we may be unable to achieve our strategy of diversifying our energy resource base away from coal. Although we anticipate that the Botievo wind farm will be completed and fully operational by 2014, we have limited experience in operating wind farm assets and we may not be able to incorporate them successfully into our business model and achieve the same efficiencies and synergies as with our other production assets. Further, although we expect that tariffs approved the government of Ukraine for our existing renewable energy projects will not be amended, there is no guarantee that the Ukrainian government will not approve lower tariffs for our future renewable power generation projects, including future wind power projects, which could result in such projects not being economically viable, in which case we would most likely discontinue such projects.

We have limited experience participating in oil and gas exploration and production activities

We have limited experience participating in oil and gas exploration and production activities and there can be no assurance that any such activities that we may undertake will be successful. We currently have a 25.5% equity interest in Vanco, a company created for the purpose of participating in an offshore oil and gas exploration and production project in the Prykerchenska Block. We expect to acquire additional shares in Vanco in accordance with the terms and conditions of the Vanco SPA, subject to the satisfaction of certain closing conditions set out therein, which would result in our total shareholding exceeding 50%. We may also be interested in entering into other joint ventures with oil and gas companies where consistent with our business model and investment strategy. We may incur considerable capital expenditure on our oil and gas exploration activities and we may be unable to locate and/or extract commercially viable oil and gas deposits in any concession or license area we may operate in, in sufficient quantities or at all. Further, we may be unable to incorporate our oil and gas assets into our existing or future business model and achieve the same efficiencies and synergies as with our other production assets.

Our free cash flow declined in 2012 and may continue to do so

Since January 2011, we have spent approximately UAH5,500 million on acquisitions of new assets and approximately UAH5,900 million on capital expenditure, and we intend to finance approximately UAH5,500 million of additional capital expenditure by 2016 in order to modernize our production facilities and diversify our resource base. As a result of this expenditure, our indebtedness increased by 37.00% and our free cash flow declined by 155.96%, in each case, in 2012 as compared to 2011. Our free cash flow may continue to fall as we continue to seek attractive acquisition opportunities, finance capital expenditure projects and make payments of interest and principal on our indebtedness. The impact of this additional

indebtedness and the reduction in free cash flow may be exacerbated by the volatility of the Ukrainian and global economic markets.

We are subject to restrictions imposed by Ukrainian antitrust legislation and may face penalties, including compulsory divestment of certain of our assets

In recent years, the Ukrainian Antimonopoly Committee (the "**AMC**") has sought to increase business transparency and improve the competitive environment in Ukraine through changes to competition legislation and procedures for conducting investigations and through challenges to various anti-competitive practices.

In the course of our business activities, we have entered into certain sale and acquisition transactions and other concentrations which have required the prior approval of the AMC. Ukrainian antitrust legislation restricts companies and individuals from directly or indirectly acquiring control over other companies or from performing concentration (*Kontsentratsiia*), including, among others, mergers of several independent companies into a new company, absorption of one company by another, establishment of companies by two or more companies, lease or concession of an integral property complex without the prior approval of the AMC where certain financial thresholds are met. Any failure to obtain necessary approvals for such transactions could result in fines in an amount of up to 5% of our consolidated revenue for the previous year being levied upon us. The failure to obtain necessary anti-trust approvals for transactions may also serve as a ground for the invalidation of such transactions by the Ukrainian courts, which in turn may lead to the compulsory divestment of the relevant companies. We believe that we have obtained all necessary prior approvals from the AMC in connection with our entry into acquisition, concession and lease agreements in respect of Ukrainian assets.

The making of an inaccurate or incomplete filing to the AMC could also result in the imposition of fines and, in the case of inaccuracy or omission that is substantial, could result in the relevant approval being annulled. If we make an inaccurate or incomplete submission to the AMC, fines in the amount of up to 1% of our consolidated revenue for the previous year could be levied upon us.

In accordance with applicable Ukrainian law, the market of distribution of power energy is defined as a market with natural monopoly characteristics. A number of our entities operate in such markets, namely Energougol, Servis-Invest, Kyivenergo, Donetskoblenergo, Dniprooblenergo and Krymenergo. These entities are natural monopolists holding dominant position in the regional markets of distribution of power energy within the boundaries of region, where each entity has its transmission networks.

Although we believe that our operations are in compliance with applicable Ukrainian antitrust regulations, as the largest energy company in Ukraine, we may face antitrust litigation and/or the AMC may commence investigations to determine whether we hold a dominant position in any of the markets in which we operate, and, if so, whether we abuse such dominant position. If we abuse a dominant position in any market in which we operate or are deemed to have done so by the relevant authorities, we may be required to divest certain of our assets and/or we may be prevented from acquiring additional assets or otherwise increasing our presence in such market. The AMC may also impose fines in an amount of up to 10% of our consolidated annual revenue or, in certain cases, up to three times the income we generated as a result of abuse of such dominant position. Any penalties imposed on us as a result of any non-compliance with antitrust laws could have a material adverse effect on our business, financial condition and results of operations and prospects.

Our customers may not pay for the electricity they purchase from us in a timely manner, or at all

Our electricity distribution subsidiaries sell electricity to third party consumers which may not pay for the electricity they purchase from us in a timely manner, or at all. Certain of our customers are large municipal authorities and state bodies. If such entities do not have sufficient funds remaining from their allotted state budgets to pay for the electricity they purchase from us, they will be unable to pay us for the electricity they consume when such amounts become due. Consequently, we may experience significant delays in collecting receivables owed to us in respect of electricity sold and we may incur expenses in connection with recording such receivables as bad or doubtful debts. Further, as a result of political and/or social considerations we may be unable to cease supplying electricity to such non-paying customers. Any failure by one or more of our key customers to pay for the electricity they purchase from us in a timely manner, or at all, could have a material adverse effect on our business, financial condition, results of operations and prospects.

High gas prices may adversely affect our operations

Ukraine imports a large proportion of its natural gas requirements from Gazprom under the Gas Agreements. The price of natural gas imported by Naftogaz has risen substantially in recent years to an average weighted price of US$424.5 per 1,000 cubic meters for the year ended December 31, 2012, according to NBU data. Consequently, the cost of the gas we purchase for use as fuel in the two heat and power plants operated by our subsidiary, Kyivenergo, has increased significantly in recent years. We receive heat tariff compensation from the Ukrainian government which is intended, in part, to compensate heat producers for increases in production costs, including the price of gas; however, there can be no assurance that anticipated amendments to the regulation of the power generation market will preserve this compensation and/or that the heat tariff compensation will compensate us in part or in full for any future increases in gas prices. Further, high gas prices place a considerable strain on the finances of the Ukrainian state, which is forced to subsidize Naftogaz in order to maintain domestic gas prices at acceptable levels. For example, in January 2013, Gazprom presented Naftogaz with a US$7 billion bill for gas not taken up by Ukraine under 'take or pay' provisions. This increase in gas prices has adversely affected the growth of Ukrainian industry and the Ukrainian economy (see *"—Any unfavorable changes in Ukraine's regional relationships, especially with Russia, may adversely affect the Ukrainian economy"*), which, in turn, negatively impacts on our business (*"—Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Our Results of Operations—Recent trends in the Ukrainian economy"*). Any further increase in gas prices may have a material adverse effect on our business, financial condition, results of operations and prospects.

Involvement in any transactions with any parties subject to OFAC sanctions might result in the imposition of sanctions by OFAC

We export some of the electricity we produce to State Enterprise "Belenergo" ("**Belenergo**") of Belarus. The United States has imposed economic sanctions administered by the U.S. Treasury Department Office of Foreign Assets Control ("**OFAC**") that, amongst other things, prohibit U.S. persons from engaging in economic transactions with President Lukashenko and certain other Belarusian officials or with entities in which they hold a 50% or greater interest (the "**OFAC Sanctions**"). A number of Belarusian companies, including Belneftekhim Concern, a petrochemical conglomerate, have been designated as entities subject to the OFAC Sanctions. Although Belenergo is not currently designated as being subject to OFAC Sanctions, no assurance can be given that it will not become subject to OFAC Sanctions in the future. Any failure on our part to comply with OFAC regulations could result in the imposition of sanctions by OFAC or loss of customers to whom we export our products, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Risks Relating to Cyprus

Changes in the application or interpretation of the Cypriot tax system could materially adversely affect our business

Holdings Ltd and Trading Ltd are incorporated in Cyprus. Cyprus became a member of the EU on May 1, 2004, as a result of which it has harmonized its legislation with EU directives and guidelines and has reformed its tax system. Moreover, as a result of its accession to the EU, Cyprus will adhere to decisions of the European Court of Justice and any amendments to, or newly introduced, EU directives with respect to taxation. Such judicial decisions and legislative changes may adversely affect the tax treatment of Holdings Ltd and Trading Ltd and of transactions with Holdings Ltd and Trading Ltd.

In addition, a company is considered to be tax resident in Cyprus if its management and control is exercised in Cyprus. There is no definition in the Cyprus income tax laws as to what constitutes management and control. We have received advice that the Cyprus tax authorities follow the OECD model convention with respect to taxes on income and capital, which refers to a "place of effective management," though this interpretation has not yet been tested in Cypriot courts. The commentary on the OECD model convention states: "The place of effective management is the place where key management and commercial decisions that are necessary for the conduct of the entity's business are in substance made. The place of effective management will ordinarily be the place where the most senior person or group of persons (for example a board of directors) makes its decisions, the place where the actions to be taken by the entity as a whole are determined; however, no definitive rule can be given and all relevant facts and circumstances must be examined to determine the place of effective management. An entity may have more than one place of management, but it can have only one place of effective management at any one time". Based on this definition, management and control may be considered to be exercised where the

board of directors of a company meets and makes decisions and where the majority of the members of the board of directors are resident.

Management believes that Holdings Ltd and Trading Ltd meet these criteria and can be considered Cyprus tax resident. A company that is tax resident in Cyprus is subject to Cypriot taxation on its worldwide income and qualifies for benefits available under the Cypriot tax treaty network, including the Convention between the government of the Republic of Cyprus and the government of the Union of Soviet Socialist Republics for the avoidance of double taxation of income and property, dated October 29, 1982, to which Ukraine is a successor and which is still applied in Ukraine (the "**Double Tax Treaty**"). A new Convention between the government of Ukraine and the government of the Republic of Cyprus for the avoidance of double taxation was signed on November 8, 2012 (the "**New Convention**") and will become effective as from January 1 of the year following the year in which the New Convention is ratified by Cyprus and Ukraine. The Double Tax Treaty will be terminated on the date the New Convention becomes effective. In contrast to the Double Tax Treaty, which exempts dividends, capital gains, interest payments, and royalty payments from Ukrainian withholding tax, under the New Convention, dividends paid to Holdings Ltd or Trading Ltd parent company would be taxable at source in Ukraine at 5% of the gross amount of dividends, provided that the beneficial owner of the dividends holds at least 20% of the capital of the Company paying the dividends or has invested in the acquisition of the shares or other rights of the Company equivalent of at least EUR100,000. In all other cases, the withholding tax on dividends will be 15%. The New Convention also provides for taxation at source in Ukraine of interest not exceeding 2% of the gross amount of the interest if the beneficial owner of the interest is a resident of Cyprus. In addition, an EU parent company may be able to claim tax benefits under EU tax directives with respect to dividends paid from Cypriot resident companies or gains from the sale of shares in Cypriot resident companies.

In the event the tax residency of a company incorporated in Cyprus is challenged, such Cypriot company would be required to demonstrate that it is managed and controlled from Cyprus. If the tax residency of Holdings Ltd or Trading Ltd was to be challenged and Holdings Ltd or Trading Ltd, as applicable, was unable to demonstrate that it qualified as a Cypriot tax resident, it could be subject to tax in its place of tax residency wherever that might be and would be unable to make use of the Cypriot tax treaty network. If Holdings Ltd or Trading Ltd are not tax resident in a member state of the EU, tax benefits under the EU tax directives referred to above may be restricted or eliminated. In addition, if management and control of the relevant Cypriot company takes place in another jurisdiction, or strategic or significant operational decisions or other management activities take place in that jurisdiction, the relevant Cypriot company may be subject to tax in that other jurisdiction. Whether this is the case will depend upon the tax laws of that other jurisdiction and, in certain cases, the impact of any tax residence "tie-breaker" provision in any double tax treaty between Cyprus and that jurisdiction.

In June 2012, the government of Cyprus applied for financial assistance from the European Central Bank, the EU and the IMF (together, the '**Troika**'). As economic conditions in Cyprus deteriorated, the government of Cyprus ordered all banking institutions in Cyprus to temporarily close from and including March 15, 2013, in order to avoid a run on the country's banks, and entered into intensive negotiations with the Troika to secure financial support. On March 24, 2013, the government of Cyprus and the Troika reached a provisional agreement regarding the provision of a EUR10 billion loan and related finance package to Cyprus, such loan and finance package being conditional on Cyprus implementing a comprehensive economic adjustment program (the "**Cyprus Economic Adjustment Program**"). The full scope of the Cyprus Economic Adjustment Program is still under discussion, but it will include a scheme for the reorganization of the Cypriot banking system which will result in Cyprus Popular Bank Public Co Ltd ("**Cyprus Popular Bank**"), Cyprus' second largest bank, being absorbed into Bank of Cyprus plc and deposit holders with credit balances of in excess of EUR100,000 held with Cyprus Popular Bank or Bank of Cyprus plc suffering significant losses. Although Cypriot banks reopened on March 28, 2013, restrictions on bank transfers and withdrawals from banking institutions in Cyprus remain in effect as at the date hereof in order to enable Cyprus to implement of the Cyprus Economic Adjustment Program. The consequences of the recent disruption to the Cyprus banking system and the anticipated implementation of the Cyprus Economic Adjustment Program are unforeseeable and may adversely affect the legal and economic environment in Cyprus and/or result in material alterations to the Cypriot taxation system, in which case the description set out in "*Taxation—Certain Cyprus Taxation Considerations*" may no longer be accurate.

Adverse changes in the application or interpretation of Cypriot tax law, or a finding that Holdings Ltd or Trading Ltd do not qualify as a Cypriot tax resident or for tax treaty based benefits, or changes to the

Double Tax Treaty may significantly increase our tax burden and adversely affect our business, financial condition, results of operations and prospects.

Risks Relating to Ukraine

Ukrainian currency control regulations may impact the Sureties' ability to make cross-border payments under the Deeds of Surety

The NBU is empowered to establish policies for and to regulate currency operations in Ukraine and has the power to establish restrictions on currency operations and repatriation of profits. Ukrainian currency controls and practice are subject to change, with the NBU exercising considerable autonomy in interpretation and application.

Each Deed of Surety will constitute a suretyship for the purposes of Ukrainian law. Applicable Ukrainian legislation requires a resident Ukrainian entity acting as surety to obtain an individual license (a "**Foreign Payment License**") from the NBU in order to make cross-border payments pursuant to a suretyship, such as the Deed of Surety (although no Foreign Payment License is required for a resident Ukrainian entity to enter into the Deed of Surety). However, the NBU does not issue Foreign Payment Licenses in advance or for contingent payments when the exact amount and date of a cross-border payment are not known. Accordingly, there can be no assurance that the Sureties will obtain a Foreign Payment License to make cross-border payment under the Deeds of Surety at the time of making such cross-border payment. At the same time, the lack of a Foreign Payment License should not affect the validity of the Deeds of Surety. In such circumstances, absent a Foreign Payment License, in theory, a Surety may be permitted to make cross-border payments under the Deed of Surety if such payment is required pursuant to a valid and effective order of a Ukrainian court (including that enforcing a foreign arbitral award), which expressly requires the Surety to make such cross-border payment. However, there is no court practice to confirm this position.

The ability of the Sureties to make cross-border payments under the Deeds of Surety may be further impeded by Ukrainian currency control regulations prohibiting a Surety to purchase or borrow foreign currency in order to make cross-border payments in discharge of payment obligations under the Deed of Surety.

Ukraine's economy is vulnerable to fluctuations in the global economy

Ukraine's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The impact of the global financial crisis that began in the second half of 2008 on Ukraine's economy was particularly severe. Since Ukraine is a major producer and exporter of metal and agricultural products, the Ukrainian economy is especially vulnerable to decreases in world commodity prices and the imposition of import tariffs by the United States, the EU or by other countries that are major export markets for Ukrainian producers. Principally as a result of the impact of the global financial crisis, Ukraine's industrial output decreased dramatically in 2008 and 2009 but recovered in 2010 and 2011, increasing at an annual rate of 11.2% and 7.6%, respectively. According to the State Statistics Service, in 2012, Ukraine's industrial output declined by 1.8%. Ukraine's relatively strong reliance on exports of ferrous and non-ferrous metals and their products (33.7%, 32.3% and 27.5% of the total value of goods exported in 2010, 2011 and 2012, respectively, according to State Statistics Service data) makes the country's export revenues and, by extension, its broader macroeconomic performance, vulnerable to declines or fluctuations in global metal demand or prices. In line with a decline in industrial output, real gross domestic product ("**GDP**") declined by 14.8% in 2009. However, a recovery of industrial production led to an increase in Ukraine's real GDP of 4.1% and 5.2% in 2010 and 2011, respectively. In the first half of 2012, the increase in real GDP continued, albeit at a slower pace, and amounted to 2.2% for the first quarter and 3.0% for the second quarter, as compared to a 5.1% and 3.9% increase in the first and second quarter of 2011, respectively. In the third and fourth quarters of 2012, real GDP declined by 1.3% and 2.5%, as compared to a 6.5% and 5.0% increase in the third and fourth quarters of 2011, respectively. Thus, real GDP growth decelerated from 5.2% in 2011 to 0.2% in 2012.

The global financial crisis had also contributed to an increase in Ukraine's state budget deficit as a percentage of its GDP, increasing from 1.3% in 2008 to 5.9% of GDP at in 2010. In 2011 this trend was reversed with the actual deficit declining to approximately 1.8% (as compared to a budgeted deficit of 2.7% of GDP in that year). The 2012 state budget provided for a budget deficit of not more than 2.6% of GDP, with actual budget deficit amounting to 3.8% of GDP as at January 2013. The 2013 state budget provides for a budget deficit of not more than 3.2% of GDP. According to the Ministry of Finance, the

Ukrainian government incurred a State budget deficit of UAH 35.5 billion, UAH 64.3 billion and UAH 23.6 billion in 2009, 2010 and 2011, respectively. The State budget deficit in 2012 was UAH 53.4 billion according to NBU data.

Consumer price inflation in Ukraine was 12.3% in 2009, 9.1% in 2010, and 4.6% in 2011, in each case as compared to the previous year-end. In 2012, Ukraine experienced a consumer price deflation of 0.2% as compared to the year-end 2011. Wholesale prices are also vulnerable to increases in world prices for metal products and grain, as well as natural gas and oil. Wholesale price inflation ("**WPI**") has a direct bearing on consumer prices, and WPI levels have also been high (14.3%, 18.7% and 14.2% at year-ends 2009, 2010, 2011, respectively, and 0.3% in 2012, in each case over the end of the previous year). The significant decrease in WPI in 2012 was a result of a 6.3% decrease in the world prices of metals and metal products in 2012, which resulted in a 5.1% decrease in the price of metal products in Ukraine, as well as a 29.2% decrease in the price of iron ore and 20.9% decrease in the cost of coke production.

Prior to the global financial crisis, relatively easy access to liquidity, both from within Ukraine and internationally, was a significant factor facilitating growth in Ukraine's GDP. As a result of the global financial crisis, access to the international capital markets was constrained for Ukrainian borrowers until the first quarter of 2010, which impacted negatively on GDP performance, contributed to a decline in industrial production, fewer investment projects and reduced capital expenditures generally.

Although the Ukrainian economy has shown some positive trends with GDP growth rates of 4.1% in 2010 and 5.2% in 2011, this recovery is vulnerable to a deterioration of global or regional economic conditions including a so called "double dip" recession which may stall the recovery or lead to a return of an economic and financial crisis in Ukraine. Any such developments, including the prolonged unavailability of external funding or substantial increases/decreases in world prices for goods imported/exported may have or continue to have a material adverse effect on Ukraine's economy and thus may adversely affect the our business, financial condition, results of operations and prospects.

Investments in emerging market countries, such as Ukraine, carry risks not typically associated with risks in more mature markets

Investors in emerging markets, such as Ukraine, should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Ukraine, as a relatively young democracy, still lacks a comprehensive legal infrastructure and regulatory framework which are essential to support market institutions, the effective transition to a market economy and broad-based social and economic reforms. As a consequence, an investment in Ukraine carries risks that are not typically associated with investing in more mature markets.

The second wave of the global financial crisis emanating out of Europe in 2010 and 2011 led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in countries in the emerging markets may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty.

Ukraine is closely linked to the Eurozone and, therefore, the Eurozone crisis has had an adverse impact on Ukraine's economy. For example, a reduction in external demand and lower steel prices resulted in the contraction of Ukrainian machine-building and steel sectors and the Ukrainian construction sector contracted in 2012 following the completion of significant public infrastructure projects related to and in advance of the UEFA 2012 European Football Championship. As the NBU tightened monetary conditions and utilized administrative measures to maintain the hryvnia's external stability, credit growth slowed during the first half of 2012 and came to a halt during the second half of 2012. As Ukraine's economy is very exposed to the Eurozone, developments in the EU will remain important for Ukraine's growth and economic stability in the future.

In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding for entities within any of these markets.

Investors should also note that emerging economies, such as Ukraine, are subject to rapid change and that the information set out in this offering memorandum may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging

markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

Ukraine's government potentially faces the deterioration of political consensus, which may result in political instability

Since achieving independence in 1991, Ukraine has undergone a substantial political transformation from a constituent republic in a federal socialist state, the former Soviet Union, to an independent sovereign democracy. In parallel with this transformation, Ukraine has been transitioning from a centrally planned economy to a market economy. Initially, political divisions based on historical, linguistic and ideological lines hindered the formation of stable political coalitions in the Parliament and prevented political consensus and will to secure the necessary support to implement economic reforms.

The last presidential elections were held in January 2010 and Mr. Viktor Yanukovych, leader of *Partiya Regioniv* (the "**Party of Regions**"), emerged as the winner. In February 2010, Mr. Yanukovych was inaugurated as the President of Ukraine. In March 2010, the Parliament appointed Mr. Mykola Azarov, a member of the Party of Regions, as the new Prime Minister of Ukraine and endorsed the coalition government.

In September 2010, following an application by 252 members of the Parliament, the Constitutional Court of Ukraine ("**CCU**") issued a ruling (the "**CCU Ruling**") declaring the Law of Ukraine "On Amendments to the Constitution of Ukraine" dated December 8, 2004 (the "**2004 Constitution Amendment Law**") as unconstitutional, on the basis of non-compliance with the constitutional procedure for its adoption. The 2004 Constitutional Amendment Law was the basis for the constitutional reform of 2006 limiting the powers of the President and transferring certain powers of the President to Parliament and the Ukrainian government. As a result of the CCU Ruling, the previous version of the Constitution of Ukraine resumed its legal force from September 30, 2010.

In February 2011, a new law amending the Constitution of Ukraine to unify the term of the President, the Parliament and local councils (the "**2011 Constitution Amendment Law**") entered into force. The 2011 Constitution Amendment Law provides, *inter alia,* for reinstating the five-year period for each Parliamentary term which was reduced to four years as a result of the CCU Ruling. The following parliamentary elections were held on October 28, 2012. These parliamentary elections were the first elections under the recently adopted Law of Ukraine "On the Elections of National Deputies of Ukraine" dated November 17, 2011 (the "**Elections Law**"). The Elections Law introduced a mixed voting system with 225 members of the Parliament elected in single-member districts by a plurality vote and the remaining 225 members elected under the proportional election system from lists of candidates proposed by political parties. The Elections Law also increased the minimum threshold for a political party to be represented in the Parliament to 5% (from the previously effective 3%) and prohibited electoral alliances of political parties to participate in elections.

According to the official results of the elections that were published on November 13, 2012, under the proportional system out of 21 political parties participating in the elections five political parties managed to collect 5% or more of the national vote, as required to gain seats in Parliament. The Party of Regions received 30.00% of the votes, VO Batkivschyna received 25.54% of the votes, Political Party "UDAR (Ukrainian Democratic Alliance for Reforms) of Vitaliy Klychko" received 13.96% of the votes, Communist Party of Ukraine received 13.18% of the votes and "All-Ukrainian Union "Svoboda" Political Party" received 10.44% of the votes. In single-member districts through majority voting only 220 members of Parliament were elected, including 113 representing the Party of Regions; 39 representing VO Batkivschyna; 12 representing "All-Ukrainian Union "Svoboda" Political Party"; 6 representing Political Party "UDAR (Ukrainian Democratic Alliance for Reforms) of Vitaliy Klychko"; 7 representing other Ukrainian political parties; and 43 being self-nominated individuals.

In the course of the elections, there were a number of disputes as to the conduct of the electoral process and the results of the election. In particular, the Central Election Commission announced that it was impossible to establish the results of the elections in five single-member districts and on November 6, 2012 the Parliament issued a resolution recommending the Central Election Commission to order a repeat election in those districts. The repeat elections are expected to take place in 2013. The new Parliament convened its first session on December 12, 2012. Although the absence of five members of Parliament does not legally prevent Parliament from operating, no assurance can be given that the results of the elections will not be further disputed and that the operation of Parliament will not be obstructed.

On February 8, 2013, the Higher Administrative Court of Ukraine declared the results of the parliamentary elections in two single-member districts invalid on the basis of violations in the course of the election process and the resulting impossibility to accurately determine the results of the elections in these districts. Accordingly, the Court declared absence of the status and authority of a national deputy in respect of Mr. Pavlo Baloga and Mr. Oleksandr Dombrovsky who were elected in the above two districts and ordered repeat elections in these districts. Since the grounds on which the judgment of the Court is based were questioned by certain state officials and national deputies, on February 14, 2013, 61 national deputies submitted an application to the CCU requesting official interpretation of certain provisions of the Constitution of Ukraine relating to the termination of the status of a national deputy. As at the date of this offering memorandum, the CCU is considering the application. In addition, on March 1, 2013, a lawsuit was filed with the Higher Administrative Court of Ukraine seeking to deprive Mr. Sergii Vlasenko of his status and authority as a national deputy. Mr. Vlasenko is widely known as the defense attorney of Mrs. Tymoshenko and accordingly he was alleged to be carrying out his national deputy's authority simultaneously with practicing law, which is prohibited under the effective Ukrainian legislation. Although Mr. Vlasenko asserted that he had previously made a petition to terminate his attorney's license, on March 6, 2013, the Higher Administrative Court of Ukraine delivered a judgment terminating his status and authority as a national deputy. Although the ultimate effect of the judgments of the Higher Administrative Court of Ukraine is not yet clear, such precedents may have adverse effect on the operation of the Parliament and, as a result, the political stability in Ukraine.

Following the parliamentary elections, Mr. Mykola Azarov was re-appointed as Prime Minister of Ukraine and a new government was formed. As before, the majority of Parliament and the Ukrainian government, headed by Prime Minister Azarov, are closely aligned with President Yanukovych. Therefore, the Ukrainian government currently has a strong political base and is able to focus on improving the economic and social conditions in Ukraine. In particular, substantial progress has been achieved in various areas including macroeconomic stability, fiscal policy, cooperation with the International Monetary Fund (the "**IMF**"), banking system stability and social stability. At the same time, there can be no assurance that good relations between the President, the Ukrainian government and the majority of Parliament will continue in the future.

Recent political developments have also highlighted potential inconsistencies between the Constitution of Ukraine and various laws and presidential decrees. Furthermore, such developments have raised questions regarding the judicial system's independence from economic and political influences.

A number of additional factors could adversely affect political stability in Ukraine, including:

- lack of agreement within the factions and amongst individual deputies in Parliament;
- disputes between factions supporting the President and the Ukrainian government and opposition factions on major policy issues, including Ukraine's foreign, energy and cultural policy;
- court action taken by opposition parliamentarians against decrees and other actions of the President or the Ukrainian government or the Parliament; or
- court action by the President against Parliamentary or governmental resolutions or actions.

There can be no assurance that the political initiatives necessary to achieve reforms described in this offering memorandum will continue, will not be reversed or will achieve their intended aims. Any significant changes in the political climate in Ukraine may have negative effects on the economy as a whole and, as a result, a material adverse effect on our business, financial condition, results of operations and prospects.

Positive developments in the economy may not be achieved if certain important economic and financial structural reforms are not made

In recent years, the Ukrainian economy has been characterized by a number of features that contribute to economic instability, including a relatively weak banking system providing limited liquidity to Ukrainian enterprises, tax evasion, significant capital flight and low (but rising) wages for a large portion of the Ukrainian population.

Although the Ukrainian economy was growing at the average rate of approximately 7.0% each year between 2000 and 2007, this growth was driven mainly by a rapid increase in foreign demand for Ukrainian products, rising commodity prices on external markets and the availability of foreign financing. While positively affecting the pace of Ukrainian economic growth in those years, these factors made the

Ukrainian economy overly vulnerable to adverse external shocks. Thus, as the global economic and financial situation started to deteriorate, Ukraine's economy was one of the most heavily affected by the downturn. The negative impact of the global financial crisis has been compounded by weaknesses in the Ukrainian economy, which is sensitive to external and internal events. In particular, although the Ukrainian government has generally been committed to economic reform, the implementation of reform has been impeded by a lack of political consensus, controversies over privatization (including privatization of land in the agricultural sector and privatization of large industrial enterprises), restructuring of the energy sector and the removal of exemptions and privileges for certain state-owned enterprises or for certain industry sectors.

The Ukrainian economy will remain vulnerable to global commodity prices and investor perceptions (constraining the availability of external financing) unless Ukraine undertakes certain important economic and financial structural reforms (including those required by the IMF as a pre-condition for resuming its lending to the country). The most critical structural reforms that need to be implemented or continued include: (i) further reform of Ukrainian tax legislation (including the development and adoption of regulations implementing the new Tax Code) with a view to broadening the tax base by bringing a substantial portion of the shadow economy into the reporting economy; (ii) reform of the energy sector through the introduction of uniform market-based energy prices and improvement in collection rates (and, consequently, the elimination of persistent deficits in that sector); and (iii) reform of social benefits and pensions.

Failure to achieve the political consensus necessary to support and implement such reforms could adversely affect the country's economy. Furthermore, future potential political instability in the executive or legislative branches could hamper efforts to implement necessary reforms. There can be no assurance that the political initiatives necessary to achieve these or any other reforms described elsewhere in this offering memorandum will continue, will not be reversed or will achieve their intended aims. Rejection or reversal of reform policies favoring privatization, industrial restructuring and administrative reform may have negative effects on the economy and, as a result, on our business, financial condition, results of operations and prospects.

A persistent or worsening situation in the financial markets could lead to insolvencies of Ukrainian banks due to liquidity constraints that such a crisis may impose. In addition, a failure to maintain a system of banking regulation that achieves an increased degree of soundness and stability in the nation's banking system could increase the systemic risk in the banking sector. Both these factors could have a material adverse effect on the economy of Ukraine and thus may adversely affect our business, financial condition, results of operations and prospects.

The Ukrainian currency is subject to volatility and depreciation

Following a period of continued depreciation in previous years, in 2010, the hryvnia appreciated against the U.S. dollar by 0.3% and appreciated against the euro by 7.65%. In 2011, the hryvnia depreciated against the dollar by 0.4% and appreciated against the euro by 2.6% compared to year-end 2010. In 2012, the hryvnia depreciated against the dollar by 0.28% and depreciated against the euro by 2.32%. The official exchange rate of the NBU was UAH 7.9930 to US$1.00 as at March 15, 2013.

Although the value of the hryvnia against the U.S. dollar has stabilized since the beginning of 2010 due to the growing export demand for Ukrainian products, high rollovers of external corporate debt and increased foreign currency revenues of Ukrainian exporters, it may depreciate further in the near future if currency inflow from exports and foreign investment do not continue, as well as due to the need for borrowers to repay a substantial amount of short-term external private debt (estimated by the NBU to be approximately US$32.2 billion as at September 30, 2012). Gradual exchange rate liberalization is one of the key elements in the IMF 2010 SBA (as defined below). The liberalization process could result in a period of greater currency volatility. Any further currency fluctuations may negatively affect the Ukrainian economy in general and, as a result, have a material adverse effect on our business, financial condition, results of operations and prospects.

Social instability could have political and economic consequences and affect the value of investments in Ukraine

The failure of the Ukrainian government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits in Ukraine generally to keep pace with the rapidly increasing cost of living have previously led, and could again lead in the future, to labor and social unrest. As of September 2012, 7.4% of the Ukrainian population were unemployed, and as of February 2013, Ukrainian

employers had an outstanding indebtedness for salaries in an amount exceeding UAH1 billion, according to the State Statistics Services. Labor and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralized authority, increased nationalism, with restrictions on foreign ownership in the Ukrainian economy and possibly violence. Any of these events could adversely affect our business, financial condition, operational results and prospects.

Ukraine's physical infrastructure is in a poor condition, which may lead to disruptions to our business or an increase in our costs

Ukraine's physical infrastructure, including its power generation and transmission and communication systems and building stock, largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. See *"—We depend on key pieces of plant, equipment and machinery to conduct our operations"*. Road conditions throughout Ukraine are relatively poor in comparison with more developed countries. According to the State Agency of Motor Roads of Ukraine "Ukravtodor", as of March 2013, 90% of Ukrainian roads were critically damaged. Most roads have not been repaired for 30 to 40 years and only 5% of the roads are newly constructed. According to the draft strategy paper entitled "Updated Energy Strategy of Ukraine for the Period until 2030", Ukraine significantly lags behind developed countries in terms of technical development, and fixed assets in the energy and utilities sector, including coal mines, are frequently in poor condition or are obsolete. Indeed, more than 70% of the Ukrainian state's coal mines have not been repaired or developed for more than 30 years, which means that the privatized coal mines we have acquired (or may acquire in the future) generally required (or will require) significant investment. The Ukrainian government has been implementing plans to develop the nation's rail, electricity and telephone systems, which may result in increased charges and tariffs whilst failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The deterioration of Ukraine's physical infrastructure has an adverse effect on the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Ukraine and can interrupt business operations. Any further deterioration in Ukraine's physical infrastructure could have a materially adverse effect on our business, financial condition, operational results and prospects.

Any adverse changes in Ukraine's relationships with western governments and institutions may adversely affect the Ukrainian economy and thus our business

With effect from May 16, 2008, Ukraine became a member of the World Trade Organization (the "**WTO**"). In addition, prior to President Yanukovych's inauguration in February 2010, Ukraine pursued membership in the North Atlantic Treaty Organization ("**NATO**"). According to the Law of Ukraine "On Principles of Internal and External Policy" which became effective on July 20, 2010, whilst Ukraine will continue to cooperate with NATO and other military and political alliances in various matters of mutual interest, it is not considering joining the membership of those alliances. The law prevents Ukraine from becoming dependent on any state, group of states or international organizations.

With effect from December 30, 2005, Ukraine was given market economy status by the EU, though without any immediate prospect of EU membership. Other than Russia, the EU is the largest external trade partner of Ukraine and continues to grow in importance, increasing from 25.4% of all exports in 2009 to 26.2% in 2011 and 25.4% in 2012, according to the State Statistics Service. As a consequence, Ukraine's relationship with governments in the EU and with multinational institutions is of great importance.

In December 2010, criminal charges were filed by the Office of the Prosecutor General of Ukraine (the "**Prosecutor General's Office**") against former Prime Minister Yuliya Tymoshenko for allegedly misusing EUR380 million of state funds while in office by illegally diverting revenues received in 2009 from Ukraine's carbon emission rights under the Kyoto Protocol. In addition, it has been reported that in April 2011, criminal charges were filed by the Prosecutor General's Office against Mrs. Tymoshenko for allegedly causing losses to the Ukrainian state by exceeding her authority during the execution of the Gas Agreements in 2009. On August 5, 2011, Mrs. Tymoshenko was arrested and detained due to alleged abuse of powers during her time in office as Prime Minister. On October 11, 2011, a judge ruled that Mrs. Tymoshenko had criminally exceeded her powers when she signed the Gas Agreements and sentenced her to seven years in prison. Later that month, Mrs. Tymoshenko submitted an appeal. On December 23, 2011, the Kyiv Court of Appeal declined Mrs. Tymoshenko's appeal, meaning that she could not participate in the 2012 parliamentary elections, which were held on October 28, 2012. A new criminal investigation has now reportedly been launched to investigate allegations of fraud committed by Mrs. Tymoshenko during her management of United Energy Systems of Ukraine in the 1990s. In January 2013, Mrs. Tymoshenko was also named a suspect in an investigation of the assassination of Yevhen Shcherban, a Ukrainian

businessman and member of the Ukrainian Parliament, in 1996. There have been reports that the timing and circumstances of the arrest, the subsequent imprisonment of the former Ukrainian Prime Minister for abuse of power, and the nature of other accusations leveled against her have created a negative reaction among and the international community and continue to adversely affect the Ukrainian government's relationships with a number of governments and international institutions. Indeed, EU authorities have recently indicated that the EU will not enter into the anticipated Association Agreement with Ukraine until the detention of, and all accusations against, Mrs. Tymoshenko are satisfactorily resolved.

Any major changes in Ukraine's relationship with western governments and institutions introduced by President Yanukovych caused by political events or otherwise, in particular any such changes adversely affecting the ability of Ukrainian manufacturers to access or to fully compete in world export markets, may have a material adverse effect on our business, financial condition, results of operations and prospects.

Any unfavorable changes in Ukraine's regional relationships, especially with Russia, may adversely affect the Ukrainian economy

Ukraine's economy relies heavily on its trade with Russia and the rest of the Commonwealth of Independent States (the "**CIS**"), largely because Ukraine imports a large proportion of its energy requirements, primarily from Russia (or from countries that transport energy-related exports through Russia). In addition, a large share of Ukraine's services receipts comprise transit charges for oil, gas and ammonia from Russia, which are delivered to the EU via Ukraine and, as at December 31, 2012, approximately 25.6% of all Ukrainian exports of goods were made to Russia.

As a result, Ukraine's relations with Russia are strategically important. However, until recently, relations between Ukraine and Russia were strained to a certain extent due to (a) disagreements over the prices and methods of payment for gas delivered by the Russian gas supplier OJSC Gazprom ("**Gazprom**") to, or for transportation through, Ukraine; (b) issues relating to the delineating of the Russia-Ukraine maritime border; (c) unresolved issues relating to the temporary stationing of the Russian Black Sea Fleet *(Chernomorskyi Flot)* ("**Black Sea Fleet**") in Ukrainian territory; and (d) a Russian ban on imports of meat and milk products from Ukraine and anti-dumping investigations conducted by Russian authorities in relation to certain Ukrainian goods.

However, following the election of President Yanukovych in 2010, relations with Russia generally strengthened. On April 21, 2010, Ukraine and Russia signed a new agreement on the stationing of the Black Sea Fleet in Ukrainian waters. Under the agreement, the term for the stationing of the Black Sea Fleet was extended for a further 25-year period (starting upon expiration of the previous term until 2017) with an additional 5-year extension option, and the amount of the lease charges payable for the stationing of the Black Sea Fleet was increased. The agreement also provides that a portion of the lease charges will be set off against discounts in the price of natural gas supplied by Gazprom to Ukraine as described below.

Russia has in the past threatened to cut off the supply of oil and gas to Ukraine in order to apply pressure on Ukraine to settle outstanding gas debts and maintain low transit fees for Russian oil and gas through Ukrainian pipelines to European consumers. In line with its threats, in early January 2009, Gazprom substantially decreased natural gas supplies to Ukraine, due to a failure to agree terms regarding the supply of natural gas. Following negotiations between the governments of Russia and Ukraine and the signing on January 19, 2009 of agreements between National joint-stock company "Naftogaz of Ukraine" ("**Naftogaz**") and Gazprom setting out the terms of further natural gas supplies and transit through the territory of Ukraine during the period 2009 to 2019 (the "**Gas Agreements**"), Gazprom resumed natural gas supplies to Ukraine and other European countries on January 20, 2009. Since that date, there have been no further disruptions in the supply of Russian gas to Ukraine and other European countries through the territory of Ukraine.

Pursuant to the Gas Agreements, the price of natural gas supplied to Ukraine for domestic consumption and the tariff for the transit of natural gas through the territory of Ukraine is to be determined pursuant to formulas set out in the agreements. The average weighted annual price for natural gas supplied for domestic consumption in Ukraine in 2009 was approximately US$ 210.2 per 1,000 cubic meters. In April 2010, amendments to the contracts for natural gas supplies were signed, under which Gazprom agreed to give Naftogaz certain discounts on the otherwise applicable price for natural gas supplied for domestic consumption in Ukraine. As a result of such arrangements, the average weighted annual price of the natural gas was US$256.7 and US$309.0 per 1,000 cubic meters in 2010 and 2011, respectively. The actual average weighted price of natural gas imported by Naftogaz in 2012 amounted to US$424.5 per 1,000 cubic meters. Naftogaz and the Ukrainian government have been in negotiations with Gazprom and the Russian

government in respect of a decrease of the natural gas prices supplied to Ukraine for 2013, however no agreement has been reached so far. Failure to come to an acceptable compromise may force Ukraine to continue to subsidize Naftogaz to reduce their losses in the event relatively low gas prices for Ukrainians are required to be maintained. Additionally, the continuation of such low gas prices and consequent subsidies to Naftogaz may jeopardize future Ukrainian drawdowns from the IMF and other loan programs, thereby having a significant adverse effect on the economy of Ukraine.

Furthermore, in January 2013 Gazprom invoiced Naftogaz approximately US$7 billion for having imported natural gas below the contracted volume in 2012. According to an official statement made by Naftogaz, Gazprom has been formally notified on several occasions of the intention of Naftogaz to import less gas than it is contractually obliged to in 2012. As the discussions on the matter between the two companies is at an early stage, no assurance can be given as to how the situation will affect relations between Naftogaz and Gazprom as well as natural gas supplies to Ukraine generally.

The increase in the price of natural gas by Russia has adversely affected the pace of economic growth of Ukraine due to the considerable dependence of the Ukrainian economy on Russian exports of energy resources. Furthermore, although the gas price increases have increased pressure for reforms in the energy sector and modernization of major energy-consuming industries of Ukraine through the implementation of energy-efficient technologies and the modernization of production facilities, there can be no assurance that these reforms will succeed.

If bilateral trade relations were to deteriorate, if Russia were to stop transiting a large portion of its oil and gas through Ukraine or if Russia halted supplies of natural gas to Ukraine, Ukraine's balance of payments and foreign currency reserves could be materially and adversely affected. Any further adverse changes in Ukraine's relations with Russia, in particular any such changes adversely affecting supplies of energy resources from Russia to Ukraine or Ukraine's revenues derived from transit charges for Russian oil and gas, may have negative effects on the Ukrainian economy as a whole and thus on our business, financial condition, results of operations and prospects.

Official statistics and other data published by Ukrainian state authorities may not be reliable

Official statistics and other data published by Ukrainian state authorities (including the NBU and the State Statistics Service) may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on bases different from those used in more developed countries. Neither the Issuer, the Guarantors, the Sureties nor the Initial Purchasers have independently verified such official statistics and other data, and prospective investors should be aware that any discussion of matters relating to Ukraine in this offering memorandum is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information and may not be fully in accordance with international standards. Furthermore, standards of accuracy of statistical data may vary from agency to agency and from period to period due to the application of different methodologies. Since the first quarter of 2003, Ukraine has produced data in accordance with the IMF Special Data Dissemination Standard. There can be no assurance, however, that this IMF standard has been fully implemented or correctly applied. The existence of a sizeable unofficial or shadow economy may also affect the accuracy and reliability of statistical information. In addition, Ukraine has experienced variable rates of inflation, including periods of hyperinflation. Unless indicated otherwise, the macroeconomic data presented in this offering memorandum has not been restated to reflect such inflation and, as a result, period-to-period comparisons may not be meaningful. Prospective investors should be aware that certain statistical information and other data contained in this offering memorandum have been extracted from official governmental sources in Ukraine and were not prepared or independently verified by any person in connection with the preparation of this offering memorandum.

Restricted access to international capital markets may adversely affect the Ukrainian economy

Historically in times of crisis and international financing constraints loans from multinational organizations such as the EBRD, the World Bank, the EU and the IMF comprised Ukraine's dominant sources of external financing.

Ukraine's vulnerability to the global financial crisis is evident in the country's downgrades of its external credit ratings in 2008. In February 2009, Fitch and Standard & Poor's Credit Market Services Europe Limited ("**S&P**") revised their long-term foreign currency sovereign credit ratings on Ukraine to B (negative) and CCC+ (negative), respectively, and, in May 2009, Moody's Deutschland GmbH ("**Moody's GmbH**") downgraded Ukraine's credit rating from B1 to B2 (negative). Each of Fitch, S&P and

Moody's GmbH is established in the European Union and registered under the CRA Regulation. In 2010, however, following presidential elections and appointment of the new Ukrainian government, S&P, Moody's GmbH and Fitch upgraded their long-term foreign currency sovereign credit ratings on Ukraine to B- (positive), B2 (stable) and B- (stable), respectively. Currently, the long-term credit ratings of Ukraine are B3 (negative) by Moody's GmbH, B (negative) by S&P and B (stable) by Fitch.

As a result of the global financial crisis and the resulting absence of liquidity in the Ukrainian credit markets, Ukraine sought IMF financing. In November 2008, the IMF approved a two-year Stand-By Arrangement (the "**2008 SBA**") with Ukraine for approximately US$16.4 billion to assist the Ukrainian government in restoring financial and economic stability. In 2008 and 2009, total disbursements under the 2008 SBA amounted to approximately US$10.6 billion.

In accordance with the terms of the 2008 SBA, Ukraine had received three tranches of IMF financing with the fourth one delayed because of the presidential elections in Ukraine.

Following the inauguration of President Yanukovych in late February 2010, the newly-formed Ukrainian government resumed negotiations with the IMF. On July 28, 2010, the IMF Executive Board noted the cancellation of the 2008 SBA, and on the same date approved a new US$15.15 billion Stand-By Arrangement for Ukraine (the "**2010 SBA**") to be drawn in ten tranches in 2010-2012. On August 2, 2010, Ukraine received the first tranche in the amount of approximately US$1.89 billion with US$1.0 billion earmarked for the financing of the state budget deficit. The financing under the 2010 SBA is contingent upon Ukraine's satisfaction of quantitative and continuous performance criteria. Such criteria include, among other things, a ceiling on the cash deficit of the Ukrainian government, a floor on net international reserves of the NBU, a ceiling on the net domestic assets and a ceiling on the state-guaranteed debt. The first review of Ukraine's compliance with the 2010 SBA terms commenced in November 2010 and was completed in mid-December 2010. On December 27, 2010, following the first review, Ukraine received the second tranche in the amount of approximately US$1.5 billion, with approximately US$1.0 billion earmarked for the financing of the state budget deficit. The disbursement of the third tranche, expected to take place in May 2011, was deferred. Following the visit of IMF mission to Ukraine in May 2012, the IMF noted that the Ukrainian public is benefiting from lower inflation supported by the NBU's monetary policy, reacted positively to pension reform and the new Customs Code and considered progress to have been made in deregulating and simplifying tax laws. However, despite this progress, further disbursements remained subject to raising domestic gas tariffs as previously agreed. The 2010 SBA for Ukraine was terminated in December 2012, however, further discussions between the Ukraine government and the IMF began on January 29, 2013 and are ongoing, with the goal of renewing the program of cooperation between the IMF and Ukraine and discussing the possibility of a new stand-by arrangement in the amount of 10 billion special drawing rights. However, due to Ukraine's reluctance in the past in implementing all of the IMF's requirements, there can be no assurance that such discussion will result in a new stand-by arrangement or that Ukraine would be able to satisfy the conditions for drawdown under any such arrangement.

As part of its cooperation with Ukraine, in 2013 Ukraine expects to receive financial support from the EU amounting to up to €610 million. On February 25, 2013, the memorandum of understanding and a loan agreement were executed by the parties. The aim of this support is to help maintaining the stability of the Ukrainian economy. The disbursement of funds under this facility may be subject to EU's discretion and may include consideration of compliance with IMF requirements. This financial support is expected to be provided in four separate tranches amounting to €100 million, €10 million, €250 million and €250 million, respectively and is likely to have a maturity of 15 years. Each tranche will be provided regardless of whether the previous tranche is repaid by the time of disbursement. The interest rate of the separate tranches will only be set at the time of the drawdown based upon the European Commission's cost of funding at the time which will be passed on at the same rate to Ukraine. Before each tranche is released, the European Commission, together with the representatives of the IMF and the Ukraine government, will examine Ukraine's progress in complying with certain reform criteria set out in the memorandum of understanding.

While Ukraine has been able to successfully complete three Eurobond issues in 2012 in the aggregate amount of US$3.85 billion, if Ukraine's access to international debt markets were to become limited, the Ukrainian government would have to rely to a significant extent on official or multilateral borrowings to finance part of the budget deficit, fund its payment obligations under domestic and international borrowings and maintain foreign exchange reserves. Additionally, Ukraine has indicated that, as part of its debt management policy, it plans to develop the internal debt market and to reduce its reliance on external debt financing. However, reliance on internal debt and unavailability of external financing may place additional pressure on Ukraine's ability to meet its payment obligations.

Borrowings from multinational organizations such as the IMF, the EBRD, the World Bank or the EU may be conditioned on Ukraine's satisfaction of certain requirements, which may include, among other things: implementation of strategic, institutional and structural reforms; reduction of overdue tax arrears; absence of increase of budgetary arrears; improvement of sovereign debt credit ratings; and reduction of overdue indebtedness for electricity and gas. If Ukraine is unable to access international capital markets or syndicated loan markets, a failure by official creditors and of multilateral organizations to grant adequate financing including the refusal by the IMF to make available the remaining funds under the 2010 SBA, could adversely affect Ukraine's financing of its budget deficit, the level of inflation and/or the value of the hryvnia, which, in turn, could have a material adverse effect on our business, financial condition, results of operations and prospects.

The Ukrainian banking system may be vulnerable to stress due to fragmentation, undercapitalization and a potential increase in non-performing loans, all of which could have a material adverse effect on the real economy

The recent global financial crisis has led to the collapse or bailout of some Ukrainian banks and significant liquidity constraints for others. The crisis has prompted the Ukrainian government to inject substantial funds into the banking system amid reports of difficulties among Ukrainian banks and other financial institutions. The Ukrainian government's policy has been to intervene, in support only of banks whose size is such that their failure would create systemic risk for the Ukrainian economy.

Despite progress with the restructuring and recapitalization of Ukrainian banks, problems with asset quality and indebtedness persist. Asset quality was affected significantly by the devaluation of the hryvnia in 2008 (52.5% against the dollar and 46.3% against the Euro) and further exacerbated by the 14.8% contraction of the economy in 2009. Despite Ukrainian government and NBU intervention and progress in stabilizing the foreign exchange market by the end of 2009 and during the first half of 2010, the high dollarization in the Ukrainian financial system increased exchange rate risks and could contribute to a worsening of banks' asset quality.

Doubtful and bad loans is another factor affecting the asset quality of Ukrainian banks. The proportion of loans represented by doubtful and bad loans was 2.3%, 13.1%, 14.9% and 14.3% as at December 31, 2008, 2009, 2010, 2011 respectively, and 12.5% as at December 1, 2012, according to NBU data. Although the growth rate of the share of doubtful and bad loans in banks' credit portfolios has slowed, a future increase in this rate could place additional strain on the banking system. Furthermore, in addition to the loans that the NBU categorizes as doubtful and bad, a significant proportion of Ukrainian banks' loan portfolios could be described as substandard. The IMF, in connection with the 2010 SBA, which is described in greater detail above, provided two estimates for loans which could be categorized as non-performing. Under a broad definition of non-performing loans that includes loans classified as substandard, doubtful and loss, the IMF estimated that 39.1% of loans held by Ukrainian banks were non-performing as at March 31, 2012. Under a narrower definition that does not count as non-performing those substandard loans that are serviced in a timely manner, the IMF estimated that 14.9% of loans were non-performing as at March 31, 2012.

The continuation or worsening of the global financial crisis, further insolvencies of Ukrainian banks, growth in the share of doubtful and bad loans, the need for the Ukrainian government to inject more capital into the banking system and the failure to adopt and implement a system of banking regulation that achieves an increased degree of soundness and stability in the nation's banks could all have a material adverse effect on the Ukrainian economy and thus may adversely affect our business, financial condition, results of operations and prospects.

Ukraine may not be able to increase or maintain access to foreign investment

Notwithstanding improvements in the Ukrainian economy in recent years, cumulative foreign direct investment remains low for a country of Ukraine's size. An increase in the perceived risks associated with investing in Ukraine could reduce foreign direct investment in Ukraine and adversely affect the Ukrainian economy. In 2011, the amount of foreign direct investment in Ukraine was US$7.21 billion, compared to US$6.49 billion in 2010 and US$4.82 billion in 2009, according to the NBU. Net foreign direct investment into Ukraine in 2012 amounted to US$6.0 billion according to the Ministry of Economic Development. No assurance can be given that Ukraine will be able to increase or maintain access to foreign investment. In addition privatization remains relatively low and, in current market conditions with depressed local asset prices unlikely to be substantially increased, any future attempts to renationalize previously privatized enterprises could adversely affect the climate for foreign direct investment and have an adverse effect on

the economy of Ukraine which, in turn, may adversely affect our business, financial condition, results of operations and prospects.

Corruption and money laundering may have an adverse effect on the Ukrainian economy

External analysts have identified corruption and money laundering as problems in Ukraine. In accordance with the Ukrainian anti-money laundering legislation that came into force in Ukraine in June 2003, the NBU and other state authorities as well as various entities carrying out financial services are now required to monitor certain financial transactions more closely for evidence of money laundering. As a result of the adoption of this legislation, in February 2004, Ukraine was removed from the list of non-cooperative countries and territories by the Financial Action Task Force on Money Laundering (the "**FATF**") and, in January 2006, the FATF discontinued its formal monitoring of Ukraine.

In August 2010, a new law entered into force significantly amending the Ukrainian anti-money laundering legislation and implementing 40 revised recommendations and nine special recommendations of the FATF, as well as the directive of the European Parliament on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing. In particular, the law extends the list of entities that are required to monitor financial transactions at the primary level, extends the list of state agencies authorized to conduct state financial monitoring, and broadens the list of grounds on the basis of which a financial transaction may be subject to monitoring. In addition, with effect from July 1, 2011, the Parliament adopted an anti-corruption law containing provisions relating to measures to prevent corruption, introducing a more detailed regulation of responsibility for involvement in corruption and providing for international cooperation in combating corruption.

Although the newly adopted legislation is expected to facilitate anti-corruption efforts in Ukraine, there can be no assurance that the laws will be effectively applied and implemented by the relevant supervising authorities in Ukraine. Any future allegations of corruption in Ukraine or evidence of money laundering could have a negative effect on the ability of Ukraine to attract foreign investment and on the economy of Ukraine in general which, in turn, may adversely affect our business, financial condition, results of operations and prospects.

Weaknesses relating to the legal system and legislation may create an uncertain environment for investment and business activity

The Ukrainian legal system remains subject to greater risks and uncertainties than more mature legal systems. In particular, risks associated with the Ukrainian legal system include:

- inconsistencies between and among the Constitution of Ukraine and various laws, presidential decrees, governmental, ministerial and local orders, decisions, resolutions and other acts;
- provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted;
- the fact that it is not unusual in Ukraine for laws to be enacted with retroactive effect or to be published sometime after their enactment;
- authority or guidance for interpreting provisions of Ukrainian legislation remains rare;
- difficulty in predicting the outcome of judicial application of Ukrainian legislation due to, among other factors, a general inconsistency in the judicial interpretation of such legislation in the same or similar cases; and
- the fact that not all Ukrainian resolutions, orders, decrees, decisions and similar governmental, regulatory and judicial acts are readily available to the public or available in comprehensibly organized form.

Furthermore, several fundamental Ukrainian laws either have only relatively recently become effective or are still pending hearing or adoption by the Parliament. For example, a new law on joint stock companies which significantly amends Ukrainian corporate law became effective in 2009. In 2010, a new law regarding the court system and the status of judges came into force and new budget and tax codes were adopted by Parliament and brought into force on January 1, 2011. The recent origin of much of Ukrainian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Ukrainian legal system in ways that may not always coincide with market developments

place the enforceability and underlying constitutionality of laws in doubt, and result in ambiguities, inconsistencies and anomalies.

In addition, Ukrainian legislation often contemplates implementing regulations. Often such implementing regulations have either not yet been promulgated, leaving substantial gaps in the regulatory infrastructure, or have been promulgated with substantial deviation from the principal rules and conditions imposed by the respective legislation, This results in a lack of clarity and causes conflicts between business entities and regulatory authorities and occasionally conflicts between different regulatory authorities that interpret legislations in varying ways. Additionally, those and other factors that have an impact on Ukraine's legal system make an investment in the Notes subject to greater risks and uncertainties than an investment in a country with a more mature legal system.

The judiciary's lack of independence and overall inexperience, and the difficulty in enforcing court decisions and governmental discretion in enforcing claims could prevent us from obtaining effective redress in any court proceeding.

The independence of the judicial system and its immunity from economic and political influences in Ukraine remain questionable. Although the Constitutional Court of Ukraine is the only body authorized to exercise constitutional jurisdiction and has mostly been impartial, the system of constitutional jurisdiction itself remains too complicated to ensure smooth and effective removal of discrepancies between the Constitution of Ukraine and various laws of Ukraine.

The court system is understaffed and underfunded. Judges and courts are generally inexperienced in the area of business and corporate law and judicial precedents generally have no binding effect on subsequent decisions. Moreover, courts themselves are not bound by earlier decisions taken under the same or similar circumstances, which results in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. Not all Ukrainian legislation is readily available to the public or organized in a manner that facilitates understanding. For each particular law made by different government authorities, there are many sub-laws, regulations and resolutions, which can make the laws difficult to understand. Furthermore, a limited number of judicial decisions are publicly available, and therefore, the role of judicial decisions as guidelines in interpreting applicable Ukrainian legislation to the public at large is limited. However, according to the Law of Ukraine "On Access to Court Decisions" that became effective on June 1, 2006, court judgments are becoming available to the public.

On July 30, 2010, a new Law of Ukraine "On Court System and Status of Judges" entered into effect (with the effectiveness of certain provisions postponed). The new law provides for the establishment of a High Specialized Court of Ukraine on Civil and Criminal Matters, which has the status of the cassation court together with the High Administrative Court of Ukraine and High Commercial Court of Ukraine, and limits the powers of the Supreme Court of Ukraine. The law also establishes new procedures for the appointment of judges and introduces a clear list of grounds for imposing disciplinary liabilities on judges. No assurance can be given however that the new law will positively affect the Ukrainian judicial system and cure currently existing deficiencies.

Enforcement of court orders and judgments can in practice be difficult in Ukraine. The State Execution Service, a body independent of the Ukrainian courts, is responsible for the enforcement of court orders and judgments in Ukraine. Often, enforcement procedures are very time-consuming and may fail for a variety of reasons, including the defendant lacking sufficient funds, the complexity of auction procedures for the sale of the defendant's property or the defendant undergoing bankruptcy proceedings. In addition, the State Execution Service has limited authority to enforce court orders and judgments quickly and effectively although its powers and the overall enforcement process were enhanced following the adoption of a new law "On Execution Proceedings" in November 2010. The State Execution Service is bound by the method of execution provided for by the relevant court order or judgment and may not independently change such method even if it proves to be inefficient or unrealizable. Furthermore, notwithstanding successful execution of a court order or a judgment, a higher court can reverse a court order or judgment and require that the relevant funds or property be restored to the defendant. Moreover, in practice the procedures employed by the State Execution Service do not always comply with applicable legal requirements, resulting in delays or failures in enforcement of court orders and judgments.

These uncertainties also extend to certain rights, including investor rights. In Ukraine, there is no established history of investor rights or responsibility to investors, and in certain cases the courts may not enforce such rights. In the event courts do seek to protect rights of investors granted under applicable Ukrainian legislation, there nevertheless remains the risk that the government and/or the legislature of

Ukraine may attempt to overrule any such court decisions by implementing legislative changes which have retroactive effect.

These and other factors that impact on Ukraine's judicial system make an investment in the Notes subject to greater risk and uncertainty than an investment in a country with a more developed judicial system.

Ukrainian legal entities may be liquidated on the basis of a lack of strict compliance with certain legal or procedural requirements

Certain provisions of Ukrainian law may allow a court to order the liquidation of a Ukrainian legal entity on the basis that it has not complied strictly with certain requirements relating to the formation or operation of such entity. For example, the following grounds may be invoked in requests for the liquidation of a legal entity: (i) formation of the legal entity was performed with defects that cannot be remedied, (ii) the legal entity performs activities that are contrary to its constitutional instruments or violate the law, (iii) the charter capital of the legal entity is below the minimum level determined by law, (iv) the legal entity fails to file tax returns or financial reports for the period of one year, (v) the legal entity exercises certain dangerous works without a valid permit, among others. On January 1, 2013, the list of grounds upon which a court may order the liquidation of a legal entity was expanded and now includes the following: (i) a court holds that the issuer of securities is a sham company; (ii) the legal entity fails to file information with the Ukrainian securities regulator for two years in a row; (iii) the joint stock company fails to convoke the general shareholders' meetings for two years; and (iv) the joint stock company fails to form corporate bodies within a year following the private placement of its shares. However, most of the grounds for the mandatory liquidation of a legal entity are subject to reasonable remedy periods and procedural requirements. Furthermore, as a matter of practice most governmental authorities are reluctant to initiate court proceedings for the liquidation of legal entities, and courts generally take strict approach to the evaluation of the grounds for the liquidation and the competence of the governmental authorities to file such suits.

Although we believe that our Ukrainian subsidiaries have complied, and are in compliance, with all applicable laws and regulations, if a court or a governmental authority takes an unfavorable view of our compliance with Ukrainian legal requirements, we may need to restructure our operations, which could have a material adverse effect on our business, financial condition, operational results and prospects.

Certain of our Ukrainian subsidiaries are subject to mandatory dividend distribution rules in Ukraine, which may become more widespread in the future

Under Ukrainian law, companies in which the Ukrainian government holds any equity interest and companies which are controlled by state-owned companies are required to distribute at least 30% of their net profit as dividends annually. The Ukrainian government (and state-owned companies) owns equity interests in certain of our Ukrainian subsidiaries and, consequently, such subsidiaries are required to distribute, and do distribute, an amount equal to not less than 30% of their net profits in the form of dividends each year.

Further, during 2010 only, Ukrainian legislation required all Ukrainian joint stock companies (irrespective of whether the Ukrainian government held an equity interest in them) to distribute a certain portion of their net income and/or undistributed profits of previous years as dividends shortly after the end of the financial year. Similar legislative initiatives are proposed in the Ukrainian Parliament from time to time. There can be no assurance that the mandatory distribution of dividends will not be re-introduced into Ukrainian legislation in the future or that the scope of any such legislation introduced would not be broader and apply to all Ukrainian legal entities irrespective of corporate form or ownership structure. In such case, some or all of our Ukrainian subsidiaries would be obliged to make dividend distributions in circumstances where they may otherwise choose not to, which could result in a reduction in the free cash flow available for use by us, including to finance our capital expenditure and any future acquisitions and/or repay indebtedness. The occurrence of the foregoing may have a material adverse effect on our business, results of operations, financial condition and prospects.

The Ukrainian tax system is undeveloped and subject to frequent change, which may create an uncertain environment for investment and business activity

Historically Ukraine has had a number of laws related to various taxes imposed by both central and regional governmental authorities. These taxes include value added tax, corporate income tax (profits tax), customs duties, payroll (social) taxes, etc. The tax legislation in Ukraine is not always clearly written or

explained and is subject to the interpretation of the tax authorities and other government bodies. Unlike the tax laws of more developed market economies, Ukraine's tax laws have not been in force for a significant period of time, often resulting in unclear or non-existent implementing regulations.

On December 2, 2010, the Parliament adopted a new Tax Code of Ukraine (the "**Tax Code**"). The majority of the Tax Code provisions took effect from January 1, 2011. The Tax Code aims to create a comprehensive legal framework for tax reform and provides for a wide range of changes to the existing tax system in the areas of tax collection and administration. Among other things, the Tax Code provides for a gradual decrease in the rate of the corporate income tax from the previously applied 25% to 16% in a period from 2011 to 2014. Furthermore, under the Tax Code, the value added tax rate will decrease from 20% to 17% from January 1, 2014. On January 1, 2013, a new residential real estate tax was introduced by the Tax Code under which residential real estate property owned by individuals and legal entities (residents as well as non-residents) is subject to taxation at the rates calculated based on the residential area of the real estate property. The Tax Code also introduces taxation of interest accrued on bank deposits, which will take effect from January 1, 2015. Although the Tax Code is viewed by the Ukrainian government as a substantial progress in the implementation of the tax reform aimed at modernizing and simplifying the Ukrainian tax system, the Tax Code has attracted wide public criticism and protests from private entrepreneurs throughout Ukraine. There can be no assurance that the adoption of the Tax Code will have a positive effect on the Ukrainian tax system. Further, the Ukrainian taxation regime is frequently varied by statutory enactments that amend the Tax Code. This impacts negatively on the predictability of the country's taxation system and, therefore, has an adverse effect on business activity, reducing the attractiveness of the national economy for foreign investors and restricting its opportunities for medium and long-term planning. These and other factors that impact on the Ukrainian tax system make an investment in the Notes subject to greater risk and uncertainty than an investment in a country with a more developed tax system.

As a result of the ambiguity of certain tax regulations and discrepancies in their interpretation by taxpayers and government-controlled agencies, a large amount of explanation and clarification is expected to be published on the application of such laws. For example, the difficulties in refunding VAT remain an obstacle for investing in the export-oriented sectors of the economy. The complicated process of tax inspections and the contradictory rules on when they should be held create serious barriers to the proper administration of VAT. Due to the budget deficit, taxpayers may not receive VAT refunds to which they are entitled. For example, tax losses incurred by Ukrainian companies prior to the enactment of the Tax Code (which are mainly foreign exchange and operational losses incurred due to the recent financial crisis) were limited to 25% of the gross amount of such losses per year.

Differing opinions regarding legal interpretations often exist both among and within governmental ministries and organizations, including tax authorities, creating uncertainties and areas of conflict in relation to taxation. Tax declarations or returns, together with other matters of legal compliance (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which may impose fines, penalties and interest charges for non-compliance. These circumstances generally create tax risks in Ukraine that are more significant than those typically found in countries with more developed tax systems, such as western European countries. Generally, the Ukrainian tax authorities may only re-assess tax liabilities of taxpayers within three years after the filing of the relevant tax declarations. However, this statutory limitation period may not be observed or may be extended in certain circumstances. Moreover, the fact that a period has been reviewed does not exempt this period, or any tax declaration/return applicable to that period, from further review. At the same time there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with the passage of time. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavorable outcome.

Our non-Ukrainian subsidiaries may be subject to Ukrainian taxation if they do not qualify as the beneficial owners of income received from Ukraine under the Tax Code

Under the Tax Code, a non-resident person shall be eligible for relief from Ukrainian withholding tax on Ukrainian source income received under an applicable double tax treaty to the extent it is the beneficial (actual) owner of such income, as defined therein. Under the Tax Code, the "ultimate (actual) recipient (owner) of income" (the "beneficial owner") means "the entity (person) that is entitled to obtain the relevant income" excluding "the entity (person) acting as an agent, nominal bearer (owner), or solely as an intermediary with regard to such income".

The concept of 'beneficial ownership' introduced by the Tax Code is new in Ukraine. The practice of Ukrainian tax authorities and courts regarding the concept of 'beneficial ownership' is unclear and inconsistent and, thus, there is no uniform interpretation or application of this concept in Ukraine. Except as set out above, the Tax Code does not set out any further guidance as to when the recipient of Ukrainian source income will be recognized as the 'beneficial owner' of such income. In practice, this issue is likely to be determined primarily on the basis of an analysis of documents available to the Ukrainian entity acting as a tax agent when paying taxable income to our subsidiaries established outside Ukraine.

Furthermore, the Tax Code provides that, to the extent an international agreement that is binding on Ukraine establishes rules which conflict with those contained in the Tax Code, the rules of such international agreement shall prevail. The Double Tax Treaty does not explicitly establish rules relating to beneficial ownership and does not define the term "beneficial owner". Consequently, the extent to which the Tax Code's beneficial ownership rules should apply to Cypriot tax residents, to whom the Double Tax Treaty also applies, is not clear. One interpretation is that the rules in the Tax Code should not apply given that the Double Tax Treaty takes precedence. However, the Ukrainian tax authorities may conclude that, given the lack of explicit rules addressing beneficial ownership in the Double Tax Treaty, the Tax Code's rules relating to beneficial ownership should apply. Moreover, the New Convention does contain the beneficial ownership rule. Therefore, once the New Convention enters into force, the beneficial ownership rule set out therein will be applicable to the payments to/from the Cyprus companies.

Therefore, unless the Ukrainian tax authorities or Ukrainian court practice confirm otherwise, there is a risk that the beneficial ownership rules of the Tax Code could apply for the purposes of the tax relief under the Double Tax Treaty.

We believe that our non-Ukrainian subsidiaries qualify as the beneficial owners of payments that they receive from our Ukrainian subsidiaries under the Tax Code. However, there is a risk that the Ukrainian tax authorities could attempt to challenge such entities' status as beneficial (actual) owners of interest, dividend and other income received from sources in Ukraine. In that case, our non-Ukrainian subsidiaries would be liable for Ukrainian withholding tax at the standard 15% rate. There is also a risk that penalties could be imposed by the tax authorities on the relevant Ukrainian payor (including our Ukrainian subsidiaries) for the failure to withhold tax from the Ukrainian source income paid. The imposition of any such taxes or penalties could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our non-Ukrainian subsidiaries may be subject to Ukrainian taxation if they are deemed to have a permanent establishment in Ukraine for the purposes of the Tax Code by virtue of their operating activities

Under the Tax Code, a foreign legal entity carrying out regular entrepreneurial activities (beyond preparatory and auxiliary activities) in Ukraine may be deemed to maintain a 'permanent establishment' in Ukraine for Ukrainian tax purposes. Although the Double Tax Treaty does contain a similar concept, the definition of 'permanent establishment' therein is narrower than that contained in the Tax Code. The Double Tax Treaty also provides that, even if a company established outside Ukraine is found to have a permanent establishment within Ukraine, this should not affect any exemption from taxation it may be entitled to under any other provision of the Double Tax Treaty (including exemptions applicable to interest and dividends). The Double Tax Treaty overrules the Tax Code in this respect and the Tax Code expressly recognizes this.

Despite the above, and although we believe that our non-Ukrainian subsidiaries conduct their affairs such that they should not be treated as having a permanent establishment in Ukraine, the practical application in Ukraine of the concept of a permanent establishment under Ukrainian law and the Double Tax Treaty is not well developed. For this reason, foreign companies having even limited operations in Ukraine, which would not normally satisfy the conditions for creating a permanent establishment under international rules, might be at risk of being treated as having a permanent establishment in Ukraine and hence being liable to Ukrainian taxation. Accordingly, no assurance can be given that activities of our non-Ukrainian subsidiaries will not be treated by the Ukrainian authorities as creating such a permanent establishment.

If the activities of our non-Ukrainian subsidiaries were treated as creating a permanent establishment in Ukraine, such companies would be subject to Ukrainian taxation on the part of their income attributable to their permanent establishment in a manner broadly similar to the taxation of any Ukrainian legal entity (19% until January 1, 2014 and 16% thereafter). However, although Ukrainian tax law contains some attribution rules to determine the part of the income of a foreign entity that is attributable to any Ukrainian permanent establishment, these rules are not well developed and, therefore, there is a risk that

the tax authorities might seek to assess Ukrainian tax on the worldwide income of a foreign company. Having a permanent establishment in Ukraine may also have other adverse tax implications, including jeopardizing the right to benefit from the reduced withholding tax rate under an applicable double tax treaty, and potentially affecting our VAT obligations. There is also a risk that financial penalties could be imposed by the tax authorities for failure to register the permanent establishment with the Ukrainian tax authorities. Any such taxes or penalties could have a material adverse effect on our business, results of operations, financial condition, results of operations and prospects.

The tax authorities could challenge the characterization of certain of our transactions on the basis of the principle of "substance over form"

While Ukrainian tax authorities and courts have historically taken the position that, for the purpose of characterizing transactions and assessing taxation thereon, the form of a transaction prevailed over its substance, recently they have paid greater attention to the substance of transactions. Although the relevant practice is still developing and thus is not altogether clear or consistent, there is a risk that the Ukrainian tax authorities may challenge agreements which lack a business purpose or whose only purpose is to obtain a tax benefit. The Ukrainian tax authorities may either re-characterize such agreements in accordance with their economic substance (disregarding the supporting documents) or even disregard such agreements for tax purposes entirely. Therefore, although we believe that we can demonstrate that all of our transactions were concluded for proper business reasons and that they are in compliance with all applicable tax rules, there is a risk that Ukrainian tax authorities may challenge certain of our transactions. On this basis Ukrainian tax authorities could attempt to challenge the tax benefits recognize, and/or have recognized, under these transactions and also levy material penalties and fines upon us, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our Ukrainian companies may incur non-refundable Advance Corporate Income Tax on distributions of dividends

Under the Tax Code, certain distributions of dividends by Ukrainian companies trigger an obligation to pay so-called Advance Corporate Income Tax ("**Advance CIT**"). Advance CIT is not a withholding tax on dividends, but in general represents an advance payment of Ukrainian corporate income tax ("**CIT**") triggered by the distribution of dividends. Any Advance CIT has to be paid by the Ukrainian company distributing the dividends at the general CIT rate, accrued on the gross amount of the dividends distributed (19% in 2013 and 16% in 2014). Advance CIT is a domestic tax which applies to dividend distributions by Ukrainian companies even if the recipient shareholders are not resident for tax purposes in Ukraine. This tax does not qualify as a withholding tax and, as such, may not be reduced or eliminated under a double tax treaty. Certain dividends are exempt from Advance CIT, including, inter alia, the following: (1) dividends paid on the income exempt from CIT; and (2) dividends paid out of the incoming dividend payments received by the payer of Advance CIT from companies (whether Ukrainian resident or non-resident) that it controls.

As a result, our Ukrainian subsidiaries may have to pay Advance CIT at a standard rate accrued on the amount of any dividends distributed, such Advance CIT being payable either prior to or simultaneously with the payment of such dividends. Payment of Advance CIT would have to be made from the Ukrainian companies' own funds irrespective of the availability of taxable income within the relevant reporting period. In principle, any Advance CIT could then be set off against the relevant company's regular CIT liability in the current or subsequent reporting periods, without any time limitations. In addition, companies subject to CIT in Ukraine which generated income in the previous year in excess of UAH10 million and did not generate tax losses must prepay CIT on a monthly basis ("**Monthly Advance CIT**") in the amount of 1/12 of the CIT due for the previous tax year. According to the clarification of the State Tax Service of Ukraine (the "**Tax Service**"), Monthly Advance CIT and Advance CIT may not be offset against each other. Therefore, if the CIT liable company pays dividends during the year, it should pay the Advance CIT and continue paying Monthly Advance CIT. Any overpayment in the amount of CIT incurred due to payment of two types of the advance payments may be set off against CIT liabilities of the current year (in the annual return) or of any subsequent year. However, if the amount of CIT due from the company during a year is less than the aggregate of the Monthly Advance CIT and Advance CIT, the company will have no outstanding tax liabilities to set off against the amounts of CIT paid in advance. Moreover, neither Monthly Advance CIT nor Advance CIT is refundable in cash. Although Ukrainian Parliament is already considering a draft law to remedy the double-payment requirement described above, there is no guarantee that such amendments will be introduced and that our Ukrainian subsidiaries will not be obliged to make two types of advance CIT payments to the state budget. Any such obligation to make

two different types of payments of advance CIT could result in a reduction in the free cash flow of our Ukrainian subsidiaries and we may not be able to offset such payments in an effective manner (including due to a decrease in profits in any tax year), which could adversely affect our business, results of operations and financial condition.

Disclosure and reporting requirements and fiduciary duties remain less developed than in more developed markets

Disclosure and reporting requirements under IFRS have only recently been enacted in Ukraine. Anti-fraud legislation has only recently been adapted to the requirements of a free market economy and remains largely untested. Most Ukrainian companies do not have corporate governance procedures that are in line with Western European standards. The concept of fiduciary duties of management or members of the board to their companies or shareholders is not as developed in Ukraine as it is in Western Europe. While we believe we have implemented corporate governance and internal reporting procedures that are more stringent than those adopted by most Ukrainian companies, if any violations of disclosure and reporting requirements or breaches of fiduciary duties by our directors or to our shareholders were to occur, this could adversely affect our business, financial condition, results of operations and prospects.

Risks Relating to the Notes

The Issuer is a newly formed company with no assets of its own and is therefore completely dependent on cash flow from the operating subsidiaries of the DTEK Group to service its indebtedness, including the Notes

The Issuer is a newly formed company with no revenue generating operations of its own, and therefore its cash flow and ability to service its indebtedness, including the Notes, will depend primarily on the operating performance and financial condition of the operating subsidiaries of the DTEK Group. The operating performance and financial condition of our operating subsidiaries and the ability of such subsidiaries to provide the Issuer with funds by way of dividends, interest payments or otherwise will in turn depend, to some extent, on general economic, financial, competitive, market and other factors, many of which are beyond our control. Our operating subsidiaries may not generate income and cash flow sufficient to enable the Issuer to meet its payment obligations on the Notes.

Inter-company payment of dividends and the making of loans and advances within the DTEK Group are subject to various restrictions, including:

- restrictions under applicable company or corporation law that restrict or prohibit companies from paying dividends unless such payments are made out of profits available for distribution;
- restrictions under the laws of certain jurisdictions that can make it unlawful for a company to provide financial assistance in connection with the acquisition of its shares or the shares of any of its holding companies;
- statutory or other legal obligations that affect the ability of subsidiaries to make payments to it on account of intercompany loans or on a cross-border basis; and
- existing or future agreements governing intercompany debt may prohibit or restrict the payment of dividends or the making of loans or advances on a intercompany basis or on a cross-border basis.

We will have substantial indebtedness and may incur significant additional indebtedness in the future under the terms of the Indenture, which may limit our ability to service our indebtedness

The terms of other agreements to which we are or may become subject may restrict the ability of our subsidiaries to provide us with funds. In addition, we may incur other debt in the future that may contain financial or other covenants more restrictive than those contained in the Indenture.

If our future cash flows from operations and other capital resources are insufficient for us to pay our obligations as they mature or to fund our liquidity needs we may, among other things be forced to:

- reduce or delay business activities and capital expenditures;
- obtain additional debt or equity capital;
- restructure or refinance all or a portion of our debt on or before maturity;
- forego opportunities such as acquisitions of other businesses; or
- sell assets.

There can be no assurance that any of these alternatives can be accomplished on a timely basis or on satisfactory terms, if at all. In addition, the terms of our existing and future debt, including the Notes, may limit our ability to pursue any of these alternatives.

The agreements and instruments governing our debt contain restrictions and limitations that could significantly impact our operating flexibility

The restrictions in the Indenture and our other debt financing agreements may prevent us from taking actions that we believe would be in the best interest of our business and may make it difficult for us to execute our business strategy successfully or effectively compete with companies that are not similarly restricted. We may also incur future debt obligations that might subject us to additional restrictive covenants that could affect our financial and operational flexibility. Our ability to comply with the covenants and restrictions contained in the Indenture or our other debt instruments may be affected by economic, financial and industry conditions beyond our control. The breach of any of these covenants or restrictions could result in a default under the Indenture or our other debt instruments that would permit the applicable lenders or noteholders, as the case may be, to declare all amounts outstanding thereunder to be due and payable, together with accrued and unpaid interest. If we are unable to repay debt, lenders having secured obligations, could proceed against the collateral securing that debt. In any such case, we may be unable to borrow and may not be able to repay the amounts due under the Notes. This could have serious consequences on our business, financial condition, results of operations and prospects and could cause us to become bankrupt or insolvent.

The Notes will be unsecured and effectively subordinated to the rights of the Guarantors' and the Sureties' existing and future secured creditors to the extent of the value of our and our Sureties' assets

The Indenture will permit us to incur a significant amount of secured indebtedness and the Notes will be unsecured and will not have the benefit of any collateral security. Accordingly, the Notes will be subordinated to all secured indebtedness. If an event of default occurs under a secured facility, then the lenders to that facility will have a prior right to our assets, to the exclusion of the holders of the Notes, even if we are in default under the Notes. In that event, our assets would first be used to repay in full all indebtedness and other obligations secured by them, resulting in all or a portion of our assets being unavailable to satisfy the claims of the holders of the Notes and other unsecured indebtedness. Therefore, in the event of any distribution or payment of our assets in any foreclosure, dissolution, winding-up, liquidation, reorganization, or other bankruptcy proceeding, holders of Notes will participate in our remaining assets ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as such Notes, and potentially with all of our other general creditors, based upon the respective amounts owed to each holder or creditor. In any of the foregoing events, we cannot assure you that there will be sufficient assets to pay amounts due on the Notes. As a result, holders of Notes may receive less, ratably, than holders of secured indebtedness. As of December 31, 2012, we had UAH265 million of outstanding secured indebtedness and the indenture will allow us to incur additional secured obligations in the future.

The Notes, the Guarantees and the Deeds of Surety will be structurally subordinated to the creditors and preference shareholders (if any) of our non-Surety and non-Guarantor subsidiaries

Not all of our subsidiaries will provide Sureties or Guarantees for the Notes. Generally, claims of creditors (both secured and unsecured) of a non-Surety and non-Guarantor subsidiary, including trade creditors and claims of preference shareholders (if any) of the subsidiary (or the equivalent of any of the foregoing under local law), will have priority with respect to the assets and earnings of the non-Surety and non-Guarantor subsidiary over the claims of creditors of its parent entity. In the event of a bankruptcy, liquidation or reorganization or other bankruptcy or insolvency proceeding of any of these non-Surety and non-Guarantor subsidiaries (or the equivalent of any of the foregoing under local law), the holders of their debt and/or their trade creditors will generally be entitled to payment of their claims from the assets of those non-Surety and non-Guarantor subsidiaries before any assets are made available for distribution to us. The non-Surety and non-Guarantor subsidiaries generated 2.0% of our Adjusted EBITDA for the year ended December 31, 2012.

We may be unable to raise funds necessary to finance the change of control repurchase offers required by the Indenture

Upon the occurrence of a change of control, as defined in the Indenture, we would be required to make an offer to purchase all of the outstanding Notes (unless otherwise redeemed) at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase. Following a change of control event, we may not be able to repurchase Notes unless we first repay certain other senior indebtedness outstanding and any of our other indebtedness that contains similar provisions, or obtain a waiver from the holders of such indebtedness to permit us to repurchase the Notes. We may be unable to repay all of that indebtedness or obtain a waiver of our requirement to repay such indebtedness. Any requirement to offer to repurchase outstanding Notes may therefore require us to refinance our other outstanding debt, which we may not be able to do on commercially reasonable terms, if at all. In addition, our failure to purchase the Notes after a change of control in accordance with the terms of the indenture would constitute an event of default under the Indenture.

Trading in the clearing systems is subject to minimum denomination requirements

The Notes will initially only be issued in global certificated form, and held through DTC and Euroclear and Clearstream. Interests in the global Notes will trade in book-entry form only, and Notes in definitive registered form, or definitive registered Notes, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of Notes. The common depository, or its nominee, for DTC and Euroclear and Clearstream will be the sole registered holder of the global Notes representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the relevant global Notes representing the Notes will be made to the principal paying agent, who will make payments to DTC and Euroclear and Clearstream. Thereafter, these payments will be credited to accounts of participants who hold book-entry interests in the global Notes representing the Notes and credited by such participants to indirect participants. After payment to the common depository for DTC and Euroclear and Clearstream, we will not have any responsibility or liability for the payment of interest, principal or other amounts to the owners of the book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of DTC and Euroclear and Clearstream, and if you are not a participant in DTC and Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of Notes under the Indenture.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon the Issuer's solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from DTC, Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until definitive registered Notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through DTC, Euroclear and Clearstream. The procedures to be implemented through DTC, Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes. See *"Book-Entry; Delivery and Form"*.

The claims of noteholders may be limited in the event that the Issuer or any of the Guarantors or Sureties is declared bankrupt

The Issuer is organized under the laws of England and Wales, Holdings B.V. is organized under the laws of The Netherlands, Holdings Ltd and Trading Ltd are organized under the laws of Cyprus and the Sureties are organized under the laws of Ukraine. Although it is impossible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced or how these proceedings would be resolved, insolvency or similar proceedings over the assets of the Issuer, the Guarantors or the Sureties may be initiated in England and Wales, The Netherlands, Cyprus or the Ukraine, as appropriate, and be governed by the bankruptcy, insolvency or similar laws thereof. The insolvency or similar laws of such jurisdictions may not be as favorable to your interests as creditors as the bankruptcy and insolvency laws of the United States, including in respect of priority of creditors, preference periods, the ability to obtain post-petition interest and the duration of the insolvency proceedings.

The claims of noteholders against a Ukrainian Surety may be limited by Ukrainian bankruptcy laws and laws relating to the enforcement of claims against state-owned companies

In the event any of the Ukrainian Sureties becomes insolvent, such Surety's obligations to the noteholders would be effectively subordinated to the following obligations: obligations secured on such entity's assets; severance pay and employment related obligations and payment of wages to such Surety's employees; expenditures associated with the conduct of the bankruptcy proceedings and the work of the liquidation commission; obligations arising as a result of inflicting harm to the life or health of individuals, as well as mandatory pension and social security contributions; obligations in respect of payment of taxes and other mandatory charges (including claims of the respective governmental authorities managing the state reserve fund); and expenditures arising from measures to prevent ecological damage and harm to the health and safety of individuals.

Moreover, some of the Ukrainian Sureties may be deemed to be town-forming enterprises and hazardous enterprises. According to the Ukrainian bankruptcy law, town-forming enterprises and hazardous enterprises are subject to special rules on insolvency, including, *inter alia*, the participation of the state and municipal authorities in any insolvency proceedings and a prohibition of auction sales of their assets other than as part of an integral property complex. Insolvency proceedings may also become protracted upon request by state and/or municipal authorities if they provide suretyship for the Ukrainian Surety's liabilities. However, if the Ukrainian Surety's debts are not services pursuant to the repayment schedule set out in the suretyship, the holders of the Notes could demand payment from the respective state and/or municipal authorities. In the event that such state and/or municipal authorities breach their obligations with respect to at least one third of creditors' claims to a debtor, such breach could be a ground for early termination of the administration of assets or financial rehabilitation stages of the bankruptcy proceedings and commencement of the liquidation stage of the bankruptcy proceedings in respect of the Ukrainian Surety.

Furthermore, it may not be possible to initiate bankruptcy proceedings against the Ukrainian Sureties which are deemed to be fuel and energy companies to the extent such companies participate in the settlement mechanism (the "**Settlement Mechanism**") established under the Law of Ukraine "On Measures Aimed at the Stable Operation of Enterprises of the Fuel and Energy Complex" dated June 23, 2005 (the "Fuel and Energy Complex Stable Operation Law") and the Settlement Mechanism is in effect. While, according to the Fuel and Energy Complex Stable Operation Law, the Settlement Mechanism expired on January 1, 2013, it has been re-introduced on many occasions in the past and, therefore, no assurance could be given that it will not be re-introduced in the future. Currently, six of our Sureties, Skhidenergo, Servis-Invest, Pavlogradugol, Kyivenergo, Dniproenergo and Zakhidenergo, are on the list of the companies participating in the Settlement Mechanism. Accordingly, Ukrainian bankruptcy law may materially adversely affect the ability of the Sureties to make payments under the Deeds of Surety.

In addition, the Law of Ukraine "On Introduction of Moratorium on Forced Sale of Property" dated November, 29, 2001 (the "**Moratorium Law**"), has established a temporary moratorium on the enforcement of claims against the fixed assets of, and all equity contributed by the Ukrainian state to the authorized capital of, any Ukrainian company in which the Ukrainian state holds at least 25% share in the authorized capital. The stake of 25% plus one share in the authorized capital Dniproenergo, Zakhidenergo and Kyivenergo is owned by National joint-stock company "Energy Company of Ukraine" ("**JSC Energy Company of Ukraine**"), a company wholly owned by the Ukrainian state. As the Ukrainian state only holds interests in Dniproenergo, Zakhidenergo and Kyivenergo indirectly through JSC Energy Company of Ukraine, the moratorium on enforcement of claims under the Moratorium Law should not apply to Dniproenergo, Zakhidenergo and Kyivenergo. However, there is no guarantee that a Ukrainian court will not interpret the Moratorium Law differently and hold that it does apply to our subsidiaries. In the event of such an adverse interpretation, enforcement of claims against fixed assets of the above-mentioned companies could be materially adversely affected.

The Deeds of Surety will constitute a suretyship for the purposes of Ukrainian law and could be challenged

A Deed of Surety will constitute a suretyship for the purposes of Ukrainian law. Under the Law of Ukraine "On Financial Services and the State Regulation of the Markets of Financial Services" dated July 12, 2001, suretyships are considered "financial services," which may only be rendered by a duly licensed bank or other financial institution or, as an exception, by a non-financial institution when expressly permitted by a law of Ukraine or regulation of the National Commission of Ukraine on the Regulation of the Markets of Financial Services (the "**Financial Services Commission**"). The Financial Services Commission has

permitted non-financial institutions to issue suretyships, subject to compliance by the surety with anti-money laundering requirements and procedures. Ukrainian companies often conclude suretyship agreements and neither the Financial Services Commission nor Ukrainian courts have as yet challenged such practice. However, due to a lack of guidance by the Financial Services Commission with regard to the exact scope of such compliance, a particular Surety could be viewed by the Ukrainian authorities or courts as not complying with such requirements and procedures and, accordingly, the legal capacity of such Surety to issue a suretyship and the validity of any particular Deed of Surety could be challenged. If one or more Deeds of Surety were found to be invalid, an event of default could be triggered under the Indenture which could result in the acceleration of all amounts outstanding thereunder, which could adversely affect our business, financial condition, results of operations and prospects.

Enforcing your rights under the Guarantees or the Deeds of Surety may be difficult

The obligations of the Guarantors and the Sureties in respect of the Notes may be subject to review under fraudulent transfer and conveyance law (or similar laws) of Ukraine, Cyprus and/or The Netherlands. Although laws differ among various jurisdictions, in general, under fraudulent conveyance laws (or similar laws), a court could subordinate or void any of the Guarantees or Deeds of Surety, as applicable, if it found that:

- the relevant Guarantee or Deed of Surety was incurred with the intent to hinder, delay or defraud any present or future creditor;
- the Guarantor or Surety did not receive fair consideration or reasonably equivalent value for the guarantee or Deed of Surety and the Guarantor or Surety was: (i) insolvent or was rendered insolvent as a result of having granted the Guarantee or Deed of Surety; (ii) undercapitalized or became undercapitalized because of the Guarantee or Deed of Surety; or (iii) intended to incur indebtedness beyond its ability to pay at maturity;
- the Guarantee or Deed of Surety was held not to be in the best interests or not to be for the corporate benefit of the Guarantor or Surety;
- any present or future creditor was prejudiced in his ability to recover his monetary claims;
- the aggregate amounts paid or payable under the Guarantee or Deed of Surety were in excess of the maximum amount permitted under applicable law; or
- a Deed of Surety was made in contravention of Ukrainian bankruptcy laws.

The measure of insolvency for purposes of fraudulent conveyance laws varies depending on the law applied. Generally, however, an entity would be considered insolvent if it could not pay its debts as they become due, the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets, or the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts and liabilities, including contingent liabilities, as they become absolute and mature.

If a court were to find that a Guarantee or Deed of Surety was a fraudulent transfer or conveyance or made in contravention of other similar laws, the court could void the payment obligations under such Guarantee or Deed of Surety, or subordinate such Guarantee or Deed of Surety, to presently existing and future indebtedness of the respective Guarantor or Surety, or require repayment of amounts received with respect to such Guarantee or Deed of Surety, as applicable. In the event of a finding that a fraudulent transfer or conveyance or contravention of similar laws occurred, you may not receive any payment on a Guarantee or Deed of Surety, as applicable. In addition, the bankruptcy, insolvency, administrative, and other laws of such jurisdictions of organization may be materially different from, or in conflict with, one another and those in other jurisdictions, of which you may be familiar in certain areas, including creditors' rights, priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceeding. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdictions' law should apply and could adversely affect your ability to enforce your rights and to collect payment in full under the Notes, Guarantees and Deeds of Surety.

The Guarantees and Deeds of Surety may be significantly limited by applicable laws or subject to certain limitations or defenses

The obligations of each Guarantor and Surety under its Guarantee or Deed of Surety will be limited under the relevant laws applicable to such Guarantor and Surety and the granting of such Guarantees and Deeds

of Surety (including laws relating to corporate benefit, capital, capital preservation, financial assistance, transactions under value or other similar laws) to the maximum amount payable to ensure that such Guarantees or Deeds of Surety do not constitute a voidable preference, a transaction under value, unlawful assistance or a transaction made in contravention of other similar laws, or otherwise cause the Guarantor or Surety to be deemed insolvent under applicable law or such Guarantee or Deed of Surety to be void, unenforceable or ultra vires or cause the directors of such Guarantor or Surety to be held in breach of applicable corporate or commercial law for providing such guarantee or Deed of Surety, as applicable. In addition, the Guarantees or Deeds of Surety will contain language limiting the debt guaranteed to an amount that will not violate applicable local law restrictions, as applicable. In addition, to the extent the Guarantee or Deed of Surety is granted in respect of debt incurred in violation of financial assistance, cross-border or foreign credit support rules or currency control regulations, or other similar rules or regulations, such Guarantee or Deed of Surety may be deemed void. As a result, a Guarantor's or Surety's liability under its Guarantee or Deed of Surety could be materially reduced or eliminated depending upon the amounts of its other obligations and upon applicable laws. In particular, in certain jurisdictions, a Guarantee or Deed of Surety issued by a company that is not in the company's corporate interests or the burden of which exceeds the benefit to the company may not be valid and enforceable. It is possible that a Guarantor or Surety, a creditor of a Guarantor or Surety or the insolvency administrator (or the local equivalent thereof), in the case of an insolvency (or similar proceedings) of a Guarantor or Surety, may contest the validity and enforceability of the respective Guarantee or Deed of Surety and that the applicable court may determine that the Guarantee or Deed of Surety should be limited or voided. In the event that any Guarantees or Deeds of Surety are deemed invalid or unenforceable, in whole or in part, or to the extent that agreed limitations on the Guarantee or Deed of Surety apply, the Notes would be effectively subordinated to all liabilities of the applicable Guarantor or Surety, including trade payables of such Guarantor or Surety, as applicable.

Under Cyprus law, subject to certain exceptions, the receipt of economic benefits in the context of loan transactions by a person which is not a financial institution in an amount which exceed the reference rate set out from time to time by the Central Bank of Cyprus (the "**Reference Rate**") constitutes a criminal offence and is unenforceable. At present, the Reference Rate is set at 12.51% per annum. Although this rule generally applies to loans, its application remains untested in Cyprus courts and it is possible that this rule could be applied to contingent obligations, including the Guarantees. There are certain circumstances under Cyprus law when the Reference Rate does not apply, including when a loan is provided to a legal entity and is disbursed outside of Cyprus, provided that the amount of such loan exceeds €1,000,000 and the minimum disbursement is €500,000. In the event any amounts payable by the applicable Guarantors are deemed to constitute interest rate payable in excess of the Reference Rate and no exemption is available, a Cyprus court would consider the person charging the interest to be committing a criminal offence and recovery in full or in part of amounts payable under the Guarantees may not be possible.

The payments under the Deeds of Surety may be subject to withholding tax

In general, payments under a Deed of Surety (including payments in respect of interest, default interest, indemnities etc.) by a Ukrainian Surety to a non-resident legal entity, provided that such payments are not effectively connected with a permanent establishment of the non-resident entity situated in Ukraine, are subject to Ukrainian withholding tax at the rate of 15%, subject to any reduction or full exemption pursuant to the terms of an applicable double tax treaty. Based on a fair interpretation of applicable Ukrainian tax legislation, such Ukrainian withholding tax should not apply to the payments under a Deed of Surety in respect of, and equal to, the nominal amount of the Notes. Under the terms of the Convention between the government of the United Kingdom of Great Britain and Northern Ireland and the government of Ukraine for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains signed on February 10, 1993 and in force from August 11, 1993 (the "**UK / Ukraine Double Tax Treaty**"), payments under the Deeds of Surety may be exempt from withholding tax in Ukraine, provided that certain conditions set forth in the UK / Ukraine Double Tax Treaty and under applicable Ukrainian law are duly satisfied. However, there can be no assurance that the exemption from withholding tax under the UK / Ukraine Double Tax Treaty is, or will continue to be, available. See "*Taxation—Certain Ukraine Tax Considerations*".

The Sureties may not be able to pay additional amounts

If a Surety will be required to withhold any amount from any payment under the Deed of Surety, as a consequence of or pursuant to the Ukrainian tax laws, such Surety will be obliged to pay such additional

amounts as may be necessary so that the net payments received by the Paying Agent will not be less than the amount the Paying Agent would have received in the absence of such withholding. Ukrainian tax legislation broadly prohibits contractual provisions requiring one party to pay tax on behalf of another party. In May 2012, the State Tax Service of Ukraine issued a letter expressing the position that clauses in agreements between Ukrainian residents and their foreign counterparties providing for the payment of an amount compensating a foreign counterparty for the withholding of tax in Ukraine contradict certain provisions of Ukrainian legislation that prohibit a Ukrainian resident from assuming a foreign counterparty's tax payment obligation. There is a risk that such restriction would also apply to gross-up provisions of any of such relevant Deed of Surety and obligations of the Sureties to pay additional amounts thereunder. As a result, gross-up provisions could be found null and void and, therefore, unenforceable in Ukraine.

Foreign judgments may not be enforceable in Ukraine against the Sureties

Courts in Ukraine will generally not recognize and/or enforce any judgment obtained in a court of a country other than Ukraine unless such enforcement is envisaged by an international treaty to which Ukraine is a party, and then only in accordance with the terms of such treaty. There is no such treaty in effect between Ukraine and the United States. Thus, the judgments rendered by the courts of the United States will generally not be enforceable in Ukraine.

In the absence of such treaty, the courts of Ukraine may only recognize or enforce a foreign court judgment on the basis of the principle of reciprocity. Under Article 390 of the Civil Procedure Code, unless proven otherwise the reciprocity is deemed to exist in relations between Ukraine and the country where the judgment was rendered. The Civil Procedure Code does not provide for any clear rules on the application of the principle of reciprocity and there is no official interpretation or established court practice of these provisions of the Civil Procedure Code. Accordingly, there could be no assurance that the courts of Ukraine will recognize or enforce a judgment rendered by the federal or state courts sitting in New York on the basis of the principle of reciprocity. Furthermore, the courts of Ukraine might refuse to recognize or enforce a foreign court judgment on the basis of the principle of reciprocity on the grounds provided in the Civil Procedure Code.

Since Ukraine is a party to the New York Convention, an arbitral award obtained in a state which is also a party to the New York Convention, such as the United States, should be enforceable in Ukraine, subject to the terms of the New York Convention and compliance with applicable Ukrainian procedural requirements. See *"Enforceability of Judgments"*.

Foreign judgments may not be enforceable in the United Kingdom

The Issuer is public limited company incorporated under the laws of England and Wales and all of its directors and executive officers reside outside of the United States, and all or a substantial portion of the assets of the Issuer and such persons are located outside the United States. As a result, service of process within the United States upon the Issuer or any of their directors and executive officers, or enforcement against them, judgments of U.S. courts predicated upon civil liability provisions of the U.S. federal or state securities laws would be possible only under certain conditions. If a judgment were obtained in a U.S. court against the Issuer, any directors or executive officers, investors would need to enforce such judgment in jurisdictions where the Issuer has assets. Even though the enforceability of U.S. court judgments outside the United States is described below for England, you should consult with your own advisors in any pertinent jurisdictions as needed to enforce a judgment in those countries or elsewhere outside the United States.

The United States and England currently do not have a treaty between them providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Consequently, a final judgment for payment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, would not automatically be enforceable in England. In order to enforce any U.S. judgment in England, fresh proceedings must be initiated by way of a common law action before a court of competent jurisdiction in England. In a common law action, an English court might order summary judgment, on the basis that there is no defense to the claim for payment, and grant an enforcement order, but only subject to the following conditions:

- the U.S. court having had jurisdiction over the original proceeding according to English conflicts of laws principles, regardless of jurisdiction according to US conflict of laws principles;

- the judgment being final and conclusive on the merits in the court which pronounced it and being for a debt for a definite sum of money;
- the judgment not contravening English public policy and not violating the Human Rights Act 1998;
- the judgment being not for a sum payable in respect of tax, or other charges of a like nature in respect of a penalty or fine;
- the judgment not having been arrived at by doubling, trebling or otherwise multiplying a sum assessed as compensation for the loss or damaged sustained and not being otherwise in breach of Section 5 of the Protection of Trading Interests Act 1980;
- the judgment not having been obtained by fraud or in breach of English principles of natural justice;
- the judgment not having breached a jurisdiction or arbitration clause;
- there not having been a prior judgment by an English court between the same parties concerning the same issues; and
- enforcement proceedings having been instituted within six years from the date of judgment.

Subject to the foregoing, investors may be able to enforce judgments in England, in civil and commercial matters that have been obtained from U.S. federal or state courts. However, note that (a) we cannot assure you that those judgments will be enforceable; (b) it is unclear whether an English court would accept jurisdiction and impose civil liability if proceedings were commenced in England in an original action predicated solely upon U.S. federal securities laws; (c) it may not be possible to obtain an English judgment or to enforce the judgment if the judgment debtor is subject to any insolvency or similar proceedings, or if the judgment debtor has any set-off or counterclaim against the judgment creditor; and (d) in any enforcement proceedings, the judgment debtor may raise any counterclaim that could have been brought if the action had been originally brought in England unless the subject of the counterclaim was in issue and denied in the U.S. proceedings. Since the United Kingdom is a party to the New York Convention, an arbitral award obtained in a state which is also a party to the New York Convention, such as the United States, should be enforceable in England and Wales, subject to the terms of the New York Convention. See "*Enforceability of Judgments*".

Foreign judgments may not be enforceable in The Netherlands

Holdings B.V. is a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of The Netherlands and all of its directors and executive officers reside outside of the United States, and all or a substantial portion of the assets of Holdings B.V. and such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process, including judgments, upon the Holdings B.V. or such persons outside of The Netherlands or within the United States. It may also be difficult for investors to enforce against Holdings B.V. judgments obtained in non-Dutch courts.

In respect of a judgment of a federal or state court in the United States against Holdings B.V., the following applies. The United States and The Netherlands do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than arbitral awards) in civil and commercial matters and therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability would not be enforceable in The Netherlands and new proceedings on the merits must be initiated before a Dutch court. However, if the party in whose favor such final judgment is rendered brings a new suit in a competent court in The Netherlands, such party may submit to a Dutch court the final judgment that has been rendered in the United States. If the Dutch court finds that the jurisdiction of the federal or state court in the United States has been based on grounds that are internationally acceptable and that proper legal procedures have been observed, the Dutch court will, in principle, uphold such final judgment and regard it as conclusive evidence, without substantive re-examination or re-litigation on the merits of the subject matter thereof, unless such judgment contravenes public order in The Netherlands. There is doubt as to whether courts of The Netherlands will uphold judgments predicated upon the civil liability provisions of the U.S. federal securities laws or the securities laws of any state within the United States. Since The Netherlands is a party to the New York Convention, an arbitral award obtained in a state which is also a party to the New York Convention, such as the United States, should be enforceable in The Netherlands, subject to the terms of the New York Convention. See *"Enforceability of Judgments".*

Foreign judgments may not be enforceable in Cyprus

Holdings Ltd and Trading Ltd are private companies with limited liability incorporated under the laws of Cyprus and all of Holdings Ltd's and Trading Ltd's directors and executive officers reside outside of the United States, and all or a substantial portion of the assets of Holdings Ltd and Trading Ltd and such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process, including judgments, upon Holdings Ltd, Trading Ltd or such persons outside of Cyprus or within the United States. It may also be difficult for investors to enforce against the Holdings Ltd or Trading Ltd judgments obtained in non-Cypriot courts.

Neither the United States nor Cyprus currently has a bilateral or other treaty with the other, providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. A final and conclusive judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, would not be automatically recognized or enforceable in Cyprus. In order to obtain a judgment which is enforceable in Cyprus, the party in whose favor a final and conclusive judgment of a U.S. court has been rendered must file, under principles of Common Law and in accordance with the principles of private international law, its claim as a new, separate action with a court of competent jurisdiction of Cyprus in order to obtain an enforceable judgment. If the party in whose favor such final judgment is rendered brings a new suit in a competent court in Cyprus, such party may submit to such Cypriot court the final judgment that has been rendered in the respective jurisdiction and, if a Cypriot court finds that the respective Court had jurisdiction over a matter in accordance with the principles of private international law as applied by Cypriot courts, then such judgment would be sufficient to form the basis of proceedings in Cyprus. In such proceedings, the Cypriot court would not rehear the case on its merits except in accordance with such principles of private international law which, for example, but without limitation, would include circumstances where the judgment of the foreign court had been obtained by fraud or otherwise than in accordance with principles of natural justice or where that judgment is contrary to public policy in Cyprus or if proceedings in the relevant foreign court were not duly served on the defendant to the original proceedings or where the foreign court is deemed not to have jurisdiction over the defendants.

Subject to the foregoing and service of process in accordance with applicable treaties, investors may be able to enforce in Cyprus judgments in civil and commercial matters obtained from U.S. federal or state courts. However, no assurance can be given that those judgments will be enforceable. In addition, even if a Cypriot court has jurisdiction, it is uncertain whether such court will impose civil liability in an original action commenced in Cyprus and predicated solely upon U.S. federal securities laws.

The above applies *mutatis mutandis* to any creditor that holds a judgment in its favor for a debt, or definite sum of money (not being a sum payable in respect of taxes or other charges of a like nature or in respect of a fine or other penalty) seeking to enforce a final and conclusive foreign judgment in Cyprus given in a court of a country with which Cyprus has not concluded a bilateral treaty nor is connected with a convention for recognition and enforcement of judgments in Cyprus. Since Cyprus is a party to the New York Convention, an arbitral award obtained in a state which is also a party to the New York Convention, such as the United States, should be enforceable in Cyprus, subject to the terms of the New York Convention. See *"Enforceability of Judgments".*

Financial turmoil in emerging markets could cause the price of the Notes to suffer

The market price of the Notes is influenced by economic and market conditions in Ukraine and, to a varying degree, economic and market conditions in CIS, Eastern Europe and emerging markets generally. Financial turmoil in Ukraine and other emerging markets in the past have adversely affected market prices in the world's securities markets for companies that operate in those developing economies. Even if the Ukrainian economy remains relatively stable, financial turmoil in these countries could materially adversely affect the market price of the Notes.

There is no public market for the Notes

There is currently no existing market for the Notes and there will not be an existing market for the Notes at the time they are issued. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List of the Irish Stock Exchange and for trading on the Global Exchange Market which is the exchange-regulated market of the Irish Stock Exchange. However, there can be no assurance

that a liquid market will develop for the Notes, that holders of the Notes will be able to sell their Notes or that such holders will be able to sell their Notes for a price that reflects their value.

We also cannot assure you that you will be able to sell your Notes at a particular time or at all, or that the prices that you receive when you sell them will be favorable. If no active trading market develops, you may not be able to resell your Notes at their fair market value, or at all. The liquidity of, and trading market for, the Notes may also be adversely affected by, among other things:

- prevailing interest rates;
- our operating performance and financial condition;
- the interest of securities dealers in making a market; and
- the market for similar securities.

Exchange rate risks and exchange controls generally

Principal and interest on the Notes will be paid in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease (a) the Investor's Currency equivalent yield on the Notes, (b) the Investor's Currency equivalent value of the principal payable on the Notes and (c) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in our operating results and those of its competitors, adverse business developments, changes to the regulatory environment in which we operate, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the trading market for Notes issued by or on behalf of Ukraine as a sovereign borrower. In addition, in recent years, the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to our results of operations or financial condition.

The transfer of the Notes will be restricted, which may adversely affect the value of the Notes

The Notes have not been and will not be registered under the U.S. Securities Act, or the securities laws of any other jurisdiction. You may not offer the Notes in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. The Notes and the Indenture will contain provisions that will restrict the Notes from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S, or other exceptions, under the U.S. Securities Act. It is your obligation to ensure that your offers and sales of the Notes within the United States and other countries comply with applicable securities law.

We may redeem the Notes if we are obligated to pay additional amounts

We may at our option redeem the Notes if, as a result of any change in applicable tax legislation or interpretation, we become obligated to pay additional amounts as a result of any change in, or amendment to the laws or regulations of England and Wales (in the case of the Issuer), The Netherlands (in the case of Holdings B.V.), the Republic of Cyprus (in the case of Holdings Ltd or Trading Ltd) or Ukraine (in the case of a Surety) or any political subdivision or any authority thereof or therein having power to tax. If we redeem the Notes under such circumstances, the redemption price will be equal to 100% of the principal amount of the Notes plus any accrued interest to the date fixed for redemption. Even if we do not exercise our option to redeem the Notes, our ability to do so may adversely affect the trading price of the Notes.

Characterization of the Notes for U.S. federal income tax purposes

Although the proper characterization of the Notes for U.S. federal income tax purposes is not entirely free from doubt, we intend to treat the Notes as debt for such purposes. However, the classification of an instrument as debt or equity is inherently factual, and our characterization is not binding on the Internal Revenue Service (the "**IRS**") or the courts, and no ruling is being requested from the IRS with respect to the proper characterization of the Notes for U.S. federal income tax purposes. If the IRS were successfully to treat the Notes as equity of the Issuer for U.S. federal income tax purposes, U.S. holders of Notes would likely be treated as owning an equity interest in a passive foreign investment company and, accordingly, gains realized on the sale of, and interest paid on, the Notes could be subject to deferred tax charges and other adverse consequences including additional reporting requirements. See *"Taxation—Certain United States Tax Considerations for U.S. Holders—Characterization of the Notes".*

Any negative change in Ukraine's or the Notes' credit rating could adversely affect the market price of the Notes

Ukraine's foreign currency denominated sovereign bonds are rated "B− (positive)" by S&P, "B− (stable)" by Fitch and "B2 (negative)" by Moody's and the Notes are expected to be rated B by Fitch and B3 by Moody's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization. Any negative change in Ukraine's or the Notes' credit rating could materially adversely affect the market price of the Notes.

The Notes may be issued with original issue discount for U.S. federal income tax purposes

The Notes may be issued with original issue discount ("**OID**") for U.S. federal income tax purposes. If the Notes are issued with OID for U.S. federal income tax purposes, U.S. investors in such Notes will generally be required to include amounts representing OID in their gross income as it accrues in advance of the receipt of cash payments attributable to such income using the constant yield method. See "*Taxation—Certain United States Tax Considerations for U.S. Holders*."

USE OF PROCEEDS

After deduction of commissions and expenses (including total expenses related to the listing and admission to trading of the Notes), which are expected to be approximately US$3,000,000, we expect the net proceeds from the offering of Notes to be US$591,000,000. We intend to use up to US$321,250,000 of the net proceeds from the offering of the Notes to finance the Tender Offer and Consent Solicitation. The remaining net proceeds will be used for general corporate purposes, including, but not limited to, financing our ongoing capital expenditure program and working capital and repaying certain indebtedness and, to a lesser extent, pursuing selective growth opportunities through investments in, or the acquisition of, businesses and/or assets in the coal mining and enrichment, power generation and electricity distribution, oil and gas exploration and development and renewable energy sectors in Ukraine and Europe, in each case, consistent with our strategy. See "*Business—Our Strategy*".

CAPITALIZATION

The following table sets forth our consolidated cash and capitalization as of December 31, 2012, extracted from our 2012 Financial Statements and as adjusted to give effect to (i) the offering of the Notes as if the offering occurred on December 31, 2012 and (ii) the offering of the Notes and the solicitation of consents and the repayment of certain indebtedness with a portion of the net proceeds received as if such offering, solicitation and repayment occurred on December 31, 2012, as described under "*Use of Proceeds*". There have been no material changes in our capitalization since December 31, 2012. For further information regarding our financial condition, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and our financial statements included elsewhere in this offering memorandum.

	As of December 31, 2012					
	Actual		Adjusted to give effect to the offering of the Notes		Adjusted to give effect to the offering of the Notes and the Tender Offer and Consent Solicitation[1]	
	UAH millions	US$ millions[2]	UAH millions	US$ millions[2]	UAH millions	US$ millions[2]
Cash and cash equivalents	**5,360**	**671**	**10,081**	**1,262**	**7,513**	**941**
Short-term loans and borrowings including short-term portion of long-term borrowings	3,406	426	3,406	426	3,406	426
Notes hereby offered[4]	—	—	4,721[3]	591	4,721[3]	591
Other long-term loans and borrowings	17,256	2,159	17,256	2,159	14,858	1,859
Total debt[5]	**20,662**	**2,585**	**25,383**	**3,176**	**22,985**	**2,876**
Total Equity	32,687	4,089	32,687	4,089	32,517	4,068
Total capitalization[6]	**53,349**	**6,674**	**58,070**	**7,265**	**55,502**	**6,944**

(1) Assuming the repayment of US$300 million together with transactions costs of US$21 million.

(2) For the purpose of translation of the relevant hryvnia amounts into U.S. dollars, an exchange rate of 7.993 to one U.S. dollar (representing the official exchange rate quoted by the NBU on December 31, 2012) was used, except for the net proceeds from the offering which are in U.S. dollars.

(3) The U.S. dollar net proceeds from the offering translated into UAH using the official exchange rate quoted by the NBU on December 31, 2012 which was US$1.00 to UAH7.993.

(4) Stated at net proceeds after issue costs.

(5) As of December 31, 2012, the Issuer, the Guarantors and the Sureties had UAH265 million of secured debt outstanding. As of December 31, 2012, our consolidated subsidiaries that are neither Guarantors nor Sureties had UAH913 million of outstanding debt.

(6) Comprises total debt and total equity.

SELECTED HISTORICAL FINANCIAL DATA

The selected historical financial and other data set forth below as of and for the years ended December 31, 2010, 2011 and 2012 has been extracted or derived from our Consolidated Financial Statements. You should read this section in conjunction with the information contained in *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* and the financial statements and the related notes thereto, also included elsewhere in this offering memorandum contained elsewhere in this offering memorandum.

	Year ended December 31,			Year ended December 31,
	2010	2011	2012	2012
	UAH millions, except other operating data and ratios			US$ millions[1] (unaudited)
Income Statement Data:				
Revenue	24,294	39,594	78,340	9,801
Heat tariff compensation	—	—	4,241	531
Cost of sales	(18,936)	(29,976)	(70,816)	(8,860)
Gross Profit	**5,358**	**9,618**	**11,765**	**1,472**
Other operating income	298	515	3,265	408
Distribution costs	(196)	(203)	(594)	(74)
General and administrative expenses	(851)	(1,184)	(2,233)	(279)
Other operating expenses	(262)	(682)	(1,408)	(176)
Net foreign exchange (loss)/gain (other than on borrowings)	(21)	124	705	88
Impairment of property, plant and equipment	—	(198)	—	—
Operating profit	**4,326**	**7,990**	**11,500**	**1,439**
Foreign exchange gains less losses from borrowings	119	(84)	(448)	(56)
Finance income	113	222	602	75
Finance costs	(920)	(1,283)	(4,183)	(523)
Gain on a bargain purchase	—	—	604	76
Recognition of loss from fair valuation of associate on transfer to subsidiary	—	(334)	(385)	(48)
Recognition of AFS reserve on transfer to associate	(72)	(349)	(63)	(8)
Share of after tax results of associates	406	(48)	(205)	(26)
Impairment of investments in associates	—	(446)	—	—
Profit before income tax	**3,972**	**5,668**	**7,422**	**929**
Income tax expense	(1,115)	(2,146)	(1,500)	(188)
Profit for the year	**2,857**	**3,522**	**5,922**	**741**

(1) For the purpose of translation of the relevant hryvnia amounts into U.S. dollars, an exchange rate of 7.993 to one U.S. dollar (representing the official exchange rate quoted by the NBU on December 31, 2012) was used.

The following table sets forth the Group's summary statement of financial position data as of December 31, 2010, 2011 and 2012.

	Year ended December 31,			Year ended December 31,
	2010	2011	2012	2012
	UAH millions			US$ millions[1] (unaudited)
Total non-current assets	18,763	38,749	58,550	7,325
Total current assets	6,874	17,599	17,854	2,234
Total assets	**25,637**	**56,348**	**76,404**	**9,559**
Equity attributable to owners of the parent	13,210	24,425	27,670	3,462
Non-controlling interest in equity	70	401	5,017	628
Total equity	**13,280**	**24,826**	**32,687**	**4,089**
Liabilities				
Total non-current liabilities	8,165	20,080	27,439	3,433
Total current liabilities	4,192	11,442	16,278	2,037
Total liabilities	**12,357**	**31,522**	**43,717**	**5,469**
Total liabilities and equity	**25,637**	**56,348**	**76,404**	**9,559**

(1) For the purpose of translation of the relevant hryvnia amounts into U.S. dollars, an exchange rate of 7.993 to one U.S. dollar (representing the official exchange rate quoted by the NBU on December 31, 2012) was used.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of our results of operations and financial condition as of and for the years ended December 31, 2010, 2011 and 2012. We prepare our annual consolidated financial statements in accordance with IFRS. You should read this discussion in conjunction with the sections entitled "Overview", "Summary Historical Financial Information and Other Data", "Selected Historical Financial Data" and our Consolidated Financial Statements and the Notes thereto appearing elsewhere in this offering memorandum.

Overview

We are the largest energy company in Ukraine as measured by metric tons of coal produced, net output of electricity and electricity distributed, according to Energobiznes and the Ministry of Energy. We comprise four principal business segments: coal mining (which includes coal enrichment), power generation, heat generation and electricity distribution and sales. Our enterprises form an efficient production chain that focuses principally on coal mining for further supply to our power generation facilities. We distribute electricity through our networks and sell energy and coal to end customers, including in Ukraine, Europe and Russia. We believe that the integration of the operations of our coal mining and our power generation business segments, which has been enhanced through the introduction of advanced technologies, professional management and a social policy that we believe strengthens our relations with our employees and the areas in which we operate, has enabled us to become a leader in the fuel and energy markets in Ukraine. In 2010, 2011 and 2012, we generated revenue and heat tariff compensation of UAH24,294 million, UAH39,594 million and UAH82,581 million, respectively, and Adjusted EBITDA of UAH6,210 million, UAH10,281 million and UAH16,936 million, respectively.

Coal mining

We own, or lease or have concession rights in respect of, and operate 31 coal mines and 13 coal enrichment plants, including three mines and one coal enrichment plant in Russia. In 2010, 2011 and 2012, our coal mines collectively produced 19.1 million, 24.1 million and 39.7 million metric tons of coal, respectively, which accounted for approximately 25.5%, 28.0% and 46.1% of Ukraine's total coal production (measured by metric tons of coal produced), respectively, according to Energobiznes. Based on the Ukrainian government's estimate of our coal reserves as of the date the respective production licenses were granted, and as further adjusted by us to reflect extraction, reserves reclassifications, new coal discoveries and acquisitions, as of December 31, 2012, we had an estimated 1699.7 million metric tons of industrial reserves. See *"Coal Reserves Reporting"* and *"Business—Business Segments—Coal mining"*.

Our operating subsidiary, Pavlogradugol, is the largest coal mining company in Ukraine as measured by metric tons of coal produced, producing approximately 17.0 million metric tons of coal in 2012, according to the Ministry of Energy. Pavlogradugol operates 10 mines and an integrated mining complex, including transportation and production infrastructure, located in the Dnipropetrovsk region of Ukraine, which, as at December 31, 2012, had aggregate industrial reserves of 652.9 million metric tons and an average reserve life of 52 years, assuming current extraction and production rates. Our subsidiary, Komsomolets Donbassa, operates one mine and coal enrichment plant located in the Donetsk region of Ukraine which had industrial reserves of 110.9 million metric tons and a reserve life of 43 years, assuming current extraction and production rates, as at December 31, 2012.

In 2011, we entered into two 49-year concession agreements with the Ministry of Energy and one 49-year lease agreement with the State Property Fund, pursuant to which our subsidiaries, Rovenkyanthracite, Sverdlovanthracite and Dobropolyeugol, operate six mines and an integrated mining complex, including three coal enrichment plants, located in the Donetsk and Lugansk regions of Ukraine, five mines and an integrated mining complex, including three coal enrichment plants, located in the Dolzhano-Rovenetskyi region of Ukraine, and five mines and an integrated mining complex located in the Donbass region of Ukraine, respectively. As at December 31, 2012, Rovenkyanthracite, Sverdlovanthracite and Dobropolyeugol had industrial reserves of 162.9 million metric tons, 208.0 million metric tons and 367.8 million metric tons, respectively, and an average reserve life of 33 years, 40 years and 94 years, respectively, assuming current extraction and production rates.

In February 2012, we acquired a 95.4% interest in our subsidiary, Bilozerska, which operates one mine located in the Dobropolsky region of Ukraine. As at December 31, 2012, the Bilozerska mine had industrial reserves of 71.6 million metric tons and a reserve life of 90 years, assuming current extraction and production rates. Further, in 2012, we acquired three mines located in the Rostov region of Russia

which, as at December 31, 2012, had aggregate industrial reserves of 125.6 million metric tons and an average reserve life of 73 years, assuming current extraction and production rates. Our three Russian mines are operated through our subsidiaries, Obukhovskaya, Don-Anthracite and Sulinanthracite.

We are the largest producer of steam coal (which is coal typically used for generating steam for power plants; see *"Business—Business Segments—Coal mining—Types of coal produced"*) in Ukraine based on our production of 16.1 million metric tons and 26.7 million metric tons of marketable steam coal in 2011 and 2012, respectively. In 2012, approximately 73% of our steam coal production was supplied to our TPPs in our power generation subsidiaries to maximize the synergies from our vertically integrated business, with the remainder being sold to third parties in Ukraine and exported outside Ukraine. Our coal mines produced approximately 0.9 million metric tons and 0.6 million metric tons of marketable coking coal in 2011 and 2012, respectively.

In the years ended December 31, 2010, 2011 and 2012, we exported 2 million, 3.4 million and 2.8 million metric tons of coal, respectively, through our subsidiary, Trading LLC, primarily to consumers in Turkey, India, Egypt, Russia, the United States and countries in Europe for use in thermal power plants and for industrial use.

Power generation

We are the leading privately owned thermal power generation company in Ukraine. Our power generation subsidiaries, Skhidenergo, Dniproenergo, Zakhidenergo and Kyivenergo, and our electricity distribution subsidiary, Donetskoblenergo, operate ten thermal power generation plants and two heat and power plants comprising 66 power generation units with total installed capacity of 18.2GW. In 2010, 2011 and 2012, we generated a total net output of 16.3TWh, 17.1TWh and 51.4TWh of electricity, respectively, which accounted for approximately 9.5%, 9.7% and 28.5% of total Ukrainian power generation (measured by net output of electricity), respectively, according to Ukrenergo.

Our subsidiary, Dniproenergo, generated 16.2TWh of electricity in 2012 (in terms of net generation), which accounted for approximately 9.0% of total Ukrainian power generation according to Ukrenergo. Dniproenergo operates three power plants located in the Zaporizhya and Dnipropetrovsk regions of Ukraine which have an aggregate installed capacity of 8,185MW. Our subsidiaries, Skhidenergo, Zakhidenergo and Kyivenergo operate three power plants located in the Donetsk and Lugansk regions of Ukraine, three power plants located in the Lvovskaya, Ivano-Frankovskaya and Vinnitskaya regions of Ukraine and two power plants located in Kiev, respectively, which have installed capacity of 4,157MW, 4,707.5MW and 1,200MW, respectively. In addition, our electricity distribution subsidiary, Donetskoblenergo, also operates a power plant, Myronovskaya TPP, which is located in the Donetsk region of Ukraine and has installed capacity of 275MW. Zakhidenergo's TPP, Burshtynskaya, is connected to the UCTE/CENTREL unified European power system through which it exports up to 650MW of electricity to European markets in addition to supplying electricity within Ukraine, and, in addition to generating and transmitting electricity, Kyivenergo, Dniproenergo and Donetskoblenergo distribute and transport heat to customers and have total installed heat capacity of 8,700Gcal per hour, 1,983Gcal per hour and 350Gcal per hour, respectively.

Our power plants benefit from a steady supply of coal, which is primarily purchased from our coal mines. Although the coal produced by our coal mines is generally sufficient to meet the demand of our power plants, our power generation subsidiaries sometimes purchase coal from third parties when coal prices are more favorable. Further, although we currently produce more anthracite coal than our power stations require and our internal demand for, and production of, steam coal is generally evenly balanced, we consume more coking coal than we produce and, therefore, are required to purchase coking coal from third parties. We believe that our power plants have the lowest production cost in the Ukrainian thermal power generation industry. Under the terms of our power generation licenses, our thermal power plants sell all of the electricity they produce to Energorynok, the Ukrainian government-owned electricity metering and distribution pool, at prices determined daily by the NERC through a bidding system. The volume of electricity our power generation business segment produces is determined by the competitive bidding process through which we sell electricity to Energorynok. We produce electricity only to the extent our bids are accepted by Energorynok, and our ability to submit competitive bids is, to a large extent, dependent upon our production costs. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Our Results of Operations—Prices for our products in each of our business segments—Power generation"*.

Electricity distribution

We are the largest electricity distribution company in Ukraine based on the volume of electricity distributed to our end customers, which include households and commercial consumers in the Donetsk, Dnepropetrovsk and Crimean regions of Ukraine, and Kiev. In the years ended December 31, 2010, 2011 and 2012, we distributed approximately 13.3TWh, 14.1TWh and 53.9TWh, respectively, to our end customers which accounted for a 9.1%, 9.5% and 37.8% proportional share of electricity distribution in Ukraine (measured by TWh of electricity distributed) during each of those respective periods, according to the NERC. We purchase all our electricity from Energorynok on the wholesale electricity market. As of December 31, 2012, our power networks extended over a distance of approximately 158,700 kilometers.

We own and operate six electricity distributing companies, Servis-Invest, Energougol, Krymenergo, Donetskoblenergo, Dniprooblenergo and Kyivenergo. Our subsidiary, Dniprooblenergo, is the largest electricity distribution company in Ukraine based on the volume of electricity purchased and distributed. In 2012 it distributed 23.7TWh to customers, which accounted for a 14.9% proportional share of electricity distribution in Ukraine in 2012. Dniprooblenergo operates 12,466 transformer substations with a total transformer capacity of 11,218MVA and 47,181 kilometers of electricity lines in the Dnepropetrovsk regions of Ukraine. Our subsidiary, Energougol, has 1,178 kilometers of electricity lines in the Donetsk region of Ukraine and total transformer capacity of 471MVA, Servis-Invest has 2,719 kilometers of electricity line in the Donetsk and Dnepropetrovsk regions of Ukraine and total transformer capacity of 2,708MVA and Krymenergo has 30,502 kilometers of electricity lines in the Crimea and total transformer capacity of 6,044MVA. Our subsidiaries, Donetskoblenergo and Kyivenergo, have 63,209 kilometers of electricity lines in the Donetsk region and 11,378 kilometers of electricity lines in Kiev, respectively, and total transformer capacity of 12,291MVA and 6,929MVA, respectively.

We export electricity to Poland, Hungary, Romania, Slovakia, Moldova and Belarus through our subsidiaries, DTEK Power Trade, Skhidenergo and Trading LLC. In the years ended December 31, 2010, 2011 and 2012, we exported 1.2TWh, 5.1TWh and 9.7TWh, respectively. In 2012, our largest electricity export markets were Belarus (4.1TWh), Hungary (3.6TWh) and Poland (1.0TWh).

Key Factors Affecting Our Results of Operations

Certain factors relating to our business and industry, as well as the political, economic and legal environment in Ukraine, have affected and will continue to affect our results of operations. In the period from January 1, 2010 through December 31, 2012, the key factors affecting our results of operations were as follows.

Recent trends in the Ukrainian economy

As the vast majority of our assets and operations are based in Ukraine, our results of operations are affected by the overall state of the Ukrainian economy, which is largely dependent on the export of commodities, including coal, steel, fertilizer and agricultural products. In 2010 and 2011, the Ukrainian economy stabilized and then strengthened in response to an improvement in the global macroeconomic environment following the global economic crisis of 2008 and 2009, with Ukrainian GDP growing by 4.1% in 2010, and 5.2% in 2011. This dynamic was largely driven by growth in the agricultural sector, an increase in demand for exports of metal and chemical products and growth in construction activities in connection with the implementation of large infrastructure projects for the UEFA 2012 European Football Championship. According to NBU data, industrial output increased by 11.2% in 2010 and 7.6% in 2011, exports of steel and metals increased by 35.2% in 2010, and 27.6% in 2011 and the chemical industry grew by 38.3% in 2010, and 54.9% in 2011. Total exports of goods and services increased by 28.3%, amounting to US$88.8 billion in 2011, and domestic consumption at current prices also recovered, increasing by 20.0% in 2010, and 24.1% in 2011. The Ukrainian economy was also supported by the 2010 SBA (defined above) made available to the Ukrainian government by the IMF in 2010. See *"Risk Factors—Risks Relating to Ukraine—Ukraine's economy is vulnerable to fluctuations in the global economy".*

However, the pace of Ukrainian economic growth slowed in the first half of 2012, with GDP increasing by only 5.1% during the first six months of 2012 compared against the first six months of 2011, and the economy started to contract during the second half of 2012, with GDP declining by 4.0% during the second six months of 2012 compared against the second six months of 2011. Ukrainian GDP for the full year 2012 increased by only 0.2% compared to the full year 2011. General macroeconomic stagnation in most of the major world economies and a consequent reduction in global demand for steel and other industrial exports resulted in Ukrainian industrial output declining by 1.8% and agricultural output declining by 4.5% in 2012

compared against 2011. Ukrainian public debt reached UAH515.4 billion by December 31, 2012, or 36.8% of GDP. Ukraine repaid approximately US$3.5 billion of indebtedness to the IMF in 2012, thereby significantly depleting its foreign exchange reserves. Ukraine had a budget deficit of UAH53.4 billion in 2012 according to NBU data.

In general, there is a correlation between economic growth and growth in demand for coal and electricity. Therefore, our financial results have been and will continue to be impacted by macroeconomic factors, both in Ukraine and globally. In 2010 and 2011 we benefitted from growth in the Ukrainian economy and strong industrial production, which resulted in higher demand for our coal and our electricity. However, as the Ukrainian economy stagnated and then deteriorated during 2012, we were adversely affected by lower demand for coal and electricity.

Acquisitions and Investments

Over the past two years we have engaged in acquisition and investment activities in order to expand our operations and improve the efficiency and productivity of our assets. We will continue to evaluate additional opportunities for acquisitions of energy assets, primarily power generation and electricity distribution assets that may be privatized by the government of Ukraine. We will also continue to invest in the development and modernization of our existing assets. We have financed, and expect to continue to finance, our acquisitions and investments through a combination of cash from operations and indebtedness raised under bank facilities and in the international debt capital markets. We believe that our past and future acquisition and investment activities have had and will have continue to have a significant effect on our results of operations and the comparability of our results between periods.

We spent UAH806 million and UAH4,653 million in 2011 and 2012, respectively, acquiring coal mining and power generation and distribution assets, including energy assets privatized by the Ukrainian government. In 2011, we entered into two 49-year concession agreements with the Ministry of Energy and one 49-year lease agreement with the State Property Fund in respect of the coal assets operated by Dobropolyeugol, Rovenkyanthracite and Sverdlovanthracite and, as at December 31, 2012, we recorded an aggregate amount of UAH2,016 million of deferred consideration payable by us in respect of such acquisitions. We also acquired an additional 25% interest in our subsidiary, Kyivenergo, for UAH450.5 million, bringing our shareholding in Kyivenergo to 72.33%. Through our participation in Ukrainian privatization tenders, in 2012 we acquired an additional 45.10% interest in our power generation subsidiary Zakhidenergo for UAH1,932 million, an additional 25% interest in our power generation subsidiary Dniproenergo for UAH1,179.7 million, a 40.06% interest in our power distribution subsidiary Donetskoblenergo for UAH467.6 million, a 50% interest in our power distribution subsidiary Dniprooblenergo for UAH660.1 million and a 45% interest in our power distribution subsidiary Krymenergo for UAH256 million. Further, in February 2012, we acquired a 95.4% interest in the Bilozerska mine for UAH202 million and the entire share capital of Don-Anthracite, Obukhovskaya and Sulinanthracite for UAH310 million.

As a result of the rapid expansion of our business over the past two years and the acquisition of numerous new assets, each of which typically requires a comprehensive investment program to bring its productivity and efficiency levels into line with the remainder of the Group, our capital expenditure has increased significantly: by 94.7% in 2011 and by 135.8% in 2012. Further, under the terms and conditions of the three 49-year concession/lease agreements in respect of the 16 mines operated by our operating subsidiaries, Dobropolyeugol, Rovenkyanthracite and Sverdlovanthracite, we are required to invest an aggregate total amount of UAH7,727 million in development and modernization programs between 2011 and by 2016.

In 2010, 2011 and 2012, we spent UAH2,220 million, UAH4,323 million and UAH10,193 million, respectively on capital expenditure, including UAH14 million and UAH1,428 million in the years ended December 31, 2011 and 2012, respectively, on capital expenditure relating to the Botievo wind farm. We expect to finance approximately UAH12,272 million and UAH10,846 million of capital expenditures in 2013 and 2014, respectively, (of which approximately UAH5,810 million and UAH3,158 million, respectively, is discretionary and could be deferred if so required), primarily on the modernization and development of our coal mines and power generation plants.

Volumes of production and sales in each of our business segments

Coal mining

The volume of coal we produce and sell is substantially dependent on the level of demand for our coal and our total coal production capacity. In accordance with our vertically integrated business model, we sell most of the coal we produce to our power generation subsidiaries for use in our thermal power plants. Therefore, demand for our coal is substantially driven by the demand for the electricity produced by our power generation subsidiaries and by their total electricity generation capacity (see *"—Power generation"*). However, we sell the remainder of our coal to third-party purchasers in the Ukrainian market and outside of Ukraine. Demand from third parties for our coal is largely dependent upon macro-economic conditions and industrial demand for coal, the strength of the Ukrainian economy (see *"—Recent trends in the Ukrainian economy"*) and the general availability of coal supplies. Current Ukrainian coal production levels are sufficient to meet the total domestic demand for steam coal, but not for coking coal. The Ukrainian government estimates that Ukrainian coal production will increase slightly over the next several years, including as a result of the introduction of new technologies, equipment and advanced business processes and the privatization of coal production assets. As a result, it is anticipated that domestic steam coal production volumes will continue to exceed domestic demand, but domestic coking coal production volumes are still expected to be insufficient for domestic requirements, thereby requiring the continued import of coking coal.

Our total coal production capacity is dependent on the number of coal mines we operate, the size of our industrial reserves and the efficiency and productivity of our coal mining operations. In 2010, 2011 and 2012, our coal mines collectively produced 19.1 million, 24.1 million and 39.7 million metric tons of coal, respectively, which accounted for approximately 25.5%, 28.0% and 46.1% of Ukraine's total coal production (measured by metric tons of coal produced), respectively, according to Energobiznes. In 2011 and 2012, we acquired 20 new coal mines, such that we now own and operate 31 coal mines through our nine coal mining subsidiaries. Based on the Ukrainian government's estimate of our coal reserves as of the date the respective production licenses were granted, and as further adjusted by us to reflect extraction, reserves reclassifications, new coal discoveries and acquisitions, as of December 31, 2012, we had 1,699.7 million metric tons of industrial reserves. Our investments in the modernization of coal mining equipment and the introduction of innovative methods of production have improved the efficiency and productivity of our coal mines. From January 1, 2010 to December 31, 2012, we invested approximately UAH7,200 million in the reconstruction and modernization of our mines and coal enrichments plants. As a result of these and our prior investments, we have been able to significantly increase our coal output and our coal output capacity. For example, Pavlogradugol's mining output has increased from approximately 10.8 million metric tons in 2003, to 14.2 million metric tons in 2008, and to 17.0 million metric tons in 2012.

The table below summarizes the amount of coal produced by our coal mining subsidiaries (and as a percentage of the total produced) for the years ended December 31, 2010, 2011 and 2012:

	Year ended December 31,					
	2010		2011		2012	
	Metric tons	Percentage	Metric tons	Percentage	Metric tons	Percentage
	Million metric tons, except percentages					
Pavlogradugol	15.0	78.5%	15.4	64.2%	17.0	42.8%
Komsomolets Donbassa	4.1	21.5%	4.3	17.5%	4.5	11.3%
Dobropolyeugol[1]	—	—	3.3	13.7%	3.3	8.3%
Rovenkyanthracite[2]	—	—	0.5	2.1%	7.3	18.4%
Sverdlovanthracite[3]	—	—	0.6	2.5%	6.9	17.4%
Bilozerska[4]	—	—	—	—	0.5	1.3%
Obukhovskaya, Don-Anthracite and Sulinanthracite[5]	—	—	—	—	0.2	0.5%
Total	**19.1**	**100.0%**	**24.1**	**100.0%**	**39.7**	**100.0%**

(1) On January 4, 2011, we entered into a 49-year lease agreement with the State Property Fund in respect of the mining assets operated by Dobropolyeugol. Dobropolyeugol's reserves data and production and sales volumes have been fully consolidated in our reserves data and production and sales volumes since January 1, 2011.

(2) On December 1, 2011, we entered into a 49-year concession agreement with the Ministry of Energy in respect of the mining assets operated by Rovenkyanthracite. Rovenkyanthracite's reserves data and production and sales volumes have been fully consolidated in our reserves data and production and sales volumes since December 1, 2011.

(3) On December 1, 2011, we entered into a 49-year concession agreement with the Ministry of Energy in respect of the mining assets operated by Sverdlovanthracite. Sverdlovanthracite's reserves data and production and sales volumes have been fully consolidated in our reserves data and production and sales volumes since December 1, 2011.

(4) On February 17 and 24, 2012 we completed transactions resulting in the acquisition of 95.4% of the share capital of Bilozerska. Bilozerska's reserves data and production and sales volumes have been fully consolidated in our reserves data and production and sales volumes since March 1, 2012.

(5) On June 30, 2012, we acquired the entire share capital of Obukhovskaya, Don-Anthracite and Sulinanthracite. Obukhovskaya's, Don-Anthracite's and Sulinanthracite's reserves data and production and sales volumes have been fully consolidated in our reserves data and production and sales volumes since July 1, 2012.

The table below summarizes the amount of marketable coking coal and steam coal produced by each of our coal mining subsidiaries for the years ended December 31, 2010, 2011 and 2012:

	Year ended December 31,					
	2010		2011		2012	
	Coking coal	Steam Coal	Coking coal	Steam Coal	Coking coal	Steam coal
	Million metric tons, except percentages					
Pavlogradugol	1.1	8.1	0.8	9.7	0.4	11.4
Komsomolets Donbassa	0.0	3.1	0.0	3.2	0.0	3.3
Dobropolyeugol	—	—	0.1	2.1	0.1	1.9
Rovenkyanthracite	—	—	0.0	0.4	0.0	5.4
Sverdlovanthracite	—	—	0.0	0.4	0.0	4.2
Bilozerska	—	—	—	—	0.1	0.4
Obukhovskaya, Don-Anthracite and Sulinanthracite	—	—	—	—	0.0	0.2
Total	**1.1**	**11.2**	**0.9**	**16.1**	**0.6**	**26.7**

Power generation

The volume of electricity our power generation business segment produces and sells is dependent on the extent to which Energorynok, the sole permitted buyer in the Ukrainian wholesale electricity market, agrees to purchase our electricity. Energorynok will only purchase sufficient electricity from producers in order to satisfy the prevailing level of domestic demand. Domestic demand varies over time, including as a result of macro-economic conditions (see *"—Recent trends in the Ukrainian economy*"), weather conditions and seasonality (see *"—Seasonality and weather conditions"*). In addition, the volume of electricity Energorynok agrees to purchase from our producing subsidiaries depends on our ability to submit competitive bids, which, in turn, is dependent upon our production costs. See *"—Prices for our products in each of our business segments—Power generation".*

We currently have more generation capacity than is required to meet market demand, as calculated by Energorynok. Our power generation subsidiaries, Skhidenergo, Dniproenergo, Zakhidenergo and Kyivenergo, and our electricity distribution subsidiary, Donetskoblenergo, operate ten thermal power generation plants and two heat and power plants comprising 66 power generation units with total installed capacity of 18.2GW. In 2010, 2011 and 2012, we generated a total net output of 16.3TWh, 17.1TWh and 51.4TWh of electricity, respectively, which accounted for approximately 9.5%, 9.7% and 28.5% of total Ukrainian power generation (measured by net output of electricity), respectively, according to Ukrenergo. Our subsidiary, Dniproenergo, generated net output of 16.2TWh of electricity in 2012, which accounted for approximately 9.0% of total Ukrainian power generation according to Ukrenergo.

The table below shows the net output of power generated by each of our main power generation subsidiaries for the years ended December 31, 2010, 2011 and 2012:

	Year ended December 31,		
	2010	2011	2012
	Power generated / TWh		
Skhidenergo	16.3	17.1	15.7
Dniproenergo[1]	—	—	16.2
Zakhidenergo[2]	—	—	15.0
Kyivenergo[3]	—	—	4.5
Total	**16.3**	**17.1**	**51.4**[4]

(1) Dniproenergo's production volumes have been fully consolidated in our production volumes since March 1, 2012, as we acquired a controlling interest in Dniproenergo in March 2012. We currently own 73.30% of the share capital of Dniproenergo.

(2) Zakhidenergo's production volumes have been fully consolidated in our production volumes since January 1, 2012 as we acquired a controlling interest in Zakhidenergo in January 2012. We currently own 72.19% of the share capital of Zakhidenergo.

(3) Kyivenergo's production volumes were fully consolidated in our production volumes in January 1, 2012 as we acquired a controlling interest in Kyivenergo in December 2011. We currently own 72.33% of the share capital of Kyivenergo.

(4) Donetskoblenergo's (Myronovskaya TPP's) production volumes have been fully consolidated in our production volumes since January 2012, as we acquired an additional 40.061% interest in Donetskoblenergo in January 2012. We currently own 71.35% of the share capital of Donetskoblenergo. Donetskoblenergo's (Myronovskaya TPP's) production volume of 494kWh for 2012 is included in the calculation of our total production volume of TWh 51.4 for 2012, but it is not shown separately in the above table as it represents a *de minimis* amount in comparison to our total production volume for 2012 and is effectively eliminated when presented in TWh and rounded to one decimal place.

Electricity distribution

The volume of electricity we purchase for distribution to customers is substantially dependent on the prevailing level of demand for electricity in the Ukrainian market. We purchase all our electricity from Energorynok on the wholesale electricity market before distributing it to household and commercial customers. The level of demand for electricity is affected by the strength of the global and Ukrainian economy and levels of industrial production (see *"—Recent trends in the Ukrainian economy"*) and seasonal variations. In the years ended December 31, 2010, 2011 and 2012, we distributed approximately 13.3TWh, 14.1TWh and 53.9TWh, respectively, to our end customers, which accounted for a 9.1%, 9.5% and 37.8% proportional share of electricity distribution in Ukraine (measured by TWh of electricity distributed) during each of those respective periods, according to Energorynok. According to Energorynok and the NERC, Dniprooblenergo is the largest electricity distribution company in Ukraine based on the volume of electricity purchased and distributed. In 2012, it distributed 23.7TWh to customers, which accounted for a 14.9% proportional share of electricity distribution in Ukraine.

The following table sets out the volumes of electricity purchased from Energorynok by our electricity distribution subsidiaries and distributed to end customers (and as a percentage of the total purchased and distributed by the Group) for years ended December 31, 2010, 2011 and 2012:

	Year ended December 31,					
	2010		2011		2012	
	TWh	Percentage	TWh	Percentage	TWh	Percentage
	Millions, except percentages					
Servis-Invest	12.2	91.7	13.0	92.2	11.5	21.3
Energougol[1]	1.1	8.3	1.1	7.8	1.1	2.0
Dniprooblenergo[2]	—	—	—	—	18.2	33.8
Donetskoblenergo[3]	—	—	—	—	10.3	19.2
Krymenergo[4]	—	—	—	—	3.2	5.9
Kyivenergo[5]	—	—	—	—	9.6	17.8
Total	**13.3**	**100.0%**	**14.1**	**100.0%**	**53.9**	**100.0%**

(1) We currently own 94.24% of the share capital of Energougol.

(2) Dniprooblenergo's distribution volumes have been fully consolidated in our distribution volumes since April 1, 2012 as we acquired a 50% interest in Dniprooblenergo pursuant to a privatization tender on April 17, 2012. We currently own 51.51% of the share capital of Dniprooblenergo.

(3) Donetskoblenergo's distribution volumes have been fully consolidated in our distribution volumes since January 1, 2012 as we acquired an additional 40.061% interest in Donetskoblenergo in January 2012. We currently own 71.35% of the share capital of Donetskoblenergo.

(4) Krymenergo's distribution volumes have been fully consolidated in our distribution volumes since May 1, 2012 as we acquired a 45.0% interest in Krymenergo pursuant to a privatization tender on May 4, 2012. We currently own 57.60% of the share capital of Krymenergo.

(5) Kyivenergo's distribution volumes have been fully consolidated in our distribution volumes since January 1, 2012 as we acquired an additional 25.5% interest in Kyivenergo on December 13, 2011. We currently own 72.33% of the share capital of Kyivenergo.

Prices for our products in each of our business segments

Coal mining

The prices of the coal we produce vary from period to period, including in accordance with variations in market demand and from mine to mine, including as a result of differences in the type and quality of the coal we produce and differing production costs at our mines. In order to maximize the synergies of our vertically integrated business, approximately 69%, 59% and 81% of the marketable coal we produced in 2010, 2011 and 2012, respectively, was sold to our power generation subsidiaries and used by our thermal power plants. Of the remainder, approximately 14%, 19% and 10% was sold to customers outside Ukraine, including in Europe, Turkey, India, Egypt, Russia and the United States, in 2010, 2011 and 2012, respectively, with the rest being sold to customers in Ukraine. Prices for the coal we export are generally higher than the prices for domestic sales of coal, but we incur additional transportation and other logistical expenses and fees to export our coal, such that the profitability of coal exports and domestic sales of coal is comparable. We enter into long-term coal supply agreements with our customers under which the price for coal is fixed by reference to average market prices for coal.

The following table sets out the average prices of coal produced by certain of our coal mining subsidiaries for the years ended December 31, 2010, 2011 and 2012:

	Year ended December 31,					
	2010		2011		2012	
	Coking coal	Steam Coal	Coking coal	Steam Coal	Coking coal	Steam coal
	UAH / metric ton					
Pavlogradugol (G grade coal)	912.0	602.1	1051.0	798.5	870.7	856.1
Komsomolets Donbassa (A grade coal)	—	593.0	—	752.7	—	845.8
Komsomolets Donbassa (T grade coal)	—	606.8	—	773.1	—	868.9
Dobropolyeugol, including Bilozerska (G grade coal)	—	—	1051.0	798.5	870.7	856.1
Rovenkyanthracite (A grade coal)	—	—	—	752.7	—	845.8
Rovenkyanthracite (T grade coal)	—	—	—	773.1	—	868.9
Sverdlovanthracite (A grade coal)	—	—	—	752.7	—	845.8
Sverdlovanthracite (T grade coal)	—	—	—	773.1	—	868.9
Obukhovskaya (A grade calorie coal)	—	—	—	—	—	492.7
Obukhovskaya (A grade carbon coal)	—	—	—	—	—	1131.4
Don-Anthracite and Sulinanthracite	—	—	—	—	n/a	n/a

Power generation

Under the terms of our licenses, we sell all of the electricity produced by our power generation plants to Energorynok. The prices at which we sell electricity to Energorynok are determined daily in accordance with the regulated bidding system. Each day, thermal power plants submit to Energorynok a set of stated prices and information for the next 24 hours on the working capacity of each unit at their thermal power facilities that is not under repair and can be started within that 24-hour period. The stated prices reflect the prices each generator should receive for selling its electricity on the wholesale market. The working capacity bid reflects the potential capacity of each unit to generate electricity for each hour in the following 24 hour period. Hourly information on unit flexibility is also submitted. Based on consumption forecasts for the next 24 hours, Energorynok selects a number of units of the producer for each hour, starting from the lowest cost unit to the most expensive cost unit in line with the price bids. All units that operate during the specified calculation period are paid the maximum price of the system (i.e., price of the most expensive

unit in operation). Producers working on price bids are generally paid for electricity generated, working capacity and unit flexibility. If we are able to continue to reduce our production costs (see "*—Production costs and efficiency*") we will have more flexibility in determining the prices at which we offer our electricity to Energorynok compared to our competitors.

The following table sets out the average electricity tariffs applied to the electricity generated by our thermal power stations and sold to Energorynok for the years ended December 31, 2010, 2011 and 2012:

	Year ended December 31,		
	2010	2011	2012
	UAH / MWh		
Skhidenergo	456.6	547.2	572.2
Dniproenergo	—	—	532.0
Zakhidenergo	—	—	635.6

Electricity distribution

Our electricity distribution subsidiaries purchase electricity from Energorynok at prices regulated by the rules of the wholesale electricity market and then sell it to end consumers at prices calculated in accordance with tariffs set by Energorynok. Therefore, the operating profit of our electricity distribution companies is significantly affected by both the purchase price for electricity and the final consumer tariff. Purchases of electricity from Energorynok were the single largest line item in our cost of sales, accounting for 33.9%, 35.4% and 46.6% of our total cost of sales for the years ended December 31 2010, 2011 and 2012, respectively. The price of the electricity we purchase for distribution to final customers is determined by the average weighted cost of electricity sold by the thermal power plants, the nuclear power plants, the hydro power plants and combined heat and power plants to the wholesale electricity market as well as system operator and market operator expenses and cross subsidies that cover costs of supplying electricity to certain preferential groups of customers.

The following table sets out the average purchase price of electricity purchased from Energorynok by our electricity distribution subsidiaries in the years ended December 31, 2010, 2011 and 2012:

	Year ended December 31,		
	2010	2011	2012
	UAH / MWh		
Servis-Invest	477.0	593.6	701.7
Energougol	427.5	520.6	594.3
Dniprooblenergo	396.8	511.0	586.3
Donetskoblenergo	266.0	326.3	377.7
Krymenergo	246.7	287.3	322.2
Kyivenergo	391.4	453.1	542.6

Final consumer tariffs vary based on the type of consumer (household or commercial) and the two different types of voltage categories currently available in Ukraine, the rates for which are determined by NERC. Our ability to increase final consumer tariffs in the future will depend on our ability to justify any tariff increases to NERC, including by submitting to NERC written proposals containing details of our planned capital expenditure and investment plans in respect of our electricity distribution assets. The following table sets out the average electricity tariffs for electricity sold to end customers by our electricity distribution subsidiaries for the years ended December 31, 2010, 2011 and 2012:

	Year ended December 31,		
	2010	2011	2012
	UAH / MWh		
Servis-Invest	497.1	626.9	728.0
Energougol	570.8	694.9	819.7
Dniprooblenergo	460.8	581.6	670.0
Donetskoblenergo	412.1	505.4	575.8
Krymenergo	412.4	495.4	567.8
Kyivenergo	475.2	586.3	664.9

However, pursuant to the Amendments to the Law on Natural Monopolies adopted in June 2012, electricity distribution companies may soon be able to elect to switch to an alternative sales tariff system

under which the applicable tariff is calculated to ensure the distributor receives an amount that represents a specific rate of return on the value of its investment in its distributing assets. Although the precise methodology of the new tariff system has not yet been confirmed, we expect that the new tariff system will enable us to increase the profitability of our electricity distribution business. We anticipate that the new system will be operational by 2014 and we intend to seek to switch our distribution companies to such tariffs once this occurs.

Production costs and efficiency

Our competitiveness and long-term profitability are, to a significant degree, dependent upon our ability to maintain low-cost and efficient operations. As a result of the introduction and optimization of efficient business practices and modern equipment, we believe that steam coal mined in our coal mines has the lowest production cost in Ukraine and our goal is to reduce the production cost below that of imported coal, in particular coal imported from Russia. Production costs typically account for about three-quarters of the total cost of the coal we produce. Lower production costs will enable us to improve the profitability of our coal sales to third parties and to submit lower price bids to Energorynok for sales of our electricity in the Ukrainian market.

Out total aggregate capital expenditure on our coal production and power generation assets in 2010, 2011 and 2012 was approximately UAH12,995, and we expect to invest a further UAH4,600 million in such assets in 2013. We have implemented best practices, acquired modern equipment and developed our facilities in order to improve operational efficiency and productivity across our business. As a result, our labor productivity at Komsomolets Donbassa increased to 104.3 metric tons per person per month in 2012, or by 11.6%, from 93.5 metric tons per person per month in 2011, and our labor productivity at Pavlogradugol increased to 84.1 metric tons per person per month, or by 14.3%, from 73.6 metric tons per person per month in 2011. Labor productivity at Sverdlovanthracite, Rovenkyanthracite and Dobropolyuegol was 68, 53 and 36 metric tons per person per month, respectively, in 2012, compared against 21 metric tons per person per month for state-owned mines. Our average labor productivity in 2012 was 72 metric tons per person per month. Cost of production at Komsomolets Donbassa, Pavlogradugol, Sverdlovanthracite, Rovenkyanthracite and Dobropolyuegol was 399, 521, 649, 680 and UAH817 per metric ton, respectively, in 2012, compared against UAH1,307 per metric ton for state-owned mines. Our average cost of production in 2012 was UAH584 per metric ton. We anticipate that labor productivity at our new mines will also improve and the cost of production will fall as our new modernization and investment programs take effect at these facilities.

Staff costs, depreciation expenses, raw material costs and social expenses significantly influence our operating profit. Staff costs are included in our cost of sales, distribution costs and general administrative expenses, depending on the function performed by the relevant staff. Staff costs are driven mainly by several factors, including the number of employees, salary rates and acquisitions. The Group's staff costs increased by UAH8,894 million, or 250%, from UAH3,560 million to UAH12,454 million from 2010 to 2012. This significant increase is primarily a result of the increase in the number of the Group's employees from 43,304 as at December 31, 2010 to 144,603 as at December 31, 2012 due the expansion of our operations during this period. The average monthly salary per employee was UAH4,772 million, UAH5,163 million and UAH5,482 million for the years ended December 31, 2010, 2011, and 2012, respectively.

Raw material costs primarily include the cost of the gas and coal that we purchase. They are included in our cost of sales and, for the years ended December 31, 2010, 2011 and 2012, accounted for 20.0%, 17.2% and 19.4%, respectively, of our total cost of sales. Our cost of raw materials fluctuates depending primarily on the amount of coal and gas we purchase from third parties. The price at which we purchase coal from third parties is dependent upon the supply and demand dynamics of the coal industry in Ukraine, as discussed above under *"—Volumes of production and sales in each of our business segments—Coal mining".*

Depreciation expenses are included in our cost of sales, as well as general and administrative expenses, depending on the asset being depreciated. Depreciation expenses are expected to increase each year as a result of additional capital investments and regular revaluations of property, plant and equipment. Regular revaluations must be performed once every three years according to our group accounting policies, but we may conduct revaluations more often, depending on the trend of market prices for certain types of equipment and property.

Social and infrastructure maintenance expenses, charitable donations and sponsorship typically comprise voluntary and discretionary charity and donations to civic and educational development (including to

support sports funding for schools and a program for the development of small towns), non-profit organizations and social development funds made in accordance with our corporate social responsibility policy.

Seasonality and weather conditions

Our power generation and electricity distribution business segments are subject to seasonality, with greater demand in the colder winter months as heating and transportation demands increase. The following table shows the volume of electricity and revenue generated by Dniproenergo and Skhidenergo, and the volume of electricity distributed and revenue generated by all of our electricity distribution subsidiaries, in each case, from the first day of the first month through the last day of the last month of each of the periods presented.

	Period						
	Jan 2010 - Mar 2010	Apr 2010 - Sept 2010	Oct 2010 - Mar 2011	Apr 2011 - Sept 2011	Oct 2011 - Mar 2012	Apr 2012 - Sept 2012	Oct 2012 - Dec 2012
Net power generation:							
TWh produced	4.20	7.60	9.60	7.80	14.90	23.50	12.70
Revenue, *UAH* millions	1,771	3,908	4,664	5,082	9,357	15,795	8,175
Electricity distribution:							
TWh distributed	15.2	6.4	7.1	6.9	12.9	28.4	16.1
Revenue, *UAH* thousands	1,486	3,253	4,073	4,351	8,571	17,699	9,885

Additionally, weather conditions can adversely affect our equipment used to distribute electricity, thereby causing disruptions and a reduction in sales volumes. Colder weather may also result in high technical distribution losses, although we sell more electricity during cold weather periods.

Our coal mining business segment is not subject to seasonal fluctuations.

Segment Information

Our operations are organized into four main business segments:

- Coal mining (which includes coal enrichment);
- Power generation;
- Heat generation (starting from December 2011); and
- Electricity distribution.

Two of our four main business segments, coal mining and power generation, are dependent on each other; for example, in 2012, 73% of the steam coal produced by our coal mining segment was sold to our power generation subsidiaries.

Our heat generation business segment was created in December 2011 when Kylvenergo was consolidated into our Group for the first time. Prior to December 2011, we had only three main business segments (coal mining (including coal enrichment), power generation and electricity distribution and sales) and all revenues generated from sales of heat were included under 'Other' business segment for the purpose of the presentation of revenues by business segment, as such revenues were not material.

Explanation of Key Income Statement Items

Revenue

Our revenue primarily includes sales of electricity to Energorynok, the Ukrainian state-owned electricity metering and distribution pool and to end-consumers, sales of electricity and heat to end customers, electricity export sales, as well as sales of steam and coking coal to third parties and sales of equipment. We recognize revenues from sales upon delivery of electricity and heat (both wholesale and retail), coal and equipment, as the case may be. We recognize heat tariff compensation separately.

Heat tariff compensation

Heat tariff compensation is received, primarily by Kyivenergo, in accordance with existing legislation in connection with our sales of heat (both wholesale and retail) to end customers. Heat tariff compensation is

designed to compensate heat distributors which sell heat to subsidized Ukrainian consumers at preferential tariffs imposed by NERC and is computed as the difference between the heat tariff required to cover all production costs plus a reasonable margin, as determined by NERC, and the tariff that is imposed by NERC.

Cost of sales

Cost of sales primarily includes the cost of electricity purchased by our electricity distribution business segment, raw materials (mainly auxiliary materials, such as coal, gas and metals), staff costs (including payroll taxes), depreciation of property, plant and equipment, transportation costs (including railway tariffs to transport coal from mines to generation facilities), and cost of coal purchased for resale. These items typically account for over 80% of our total cost of sales for any period. Cost of sales also includes production overheads, taxes other than income tax, equipment maintenance and repairs and change in finished goods and work in progress.

Other operating income

Other operating income is gain resulting from non-core activities, including a reduction in provisions for impairment of trade and other receivables, gains on the sale of assets (including inventory and securities) and the write-off of accounts payable.

Distribution costs

Distribution costs primarily include transportation, staff costs (including payroll taxes) and depreciation as well as costs that relate to the transportation of goods from coal production sites to consumers. The distribution costs incurred in connection with our coal mining activities comprise the majority of our total distribution costs.

General and administrative expenses

General and administrative expenses primarily include staff costs (including payroll taxes) related to administration, professional fees (including for auditors, legal advisors and consultants), office costs, depreciation and taxes (other than income tax).

Other operating expenses

Other operating expenses primarily include social and infrastructure maintenance expenses, charitable donations and sponsorships and non-recoverable VAT.

Social and infrastructure maintenance expenses and charitable donations and sponsorships normally comprise voluntary and discretionary charity and donations to civil and educational development (including to support sports funding for schools and a program for the development of small towns), non-profit organizations and social development funds.

Impairment of property, plant and equipment

Impairment of property plant and equipment arises as result of a revaluation of property, plant and equipment, which may cause us to recognize a loss.

Net foreign exchange (loss)/gain (other than borrowings)

Foreign exchange gains or losses resulting from the translation of monetary assets and liabilities (other than borrowings) denominated in foreign currencies according to the functional currency exchange rate effective at the balance sheet date.

Foreign exchange gains less losses from borrowings

Foreign exchange gains or losses resulting from the translation of borrowings denominated in foreign currencies according to the functional currency exchange rate effective at the balance sheet date.

Finance income and costs

Finance income and costs comprise interest expenses on borrowings, gains and losses on initial recognition of financial instruments, losses and gains on early repayment of financial instruments, interest income on

bank deposits, unwinding of interest on provisions and accounts payable and receivable, and changes in fair values of derivative financial instruments.

Gain on a bargain purchase

Gain on a bargain purchase has been computed as the excess of valuation of the book value of the assets we acquired from the State Property Fund through privatization tenders over the consideration we paid to the State Property Fund in respect of the acquisition of such assets, as calculated in accordance with the terms and conditions of the privatization tenders. Gain on a bargain purchase arose due to specific rules used by the State Property Fund to calculate the value of privatized assets. Gain on a bargain purchase is recognized in our income statement.

Recognition of loss from fair valuation of associate on transfer to subsidiary

Recognition of loss from fair valuation of associate on transfer to subsidiary arises as a result of a revaluation of an associate upon transfer to a subsidiary which may cause us to recognize a loss.

Recognition of AFS reserve on transfer to associate/subsidiary

Recognition of AFS reserve on transfer to associate/subsidiary arises as a result of a revaluation of AFS investment upon transfer to an associate/subsidiary which may cause us to recognize a loss.

Share of after tax results of associates

Share of after tax results of associates is the share of after tax results of an associate that is attributable to us by virtue of our shareholding in the associate.

Impairment of investments in associates

Impairment of investments in associates arises as a result of a revaluation of an investment in an associate which may cause us to recognize a loss.

Income tax expense

Income tax expense comprises current tax and deferred tax. We are subject to taxation in several jurisdictions, depending on the residence of our subsidiaries. In 2010, 2011 and 2012 the corporate income tax rates in Ukraine were 25%, 25% up to April 1, 2011 and 23% thereafter, and 21%, respectively. The tax rate for our companies registered in Cyprus, the Netherlands and Russian Federation was 10%, 25% and 20%, respectively, of worldwide income for the same period.

Results of Operations

The following is a discussion of our results of operations for the years ended December 31, 2010, 2011 and 2012.

Year ended December 31, 2012 as compared to year ended December 31, 2011

The following table sets out our consolidated income statement for the years ended December 31, 2011 and 2012 in absolute terms and as a percentage of total revenues, as well as the absolute change and percentage change from the year ended December 31, 2011 to the year ended December 31, 2012.

	Year ended December 31,					
	2011	% of revenue and heat tariff compensation	2012	% of revenue and heat tariff compensation	Change	% change
	UAH millions, except percentages					
Income statement						
Revenue	39,594	100%	78,340	94.9%	38,746	97.9%
Heat tariff compensation	—	—	4,241	5.1%	4,241	100%
Cost of sales	(29,976)	(75.7)%	(70,816)	(85.8)%	(40,840)	136.2%
Gross profit	**9,618**	**24.3%**	**11,765**	**14.2%**	**2,147**	**22.3%**
Other operating income	515	1.3%	3,265	4.0%	2,750	534.0%
Distribution costs	(203)	(0.5)%	(594)	(0.7)%	(391)	192.6%
General and administrative expenses	(1,184)	(3.0)%	(2,233)	(2.7)%	(1,049)	88,6%
Other operating expenses	(682)	(1.7)%	(1,408)	(1.7)%	(726)	106.5%
Net foreign exchange (loss)/gain (other than on borrowings)	124	0.3%	705	0.9%	581	468.5%
Impairment of property, plant and equipment	(198)	(0.5)%	—	—	198	100%
Operating profit	**7,990**	**20.2%**	**11,500**	**13.9%**	**3,510**	**43.9%**
Foreign exchange gains less losses from borrowings	(84)	(0.2)%	(448)	(0.5)%	(364)	433.3%
Finance income	222	0.6%	602	0.7%	380	171.2%
Finance costs	(1,283)	(3.2)%	(4,183)	(5.1)%	(2,900)	226.0%
Gain on a bargain purchase	—	—	604	0.7%	604	100%
Recognition of loss from fair valuation of associate on transfer to subsidiary	(334)	(0.8)%	(385)	(0.5)%	(51)	15.3%
Recognition of AFS reserve on transfer to associate/subsidiary	(349)	(0.9)%	(63)	(0.1)%	286	(81.9)%
Share of after tax results of associates	(48)	(0.1)%	(205)	(0.2)%	(157)	327.1%
Impairment of investments in associates	(446)	(1.1)%	—	—	446	100%
Profit before tax	**5,668**	**14.3%**	**7,422**	**9.0%**	**1,754**	**30.9%**
Income tax expense	(2,146)	(5.4)%	(1,500)	(1.8)%	646	(30.1)%
Profit for the year	**3,522**	**8.9%**	**5,922**	**7.2%**	**2,400**	**68.1%**

Revenue

The following table sets out our consolidated revenues by segment for the years ended December 31, 2011 and 2012, as well as the absolute change and percentage change from the year ended December 31, 2011 to the year ended December 31, 2012.

Revenues by segment	Year ended December 31, 2011	2012	Change	% change
	UAH millions, except percentages			
Coal mining				
Sales—external	17,344	7,059	(10,285)	(59.3)%
Sales to other segments	4,876	19,186	14,310	293.5%
Total	**22,220**	**26,245**	**4,025**	**18.1%**
Power generation				
Sales—external	10,356	30,733	20,377	196.8%
Sales to other segments	—	—	—	—
Total	**10,356**	**30,733**	**20,377**	**196.8%**
Electricity distribution				
Sales—external	11,490	36,836	25,346	220.6%
Sales to other segments	607	796	189	31.1%
Total	**12,097**	**37,632**	**25,535**	**211.1%**
Heat generation[(1)]				
Sales—external	281	3,647	3,366	1,197.9%
Heat tariff compensation	—	4,241	4,241	100.0%
Sales to other segments	—	2	2	—
Total	**281**	**7,890**	**7,609**	**2,707.8%**
Other				
Sales—external	123	65	(58)	(47.2)%
Sales to other segments	685	1,473	788	115.0%
Total	**808**	**1,538**	**730**	**90.3%**
Elimination	**(6,168)**	**(21,457)**	**(15,289)**	**247.9%**
Consolidated revenues	**39,594**	**82,581**	**42,987**	**108.6%**

(1) Our heat generation segment was created in December 2011 as a result of the consolidation of Kyivenergo in December 2011 and, therefore, heat generation revenues for 2011 only reflect results for December 2011. Prior to December 2011, heat generation revenues were included under our "Other" business segment for the purpose of the presentation of revenue by business segment.

Total consolidated revenue and heat tariff compensation increased by UAH42,987 million, or 108.6%, from UAH39,594 million for the year ended December 31, 2011 to UAH82,581 million for the year ended December 31, 2012 primarily due to:

- a UAH4,025 million, or a 18.1%, increase in revenues from coal sales, primarily resulting from a UAH14,310 million, or a 293.5%, increase in sales of coal to our power generation subsidiaries due to our acquisition of additional interests in Zakhidenergo and Dniproenergo, which resulted in the consolidation of Zakhidenergo and Dniproenergo for the first time, in 2012. This was offset by a UAH10,285 million, or a 59.3%, decrease in revenue from external sales of coal from UAH17,344 million for the year ended December 31, 2011 to UAH7,059 million for the year ended December 31, 2012, primarily as a result of the consolidation of Dniproenergo and Zakhidenergo in 2012, which entities were our most significant external purchasers of coal in 2011. Excluding the impact of the consolidation of Dniproenergo and Zakhidenergo, external sales of coal declined from UAH8,018 million to UAH7,059 million, or by 12.0%, due to reduced demand for coal;
- a UAH20,377 million, or a 196.8%, increase in revenues from sales of power, primarily due to revenues of UAH20,890 million, or 201.7% of the total growth in our power generation segment revenues in 2012, recorded by our power generation subsidiaries which were consolidated for the first time in 2012 (Zakhidenergo and Dniproenergo) and full year consolidation of Kyivenergo in 2012 as a result of our acquisition of additional interests in such entities. This was offset by a UAH209 million, or a 2.1%, decrease in revenues from external sales of power by Skhidenergo from UAH10,052 million for the year

ended December 31, 2011 to UAH9,843 million for the year ended December 31, 2012, primarily due to a 8.5% decrease in the volume of power production at Skhidenergo, which was partially offset by a 4.6% increase in applicable sales tariffs;

- a UAH25,535 million, or a 211.1%, increase in revenues from sales of electricity, primarily resulting from revenues of UAH23,041 million, or 200.5% of the total growth in our electricity distribution segment revenues in 2012, recorded by our electricity distribution subsidiaries which were consolidated for the first time in 2012 (Dniprooblenergo, Donetskoblenergo, and Krymenergo) and full year consolidation of Kyivenergo in 2012 as a result of our acquisition of additional interests in such entities, and a UAH2,304 million, or a 20.5%, increase in revenues from external sales of electricity (excluding sales by Dniprooblenergo, Donetskoblenergo and Krymenergo) from UAH11,213 million for the year ended December 31, 2011 to UAH13,517 million for the year ended December 31, 2012; and
- a UAH7,607 million, or a 2,707.1%, increase in revenues from external sales of heat and heat tariff compensation from UAH281 million for the year ended December 31, 2011 to UAH7,888 million for the year ended December 31, 2012, due to the full year consolidation of Kyivenergo in 2012 as a result of our acquisition of an additional 25.5% interest in Kyivenergo in December 2011, thereby bringing our total interest in Kyivenergo to 72.33% as at December 31, 2012, and an increase of UAH4,241 million in revenues from heat tariff compensation from nil in 2011 to UAH4,241 million, primarily as a result of the full year consolidation of Kyivenergo in 2012.

Total consolidated revenue and heat tariff compensation from new acquisitions, tariff and price increases, and decreases in operating and other expenses increased by UAH38,913 million, UAH1,595 million and UAH4,202 million, respectively, in 2012 compared to 2011. In the same period, total consolidated revenue and heat tariff compensation from sales volumes decreased by UAH1,723 million.

Cost of sales

The following table sets out our consolidated cost of sales (and as a percentage of total cost of sales and total revenue) for the years ended December 31, 2011 and 2012, as well as the absolute change from the year ended December 31, 2011 to the year ended December 31, 2012.

	Year ended December 31,							
	2011	% of cost of sales	% of revenue	2012	% of cost of sales	% of revenue and heat tariff compensation	Change	% change
	UAH millions, except percentages							
Cost of electricity purchased for resale	10,619	35.4%	26.8%	33,006	46.6%	40.0%	22,387	210.8%
Raw materials	5,166	17.2%	13.0%	13,764	19.4%	16.7%	8,598	166.4%
Operating costs at: Dobropolyeugol, Rovenkyanthracite, Sverdlovanthracite	1,174	3.9%	3.0%	19	0.0%	0.0%	(1,155)	(98.4)%
Cost of coal purchased for resale	6,061	20.2%	15.3%	1,060	1.5%	1.3%	(5,001)	(82.5)%
Staff cost, including payroll taxes	3,370	11.2%	8.5%	10,908	15.4%	13.2%	7,538	223.7%
Depreciation of property, plant and equipment net of amortization of intangible assets net of amortization of government grants	2,086	7.0%	5.3%	5,878	8.3%	7.1%	3,792	181.8%
Transportation services and utilities	1,045	3.5%	2.6%	4,355	6.1%	5.3%	3,310	316.7%
Taxes, other than income tax	316	1.1%	0.8%	963	1.4%	1.2%	647	204.7%
Equipment maintenance and repairs	162	0.5%	0.4%	713	1.0%	0.9%	551	340.1%
Production overheads	261	0.9%	0.7%	601	0.8%	0.7%	340	130.3%
Change in finished goods and work in progress	(319)	(1.1)%	(0.8)%	(478)	(0.7)%	(0.6)%	(159)	49.8%
Other costs	35	0.1%	0.1%	27	0.0%	0.0%	(8)	(22.9)%
Consolidated cost of sales	**29,976**	**100%**	**75.7%**	**70,816**	**100.0%**	**85.8%**	**40,840**	**136.2%**

Cost of sales increased by UAH40,840 million, or 136.2%, from UAH29,976 million for the year ended December 31, 2011 to UAH70,816 million for the year ended December 31, 2012. This increase was primarily due to:

- a UAH22,387 million, or a 210.8%, increase in the cost of electricity purchased for resale, primarily due to UAH20,043 million of costs for the purchase of electricity for resale incurred by our electricity distribution subsidiaries that were consolidated for the first time in 2012 (Dniprooblenergo, Donetskoblenergo and Krymenergo) or that were fully consolidated in 2012 (Kyivenergo), in each case, as a result of our acquisition of additional interests in such entities, and an increase in the cost of electricity purchased for resale by Servis-Invest and Energougol of UAH2,344 million, or 22.1%, from UAH10,619 million for the year ended December 31, 2011 to UAH12,963 million for the year ended December 31, 2012, primarily due to an 18.2% and 14.2% increase in purchase tariffs for Servis-Invest and Energougol, respectively. These increases were partially offset by a 10.6% decrease in the volume of electricity purchased by such entities;
- a UAH8,598 million, or a 166.4%, increase in the cost of raw materials, primarily due to costs of UAH9,968 million, or 193.0% of the total increase in the cost of raw materials in 2012, incurred by our subsidiaries that were consolidated for the first time in 2012 or that were fully consolidated in 2012 (Kyivenergo, Rovenkyanthracite and Sverdlovanthracite) as a result of our acquisition of additional interests in such entities, and a decrease in the cost of raw materials acquired by our other subsidiaries of UAH1,370 million, or 26.5%, from UAH5,166 million for the year ended December 31, 2011 to UAH3,796 million for the year ended December 31, 2012, primarily due to the lower cost of coal consumed in the production of electricity as a result of the acquisition of Rovenkyanthracite and Sverdlovanthracite;
- a decrease in operating costs at Dobropolyeugol, Rovenkyanthracite and Sverdlovanthracite of UAH1,155 million, from UAH1,174 million for the year ended December 31, 2011 to UAH19 million for the year ended December 31, 2012. Pursuant to the terms of the concession and lease agreements we entered into in 2011 in respect of Dobropolyeugol, Rovenkyanthracite and Sverdlovanthracite, prior to receiving mining licenses for such entities, we were required to make a single payment in respect of operating costs for such entities directly to the Ukrainian state. Consequently, in 2011, we disclosed such costs as a discrete line item under "costs of sales", but, in 2012, once we had acquired the relevant mining licenses, we divided such costs by the applicable category in the cost of sales disclosure;
- a UAH5,001 million, or 82.5%, decrease in the cost of coal purchased for resale from UAH6,061 million for the year ended December 31, 2011 to UAH1,060 million for the year ended December 31, 2012, primarily due to our acquisition of Rovenkyanthracite and Sverdlovanthracite in December 2011 and the consolidation of such entities, as a result of which, in 2012, the cost of coal purchased from such entities was divided by nature in the cost of sales disclosure (whereas such costs were included under 'cost of coal purchased for resale' prior to their acquisition in 2011);
- a UAH7,538million, or 223.7%, increase in staff costs, primarily due to staff costs of UAH6,093 million, or 180.8% of the total increase in staff costs in 2012, incurred by those of our subsidiaries which were consolidated for the first time in 2012 as a result of our acquisition of additional interests in such entities, and an increase in staff costs, including payroll taxes incurred by our other subsidiaries of UAH1,445 million, or 42.9%, from UAH3,370 million for the year ended December 31, 2011 to UAH4,815 million for the year ended December 31, 2012, primarily due to an increase in the number of production personnel and an increase in pension costs;
- a UAH3,792 million, or 181.8%, increase in depreciation costs, primarily due to depreciation costs of UAH2,948 million, or 141.3% of the total increase in depreciation costs in 2012, attributable to those of our subsidiaries which were consolidated for the first time in 2012 as a result of our acquisition of additional interests in such entities, and an increase in depreciation costs attributable to our other subsidiaries of UAH844 million, or 40.5%, from UAH2,086 million for the year ended December 31, 2011, as compared to UAH2,930 million for the year ended December 31, 2012, primarily due to the revaluation of our property, plant and equipment on August 1, 2011 and additions to our property, plant and equipment as a result of our capital expenditure program; and
- a UAH3,310 million, or 316.7%, increase in transportation costs and utilities, primarily due to transportation and utilities costs of UAH1,563 million, or 149.6% of the total increase in transportation and utilities costs in 2012, incurred by those of our subsidiaries which were consolidated for the first time in 2012 or that were fully consolidated in 2012 (Kyivenergo, Rovenkyanthracite and Sverdlovanthracite)

as a result of our acquisition of additional interests in such entities, and an increase in transportation costs and utilities incurred by our other subsidiaries of UAH1,747 million, or 167.2%, from UAH1,045 million for the year ended December 31, 2011 as compared to UAH2,792 million for the year ended December 31, 2012, primarily due to increased rail tariffs for power generation companies due to an increase in the volume of coal transportation, and increased volumes and higher costs of electricity consumed in own production.

Other operating income

Other operating income increased by UAH2,750 million, or 534.0%, from UAH515 million, for the year ended December 31, 2011, to UAH3,265 million for the year ended December 31, 2012, primarily due to a UAH2,576 million gain on reversal of impairment provisions for trade and other receivables. We recorded a UAH2,706 million impairment provision during 2012 and UAH5,282 million on the reversal of an impairment provision for trade and other receivables. In respect thereof, we recorded UAH3,917 million gain on the reversal of an impairment provision for trade receivables (in accordance with Resolution No.517, introduced by the Ukrainian government in June 2012, in order to settle existing debts among entities operating in the Ukrainian power generation, electricity distribution and coal segments ("**Resolution No.517**")), which was offset by UAH1,341 million of trade receivables net movement in provision recognized mainly by our distribution subsidiaries as a result of late payments from households and commercial customers.

Other operating income amounted to 1.3% and 4.0% of total consolidated revenues and heat tariff compensation for the years ended December 31, 2011 and 2012, respectively.

Distribution costs

Distribution costs increased by UAH391 million, or 192.6%, from UAH203 million, for the year ended December 31, 2011 to UAH594 million for the year ended December 31, 2012, primarily due to a UAH342 million increase in transportation costs (including railway tariffs) as a result of a 64.7% increase in the volume of coal we produced and transported in 2012 as compared to 2011, primarily due to our acquisition of additional mining assets in December 2011 and 2012.

Distribution costs amounted to 0.5% and 0.7% of total consolidated revenues and heat tariff compensation for the years ended December 31, 2011 and 2012, respectively.

General and administrative expenses

General and administrative expenses increased by UAH1,049 million, or 88.6%, from UAH1,184 million for the year ended December 31, 2011 to UAH2,233 million for the year ended December 31, 2012, primarily due to UAH886 million of general and administrative expenses incurred by those of our subsidiaries which were consolidated for the first time in 2012 and entities acquired in December 2011, as a result of our acquisition of additional interests in such entities, representing 74.8% of the total increase in general and administrative expenses in 2012 as compared against 2011, and an increase in staff costs incurred by our other subsidiaries due to an increase in the number of our employees during 2012, and an increased depreciation charge due to the revaluation of our property, plant and equipment carried out on August 1, 2011.

General and administrative expenses amounted to 3.0% and 2.7% of our consolidated total revenues and heat tariff compensation for the years ended December 31, 2011 and 2012, respectively.

Other operating expenses

Other operating expenses increased by UAH726 million, or 106.5%, from UAH682 million for the year ended December 31, 2011 to UAH1,408 million for the year ended December 31, 2012, primarily due to a UAH430 million increase in social infrastructure expenses and charity payments (including for the maintenance of medical centers, recreational centres and employee holiday allowances and the sponsorship of sports teams and charitable events), from UAH203 million in 2011 to UAH633 million in 2012, and an increase in penalties paid, related mainly to the early payment of restructured tax liabilities and restructured trade payables pursuant to Resolution No.517.

Other operating expenses amounted to 1.7% of total revenues for the years ended December 31, 2011 and 2012.

Net foreign exchange (loss)/gain (other than on borrowings)

Net foreign exchange gain (other than on borrowings) increased by UAH581 million, or 468.5%, from a gain of UAH124 million for the year ended December 31, 2011 to a gain of UAH705 million for the year ended December 31, 2012, primarily due to the depreciation of the hryvnia against foreign currencies (particularly against the Rouble and Euro), which caused us to recognize a significant gain on the translation of foreign currency.

Impairment of property, plant and equipment

Impairment of property, plant and equipment decreased by UAH198 million, or 100.0%, from UAH198 million for the year ended December 31, 2011 to nil for the year ended December 31, 2012, We conducted a revaluation of the carrying amount of our property, plant and equipment on August 1, 2011, which caused us to recognize impairments totaling UAH198 million, while no such revaluation of our property, plant and equipment occurred in 2012.

Net foreign exchange gain less losses from borrowings

Net foreign exchange gain less losses from borrowing increased by UAH364 million, or 433.3%, from a loss of UAH84 million for the year ended December 31, 2011 to a loss of UAH448 million for the year ended December 31, 2012, due to the depreciation of the hryvnia against the Rouble and Euro which resulted in the revaluation of our indebtedness denominated in Roubles and Euro.

Finance income

Finance income increased by UAH380 million, or 171.2%, from UAH222 million, for the year ended December 31, 2011 to UAH602 million for the year ended December 31, 2012, primarily due to a gain recorded in respect of the restructuring of Zakhidenergo's long-term accounts payable in respect of coal purchases and increased interest income from bank deposits.

Finance costs

Finance costs increased by UAH2,900 million, or 226.0%, from UAH1,283 million for the year ended December 31, 2011 to UAH4,183 million for the year ended December 31, 2012, primarily due to a UAH922 million increase in interest expenses as a result of an increase in the size of our loan portfolio, a loss of UAH977 million on the early repayment of long-term payables, including a UAH963 million loss on the early repayment of certain restructured tax liabilities and restructured trade payables to Energorynok, as required under Resolution No.517, and a UAH284 million loss on the fair value of certain currency swap derivative transactions concluded in 2011 and 2012.

Gain on a bargain purchase

Gain from a bargain purchase increased from nil in 2011 to UAH604 million, or by 100%, in 2012, due to our acquisition of Krymenergo in 2012;

Recognition of loss from fair valuation of associate on transfer to subsidiary

Recognition of loss from fair valuation of associate on transfer to subsidiary increased by UAH51 million, or 15.3%, from UAH334 million for the year ended December 31, 2011 to UAH385 million for the year ended December 31, 2012. In 2011 we revalued the fair value of our investment in Kyivenergo following our acquisition of an additional 25% interest in Kyivenergo, thereby increasing our total interest to 72.33%, which caused us to recognize a loss on fair valuation amounting to UAH334 million. In 2012 we revalued the fair values of our investments in Dniproenergo, Zakhidenergo, and Donetskoblenergo following our acquisition of controlling interests in those companies, which caused us to recognize a loss on fair valuation amounting to UAH385 million.

Recognition of AFS reserve on transfer to associate/subsidiary

Recognition of AFS reserve on transfer to associate/subsidiary decreased by UAH286 million, or 81.9%, from a loss of UAH349 million for the year ended December 31, 2011 to a loss of UAH63 million for the year ended December 31, 2012. Our interest in Zakhidenergo increased from 20% to 26% in 2011, which caused us to recognize a negative AFS reserve amounting to UAH349 million. In 2012 we increased our

share in Dniprooblenergo and Krymenergo following our acquisition of controlling interests in those companies, which caused us to recognize a loss on fair valuation amounting to UAH63 million.

Share of after tax results of associates

Share of results of associates decreased by UAH157 million, or 327.1%, from a loss of UAH48 million for the year ended December 31, 2011 to a loss of UAH205 million for the year ended December 31, 2012, primarily due to our acquisition of additional interests in certain of our associates in 2011 and 2012 which resulted in such entities ceasing to be our associates and instead being consolidated in 2012.

Impairment of investments in associates

Impairment of investments in associates decreased by UAH446 million, or 100%, from UAH446 million for the year ended December 31, 2011 to nil for the year ended December 31, 2012, due to the revaluation of property, plant and equipment at our associates in 2011 which caused us to recognize the partial impairment of our investments in such associates, whereas we did not identify any impairment to our investments in associates in 2012.

Income tax expense

Income tax expenses decreased by UAH646 million, or 30.1%, from UAH2,146 million for the year ended December 31, 2011 to UAH1,500 million for the year ended December 31, 2012, primarily due to changes to the Tax Code in 2011 which resulted in our effective tax rate (calculated as income tax expense divided by profit before tax) decreasing from 37.9% for the year ended December 31, 2011 to 20.2% for the year ended December 31, 2012.

Year ended December 31, 2011 as compared to year ended December 31, 2010

The following table sets out our consolidated income statement for the years ended December 31, 2010 and 2011 in absolute terms and as a percentage of total revenues, as well as the absolute change and percentage change from the year ended December 31, 2010 to the year ended December 31, 2011.

	Year ended December 31,					
	2010	% of revenue	2011	% of revenue	Change	% change
	UAH millions, except percentages					
Income statement						
Revenue	24,294	100%	39,594	100%	15,300	63.0%
Cost of sales	(18,936)	(77.9)%	(29,976)	(75.7)%	(11,040)	58.3%
Gross profit	**5,358**	**22.1%**	**9,618**	**24.3%**	**4,260**	**79.5%**
Other operating income	298	1.2%	515	1.3%	217	72.8%
Distribution costs	(196)	(0.8)%	(203)	(0.5)%	(7)	3.6%
General and administrative expenses	(851)	(3.5)%	(1,184)	(3.0)%	(333)	39.1%
Other operating expenses	(262)	(1.1)%	(682)	(1.7)%	(420)	160.3%
Net foreign exchange (loss)/gain (other than on borrowings)	(21)	(0.1)%	124	0.3%	145	690.5%
Impairment of property, plant and equipment	—	—	(198)	(0.5)%	(198)	—
Operating profit	**4,326**	**17.8%**	**7,990**	**20.2%**	**3,664**	**84.7%**
Foreign exchange gains less losses from borrowings	119	0.5%	(84)	(0.2)%	(203)	(170.6)%
Finance income	113	0.5%	222	0.6%	109	96.5%
Finance costs	(920)	(3.8)%	(1,283)	(3.2)%	(363)	39.5%
Recognition of loss from fair valuation of associate on transfer to subsidiary	—	—	(334)	(0.8)%	(334)	—
Recognition of AFS reserve on transfer to associate/subsidiary	(72)	(0.3)%	(349)	(0.9)%	(277)	384.7%
Share of after tax results of associates	406	1.7%	(48)	(0.1)%	(454)	(111.8)%
Impairment of investments in associates	—	—	(446)	(1.1)%	(446)	—
Profit before tax	**3,972**	**16.3%**	**5,668**	**14.3%**	**1,696**	**42.7%**
Income tax expense	(1,115)	(4.6)%	(2,146)	(5.4)%	(1,031)	92.5%
Profit for the year	**2,857**	**11.8%**	**3,522**	**8.9%**	**665**	**23.3%**

Revenue

The following table sets out our consolidated revenues by segment for the years ended December 31, 2010 and 2011, as well as the absolute change and percentage change from the year ended December 31, 2010 to the year ended December 31, 2011.

Revenues by segment	Year ended December 31, 2010	2011	Change	% Change
	UAH millions, except percentages			
Coal mining				
Sales—external	9,624	17,344	7,720	80%
Sales to other segments	3,441	4,876	1,435	42%
Total	**13,065**	**22,220**	**9,155**	**70%**
Power generation				
Sales—external	7,876	10,356	2,480	31%
Sales to other segments	2	—	(2)	(100)%
Total	**7,878**	**10,356**	**2,478**	**31%**
Electricity distribution				
Sales—external	6,764	11,490	4,726	70%
Sales to other segments	442	607	165	37%
Total	**7,206**	**12,097**	**4,891**	**68%**
Heat generation[1]				
Sales—external	—	281	281	100%
Sales to other segments	—	—	—	—
Total	**—**	**281**	**281**	**100%**
Other				
Sales—external	30	123	93	310%
Sales to other segments	586	685	99	17%
Total	**616**	**808**	**192**	**31%**
Elimination	**(4,471)**	**(6,168)**	**(1,697)**	**38%**
Consolidated revenues	**24,294**	**39,594**	**15,300**	**63.0%**

(1) Our heat generation segment was created in December 2011 as a result of the consolidation of Kyivenergo in December 2011 and, therefore, heat generation revenues for 2011 only reflect results for December 2011. Prior to December 2011, heat generation revenues were included under our "Other" business segment for the purpose of the presentation of revenue by business segment.

Revenue increased by UAH15,300 million, or 63%, from UAH24,294 million for the year ended December 31, 2010 to UAH39,594 million for the year ended December 31, 2011 primarily due to:

- a UAH7,720 million, or an 80%, increase in revenue from external sales of coal from UAH9,624 million for the year ended December 31, 2010 to UAH17,344 million for the year ended December 31, 2011, primarily due to an increase in the total volume of external coal sales, higher production, new assets and an increase in the average price of coal sold as the global and Ukrainian economy strengthened and industrial production increased during 2011 that, in turn, drove demand for coal for use in electricity generation in Ukraine and abroad;
- a UAH2,480 million, or a 31%, increase in revenue from external sales of power from UAH7,876 million for the year ended December 31, 2010 to UAH10,356 million for the year ended December 31, 2011, primarily due to an increase in the volume of sales driven by an increase in the demand for electricity and a 20% increase in applicable power sales tariffs in the Ukrainian market to compensate for commensurate increases in the price of coal; and
- a UAH4,726 million, or a 70%, increase in revenue from external sales of electricity from UAH6,764 million for the year ended December 31, 2010 to UAH11,490 million for the year ended December 31, 2011, primarily driven by an increase of approximately 300% in the volume of electricity exported and sold outside of Ukraine and an increase of approximately 32% in the applicable electricity sales tariffs in the Ukrainian market.

Cost of sales

The following table sets out our consolidated cost of sales (and as a percentage of total cost of sales and total revenue) for the years ended December 31, 2010 and 2011, as well as the absolute change from the year ended December 31, 2010 to the year ended December 31, 2011.

	Year ended December 31,							
	2010	% of cost of sales	% of revenue	2011	% of cost of sales	% of revenue	Change	% change
	UAH Millions, except percentages							
Cost of electricity purchased for resale	6,419	33.9%	26.4%	10,619	35.4%	26.8%	4,200	65.4%
Raw materials	3,787	20.0%	15.6%	5,166	17.2%	13.0%	1,379	36.4%
Operating costs at: Dobropolyeugol, Rovenkyanthracite, Sverdlovanthracite	—	—	—	1,174	3.9%	3.0%	1,174	—
Cost of coal purchased for resale	3,209	16.9%	13.2%	6,061	20.2%	15.3%	2,852	88.9%
Staff cost, including payroll taxes	2,955	15.7%	12.2%	3,370	11.2%	8.5%	415	14.0%
Depreciation of property, plant and equipment net of amortization of intangible assets net of amortization of government grants	1,451	7.6%	6.0%	2,086	7.0%	5.3%	635	43.8%
Transportation services and utilities	715	3.8%	2.9%	1,045	3.5%	2.6%	330	46.2%
Taxes, other than income tax	206	1.1%	0.8%	316	1.1%	0.8%	110	53.4%
Equipment maintenance and repairs	144	0.8%	0.6%	162	0.5%	0.4%	18	12.5%
Production overheads	168	0.9%	0.7%	261	0.9%	0.7%	93	55.4%
Change in finished goods and work in progress	(134)	(0.7)%	(0.6)%	(319)	(1.1)%	(0.8)%	(185)	138.1%
Other costs	16	0.1%	0.1%	35	0.1%	0.1%	19	118.8%
Consolidated cost of sales	**18,936**	**100%**	**77.9%**	**29,976**	**100%**	**75.7%**	**11,040**	**58.3%**

Cost of sales increased by UAH11,040 million, or 58.3%, from UAH18,936 million for the year ended December 31, 2010 to UAH29,976 million for the year ended December 31, 2011 primarily due to:

- an increase in the cost of electricity purchased for resale of UAH4,200 million, or 65.4%, from UAH6,419 million for the year ended December 31, 2010 to UAH10,619 million for the year ended December 31, 2011, primarily due to a 24% increase in purchase tariffs applicable to purchases by Service-Invest and a 22% increase in purchase tariffs applicable to purchases by Energougol;
- an increase in the cost of raw materials of UAH1,379 million, or 36.4%, from UAH3,787 million for the year ended December 31, 2010 to UAH5,166 million for the year ended December 31, 2011 primarily due to a general increase in our coal mining activities resulting in an increase of approximately 40% in the volume of coal we produced in 2011, and a general increase in prices for industrial goods required for our business activities;
- an increase in operating costs at Dobropolyeugol, Rovenkyanthracite and Sverdlovanthracite of UAH1,174 million, from nil for the year ended December 31, 2010 to UAH1,174 million for the year ended December 31, 2011, due to the entry by the Group into lease and concession agreements in respect of the mining assets operated by Dobropolyeugol, Rovenkyanthracite and Sverdlovanthracite during 2011, in accordance with which we paid an operating fee to the relevant State entities until all employees were transferred to the DTEK Group;
- an increase in the cost of coal purchased for resale of UAH2,852 million, or 88.9%, from UAH 3,209 million for the year ended December 31, 2010 to UAH 6,061 million for the year ended December 31, 2011 primarily due to an increase of approximately 100% in the volume of coal we purchased for use in our power stations, driven by stronger demand for coal, including for power generation;

- an increase in staff costs, including payroll taxes of UAH415 million, or 14.0%, from UAH2,955 million for the year ended December 31, 2010 to UAH3,370 million for the year ended December 31, 2011, primarily due to UAH204 million of staff costs incurred by those of our operating subsidiaries that we acquired and consolidated in 2011, and an 8% increase in average salary tariffs for production personnel at our coal and power production subsidiaries, which increase was in line the Ukrainian average consumer price index; and
- an increase in depreciation costs of UAH635 million, or 43.8%, from UAH1,451 million for the year ended December 31, 2010 as compared to UAH2,086 million for the year ended December 31, 2011, primarily due to the revaluation of property, plant and equipment on August 1, 2011.

Other operating income

Other operating income increased by UAH217 million, or 72.8%, from UAH298 million for the year ended December 31, 2010 to UAH515 million for the year ended December 31, 2011 primarily due to the receipt of income of UAH222 million from the sale of certified emission rights under the Kyoto Protocol during 2011. Other operating income amounted to 1.2% and 1.3% of total revenues for the years ended December 31, 2010 and 2011, respectively.

Distribution costs

Distribution costs increased by UAH7 million, or 3.6%, from UAH196 million, for the year ended December 31, 2010 to UAH203 million for the year ended December 31, 2011. The change in distribution costs was insignificant. Distribution costs amounted to 0.8% and 0.5% of total revenues for the years ended December 31, 2010 and 2011, respectively.

General and administrative expenses

General and administrative expenses increased by UAH333 million, or 39.1%, from UAH851 million for the year ended December 31, 2010 to UAH1,184 million for the year ended December 31, 2011 primarily due to an increase in staff costs and professional fees related to the negotiation of the lease and concession agreements in respect of Dobropolyeugol, Rovenkyanthracite and Sverdlovanthracite and the asset revaluation exercise conducted during 2011. General and administrative expenses amounted to 3.5% and 3.0% of total revenues for the years ended December 31, 2010 and 2011, respectively.

Other operating expenses

Other operating expenses increased by UAH420 million, or 160.3%, from UAH262 million for the year ended December 31, 2010 to UAH682 million for the year ended December 31, 2011 primarily due to expenses relating to idle capacity, increases in provisions for impairment of trade and other accounts receivable, and increases to losses on the disposal of property, plant and equipment. Other operating expenses amounted to 1.1% and 1.7% of total revenues for the years ended December 31, 2010 and 2011, respectively.

Net foreign exchange (loss)/gain (other than on borrowings)

Net foreign exchange gain (other than on borrowings) increased by UAH145 million, or 690.5%, from a loss of UAH21 million for the year ended December 31, 2010 to a gain of UAH124 million for the year ended December 31, 2011 due to the depreciation of the hryvnia against foreign currencies (particularly against the Euro), which caused us to recognize a significant gain on the translation of foreign currency.

Impairment of property, plant and equipment

Impairment of property, plant and equipment increased to UAH198 million for the year ended December 31, 2011 from nil for the year ended December 31, 2010 due to a revaluation of the carrying amount of our property, plant and equipment on August 1, 2011, which caused us to recognize impairments totaling UAH198 million. We did not revalue our property, plant and equipment in 2010.

Foreign exchange losses less gains from borrowings

Foreign exchange gains less losses from borrowings decreased by UAH203 million, or 170.6%, from a gain of UAH119 million for the year ended December 31, 2010 to a loss of UAH84 million for the year ended

December 31, 2011, primarily due to the depreciation of the hryvnia against the Rouble, resulting in the revaluation of loans payable denominated in Russian Roubles.

Finance income

Finance income increased by UAH109 million, or 96.5%, from UAH113 million for the year ended December 31, 2010 to UAH222 million for the year ended December 31, 2011, primarily due to an increase in interest income as a result of higher interest rates on our cash deposits.

Finance costs

Finance costs increased by UAH363 million, or 39.5%, from UAH920 million for the year ended December 31, 2010 to UAH1,283 million for the year ended December 31, 2011, primarily due to a UAH126 million increase in interest expenses relating to the Existing Notes and a UAH115 million reduction in discounts on our pension obligations in 2011.

Recognition of loss from fair valuation of associate on transfer to subsidiary

Recognition of loss from fair valuation of associate on transfer to subsidiary increased from nil for the year ended December 31, 2010 to UAH334 million for the year ended December 31, 2011, due to the revaluation of the fair value of our investment in Kyivenergo following our acquisition of an additional 25% interest in Kyivenergo, thereby increasing our total interest to 72%.

Recognition of AFS reserve on transfer to associate

Recognition of AFS reserve on transfer to associate decreased by UAH277 million, or 384.7%, from a loss of UAH72 million for the year ended December 31, 2010 to a loss of UAH349 million for the year ended December 31, 2011, primarily due to our interest in Zakhidenergo increasing from 20% to 26% in 2011, which caused us to recognize a negative AFS reserve amounting to UAH349 million.

Share of after tax results of associates

Share of results of associates decreased by UAH454 million, or 111.8%, from a gain of UAH406 million for the year ended December 31, 2010 to a loss of UAH48 million for the year ended December 31, 2011, primarily as a result of a reduction in our associates' profits due to increases in raw materials costs and reductions in sales tariffs for electricity distribution companies.

Impairment of investments in associates

Impairment of investments in associates increased from nil for the year ended December 31, 2010 to UAH446 million for the year ended December 31, 2011, primarily due to a revaluation of the property, plant and equipment held by our associates which required us to recognize the partial impairment of our investments.

Income tax expense

Income tax expenses increased by UAH1,031 million, or 92.5%, from UAH1,115 million for the year ended December 31, 2010 to UAH2,146 million for the year ended December 31, 2011, primarily due to changes in the Tax Code of Ukraine which resulted in our effective rate of taxation increasing from 28.1% in 2010 to 37.9% in 2011, which caused us to recognize an additional one-off deferred tax charge of UAH427 million in 2011.

Adjusted EBITDA

Our Adjusted EBITDA increased by UAH6,655 million, or by 64.73%, from UAH10,281 in 2011 to UAH16,936 million in 2012. This increase was driven by a UAH5,795 million increase in Adjusted EBITDA from new acquisitions, a UAH287 million increase in Adjusted EBITDA from tariff and price increases, a UAH580 million increase in Adjusted EBITDA resulting from decreases in operating, administrative and other expenses, offset by a UAH7 decrease in Adjusted EBITDA primarily resulting from a reduction in the volume of power generated and sold by Skhidenergo.

Liquidity and Capital Resources

Capital requirements

Historically, we have relied on cash flow provided from operations and short-term and long-term debt to finance our working capital and capital requirements. We expect that such sources of funding will continue to be important in the future. We intend to increasingly substitute shorter-term debt for longer-term debt in order to better match our investment cycle and to improve the working capital deficits that we have traditionally experienced.

Our ability to service our debt and acquire new productive assets for use in our operations has been and will continue to be dependent upon our ability to generate cash from our operations. Our primary sources of cash have been sales of our electricity to the wholesale electricity market and to end customers, plus sales of coal to parties outside of the Group.

Our primary uses of cash have been to finance costs incurred in connection with the acquisitions of new coal mining, power generation and electricity distribution assets and the acquisition of additional interests in our existing associates and subsidiaries, costs of purchased electricity for distribution to end customers, costs of raw materials, costs of coal production, capital expenditures, interest costs, cash payments for employees, transportation costs and purchases of financial investments.

Capital resources

We normally fund all of our capital expenditure requirements with cash generated from our operations, as well as debt incurred under our credit facilities and financing raised in the international debt capital markets, including through the issuance of our Existing Notes. The Ukrainian state finances, in part, the reconstruction of power plants by repaying 80% of a power plant's reconstruction costs in the form of increased tariffs for the electricity sold to the wholesale electricity market. We intend to finance our future capital investment program and our acquisitions with a mix of cash flows from operations and financing activities. Our ability to arrange financing generally and our cost of capital depends on numerous factors, including general economic conditions, the availability of credit from banks and other financial institutions and in the capital markets, borrowing restrictions in instruments governing our indebtedness, including the Notes, and our general financial performance.

Following the completion of the offering of the Notes, our principal sources of funds will be provided by cash flow from operations and amounts available under credit facilities expected to remain outstanding following the offering. We believe that our expected cash flow from operations, together with available borrowing and the net proceeds from the Notes, will be adequate to meet our anticipated working capital, general liquidity and debt service needs.

Description of Indebtedness

At December 31, 2012, our indebtedness comprised the following:

Indebtedness	Currency	Interest rate	Total amount
			UAH millions[(1)]
Bank loans denominated in UAH	UAH	From 9.25% to 21.0%	1,810
Bank loans denominated in US$	US$	From LIBOR 6M + 0.5% to LIBOR 1M + 6.5%	1,142
Existing Notes	US$	9.5%	3,941
Bank loans denominated in EUR	EUR	From EURIBOR 6M + 0.94% to EURIBOR 3M + 7.5%	6,744
Bank loans denominated in RUR	RUR	From MOSPRIME 3M + 3.4% to 11.0% fixed	7,025
Total debt			**20,662**
Less current portion			**3,406**
Total long-term debt			**17,256**

(1) The amounts denominated in US$, EUR or RUR were converted into UAH using the relevant NBU exchange rates as of December 31, 2012.

The following table presents the maturity profile of our indebtedness based on the carrying amount of borrowings and the maturities of tranches within revolving facilities (final maturities of revolving facilities not taken into account), including accrued interest as of December 31, 2012:

Payments due in the period ended December 31,	Total amount
	UAH millions[(1)]
2013	3,406
2014	3,169
2015	9,129
2016	3,539
2017	7,075
Thereafter	404
Total	**20,662**

(1) The amounts denominated in US$, EUR or RUR were converted into UAH using the exchange rate as of December 31, 2012.

As of December 31, 2012, our borrowings amounted to UAH20,662 million, of which UAH265 million was secured by pledges of our property and UAH20,397 million was unsecured.

Cash flow

The following is a summary of our consolidated cash flow for the years ended December 31, 2010, 2011 and 2012:

	Year ended December 31,		
	2010	2011	2012
	UAH millions		
Net cash generated from operating activities	3,235	5,980	8,355
Net cash used in investing activities	(2,926)	(3,784)	(14,491)
Net cash generated in financing activities	659	6,721	974
Net change in cash and cash equivalents	**968**	**8,917**	**(5,162)**

Net cash generated from operating activities includes profit before income tax adjusted for non-cash items (such as depreciation), changes in working capital, income taxes paid, defined employee benefits paid and interest paid. Working capital comprises inventories, trade and other receivables, trade and other payables, prepayments and other current assets, advances received, taxes payable other than income tax and other financial liabilities.

Net cash used in investing activities includes the purchase of property, plant and equipment, proceeds from sales of property, plant and equipment, the purchase of financial investments, the proceeds from sales of financial investments and subsidiaries acquired, deposits placed and received, and cash acquired in business combinations.

Net cash used in financing activities includes proceeds from borrowings, repayment of borrowings, issues of ordinary shares, dividends paid and the acquisition of non-controlling interests.

Net cash generated from operating activities

Net cash inflow from operating activities increased by UAH2,375 million, or 39.7%, from UAH5,980 million, for the year ended December 31, 2011, to UAH8,355 million, for the year ended December 31, 2012, primarily due to a UAH1,754 million increase in profit before tax, our accounting for heat tariff compensation on an accrual basis commencing from November 2012, and a decrease of UAH1,168 million in trade and other receivables mainly due to the settlement of receivables for electricity exports and coal sales, partially offset by a decrease in trade payables for gas at Kyivenergo.

Net cash inflow from operating activities increased by UAH2,745 million, or 84.9%, from UAH3,235 million, for the year ended December 31, 2010, to UAH5,980 million, for the year ended December 31, 2011, primarily due to a UAH4,382 million increase in net operating cash flow and a UAH600 million decrease in working capital, including as a result of an increase in trade payables for gas at Kyivenergo, partially offset by a UAH1,035 million increase in income tax paid.

Net cash used in investing activities

Net cash outflow used in investing activities for the financial year ended December 31, 2012 was UAH14,491 million, primarily due to our acquisition of subsidiaries, our capital expenditure on the modernization and maintenance of our assets and the acquisition of property, plant and equipment relating to coal mining, power generation assets and wind power plants during 2012, including approximately UAH8,322 million on acquisitions of additional interests in coal mining, power generation and electricity distribution companies during 2012 and capital expenditure relating to such newly acquired assets, and approximately UAH6,029 million on capital expenditure relating to the modernization and maintenance of our other subsidiaries.

Net cash outflow used in investing activities for the financial year ended December 31, 2011 was UAH4,281 million, primarily due to purchases of property, plant and equipment relating primarily to coal mining and power generation assets in the amount of UAH3,580 million, the acquisition of Kyivenergo for UAH451 million and the prepayment for acquisitions of new subsidiaries in an amount of UAH355 million.

Net cash outflow used in investing activities for the financial year ended December 31, 2010 was UAH2,926 million, primarily due to purchases of property, plant and equipment in the amount of UAH2,214 million relating primarily to coal mining and power generation assets, and cash deposits of UAH675 million.

Net cash generated from financing activities

Net cash inflow from financing activities for the financial year ended December 31, 2012 was UAH974 million, primarily due to inflows from new borrowings (net of repayment of existing borrowings) of UAH2,841 million, including under credit facilities entered into with LandesBank Berlin, ING Bank N.V., and the State Savings Bank of Ukraine, partially offset by UAH1,766 million of dividend payments.

Net cash inflow from financing activities for the financial year ended December 31, 2011 was UAH6,721 million, primarily due to inflows from new borrowings (net of repayment of existing borrowings) of UAH7,466 million, including new credit facilities entered into with the Russian Commercial Bank (Cyprus) and Sberbank (Russia) in Russian Rubles, partially offset by an outflow of UAH641 million of dividends paid.

Net cash inflow from financing activities for the financial year ended December 31, 2010 was UAH659 million, primarily due to the inflow of proceeds from borrowings in a total amount of UAH6,139 million, including through the issuance of the Existing Notes by our wholly-owned subsidiary, Finance B.V., offset by an outflow from the repayment of borrowings of UAH5,057 million and UAH371 million of dividends paid.

Contractual obligations

The following table is a summary of our significant future contractual obligations, net of capitalized commissions, as of December 31, 2012 which are presented on a discounted to present value basis.

	Less than 1 year	1-5 years	More than 5 years	Total
		UAH millions		
Borrowings	3,406	16,852	404	20,662
Deferred consideration for acquisition of Dobropolyeugol	65	211	667	943
Deferred consideration for acquisition of Rovenkyanthracite	—	56	597	653
Deferred consideration for acquisition of Sverdlovanthracite	—	36	384	420
Total	**3,471**	**17,155**	**2,052**	**22,678**

On January 4, 2011, we entered into 49-year lease agreement with the State Property Fund to lease the coal mines and facilities operated by Dobropolyeugol. The lease covers substantially all of the economic life of the coal reserves and we have assumed all current and non-current liabilities and all risks and rewards associated with the coal produced by Dobropolyeugol. Therefore, although we are required under the lease agreement to pay a monthly rental fee of approximately UAH7 million, we recognized the net present value of future rental payments as deferred consideration totaling UAH909 million as at the date of acquisition. Further, pursuant to the terms of the lease agreement we are required to fund total

investment in Dobropolyeugol of UAH2,000 million between 2011 and 2015. As at December 31, 2012, our outstanding investment commitment was UAH1,145 million and deferred consideration was UAH943 million.

On December 1, 2011, we entered into two 49-year concession agreements with the Ministry of Energy for concessions to the coal mines and facilities operated by Rovenkyanthracite and Sverdlovanthracite. The concession agreements cover substantially all of the economic life of the coal reserves and we have assumed all current and non-current liabilities and all risks and rewards associated with the coal produced by Rovenkyanthracite and Sverdlovanthracite. Therefore, although we are required under the Rovenkyanthracite and Sverdlovanthracite concession agreements to pay a quarterly rental fee of approximately UAH19 million and UAH14 million, respectively, we have recognized the net present value of future rental payments as deferred consideration totaling UAH557 million and UAH359 million, respectively. Further, pursuant to the terms of the Rovenkyanthracite and Sverdlovanthracite concession agreements we are required to fund total investment in Rovenkyanthracite and Sverdlovanthracite of UAH2,998 million and UAH2,729 million, respectively, between 2012 and 2016. As at December 31, 2012, our outstanding investment commitment in respect of Rovenkyanthracite and Sverdlovanthracite was UAH2,310 million and UAH2,083 million, respectively, and deferred consideration in respect of Rovenkyanthracite and Sverdlovanthracite was UAH653 million and UAH420 million, respectively.

On March 12, 2013, Finance B.V., a wholly-owned subsidiary of the DTEK Group, launched the Tender Offer and Consent Solicitation, and, in accordance with the terms and conditions thereof, Finance B.V. may accept for purchase up to an aggregate principal amount of US$300,000,000 of the outstanding Existing Notes (the "Maximum Acceptance Amount") (or such larger principal amount as it may, in its sole discretion, determine) (the "Final Acceptance Amount") and receive and accept for payment consents from holders of the Existing Notes to certain amendments to the Existing Indenture (the "Amendments"). Holders of Existing Notes tendered on or prior to 5:00 p.m. New York City time on March 25, 2013 (the "Early Tender Date"), shall be eligible to receive offer consideration of US$1,062.50 per US$1,000 principal amount of Existing Notes tendered and holders that tender Existing Notes after the Early Tender Date, but on or prior to the expiry of the Tender Offer and Consent Solicitation at 11:59 p.m. New York City time on April 9, 2013, shall be eligible to receive offer consideration of US$1,012.50 per US$1,000 principal amount of Existing Notes tendered. In addition, holders that deliver consents to the Amendments ("Consents") on or prior to 5:00 p.m. New York City time on March 25, 2013 shall be eligible to receive a consent payment of US5.00 per US$1,000 principal amount of Existing Notes in respect of which a consent is delivered.

Subject to the satisfaction of the conditions to the Tender Offer and Consent Solicitation, which include the successful issuance of the Notes, and on the assumption that all Existing Notes tendered are tendered on or prior to the Early Tender Date and that Finance B.V. shall accept for purchase the Maximum Acceptance Amount of Existing Notes and Consents representing 100% of the aggregate principal amount of the outstanding Existing Notes, Finance B.V. shall pay total aggregate tender offer consideration of approximately US$318,750,000 million and an additional US$2,500,000 million to Holders in respect of Consents. Payments made for the purchase of Existing Notes pursuant to the Tender Offer and Consent Solicitation and consent payments made to consenting holders of Existing Notes shall be financed by proceeds from the offering of the new Notes. On this basis, the Group expects that the charge to its profit and loss account (finance costs) of the repayment would not exceed US$21,250,000.

Capital expenditures

Each of our business segments are capital intensive, and we plan to continue to make capital expenditures to modernize and upgrade both our existing facilities and, particularly, our newly acquired assets which are normally in significantly worse condition and less operationally efficient than our existing assets when we acquire them, including by purchasing additional equipment, investing in more progressive means of production and, for example, reconstructing energy units that include new turbines and other pieces of equipment. Our capital expenditure increased by UAH5,870 million in 2012, as a result of a UAH1,313 million increase in capital expenditure on coal assets (UAH248 million of which increase related to expenditure on newly acquired coal assets), a UAH1,833 million increase in capital expenditure on power generation assets (UAH1,606 million of which increase related to expenditure on newly acquired power generation assets), a UAH701 million increase in capital expenditure on electricity distribution assets (consisting of a UAH738 million increase in capital expenditure on newly acquired electricity distribution assets and a UAH37 million reduction in capital expenditure on other assets), a

UAH590 million increase in capital expenditure in respect of Kyivenergo and a UAH1,414 million increase in capital expenditure on Botievo wind farm.

The following table sets out our total capital expenditures by segment for the years ended December 31, 2010, 2011 and 2012.

	Year ended December 31,		
	2010	2011	2012
	UAH millions		
Coal mining	1,243	2,542	3,855
Power generation	782	1,349	3,182
Electricity distribution	99	231	932
Kyivenergo	—	43	633
Renewables	—	14	1,428
Other	96	144	163
Total	**2,220**	**4,323**	**10,193**

We expect to fund our future capital expenditures to maintain and modernize our coal mining and power generation and electricity distribution facilities with cash generated by operations, the proceeds of the offering of the Notes and available capacity under our existing debt facilities. We estimate that of the approximately UAH12,272 million in capital expenditures that we expect to incur in 2013, approximately UAH5,810 million is discretionary and could be deferred if so required. Similarly, we estimate that of the approximately UAH10,846 million in capital expenditures that we currently expect to incur in 2014, approximately UAH3,158 million is discretionary and could be deferred if so required.

The following table sets out our planned capital expenditures by business segment for 2013 and 2014 to maintain and modernize our coal mining and power generation and electricity distribution facilities.

	2013	2014
	UAH millions	
Coal mining	4,680	4,496
Power generation facilities	2,940	3,510
Electricity distribution facilities	1,184	1,348
Kyivenergo[(1)]	1,418	1,348
Renewables	1,673	73
Other	377	246
Total	**12,272**	**10,846**

(1) Kyivenergo operates power generation, heat generation and electricity distribution assets and its total capital expenditure across these business segments is not differentiated.

Coal mining

Our investments in our coal mines have primarily related to the modernization of coal-mining equipment and the introduction of state of the art methods of production, which are intended to improve our coal-mining operations and their safety standards. Our 2013 investment program for our coal mining business segment includes the following:

- the construction of a ventilation hole at Pavlogradugol's Yubileynaya mine in order to seek to increase industrial reserves to 25.9 million metric tons, the aggregate budget for which project is approximately UAH235 million;
- the construction of vertical air supply trunk at Rovenkyanthracite's M.V.Frunze mine in order to seek to maintain production capacity at 1.8-2.0 million metric tons per year from 2017, the aggregate budget for which project is approximately UAH215 million;
- the commencement of a project to increase the capacity of the coal hoist at Pavlogradugol's Geroev Kosmosa mine in order to seek to improve the reliability of the hoist and increase its capacity up to 3 million metric tons from 2015, the aggregate budget for which project is approximately UAH117 million; and

- the commencement of a project to develop a new coal seam at Obukhovskaya in order to seek to increase coal production by increasing the burden on the working face to 1822 metric tons per day, the aggregate budget for which project is approximately UAH123 million.

Power generation

In order to reduce our production costs, we have recently implemented a reconstruction program to upgrade our electricity production assets and improve our existing facilities. Our 2013 investment program for our power generation segment includes the following:

- the continuation of upgrades to No. 6 power unit at Kurakhovskaya TPP, No. 13 power unit at Luganskaya TPP, No. 5 power unit at Burshtynskaya TPP and No. 4 power unit at Zuyevskaya TPP involving the replacement of substantially all of the operating equipment (boilers, turbines, generators, transformers) in order to increase the reliability of the power generation units and render them more environmentally friendly, the aggregate budget for which project is approximately UAH1,751 million and
- the reconstruction by Kyivenergo of power unit No. 1, the aggregate budget for which project is approximately UAH651 million.

Electricity distribution

We continuously invest in our electricity generation subsidiaries to maintain and improve their operational assets. Our 2013 investment program for our electricity distribution segment includes the following:

- the reconstruction by Dniprooblenergo of air line (AL-0.4), the aggregate budget for which project is approximately UAH47 million;
- the reconstruction by Krymenergo of air line (AL-0.4), the aggregate budget for which project is approximately UAH36 million;
- the reconstruction by Servis-Invest of a switchgear for 110 kW (Novotroitskaya substation, 110 kW), the aggregate budget for which project is approximately UAH26 million; and
- the construction by Kyivenergo of the Slavutich, Olenivska and Vatutynska substations, the approximate budgets for which projects are UAH250 million, UAH204 million and UAH168 million, respectively.

Renewables

Capital expenditure on our wind power projects, including the Botievo wind farm, totaled UAH14 million and UAH1,428 million in the years ended December 31, 2011 and 2012, respectively. Our wind power projects had a total nominal capacity of 1,250MW as at December 31, 2012, and we intend to increase our wind power capacity to 2,000MW by 2030. To date we have financed capital expenditure on our wind power projects through cash from operations and the incurrence of indebtedness, including from export credit agency facilities secured by the wind power generation equipment that we acquire. We expect capital expenditure on our wind power projects to be approximately UAH1,846.6 million and UAH1,774.8 million in 2013 and 2014, respectively, as we continue to develop our wind power generation capacity.

Other

We currently have a 25.5% interest in Vanco, which in turn owns 100% of the share capital of Vanco Prykerchenska Ltd. ("**Vanco Prykerchenska**"), an entity established to drill for oil and gas mineral deposits in the continental shelf under the Black Sea. Vanco Prykerchenska is a party to a production sharing agreement with the state of Ukraine in respect of the Prykerchenska Block. We expect Vanco Prykerchenska will commence exploration activities at the Prykerchenska Block and we expect to contribute our proportionate share of the costs of the project.

On November 27, 2012, we entered into the Vanco SPA under which we agreed to purchase additional shares in Vanco, such purchase being conditional on the satisfaction of certain closing conditions set out therein. Subject to the satisfaction of such closing conditions, we intend to acquire additional shares in Vanco, whereupon we would hold more than 50% of the equity share capital of Vanco.

Pension obligations

As of December 31, 2012, we recognized UAH4,241 million of liabilities in respect of retirement benefit obligations that we provide to employees of certain subsidiaries pursuant to collective bargaining

agreements (as compared to UAH3,519 million of such liabilities as of December 31, 2011). These amounts represent the present value of our defined benefit obligation, as adjusted for unrecognized actuarial loss and past service costs and discounted to present value at a rate of 14%, which was determined by the Group and based on high quality corporate securities.

We also make defined contributions to Ukraine's state pension, social insurance and medical insurance at the statutory rates in force (approximately 39% of gross salary as of December 31, 2011 and December 31, 2012), based on gross salary payments. We are only required to make these contributions as they fall due, and we do not retain any express or implied obligation to pay future benefits. These contributions are expensed as incurred.

Liquidity

As of December 31, 2012, our cash and cash equivalents amounted to UAH5,360 million. Cash flow from operations, before changes in working capital, amounted to UAH14,967 million for the year ended December 31, 2012. Amounts available under credit facilities amounted to UAH2,743 million as of December 31, 2012. As at December 31, 2012, UAH901 million of cash and cash equivalents were denominated in U.S. dollars (compared to UAH698 million as at December 31, 2011), UAH789 million of cash and cash equivalents were denominated in EUR (compared to UAH125 million as at December 31, 2011) and UAH218 million of cash and cash equivalents were denominated in RUB (compared to UAH5,639 million as at December 31, 2011).

As of December 31, 2012, we had a working capital surplus (calculated as total current assets less total current liabilities) of UAH1,576 million compared to a surplus of UAH6,157 million as of December 31, 2011 and a surplus of UAH2,682 million as of December 31, 2010. Our decrease in working capital surplus for the year ended December 31, 2012, as compared to the year ended December 31, 2011, was primarily due to an increase in our trade and other account payables, resulting primarily from an increase in account payables in respect of property, plant and equipment in order to meet capital investment targets and an increase in payables in respect of wages and salaries.

We expect to repay all long-term debts as they become due from our operating cash flows or through re-financings, including in part, the net proceeds of this offering. We believe that our working capital together with our plans for external financing, including this offering, will provide us with sufficient funds for the next 12 months.

Off-Balance Sheet Arrangements

As of December 31, 2012, we did not have any material off-balance sheet arrangements or contingencies.

Quantitative and Qualitative Disclosures About Market Risk

Commodity price risk

We are exposed to risks associated with fluctuations in the market price of coal as well as market and regulated prices of electricity.

Foreign exchange risk

We operate primarily within Ukraine and accordingly our exposure to foreign currency risk is mainly in respect of borrowings, gross settled derivative financial instruments, cash balances and deposits, the majority of which are denominated in or linked to U.S. 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, Ukraine was downgraded by international rating agencies 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 we monitor this exchange exposure, we do not hedge our U.S. dollar currency positions. We do not have significant exposure to other currencies.

During 2011 and 2012 we concluded agreements for swaps of RUB loans with floating rates for USD loans with fixed rates. Fair value loss on the derivative amounting to UAH284 million is recognized in financial costs in profit and loss (see Note 30 to the 2012 Financial Statements), and included in the value of non-current other financial liabilities (see Note 19 to the 2012 Financial Statements).

Critical Accounting Estimates and Judgments in Applying Accounting Policies

We make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments 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. We also make certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized 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 AFS equity investments

We determine that AFS 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 judgment. In making this judgment, we evaluate 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, we would have suffered an additional loss of UAH25 million in 2012.

Fair value of AFS equity investments

The fair values of AFS equity investments that are not quoted in active markets are determined by independent investment companies using different valuation techniques. We have reviewed the 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. We consider that changing the underlying assumptions not supported by observable market data to a reasonably possible alternative in the valuation models would not result in a significantly different valuation.

Fair value of previously held interests

The fair value of previously held interests in acquirees is assessed by our management by reference to the current market prices for such securities quoted on active markets. Due to the illiquid nature of the Ukrainian capital markets, our management assesses whether an active market for particular securities exists on a case by case basis. Where it was determined that an active market for particular securities did not exist, the fair value of interests held in acquirees was determined by reference to the prices paid for such interests in recent acquisition transactions, including for the privatizations of Zakhidenergo, Donetskoblenergo, Dniprooblenergo, Krymenergo or, in the case of Dniproenergo, by independent appraisal.

Impairment of property, plant and equipment and goodwill

We are required to perform impairment tests for our 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 our identified cash-generating units, a significant proportion of their output is input to another cash-generating unit. We also determine whether goodwill is impaired at least on an annual basis. This requires estimation of the value in use / fair value less costs to sell of the cash-generating units to which goodwill is allocated. Estimating value in use/ fair value less costs to sell requires us to make an estimate of expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The recoverable amount of goodwill and cash-generating units were estimated based on a fair value less costs to sell calculations.

Revaluation of property, plant and equipment

As at August 1, 2011, we 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 August 1, 2011 were determined by an independent appraiser. The carrying value and depreciation of property, plant and equipment are affected by the estimates of replacement cost, depreciated replacement cost and remaining useful life. Changes in these assumptions could have a material impact to the fair value of property, plant and equipment.

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 judgments applied, and the assumptions underpinning these judgments, are considered by us to be appropriate. However, a change in these assumptions would have an impact on the amount of revenue recognized.

Impairment of trade and other accounts receivable

We estimate 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 our estimates, we would be required to record an additional impairment expense.

Post-employment and other employee benefit obligations

We assess post-employment and other employee benefit obligations using the Projected Unit Credit Method based on actuarial assumptions which represent our 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 of Ukraine, we may not have full access to information and therefore assumptions regarding when, or if, an employee takes early retirement, whether we 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 our 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 hryvnias, significant judgment is needed in assessing an appropriate discount rate. Key assumptions and sensitivities are presented in Note 20 to the 2012 Financial Statements.

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 realization of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, we make judgments and apply 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

Judgment 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 2012 Financial Statements.

Tax legislation

Ukrainian tax, currency and customs legislation continues to evolve. Conflicting regulations are subject to varying interpretations. We believe our interpretations are appropriate and sustainable, but no guarantee can be provided against a challenge from the tax authorities (see Note 32 to the 2012 Financial Statements).

On December 2, 2010 the new Tax Code was adopted in Ukraine, with most of the changes introduced being effective from January 1, 2011. Among the main changes was a change in the rates for corporate income tax from 25% to 16% to be introduced in several stages during the period 2011 to 2014, a change in the base rate for VAT starting from January 1, 2014, from 20% to 17%, and a change in the methodology for determining the base for VAT and corporate income tax application. Also, the tax base of the property, plant and equipment was changed from April 1, 2011 with the aim of removing existing differences between tax and accounting bases. We recorded the impact of these changes in tax legislation with respect to the tax base of our property, plant and equipment in 2011. See *"Risk Factors—Risks Relating to*

Ukraine—The Ukrainian tax system is undeveloped and subject to frequent change, which may create an uncertain environment for investment and business activity'' and *''Taxation''*.

Related party transactions

In the normal course of business we enter into transactions with related parties. Judgment 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. Our 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 judgment is pricing for similar types of transactions with unrelated parties and an effective interest rate analysis.

Heat tariff compensation received by Kyivenergo

In accordance with existing legislation, Kyivenergo is entitled to claim heat tariff compensation which is computed as the difference between the heat tariff required to cover all production costs plus a margin considered 'reasonable' by NERC and the tariff imposed by NERC. Such claims are subject to additional approvals, as prescribed by Ukrainian state regulations. In October 2012, the Cabinet of Ministers of Ukraine approved Resolution No. 968 which provides that the compensation of the difference between the ''economically grounded'' tariffs and that imposed by the Ukrainian state should be calculated by the companies entitled to such compensations and approved by the Ukrainian state regularly. Kyivenergo accounts for such heat tariff compensation as government grants and records amounts of compensation receivable on accrual basis starting from November 2012. During 2012, Kyivenergo recorded UAH3,962 million of heat tariff compensation related to 2011 and 2012, of which UAH3,672 million was received in cash.

HISTORY OF OUR GROUP

Our group, which currently consists of Holdings B.V. and its subsidiaries, was established in 2006 as a result of a reorganization of SCM's energy assets. Since our establishment, we have made a significant number of acquisitions and incorporated several new companies in line with our strategy of creating a vertically integrated energy and fuel company. The following is a description of the formation our group and our historical and recent acquisitions.

Reorganization and formation of the DTEK Group

Holdings B.V., a holding company and a direct subsidiary of SCM, was incorporated in Amsterdam on April 15, 2009, by SCM (a 75% shareholder) and InvestCom Services Limited (a 25% shareholder). In 2011, InvestCom Services Limited transferred 25% of shares in Holdings B.V. to E.R. EastEnergy Resource Limited, registered in Cyprus, which is wholly-owned by SCM. The current shareholders of Holdings B.V. are SCM and E.R. EastEnergy Resource Limited. Holdings B.V. is registered in Amsterdam, The Netherlands, and its business office is at Schiphol Boulevard 231 Tower B, 5th floor, 1118BH, Luchthaven Schiphol, The Netherlands.

Our group was formed in 2006 through a net capital contribution of certain energy assets of SCM to Holdings Ltd. Holdings Ltd was incorporated in Cyprus on April 10, 2006, in connection with a reorganization of multiple entities controlled by SCM.

Acquisitions

Acquisitions prior to 2006

In 2004 and 2005, SCM and its subsidiaries (the "**SCM Group**") made the following acquisitions of additional interests in the entities of our group:

Name	Date	Business Segment	Effective share acquired
Skhidenergo	February 4, 2004	Power generation	75.00%
Tehrempostavka	May 24, 2004	Power generation	8.81%
Pavlogradugol	June 26, 2004	Coal mining	92.11%
Komsomolets Donbassa	January 19, 2005	Coal mining	33.27%
Tehrempostavka	April 20, 2005	Power generation	14.74%
Tehrempostavka	November 28, 2005	Power generation	23.94%
Skhidenergo	December 29, 2005	Power generation	23.94%

In February 2004, the SCM Group acquired a 75% equity interest in Skhidenergo, the first, and at that time, the only private power generation company in Ukraine, from a third party for total cash consideration of UAH9 million. In December 2005, the SCM Group acquired an additional 23.94% equity interest in Skhidenergo for total cash consideration of UAH25.8 million from the same third party. As a result of such purchase, the SCM Group's effective equity interest in Skhidenergo increased to 99% as of December 31, 2005.

In June 2004, the SCM Group acquired a 92.11% equity interest in Pavlogradugol in a privatization tender for total cash consideration of UAH1,401.1 million from the State Property Fund, a state body that exercises policy in the area of state property privatization. The acquisition of Pavlogradugol, which operates the largest coal-mining enterprise in Ukraine, was made in order to guarantee a secure supply of coal for the Group's electrical power generation assets and to ensure the Group would benefit from vertical integration. The SCM Group sold its 92.11% stake in Pavlogradugol to the Group in July 2007, as described below.

In January 2005, the SCM Group acquired an additional 33.27% equity interest in Komsomolets Donbassa from the State Property Fund for cash consideration of UAH25.6 million. As a result of such purchase, the SCM Group's effective interest in Komsomolets Donbassa increased to 73.77%. Komsomolets Donbassa was founded in 1980. In 1992, it became the first independent mine in Ukraine subordinated directly to the Ukrainian State Coal Committee and in July 1996 it was reorganized as an open joint-stock company. In 2001, a controlling stake of the mine was offered for open competitive bidding. Avdeyevka Coke and Chemicals Plant OJSC ("**Avdeyevka**"), a subsidiary of SCM, became Komsomolets Donbassa's first private owner.

In April 2005, the SCM Group's equity interest in Tehrempostavka increased by 14.74% to 75%. In November 2005, the SCM Group acquired an additional 23.94% equity interest in Tehrempostavka for total cash consideration of UAH55.6 million from a third party. As a result of this second share purchase, the SCM Group's interest in Tehrempostavka increased to 99%.

Acquisitions in 2006 and 2007

In 2006, the Group acquired a 44.64% equity interest in Komsomolets Donbassa from the SCM Group, and the SCM Group and Khartsizkiy Pipe Plant OJSC ("**Khartsizkiy**"), a subsidiary of the SCM Group, contributed 9.61% and 23.66%, respectively, of Komsomolets Donbassa to the charter capital of DTEK LLC upon its incorporation. DTEK LCC then acquired an additional 16.73% equity interest in Komsomolets Donbassa from "EPS "Gorenergo" LLC in 2006.

Between January 2006 and August 2006, we acquired 70.65% of the voting shares in Energougol, an electricity distribution company based in the Donetsk region of Ukraine. Between March 2006 and September 2006, the DTEK Group obtained control over Servis-Invest, one of the leading electricity distribution companies in Ukraine, which began supplying electric power to consumers in the Donetsk region in 2002. In September 2006, we acquired an additional 20.47% interest in Energougol, thereby increasing our total ownership interest to 91.1%.

In 2006, we acquired an 8.3% interest in Dniproenergo for UAH201 million. At that time, the Ukrainian sate was the majority shareholder of Dniproenergo and the company was under external administration in accordance with the Law of Ukraine "On Restoring Debtor's Solvency or Declaring a Debtor Bankrupt". During 2006 and 2007, we acquired additional Dniproenergo shares on the open market and by June 2007 we held 18.19% of its authorized capital. In June 2007, in order ensure Dniproenergo did not enter into bankruptcy, and to further advance our position in the Ukrainian power generation sector, we entered into a financial rehabilitation plan with Dniproenergo's credit committee and the Ukrainian government under which we agreed to subscribe for an additional 34.34% interest in Dniproenergo for total consideration of UAH1,052 million, which funds were used to repay Dniproenergo's creditors and to fund working capital requirements.

Separately, in 2006, the Group acquired CCM Kurakhovskaya LLC, a coal enrichment plant ("**CEP**") located in the Donetsk region, SCM transferred a 1.99% interest in Donetskoblenergo to DTEK LLC by way of contribution to charter capital upon its incorporation, and the Group acquired an additional 0.38% interest in the charter capital of Zakhidenergo.

In 2006, SCM transferred to the Group the power to govern the financial and operational policies of Pavlogradugol without transferring ownership. In February 2007, we acquired a 7.81% interest in Pavlogradugol from the State Property Fund for cash consideration of UAH110 million, and in July 2007 we acquired a 92.11% interest in Pavlogradugol from Avdeyevka for cash consideration of UAH1,420 million, as a result of which we became the owners of 99.92% of the charter capital of Pavlogradugol. In March 2007, the Group acquired 90% of the charter capital of Mospinskoye CEP and 1.62% of the charter capital of Kyivenergo.

Acquisitions and incorporations in 2008 and 2009

In 2008, we acquired 60% and 61% of the charter capital of CCM Dobropolskaya LLC ("**Dobropolskaya**") and CCM Oktyabrskaya LLC ("**Oktyabrskaya**"), respectively.

In 2009, we incorporated Trading LLC to effect domestic sales of our coal products and coal exports abroad, and Power Trade LLC to export electricity to customers abroad. Further, we incorporated a number of new subsidiaries to form our renewable energy division, including Wind Power LLC, Orlovka Windfarm LLC and Primorsk Windfarm LLC.

During the course of 2009, we increased our stakes in Dniproenergo and in Donetskoblenergo to 47.46% and 30.59%, respectively.

Acquisitions in 2010

In September and December 2010, we acquired an additional 33.86% interest in Kyivenergo for total consideration of UAH590 million, thereby bringing our total equity interest in Kyivenergo to 39.98%. In 2010, we also acquired additional shares in Dniproenergo, thereby increasing our stake to 47.55%.

Acquisitions and Privatizations in 2011 and 2012

In 2011, we increased our interest in Zakhidenergo to 25.06% by acquiring an additional 5.17% interest from SCM, and we acquired a further 0.39% equity interest in Komsomolets Donbassa in the open market in 2011.

In 2011 and 2012 we participated in and won a number of state-run privatization tenders which resulted in the Group obtaining control over certain Ukrainian coal mining, power generation and distributing assets, including companies in which we previously held non-controlling stakes. Most of these tenders were carried out as part of the Ukrainian government's privatization program.

Our group participated in six tenders conducted by the State Property Fund in 2011 and 2012 in relation to assets in the Ukrainian power generation and distribution sectors, details of which are set out in the table below.

Name of Asset	Date of tender	Business Segment	Interest Sold percentage	Purchase Price UAH millions	Interest held after percentage
Kyivenergo	December 9, 2011	Power and heat generation / Power distribution and sales	25	450.5	72.33
Zakhidenergo	January 10, 2012	Power generation	45.10	1,932	70.94
Donetskoblenergo .	January 11, 2012	Power distribution and sales	40.06	467.6	71.35
Dniproenergo	March 13, 2012	Power generation	25	1,179.7	72.94
Dniprooblenergo .	April 17, 2012	Power distribution and sales	50	660.1	51.51
Krymenergo	May 4, 2012	Power distribution and sales	45	256	57.5

Following a tender held in December 2010, we entered into a 49-year lease agreement with the State Property Fund to lease the integrated property complex of State Enterprise Dobropolyeugol ("**State Enterprise Dobropolyeugol**") on January 4, 2011. We also assumed certain assets and liabilities of State Enterprise Dobropolyeugol amounting to UAH2,415 million and UAH1,506 million respectively, and committed to fund an investment program of the property complex totaling UAH2,000 million over the next 5 years. Dobropolyeugol is the successor entity to State Enterprise Dobropolyeugol as a result of the lease.

In June 2011, we incorporated DTEK Oil & Gas LLC ("**DTEK Oil & Gas**"), a subsidiary responsible for the development of offshore and onshore oil and gas projects.

In December 2011, we were awarded a 49-year concession in respect of Ukraine's largest anthracite mining and preparation plants, Rovenkyanthracite and Sverdlovanthracite.

In addition to our active involvement in privatization tenders for assets in the Ukrainian power generation and distribution sectors, we acquired our first coal assets outside of Ukraine in 2012. On June 30, 2012, we purchased 100% of the equity share capital of three Russian companies, Limited Liability Company "Sulinanthracite" ("**Sulinanthracite**"), Public Mining Company "Obukhovskaya" ("**Obukhovskaya**") and Public Company "Don-Anthracite" ("**Don-Anthracite**"), which operate three coal mines and a CEP in the Rostov region of Russia. The aggregate cash purchase price for such acquisitions amounted to UAH310 million. We continued our acquisitions activity in the Ukraine in 2012 through the acquisition of a 95.44% interest in Mine Bilozerska ALC ("**Bilozerska**") for total cash consideration of UAH 202 million.

Further, we acquired an additional 40.06% of Donetskoblenergo on January 11, 2012 and an additional 25% of Dniproenergo on March 31, 2012, thereby bringing out total shareholding in such entities to 71.35% and 73.30%, respectively.

Incorporation of new subsidiaries in 2013

The Issuer and its 100% subsidiary, DTEK Investments Limited, were both incorporated under the laws of England and Wales on February 27, 2013.

Existing Subsidiaries

The table below sets out our ownership percentage in each of our principal subsidiaries on December 31, 2011 and December 31, 2012:

Name	Interest held as at December 31, 2011	Interest held as at December 31, 2012	Segment	Country of incorporation
	percentage			
DTEK Pavlogradugol PJSC	99.92	99.92	Coal Mining	Ukraine
DTEK Mine Komsomolets Donbassa PJSC	94.64	94.64	Coal Mining	Ukraine
DTEK Dobropolyeugol LLC	100.00	100.00	Coal Mining	Ukraine
DTEK Rovenkyanthracite LLC	100.00	100.00	Coal Mining	Ukraine
DTEK Sverdlovanthracite LLC	100.00	100.00	Coal Mining	Ukraine
MINE Bilozerska ALC	—	95.44	Coal Mining	Ukraine
DTEK Dobropolskaya CEP PJSC	60.06	60.06	Coal Mining	Ukraine
DTEK Oktyabrskaya CEP PJSC	60.85	60.85	Coal Mining	Ukraine
CCM Pavlogradskaya LLC	99.00	99.00	Coal Mining	Ukraine
CCM Mospinskoye LLC	99.00	99.00	Coal Mining	Ukraine
CCM Kurakhovskaya LLC	99.00	99.00	Coal Mining	Ukraine
Ekoenergoresurs LLC	99.00	99.00	Coal Mining	Ukraine
Public Mining Corporation Obukhovskaya	—	100.00	Coal Mining	Russian Federation
Public Company Don-Anthracite	—	100.00	Coal Mining	Russian Federation
Sulinanthracite Company of Limited Responsibility	—	100.00	Coal Mining	Russian Federation
DTEK Trading LLC	100.00	100.00	Other	Ukraine
DTEK Skhidenergo LLC	100.00	100.00	Power Generation	Ukraine
Tehrempostavka LLC	100.00	100.00	Power Generation	Ukraine
DTEK Dniproenergo PJSC	47.93	73.30	Power Generation	Ukraine
DTEK Zakhidenergo PJSC	25.83	72.19	Power Generation	Ukraine
DTEK Donetskoblenergo PJSC	31.28	71.35	Electricity Distribution	Ukraine
Servis-Invest LLC	100.00	100.00	Electricity Distribution	Ukraine
Kyivenergo PJSC	72.33	72.33	Power and Heat Generation / Electricity Distribution	Ukraine
DTEK Dniprooblenergo PJSC	1.51	51.51	Electricity Distribution	Ukraine
DTEK Krymenergo PJSC	12.49	57.60	Electricity Distribution	Ukraine
DTEK Energougol Ene PJSC	94.24	94.24	Electricity Distribution	Ukraine
DTEK Power Trade LLC	100.00	100.00	Electricity Distribution	Ukraine
Wind Power LLC	100.00	100.00	Power Generation	Ukraine
Orlovka Windfarm LLC	100.00	100.00	Power Generation	Ukraine
Primorsk Windfarm LLC	100.00	100.00	Power Generation	Ukraine
DTEK Oil&Gas LLC	100.00	100.00	Oil and gas exploration and distribution	Ukraine
DTEK Service LLC	99.00	99.00	Other	Ukraine
Sotsis LLC	99.00	99.00	Other	Ukraine
Pershotravenskyi RMZ LLC	99.00	99.00	Other	Ukraine
Shakhter-Argo LLC	100.00	100.00	Other	Ukraine
Vanco Ukraine Limited	33.50	25.50	Management	British Virgin Islands
DTEK Holdings B.V.	100.00	100.00	Management	The Netherlands
DTEK Investments B.V.	100.00	100.00	Management	The Netherlands
DTEK Holdings Limited	100.00	100.00	Management	Cyprus
DTEK Finance B.V.	100.00	100.00	Finance	The Netherlands
DTEK Trading Limited	100.00	100.00	Other	Cyprus
DTEK Hungary Power Trade LLC	100.00	100.00	Other	Hungary

Business structure

Structure

Our group is organized on the basis of four main business segments:

coal mining (which includes coal enrichment);
power generation;
heat generation (starting from December 2011); and
electricity distribution.

In addition, we have another business segment, "Other," which includes other companies that provide auxiliary services, for example trading, transportation, security and other services primarily to our Group companies. This segment also includes our wind energy and oil and gas businesses.

Our coal mining, power generation, heat generation and electricity distribution businesses are vertically integrated and, while the related operating businesses are organized and managed separately, with each segment offering different products and serving different markets, there remains significant dependence between our four main segments. The primary reporting format of our business segments is based on our management and internal reporting structure.

Inter-segment sales

We are the largest energy company operating in Ukraine as measured by metric tons of coal produced, net output of electricity and electricity distributed according to Energobiznes and the Ministry of Energy. Approximately 73% of our steam coal production is supplied to our thermal power plants in our power generation segment. These inter-company transactions are eliminated for the purposes of our consolidated financial statements but not in the respective segment presentation of these data.

INDUSTRY

Certain of the projections and other information set forth in this section "Industry" has been derived from external sources. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Market research, while believed to be reliable by us for the purposes of this offering memorandum, has not been independently verified. We accept responsibility for accurately reproducing such information and as far as we are aware, no facts have been omitted which would render the reproduced information misleading or inaccurate.

The projections and forward-looking statements in this section are not guarantees of future performance and actual events and circumstances could differ materially from current expectations. Numerous factors could cause or contribute to such differences. See "Risk Factors" and "Forward-looking Statements".

For the definitions of certain technical terms used in this offering memorandum, please refer to "Glossary of Technical Terms".

Economic environment overview

In 2012, Ukraine's economy was affected by weaker external demand stemming from the Eurozone crisis as well as stalling of critical reforms during the election year. Real GDP growth decelerated from 5.2% year-on-year in 2011 to 0.2% year-on-year in 2012. Growth was driven by domestic demand expansion, as average household consumption grew by 12.0% in the first nine months of 2012, and in 2012 fixed investments increased 0.4%, while real exports declined by 1.26% according to the NBU. Lower external demand and subdued steel prices led to a contraction in machine building and metals and mining sectors in 2012. Completion of significant public infrastructure investments related to the UEFA 2012 European Football Championship slowed down subsequent construction activity. Agricultural output growth was negatively affected by adverse weather conditions in 2012.

A decline in food prices driven by the good harvest in 2011 resulted in the postponement of increases in utility tariffs, and a tighter monetary policy aimed at preventing the local currency from depreciating against the U.S. dollar resulted in consumer price deflation of 0.2% in 2012.

The Ukrainian government managed to keep the state budget deficit under control and financed it by issuing domestic bonds (including foreign currency linked and denominated Notes) and a US$1.5 billion 7.95% sovereign Eurobonds in 2012. However, a higher price of imported Russian gas in combination with frozen retail gas prices led to further deterioration of the finances of the state-owned gas operator Naftogaz.

Current account deficit stabilised at US$14.4 billion in 2012 compared to US$10.2 billion in 2011 due to lower volumes of gas imports. However investors' risk aversion and significant debt repayments depleted Ukraine's foreign exchange reserves by US$24.5 billion. In response, the NBU tightened monetary conditions and utilised a combination of foreign exchange interventions and administrative measures to defend the local currency against devaluation. The interbank U.S. dollar / hryvnia exchange rate remained stable at approximately 8.0 hryvnia per U.S. dollar during the period January to March 2012, before fluctuating between 8.03 and 8.15 hryvnia per U.S. dollar since April 2012.

Energy industry overview

Ukraine's energy mix is still dominated by natural gas, which accounted for 38% of total primary energy consumption of 126 million metric tons of oil equivalent ("**Mtoe**") in 2011, down from 47% in 2000. Share of coal grew to 34% in 2011, compared with 29% in 2000. Nuclear Energy contributed 16%, Oil 10%, Hydroelectricity 2% to total primary energy consumption in 2011, with only marginal presence of renewable energy sources.

Table 1—Primary energy consumption

	Year				
	1990	2000	2009	2010	2011
	Consumption in Mtoe				
Gas	111.6	63.9	42.3	46.9	48.3
Coal	74.8	39.1	35.1	37.9	42.4
Nuclear Energy	17.2	17.5	18.8	20.2	20.4
Oil	63.8	12.1	13.4	13.0	12.9
Hydroelectricity	2.4	2.6	2.7	2.9	2.4
Renewable Energy	0.0	0.0	0.0	0.0	0.0
Primary Energy Total	**269.9**	**135.1**	**112.2**	**120.9**	**126.4**

Source: BP Statistical Review of World Energy June 2012

From 1990 to 2009, primary energy consumption plummeted by 58.4% from 269.9Mtoe due to collapse of Ukraine's output in the 1990s and change in the economic mix away from heavy manufacturing towards less energy consuming services sector in the 2000s. The consumption of gas and coal dropped accordingly. From 2010 Ukraine's total primary energy consumption grew moderately and stood at 126.4Mtoe in 2011, up 4.6% year-on-year.

The institutional framework for energy policy has been reorganised in recent years with the Cabinet of Ministers designated as the ultimate decision-making body. The Cabinet of Ministers is the institutional body responsible for policy co-ordination and oversight of state energy companies. Energy policy has always been high on Ukraine's political agenda with the parliament and the president also heavily involved in the decision-making process. The Ministry of Energy is responsible for most energy supply policies and for co-ordinating energy policy across the Ukrainian government and providing advice to Parliament. The State Agency on Energy Efficiency and Energy Saving has the role of advancing energy efficiency and promoting the deployment of renewable energy sources. Further, the NERC supervises the natural gas and electricity markets and tariff setting.

In 2012, Ukraine's Energy Strategy was revised. The draft Updated Energy Strategy of Ukraine for the Period till 2030 was released for review by relevant institutions and the public in June 2012. It sets out a number of objectives including increased energy security and reliability, energy efficiency improvements and reduced environmental impacts. The draft Updated Energy Strategy to 2030 commits to regular reviews with updates of the energy forecast and strategy every five years and annual progress reviews to take stock of implementation.

The draft Updated Energy Strategy to 2030 sets out the scale of the investment challenge in broad terms for the energy sector. It estimates that over the period 2012-30 Ukraine needs to invest UAH1,700 billion (in year 2010 prices), at a rate of about UAH90 billion per year. This amount is split among the following energy sectors: electricity and heating—UAH720 billion; oil and gas—UAH510 billion; nuclear power—UAH390 billion; and coal—UAH80 billion.

Coal sector overview

Ukraine is well-endowed with energy resources, especially coal with 33,873 million metric tons of proved reserves as of the end of 2011 (ranking No 7 with 3.9% share of total reserves globally) according to the BP Statistical Review of World Energy. Its reserve-to-production ratio is the second highest among the top 10 countries by proved reserves, indicating 390 remaining years of reserves at 2011 production levels. Major coal deposits are located in the Donets, Lviv-Volyn and Dnipro coal basins, as well as in the Dnipro-Donets and Zakarpattya coal depressions. The deposits are located deep in thin seams (0.8-1.0 meters).

Table 2—Top 10 countries globally by proven reserves of coal (2011)

Rank	Country	Anthracite and bituminous	Sub-bituminous and lignite	Total	Share of Total	Reserves / production ratio
		Million metric tons				
1	US	108,501	128,794	237,295	27.6%	239
2	Russia	49,088	107,922	157,010	18.2%	471
3	China	62,200	52,300	114,500	13.3%	33
4	Australia	37,100	39,300	76,400	8.9%	184
5	India	56,100	4,500	60,600	7.0%	103
6	Germany	99	40,600	40,699	4.7%	216
7	Ukraine	15,351	18,522	33,873	3.9%	390
8	Kazakhstan	21,500	12,100	33,600	3.9%	290
9	South Africa	30,156	—	30,156	3.5%	118
10	Colombia	6,366	380	6,746	0.8%	79
11	Other	18,301	51,758	70,059	8.1%	58

Source: BP Statistical Review of World Energy June 2012

As of December 2012, more than 350 legal entities operated in the coal, lignite and peat production, processing and agglomeration sectors in Ukraine, of which, approximately 250 produced and processed hard coal. There are more than 143 mines in Ukraine. The Ministry of Energy supervises 22 coal production enterprises, which operate 94 mines. The eight largest companies account for approximately 63% of domestic coal production.

Coal production and consumption

Coal production declined significantly from 1990 to 1996 and has stabilised since the end of the 2000s. While Ukraine is totally self-sufficient in coal, it remains heavily reliant on natural gas and oil imports. According to the International Energy Agency (the "**IEA**") its total energy import dependency is estimated at 39%.

Table 3—Coal production and consumption

	Year		
	2010	2011	2012
	Million metric tons		
Coal production, including	75.2	82.0	85.9
Coking coal	24.2	25.0	24.8
Thermal coal	51.0	57.0	61.1
Coal consumption, including	53.0	57.6	61.2
Consumption by thermal electricity generation plants	32.2	35.8	37.4

Source: Ministry of Energy, DTEK Group

In 2012 total coal production increased by 4.8% year-on-year to 85.9 million metric tons. Thermal coal production accounted for 71.1% of total production vs. 69.5% in 2011. Coal consumption increased by 6.2% year-on-year to 61.2 million metric tons, of which 52.7% was used by thermal electricity generation plants.

The increase in coal production in 2012 was achieved after growth in capital investments into sector modernization in the previous years. According to our estimates, in 2012, UAH2 billion in private investments were allocated for technical modernization and upgrades at Ukrainian coal enterprises, which is, however, approximately UAH1 billion less than in 2011. Such decline in 2012 was primarily attributable to a reduction in capital expenditure by Metinvest's coke and coal mining division. State financing for the technical modernization of mines amounted to UAH13.2 billion, with state mines spending UAH9.9 billion on capital expenditure in 2012, 72% more than in 2011.

Table 4—Total coal output by the largest producers in Ukraine

	Year		
	2010	2011	2012
	Million metric tons		
Pavlogradugol	15.0	15.4	17.0
Sverdlovanthracite	6.4	6.6	6.9
Rovenkyanthracite	6.0	7.3	7.3
Komsomolets Donbassa	4.1	4.3	4.5
Dobropolyeugol	3.0	3.3	3.3
State Enterprises	35.4	38.4	24.9

Source: Ministry of Energy, Energobiznes

State enterprises increased production volumes by 1.4% year on year to 24.9 million metric tons in 2012, including 17.7 million metric tons of thermal coal (representing a 3.9% increase year on year) and 7.2 million metric tons of coking coal (representing a decrease of 4.4% year on year). The share of state enterprises in total domestic coal production has been decreasing due to structural changes in the industry resulting from the Ukrainian energy privatization program and increased investments by the private sector.

Coal pricing

In Ukraine coal is sold either under direct contracts between coal producers and consumers or through the state wholesale market operator Ugol Ukrainy. Sales by state enterprises to Ugol Ukrainy accounted for approximately 65% of total sales. The wholesale market operator distributes coal products under fixed prices, resulting in cross-subsidization of loss-making mines at the cost of profitable ones. Private companies set prices for their products based on supply and demand in Ukraine, taking into account general trends in the international market.

Table 5—Average annual price per metric tons of coal concentrate (ash content 23.0%, humidity 8.9%) in Ukraine

	Year		
	2010	2011	2012
UAH per metric ton	597.0	713.0	718.0
USD per metric ton	74.7	89.5	89.9

Source: Ministry of Energy, Energobiznes

According to Energobiznes, the price of commercial coal from state mines was UAH671 (US$84) per metric ton in 2012, compared to the production cost of UAH1217 (US$152.3) per metric ton. The Ukrainian government allocated UAH9.9 billion (US$1.2 billion) from the state budget to partially cover this difference. In 2012, the average price of privately produced coal increased by 9% to UAH854 (US$107) per metric ton.

Electricity sector overview

Ukraine is the 7th largest electricity market in Europe as measured by total installed capacity, accounting for 4.2% share of Europe's total as of the end of 2010 according U.S. Energy Information Administration. Ukraine's electricity generation capacity is dominated by thermal power plants (64.1% of installed capacity) followed by Nuclear (13.8%), and Hydroelectric and other facilities (5.9%).

Table 6—Top ten European countries by electrical capacity (2010)

Country	Million kW	Share of Total
Russia	229.1	17.7%
Germany	153.2	11.8%
France	124.3	9.6%
Italy	106.2	8.2%
Spain	101.7	7.8%
United Kingdom	93.5	7.2%
Ukraine, including	54.9	4.2%
Thermal	35.2	—
Nuclear	13.8	—
Hydroelectric & other	5.9	—
Turkey	49.5	3.8%
Sweden	36.5	2.8%
Poland	33.4	2.6%
Other	315.2	24.3%

Source: U.S. Energy Information Administration

There are 167 legal entities operating in the Ukrainian electricity generation, transmission, distribution and supply sector. State owned enterprises generated 73.6% of total electricity in 2012. All of Ukraine's nuclear and hydroelectric power plants are owned by the Ukrainian government and there are no immediate plans for their privatization. At the beginning of 2011, Skhidenergo was the only private Ukrainian thermal power generation company. Of the other five Ukrainian thermal power generation companies, Dniproenergo, Zakhidenergo and Kyivenergo were privatized during 2011 and 2012, and the Ukrainian state intends to seek to privatise the remaining two, Centrenergo and Donbasenergo, in 2013.

Electricity production and consumption

In 2012, total generated electricity increased by 2.2% year-on-year to 198.1 billion kWh. Conventional thermal electricity accounted for 44.7% of total generated electricity as compared to 43.7% in 2011. In 2012, electricity exports increased by 51.5% year-on-year to 9.7 billion kWh as a result of an increase in exports to Hungary, Poland, Belarus, Romania, Slovakia and Moldova.

Table 7—Electricity generation, exports and net consumption in Ukraine

	2010	2011	2012
		Billion kWh	
Electricity generation, including	187.9	193.9	198.1
Nuclear	89.2	90.2	90.1
Thermal	78.0	84.8	88.6
Hydroelectric & other	20.8	18.9	19.4
Exports	4.2	6.4	9.7
Net consumption	147.4	150.7	150.7

Source: Ministry of Energy

Domestic net consumption remained relatively flat at 150.7 billion kWh due to subdued economic activity in 2012. The share of industry in total electricity consumption shrank to 47.0% from 48.4% in 2011, while the share of households increased from 21.6% in 2008 to 26.7% in 2012. Ukraine's industry used 3% less electricity at 70.8 billion kWh (excluding technical losses) in 2012 compared to the previous year. In particular, metallurgy reduced electricity consumption by 2% to 37.0 billion kWh, the fuel sector saw a 6.5% decline to 8.9 billion kWh, engineering registered a 9.1% decline to 5.8 billion kWh, the chemical and petrochemical industry decreased electricity consumption by 3.9% to 6.0 billion kWh, the construction materials industry by 6% to 2.5 billion kWh, while food and processing sectors increased consumption by 1.1% to 4.7 billion kWh, and other sectors by 1.6%, to 5.8 billion kWh.

Table 8—Electricity consumption in Ukraine by categories

Category	2008	2009	2010	2012	2012
			net GWh		
Industry	77.2	64.0	71.5	73.0	70.8
Agriculture	3.3	3.3	3.3	3.5	3.8
Households	31.9	34.4	37.7	38.6	40.3
Utilities	18.2	17.7	18.3	18.4	18.5
Transport	10.0	8.4	9.5	9.9	9.2
Construction	1.3	0.9	1.0	1.0	1.0
Other non-industrial consumers	6.0	5.7	6.2	6.6	7.1
Total	147.9	134.4	147.5	151.0	150.7

Source: NERC, State Statistics Service

Electricity market structure and pricing

The Ukrainian electricity generation market has traditionally been regarded as having ample reserve capacity due to the one-buyer (Energorynok) pooling system, which allows the end consumers to purchase energy at the average (and therefore lower) price of more expensive energy generated by thermal generation companies and the relatively cheap hydroelectric and nuclear energy. This surplus capacity which resulted in a buyers' market has provided and continues to provide little incentive for the state to pursue a more aggressive tariff policy to expand the power generation capacity and maintain a more efficient cost recovery system. The existing industry structure allows the state to adopt a minimum tariff policy sufficient to cover the operating costs in the electricity generation market, and falls short of stimulating any significant investments in the sector.

Under the current regime, power generation companies sell all of the electricity produced to Energorynok, the Ukrainian state-owned market operator, at prices determined daily through a bidding system for thermal power producers and according to regulated tariffs imposed on nuclear and hydro-power generators and combined heat and power plants. Energorynok then sells the electricity to regulated or non-regulated tariff suppliers who are independent suppliers. The suppliers purchase electricity on the wholesale electricity market at wholesale prices determined on the basis of the average weighted cost of electricity sold by thermal power plants, nuclear power plants, hydro power plants and combined heat and power plants as well as system operator and market operator expenses and cross subsidies that cover costs of supplying electricity to certain preferential groups of customers.

Thermal electricity is the only competitive segment of the market. It operates under a day-ahead bidding principle, which is based on hourly bids from individual electricity producers and consumption forecast for the following day. Energorynok ranks thermal electricity producers in ascending order based on the highest submitted bid prices until the forecast demand is met. The base price for electricity is determined by the highest accepted bid.

Regional distribution companies and independent suppliers sell electricity to end consumers. Final consumer tariffs are based on voltage level and a particular consumer group. Generally all consumers, excluding households, are divided into two classes: those connected to 27.5kV and higher grids (first class) and those connected to grids up to 27.5kV (second class).

In 2012, the average first class tariff grew by 16.6% to 73.3 kopecks (9.17 U.S. cents) per kWh for first class consumers and by 14.6% to 93.37 kopecks (11.68 U.S. cents) per kWh for second class consumers. In 2011 tariffs grew by 20.9% and 22.0% respectively. Electricity tariffs remain heavily cross-subsidised with the following consumer groups enjoying lower prices: households, street lighting electricity suppliers; state-owned coal producers; public transport providers, certain children's recreational centers; and entities implementing innovative projects. In 2012 subsidies for these categories of consumers reached UAH34.5 billion (US$4.32 billion), a 23.0% year-on-year increase, and accounted for 29.24% of the wholesale electricity price in 2012. Household expenditure on electricity, case and other fuels as a proportion of total household expenditure decreased from 1.51% in 2010 to 1.44% in 2011.

For a discussion of anticipated changes the existing structure of the electricity market structure and pricing regime, see "*Regulation—Recent Regulatory Developments*".

Table 9—Average annual electricity tariffs in Ukraine (non-household consumers)

	Year		
	2010	2011	2012
	Kopecks / kWh		
First class consumers	52.00	62.87	73.30
Second class consumers	66.74	81.50	93.37

Source: NERC

Table 10—Electricity tariffs in Ukraine (household consumers at the end of the year)

	At year end		
	2010	2011	2012
	Kopecks / kWh		
For households consuming < 150 kWh / month	20.30	23.35	23.35
For households consuming 150-800 kWh / month	20.30	30.40	30.40
For households consuming > 800 kWh / month	—	—	79.80
For households with electric ovens and heating units consuming < 250 kWh / month	15.60	17.95	17.95
For households with electric ovens and heating units consuming > 250 kWh / month	15.6	23.35	23.35

Source: NERC

In 2012, the NERC amended the volume-based tariffs system applicable to households such that tariffs applied to the following categories of households: (i) those consuming less than 150kWh per month; (ii) those consuming from 150 to 800kWh per month and (iii) those consuming above 800kWh per month. Tariffs for the first two categories remained unchanged compared to 2011, but the tariff for households consuming above 800kWh per months was initially set on May 1, 2012 at UAH45.6 kopecks per kWh and was later increased to 79.8 kopecks per kWh, an increase of approximately 75%.

Further, additional tariff differentiation based on consumption volumes and seasonality was introduced in 2012 for households equipped with electric ovens and heating units. Between May 1, 2012 and September 30, 2012, three categories existed: (i) customers consuming less than 250kWh per month; (ii) customers consuming from 250 to 800kWh per month; and (iii) customers consuming above 800kWh per month. Tariffs for the first two categories remained unchanged at 17.95 kopecks per kWh and 23.35 kopecks per kWh, respectively, but the tariff for customers consuming above 800kWh per month was initial set at 35 kopecks per kWh and was then increased to 79.80 kopecks per kWh, an increase of approximately 128%. New tariff categories for households with electric ovens and heating units were created for the period October 1, 2012 to April 30, 2013: (i) customers consuming less than 3600kWh per month; and (ii) customers consuming more than 3600kWh per month, with tariffs of 17.95 kopecks per kWh and 79.80 kopecks per kWh, respectively.

Table 11—Electricity tariffs in Europe (household consumers 3500KWhpa at November 2012)

Country	EUR-cent/kWh	Country	EUR-cent/kWh
Denmark	30.2	Slovenia	15.4
Germany	26.0	Czech Republic	14.9
Italy	21.7	Poland	14.5
Netherlands	21.3	France	14.3
Austria	20.1	Romania	10.7
Spain	19.5	Bulgaria	8.4
Hungary	16.2	Russia	6.0
United Kingdom	15.5	Ukraine	2.7

Source: NERC, Europe's Energy Portal, State Statistics Service

Electricity distribution

Electricity distribution companies purchase electricity from the wholesale electricity market at market prices determined by the operator of the wholesale electricity market, Energorynok, in accordance with the Rules of the Wholesale Electricity Market of Ukraine. These prices also reflect subsidies, which electricity distribution companies receive from the wholesale electricity market in respect of electricity supplied to certain consumer groups, including households, public transport providers and state-owned coal producers, which, in effect, reduce the actual price of electricity purchased by electricity distribution companies from the wholesale electricity market. In 2012, subsidies for these categories of consumers reached UAH34.5 billion and accounted for 29.24% of the wholesale electricity price in 2012.

The methodology for setting the electricity distribution and supply tariffs for electricity distribution companies is based on the cost-plus basis for most of the companies. Five electricity distribution companies privatised in 2011 via sale of controlling stakes to strategic investors (AES-Kyivoblenergo, AES-Rivneoblenergo, Kirovohradoblenergo, Sevastopolenergo and Zhytomiroblenergo) enjoy a different tariff setting mechanism set at the time of privatization and which includes a profit rate with some incentive factors.

In 2011, electricity distribution and supply tariffs were revised several times by the NERC mainly due to increase in average salaries. Tariffs increased on average by 6.0% in June, by 4.5% in November and by 1.1% in December.

BUSINESS

This summary highlights selected information about us, the Issuer and the offering of the Notes contained in this offering memorandum. This summary does not contain all of the information that you should consider before investing in the Notes. You should read this entire offering memorandum, including "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related Notes included elsewhere in this offering memorandum.

Overview

We are the largest energy company in Ukraine as measured by metric tons of coal produced, net output of electricity and electricity distributed, according to Energobiznes and the Ministry of Energy. We comprise four principal business segments: coal mining (which includes coal enrichment), power generation, heat generation and electricity distribution and sales. Our enterprises form an efficient production chain that focuses principally on coal mining for further supply to our power generation facilities. We distribute electricity through our networks and sell energy and coal to end customers, including in Ukraine, Europe and Russia. We believe that the integration of the operations of our coal mining and our power generation business segments, which has been enhanced through the introduction of advanced technologies, professional management and a social policy that we believe strengthens our relations with our employees and the areas in which we operate, has enabled us to become a leader in the fuel and energy markets in Ukraine. In 2010, 2011 and 2012, we generated revenue and heat tariff compensation of UAH24,294 million, UAH39,594 million and UAH82,581 million, respectively, and Adjusted EBITDA of UAH6,210 million, UAH10,281 million and UAH16,936 million, respectively.

Coal mining

We own, or lease or have concession rights in respect of, and operate 31 coal mines and 13 coal enrichment plants, including three mines and one coal enrichment plant in Russia. In 2010, 2011 and 2012, our coal mines collectively produced 19.1 million, 24.1 million and 39.7 million metric tons of coal, respectively, which accounted for approximately 25.5%, 28.0% and 46.1% of Ukraine's total coal production (measured by metric tons of coal produced), respectively, according to Energobiznes. Based on the Ukrainian government's estimate of our coal reserves as of the date the respective production licenses were granted, and as further adjusted by us to reflect extraction, reserves reclassifications, new coal discoveries and acquisitions, as of December 31, 2012, we had an estimated 1699.7 million metric tons of industrial reserves. See *"Coal Reserves Reporting"* and *"Business—Business Segments—Coal mining"*.

Our operating subsidiary, Pavlogradugol, is the largest coal mining company in Ukraine as measured by metric tons of coal produced, producing approximately 17.0 million metric tons of coal in 2012, according to the Ministry of Energy. Pavlogradugol operates 10 mines and an integrated mining complex, including transportation and production infrastructure, located in the Dnipropetrovsk region of Ukraine, which, as at December 31, 2012, had aggregate industrial reserves of 652.9 million metric tons and an average reserve life of 52 years, assuming current extraction and production rates. Our subsidiary, Komsomolets Donbassa, operates one mine and coal enrichment plant located in the Donetsk region of Ukraine which had industrial reserves of 110.9 million metric tons and a reserve life of 43 years, assuming current extraction and production rates, as at December 31, 2012.

In 2011, we entered into two 49-year concession agreements with the Ministry of Energy and one 49-year lease agreement with the State Property Fund, pursuant to which our subsidiaries, Rovenkyanthracite, Sverdlovanthracite and Dobropolyeugol, operate six mines and an integrated mining complex, including three coal enrichment plants, located in the Donetsk and Lugansk regions of Ukraine, five mines and an integrated mining complex, including three coal enrichment plants, located in the Dolzhano-Rovenetskyi region of Ukraine, and five mines and an integrated mining complex located in the Donbass region of Ukraine, respectively. As at December 31, 2012, Rovenkyanthracite, Sverdlovanthracite and Dobropolyeugol had industrial reserves of 162.9 million metric tons, 208.0 million metric tons and 367.8 million metric tons, respectively, and an average reserve life of 33 years, 40 years and 94 years, respectively, assuming current extraction and production rates.

In February 2012, we acquired a 95.4% interest in our subsidiary, Bilozerska, which operates one mine located in the Dobropolsky region of Ukraine. As at December 31, 2012, the Bilozerska mine had industrial reserves of 71.6 million metric tons and a reserve life of 90 years, assuming current extraction and production rates. Further, in 2012, we acquired three mines located in the Rostov region of Russia which, as at December 31, 2012, had aggregate industrial reserves of 125.6 million metric tons and an

average reserve life of 73 years, assuming current extraction and production rates. Our three Russian mines are operated through our subsidiaries, Obukhovskaya, Don-Anthracite and Sulinanthracite.

We are the largest producer of steam coal (which is coal typically used for generating steam for power plants; see *"Business—Business Segments—Coal mining—Types of coal produced"*) in Ukraine based on our production of 16.1 million metric tons and 26.7 million metric tons of marketable steam coal in 2011 and 2012, respectively. In 2012, approximately 73% of our steam coal production was supplied to our TPPs in our power generation subsidiaries to maximize the synergies from our vertically integrated business, with the remainder being sold to third parties in Ukraine and exported outside Ukraine. Our coal mines produced approximately 0.9 million metric tons and 0.6 million metric tons of marketable coking coal in 2011 and 2012, respectively.

In the years ended December 31, 2010, 2011 and 2012, we exported 2 million, 3.4 million and 2.8 million metric tons of coal, respectively, through our subsidiary, Trading LLC, primarily to consumers in Turkey, India, Egypt, Russia, the United States and countries in Europe for use in thermal power plants and for industrial use.

Power generation

We are the leading privately owned thermal power generation company in Ukraine. Our power generation subsidiaries, Skhidenergo, Dniproenergo, Zakhidenergo and Kyivenergo, and our electricity distribution subsidiary, Donetskoblenergo, operate ten thermal power generation plants and two heat and power plants comprising 66 power generation units with total installed capacity of 18.2GW. In 2010, 2011 and 2012, we generated a total net output of 16.3TWh, 17.1TWh and 51.4TWh of electricity, respectively, which accounted for approximately 9.5%, 9.7% and 28.5% of total Ukrainian power generation (measured by net output of electricity), respectively, according to Ukrenergo.

Our subsidiary, Dniproenergo, generated 16.2TWh of electricity in 2012 (in terms of net generation), which accounted for approximately 9.0% of total Ukrainian power generation according to Ukrenergo. Dniproenergo operates three power plants located in the Zaporizhya and Dnipropetrovsk regions of Ukraine which have aggregate installed capacity of 8,185MW. Our subsidiaries, Skhidenergo, Zakhidenergo and Kyivenergo operate three power plants located in the Donetsk and Lugansk regions of Ukraine, three power plants located in the Lvovskaya, Ivano-Frankovskaya and Vinnitskaya regions of Ukraine and two power plants located in Kiev, respectively, which have installed capacity of 4,157MW, 4,707.5MW and 1,200MW, respectively. In addition, our electricity distribution subsidiary, Donetskobienergo, also operates a power plant, Myronovskaya TPP, which is located in the Donetsk region of Ukraine and has installed capacity of 275MW. Zakhidenergo's TPP, Burshtynskaya, is connected to the UCTE/CENTREL unified European power system through which it exports up to 650MW of electricity to European markets in addition to supplying electricity within Ukraine, and, in addition to generating and transmitting electricity, Kyivenergo, Dniproenergo and Donetskoblenergo distribute and transport heat to customers and have total installed heat capacity of 8,700Gcal per hour, 1,983Gcal per hour and 350Gcal per hour, respectively.

Our power plants benefit from a steady supply of coal, which is primarily purchased from our coal mines. Although the coal produced by our coal mines is generally sufficient to meet the demand of our power plants, our power generation subsidiaries sometimes purchase coal from third parties when coal prices are more favorable. Further, although we currently produce more anthracite coal than our power stations require and our internal demand for, and production of, steam coal is generally evenly balanced, we consume more coking coal than we produce and, therefore, we are required to purchase coking coal from third parties. We believe that our power plants have the lowest production cost in the Ukrainian thermal power generation industry. Under the terms of our power generation licenses, our thermal power plants sell all of the electricity they produce to Energorynok, the Ukrainian government-owned electricity metering and distribution pool, at prices determined daily by the NERC through a bidding system. The volume of electricity our power generation business segment produces is determined by the competitive bidding process through which we sell electricity to Energorynok. We produce electricity only to the extent our bids are accepted by Energorynok, and our ability to submit competitive bids is, to a large extent, dependent upon our production costs. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Our Results of Operations—Prices for our products in each of our business segments—Power generation"*.

Electricity distribution

We are the largest electricity distribution company in Ukraine based on the volume of electricity distributed to our end customers, which include households and commercial consumers in the Donetsk, Dnepropetrovsk and Crimean regions of Ukraine, and Kiev. In the years ended December 31, 2010, 2011 and 2012, we distributed approximately 13.3TWh, 14.1TWh and 53.9TWh, respectively, to our end customers which accounted for a 9.1%, 9.5% and 37.8% proportional share of electricity distribution in Ukraine (measured by TWh of electricity distributed) during each of those respective periods, according to the NERC. We purchase all our electricity from Energorynok on the wholesale electricity market. As of December 31, 2012, our power networks extended over a distance of approximately 158,700 kilometers.

We own and operate six electricity distributing companies, Servis-Invest, Energougol, Krymenergo, Donetskoblenergo, Dniprooblenergo and Kyivenergo. Our subsidiary, Dniprooblenergo, is the largest electricity distribution company in Ukraine based on the volume of electricity purchased and distributed. In 2012 it distributed 23.7TWh to customers, which accounted for a 14.9% proportional share of electricity distribution in Ukraine in 2012. Dniprooblenergo operates 12,466 transformer substations with a total transformer capacity of 11,218MVA and 47,181 kilometers of electricity lines in the Dnepropetrovsk regions of Ukraine. Our subsidiary, Energougol, has 1,178 kilometers of electricity lines in the Donetsk region of Ukraine and total transformer capacity of 471MVA, Servis-Invest has 2,719 kilometers of electricity line in the Donetsk and Dnepropetrovsk regions of Ukraine and total transformer capacity of 2,708MVA and Krymenergo has 30,502 kilometers of electricity lines in the Crimea and total transformer capacity of 6,044MVA. Our subsidiaries, Donetskoblenergo and Kyivenergo, have 63,209 kilometers of electricity lines in the Donetsk region and 11,378 kilometers of electricity lines in Kiev, respectively, and total transformer capacity of 12,291MVA and 6,929MVA, respectively.

We export electricity to Poland, Hungary, Romania, Slovakia, Moldova and Belarus through our subsidiaries, DTEK Power Trade, Skhidenergo and Trading LLC. In the years ended December 31, 2010, 2011 and 2012, we exported 1.2TWh, 5.1TWh and 9.7TWh, respectively. In 2012, our largest electricity export markets were Belarus (4.1TWh), Hungary (3.6TWh) and Poland (1.0TWh).

Our Strengths

We believe that our principal competitive strengths are as follows:

Leading market position in our fuel and energy markets in Ukraine

Our coal mining and enrichment, power generation and electricity distribution and sales business segments each hold the leading market position in Ukraine in their respective markets, according to Energobiznes, the Ministry of Energy. Our coal mines accounted for 46.1% and 28.0% of total Ukrainian coal production in 2012 and 2011, respectively, based on metric tons of coal produced, our power plants accounted for 28.5% and 9.7% of total Ukrainian power generation in 2012 and 2011, respectively, based on net output of electricity, and our electricity distribution and sales business accounted for 37.8% and 9.5% of total Ukrainian electricity distribution in 2012 and 2011, respectively, based on TWh of electricity distributed. We have consolidated our leading market position in recent years by acquiring new coal production assets and by participating in recent energy asset privatizations in the Ukrainian market to acquire additional interests in power generation and distribution and sales businesses. As a result, both our fuel resources base and our generation and distribution capacity have expanded relative to the rest of the Ukrainian market.

We believe that our strong reputation as the leading fuel and energy company in Ukraine and our large balance sheet of energy assets gives us an advantage over our smaller Ukrainian competitors when seeking to raise finance from banks and in the international capital markets, including for the purpose of acquiring additional assets and financing capital expenditure. In addition, in highly regulated sectors such as power generation and distribution, we consider that our established market presence and substantial operating experience is an advantage when bidding to acquire privatized assets (both in Ukraine and foreign markets, such as Russia) and when seeking to gain access to new international markets (such as Eastern Europe and the CIS) to make sales of coal and electricity.

We expect to be able to retain our leading market position in the Ukrainian fuel and energy markets in the near term as our competitors face significant barriers to entry into such markets, including the high cost of construction and the high cost of compliance with government regulation. We have invested in and modernized our coal mining and power generation facilities over the past few years in order to increase the

efficiency of such assets, thereby giving us a competitive advantage over state-owned and newly privatized coal mines and power generation companies, as well as over potential new market entrants who would be required to make significant investments over time to improve the efficiency of any coal mines and/or thermal power plants they acquire. In particular, we have invested in the modernization of our newly acquired energy assets in order to improve their productivity and we expect to continue to do so. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Our Strategy—Continue to invest in the modernization of our facilities and improve productivity and operational efficiency*". We believe that our leading market position and large portfolio of vertically integrated fuel and energy assets enables us to extract significantly higher synergies and maintain lower production costs than our Ukrainian competitors.

Efficient balanced vertically integrated group structure that results in increased profitability

We are the only vertically integrated energy group in Ukraine and one of the largest in Eastern Europe. Our vertically integrated organizational structure enables us to maximize the efficiency of our individual enterprises and helps us to ensure the quality and reliability of our production chain. For example, our coal production and coal enrichment business benefits from sales of steam coal, flexible coal stocks management, optimization of coal enrichment and transportation logistics as a result of stable sales to our power generation segment which, in turn, benefits from stable coal supplies. Vertical integration also enables us to minimize storage and transportation costs, centralize administrative functions, such as accounting, and access and allocate resources efficiently to maximize our production and profitability. We are able to extract synergies across our business units and reduce production costs relative to our smaller and non-integrated Ukrainian competitors. We believe this provides us with a significant advantage when submitting bids to Energorynok for sales of electricity produced by our power generation plants and enables us to increase our sales of electricity. Our portfolio of coal production and enrichment, power generation and electricity distribution and sales assets are carefully balanced, and we intend to ensure that such balance across our operating segments is maintained in the future as we continue to seek to expand our business, including through the acquisition of attractive new assets.

Strong financial performance

We recorded revenue and heat tariff compensation, Adjusted EBITDA and net profit of UAH82,581 million, UAH16,936 million and UAH5,922 million, respectively, for the period ended December 31, 2012, representing an increase of 108.57%, 64.73% and 68.14%, respectively, against the period ended December 31, 2011. Our revenue and Adjusted EBITDA increased by a compound annual growth rate of 84% and 65%, respectively, for the period 2010 to 2012. We believe that this increase is primarily the result of positive price and tariff dynamics and our strategic acquisition of energy assets and our management team's ability to integrate such acquisitions into our Group and extract synergies and improve operational efficiency. Despite this acquisition-driven expansion and the continued implementation of modernization and development programs at our production assets, our key financial leverage ratios have only increased moderately over the same period. In particular, our net debt to Adjusted EBITDA ratio increased from 0.61 in 2010 to 0.92 in 2012, and our gross debt to Adjusted EBITDA ratio increased from 0.89 in 2010 to 1.24 in 2012. We have achieved this strong financial performance despite volatile global and Ukrainian economic conditions and the challenge of integrating our newly acquired assets. We expect that our healthy financial position will enable us to raise additional financing on commercially attractive terms from bank lenders and in the international capital markets to fund our capital expenditure projects and to effect acquisitions, in order to improve our productivity, consolidate our leading market position in Ukraine and expand our business.

Experienced and committed strategic ownership

We are owned and controlled by SCM, a leading financial and industrial group in Ukraine, established and controlled by Mr. Rinat Akhmetov. We believe that our private ownership allows us to pursue innovation and respond to market changes more effectively than our primary competitors, which are state-owned enterprises, affording us a competitive advantage. Further, SCM manages and controls over 90 companies in the mining and metals, coal mining, power generation, electricity distribution, banking and insurance and telecommunications markets. Although the development of our businesses is entrusted to independent management at Holdings B.V., we still derive substantial benefit from the experience and strategic vision of our ultimate beneficial shareholder, Mr. Akhmetov, and from senior management at SCM, which continues to assist us in an advisory capacity.

Highly qualified management team and strong corporate governance

Our senior management team has a proven track record of identifying and acquiring attractive assets, increasing productivity and reducing costs. Our management team has helped us to successfully expand, restructure and integrate our businesses and operations and, as a result, has positioned us to continue to successfully implement our growth strategy. We believe that our senior management team is highly regarded by other industry participants and by our customers. In each of 2010, 2011 and 2012, our chief executive officer, Maksym Timchenko, was ranked in the top ten in the "Top 100 Best Top Managers of Ukraine" by Ukrainian magazine, Ekonomika, and in May 2009, he was ranked first in the "Top 100 Best Top Managers of Ukraine" by Ukrainian magazine, TOP-100 Rating. Our management has also established a strong corporate governance structure in accordance with international standards and practices, which consists of three branches: our holding company (Holdings B.V.), our corporate center (DTEK LLC) and our production enterprises. In addition, in 2010 and 2011, we implemented a new management model (separating responsibility for the Group's various commercial activities, centralizing procurement, and establishing a new management center with responsibility for discrete large project (such as the Botievo wind farm)) and a new Compliance Office and compliance policy. We believe that the resulting corporate structure and systems of checks and balances help to achieve an efficient and transparent governance system and corporate property ownership structure, create efficient mechanisms for making and transmitting strategic decisions in accordance with best international practice, improve operational efficiency at our production assets, reduce internal control risks and increase competitiveness and shareholder value.

Leader in implementing socially responsible policies that attract and retain high quality employees and improve safety and environmental performance

We maintain a social policy that we believe fosters positive relations with our employees, our trade unions and the communities in which we operate, which we believe has enabled us to attract and maintain high quality managers and staff. We have also implemented a strategic human resources program focused on retaining our employees and ensuring that we have a stable management structure, as well as ensuring efficient succession of management with high qualifications and experience. In recognition of our achievements in this area, we were voted "HR-Brand Ukraine 2011" in 2011. In addition, we believe that our focus on improving safety and environmental performance and achieving international standards has resulted in a lower likelihood of the occurrence of accidents involving our employees and less disruption of production at our mines, which leads to higher productivity and improved financial performance.

Our Strategy

Our strategy focuses on strengthening our position as the market leader in the fuel and energy sectors in Ukraine and expanding our operations into Europe, Turkey, Russia and the CIS. We aim to achieve our strategy by pursuing the following:

Continue to pursue privatization acquisition opportunities in Ukraine

We have significantly increased our fuel resource base and power generation and distribution capacity in recent years by acquiring assets through the Ukrainian government's privatization process. We intend to continue to seek opportunities to acquire additional privatized assets in the Ukrainian energy sector in the future, provided that any such acquired assets must complement our vertically integrated structure and enable us to extract operational synergies and efficiencies. Our management team and employees have considerable expertise and a strong track record of successfully integrating such acquisitions into our Group and implementing appropriate modernization and development programs and best practices in order to reduce production costs. Further, as a result of our large balance sheet and relatively moderate debt profile, we expect to continue to be able to raise more finance than our Ukrainian competitors (and on more attractive terms) to acquire such privatized assets and fund the capital expenditure necessary to modernize and further develop them.

Pursue selective growth in Europe, Turkey and the CIS

In addition to expanding our market presence in Ukraine, which will remain the key market for the Group in the foreseeable future, we intend to continue to seek to expand our business in Europe, Turkey and the CIS, both through organic growth and new acquisitions (to the extent attractive opportunities can be identified). The vast majority of our energy assets are located in Ukraine, which is ideally situated in an

important energy corridor between Europe and Russia. We intend to utilize this geographical advantage by, in particular, seeking to continue to expand our distribution and sales of electricity in Europe and increasing our coal reserves through the acquisition of coal mines in Western Russia. Coal mines in Western Russia would be suitable to service our existing thermal power plants in Ukraine and would not create significant logistical transportation problems as they would be located close to the Ukrainian border and near to our existing power plants. In June 2012, we acquired three coal mines in the Rostov region of Russia in order to increase our coal production and our coal reserves. Further, in the past two years we have started to expand our distribution and sales of electricity into European countries close to Ukraine, including Slovakia, Hungary, Romania, Belarus, Moldova and Poland. We generated revenue of UAH7,756 million from export sales in the year ended December 31, 2012, representing 9.9% of our total revenue.

Diversify our energy generation portfolio

We shall seek to further diversify our energy generation portfolio to ensure that we have a robust business model and that we maintain a fully-balanced vertically integrated group structure. As part of our long-term strategy, we intend to develop renewable sources of energy and are currently focused on the wind energy segment. For example, since 2011, we have committed a total of UAH1,826 million to develop renewable energy assets. Upon the completion of the Botievo wind farm, which is anticipated to commence operations in the first quarter of 2013, the project is expected to consist of 65 wind turbines with a total generation capacity of 195MW. By 2030, we intend to compile a renewable energy portfolio with a total capacity of 2000MW. Further, we currently have a 25.5% equity interest in Vanco, a company created for the purpose of participating in an offshore oil and gas exploration and production project in the Prykerchenska Block. On November 27, 2012, we entered into the Vanco SPA under which we agreed to purchase additional shares in Vanco, such purchase being conditional on the satisfaction of certain closing conditions set out therein, and which, if consummated, would result in our total shareholding exceeding 50%. We may also be interested in entering into other joint ventures with oil and gas companies where consistent with our business model and investment strategy.

Continue to invest in the modernization of our facilities and improve productivity and operational efficiency

We intend to continue to implement best practices and invest in the modernization of our facilities (in particular, the facilities of our newly privatized entities which, in general, are older and less efficient than our other facilities), which we believe will enhance our competitiveness in the fuel and energy markets and help us to comply with international environmental and health and safety standards. In particular, our capital expenditure will be focused on the development and modernization of our coal mines and power generation assets. Although we are already an industry leader in Ukraine in terms of operational efficiency and productivity, we understand that further improvements are required to bring our performance in line with prevailing European levels. This improvement will be vital as we seek to expand our business into European markets. We believe that further investments in advanced production technologies will further improve our facilities and provide long-term operational efficiency. We expect energy consumption to increase in the coming years and we believe that upgraded equipment and advanced technologies at our plants will allow us to satisfy consumer demand and compete with leading European power generation companies. In 2010, 2011 and 2012 we spent UAH2,220 million, UAH4,323 million and UAH10,193 million, respectively, on capital expenditures, and we currently expect to spend approximately UAH12,272 million and UAH10,846 million on capital expenditures in 2013 and 2014, respectively.

Focus on customer service in advance of the liberalization of the Ukrainian electricity market

We are seeking to create and implement a strong customer-centered culture with a focus on high levels of customer satisfaction and related policies and procedures. We believe that this will enhance our competitiveness. Although it is not yet clear exactly when and in what form the Draft WEM Law, the Amendments to the Law on Natural Monopolies and the Law on Connection to Networks will enter into force, we anticipate that the regulatory framework of the Ukrainian electricity and power generation market will change significantly over the next two to three years. We expect that the Ukrainian electricity market will switch from a single buyer (Energorynok) model to a more competitive model in which power generator companies will be able to sell electricity directly to end users and vertically integrated power generator and electricity distribution companies, such as the Group, will be required to unbundle their transmission and sales business in order to facilitate competition. We believe that by focusing on our customer service, our environmental compliance and our operational efficiency at this early stage, and in

contrast to many of our competitors, we will gain valuable experience and knowledge which we expect will benefit us in the anticipated competitive environment if and when it is established.

History

We are directly owned by SCM Limited, Ukraine's leading financial and industrial group operating in four main business areas: metals and mining, energy, banking and insurance and telecommunications. Our group was formed in 2006 through the integration of the energy assets of SCM. See *"History of Our Group"*.

Business Segments

Our group comprises four main business segments: coal mining (which includes coal enrichment), power generation, heat generation and electricity distribution and sales.

Coal mining

We own and have licenses to operate five of the largest coal mining companies in Ukraine based on output of coal.

Pavlogradugol operates 10 mines in the Dnipropetrovsk region, which are contiguous and effectively function as one operation. Pavlogradugol's oldest mine has been in operation since 1964 and its newest mine has been in operation since 1982. Pavlogradugol is the largest producer of coal in Ukraine based on output.

Komsomolets Donbassa operates the Komsomolets Donbassa Mine, one of the largest coal mines in Ukraine, and the largest single mine producer of steam coal in Ukraine based on output. Komsomolets Donbassa Mine is located in the Donetsk region has been in operation since 1980.

Dobropolyeugol operates five mines as part of an integrated mining complex that is situated in one of the largest industrial and mineral mining regions of Donbass. Dobropolyeugol's oldest mine has been in operation since 1930 and its newest mine has been in operation since 1968. We control Dobropolyeugol through a 49-year lease agreement that we entered into with the State Property Fund in January 2011.

Sverdlovanthracite and Rovenkyanthracite operate integrated anthracite mining and preparation enterprises that mine in the Donetsk and the Lugansk regions in the east of Ukraine. Sverdlovanthracite comprises five mines and three CEPs and Rovenkyanthracite has six mines and three CEPs. Both enterprises maintain mine ancillary divisions procuring the enterprises' operations, and Sverdlovanthracite also has a mine construction shop. Sverdlovanthracite's and Rovenkyanthracite's oldest mines have been in operation since 1923 and 1931, respectively, and their newest mines have been in operation since 1981 and 1957, respectively. In December 2011, we were awarded a forty-nine year concession for the use of Sverdlovanthracite and Rovenkyanthracite.

Bilozerska operates the Bilozerska Mine which is located in the Dobropolsky region of the Donetsk basin. Bilozerska Mine has been in operation since 1954. In addition, our Russian subsidiaries, Obukhovskaya, Don-Anthracite and Sulinanthracite, own and operate three coal mines and a CEP in the Rostov region of Russia and produce low-sulfur anthracite (the "**Rostov Mines**").

Coal Production

In 2010, 2011 and 2012, our mines collectively produced 19.1 million, 24.1 million and 39.7 million metric tons of coal, respectively, which accounted for approximately 25.5%, 28.0% and 46.1% of Ukraine's total coal production (measured by metric tons of coal produced) for those years, according to Energobiznes. Individually, in 2010, 2011 and 2012, Pavlogradugol contributed 78.5% (or 15 million metric tons), 64.2% (or 15.4 million metric tons) and 42.8% (or 17 million metric tons), while Komsomolets Donbassa contributed 21.5% (or 4.1 million metric tons), 17.5% (or 4.3 million metric tons) and 11.3% (or 4.5 million metric tons), respectively, to our aggregate coal production. In 2012, Sverdlovanthracite and Rovenkyanthracite together contributed 35.8% (or 14.2 million metric tons), to our aggregate coal production.

Substantially all of our coal mines have increased coal production levels during the last three years. Pavlogradugol increased its mining output from 15 million metric tons in 2010 to 17 million metric tons in 2012. Komsomolets Donbassa increased its mining production from 4.1 million metric tons in 2010 to 4.5 million metric tons in 2012. Sverdlovanthracite increased its mining output from 6.6 million metric tons

in 2011 to 6.9 million metric tons in 2012. We believe that there is potential to further increase productivity over the next few years by implementing key investment projects, improving our longwall mining techniques, improving operational logistics and introducing a new labor remuneration system.

The table below summarizes the amount of coal produced by our coal mining subsidiaries (and as a percentage of the total produced) for the periods listed below:

	Year ended December 31,					
	2010		2011		2012	
	Metric tons	Percentage	Metric tons	Percentage	Metric tons	Percentage
	Million metric tons, except percentages					
Pavlogradugol	15.0	78.5%	15.4	64.2%	17.0	42.8%
Komsomolets Donbassa	4.1	21.5%	4.3	17.5%	4.5	11.3%
Dobropolyeugol[1]	—	—	3.3	13.7%	3.3	8.3%
Rovenkyanthracite[2]	—	—	0.5	2.1%	7.3	18.4%
Sverdlovanthracite[3]	—	—	0.6	2.5%	6.9	17.4%
Bilozerska[4]	—	—	—	—	0.5	1.3%
Obukhovskaya, Don-Anthracite and Sulinanthracite[5]	—	—	—	—	0.2	0.5%
Total	**19.1**	**100%**	**24.1**	**100%**	**39.7**	**100%**

(1) On January 4, 2011, we entered into a 49-year lease agreement with the State Property Fund in respect of the mining assets operated by Dobropolyeugol. Dobropolyeugol's reserves data and production and sales volumes have been fully consolidated in our reserves data and production and sales volumes since January 1, 2011.

(2) On December 1, 2011, we entered into a 49-year concession agreement with the Ministry of Energy in respect of the mining assets operated by Rovenkyanthracite. Rovenkyanthracite's reserves data and production and sales volumes have been fully consolidated in our reserves data and production and sales volumes since December 1, 2011.

(3) On December 1, 2011, we entered into a 49-year concession agreement with the Ministry of Energy in respect of the mining assets operated by Sverdlovanthracite. Sverdlovanthracite's reserves data and production and sales volumes have been fully consolidated in our reserves data and production and sales volumes since December 1, 2011.

(4) On February 17 and 24, 2012, we completed transactions resulting in the acquisition of 95.4% of the share capital of Bilozerska. Bilozerska's reserves data and production and sales volumes have been fully consolidated in our reserves data and production and sales volumes since March 1, 2012.

(5) On June 30, 2012, we acquired the entire share capital of Obukhovskaya, Don-Anthracite and Sulinanthracite from Rostovsky Anthracite, LLC. Obukhovskaya's, Don-Anthracite's and Sulinanthracite's reserves data and production and sales volumes have been fully consolidated in our reserves data and production and sales volumes since July 1, 2012.

Coal Reserve Estimates

Our reserve estimates are based on our legal right to mine specified coal mines pursuant to state licenses. Ukraine's coal mining rights belong to the state, which then grants such rights to third parties who have applied for and been granted a license. The table below summarizes each of our coal mines' industrial reserves for 2010, 2011 and 2012 which are reflected in our annual standard form reports submitted to the relevant state authorities as required pursuant to our coal mining licenses issued by the Ukrainian government. Such reports are based on the balance reserve amounts set forth in our coal mining licenses issued by the Ukrainian government as subsequently adjusted by us by deducting (i) the amount of balance reserves that we consider should not be classified as industrial reserves, (ii) the amount of industrial reserves extracted from the mine in each subsequent year and (iii) any industrial reserves that we subsequently determine to have been improperly classified as industrial reserves and by adding (i) any additional industrial reserves that we have discovered during the course of mining or (ii) any additional industrial reserves that we have acquired from third parties or from the state. See *"Coal Reserves Reporting"*, *"Regulation—Coal Mining Regulations in Ukraine—Determining coal reserves"* and *"Risk*

Factors—Risks Relating to our Operations and Business—We face numerous uncertainties in estimating our industrial coal reserves and, as a result, such estimates may not be accurate".

	Year ended December 31,					
	2010		2011		2012	
	Reserves	Percentage	Reserves	Percentage	Reserves	Percentage
	Million metric tons, except percentages					
Pavlogradugol	671.1	85.4%	649.7	43.0%	652.9	38.5%
Komsomolets Donbassa	114.8	14.6%	114.7	7.6%	110.9	6.5%
Dobropolyeugol	—	—	369.5	24.5%	367.8	21.6%
Rovenkyanthracite	—	—	165.3	10.9%	162.9	9.6%
Sverdlovanthracite	—	—	211.9	14.0%	208.0	12.2%
Bilozerska	—	—	—	—	71.6	4.2%
Obukhovskaya, Don-Anthracite and Sulinanthracite	—	—	—	—	125.6	7.4%
Total	**785.9**	**100.0%**	**1,511.1**	**100.0%**	**1,699.7**	**100.0%**

While the reserve life of our coal mines vary, we estimate, based on our industrial reserves and the assumption of current extraction and production rates, that the average reserve life of Pavlogradugol's, Dobropolyeugol's, Sverdlovanthracite's and Rovenkyanthracite's mines is 52, 94, 40 and 33 years, respectively. Based on our industrial reserves, Komsomolets Donbassa Mine's reserve life is estimated to be 43 years, Bilozerska Mine's reserve life is estimated to be 90 years, Obukhovakaya's reserve life is estimated to be 92 years and Don-Anthracite's reserve life is estimated to be 45 years, in each case, assuming current extraction and production rates.

Coal extraction

There are a variety of coal extraction methods, including opencast mining, board and pillar mining, shortwall mining and longwall mining. The method used usually depends on the coal's seam characteristics and the coal's location. Coal extraction at our coal mines is carried out using the longwall method of mining, which is the most suitable method for underground mining. Longwall mining is a highly productive underground coal mining technique. Longwall mining uses a mechanized system whereby machines with multiple coal shearers are mounted on a series of self-advancing hydraulic ceiling supports. Longwall mining machines are approximately 240 meters in width and 1.5 to three meters tall and they extract panels (rectangular blocks of coal as wide as the mining machinery and as long as 3,650 meters). Extremely large shearers cut coal from a wall face, which falls onto a conveyor belt for removal. As a longwall mining machine advances along a panel, the roof behind the miner's path is allowed to collapse. The use of the fully mechanized longwall system is the standard method in the Western Donbass area for the extraction of the thin coal seams commonly found there.

Types of coal produced

Our mines produce both steam and coking coal. Steam coal is used for power generation in thermal power plants after undergoing an enrichment process while coking coal is primarily used in the production of steel. Pavlogradugol, Dobropolyeugol and Bilozerska produce steam coal (long-flame gas coal and gas coal grades) and coking coal. For the year ended December 31, 2012, the average ash content in coal produced by Pavlogradugol, Dobropolyeugol and Bilozerska was 26.6%, 22.6% and 33.0%, respectively. Low ash content is desirable for coal used in thermal power plants because ash lowers the heating value of coal and presents disposal problems after burning.

Sverdlovanthracite, Rovenkyanthracite and the Rostov Mines produce anthracite coal which is a hard, compact type of steam coal with the highest carbon content and the fewest impurities of all coals. Anthracite coal is also used in thermal power plants. For the year ended December 31, 2012, the average ash content in coal produced by Sverdlovanthracite and Rovenkyanthracite was 19.5% and 15.5%, respectively.

Komsomolets Donbassa's mine produces meager grade coal, a type of steam coal that has a high-quality chemical composition. Its heat conducting ability is very close to that of anthracite coal. Komsomolets Donbassa's average ash content in its coal production for the year ended December 31, 2012 was 25.6%, making it the producer of coal with the lowest ash content in Ukraine compared to the other largest coal producers in Ukraine.

In the years ended December 31, 2010, 2011 and 2012, our mines produced 1.1 million, 0.9 million and 0.6 million metric tons, respectively, of marketable coking coal and 11.2 million, 16.1 million and 26.7 million metric tons, respectively, of marketable steam coal.

The following table sets out the metric tons of G grade coal, A grade coal and T grade coal produced by our coal mining subsidiaries for the years ended December 31, 2010, 2011 and 2012:

	Year ended December 31,		
	2010	2011	2012
	Million metric tons		
G grade coal	15.0	18.7	20.8
A grade coal	0.0	1.1	14.4
T grade coal	4.1	4.3	4.5

Production of coking coal may vary, since gas grade coal mined by Pavlogradugol and Dobropolyeugol has dual purpose which means it may be enriched to steam or coking coal depending on market demand for each type.

The following table sets out the average prices of coal produced by certain of our coal mining subsidiaries for the years ended December 31, 2010, 2011 and 2012:

	Year ended December 31,					
	2010		2011		2012	
	Coking coal	Steam Coal	Coking coal	Steam Coal	Coking coal	Steam coal
	UAH / metric ton					
Pavlogradugol (G grade coal)	912.0	602.1	1051.0	798.5	870.7	856.1
Komsomolets Donbassa (A grade coal)	—	593.0	—	752.7	—	845.8
Komsomolets Donbassa (T grade coal)	—	606.8	—	773.1	—	868.9
Dobropolyeugol, including Bilozerska (G grade coal)	—	—	1051.0	798.5	870.7	856.1
Rovenkyanthracite (A grade coal)	—	—	—	752.7	—	845.8
Rovenkyanthracite (T grade coal)	—	—	—	773.1	—	868.9
Sverdlovanthracite (A grade coal)	—	—	—	752.7	—	845.8
Sverdlovanthracite (T grade coal)	—	—	—	773.1	—	868.9
Obukhovskaya (A grade calorie coal)	—	—	—	—	—	492.7
Obukhovskaya (A grade carbon coal)	—	—	—	—	—	1131.4
Don-Anthracite and Sulinanthracite	—	—	—	—	n/a	n/a

Equipment and suppliers

Our coal mining companies primarily purchase mining equipment, scaffolds, metal to support underground roadways for our machines and various types of cable. We have established relationships with our key suppliers, and do not believe we are dependent on any one supplier. In addition, our mines maintain back-up and spare pieces of equipment for all of our production equipment, so that in the event of a break down we are able to replace the broken equipment quickly to avoid significant production delays or stoppages.

Transportation

We use railway transportation in Ukraine to transport raw materials to and from our mines and to deliver coal to our customers. We use the Ukrainian railway freight network and railway wagons operated by both the state enterprises managed by the State Administration of Railroad Transportation of Ukraine ("**Railway Transportation of Ukraine**") and Lemtrans LLC ("**Lemtrans**"), which is controlled by SCM. See *"Related Party Transactions"*. Railway Transportation of Ukraine and Lemtrans transported approximately 40% and 50%, respectively, of our total aggregate rail freight in 2012. Freight prices for all Ukrainian rail freight operators are calculated as the product of (i) the applicable railway transportation tariffs, which tariffs are set periodically by the Ministry of Infrastructure of Ukraine (the "**MIU**") and which vary according to the distance freight is transported and the total volume of freight transported, and (ii) a specific price adjustment co-efficient for each individual freight operator, which adjustment co-efficient is set by the MIU. Our average freight costs for freight transported by Lemtrans were approximately UAH139 million, approximately UAH554 million and UAH650 million in 2010, 2011 and 2012,

respectively, and for freight transported by Railway Transportation of Ukraine was UAH152.9 million, UAH231.4 million and UAH535 million in 2010, 2011 and 2012, respectively. On average, the cost for our thermal power plants is UAH83.7 per ton per kilometer. Although railway transportation tariffs are subject to anti-monopoly control, railway tariffs for freight increase periodically, resulting in increases in our transportation costs. The railway tariffs were most recently increased in 2011 by 24.3%. As a result, as of December 31, 2012, the average railway tariff comprised 7% of our production cost of power generation because our thermal power plants purchased the coal from our coal mines and therefore paid for the transportation costs. However, due to the proximity of our coal mines to our power plants, even large increases in railway tariffs have only a moderate impact on our production costs.

Customers and sales

Our coal producing subsidiaries (except for the Rostov Mines) supply the coal they produce primarily to our thermal power plants, thereby reducing our power generation segment's reliance on third party coal supplies and ensuring a reliable customer for the steam coal that we produce.

The rest of the coal produced by our mines is supplied to the local market or exported, including to thermal power plants, coke-chemical and metal production plants in Ukraine and thermal power plants and industrial enterprises in Poland, Moldova, Bulgaria, Slovakia and Turkey. We supply coal to both domestic and foreign customers. The largest domestic customers are entities controlled by the SCM Group, primarily Metinvest's subsidiaries, such as Azovstal, Illyicha Metallurgical Plant, Enakievskyi Metallurgical Plant, Avdeyevsky CCP and Zaporozhkoks, whilst unrelated customers include Ugol Ukrainy, Evraz and Krymskyi Soda Plant. Our key foreign customers are Glencore, Vitol and Metcoal Trading.

Our subsidiaries sell coal to third parties on a prepayment basis pursuant to long-term contracts. The long-term contracts with these customers may be terminated at will by either party. Because of the shortage of high-quality coal produced as compared to demand, we do not believe that the loss of any of our largest third-party customers would have a material effect on our results of operations.

The following table sets out the metric tons of coal sold by our coal mining subsidiaries to our power generation subsidiaries for internal consumption and to third parties as external sales for the years ended December 31, 2010, 2011 and 2012:

	Year ended December 31,					
	2010		2011		2012	
	Coal sales	Percentage	Coal sales	Percentage	Coal sales	Percentage
	Million metric tons, except percentages					
Internal consumption	10.8	76.6%	9.6	52.7%	24.6	79.4%
External sales	3.3	23.4%	8.6	47.3%	6.4	20.6%

Coal enrichment

Coal enrichment is the process by which ROM coal is treated to create a consistent quality and to enhance its suitability for particular end uses as well to remove impurities such as ash. Coal enrichment is undertaken by our 13 CEPs, including Pavlogradskaya CEP, Mospinskoye CEP, Kurahovskaya CEP, Oktyabrskaya CEP and Dobropolskaya CEP located in the Donetsk, Dnipropetrovsk and Lugansk regions of Ukraine, and the Rostov region of the Russian Federation, which are our most significant CEPs measured by total volume of coal processed. The total volume of coal processed by our coal enrichment plants in the years ended December 31, 2010, 2011 and 2012 was approximately 16.3, 17.6 and 31.7 million metric tons of ROM coal, respectively, and total coal concentrate production amounted to 10.9, 11.9 and 21.6 million metric tons, respectively, during the same periods.

Pavlogradskaya CEP has been operating since 1974. Pavlogradskaya CEP enriches long-flame gas coal, gas grade coal and anthracite coal to produce concentrates for pulverized coal injection combustion at our thermal power plants and for coke production. In addition, it also prepares high-quality fuel for household needs. Pavlogradskaya CEP is linked by conveyors to two of Pavlogradugol's mines. Pavlogradskaya CEP is one of the largest coal enrichment facilities in Ukraine, with installed capacity of 3.8 million metric tons of ROM coal per year. Pavlogradskaya CEP operates a full cycle of enrichment: heavy-medium separation, jigging and flotation. In 2012, Pavlogradskaya CEP processed 3.8 million metric tons of ROM coal and produced 2.3 million metric tons of coal concentrate. Pavlogradskaya CEP's main customers include our subsidiaries Skhidenergo, Dniproenergo and Zakhidenergo.

Mospinskoye CEP has been operating since 1962. Mospinskoye CEP enriches meager grade coal to produce concentrate for combustion at our thermal power plants. Mospinskoye's installed capacity is 1.7 million metric tons of ROM coal per year. Mospinskoye CEP uses the heavy-medium separation, jigging and enrichment in dense media methods of coal enrichment, though Mospinskoye CEP's facilities are equipped to perform the flotation method as well. In 2012, Mospinskoye CEP processed 1.7 million metric tons of ROM coal and produced 1.2 million metric tons of coal concentrate. The main consumers of Mospinskoye CEP's concentrate are our subsidiaries Skhidenergo, Dniproenergo and Zakhidenergo.

Kurakhovskaya CEP has been operating since 1963. Kurakhovskaya CEP enriches long-flame gas coal and gas coal to produce concentrate for combustion at our thermal power plants. It has annual installed capacity of 2.3 million metric tons of ROM coal. Kurakhovskaya CEP uses the jigging and enrichment in dense media methods of coal enrichment. In 2012, Kurakhovskaya CEP processed 2.2 million metric tons of ROM coal and produced 1.5 million metric tons of coal concentrate. Skhidenergo, Dniproenergo and Zakhidenergo are the principle customers for Kurakhovskaya CEP's concentrate.

Oktyabrskaya CEP has been operating since 1961. Oktyabrskaya CEP enriches long-flame gas coal and gas coal to produce concentrate for combustion at our thermal power plants and the making of coke at Ukrainian coke plants. The plant's original installed capacity allowed for only 1.2 million metric tons of ROM coal to be processed annually; however, due to equipment improvements, the plant's installed capacity increased to 2 million metric tons of ROM coal. Oktyabrskaya CEP applies such enrichment methods as heavy-medium separation, jigging and flotation. In 2012, Oktyabrskaya CEP processed 2 million metric tons of ROM coal and produced 1.3 million metric tons of coal concentrate. The main consumers of its concentrate are our subsidiaries Dniproenergo and Zakhidenergo, as well as Avdeyevsky CCP, Azovstal, Alchevsky CCP and Zaporozhkoks.

Dobropolskaya CEP has been operating since 1952. Dobropolskaya CEP enriches gas grade coal from Dobropolyeugol's mines and also the state-owned Kransoarmeiskugol mines, for coking purposes. Since the start of its operations, a number of major overhauls were carried out, including building loading premises, a mechanized precipitation unit, a flotation and filtration unit, a drying unit, a sludge tank and a transportation chain to deliver ROM coal to the enrichment plant, which resulted in savings of fuel and energy resources. Dobropolskaya CEP employs a two-stage jigging process and the flotation method to enrich the coal. It has annual installed capacity of 3.3 million metric tons of ROM coal. In 2012, Dobropolskaya CEP processed 3.5 million metric tons of ROM coal and produced 2.2 million metric tons of coal concentrate. Dobropolskaya CEP primarily supplies concentrate to our subsidiaries Dniproenergo and Zakhidenergo and also to Avdeyevsky CCP, Azovstal, Alchevsky CCP and Zaporozhkoks.

In addition to the above coal enrichment plants, Komsomolets Donbassa, Sverdlovanthracite, Rovenkyanthracite and the Rostov Mines have their own coal enrichment facilities. Komsomolets Donbassa's coal enrichment facilities enable it to produce coal with low-ash content. Sverdlovanthracite and Rovenkyanthracite each have three coal enrichment plants with aggregate installed capacity of 14.3 million metric tons of ROM coal per year. Most of the concentrate produced at Sverdlovanthracite's and Rovenkyanthracite's enrichment plants is delivered to our subsidiaries Skhidenergo and Dniproenergo, as well as to Donbassenergo and Ukrainian metallurgical companies.

Coal Exports

For the years ended December 31, 2010, 2011 and 2012, we exported 2 million, 3.4 million and 2.8 million metric tons of coal, respectively, representing approximately 14%, 19% and 10% of our total coal sales in 2010, 2011 and 2012, respectively. In 2012, we exported approximately 16%, 5%, 5%, 11%, 5% and 48% of our total coal exports to Turkey, India, Egypt, Russia, the United States and countries in Europe, respectively, through our subsidiary, Trading LLC. Our foreign customers of coal include thermal power plants and commercial consumers.

Power generation and heat generation

Our power generation subsidiaries, Skhidenergo, Dniproenergo, Zakhidenergo and Kyivenergo, and our electricity distribution subsidiary, Donetskoblenergo, own and operate ten thermal power plants and two combined heat and power plants comprising 66 power generation units with total installed capacity of 18.2GW. In 2010, 2011 and 2012, we generated a total of 16.3TWh, 17.1TWh and 51.4TWh of electricity, respectively, which accounted for approximately 9.5%, 9.7% and 28.5%, respectively, of total Ukrainian power generation (measured by net output of electricity), according to Ukrenergo.

Skhidenergo

Skhidenergo, our wholly-owned subsidiary, operates three thermal power plants: Zuevskaya TPP and Kurakhovskaya TPP which operate in the Donetsk region and Luganskaya TPP which operates in the Lugansk region.

Facilities and Production

The installed capacity of the power plants operated by Skhidenergo (or the average energy its thermal power plants can produce over a period of a year if operated at maximum capacity without stoppage) is 4,157MW. In 2009 and 2010, the facilities in some of Skhidenergo's plants were modernized which caused the installed capacity to increase by 32MW and 40MW, respectively. The plants' installed capacity aggregates the capacity of 17 power units (two power units are inoperative). Details of these power units are shown in the table below.

Power Plant	Commissioning Date / Last Overhaul	Installed Capacity
Zuevskaya TPP		
Unit 1	1982 / 2010	325 MW
Unit 2	1982 / 2009	320 MW
Unit 3	1986 / 2006	300 MW
Unit 4	1988 / 2005	300 MW
Kurakhovskaya TPP		
Unit 3	1972 / 2007	200 MW
Unit 4	1973 / 2004	210 MW
Unit 5	1973 / 2008	222 MW
Unit 6	1973 / 2005	210 MW
Unit 7	1974 / 2010	225 MW
Unit 8	1974 / 2003	210 MW
Unit 9	1975 / 2006	210 MW
Luganskaya TPP		
Unit 4	1956 / inoperative	—
Unit 9	1962 / 2007	200 MW
Unit 10	1962 / 1999	175 MW
Unit 11	1963 / 2004	200 MW
Unit 12	1967 / inoperative	—
Unit 13	1968 / 2003	175 MW
Unit 14	1968 / 2006	200 MW
Unit 15	1969 / 2005	200 MW

In 2010, 2011 and 2012, Skhidenergo power plants collectively generated 16.3TWh, 17.1TWh and 15.7TWh respectively (in terms of net output). This amounted to a utilization rate of 49.7%, 50.0% and 47.4% for the years ended December 31, 2010, 2011 and 2012, respectively. In 2012, Skhidenergo had a proportional share of approximately 8.7% of power generation in Ukraine (in terms of net output), according to Ukrenergo.

Suppliers

The primary fuel used by Skhidenergo's plants is coal supplied by our coal mining subsidiaries. On average, approximately 90% of coal used by Skhidenergo is mined by our mining companies while the rest is purchased from third-party suppliers, including Ugol Ukrainy. Zuevskaya TPP and Kurakhovskaya TPP use gas grade coal, and Luganskaya TPP uses anthracite and meager grade coal. Since 2005, gas has only been used at the power plants for starting the power units.

Customers

Skhidenergo sells all of the electricity produced by its power plants to Energorynok, the Ukrainian state-owned electricity metering and distribution pool, at prices determined by NERC. For a description of the mechanism for determining electricity prices, see *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Our Results of Operations—Prices for our products in each of our business segments—Power generation"*.

In addition to selling electricity on the wholesale market, Skhidenergo sells heat in the form of hot water, which is a by-product of generating energy, to local customers. The Zuevskaya TPP supplies heat to the village of Zugres, the Kurakhovskaya TPP supplies heat to the town of Kurakhovo and the Luganskaya TPP supplies heat to the town of Schastie.

Dniproenergo

Dniproenergo operates three thermal power plants: Zaporozhskaya TPP which operates in the Zaporizhya region and Krivorozhskaya TPP and Pridneprovskaya TPP which operate in the Dnipropetrovsk region. We currently own 73.30% of Dniproenergo following the acquisition of a 25% stake pursuant to a privatization tender held in January 2012.

Facilities and Production

The installed capacity of the plants operated by Dniproenergo is 8,185MW. In addition, installed heating capacity of Dniproenergo's power plants is 1,983Gcal/h, including 845Gcal/h at Pridneprovskaya TPP, 788Gcal/h at Zaporozhskaya TPP and 350Gcal/h at Krivorozhskaya TPP.

Electricity capacity aggregates the installed capacity of 25 power units used by Dniproenergo's thermal power plants to generate power. Details of these power units are shown in the table below.

Power Plant	Commissioning Date / Last Overhaul	Installed Capacity
Zaporozhskaya TPP		
Unit 1	1971 / 2010	300MW
Unit 2	1971 / 2006	300MW
Unit 3	1972 / 1999	300MW
Unit 4	1972 / 2002	300MW
Unit 5	1974 / 1995	800MW
Unit 6	1974 / 1993	800MW
Unit 7	1975 / 1992	800MW
Krivorozhskaya TPP		
Unit 1	1963 / 1993	282MW
Unit 2	1964 / 1998	282MW
Unit 3	1965 / 1993	282MW
Unit 4	1966 / 2005	282MW
Unit 5	1967 / 1994	282MW
Unit 6	1968 / 1995	282MW
Unit 7	1968 / 1991	282MW
Unit 8	1969 / 1996	282MW
Unit 9	1971 / 1994	282MW
Unit 10	1972 / 1992	282MW
Pridneprovskaya TPP		
Unit 7	1958 / 2000	150MW
Unit 8	1958 / 2007	150MW
Unit 9	1959 / 1995	150MW
Unit 10	1960 / 2006	150MW
Unit 11	1962 / 2001	310MW
Unit 12	1963 / 1996	285MW
Unit 13	1964 / 1997	285MW
Unit 14	1965 / 1993	285MW

In 2010, 2011 and 2012, Dniproenergo power plants collectively generated 14.3TWh, 15.8TWh and 16.2TWh (in terms of net output), respectively. This amounted to a utilization rate of 21.9%, 24.1% and 24.6% for the years ended December 31, 2010, 2011 and 2012, respectively. In 2012, Dniproenergo had a proportional share of approximately 9.0% of total power generation in Ukraine (in terms of net output), according to Ukrenergo.

Suppliers

Dniproenergo's power plants are predominantly coal-fired with gas and fuel oil comprising only approximately 2% of their fuel base. Krivorozhskaya TPP and Pridneprovskaya TPP use meager grade coal while Zaporozhskaya TPP uses gas grade coal. Approximately 73% of coal is supplied by our coal mining companies with the remainder purchased from Ugol Ukrainy and other private coal producers.

Customers

Dniproenergo sells all of the electricity produced by its power plants to Energorynok at prices determined by NERC. In addition to selling electricity on the wholesale market, Dniproenergo supplies heating to the towns of Energodar and Zelenodolsk and some districts of the city of Dnipropetrovsk. Its main consumers are public utilities, legal entities and households. Heating is distributed and transmitted through heating pipelines that are primarily state-owned.

Zakhidenergo

Zakhidenergo operates three thermal power plants: Burshtynskaya TPP in Ivano-Frankivsk region, Dobrotvorskaya TPP in the Lviv region and Ladyzhinskaya TPP in the Vinnitsya region and one hydro power plant which operates in the Vinnitsya region. We currently own 72.19% of the shares in Zakhidenergo following the acquisition of a 45.10% stake pursuant to a privatization tender held in January 2012.

Facilities and Production

The installed capacity of the plants operated by Zakhidenergo is 4,628MW. This capacity aggregates the installed capacity of 22 power units used by Zakhidenergo's thermal power plants to generate power. Details of these power units are shown in the table below.

Power Plant	Commissioning Date / Last Overhaul	Installed Capacity
Burshtynskaya TPP		
Unit 1	1968 / 2010	195MW
Unit 2	1965 / 2008	185MW
Unit 3	1966 / 2008	185MW
Unit 4	1966 / 2007	195MW
Unit 5	1967 / 1998	195MW
Unit 6	1967 / 2010	185MW
Unit 7	1968 / 2012	185MW
Unit 8	1968 / 2009	195MW
Unit 9	1968 / 2006	195MW
Unit 10	1969 / 2004	195MW
Unit 11	1969 / 2011	195MW
Unit 12	1969 / 2002	195MW
Dobrotvorskaya TPP		
Unit 5	1960 / 2010	100MW
Unit 6	1961 / 2009	100MW
Unit 7	1963 / 2011	150MW
Unit 8	1964 / 2007	150MW
Ladyzhinskaya TPP		
Unit 1	1970 / 2007	300MW
Unit 2	1971 / 2009	300MW
Unit 3	1971 / 2011	300MW
Unit 4	1971 / 2001	300MW
Unit 5	1971 / 2003	300MW
Unit 6	1971 / 2004	300MW

In 2010, 2011 and 2012, Zakhidenergo power plants collectively generated 10.2TWh, 12.6TWh and 15.0TWh (in terms of net output), respectively. This amounted to a utilization rate of 28.2%, 34.4% and 41.0% for the years ended December 31, 2010, 2011 and 2012, respectively. In 2012, Zakhidenergo had a

proportional share of approximately 8.3% of total power generation in Ukraine (in terms of net output), according to Ukrenergo.

Suppliers

Gas grade coal makes up approximately 98% of Zakhidenergo's fuel mix, the rest being gas and fuel oil. In 2012, 92% of all coal was supplied by our coal producing companies and the balance was provided by Ugol Ukrainy.

Customers

Zakhidenergo sells all of the electricity produced by its power generation plants to Energorynok at prices determined by NERC. Burshtynskaya TPP operates in the UCTE/CENTREL unified European power system, satisfying domestic consumption needs and exporting up to 650MW of electricity. In addition to selling electricity, Zakhidenergo supplies heat to residential areas in the regions where its power plants are located.

Kyivenergo

Kyivenergo operates two combined heat and power plants, CHPP-5 and CHPP-6, which produce heat and electricity for the City of Kyiv. Kyivenergo operates a full-cycle integrated process that includes the generation of power and heat, transmission, distribution and sale of electricity and heat to end consumers. We currently own 72.33% of the shares in Kyivenergo following the acquisition of a 25% stake pursuant to a privatization tender held in December 2011.

Facilities and Production

The installed capacity of the plants operated by Kyivenergo is 1,200MW. In addition, CHPP-5 and CHPP-6 have facilities for generating heat power with aggregate installed capacity of 8,725 Gcal/h. Electricity capacity aggregates the installed capacity of 6 power units used by Kyivenergo's thermal power plants to generate power. Details of these power units are shown in the table below.

Power Plant	Commissioning Date / Last Overhaul	Installed Capacity
CHPP-5		
Unit 1	1971 / 2009	100MW
Unit 2	1972 / 2007	100MW
Unit 3	1974 / 2010	250MW
Unit 4	1976 / 2008	250MW
CHPP-6		
Unit 1	1982 / 2009	250MW
Unit 2	1984 / 2010	250MW

In 2010, 2011 and 2012, Kyivenergo power plants collectively generated 4.7TWh, 5.1TWh and 4.7TWh (in terms of net output), respectively. This amounted to a utilization rate of 45.0%, 49.0% and 45.0% for the years ended December 31, 2010, 2011 and 2012, respectively. In 2010, 2011 and 2012, Kyivenergo power plants collectively generated 8.1 thousand Gcal, 7.7 thousand Gcal and 7.6 thousand Gcal of heat, respectively. In 2012, Kyivenergo had a proportional share of approximately 2.3% of total power generation in Ukraine (in terms of net output), according to Ukrenergo.

Suppliers

To generate electricity and heat, Kyivenergo's power plants burn natural gas which is primarily acquired from Naftogaz of Ukraine.

Customers

Kyivenergo sells all of the electricity produced by its power plants to Energorynok at prices determined by NERC. Heat is distributed to end consumers (households and commercial consumers in the City of Kyiv) from Kyivenergo's production facilities through a network of pipes totaling 4,500 km in length. Kyivenergo maintains 19 booster pumping stations that guarantee hydraulic operation and operates 2,400 heating distribution centers.

Donetskoblenergo

Our electricity distribution subsidiary, Donetskoblenergo, operates one thermal power plant, Myronovskaya TPP, which produces heat and electricity for the Donetsk region of Ukraine. We currently own 71.35% of the shares in Donetskoblenergo following the acquisition of a 40.061% stake pursuant to a privatization tender held in January 2012.

Facilities and Production

The installed capacity of Myronovskaya TPP is 275MW and 350Gcal/h. Electricity capacity aggregates the installed capacity of the 3 power units used by Myronovskaya TPP to generate power. Details of these power units are shown in the table below.

Power Plant	Commissioning Date / Last Overhaul	Installed Capacity
Myronovskaya TPP		
Unit 1	1953 / 2004	100MW/140Gcal/h
Unit 2	1954 / 1998	60MW/70Gcal/h
Unit 3	2004 / 2009	115MW/140Gcal/h

In 2010, 2011 and 2012, Myronovskaya TPP generated 474kWh, 495kWh and 494kWh (in terms of net output), respectively. This amounted to a utilization rate of 19.68%, 20.58% and 20.47% for the years ended December 31, 2010, 2011 and 2012, respectively. In 2010, 2011 and 2012, Myronovskaya TPP generated 35.6 thousand Gcal, 39.4 thousand Gcal and 37.1 thousand Gcal of heat, respectively. In 2012, Myronovskaya TPP had a proportional share of approximately 0.2% of total power generation in Ukraine (in terms of net output), according to Ukrenergo.

Suppliers

To generate electricity and heat, Myronovskaya TPP burns coal which is primarily acquired from Pavlogradugol and Komsomolets Donbassa.

Customers

All electricity produced by Myronovskaya TPP is sold to Energorynok at prices determined by NERC. Heat is distributed to end consumers (households and commercial consumers in the Donetsk region) from Myronovskaya TPP's production facilities through a network of pipes totaling 32.7km in length.

Equipment

To generate electricity, we also use steam boilers, turbines, generators and transformers. All of our thermal power plants generate electric and thermal power using similar equipment. Most of the boilers used at our thermal power plants are made by the Taganrog boiler constructing plant Krasny Kotelshchik, JSC, the largest boiler manufacturer in Russia and in the CIS and one of the leading companies in the business worldwide. Our turbines are made by TurboAtom OJSC in Kharkiv, Ukraine and Leningrad Metal Work Plant OJSC in St. Petersburg, Russia. TurboAtom OJSC is Ukraine's leading turbine producing company. Our generators are made by SE Plant Electrotyazhmash, a global brand operating since 1946. Our transformers are made by Zaporizhzhya Transformer Plant, a leading company specializing in transformers and related power equipment. We maintain spare parts for most of our major equipment to avoid time-delays in our productivity should we experience equipment failure and need to reorder equipment.

Electricity distribution

Our electricity distribution and sales business segment comprises six electricity distribution subsidiaries: Servis-Invest, Energougol, Dniprooblenergo, Donetskoblenergo, Krymenergo and Kyivenergo, the latter also being an electricity producer.

Our electricity distribution networks cover the Donetsk and Dnipropetrovsk regions, Crimea and the City of Kyiv. The total length of our networks is 156,525 km. We purchase electricity from Energorynok and supply it to approximately 5.2 million end customers, including iron and steel, coal and engineering companies, organizations and households in the cities of Kyiv and Donetsk, the Donetsk and Dnipropetrovsk regions, and Crimea.

Servis-Invest maintains 2,719 km of electricity transmission lines and 93 transformer substations with aggregate capacity of 2,708MVA. Service-Invest's networks are in the Donetsk and Dnipropetrovsk regions. Energougol has 1,178 km of electricity transmission lines, 11 transformer substations (35-110 kV) and 396 transformer substations and distribution centers (6-10 kV) with an aggregate capacity of 471MVA. Energougol's network is located in the Donetsk region.

Donetskoblenergo's electricity transmission lines cover 63,209 km and it has 13,112 transformer substations with a combined capacity of 12,291MVA. Donetskoblenergo provides electricity to the Donetsk region. We own a 71.3% interest in Donetskoblenergo following the acquisition of a 40.1% stake pursuant to a privatization tender held in January 2012.

Dniprooblenergo has 47,181 km of electricity transmission lines of all voltage classes, 12,466 transformer substations with a combined capacity of 11,034MVA. Dniprooblenergo is the largest electricity distribution company in Ukraine by volume, according Ukrenergo. Dniprooblenergo provides electricity to the Dnipropetrovsk region. We own a 51.6% interest in Dniprooblenergo following the acquisition of a 50% stake pursuant to a privatization tender held in April 2012.

Kyivenergo's overhead and cable electricity transmission lines comprised 11,742 km. Kyivenergo has 3,643 transformer substations with a total capacity of 6,929MVA. Kyivenergo supplies electricity to the City of Kyiv. We own a 72.4% interest in Kyivenergo following the acquisition of a 25% stake pursuant to a privatization tender held in December 2012.

Krymenergo operates in Crimea and has 30,502 km of electricity transmission lines and 8,988 substations with a total capacity of 6,044MVA. We own a 57.6% interest in Dniprooblenergo following the acquisition of a 45% stake pursuant to a privatization tender held in May 2012.

Volumes purchased, distributed and transmitted

Our electricity distribution companies purchase all of the electricity they distribute from Energorynok at the unified wholesale market price pursuant to standard form state-regulated contracts. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Our Results of Operations—Prices for our products in each of our business segments—Electricity distribution"*. Our largest buyers of electricity are Dniprooblenergo, Donetskoblenergo and Kyivenergo whose purchases of electricity from Energorynok in 2012 amounted to 14.9%, 6.2% and 5.8%, respectively, of the total purchases made from Energorynok.

In the years ended December 31, 2010, 2011 and 2012, we distributed approximately 13.3TWh, 14.1TWh and 53.9TWh, respectively to our end customers, which accounted for a proportional share of 9.1%, 9.5% and 37.8% of total electricity distribution in Ukraine (measured by TWh of electricity distributed) during each of those respective periods, according to Ukrenergo. In 2012 we distributed electricity to approximately 5.1 million households and 133 thousand commercial customers.

The following table sets out the volumes distributed by our electricity distribution subsidiaries to end customers (and as a percentage of the total distributed by the Group) for the periods listed below:

	Year ended December 31,					
	2010		2011		2012	
	TWh	Percentage	TWh	Percentage	TWh	Percentage
	Millions, except percentages					
Servis-Invest	12.2	91.7	13.0	92.2	11.5	21.3
Energougol[1]	1.1	8.3	1.1	7.8	1.1	2.0
Dniprooblenergo[2]	—	—	—	—	18.2	33.8
Donetskoblenergo[3]	—	—	—	—	10.3	19.2
Krymenergo[4]	—	—	—	—	3.2	5.9
Kyivenergo[5]	—	—	—	—	9.6	17.8
Total	13.3	100%	14.1	100%	53.9	100%

(1) We currently own 94.24% of the share capital of Energougol.

(2) Dniprooblenergo's distribution volumes have been fully consolidated in our distribution volumes since April 2012, as we acquired a 50% interest in Dniprooblenergo pursuant to a privatization tender on April 17, 2012. We currently own 51.51% of the share capital of Dniprooblenergo.

(3) Donetskoblenergo's distribution volumes have been fully consolidated in our distribution volumes since January 2012, as we acquired an additional 40.061% interest in Donetskoblenergo in January 2012. We currently own 71.35% of the share capital of Donetskoblenergo.

(4) Krymenergo's distribution volumes have been fully consolidated in our distribution volumes since May 2012, as we acquired a 45.0% interest in Krymenergo pursuant to a privatization tender on May 4, 2012. We currently own 57.60% of the share capital of Krymenergo.

(5) Kyivenergo's distribution volumes have been fully consolidated in our distribution volumes since January 1, 2012, as we acquired an additional 25.5% interest in Kyivenergo on December 13, 2011. We currently own 72.33% of the share capital of Kyivenergo.

In addition to distributing electricity to our end customers, we also transmit electricity purchased from Energorynok by third parties to such third parties' end customers who are located within our networks, for which we charge transmission fees. In 2012, our distribution companies transmitted approximately 0.5TWh of electricity to third party end customers in Ukraine, compared to 0.01TWh in both 2011 and 2010.

The losses our electricity distribution companies experience when distributing and transmitting electricity vary and are caused by the electrical resistance of conductor lines or power lines and conversion of power between high voltages used for long distance transmission and safe low voltages used for most commercial purposes and households. Our average electricity distribution loss was 7.4% in 2012, compared to a Ukrainian avergae of 11.8%.

The following table sets out the percentage of electricity lost during transmission for each of our electricity distribution subsidiaries for the periods listed below:

	Year ended December 31,		
	2010	2011	2012
	Percentage of electricity lost during transmission		
Servis-Invest	1.02%	1.01%	1.07%
Energougol	6.96%	7.19%	6.96%
Dniprooblenergo	4.75%	4.77%	4.52%
Donetskoblenergo	15.98%	15.86%	15.20%
Krymenergo	15.42%	15.96%	15.75%
Kyivenergo	11.29%	10.31%	9.89%
Ukrainian average	12.54%	11.94%	11.82%

Customers and distribution price

The customers of our electricity distribution companies include state-owned and private companies in the mining, metallurgical, engineering and machinery industries, state and municipal authorities, utility companies and households in the cities of Kyiv and Donetsk, the Donetsk and Dnipropetrovsk regions, and Crimea.

Servis-Invest provides services to over 1.000 of the largest commercial consumers in the Donbass region in Ukraine, approximately 8% of which operate in the metallurgy industry. In 2012, Servis-Invest supplied 69.3% of its total supplies to Metinvest group companies and 7.9% to our own coal mining companies (the largest buyer was Pavlogradugol). Service-Invest's largest customer is Ilyich Iron and Steel Works of Mariupol, which consumed 17.6% of total supplies in 2012.

Energougol provides services to approximately 26,800 customers (of which approximately 1,600 are companies and 25,200 are households). Energougol's customers include mining and machine-building companies (comprising approximately 60% of Energougol's total electricity consumption in 2012), light and food processing companies as well as utility companies and state-financed organizations and the general population of the Donetsk region. In addition to electricity distribution, Energougol also provides the following services to its customers: power-generation equipment assembly, setup, maintenance and repairs; repairs of measurement instruments, high-voltage testing, design of engineering networks, construction and assembly operations and start-up and adjustment works.

Donetskoblenergo's largest customer base consists of households, which accounted for 41% of Donetskoblenergo's total electricity supplies in 2012. Donetskoblenergo also supplies electricity to municipal authorities, housing and public utilities (20% of Donetskoblenergo's total electricity supplies in 2012) and iron and steel making plants (7.5% of Donetskoblenergo's total electricity supplies in 2012). Its

largest customers are public water company Voda Donbassa, state-owned company Donuglerestrukturizatsia and utility enterprise Donetskteplokommunenergo.

The electricity supplied by Dniprooblenergo is primarily consumed by commercial customers (74% of Dniprooblenergo's total supplies in 2012), of which iron and steel plants accounted for 62%. Dniprooblenergo other customers include housing and public utilities and households which together shared 17.3% of total electricity distributed by Dniprooblenergo. DTEK Dniprooblenergo's largest clients are steel makers ArcelorMittal Kryvyi Rih and Dniprovsky Integrated Iron and Steel Works, as well as Nikopol Ferroalloy Plant, and Ingulets and Southern Iron Ore Enrichment Works.

The main consumers of Kyivenergo's electricity are non-commercial consumers, households in the City of Kyiv, commercial consumers and public electric transport, which accounted for 24%, 31%, 21% and 4% of Kyivenergo's total supplies in 2012, respectively.

Krymenergo supplies electricity to the generation population of Crimea and public and housing entities in the region, which together consumed more than 65% of all electricity supplied in 2012. The largest commercial consumers of Krymenergo's electricity are producers of construction materials Bakhchisarai plant, Stroyindustriya, chemical plant Brom and the shipyard Zaliv.

Our electricity distribution companies sell and distribute the electricity they purchase from Energorynok to their customers at tariffs established by the NERC. See *"Industry—Electricity market structure and pricing"*. All of our electricity sale contracts are long-term (contracts with households are entered into for three years and the term of contracts with other customers is subject to negotiation) and are entered into directly with end customers. These contracts follow the model forms approved by the Cabinet of Ministers of Ukraine (in relation to sale of electricity to households) and NERC (in relation to all other customers). If the final consumer tariffs determined by the NERC for certain categories of customers (e.g., households, municipal electric transport, state-owned coal producers) are insufficient to cover the price at which we purchase electricity, we are entitled to obtain compensation from Energorynok. The compensation is provided to us, on a monthly basis, by discounting the wholesale price of the electricity we purchase from Energorynok. We are required to file a formal request for compensation with the NERC on a monthly basis. The NERC may only refuse to the request for compensation if certain procedural requirements set forth in its regulations are not complied with or incorrect information was provided. In certain cases the NERC may defer provision of the compensation to later periods. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Our Results of Operations—Prices for our products in each of our business segments—Electricity distribution"*.

The electricity sale contracts can provide for one of three payment options: prepayment, payment based on metered use and regular scheduled payments. The most common form of payment amongst commercial customers is prepayment whilst large industrial enterprises typically make regularly scheduled payments. Prepayment amounts are monitored and adjusted on a regular basis depending on actual usage. Payment based on metered use is used by organizations financed from the state budget or a municipal budget, public utilities and households. In the event of non-payment or other breach of the sales contracts, we are permitted to impose fines or restrict or cut-off electricity supply, except to customers to which a minimum electricity supply is required for safety reasons. Our electricity sales contracts are automatically renewed on a yearly basis following their expiration.

Electricity Exports

We export electricity to Poland, Hungary, Romania, Slovakia, Moldova and Belarus through our subsidiaries, DTEK Power Trade, Skhidenergo and Trading LLC. All electricity exported by DTEK Power Trade, Skhidenergo and Trading LLC is acquired from Energorynok. We have partnership relations with a number of key participants on the European energy market, including our key counterparties, Alpiq, EDF Trading and Gazprom Marketing & Trading. DTEK Power Trade became an associate member of the European Federation of Energy Traders in December 2011.

We generally enter into electricity export contracts with counterparties for a term of one year, with the price for electricity supplied being calculated based on the prevailing price for electricity on the relevant national market plus any applicable import/injection fees and interstate capacity costs. Under our electricity export contracts, to the extent we fail to supply the contractually agreed volume of electricity, we are liable to compensate the relevant counterparty an amount equal to the difference between the current market price for electricity in the jurisdiction of the consumer and the contractually agreed price.

In the years ended December 31, 2010, 2011 and 2012, we exported 1.2TWh, 5.1TWh and 9.7TWh, respectively. In 2012, our largest electricity export markets were Belarus (4.1TWh), Hungary (3.6TWh) and Poland (1.0TWh).

Renewable energy

As part of our long-term strategy, we intend to develop renewable sources of energy and are currently focused on the wind energy segment.

We are currently in the process of establishing our wind farm portfolio through our subsidiary Wind Power. As of December 31, 2012, we had two wind parks in the Zaporizhia and Donetsk regions in various stages of development. The Pryazovsk Wind Park in the Zaporizhia region contains three wind farms, the Botievo, the Prymorska and the Berdyansk wind farms. The Botievo wind farm is our pilot project with a planned total capacity of 195MW. We have already installed 30 wind turbines with a total capacity of 90MW and expect that they will commence operation by the end of the first quarter of 2013. We expect to install an additional 35 wind turbines with a planned capacity of 105MW by the middle of 2014. Both the Prymorska and the Berdyansk wind farms are in the construction stage and their planned aggregate capacity amounts to 350MW. We intend to complete the construction of Pryazovsk Wind Park by the end of the third quarter of 2016, and by 2030 we intend to have a portfolio of renewable energy assets with a total capacity of 2000MW.

The Mangush Wind Park in the Donetsk region contains one wind farm with a planned total capacity of 700MW which is currently undergoing a preliminary wind monitoring program in preparation for the commencement of construction.

Oil and gas

We currently have a 25.5% interest in Vanco, which in turn owns 100% of the share capital of Vanco Prykerchenska. Vanco Prykerchenska is a party to a production sharing agreement with the state of Ukraine in respect of the Prykerchenska Block. We expect Vanco Prykerchenska will commence exploration activities at the Prykerchenska Block. On November 27, 2012, we entered into the Vanco SPA under which we have agreed to purchase additional shares in Vanco, such purchase being conditional on the satisfaction of certain closing conditions set out therein, which would result in our total shareholding exceeding 50%. We expect to continue to seek to participate in onshore and offshore oil and gas projects.

Other auxiliary business

Our group also includes companies that provide auxiliary services, including equipment procurement, trading, transportation, security and other services primarily to our group companies. For example, the Pershotravensky Repair and Engineering Plant provides various services and equipment to our mining companies, including repair of mining equipment, production of arch supports, hardware, rolls pipes and steel and iron casts. DTEK Service provides administrative support to our operational companies and Sotsis LLC is responsible for the management of social infrastructure at our mines.

Markets and Competition

Competition in the Ukrainian coal mining market

Currently, we operate 28 coal mines in Ukraine and three coal mines in Russia. As of the date of this offering memorandum, we have a 46.1% proportional share of total coal production in Ukraine (measured by metric tons of coal produced), making us the largest producer of coal in Ukraine, according to Ukrenergo.

Our main private Ukrainian mining competitors are the MAKO Group ("**Mako**") and LLC Naholchanskaya ("**Naholchanskaya**"). Potential competitors attempting to enter the private mining sector will face significant barriers to entry. Domestic competition from imported coal is substantially limited as the configuration of Ukrainian power stations is such that they are generally only able to use Ukrainian coal. Additionally, certain members of the Ukrainian government have stated that they would like to restrict foreign investment in Ukraine's coal industry due to concerns about energy security. Finally, we believe that construction of new mines is unlikely due to the high cost of construction and Ukrainian government regulation. Therefore, we believe that increased competition from other private mining enterprises is unlikely in the near-to-medium term. We also compete with Mako and Naholchanskaya for coal exports, including primarily to Europe, Turkey, India, Egypt, Russia, the United States.

In addition, we face competition from state-owned mining companies in terms of coal price and quality of coal produced, to the extent we sell coal to third parties. The table below compares our coal mining subsidiaries to state-owned mining companies based on coal production, production cost of saleable goods and productivity for the year 2012.

	Year ended December 31,		
	2010	2011	2012
DTEK			
Production costs (UAH/metric ton)	366	473	531
Productivity (metric ton/miner per month)	63	65	72
State Mines			
Production costs (UAH/metric ton)	1,102	1,280	1,307
Productivity (metric ton/miner per month)	20	20	21

Sources: Minstry of Energy

Competition in the Ukrainian power generation market

We face competition with respect to the price bids submitted to Energorynok. Energorynok buys electricity from the lowest cost generators. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Our Results of Operations—Prices for our products in each of our business segments—Power generation"* and *"Regulation—Electricity Regulations in Ukraine"*. Therefore, electricity generators submitting price bids compete with each other to submit the lowest bids, but still cover their production costs. In order submit competitive bids, electricity generators must produce sufficient output and do so in an efficient manner.

Based on the production of our thermal power plants, we were the leading thermal power generation company in Ukraine as of December 31, 2012 with approximately 28.5% of Ukraine's net output of electricity, according to Ukrenergo. Our main competitors in the thermal electricity market are Centrenergo and Donbassenergo. Centrenergo and Donbassenergo generated net output of 16.7TWh and 8.2TWh, respectively, in 2012, accounting for proportional shares of 23% and 11% of total thermal power generation in Ukraine in 2012 (measured by net output of electricity), respectively, according to Ukrenergo. We believe that our vertical integration will allow us to maintain a leading market position in the power generation market because our power generation business has reliable fuel supplies from our efficient and low cost coal mining business.

The table below compares our power generation subsidiaries to our competitors based on what we believe are the most important factors affecting productivity of electricity generation companies, including installed capacity utilization rate ("**ICUR**"), electricity tariffs and production costs. As shown in the table below, in 2012, Skhidenergo's ICUR was considerably higher than that of its competitors', and its fuel consumption was the lowest among its competitors.

	Year ended December 31, 2012		
	ICUR	Standard fuel consumption, g/kWh	Supply tariff, kop/kWh
Centrenergo	27.3%	394	53.3
Dniproenergo	24.6%	388	53.2
Donbassenergo	30.0%	418	56.25
Skhidenergo	47.7%	392	57.22
Zakhidenergo	41.0%	398	53.56

Sources: NJSC Energoatom, Ukrhydroenergo and JSC Energy Company of Ukraine

Competition in the Ukrainian electricity distribution market

Each electricity distribution company operating in Ukraine owns and operates the electricity transmission networks in its designated region of Ukraine. Therefore, electricity distributors have an effective monopoly in their respective regions. Consequently, we do not compete with other electricity distributors in the regions in which we operate.

Other companies operating in the electricity distribution market in Ukraine include (i) the state-owned JSC Energy Company of Ukraine, which is a majority shareholder in eight electricity distribution companies and a minority shareholder in another eight electricity distribution companies, (ii) AES Corporation, a U.S. company that operates two electricity distribution companies and (iii) V.S. Energy International N.V., which operates four distribution companies and (iv) certain other private operators.

Environmental Protection

Our operations involve production processes that negatively affect the environment by dispelling pollutants and GHG emissions into the atmosphere, disturbing the natural landscapes when extracting the mineral resources and creating significant volumes of waste water. As a result, we are very sensitive to our role in helping to preserve the environment for future generations and we are working constantly to minimize the negative environmental impact of our operations.

The Ukrainian government continues to push for European-level environmental protections and has implemented strict environmental standards that we are required to meet. Against the background of integration into the European energy field, as well as synchronization of the Ukrainian and EU energy systems, Ukraine's environmental legislation has gradually become stricter and is slowly converging with European standards. We believe we are in substantial compliance with current domestic regulatory provisions for environment protection and we attempt to surpass them in certain instances.

We consider our commitment to the environment to be a key factor to our successful business development, and we have developed a long-term environmental protection policy that was adopted and initiated in 2009 and further amended in 2012.

The strategic goal of our environmental protection policy is to increase environmental safety while maintaining reliable and safe production at our plants, diversify our business investments in renewable energy and to continue to improve our profitability.

Our long-term environmental protection plan sets forth the following long-term goals:

- Introduction of a modern environmental safety management system;
- Formation of an efficient scheme of environmental monitoring;
- Reducing pollutants and GHG emissions into the atmosphere;
- Reducing waste water contamination and discharge into waterways;
- Efficient use of water resources;
- Increase amount of ash and sludge waste and rock utilization;
- Reduction of wastes and their environmentally-friendly disposal;
- Efficient use of land and restoration of the disturbed lands;
- Mine methane utilization to obtain various types of energy; and
- Appropriate and timely response to emergency situations.

We are working to implement these long-term goals throughout the DTEK Group and have environmental safety committees functioning within our governing bodies and various business divisions, which regularly consider environmental strategy and operative management issues. All of our companies have environmental safety committees.

We continue to develop and implement energy efficiency programs and support reforms in the energy sector to conserve energy and improve energy efficiency. We are working on various projects with the USAID in this field.

The following table summarizes the environmental costs we incurred in 2010, 2011 and 2012:

Year	Environmental costs
	UAH millions
2010	214.17
2011	636.02
2012	913.77

Environmental Management System

In 2008, our operating companies introduced environmental management systems ("**EMS**") in compliance with the requirements of ISO 14001. As part of EMS, we have developed and introduced within our Group companies procedures for environmental accident investigations and environmental incentivizing programs aimed at our staff. We have also formed the Health, Safety and Environment Committee, a body charged with overseeing the environmental issues of our group's operations. Following a phase of implementing EMS, a number of our operating subsidiaries became fully compliant with ISO 14001 and received ISO certifications in 2010. Kyivenergo became fully compliant with ISO 14001:2004 in December 2012.

We support various initiatives to protect the environment, such as the Declaration on Responsible Business Partnership, initiated by the Centre for Corporate Social Responsibility Development with the support of the Royal Norwegian Embassy in Ukraine. We committed to the Declaration on Responsible Business Partnership in 2011 to ensure compliance with environmental protection and health and safety standards in our operations with suppliers and partners. We launched a 15-month Green Office Project in 2011. The project's implementation purports to contribute to the reduction of harmful environmental impact and promote socially responsible behavior among our office employees. The project priorities are: selective collection and recycling of office waste; measures to promote the rational use of resources (heating, power and water consumption, office paper consumption); the use of environmentally-friendly products (maximum use of recyclable materials). In 2012, at the World Economic Forum in Tianjin, China, we signed the Energy for Society Set of Principles: Guidance on Energy Industry Society Relations, a document elaborated under the auspices of the United Nations.

Long-term Environmental Strategy in Power Generation

Our power generation companies continue to implement an environmental safety strategy introduced in 2012 that is scheduled for completion in 2030. As part of this strategy, we are currently taking measures to reduce dust emissions from our power generation activities to levels acceptable under the LCP Directive by 2020 and to be fully compliant with the LCP Directive by 2030. We also seek to comply with all local environmental legislation requirements applicable to the emissions of pollutants from combustion plants. The strategy provides for the following measures:

- Reconstruction and replacement of electric precipitators at TPPs for dust and solids emission reductions;
- Construction of general plant off-gas desulphurization and denitrification systems;
- Green-field construction of fully environmentally compliant power units;
- Installation of flue gas automated monitoring systems;
- Measures aimed at water resources protection and rational use;
- Reconstruction of cooling ponds;
- Build-up of ash dams; and
- Installation of fly ash off-take systems.

Atmospheric air protection

Atmospheric air protection and reduction of pollutants' GHG emissions is one of our environmental priorities. In 2011, we initiated a series of measures to assist the Ministry of Environment in drafting the State Program on the Reduction of Pollutant Emissions from TPPs and CHPPs and to raise financing for its implementation.

As a result of projects launched in line with the Kyoto Protocol, emission reductions by Skhidenergo amounted to 3,247 thousand metric tons of CO2 equivalent in the period from 2006 to 2011. In 2010, an energy efficiency project was launched at Unit 7 of Kurakhovskaya TPP. The project had recently been extended to Unit 8 and completed in 2012. Kurakhovskaya TPP has also finalized modernization of the gas-scrubbing boilers. In addition, in 2012 Skhidenergo installed an electrostatic precipitator at Unit 4 of Zuevskaya TPP. This has led to a decrease of dust by more than seven times compared to previous levels. Flue gas monitoring systems were also installed at Units 1 and 2 of Zuevskaya TPP in order to enhance the accuracy of data on the concentration of harmful substances. In 2012, Skhidenergo developed and commissioned the gas treatment facilities at both At Unit 10 of Luganskaya TPP and Kurakhovskaya TPP.

At Kurakhovskaya TPP, this has led to a reduction in carbon dust emission by 13% annually and carbon monoxide emissions by 17% annually.

The Kyoto Protocol-related projects have also been implemented at Dniproenergo's facilities, including modernization of Unit 3 of Krivorozhskaya TPP, Unit 9 of Pridneprovskaya TPP, and a number of measures are currently being implemented at Units 1 and 3 of Zaporozhskaya TPP. As a result, the aggregated GHG emission reductions achieved at Dniproenergo amounted to more than 600 ktCO2e over the period from 2008 to 2012.

In 2010, Pavlogradugol introduced facilities for reducing the emission of polluting substances. Pavlogradugol's Stepnaya mine now operates equipment that improves flue gas filtration. In 2011, in order to reduce solid-fuel fired boilers via methane utilization, Pavlogradugol converted a boiler at Unit 2 of Stepnaya TPP from solid fuel to mine gas, which helps save more than 6,000 metric tons of solid fuel each year.

The following table sets forth aggregated data on certain air emissions by our power generation assets in 2010, 2011 and 2012:

Year	Nitrogen oxide	Sulphur oxide	Carbon oxide	Solids
		Thousand metric tons		
2010	147.1	927.7	9.8	243.9
2011	160.3	1,048.1	10.3	292.4
2012	127.1	787.8	8.3	171.6

Water protection and sustainable use

We operate in regions in which water is scarce and we prioritize efficient and sustainable use of water. One of our priorities is to introduce measures aimed at reducing water consumption for process and household needs and minimize the impact on water resources.

In the period from 2007 to 2012, the amount of water that Skhidenergo used for its own purposes decreased by 66% (from 2,660.7 thousand cubic meters in 2007 to 1,601.4 thousand cubic meters) as a result of overhauls and organizational measures undertaken at our production sites.

Skhidenergo converted 140 meters of pipes at Zuevskaya TPP, and water meters were installed at Kurakhovskaya TPP. This resulted in a reduction of its water consumption by 11.8% in 2011. In 2011, filters and treatment facilities fittings were replaced at Zuevskaya TPP, which resulted in the reduction of industrial effluents by 18.8%. Luganskaya TPP at Skhidenergo decreased its effluents by 38.2% due to the installation of water meters.

In 2010 and 2011, Pavlogradugol commissioned Plamya-2, a water disinfection plant, in order to prevent discharge and technological use of non-disinfected water from Yubileynaya, Pavlogradskaya, Stashkova and Blagodatnaya mines. In addition, Pavlogradugol launched the design of project documentation to build treatment facilities to prevent unauthorized transfer of mine water and pollution of surface waters and soil in the Taranov mine. Pavlogradugol has also prepared a plan for land surveillance and establishment of water protection zone at its Ternovskaya mine. The mine water collection channel was reconstructed at the Stashkova mine.

In 2011, Komsomolets Donbassa converted its 1,000 meters potable water collection channel, and reduced its potable water losses by 88%. We rebuilt 3,800 meters of household effluent collection channels at air supply Shaft 3.

The following table sets forth our water consumption in 2010, 2011 and 2012:

Year	Household needs	Process needs
	Thousands of cubic meters	
2010	6,631.91	578,813.15
2011	7,021.23	577,952.30
2012	8,057.01	646,561.82

Waste disposal

Our activities generate a considerable amount of waste and coal combustion products ("**CPP**"). The majority of such waste and CPP is not hazardous, but its disposal poses a challenge as there is a lack of

adequate disposal sites in the regions where our coal-fired generation companies operate. Therefore, one of the key goals of our environmental protection policy is to find ways to increase ash and slag utilization.

In 2012, DTEK jointly with the Polish CCP Union and EKOTECH IP signed a memorandum of understanding and cooperation in managing ash and slag. The initiative, which is aimed at implementing joint projects on increasing the use of CCP, was supported by the Ukrainian-Polish Chamber of Commerce and Industry.

In 2012, Zakhidenergo studied the quality indicators of ash and slag mixtures and examined the technical possibility of selling CPP. All of our power plants designed and launched programs to increase the use of fly ash and slag for the period from 2012 to 2020.

In 2012, a project was launched for purposes of selling ash and slag generated by Zuevskaya TPP. As a result of the project, the use of CPP generated by Skhidenergo increased to 4.1% in 2012 compared to 0.06% in 2011.

In order to avoid allocating new land for waste dumping at Zuyevskaya TPP, a project was initiated to strengthen and develop the ninth tier of the ash dump in Kalmytskaya gully. In 2012, capital investments in the project amounted to approximately UAH9 million. Costs in respect of construction activities commenced to develop and support the second tier of the second section of the ash dump in the Sukha gully at Kurakhovskaya TPP amounted to approximately UAH18 million in 2012. Further, Luganskaya TPP invested approximately UAH34 million in the development and strengthening of the second tier of the first section of ash dump 3.

In 2012, Dniproenergo and Zakhidenergo spent approximately UAH8 million and UAH4 million, respectively, to strengthen the ash dumps at Krivorozhskaya TPP and Burshtynskaya TPP, respectively. Further, Zakhidenergo has commenced construction activities designed to develop ash dumps at Dobrotvorskaya TPP and Ladyzhynskaya TPP, the project costs for which amounted to nil and UAH 1 million, respectively, in 2012.

In total, our generation assets used 232.6 thousand metric tons and sold 329.7 thousand metric tons of CPP to external consumers in 2012.

We also continue to replace hazardous materials with less hazardous and, in certain instances, non-hazardous ones. The following table sets forth how many tons of waste we produced in 2010, 2011 and 2012:

Year	Waste generation
	Metric tons
2010	12,340,281.8
2011	15,094,577.1
2012	22,121,167.3

Land reclamation

Some of our coal deposits lie under river high-water beds and tributaries (such as the Samara river), thereby linking our coal mining with potential land subsidence, flooding and water logging issues. As a result, we focus on efficiently using our land and reclaiming the land as we close our mines.

We reclaim land by filling abandoned mines with rock and covering it with top soil which also helps us dispose of mining rock that we would otherwise have to store elsewhere. In addition, we use drainage systems to protect forests and agricultural lands from flooding and restore the disturbed lands by cleaning, compensation planting and constructing dams. In 2010 and 2011, Pavlogradugol carried out compensation planting on 5.3 and 23 hectares of land, respectively. In 2012, we used 0.42 million metric tons of mine rock to reclaim land and restored 10.2 hectares of land.

The following table sets forth the number of hectares of land reclaimed by us in 2010, 2011 and 2012:

Year	Land reclamation
	Hectares
2010	10.0
2011	10.1
2012	10.2

Handling of hazardous substances and materials

We strive to minimize utilization of hazardous materials and substances. In 2011 and 2012, we introduced a number of regulations and programs for handling hazardous substances and materials, carried out an inventory of hazardous substances at our power generation companies.

For example, Skhidenergo developed a program to optimize utilization of hazardous substances and materials. As part of this program, the following measures were performed at Zuyevskaya TPP:

- replacement of asbestos containing substances and materials used for lining and repairs with aluminium materials that do not contain asbestos and mineral wool boards;
- replacement of mercury containing lamps and thermometers with photodiode lamps and alcohol thermometers;
- replacement of transformer oil contained in high-voltage inputs of a unit transformer with dry-type high-voltage inputs; and
- replacement of transformer oil contained in oil circuit breakers with vacuum circuit breakers facilitating a reduction in oil consumption.

Similar measures were undertaken at Kurakhovskaya TPP and Luganskaya TPP, including the replacement of asbestos and asbestos containing materials used for lining and repairs with foil plastic, folmo tissue and reinforced graphite products as well as replacement of mercury containing lamps with sodium lamps.

In 2011, Energougol coordinated the utilization of 1.6 metric tons of static condensers waste containing polychlorinated biphenyls. In 2011 and 2012, Kyivenergo converted its chemical water treatment facilities at CHPP-5 and Kyivenergo commissioned a reverse osmosis plant that produces deionized water for its boilers, which resulted in the reduction by more than 60% of sulfuric acid consumption and fivefold reduction in caustic soda utilization. In 2012, Kyivenergo continued to develop the initiative and worked on installing membrane facilities in order to reduce lime sludge production.

Permits and licenses

In order to operate our coal mines, we must obtain mining licenses for each coal-mine. As of December 31, 2012, we had a total of 31 mining licenses for the mines operated by our subsidiaries. Each of Pavlogradugol's mines has a permit to produce coal and concomitant minerals, or minerals that are bound together with the coal. We intend to submit applications to renew all of our licenses at the appropriate times. See *"Regulation—Coal Mining Regulations in Ukraine—Coal mining licenses—Administrative procedures".* We expect that all of our licenses will be renewed, however, a number of our licenses impose environmental restrictions on their validity and renewal. For instance, under some of our mining licenses, we must restore the land as required by environmental regulation. If we do not comply with this requirement, then among other penalties, our license for some coal mines will be nullified and we could be fined for delays in restoring the disturbed land.

In addition, some of our companies operating coal mines have other permits and licenses to operate their facilities including to stock, handle and process non-ferrous scrap, engage in activities that use ionizing radiation sources, provide cargo railway transportation, purchase and store equipment, have centralized water supply systems, have on-site medical facilities, provide telephone communication services, and train their employees in order to strengthen their professional skills.

In addition, our power generation companies have licenses to generate power and our electricity distribution companies also have permits and licenses to operate their facilities including licenses to supply electricity across the local electricity networks and to distribute electricity at a regulated tariff. Some of the electricity distribution companies also possess various licenses and permits for construction activity, hazardous works and certain other licenses and permits required for their operations.

We believe that we are currently in compliance with applicable environmental laws and regulations and with the terms of our permits and licenses. However, we have faced fines, penalties and claims related to environmental matters.

Employees

As of December 31, 2010, 2011 and 2012, we employed approximately 42,300, 136,200 and 144,600 people, respectively, in the regions in which we operate.

The following table sets forth our headcount as of December 31, 2010, 2011 and 2012, broken down by principle business segments.

	Year ended December 31,					
	2010		2011		2012	
	Headcount, except percentages					
Coal mining	32,829	75.8%	86,022	63.1%	83,371	57.7%
Power generation	5,447	12.6%	21,224	15.6%	18,546	12.8%
Electricity distribution and sales	1,737	4.0%	11,869	8.7%	25,153	17.4%
Other	3,291	7.6%	17,133	12.6%	17,533	12.1%
Total	**43,304**	**100.0%**	**136,248**	**100.0%**	**144,603**	**100.0%**

Our employees are a key component of our success and we believe that efficient human resources management is critical. We therefore focus on personnel motivation, development and establishing long-term loyalty.

We invest substantial resources in the development and training of our employees. Our employees receive regular trainings and are provided opportunities to develop their skills at our DTEK Academy, which is our corporate university. Approximately 1,500 employees are trained at our academy each year. We have established specialized training programs "Power of Knowledge" and "Energy Leader" that are designed in accordance with MBA standards. We also have production management initiatives, such as the Internal Trainer Institute, for our production personnel and shift supervisors to develop professional and management skills. In 2009, we launched our "DTEK Generation" program in cooperation with the Donetsk National Technical University, the National Mining University of Ukraine and the Kyiv Polytechnic Institute. We also organize internships and allocate funding for these universities. Two of our programs received top awards at the first national competition HR Brand Ukraine 2011, where the DTEK Academy program won the "Ukraine" category and "DTEK Generation" program was second in the "Regions" category.

We pay our employees competitive salaries compared to other companies in our industries and we gauge this on the basis of surveys from leading consulting companies. In 2009, we introduced the Hay Group remuneration system, a corporate incentive system that is based on job classifications according to the importance of each individual position to our Group as a whole. Under this system, bonuses are paid depending on individual and collective performance. By the end of 2012, we had implemented this remuneration system at Pavlogradugol, Komsomolets Donbassa, Skhidenergo and our coal processing plants. In 2011 we have also developed a new competencies model that identifies seven key competencies and has become the basis for nearly all human resources processes.

Approximately 88% of our employees are members of trade unions, with our employees belonging to the Trade Union of Coal Industry Employees (63,388 employees), Ukrelectroprofsyuz (17,150 employees), Kyivenergo trade union (11,934 employees), the Independent Trade Union of Ukrainian Miners (9,794 employees), Donetskoblenergo trade union (9,769 employees), Dniprooblenergo trade union (7,804 employees), Krymenergo trade union (5,591 employees) and Energougol trade union (831 employees). Of our 75,096 coal mining and production employees, approximately 63,388, or 84%, are members of Trade Union of Coal Industry Employees and 9,794, or 13%, are members of Independent Trade Union of Ukrainian miners. We have good relations with both of these labor unions.

As of the date of this offering memorandum, we are not involved in any labor disputes which we consider material, or any strikes at our production subsidiaries.

Safety

Our business involves the operation of heavy and powerful equipment and dangerous environments which can result in serious injuries to our employees and third parties, and substantial damage to property. We focus on creating and maintaining a safe and healthy working environment. We have comprehensive safety and training programs designed to minimize accidents in the work place and improve the efficiency of our operations. We have directed substantial resources toward employee safety and quality management training programs. In 2010, 2011 and 2012 our expenditures on employee safety in the coal mining segment amounted to UAH175 million, UAH246 million and UAH472 million, respectively. In 2010, 2011 and 2012 our expenditures on employee safety in the power generation segment amounted to UAH20 million, UAH51 million and UAH97 million, respectively. In 2010, 2011 and 2012 our expenditures on employee

safety in the power distribution segment amounted to UAH5 million, UAH29 million and UAH47 million, respectively.

To implement safety policies at our operating subsidiaries, each year we published a report on goals and objectives for employee safety, which analyzes and evaluates the goals and objectives for the previous year and establishes priorities and the program for managing employee safety for the coming year. We have established specialized committees to deal with employee safety at all management levels. Two coal producing subsidiaries and all coal processing companies are currently certified under OHSAS 18001:2007. In addition, at three of our coal producing subsidiaries, work on the establishment of a OHSAS 18001:2007 compliant safety management system is currently underway. Three of our power generation subsidiaries, Dniproenergo, Kyivenergo and Skhidenergo, are certified under OHSAS 18001:2007. At Zakhidenergo, a diagnostic audit has been conducted to verify the compliance with OHSAS 18001:2007.

A corporate system of employee safety management has been developed and implemented. Pursuant to this system, internal audits, behavioral audits and investigations of all accidents are carried out by appropriately trained staff. Special emphasis is put on instructions and trainings of production personnel on occupational safety. In addition to the training courses stipulated by state regulations, we also carry out off-the-job personnel training in process documentation and hold pre-shift video briefings on safety matters. A computer-based system of training and knowledge assessment is also being implemented.

In 2012, the total number of accidents in our coal mining segment decreased from 935 to 707 accidents, the amount of severe accidents increased from 42 to 58 accidents and the amount of fatal accidents increased from 17 to 27 accidents, as compared to 2011. We attribute the growth of fatal and severe accidents to the new production assets that joined our Group during the course of 2011 and 2012, some of which do not yet have adequate employee safety management systems. We have started to implement employee safety management systems at these new assets upon their consolidation into our Group, though this process remains ongoing. In 2012, the frequency of industrial injuries at our coal producing subsidiaries was 1.5 times lower compared to state-owned coal companies, and the frequency of fatal accidents per one million metric tons of coal produced was lower by 3.5 times.

In 2012, the total number of injuries in the power generation segment increased to ten cases (from three in the previous year); severe injuries increased to two cases (from one in the previous year) and the number of fatalities amounted to one, unchanged from the previous year. We attribute the growth of injuries to human factors, such as failure to use personal protection equipment and failure to follow established operating procedures. Due to the increase in accidents, we decided to implement safety-related incentives for employees of our power generation subsidiaries Skhidenergo, Kyivenergo, Zakhidenergo and Dniproenergo. This initiative is currently being put in place.

In 2012, the total number of injuries in the electricity distribution segment increased to 15 cases (from 11 in the previous year); severe injuries increased to seven cases (from 5 in the previous year) and the number of fatalities remained unchanged from 2011 at nil. We attributed the increase in injuries to the consolidation of Krymenergo in the DTEK Group. See *"Risk Factors—Risks Relating to our Operations and Business—We are subject to hazards and risks inherent in the operation of mines".*

Insurance

We currently maintain insurance on our assets, including our equipment, buildings and constructions, as well as business interruption insurance and third party liability insurance.

Our insurance policies provide for UAH86.4 billion insurance coverage for our thermal power plants, UAH24.1 billion insurance coverage for our coal mines and UAH6.6 billion insurance coverage for business interruption losses. Our thermal power plants and the assets of our coal producing companies are insured under the "all risks" coverage program, including against the risks of damage/destruction resulting from fire and explosions, natural hazards, water damage and unlawful acts of third persons. We have insurance for all contractor risks, third party liability an in relation to any delay in start up of the power unit renovation works at our thermal power plants and our wind energy projects. We also maintain the following insurance: personal insurance for departmental and rural fire fighters and members of voluntary fire teams; motor vehicle and accident insurance; insurance to cover damage relating to the transportation of dangerous cargo; and insurance covering both the export and recycle of dangerous waste in case of damage to health, property and the environment. See *"Risk Factors—Risks Relating to our Operations and Business—Our level and scope of insurance coverage may not be adequate".*

Litigation, Claims and Disputes

From time to time we are involved in legal proceedings arising in the ordinary course of business. However, we are not aware of any material governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened), arising from historical or current business practices that have had or may have a significant effect on our business, financial condition or results of operation.

Intellectual Property

In 2009, we completed the process of rebranding our corporate headquarters and production subsidiaries with the goal of further consolidating the DTEK Group under one corporate banner and cultivating a brand name which would be recognizable in both international and domestic markets. Therefore, we have implemented an umbrella brand principle as the basis for rebranding which resulted in all enterprises within the DTEK Group being united under the unified corporate brand of DTEK.

As a result of the rebranding, DTEK's logo changed to a version which we believe is easily recognizable by both Ukrainian and foreign partners who use the Latin alphabet. Our brand name is written as



Information Technology

One of our key initiatives is the development of a group-wide information technology system supported by an appropriate infrastructure that allows for a standardized accounting platform ("SAP"). Although we currently use modern equipment, we believe that further development and implementation of an advanced information technology structure would increase our efficiency and thereby assist our growth. In 2008, we entered into an agreement to purchase SAP business solutions to create a unified management system. We started implementing this system and expect it to function at all of our main facilities, including the newly acquired production assets, by the end of 2016. We believe that SAP solutions will satisfy our demand for comprehensive management of company resources, human resources and corporate governance (consolidation, budgeting, and business analytics). We have been in a partnership with Microsoft since 2008 which, apart from license support, permits us to create and employ an efficient and cost effective IT infrastructure. These actions allow us to achieve a lower total cost of IT ownership, high quality of services and ultimately, efficient support for business operations and a valuable contribution to our overall performance. In 2012, our IT strategy was updated in line with our long-term business strategy. This strategy includes several key goals, including from the establishment, in the near future, of a management information system and supporting it with the required IT infrastructure, and creating a system for monitoring and controlling operational processes.

REGULATION

Coal Mining Regulations in Ukraine

General

The coal-mining industry in Ukraine is primarily regulated by the Ministry of Energy under the Mining Law of Ukraine dated October 6, 1999 ("**Mining Law**") and the Code of Ukraine on Subsoil dated July 27, 1994 (the "**Subsoil Code**").

The power to regulate the coal mining industry is vested with the Ministry of Energy, whose primary functions, among others, include formation and implementation of state policy in electric energy, nuclear, coal, peat and oil and gas industries.

The Ministry of Energy also carries out energy supervision and exercises control of the quality of coal products.

Mining Law of Ukraine

The Mining Law and the Subsoil Code together regulate the mining industries in Ukraine generally and do not provide for coal mining specific rules and regulations. The Mining Law sets forth the general principles applicable to key players in the mining industry, namely the state and the state-owned or private mining companies. Currently, there are 44 privately owned mines and 91 state-owned mines. However, whether state-owned or privately held, all of these companies are equally encouraged and assisted by the local authorities and central government under the Mining Law to carry out their activities.

The Mining Law also regulates the exploration, development, mining and processing of minerals and contains technical provisions relating to the exploitation of the mining enterprises, control and safety systems applicable to mining operations and employment and social security matters concerning miners. The social security of miners (including, among others, their education, accommodation, minimum wage, pension rights and compensation) is also regulated by the Law of Ukraine "On Increase of the Status Value of the Mining Profession" dated September 2, 2008. In addition, the Mining Law provides for environmental regulations which complement the general environmental regulations and apply specifically to the enterprises operating in the mining industry. See *"Environmental Regulations"*.

Donetsk specific mining laws

In the Donetsk region, where the coal mining industry is particularly developed, the mining operations are regulated by an additional set of rules, namely the Law of Ukraine "On the Special Economic Areas and Special Regime of Investment Activity in Donetsk Region" dated December 24, 1998 (the "**Donetsk law**").

The Donetsk law sets out a special investment regime aimed at the implementation of economic, legal and technical measures that would change the structure of the enterprises, its management and its form of ownership that eventually would lead to economic competitiveness and effective production. However, this special investment regime covers priority industries, including coal development only in priority development areas and special economic areas, such as Donetsk and Azov.

The management bodies of these special economic areas are:

- Special Economic Areas and Special Investment Regime Council in the Donetsk Region, which is responsible for creating and implementing development programs for special economic areas; holding international tenders to select investment projects; and addressing pre-court disputes arising between legal entities, local authorities and the commercial development authority;
- Local authorities; and
- Commercial development body, which is a legal entity established by the Donetsk Region State Administration together with local authorities responsible for the technical operation of the investment projects regulated by the Donetsk law.

Government programs to further develop the Ukrainian coal industry

Since 2001, the Ministry of Energy has developed a number of programs to further improve the coal mining industry in Ukraine. For example, the program "Ukrainian Coal" was launched by the Resolution of the Cabinet of Ministers of Ukraine (the "**CMU**") No. 1205 dated September 19, 2001. This program was developed for the period from 2001 through 2010 and was targeted at raising the efficiency of the coal

industry and increasing of coal extraction to the level sufficient to meet the needs of the Ukrainian economy.

In 2006, the CMU adopted the Energy Strategy of Ukraine for the Period until 2030, which sets forth targets for a steady increase in coal production in Ukraine by 2030. Pursuant to this strategy, coal production, which was approximately 90.9 million metric tons in 2010, is expected to reach 110.3 million metric tons in 2015, 115.0 million metric tons in 2020 and 130.0 million metric tons by 2030. On June 22, 2012, the board of the Ministry of Energy approved the draft of the "Update of the Energy Strategy of Ukraine for the Period until 2030", which estimates that coal output will reach 75.9 million metric tons in 2015, 84.6 million metric tons in 2020 and 105.2 million metric tons in 2030.

Furthermore, on May 14, 2008, the CMU approved the Concept of Reform of the Coal Industry. The program provides for a complex and profound reform of the coal industry by seeking to eliminate major industrial weaknesses, including, among others, the underdeveloped legal framework regulating the coal industry, the lack of private ownership, the outdated mining resources, the absence of sufficient investments required for the development of this industry and the lack of human resources. The document calls for economic incentives for the establishment of competitive coal mining companies.

Furthermore, the government of Ukraine has taken a number of measures to adapt the Ukrainian economy to the WTO requirements. On October 30, 2008, the CMU adopted Directive No. 1381-p "On the Adoption of the Measures Regarding the Adaption of the Ukrainian Economy to the WTO Requirements". The Ukrainian government has instructed the Ministry of Coal Industry, Ministry of Economy, Ministry of Finance and the National Academy of Sciences of Ukraine to (i) develop a draft law "On the State Support (Subsidizing) of the Coal Industry", (ii) develop a system of coal price monitoring on the local and global markets and (iii) ensure fulfillment of the program "Ukrainian Coal".

Pricing

Currently, there are no set prices for coal sales by state-owned enterprises or those in which the state holds more than a 50% interest in Ukraine. Prior to October 28, 2011 state-owned enterprises or those in which the state holds more than a 50% interest could only sell coal by auction organized in accordance with the Resolution of the CMU No. 599 dated April 4, 2000 ("**Resolution No. 599**").

Privately owned coal mining companies sell their coal to non-state owned companies at market prices and to consumers for private use at regulated prices.

Coal mining licenses

Mining companies must obtain licenses, namely, exploration licenses and/or mining licenses. An exploration license allows the licensor to explore potential mining areas and collect coal data, whereas a mining license allows the licensor to mine the coal. The terms of the mining license can include the following terms and conditions:

- estimate the resources of any and all concomitant minerals;
- guarantee the environmental safety in any given region;
- promptly pay any and all compulsory payments to the state; and/or
- provide annual reports to the State Service of Geology and Subsoil of Ukraine ("**State Geology Service**") on the state of the minerals' reserves.

Each of these licenses imposes strict regulations on various environmental and safety matters in connection with coal-mining. These provisions include environmental safety standards in any given region in accordance with an ecological card issued by the regional state department on environmental safety.

Administrative procedures

Pursuant to Resolution of the CMU No. 615 dated May 30, 2011, exploration and mining licenses (special permits) are issued by the State Geology Service. The license indicates the specific type of mining that the licensor can engage in, the term of the license, the reserves of the coal mine and the terms and conditions of the exploitation of mineral resources. Transfer of licenses is prohibited under Ukrainian law.

Exploration licenses are issued for a term of up to five years and mining licenses are issued for a term of up to 20 years. An existing license holder has the right to apply to the State Geology Service for renewal of its

license no later than three months (for exploration licenses) or six months (for mining licenses) prior to its expiration date. The State Geology Service must, within 60 days following the submission of all necessary documents, renew the license, unless the licensee has failed to comply with the terms and conditions of its license.

Annulment of a license

Coal-mining companies must comply with the requirements of their licenses or else their licenses may be annulled. Licenses may be annulled for various reasons, including, among others:

- failure to carry out mining works for more than two years without any material reason;
- failure to commence mining works within two years as of the date on which the license is issued;
- determination by the court that documents or information provided in the license application was incorrect or forged; or
- improper use of subsoil.

The decision of the State Geology Service regarding the termination of a license may be challenged in courts.

Determining coal reserves

According to the Subsoil Code, the CMU is responsible for organizing the state's examination and estimation of mineral reserves. Article 45.4 of the Subsoil Code provides that mineral reserves, as well as mineral reserves additionally explored while in the process of developing a deposit, must be examined and estimated by the State Commission of Ukraine for Reserves of Minerals pursuant to the procedure established by the CMU. By its Resolution No. 865 dated December 22, 1994, the CMU approved the "Procedure for Carrying out State Examination and Estimation of Reserves of Minerals".

On November 10, 2000, the CMU approved the Regulations on the State Commission of Ukraine for Reserves of Minerals ("**SCURM**"), which authorizes SCURM to act under the governance of the State Geology Service to carry out scientific and technical activities connected with the state's examination of geological materials and the estimation of mineral reserves at the request of subsoil users or under authorization of the respective government authorities. By its Resolution No. 83 dated October 3, 1997, SCURM approved the Instruction on the Contents, Form and Filing Procedure of Materials on Geological and Economic Evaluation of Coal and Shale Oil Reserves.

The calculation and accounting of mineral reserves are determined by the Classification of Reserves and Mineral Resources of the Subsoil State Fund approved by Resolution No. 432 of the CMU dated May 5, 1997. According to the Classification, mineral reserves are calculated based on the results obtained at the exploration and mining stages. Mineral resources are recorded in the State Reserves Register.

Calculation parameters and the volumes of minerals are determined by direct counting based on data received from tests and measuring or investigating fields and deposits, including rocks. Additional mineral reserves revealed during the exploration or development stage are accounted for on the basis of information provided by subsoil users. Mineral resources are estimated within the limits of the prospective mines, including the accessible depth, and take into account the current level of the type of mineral deposits developed based on the annual reports of the developed coal submitted to the State Geology Service.

The tests are conducted by the State Geology Service.

Reserves are calculated and accounted for separately based on mineral type and industrial purpose. The calculation and accounting of mineral reserves and quantitative assessment of their resources are made in mass or volume units. Reserves must be recalculated when they increase by 50% over those previously registered by the State Geology Service.

We estimate our industrial reserves for each of our coal mines as of December 31 of each year in accordance with the reporting requirements prescribed by Ukrainian law which differs significantly from both (i) the internationally accepted reserve estimation standards under the Petroleum Resources Management System sponsored by the Society for Petroleum Engineers, the American Association of Petroleum Geologists, World Petroleum Council and the Society for Petroleum Evaluation Engineers and (ii) the reserves classifications permitted by the SEC, in particular with respect of the manner in which and

the extent to which commercial factors are taken into account in calculating reserves. We implement such Ukrainian requirements by taking the original amount of balance reserves estimated by the state when that coal mine's license was originally issued and deducting (i) the amount of balance reserves that we consider should not be classified as industrial reserves, (ii) the amount of industrial reserves extracted from the mine in each subsequent year and (iii) any industrial reserves that we subsequently determine to have been improperly classified as industrial reserves and by adding (i) any additional industrial reserves that we have discovered during the course of mining or (ii) any additional industrial reserves that we have acquired from third parties or from the state. We rely exclusively on the state's initial estimates of our coal mine reserves when the licenses were issued and our subsequent adjustments as set forth above after taking into account our knowledge, experience and industry practice, without the input of third party reserves engineers or the benefit of further reviews by the state's reserve engineers. The reserves data contained in this offering memorandum, unless otherwise stated, is taken from reserves analyses prepared in accordance with Ukrainian law by our professional engineering staff. Our industrial coal reserves estimates may require future revision based upon actual production experience, changes in operating or extraction costs, changes in world coal prices and other factors that we are unable to foresee. As a result, our estimates of our coal resources or reserves that appear valid when made may change significantly in the future when new information becomes available. See "*Coal Reserves Reporting*" and "*Risk Factors—Risks Relating to our Operations and Business—We face numerous uncertainties in estimating our industrial coal reserves and, as a result, such estimates may not be accurate*".

Electricity Regulations in Ukraine

The electricity industry in Ukraine is primarily regulated by the Law of Ukraine on Electric Energy Industry dated October 16, 1997 (the "**Electricity Act**").

The Ministry of Energy is a state management body in the power sector. The authorities of the Ministry of Energy are set forth by Decree of the President of Ukraine No. 382/2011 dated April 6, 2011.

The primary objectives of the Ministry of Energy are formation and implementation of the state policy in fuel and energy complex. The Electricity Act and other relevant legislation confers upon the NERC, which is an independent regulatory state body that is financed from the state budget and whose members are appointed by a Decree of the President of Ukraine, the authority to, among others:

- issue energy-related licenses,
- participate in the formation of a unified state policy for the development and functioning of the wholesale electricity market, and markets for gas, oil and oil-products;
- regulate natural monopolies in energy industry;
- promote competition in the electricity generation and sales;
- implement the pricing policy in electricity; and
- protect consumers' rights.

NERC was established and its statute was approved by Decree of the President of Ukraine No. 1059/2011 dated November 23, 2011.

The Electricity Act established the legal framework for the wholesale electricity market, where the wholesale sales take place. The wholesale electricity market comprises several groups of market participants, including generators and suppliers. While the Electricity Act sets forth general principles involving power generation, electricity distribution and sales including licensing, it also contains provisions on state supervision over the safe operation of power equipment of energy companies and consumers, electric energy consumption.

In accordance with the Electricity Act, with a few exceptions sales of all electricity generated by power generation companies in Ukraine are to be made to the operator of the wholesale electricity market, which then sells the electricity to suppliers, who then sell the electricity to consumers.

The wholesale market is also regulated by an agreement entered into by and among the members of the wholesale market (the "**WEM Agreement**"), which is contemplated under Article 15 of the Electricity Act. The WEM Agreement regulates the mechanisms of the wholesale market and is binding on every enterprise operating in the wholesale electricity market.

The WEM Agreement provides for general meetings of the wholesale electricity market members as well as a board of the wholesale electricity market, which consists of 10 voting members (5 of whom from generation companies and 5 of whom from suppliers) and 5 non-voting members, one representative from each of NERC, the Ministry of Energy, Ukrenergo (system and main network operator), Energorynok (market operator) and the Antimonopoly Committee of Ukraine. In accordance with the WEM Agreement, the auditor of the wholesale electricity market also may appoint a non-voting member of the board. According to the WEM Agreement, the board must meet at least once a month. The board provides general supervision over the wholesale electricity market's activities and the WEM Agreement.

In April 2009, amendments to the Electricity Act as to electricity exports came into force. According to such amendments, electricity for exports shall be purchased in the wholesale electricity market of Ukraine at wholesale prices. Access to the throughput capacities of interstate electricity networks shall be obtained at tenders, which are held by the system operator each month and may be obtained for a maximum of one year. If a successful bidder has used the purchased throughput capacities by less than 70% for two months in a row, the access right thereto shall be resubmitted for tender.

Electricity imports and transit are not regulated by a special law. But as Ukraine has ratified the Energy Charter, networks for electricity transit are provided on a non-discriminatory basis with due regard to technical limitations.

Power generation market

The power generation market is divided into the "regulated market," which comprises approximately 60% of the power generation market, including power generation from nuclear, hydro, combined heat and power plants and from alternative energy sources, and the "competitive market," which comprises approximately 40% of the power generation market, including power generation from the thermal power plants.

Pursuant to Article 15 of the Electricity Act and the Rules of the Wholesale Electricity Market of Ukraine approved by NERC on August 9, 2012, the wholesale electricity tariff on the wholesale market is determined as the average price charged by all of the power generation companies plus system operator and market operator expenses, cross subsidies that cover costs of supplying electricity to certain preferential groups of customers and a wholesale price mark-up.

The competitive part of the market operates under a day-ahead bidding principle, which is based on hourly bids from individual electricity units and consumption forecast for the following day. Energorynok ranks thermal electricity producers in ascending order based on the submitted bid prices until the forecast demand is met. The base price for electricity is determined by the last satisfying bid. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Our Results of Operations—Prices for our products in each of our business segments—Power generation"*.

Electricity distributors' market

Electricity distribution companies are deemed to be natural monopolies for the purposes of Ukrainian law. Their tariffs are set by NERC. See *"Industry—Electricity market structure and pricing"*.

Consumer market

The retail prices for electricity paid by consumers are determined by NERC. See *"Industry—Electricity market structure and pricing"*.

Payments

The wholesale electricity market has experienced some problems in the past, principally because the distributors have not usually been paid in cash by most of their customers. Consequently, the funds going to the wholesale electricity market were not sufficient to cover the payments the wholesale electricity market owed to the generators. To help mitigate this problem, a system of distributive accounts for payments for electricity was introduced. All payments for consumed electricity are now made to these distributive bank accounts of the distributors, which are maintained separately from their current accounts. All funds accumulated in these distributive accounts are then divided, in accordance with an algorithm established monthly by the NERC, between the bank account of each particular distributor and the distributive account of the wholesale electricity market for allocation among the generators.

Licenses

NERC issues a separate license for each type of licensed activity in the electricity sector and currently issues eight types of licenses:

- license for power generation:
- license for electricity transmission through magistral and inter-state electricity networks;
- license for electricity transmission through local (distribution) electricity networks;
- license for electricity supply (sales) on regulated tariffs;
- license for electricity supply (sales) on unregulated tariffs;
- license for wholesale sales of electricity;
- license for combined generation of steam energy and electricity; and
- license for generation of steam energy by thermal power plants and units where non-traditional or renewable sources of energy are used.

The only enterprises which do not need a license to operate are those with an electric power capacity of less than 5MW (or 10MW for enterprises that produce energy from alternative sources).

The license for electricity suppliers on a Regulated Tariff Basis also imposes strict regulations on their activities. For example, under the Conditions and Rules on Conducting Business Activity for the Supply of Electric Energy on a Regulated Tariff Basis, approved by Order of the NERC No. 15⁄1 dated June 13, 1996:

- each supplier may not provide cross-subsidies to or receive cross-subsidies from its affiliates out of profits from licensed activities; and
- each supplier must ensure that none of its affiliates is using any of its information to gain an unjustified competitive advantage in the wholesale electricity market.

Administrative procedure

License holders must pay a quarterly fee, which is determined by NERC and which varies among the various groups of license holders. The licenses specify the type of activity and the term for which the license is granted, as well as the specific terms and conditions of the license as drafted by NERC pursuant to the Electricity Act. Transfer of licenses, including by way of security as well as establishing pledge over licenses are prohibited under Ukrainian law. The legal entity in whose name the license is granted is required to personally undertake the performance of the activities for which the license is granted.

NERC issues licenses for a term not less than three years. An existing license holder has the right to apply to NERC for renewal of its license no later than 30 days prior to its expiration date. NERC must renew the license, unless:

- the licensee has failed to submit the application for renewal in time;
- there are any inconsistencies between information submitted by the licensee and information contained in the license register; or
- the licensee has violated license terms and failed to remedy the violation within term indicated by NERC.

Terminating a license

Power generation companies must comply with the requirements of their licenses or else their license will be terminated. Licenses may be terminated for various reasons, including, among others:

- providing incorrect information in the license application;
- transfer of the license to a third party;
- repeated violation of the terms and conditions of the license within a year; or
- inability to satisfy license terms for a specific type of activity.

The decisions of NERC regarding termination of licenses may be appealed before courts.

Electricity distribution companies must comply with the requirements of their licenses or else they will face sanctions in accordance with Order of the NERC No. 15/1 dated June 13, 1996.

The licenses for the electricity distribution companies can be terminated because of the above mentioned reasons.

Environmental Regulations

We are subject to numerous national and local environmental laws and regulations relating to coal mining and the production and distribution of energy in general and the environment in particular. At the moment, the DTEK Group is responsible for land restoration and soil remediation, water reclamation, atmospheric protection and waste utilization.

The environmental matters of coal mining and power generation in Ukraine are primarily regulated by (1) the Law of Ukraine "On Environmental Protection" dated June 25, 1991; (2) Subsoil Code; (3) the Water Code of Ukraine dated June 6, 1995; (4) the Law of Ukraine "On Atmospheric Air Protection" dated October 16, 1992; and (5) the Law of Ukraine "On Wastes" dated March 5, 1998.

Our coal mining and power generation companies must comply with numerous ecological restrictions related to permitted land, water and air pollution and waste utilization, which are currently governed by following principal regulations:

- Resolution of CMU "On the Procedure for Elaboration and Approval of Maximum Allowed Ratios of Pollutant Discharge and the List of Regulated Pollutants" No.1100 dated September 11, 1996 (in respect of water);
- Order of Ministry of Environmental Protection of Ukraine "On Approval of Maximum Allowed Ratios of Pollutant Emissions by Stationary Sources" No.309 dated June 27, 2006 (in respect of air); and
- Resolution of CMU "On Approval of the Procedure for Elaboration, Approval and Restatement of Limits of Generation and Disposal of Wastes" No.1218 dated August 3, 1998 (in respect of wastes).

In addition, there are rules concerning emissions of sulphur, nitrogen and other pollutants, which are based on the Concept of the State Implementation Policy regarding the emissions reduction of sulphur and nitrogen to the atmosphere dated October 15, 2003 (the "**Emissions Reduction Concept**"). The main tasks of the Emissions Reduction Concept are to implement a state controlled system to reduce sulphur and nitrogen emissions and to amend Ukrainian legislation on environmental protection so it is consistent with the legislation of the EU and instruments of the UN. However, at the moment there are no specific requirements concerning sulphur and nitrogen emitted during power generation, other than requirements provided for by the general regulations on atmospheric emissions.

Ukraine is also a party to the Protocol to the 1979 Convention on Long-Range Transboundary Air Pollution on Further Reduction of Sulphur Emissions and the Kyoto Protocol.

For providing incentives to produce electricity from alternative energy sources, some provisions as to the procedure for granting a 'green' (feed-in) tariff have been introduced into the Electricity Act in 2008.

Although Ukrainian law recognizes a wide range of alternative energy sources (including solar, wind, geosteam energy, energy of waves and tides, hydro energy, energy of biomass, organic wastes, sewage treatment facilities gases, biogas, and recycled energy resources, which include blast-furnace and coke-oven gases, coal mine methane, discharged energy in technological processes) green tariff is available only to generation companies that harness electricity from certain alternative energy sources, including wind, solar, biomass and small hydro. Starting from April 1, 2013, green tariff will be available for electricity generated from biogas.

The wholesale electricity market is under an obligation to purchase at a green tariff all the electricity produced by generation facilities using certain alternative energy sources (apart from blast-furnace and coke-oven gases) and when using hydro energy-electricity produced only by small hydro generating facilities. Such electricity may also be sold directly to consumers or energy supplying companies.

An amount of the green tariff for electricity is set at the level of a retail tariff for second voltage class consumers multiplied by a coefficient individually set for each type of energy as of January 2009. For example, the coefficient for electricity produced from wind by electricity facilities with the installed capacity of above 2000kW is 2.1. The green tariff is valid until January 1, 2030.

In 2009, new legislation made approval of the green tariff for a generation facility subject to its compliance with the local content requirements. Accordingly, for the purposes of eligibility for the green tariff operators of generation facilities whose construction commenced on January 1, 2012 or later must show that a specified portion of equipment, materials, works or services of Ukrainian origin was used for the development of such generation facilities. Furthermore, additional complex local content requirements are set to become effective on July 1, 2013.

Electricity facilities using alternative energy sources are connected to the grid at the expense of electricity transmitting companies, whose costs are equally financed on 50% by an interest-free loan extended by the operator of such electricity facilities and from reimbursements via tariff for the transmission of electricity. The loan is granted and the transmitting company is recovered through the transmission tariff within 10 years.

Recent Regulatory Developments

The Draft Law "On the Bases of the Electricity Market Functioning" (the "**Draft WEM Law**") was registered with the Ukrainian Parliament on June 6, 2012. The Draft WEM Law was developed in accordance with the requirements of the National Action Plan for 2012 regarding the implementation of the Economic Reforms Program for 2010-2014 and the Protocol concerning the Accession of Ukraine to the Treaty Establishing the Energy Community. The first reading of the Draft WEM Law was passed in principle and the Draft WEM Law was re-registered for further consideration by the Ukrainian Parliament. The Secretariat of the Energy Community recommended adopting the Draft WEM Law without delay to ensure Ukraine's compliance with the provisions of the Treaty Establishing the Energy Community. The Draft WEM Law seeks to create a framework for the liberalization of the Ukrainian wholesale electricity market and envisages the following:

- consumer choice as to electricity supplier;
- equal rights for the sale and purchase of electric energy and for access to main and cross border and/or local electric networks;
- the creation of competitive electricity markets (the bilateral contracts market, the day ahead market, the balancing market, the ancillary services market, the retail electricity market);
- the reliable and uninterrupted supply of electricity to consumers;
- the provisions of state guarantees for the development of electricity production from renewable sources; and
- the gradual cessation of cross-subsidizing of electricity generation.

On June 21, 2012, amendments were introduced to the Law of Ukraine "On Natural Monopolies" dated April 20, 2000 (the "**Amendments to the Law on Natural Monopolies**"), which enabled implementation of the incentive regulation for tariffs of natural monopolists. This new legislation provides definitions of the incentive regulation, regulatory assets base and regulatory rate of return and the major tariff elements to be included by the regulatory authorities when setting tariffs. Also the new legislation envisages a one-time revaluation of assets used by natural monopolists for the purposes of determination of the regulatory asset base. Such revaluation should be carried out in the course of transition of the natural monopolist to incentive regulation.

The State Property Fund developed a draft methodology for the evaluation of assets of the natural monopolists. The said draft was published for discussion in October 2012. Currently the said draft methodology is awaiting further approval. Also in 2012, the process of revaluation of assets of several pilot local distribution and supply companies, including Dniprooblenergo, commenced with the purpose of testing the draft assets evaluation methodology.

The NERC developed and published the drafts of the following regulations: (i) draft procedure for determining the regulated revenue from activities in electricity distribution based on incentive regulation approach, (ii) draft Procedure for calculation of the retail tariffs for electricity, tariffs for electricity distribution by local electric networks and tariffs for supply of electricity at regulated tariff based on incentive regulation approach, and (iii) draft Procedure for determination of the regulatory asset base for natural monopolists in the electricity sector.

In June 2012, the Law of Ukraine "On Changes to Certain Laws of Ukraine regarding the Fee for Connection to the Networks of Subjects of Natural Monopolies" dated June 22, 2012, was adopted (the

"**Law on Connection to Networks**"). The law was developed with the purpose of formalizing the relations between customers and electricity distribution companies in the course of connecting customers to electric networks; to ensure the transparent procedure for determining the amount of the connection fee based on economic and technical characteristics of the networks. This law also determines the sources for financing of investment programs of the electricity distribution companies and settles certain specific issues related to connection to electric networks, such as connection of apartment buildings and facilities producing energy from alternative sources. In February 2013, the NERC published for discussion the draft Procedure on financing of services on connecting electric installations to electric networks that implements provisions of the new law.

On November 8, 2012, the NERC published for discussion the draft rules for connection of electrical installations to electric networks. The draft rules set out the procedure under which the electricity distribution company provides the services of connecting customers' energy installations to the electric network. Two types of connections are determined: the standard one (with straight-line distance between the grid exit point and the connection point of up to 300 meters and maximum capacity of up to 160kW) and non-standard one being a connection which does not meet requirements for a standard connection.

The NERC approved the fees for a standard connection of electric installations. In April 2012, by Resolution No. 498 dated April 23, 2012, the NERC approved a new procedure on the application of the electricity tariffs for households consumers. The said changes introduced further differentiation of the electricity tariffs. Accordingly, the current system of the residential tariffs is differentiated based on:

- the type of households (urban; rural; those living in houses equipped with electric ovens and electric heating; those being families with many children etc.);
- the monthly consumption volume (tariffs vary depending on whether the consumption volume exceed the following reference points: 150 kWh, 250 kWh, 800 kWh, 3,600 kWh); and
- seasonality for certain categories of consumers (tariffs during the period from May 1 to September 30 differ from those in the period from October 1 to April 30).

For example, electricity tariffs for urban households are set at:

- 23.35 kopecks/kWh (without VAT) for consumption up to 150 kWh per month;
- 30.4 kopecks/kWh (without VAT) for consumption in excess of 150 and up to 800 kWh per month; and
- 79.8 kopecks/kWh (without VAT) for consumption above 800 kWh per month.

In June 2012, the NERC by its Resolution No. 750 dated June 15, 2012, increased tariffs for households (i) consuming more than 800 kWh per month and (ii) for those using electric heating units and consuming over 3,600kWh per month during the cold season. In September 2012, the NERC by Resolution No. 1183 dated September 13, 2012, further amended the tariff schedule increasing consumption margins applicable to users of electric heating units during cold season from 1,800kWh per month to 3,600kWh per month.

Holdings B.V.

Holdings B.V. is the holding company of the DTEK Group and through its supervisory and management boards manages and is responsible for the development and implementation of a business-development strategy, optimization of key business processes, procurement functions, human resources, finance management and all other high-level management decisions and issues that arise within the DTEK Group.

General Meeting of Shareholders

The main powers of the General Meeting of Shareholders are expressly stated in the Articles of Association and, in particular include, but are not limited to the power:

- to appoint, suspend and dismiss members of the Management Board and of the Supervisory Board;
- to adopt the annual accounts, declare dividends and to discharge the Management Board and the Supervisory Board from responsibility for the performance of their respective duties for the previous financial year;
- to adopt amendments to the Articles and proposals to dissolve or liquidate Holdings B.V.;
- to issue shares or rights to shares;
- to approve transactions for the sale, purchase and disposal of shares and/or corporate rights held by Holdings B.V. and other companies of DTEK Group; and
- to restrict or exclude pre-emptive rights of shareholders to shares to be issued in Holdings B.V.

Supervisory Board

The Supervisory Board is the senior body of strategic management of Holdings B.V. and it is the Supervisory Board's duty to supervise the activities of the Management Board of Holdings B.V. and to oversee the general course of affairs of Holdings B.V. and the DTEK Group.

The following table sets out the members of the Supervisory Board of Holdings B.V. as of the date of this offering memorandum:

Name	Year of Birth	Position
Oleg Popov	1969	Chairman of the Supervisory Board
Nataliya Izosimova	1958	Member of the Supervisory Board
Robert Sheppard(1)	1949	Member of the Supervisory Board
Irina Mykh	1972	Member of the Supervisory Board
Sergey Korovin	1971	Member of the Supervisory Board
Damir Akhmetov	1988	Member of the Supervisory Board
Catherine Stalker(1)	1968	Member of the Supervisory Board
Johan Bastin(1)	1952	Member of the Supervisory Board

(1) Independent.

There are three independent directors in the Supervisory Board of Holdings B.V., Robert Sheppard, Catherine Stalker and Johan Bastin.

Details of members of the Supervisory Board are set out below:

Oleg Popov. Mr. Popov graduated from the Donetsk Polytechnic Institute in 1991 and from the Donetsk State University in 1996. Mr. Popov became the Executive Director of SCM JSC in 2000 and was promoted to Chief Executive Officer of SCM JSC in December 2006. Mr. Popov also chairs the Supervisory Board of the Shakhtar football club (Donetsk). In addition, Mr. Popov represents SCM on the Supervisory Boards of Metinvest, SCM's banking assets and Ukraina Media Group.

Nataliya Izosimova. Ms. Izosimova has a Master's Degree in English and American Literature from the Moscow State Pedagogic University. Ms. Izosimova held the positions of Personnel Director and Corporate Restructuring Director at SCM JSC during the course of 2005. Since 2007, Ms. Izosimova has been the Managing Director of Rinat Akhmetov's Foundation for Effective Governance. Ms. Izosimova

represents the interests of SCM on the supervisory boards of SCM's mining and metals, energy, finance and media businesses.

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

Irina Mykh. Ms. Mykh graduated from the law school of the Ivan Franko State University in Lviv, Ukraine, in 1994. She later studied at Osgoode Hall School of Law, York University, Toronto, Canada. She was a senior lawyer at The Silecky Firm, an affiliate of Squire Sanders & Dempsey LLP from 1996 to 2006, where she became a partner in 2006. From June 2008 to October 2008, Ms. Mykh was a legal counsel of the Ukrainian Agricultural Investments. Until 2009, Ms. Mykh worked as Head of the Legal Department of Klub Syra Ltd until 2009. Ms. Mykh currently holds the position of Senior Attorney at the law firm Voropaev and Partners Ltd, and is a member of the board of directors of Euroasia Telecommunications Holding B.V. and a member of the Supervisory Board of Astelit LLC.

Sergey Korovin. In 1993, Mr. Korovin graduated with honors from the Department of Computational Mathematics and Cybernetics at Lomonosov Moscow State University, Moscow, Russia in 1993. He worked in the Danish and Russian offices of the consultancy McKinsey & Company from 2002 to 2008. Mr. Korovin has managed projects for telecom companies and served on the board of Microsoft Russia since 2008. Mr. Korovin has been the Director of Energy Business Development of SCM JSC since 2010.

Damir Akhmetov. Mr. Akhmetov graduated from the international school "Institut Le Rosey" in Switzerland under the International Baccalaureate Diploma Programme. In 2010 Mr. Akhmetov graduated from Sir John Cass Business School (City University London) as a Master's degree in Finance.

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

Johan Bastin. Dr Bastin holds a Ph.D. in Regional Planning with a specialization in Public Administration and Finance from the University of Montreal, Canada. He also received a Master's in Science in Urban Planning from the Eindhoven University of Technology (the Netherlands) and attended the MBA programme at McGill University, Montreal. From 1985 until 1992, Mr. Bastin worked as Resident Team Director at the Harvard Institute for International Development (Harvard University) advising the Minister of Finance of Indonesia on infrastructure finance and utility privatization. Mr. Bastin held a number of senior executive positions at the European Bank for Reconstruction and Development ("**EBRD**") in London, United Kingdom, including that of Business Group Director for Infrastructure with leadership responsibility for EBRD's investments in transportation and energy companies, municipal and environmental infrastructure, as well as energy efficiency. Dr. Bastin later worked as the Managing Director, Europe of Darby Private Equity, a global, emerging markets private equity and mezzanine management firm owned by Franklin Templeton. Based in Singapore, he currently is CEO of CapAsia, a leading private equity fund manager specializing in infrastructure and utility investments in Southeast and Central Asia.

Committees of the Supervisory Board

The following sets forth the various committees of Holdings B.V. and their members, each of whom are members of the Supervisory Board.

Strategy and Investment Committee

The Strategy and Investment Committee is a standing advisory body of the Supervisory Board which oversees the DTEK Group's strategy and investment objectives. The committee's tasks include, amongst others:

- analyzing long-term prospects of the DTEK Group, developments in the economy, future changes in legislation and technology and, accordingly, the DTEK Group's positioning, its mission and activity;
- planning investments, including large-scale investment projects, mergers and acquisitions and joint projects;
- controlling compliance with the group's strategy, risk assessment and monitoring, organization and supervision of projects;
- coordinating the collection of strategic data and lobbying on issues to the group;
- managing and mitigating risks relating to the group's strategy; and
- establishing standard risk levels and internal rates of return on investments.

The following table sets out the members of the Committee as of the date of this offering memorandum:

Name	Year of Birth	Position
Sergey Korovin	1971	Chairman of the Committee
Oleg Popov	1969	Member of the Supervisory Board
Damir Akhmetov	1988	Member of the Supervisory Board
Johan Bastin	1952	Member of the Supervisory Board

Audit Committee

The Audit Committee is a standing advisory body of the Supervisory Board. Its tasks include:

- Assistance to the Supervisory Board in its control over: timeliness, completeness and reliability of financial and other statements, process of its preparation and presentation;
- Functioning of risk management, internal control and compliance systems; and
- Provision of recommendations on the choice of independent auditor.

The following table sets out the members of the Audit Committee as of the date of this offering memorandum:

Name	Year of Birth	Position
Sergey Korovin	1971	Chairman of the Committee
Irina Mykh	1972	Member of the Supervisory board

Nominations and Remuneration Committee

The Nominations and Remuneration Committee is a standing advisory body of the Supervisory Board that has primary responsibility for:

- assistance to the Supervisory Board in performing its functions with respect to formation of a motivation system, appraisal, remuneration and development of the top managers and the Management Board;
- recommendations for improving personnel management systems;
- recommend individuals to the Supervisory Board for nomination as members of the Supervisory Board and its committees and for nomination as members of the Management Board;
- development of proposals for group's corporate governance; and
- preparation and submission of conclusions within its competence for the Supervisory Board consideration.

The following table sets out the members of the Nomination and Remuneration Committee as of the date of this offering memorandum:

Name	Year of Birth	Position
Nataliya Izosimova	1958	Chairman of the Committee
Oleg Popov	1969	Member of the Committee
Catherine Stalker	1968	Member of the Committee

Health, Safety and Environment Committee

The Health, Safety and Environment Committee is a standing advisory body of the Supervisory Board. The primary responsibilities goals of this committee are:

- identification and oversight of health, safety and environment risks in the DTEK Group's operations; and
- development and maintenance of organizational capabilities in the area of Health, Safety and Environment.

The following table sets out the members of the Health, Safety and Environment Committee as of the date of this offering memorandum:

Name	Year of Birth	Position
Robert Sheppard.	1949	Chairman of the Committee
Irina Mykh	1972	Member of the Committee

Management Board

The following table sets forth the Directors of Holdings B.V. as of the date of this offering memorandum. The Directors of Holdings B.V. comprise its Management Board, which is responsible for the organization and planning of economic, financial, commercial and other types of activities carried out by Holdings B.V., control over accounting and finance, approving development plans and human resources policies of Holdings B.V., as well as other functions pertaining to day-to-day operational management.

Name	Year of Birth	Position
Maksym Timchenko	1975	Director of Holdings B.V.
Vistra (Amsterdam) B.V.	n/a	Director of Holdings B.V.

Details of members of the Directors of Holdings B.V. are set out below:

Maksym Timchenko. Mr. Timchenko graduated with honors from the Donetsk State Academy of Management, Donetsk, Ukraine, in 1997 with a degree in Production Management. In 1998, Mr. Timchenko graduated with honors from the University of Manchester with a Bachelor's degree in Economics and Social studies. Mr. Timchenko began his career as a consultant at PricewaterhouseCoopers (1998-2002), where he rose to the position of senior auditor. From 2002 to 2005 he worked as a senior manager at System Capital Management. Since July 2005 he has been the DTEK Group's Chief Executive Officer and Chairman of the Executive Board. In 2007, Mr. Timchenko became the Chief Executive Officer of DTEK LLC. In 2008, Mr. Timchenko ranked first in the "Top 100 Best Top Managers of Ukraine" according to the Ukrainian magazine "Ekonomika", and in 2009, Mr. Timchenko ranked first in the "Top 100 Best Top Managers of Ukraine" according to the Ukrainian magazine "TOP-100 Ratings". Mr. Timchenko is a member of the Association of Chartered Certified Accountants.

Vistra (Amsterdam) B.V. Vistra (Amsterdam) B.V. was incorporated as FTC Trust B.V. on May 9, 1990. It changed it name to Vistra (Amsterdam) B.V. on June 15, 2012 after the acquisition of FTC Group by Vistra on April 4, 2012. Its statutory seat is in Wassenaar, The Netherlands. Vistra (Amsterdam) B.V. started its operations 23 years ago and has been focusing on classic trust activities ever since. Its services generally include provision of management services, domiciliation services, basic legal and administrative services and secretarial services. Vistra (Amsterdam) B.V. regularly acts as a director of Dutch holding companies, as well as real estate, finance and license companies for which it coordinated various activities

spanning from effecting routine payments to corporate advisory assistance in initial public offerings. Vistra (Amsterdam) B.V. serves clients from numerous jurisdictions and has broad experience with clients that operate within and outside of Europe. Vistra (Amsterdam) B.V. has 70 employees. The ultimate beneficial owners of Vistra Group is the private equity fund of IK Investment Partners Limited senior global management of Vistra Group. The directors of Vistra (Amsterdam) B.V. are Ruurd van Wolfswinkel, Jacobus Bernardus Antonius Henricus Willems, Izak Marinus ten Hove, Jocaobus Johannes van Ginkel and Arnold van der Heide.

DTEK LLC

DTEK LLC serves as the management company for the DTEK Group and is responsible for the development and implementation of a business-development strategy, optimization of key business processes, procurement functions, human resources and finance management. Its governing bodies are the General Meeting of Participants and the Chief Executive Officer. The Chief Executive Officer of DTEK LLC is Mr. Timchenko (see "*Holdings B.V.—Management Board*"). The Chief Executive Officer has an advisory body which is the Management Board of DTEK LLC.

Management Board

The members of the Management Board are collectively responsible for the DTEK Group's management, the general affairs of DTEK LLC's business and the general affairs of the DTEK Group.

The Management Board is responsible for setting up and maintaining internal procedures that ensure that the Management Board is aware of all important financial information in order to safeguard timely, complete and accurate external financial reporting.

Management Board

The following table sets out the members of the Management Board of DTEK LLC as of the date of this offering memorandum:

Name	Year of Birth	Position
Maksym Timchenko	1975	CEO/Chairman of the Management Board
Yuriy Ryzhenkov	1976	Chief Operating Officer
Vsevolod Starukhin	1971	Chief Financial Officer
Dmitry Sakharuk	1979	Chief Legal Officer
Andrey Favorov	1975	Commercial Director
Alexander Tolkach	1977	Director for External Affairs
Evgeny Bogomolsky	1974	Director of Large Projects
Andrey Smirnov	1963	Coal Production Director
Sergey Tazin	1961	Electricity Generation Director
Igor Maslov	1966	Electricity Distribution and Sales Director
Alexandr Kucherenko	1970	HR Director

Details of members of the Management Board of DTEK LLC are set out below:

Maksym Timchenko. See "*—Holdings B.V.—Management Board*".

Yuriy Ryzhenkov. In 2000, Mr. Ryzhenkov graduated from the King's College London, the United Kingdom, and with a Bachelor degree in Business Management with honors. In 2000, he also graduated from the Donetsk State Technical University, Donetsk, Ukraine, with a degree in International Economics. In August 2006, Mr. Ryzhenkov graduated from the London Business School, the United Kingdom, and was awarded an MBA degree. Between 1998 and 2000, he worked as an assistant to the Chief Financial Officer of Donetsk Iron and Steel Works. In 2000 he was appointed manager of the Economic Analysis and Information Technology department at ISTIL Mini Steel Mill, Ukraine. From 2006 to 2007, he served as Deputy Chief Financial Officer and Chief Financial Officer of International Steel & Tube Industries Limited (ISTIL), a large steel production group, in Donetsk and London. In September 2007, Mr. Ryzhenkov joined DTEK LLC as the Director of Finance and in March 2010 Mr. Ryzhenkov was appointed Chief Operating Officer of DTEK LLC.

Vsevolod Starukhin. Mr. Starukhin graduated from the Warsaw School of Economics in 1995 with a degree in International Economics. In 2003, he obtained a Ph.D. in Economics with the Moscow Academy for Labor and Social Relations. In 2011 he graduated from the corporate MBA programme Energy of the Leader: joint programme of DTEK Academy and London Business School. Mr. Starukhin served as Credit Control and Financial Operations Manager at Kraft Jacobs Suchard, a group producing chocolate and coffee, from 1995 to 1996. From November 1996 to May 2006, he headed Financial Department of Mars Inc. in Russia, Hungary, the Netherlands and Brazil. Between 2006 and 2008, he worked for Schlumberger, a company providing oilfield services, as Financial Manager at its headquarters in France and as Chief Financial Officer in Russia. In April 2008, he became Chief Financial Officer of RUSAL's aluminium division in Moscow, Russia. Mr. Starukhin joined DTEK LLC as Deputy Chief Financial Officer in December 2009 and was promoted to Chief Financial Officer in March 2010.

Andrey Favorov. In 1999 Mr. Favorov graduated with a Bachelor of Science degree from the Georgia State University in Atlanta, GA. In 2005 he earned a Master of Business Administration degree from Georgetown University in Washington, DC. From 1998 to 2003, he worked as a project manager for such companies as IBM Global Services, Ford and Harrison LLP, and Eclipsys Corporation in Atlanta, GA. Upon obtaining his MBA in 2005, Mr. Favorov served as a Business Development Director for the leading international energy company AES Corporation in Kazakhstan, Russia, United Kingdom, Turkey and Africa. From 2009 and to 2010, he served as Business Development Director for Eastern Europe and CIS for Contour Global, a privately help international power developer with over $1 billion in assets under management. In November 2012, he was appointed a Managing Director of DTEK PowerTrade, DTEK electricity export subsidiary. In January 2012, Mr. Favorov was appointed Commercial Director of DTEK LLC.

Andrey Smirnov. In 1989, Mr. Smirnov graduated with honors from Donetsk Polytechnic Institute majoring in Mine Surveying. In 1998, he obtained a degree in Finance from the Syktyvkar State University. Mr. Smirnov holds a Ph.D. in Political Science and is an active member of the Academy of Mining Science of the Russian Federation. Prior to 2007, Mr. Smirnov served in various supervising positions in a number of coal companies in Russia. From 2007 to 2008, Mr. Smirnov was the Chief Executive Officer of Novo Group, a multi-industrial company based in Russia, where he led a project on establishing a power and coal company. During the years 2007 and 2008, he was the Advisor of the Tula Region Governor for Fuel and Energy Sector. From 2008 to 2011, Mr. Smirnov was the Chief Executive Officer of En+ Coal Company, which is owned by the En+Group. In May 2011, he was appointed Coal Production Director of DTEK LLC.

Sergey Tazin. Mr. Tazin graduated from Rensselaer Polytechnic Institute, New York, the USA, in 1993 with Bachelor and Master degrees in Electric Power Engineering. Mr. Tazin started his career as a junior engineer in Consolidated Edison, New York, the USA. Mr. Tazin held various positions in AES, a global power company, and General Electric, a multinational energy conglomerate. From 2005 until 2007, Mr. Tazin served as the General Director of EuroSibEnergo, a Russian private energy company. In the period from 2007 to 2008, Mr. Tazin held the office of Executive Director of Wholesale Generating Company No.3. He was the General Director of E.ON Russia, a Russian unit of E.ON AG, an international power distribution company. Mr. Tazin joined DTEK LLC as Director of Electricity Generation in 2012.

Igor Maslov. Mr. Maslov graduated from Donetsk Polytechnic Institute majoring in Power Plants and later from Donetsk National University with a degree in Enterprise Management. He started his career in 1983 as a worker at Zuyevskaya TPP-2, a large power company, member of DTEK. He worked as an engineer in Donbassenergo, Head of the Production Laboratory in the Donetsk Regional Dispatch Centre of the Electricity Industry of Ukraine and Head of Relay Protection and Automation Service in Service Invest, an electricity supplying company. In 2005, he was appointed the Head of DTEK's electricity distribution business. In 2012, Mr. Maslov was appointed to be the Electricity Distribution and Sales Director of DTEK LLC.

Evgeny Bogomolsky. Mr. Bogomolsky graduated from the Sverdlovsk Suvorov Military School in 1991 and the Popov Naval Institute of Radio Electronics in Saint Petersburg in 1996. In 2006, Mr. Bogomolsky received an MBA degree at the Californian State University of San Francisco, East Bay, the USA, and in 2008 he graduated from the Academy of National Economy of the Russian government as bachelor in Strategic Governance. From 2000 to 2004, Mr. Bogomolsky was the head of Varsi-Line, a company carrying out hi-tech projects for the Russian government. Mr. Bogomolsky was in charge of strategic

development at Hewlett-Packard Russia. In 2007, Mr. Bogomolsky joined Mirax Group, where he managed construction projects in the Central Administrative District of Moscow. Since 2009, he served as the Director of the construction and implementation of projects in "E4 Group". In 2012, he was appointed DTEK LLC's Director of Large Projects.

Alexander Tolkach. In 1999 Mr. Tolkach graduated from the Moscow State Institute of International Relations, a university under the auspices of the Ministry of Foreign Affairs of the Russian Federation, with a degree in International Relations. From 1999 to 2004, Mr. Tolkach worked in the North Atlantic Treaty Organization (NATO), European Association of Political Consultants (EAPC) and Western European Union (WEU) Department of the Russian Ministry of Foreign Affairs and later as attaché in the Permanent Mission of the Russian Federation to the Organization for Security and Cooperation in Europe (OSCE), Vienna, Austria. From 2004, Mr. Tolkach worked at Mechel, where he advanced from PR Manager to Director of the External Relations Department. In 2010, Mr. Tolkach was appointed Director for External Affairs at DTEK LLC.

Alexandr Kucherenko. In 1992, Mr. Kucherenko graduated from Cherkassy State Teachers' Training Institute, majoring in Russian Language and Literature. In 1995, Mr. Kucherenko obtained his Master's Degree in Public Administration at the Institute of Public Administration and Self-Governance at the Cabinet of Ministers of Ukraine. From 1991 to 1996, Mr. Kucherenko studied Economics and Sociology at Manchester University, Manchester, the United Kingdom. In 2011, he graduated from the corporate MBA programme of DTEK Academy and London Business School, the United Kingdom. From 1997 to 2001, Mr. Kucherenko worked as a regional sales manager and later as a national training coach at UNILEVER. In 2001, he joined INBEV as a national coach, and was later promoted to the Training and Development Director for the Eastern European Region. During the period of 2006 until 2009, Mr. Kucherenko held the position of Head of Training and Development Department at Raiffeisen Bank Aval. Mr. Kucherenko joined DTEK LLC in May 2009 as the Deputy HR Director. Later he was appointed the Acting HR Director. In May 2011, Mr. Kucherenko was appointed HR Director of DTEK LLC.

Dmitry Sakharuk. In 2000, Mr. Sakharuk graduated from the National University of Internal Affairs, Kharkov, Ukraine, as Master of Law with honors. In 2002, he received a Master of Law Enforcement degree with honours. In 2002, he obtained a Master of Law in International and Comparative Law degree from the Chicago College of Law, the USA. In 2011, he graduated from the corporate MBA programme of DTEK Academy and London Business School, the United Kingdom. Prior to joining DTEK, Mr. Sakharuk worked at Squire, Sanders & Dempsey LLP, an international law firm. From March 2010, he held the position of the Deputy Head of the Legal Support Department of DTEK, and in June 2010 was appointed the Acting Legal Support Director of DTEK. In May 2011, Dmitry Sakharuk was appointed Chief Legal Officer of DTEK LLC.

Committees of the Management Board

The following sets forth the various committees of DTEK LLC's Management Board and their main functions.

Strategy Committee

The Strategy Committee is responsible for determination and elaboration of development plans, DTEK strategy and market position. The Strategy Committee also gives recommendations to the Supervisory Board and its committees, as well as the Management Board of DTEK on market strategy and new businesses establishment plans.

Human Resources Committee

The Human Resources Committee's primary responsibility is making recommendations on recruitment and approval of key positions in the DTEK Group, as well as on approval of candidates for various professional education programs, as well as improving the Human Resources policy and system.

Risk Committee

The Risk Committee functions include ensuring observance of risk management procedures, risk exposure reduction. The Committee also approves insurance program and monitors internal controls in the DTEK Group, including internal economic investigations, as well as compliance with regulatory requirements.

Safety Committee

The Safety Committee identifies and analyses safety risks, supervises the implementation of safety policy, is entitled to initiate corporate procedures for assessment of safety management systems. The Committee is also responsible for safety budget approval and safety improvement and other safety-related issues supervision.

Sustainable Development Committee

The Sustainable Development Committee's primary goals are to exercise control over environmental safety strategy implementation, ensure active social cooperation with and monitor town-planning procedures potential influence in regions where DTEK is active.

Conflicts of Interest

There are no conflicts of interest between any duties of the members of the Supervisory Board or management of Holdings B.V. or any surety and their private interests and/or other duties.

PRINCIPAL SHAREHOLDERS

The Issuer is a wholly owned subsidiary of Holdings B.V.. SCM and E.R EastEnergy Resource Limited, a wholly-owned subsidiary of SCM, together currently own 100% of the outstanding shares of Holdings B.V. The shareholding structure of Holdings B.V. is as follows:

Holder	Shares	Percentage
SCM Limited	A-class 2,250	75%
E.R EastEnergy Resource Limited	B-class 750	25%

The sole shareholder of SCM is Mr. Rinat Akhmetov who owns 3,000 shares, or 100% of the issued and outstanding share capital. We are not aware of any party or parties other than Mr. Akhmetov who could exercise control over the DTEK Group.

There are no arrangements currently in place which may result in a change of control of the DTEK Group.

THE ISSUER AND THE GUARANTORS

The principal activities of each operating entity in the Group, including each Surety, are coal mining, or power generation and electricity distribution. See *"Business"* and below for the principal activity of the Issuer and each Surety.

The business address of each director of the Issuer, each Guarantor and each Surety in such capacity is the registered office of the relevant entity as set out below. As at the date of this offering memorandum, neither the Issuer, the Guarantors nor any of the Sureties is aware of any potential conflict of interests between the duties their directors owe, on the one hand, and their private interests or the duties owed by any of them to any other person, on the other.

Issuer

Since the date of its incorporation, the Issuer has not commenced operations and no financial statements of the Issuer have been prepared as of the date of this offering memorandum. The Issuer has an accounting reference date of December 31 with the first fiscal year ending December 31, 2013. On an annual basis, the Issuer will prepare and publish audited financial statements, which will be filed in accordance with English law. The Issuer only intends to prepare audited annual financial statements.

DTEK Finance plc

Legal and commercial name	DTEK Finance plc	
Registration number	8422508	
Date and place of incorporation	February 27, 2013, United Kingdom	
Duration of existence	Unlimited	
Place of domicile	United Kingdom	
Legal form	Public company limited by shares	
Registered office	18 South Street, London, W1K 1DG	
Telephone No.	+44 (0)207 268 2430	
Issued share capital	GBP 50,000	
Group ownership as of April 2, 2013	100% of the charter capital	
Principal place of business	United Kingdom	
Directors	Name	Relevant other activities
	Mr. Maksym Timchenko	Chief Executive Officer of DTEK LLC
		Director of DTEK HOLDINGS LIMITED
		Member of Management Board of DTEK Holdings B.V.
		Member of Management Board of DTEK Finance B.V.
		Member of Management Board of DTEK Investments B.V.
		Director of DTEK TRADING LIMITED
		Director of DTEK Investments LTD
	Accomplish Corporate Services Limited	None
Management	Name	Relevant other activities
	Mr. Maksym Timchenko	Chief Executive Officer of DTEK LLC
		Director of DTEK HOLDINGS LIMITED
		Member of Management Board of DTEK Holdings B.V.

		Member of Management Board of DTEK Finance B.V.
		Member of Management Board of DTEK Investments B.V.
		Director of DTEK TRADING LIMITED
		Director of DTEK Investments LTD
	Accomplish Corporate Services Limited	None
Principal activities	Rising and providing loans, issuance of debt securities	

Guarantors

Holdings B.V.

Legal and commercial name	DTEK Holdings B.V.	
Registration number	34334895	
Date and place of incorporation	April 15, 2009, The Netherlands	
Duration of existence	Unlimited	
Place of domicile	The Netherlands	
Legal form	Private company with limited liability	
Registered office	Schiphol Boulevard 231 Tower B, 5th floor, 1118BH, Luchthaven Schiphol, The Netherlands	
Telephone No.	+31 20 405 47 47	
Issued share capital	EUR 30,000	
Principal place of business	The Netherlands	
Directors	Name	Relevant other activities
	Mr. Maksym Timchenko	Chief Executive Officer of DTEK LLC
		Director of DTEK HOLDINGS LIMITED
		Director of DTEK TRADING LIMITED
		Member of Management Board of DTEK Finance B.V.
		Member of Management Board of DTEK Investments B.V.
		Director of DTEK Investments LTD
	Vistra (Amsterdam) B.V.	Member of Management Board of DTEK Finance B.V.
		Member of Management Board of DTEK Investments B.V.
Management	Name	Relevant other activities
	Mr. Maksym Timchenko	Chief Executive Officer of DTEK LLC
		Director of DTEK HOLDINGS LIMITED
		Director of DTEK TRADING LIMITED
		Member of Management Board of DTEK Finance B.V.
		Member of Management Board of DTEK Investments B.V.
		Director of DTEK Investments LTD

	Vistra (Amsterdam) B.V.	Member of Management Board of DTEK Finance B.V.
		Member of Management Board of DTEK Investments B.V.
Principal activities	Holding company	

Holdings Ltd

Legal and commercial name	DTEK HOLDINGS LIMITED	
Registration number	174860	
Date and place of incorporation	April 10, 2006, Republic of Cyprus	
Duration of existence	Unlimited	
Place of domicile	Cyprus	
Legal form	Limited liability company	
Registered office	Themistokli Dervi, 3 JULIA HOUSE P.C. 1066, Nicosia Cyprus	
Telephone No.	+35 722 555 393	
Issued share capital	Authorized shared capital US$65,600	
Group ownership as of February 19, 2013	100% of the charter capital	
Principal place of business	Cyprus	
Directors	Name	Relevant other activities
	Mr. Maksym Timchenko	Chief Executive Officer of DTEK LLC
		Member of Management Board of DTEK Holdings B.V.
		Director of DTEK TRADING LIMITED
		Member of Management Board of DTEK Finance B.V.
		Member of Management Board of DTEK Investments B.V.
		Director of DTEK Investments LTD
	Charalambos Michaelides	Director of DTEK TRADING LIMITED
	Panayiota Papademetriou	Director of DTEK TRADING LIMITED
Management	Name	Relevant other activities
	Mr. Maksym Timchenko	Chief Executive Officer of DTEK LLC
		Member of Management Board of DTEK Holdings B.V.
		Member of Management Board of DTEK Finance B.V.
		Member of Management Board of DTEK Investments B.V.
		Director of DTEK TRADING LIMITED
		Director of DTEK Investments LTD
	Charalambos Michaelides	Director of DTEK TRADING LIMITED
	Panayiota Papademetriou	Director of DTEK TRADING LIMITED
Principal activities	Holding company	

Trading Ltd

Legal and commercial name	DTEK TRADING LIMITED	
Registration number	245132	
Date and place of incorporation	January 27, 2009, Republic of Cyprus	
Duration of existence	Unlimited	
Place of domicile	Cyprus	
Legal form	Limited liability company	
Registered office	Themistokli Dervi, 3 JULIA HOUSE P.C. 1066, Nicosia Cyprus	
Telephone No.	+35 722 555 393	
Issued share capital	EUR 10,000	
Group ownership as of February 19, 2013	100% of the charter capital	
Principal place of business	Cyprus	
Directors	Name	Relevant other activities
	Mr. Maksym Timchenko	Chief Executive Officer of DTEK LLC
		Member of Management Board of DTEK Holdings B.V.
		Member of Management Board of DTEK Finance B.V.
		Member of Management Board of DTEK Investments B.V.
		Director of DTEK HOLDINGS LIMITED
		Director of DTEK Investments LTD
	Charalambos Michaelides	Director of DTEK HOLDINGS LIMITED
	Panayiota Papademetriou	Director of DTEK HOLDINGS LIMITED
Management	Name	Relevant other activities
	Mr. Maksym Timchenko	Chief Executive Officer of DTEK LLC
		Member of Management Board of DTEK Holdings B.V.
		Member of Management Board of DTEK Finance B.V.
		Member of Management Board of DTEK Investments B.V.
		Director of DTEK HOLDINGS LIMITED
		Director of DTEK Investments LTD
	Charalambos Michaelides	Director of DTEK HOLDINGS LIMITED
	Panayiota Papademetriou	
Principal activities	Trading company	

Sureties

DTEK LLC

Legal and commercial name	DTEK LIMITED LIABILITY COMPANY
Registration number	34225325
Date and place of incorporation	February 15, 2006, Donetsk, Ukraine

Duration of existence	Unlimited	
Place of domicile	Ukraine	
Legal form	Limited liability company	
Registered office	11 Shevchenko blv., Donetsk, Ukraine 83001	
Telephone No.	+38 062 381 4381 7706	
Issued share capital	UAH 325,897,381.26	
Group ownership as of February 19, 2013	100% of the charter capital	
Principal place of business	Ukraine	
Directors	Name	Relevant other activities
	Mr. Maksym Timchenko	Chief Executive Officer of DTEK LLC
		Member of Management Board of DTEK Holdings B.V.
		Member of Management Board of DTEK Finance B.V.
		Member of Management Board of DTEK Investments B.V.
		Director of DTEK HOLDINGS LIMITED
		Director of DTEK TRADING LIMITED
		Director of DTEK Investments LTD
Management	Name	Relevant other activities
	Mr. Maksym Timchenko	Chief Executive Officer of DTEK LLC
		Member of Management Board of DTEK Holdings B.V.
		Member of Management Board of DTEK Finance B.V.
		Member of Management Board of DTEK Investments B.V.
		Director of DTEK HOLDINGS LIMITED
		Director of DTEK TRADING LIMITED
		Director of DTEK Investments LTD
	Yuriy Ryzhenkov	None
	Vsevolod Starukhin	None
	Dmitry Sakharuk	None
	Andrey Favorov	None
	Alexander Tolkach	None
	Evgeny Bogomolsky	None
	Andrey Smirnov	None
	Sergey Tazin	None
	Igor Maslov	None
	Alexandr Kucherenko	None
Statutory auditors	Not applicable	
Financial year	Corresponds to calendar year	
Principal activities	Management company	

DTEK Trading

Legal and commercial name	DTEK TRADING LIMITED LIABILITY COMPANY	
Registration number	36511938	
Date and place of incorporation	May 7, 2009, Donetsk, Ukraine	
Duration of existence	Unlimited	
Place of domicile	Ukraine	
Legal form	Limited liability company	
Registered office	11, Shevchenko blv., Donetsk, Ukraine, 83001	
Telephone No.	+38 062 3894 149	
Issued share capital	UAH 62,500	
Group ownership as of February 19, 2013	100% of the charter capital	
Principal place of business	Ukraine	
Directors	Name	Relevant other activities
	Mr. Igor Koshelyev	None
Management	Name	
	Mr. Igor Koshelyev	
Statutory auditors	Not applicable	
Financial year	Corresponds to calendar year	
Principal activities	Wholesale trade, commercial services, financial intermediary services	

Skhidenergo

Legal and commercial name	DTEK SKHIDENERGO LIMITED LIABILITY COMPANY	
Registration number	31831942	
Date and place of incorporation	December 17, 2001, Ukraine, Donetsk	
Duration of existence	Unlimited	
Place of domicile	Ukraine	
Legal form	limited liability company	
Registered office	11, Shevchenko blv., Donetsk, Ukraine 83001	
Telephone No.	+38 062 3894 545	
Charter capital	UAH 11,800	
Group ownership as of February 19, 2013	100% of the charter capital	
Principal place of business	Ukraine	
Directors	Name	Relevant other activities
	Mr. Oleksandr Nagorskiy	None
Management	Name	Relevant other activities
	Mr. Oleksandr Nagorskiy	
Statutory auditors	Not applicable	
Financial year	Corresponds to calendar year	
Principal activities	Power generation	

Komsomolets Donbassa

Legal and commercial name	DTEK MINE KOMSOMOLETS DONBASSA, PUBLIC JOINT-STOCK COMPANY
Registration number	05508186
Date and place of incorporation	October 2, 1996, Kirovskoye, Donetsk region, Ukraine
Duration of existence	Unlimited
Place of domicile	Ukraine

Legal form	Public joint-stock company	
Registered office	Kirovskoye, Donetsk region, Ukraine, 86300	
Telephone No.	+38 062 5062 090	
Charter capital	UAH 83,719,816.75	
Group ownership as of February 19, 2013	94.64% of the charter capital (94.64% of voting rights)	
Principal place of business	Ukraine	
Directors	Name	Relevant other activities
	Mr. Konstantyn Vyalyi	None
Management	Name	Relevant other activities
	Mr. Konstantyn Vyalyi	None
Statutory auditors	Not applicable	
Financial year	Corresponds to calendar year	
Principal activities	Coal mining	

Pavlogradugol

Legal and commercial name	DTEK PAVLOGRADUGOL, PUBLIC JOINT-STOCK COMPANY	
Registration number	00178353	
Date and place of incorporation	April 2, 1997, Pavlograd, Dnipropetrovsk Region, Ukraine.	
Duration of existence	Unlimited	
Place of domicile	Ukraine	
Legal form	Public joint-stock company	
Registered office	76, Lenina str., Pavlograd, Dnipropetrovsk Region, Ukraine, 51400	
Telephone No.	+38 056 3268 556	
Charter capital	UAH 1,386,424,000.00	
Group ownership as of February 19, 2013	99.92% of charter capital (99.92% of voting rights)	
Principal place of business	Ukraine	
Directors	Name	Relevant other activities
	Mr. Sergiy Voronin	None
Management	Name	Relevant other activities
	Mr. Sergiy Voronin	None
Statutory auditors	Not applicable	
Financial year	Corresponds to calendar year	
Principal activities	Coal mining	

Servis-Invest

Legal and commercial name	LIMITED LIABILITY COMPANY SERVIS-INVEST
Registration number	31018149
Date and place of incorporation	June 6, 2000, Ukraine, Donetsk
Duration of existence	Unlimited
Place of domicile	Ukraine
Legal form	Limited liability company
Registered office	11, Shevchenko blv., Donetsk, Ukraine, 83055
Telephone No.	+38 062 3031 359
Issued share capital	UAH 19,900,408.00
Group ownership as of February 19, 2013	100% of the charter capital
Principal place of business	Ukraine

Directors	Name	Relevant other activities
	Mr. Oleg Trifonov	None
Management	Name	Relevant other activities
	Mr. Oleg Trifonov	None
Statutory auditors	Not applicable	
Financial year	Corresponds to calendar year	
Principal activities	Electricity distribution	

Tehrempostavka

Legal and commercial name	TEHREMPOSTAVKA LIMITED LIABILITY COMPANY	
Registration number	31366910	
Date and place of incorporation	February 14, 2001, Ukraine, Donetsk	
Duration of existence	Unlimited	
Place of domicile	Ukraine	
Legal form	Limited liability company	
Registered office	41 Artema Str., Donetsk, Ukraine, 83086	
Telephone No.	+38 062 381 77 06	
Charter capital	UAH 159,011,800.00	
Group ownership as of February 19, 2013	100% of the charter capital	
Principal place of business	Ukraine	
Directors	Name	Relevant other activities
	Mr. Vyacheslav Selivanov	None
Management	Name	Relevant other activities
	Mr. Vyacheslav Selivanov	None
Statutory auditors	Not applicable	
Financial year	Corresponds to calendar year	
Principal activities	Leasing	

Dobropolyeugol

Legal and commercial name	DTEK DOBROPOLYEUGOL LIMITED LIABILITY COMPANY	
Registration number	37014600	
Date and place of incorporation	October 25, 2010, Dobropillya, Donetsk region, Ukraine	
Duration of existence	Unlimited	
Place of domicile	Ukraine	
Legal form	Limited Liability Company	
Registered office	1A, Krasnoarmiyska Str., Bilitske, Dobropillya, Ukraine, 85043	
Telephone No.	+38 062 7727754	
Charter capital	UAH 1,000,000.00	
Group ownership as of February 19, 2013	100% of the charter capital	
Principal place of business	Ukraine	
Directors	Name	Relevant other activities
	Mr. Yuriy Cherednychenko	None
Management	Name	Relevant other activities
	Mr. Yuriy Cherednychenko	None
Statutory auditors	Not applicable	
Financial year	Corresponds to calendar year	
Principal activities	Coal mining	

Rovenkyanthracite

Legal and commercial name	DTEK ROVENKYANTHRACITE LIMITED LIABILITY COMPANY	
Registration number	37713861	
Date and place of incorporation	June 1, 2011, Rovenky, Lugansk region, Ukraine	
Duration of existence	Unlimited	
Place of domicile	Ukraine	
Legal form	Limited Liability Company	
Registered office	6, Komunistychna Str., Rovenky, Ukraine, 94701	
Telephone No.	+38064 3393548	
Charter capital	UAH 2,431,917.50	
Group ownership as of February 19, 2013	100% of the charter capital	
Principal place of business	Ukraine	
Directors	Name	Relevant other activities
	Mr. Oleksandr Bogdanov	Director of DTEK SVERDLOVANTHRACITE LLC
Management	Name	Relevant other activities
	Mr. Oleksandr Bogdanov	Director of DTEK SVERDLOVANTHRACITE LLC
Statutory auditors	Not applicable	
Financial year	Corresponds to calendar year	
Principal activities	Coal mining	

Sverdlovanthracite

Legal and commercial name	DTEK SVERDLOVANTHRACITE LIMITED LIABILITY COMPANY	
Registration number	37596090	
Date and place of incorporation	June 23, 2011, Sverdlovsk, Lugansk region, Ukraine	
Duration of existence	Unlimited	
Place of domicile	Ukraine	
Legal form	Limited Liability Company	
Registered office	1, Engelsa Str., Sverdlovsk, Ukraine, 94801	
Telephone No.	+38064 3425527	
Charter capital	UAH 2,431,917.50	
Group ownership as of February 19, 2013	100% of the charter capital	
Principal place of business	Ukraine	
Directors	Name	Relevant other activities
	Mr. Oleksandr Bogdanov	Director of DTEK ROVENKYANTHRACITE LLC
Management	Name	Relevant other activities
	Mr. Oleksandr Bogdanov	Director of DTEK ROVENKYANTHRACITE LLC
Statutory auditors	Not applicable	
Financial year	Corresponds to calendar year	
Principal activities	Coal mining	

Dniproenergo

Legal and commercial name	PUBLIC JOINT-STOCK COMPANY DTEK DNIPROENERGO
Registration number	00130872
Date and place of incorporation	April 8, 1998. Zaporizhya, Ukraine

Duration of existence	Unlimited	
Place of domicile	Ukraine	
Legal form	Public Joint-Stock Company	
Registered office	20, Dobrolybova Str., Zaporizhya, Ukraine, 69006	
Telephone No.	+38 061 286 73 59	
Charter capital	UAH 149,185,800.00	
Group ownership as of February 19, 2013	73.30% of the charter capital	
Principal place of business	Ukraine	
Directors	Name	Relevant other activities
	Mr. Yuriy Magera	None
Management	Name	Relevant other activities
	Mr. Yuriy Magera	None
Statutory auditors	Not applicable	
Financial year	Corresponds to calendar year	
Principal activities	Power generation	

Zakhidenergo

Legal and commercial name	PUBLIC JOINT-STOCK COMPANY DTEK ZAKHIDENERGO	
Registration number	23269555	
Date and place of incorporation	April 18, 2000, Lviv, Uktaine	
Duration of existence	Unlimited	
Place of domicile	Ukraine	
Legal form	Public Joint-Stock Company	
Registered office	15, Kozelnytska Str., Lviv, Ukraine, 79026	
Telephone No.	+38032 239 07 10	
Charter capital	UAH 127,905,410.00	
Group ownership as of February 19, 2013	72.19% of the charter capital	
Principal place of business	Ukraine	
Directors	Name	Relevant other activities
	Acting Director Mr. Myhaylo Malyovanyi	None
Management	Name	Relevant other activities
	Acting Director Mr. Myhaylo Malyovanyi	None
Statutory auditors	Not applicable	
Financial year	Corresponds to calendar year	
Principal activities	Power generation	

Kyivenergo

Legal and commercial name	PUBLIC JOINT-STOCK COMPANY KYIVENERGO	
Registration number	00131305	
Date and place of incorporation	April 12, 2003. Kyiv, Ukraine	
Duration of existence	Unlimited	
Place of domicile	Ukraine	
Legal form	Public Joint-Stock Company	
Registered office	5, Ivana Franka Square, Kyiv, Ukraine, 01001	
Telephone No.	+38044 239 42 33	

Charter capital	UAH 27,091,070.00	
Group ownership as of February 19, 2013	72.33% of the charter capital	
Principal place of business	Ukraine	
Directors	Name	Relevant other activities
	Mr. Oleksandr Fomenko	None
Management	Name	Relevant other activities
	Mr. Oleksandr Fomenko	None
Statutory auditors	Not applicable	
Financial year	Corresponds to calendar year	
Principal activities	Power generation	

RELATED PARTY TRANSACTIONS

We regularly enter into transactions with related parties, including entities under the common control of SCM, as well as other associated companies (such as Dniproenergo), in the ordinary course of business on market terms. These transactions primarily involve sales of coking coal and electricity to, and purchases of goods for resale and raw materials and equipment from, other companies in the SCM Group. The following is a description of certain of those related party transactions. For further information on our related party transactions, please see the Notes to our Consolidated Financial Statements included elsewhere in this offering memorandum.

Sales of Coal

We sell coking coal produced in our coal mines to other companies controlled by SCM, including Metinvest (the largest purchaser, accounting for 12.5% of our coal sales to external customers in 2012) as well as steam coal to our associate, Dniproenergo, under supply agreements with the relevant company. The material terms of those agreements generally provide that (i) the delivery of the coking coal is governed by Incoterms 2000, a series of international sales terms widely used throughout the world and which divide transactions costs between the buyer and seller; (ii) prices are set pursuant to a schedule based on the type of coal being sold; (iii) payments are made in Ukrainian currency to our relevant account in Ukraine no less than every seven days prior to and no later than the last day of the month; (iv) the buyer can make advance payments for coal to be supplied in the future; and (v) disputes are governed by the laws of Ukraine. The contracts generally terminate automatically upon completion of each party's obligations. Sales of coking and steam coal to our related parties in 2010, 2011 and 2012 were UAH4,987 million, UAH10,253 million, and UAH2,201 million, respectively.

Sales of Electricity

We sell electricity to other companies controlled by SCM, including "Azovstal Iron and Steel Works" Public Joint Stock Company, "Enakievskiy Metallurgical Plant" Public Joint Stock Company, Joint Stock Company Centralny GOK and Joint Stock Company Severny GOK, under supply agreements with the relevant company. The material terms of those agreements generally provide that (i) we will sell to the respective buyer electric power at a level that meets its respective installed capacity; (ii) the buyer will pay us in four weekly installments in each month (on the 8th, 14th, 21st and 26th day of each month); (iii) we will inform the buyer of any and all changes in the tariffs of electric power in writing or through media; (iv) we will guarantee the supply of electric power at the agreed to level; (v) in case of any material breach by the buyer, we can charge a fixed fee for electricity purchased or restrict or stop supplying electric power and demand repayment; (vi) the buyer can demand repayment in case of a material breach by us and can demand that we resume our power supply once the breach is remedied; (vii) the buyer can request information on power supply tariffs and information relating to the quality of electric power as set by the state; (viii) the buyer must submit an approval form for power consumption requirements no later than November 15 of each year; (ix) technical disputes are to be addressed to the State Inspection on the Supervision of Power Consumption; and (x) disputes are governed by the laws of Ukraine. Sales of electricity to our related parties in 2010, 2011 and 2012 were UAH3,245 million, UAH5,412 million and UAH7,692 million, respectively.

Purchases of Goods for Resale

We purchase goods (including pipes and metal-roll) for resale from other companies controlled by SCM, including Khartsizkiy, Metinvest SMC LLC ("**Metinvest SMC**") and SIC "Mining Machinery" CJSC ("**Mining Machines**"), pursuant to purchase agreements. These agreements are governed by the laws of Ukraine. Purchases of goods for resale from our related parties in 2010, 2011 and 2012 were UAH251 million, nil and nil, respectively.

Purchases of Raw Materials and Equipment

We purchase raw materials and equipment (including supplies of iron shoring for mines) from other companies controlled by SCM, including Metinvest, Mining Machines, Khartsizkiy and Metinvest SMC. For the terms of these agreements, see *"—Purchases of Goods for Resale".* Purchases of raw materials and equipment from our related parties in 2010, 2011 and 2012 were UAH81 million, UAH255 million and UAH380 million, respectively.

Railway Transportation of Coal and Raw Materials

We use railways wagons provided and operated by Lemtrans to transport railway freight. Such freight primarily consists of raw materials and coal to be transported from our coal mines to our customers, including to our power generation subsidiaries for use in our power stations. Railways freight transportation fees and costs payable to Lemtrans amounted to UAH650 million in 2012.

DESCRIPTION OF THE NOTES

The Issuer will issue the notes (the "**Notes**") under an indenture (the "**Indenture**") to be dated as of the Issue Date, among the Issuer, the Parent Guarantor, the Subsidiary Guarantors and BNY Mellon Corporate Trustee Services Limited, as trustee (the "**Trustee**", which expression will include all Persons for the time being the Trustee or Trustees under the Indenture) for the holders of Notes. For definitions of certain capitalized terms used in the following summary, please see the section entitled "—Certain Definitions" below.

Copies of the Indenture are available upon request to the Issuer at the address set forth under "Listing and General Information" and, for so long as the Notes are listed on the Global Exchange Market of the Irish Stock Exchange and the rules of that exchange so require, at the office of the listing agent in the United Kingdom. The following is a summary of the material provisions of the Indenture and is subject, and is qualified in its entirety by reference, to all of the provisions of the Notes, the Indenture and the Notes Guarantees (including the Deeds of Surety), including the definitions of certain terms contained therein.

For purposes of this description, references to:

- the "**Issuer**" refers to DTEK Finance plc, a newly-formed company organized under the laws of England and Wales;
- the "**Parent Guarantor**" refers to DTEK Holdings B.V., a company organized under the laws of The Netherlands;
- "**Subsidiary Guarantors**" refers to each Restricted Subsidiary that either guarantees the Notes pursuant to a guarantee under the Indenture or provides a deed of surety in respect of the Notes in accordance with the terms of the Indenture (each, a "**Deed of Surety**");
- the "**Guarantors**" refers collectively to the Parent Guarantor and the Subsidiary Guarantors; and
- the "**Group**" refers to the Parent Guarantor and its Subsidiaries.

General

The Notes will be issued in registered form and will:

- be general obligations of the Issuer;
- rank equally in right of payment with any existing and future Indebtedness of the Issuer that is not subordinated to the Notes;
- rank senior in right of payment to any existing and future subordinated obligations of the Issuer;
- be guaranteed by each of the Guarantors, as described below under the section entitled "—Guarantees";
- be effectively subordinated to any existing and future Indebtedness of the Issuer that is secured by property or assets, to the extent of the value of the property and assets securing such Indebtedness; and be structurally subordinated to all liabilities (including trade payables) and preferred stock of any subsidiary of the Parent Guarantor that does not provide a Note Guarantee in respect of the Notes.

The guarantee or Deed of Surety, as applicable, of each Guarantor (collectively, the "**Notes Guarantees**") will:

- be a general obligation of such Guarantor;
- rank equally in right of payment with all existing and future Indebtedness of such Guarantor that is not subordinated to such Guarantor's Notes Guarantee;
- rank senior in right of payment to any existing and future subordinated obligations of such Guarantor; and
- be effectively subordinated to any existing and future Indebtedness of such Guarantor that is secured by property or assets, to the extent of the value of the property and assets securing such Indebtedness.

As of the Issue Date, all of the Parent Guarantor's Subsidiaries will be Restricted Subsidiaries. However, under the circumstances described below under the caption "—Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries", the Parent Guarantor will be permitted to designate certain of its Subsidiaries as Unrestricted Subsidiaries. Unrestricted Subsidiaries will not be subject to any of the

restrictive covenants in the Indenture. Unrestricted Subsidiaries will not guarantee the Notes or provide surety in respect thereof.

The registered Holder of a Note will be treated as the owner of it for all purposes. Only registered holders will have rights under the Indenture.

Application has been made to have the Notes admitted to trading on the Global Exchange Market of the Irish Stock Exchange.

Principal, Maturity and Interest

The Issuer will issue $600 million in aggregate principal amount of Notes in this offering. The Issuer may issue additional Notes ("**Additional Notes**") under the Indenture from time to time after the offering. Any issuance of Additional Notes is subject to all of the covenants in the Indenture, including the covenant described below under the caption "—Certain Covenants—Limitation on Indebtedness". The Notes and any Additional Notes subsequently issued under the Indenture will be treated as a single class for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase; provided, however, that unless such Additional Notes are issued under a separate CUSIP, such Additional Notes are treated as fungible with the Notes for U.S. federal income tax purposes.

The Notes initially will be represented by global notes in registered form with a minimum denomination of $200,000 and integral multiples of $1,000 in excess thereof.

Notes sold in reliance on Rule 144A under the U.S. Securities Act will be represented by one or more permanent global notes (the "**Rule 144A Global Note**"). Notes sold in reliance on Regulation S under the U.S. Securities Act initially will be represented by one or more permanent global notes (the "**Regulation S Global Note**"). When issued, the Rule 144A Global Notes and the Regulation S Global Notes (together, the "**Global Notes**") will be deposited with, or on behalf of, DTC and registered in the name of Cede & Co., as DTC's nominee. Except as set forth below, record ownership of the Global Notes may be transferred, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee.

Investors who hold beneficial interests in a Regulation S Global Note may hold such interests only directly through Euroclear Bank S.A./N.V. ("**Euroclear**"), or Clearstream Banking, S.A. ("**Clearstream**"), if they are participants in these systems, or indirectly through organizations that are participants in these systems. After the expiration of the period ending 40 days after the later of the commencement of this offering of the Notes and the date the Notes were originally issued (the "**Distribution Compliance Period**"), investors may hold interests in a permanent Regulation S Global Note through participants in the DTC system other than Euroclear and Clearstream. Euroclear and Clearstream will hold interests in a Regulation S Global Note on behalf of their participants through their respective depositaries, which in turn will hold the interests in such Regulation S Global Note in customers' securities accounts in the depositaries' names on the books of DTC. Please see the section entitled "Book Entry; Delivery and Form".

The Notes will mature on April 4, 2018 (the "**Maturity Date**"). Interest on the Notes will accrue at the rate of 7.875% per annum and will be payable semi-annually in arrears, in cash, on each April 4 and October 4, commencing on October 4, 2013, to those persons who were holders of record on March 21 or September 20 immediately preceding the applicable interest payment date. Interest on overdue principal and interest will accrue at a rate that is 1% higher than the then applicable interest rate on the Notes. Interest on the Notes will accrue from the Issue Date or, if interest has already been paid, from the date it was most recently paid. Interest on the Notes will be computed on the 360-day year comprised of twelve 30-day months.

Principal of, premium, if any, and interest on the Notes will be payable in immediately available funds, and the Notes will be exchangeable and transferable, at an office or agency of the Issuer or any Paying Agent (of which, initially, the corporate trust office of the Trustee will be one); *provided, however,* that all such payments with respect to Notes represented by one or more Global Notes registered in the name of a nominee of the common depositary for Clearstream or Euroclear, will be made by wire transfer of immediately available funds to Euroclear and Clearstream; and interest on any definitive Note may be paid by check mailed to the person entitled thereto as shown on the register for such definitive Note. Please see the section entitled "Book Entry; Delivery and Form". No service charge will be made for any registration of transfer or exchange or redemption of Notes, but the Issuer may require payment in certain circumstances of a sum sufficient to cover any transfer tax or other similar governmental charge that may be imposed in connection therewith.

Paying Agent and Registrar for the Notes

The Issuer will maintain a Paying Agent for the Notes in (1) the City of London (the "**Principal Paying Agent**"), initially being The Bank of New York Mellon, London Branch, and (2) if, after the Issue Date, the Principal Paying Agent becomes obliged to withhold or deduct tax in connection with any payment made by it in relation to the Notes, another member state of the European Union (including any country which becomes a member of the European Union after the Issue Date) that is not obliged to withhold or deduct tax pursuant to the EU Savings Tax Directive (as defined below under the section entitled "—Payment of Additional Amounts") or any law implementing or complying with, or introduced in order to conform to, the EU Savings Tax Directive (any such paying agent appointed pursuant to this clause (2), or the Principal Paying Agent, being referred to as the "**Paying Agent**").

The Issuer will also maintain one or more registrars (each, a "**Registrar**") with at least one such Registrar having its offices in Luxembourg, and a transfer agent in the City of London. The initial Registrar will be The Bank of New York Mellon (Luxembourg) S.A. The initial transfer agent will be The Bank of New York Mellon, London Branch. The Registrar in Luxembourg and the transfer agent in London will maintain a register reflecting ownership of definitive Notes outstanding from time to time and will make payments on and facilitate transfers of definitive Notes on behalf of the Issuer.

The Issuer may change the paying agent or registrar without prior notice to the Trustee or holders of the Notes, and the Parent Guarantor or any of its Subsidiaries may act as paying agent or registrar. For so long as the Notes are listed on the Global Exchange Market of the Irish Stock Exchange and its rules so require, the Issuer will publish a notice of any change of Paying Agent, Registrar or transfer agent in the City of London in accordance with the provisions set forth under "—Notices".

Guarantees

The Issuer's obligations under the Notes and the Indenture initially will be guaranteed on a senior basis, pursuant to the Notes Guarantees, jointly and severally, by each of:

- the Parent Guarantor; and
- the Initial Subsidiary Guarantors;

and thereafter by each Restricted Subsidiary that is obligated to issue or otherwise issues a Notes Guarantee pursuant to the covenant described below under the section entitled "—Certain Covenants—Additional Guarantees". Each Guarantor will either (a) execute a guarantee in accordance with the terms of the Indenture, or (b) if the Issuer is so advised in writing by outside counsel to the Issuer that a deed of surety is a more appropriate form of credit support due to local law considerations, execute a Deed of Surety in accordance with the terms of the Indenture. Each of the Initial Subsidiary Guarantors and each future Guarantor, in each case, that is organized under the laws of Ukraine will execute a Deed of Surety in accordance with clause (b) above.

Guarantee Limitations

As a general matter, the obligations of each Subsidiary Guarantor under its Notes Guarantee may be contractually limited in the Indenture or the applicable guarantee or Deed of Surety (1) under relevant laws applicable to such Subsidiary Guarantor (including laws relating to corporate benefit, capital preservation, financial assistance, ultra vires activities, fraudulent conveyance and transfers or transactions under value); and (2) to the maximum amount that can be guaranteed under applicable laws, including laws related to fraudulent conveyance, fraudulent transfer, voidable preference, transactions under value or unlawful financial assistance, as applicable.

Ukraine

In particular, the Deeds of Surety to be executed by each Guarantor that is organized under the laws of Ukraine (each such Guarantor, a "**Ukrainian Surety**", and each such Deed of Surety, a "**Ukrainian Deed of Surety**") will be English law-governed deeds of surety. Below is a summary of certain terms and conditions of the Ukrainian Deeds of Surety; the full terms and conditions of the Ukrainian Deeds of Surety are contained in an annex to the Indenture.

Under the Ukrainian Deeds of Surety, each Ukrainian Surety will unconditionally and irrevocably agree on a joint and several basis that if the Issuer or any other Guarantor (including for the avoidance of doubt, any other Ukrainian Surety) does not pay any sum payable by it under the Indenture or the Notes

Guarantees (including for the avoidance of doubt, a Deed of Surety) by the time and on the date specified for such payment (whether on the normal due date, on acceleration or otherwise or, in the case of any extension of time of payment or renewal of any Notes, in accordance with the terms of such extension or renewal), it shall, on written demand of the Trustee, pay that sum, as if it were the Issuer or applicable Guarantor, to, or to the order of, the Trustee (or the relevant agent thereof) before the close of business on that date in the city to which payment is so to be made.

Without affecting the Issuer's or the Guarantors' obligations under the Indenture or Notes Guarantees, each Ukrainian Surety's liability under its Ukrainian Deed of Surety shall not be affected by (1) any time, indulgence, waiver or consent at any time given to the Issuer, a Guarantor or any other Person, (2) the making or absence of any demand on the Issuer or the Guarantor or any other Person for payment, (3) the enforcement or absence of enforcement of the Indenture or any Notes Guarantee or of any security or other surety or indemnity, (4) the taking, existence or release of any security, surety, indemnity or guarantee, (5) the dissolution, amalgamation, reconstruction or reorganisation of the Issuer or any Guarantor or any other Person, (6) the illegality, invalidity or unenforceability of or any defect in any provision of the Indenture or any Notes Guarantee or any of the Issuer's or Guarantors' obligations under any of them or (7) the bankruptcy or the liquidation of, or any analogous proceedings taken against, the Issuer or any Guarantor.

As separate, independent and alternative stipulations, the Ukrainian Sureties will unconditionally and irrevocably agree in the Ukrainian Deeds of Surety:

(a) that any sum that, although expressed to be payable by the Issuer or a Guarantor under the Indenture, Notes or a Notes Guarantee, is for any reason, whether or not now existing and whether or not now known or becoming known to the Issuer, any Guarantor, the Trustee or any holder of Notes and whether or not the Issuer or any Surety or other Guarantor has been dissolved, amalgamated, reconstructed or reorganised, or any provision of the Indenture or a Notes Guarantee or any of the Issuers', Sureties' or other Guarantor's obligations under any of them, is illegal, invalid, defective or unenforceable, and irrespective of any bankruptcy or liquidation of, or any analogous proceedings taken against, the Issuer, any Surety or other Guarantor, it shall nevertheless be recoverable from them as if each of them were the sole principal debtor under the Indenture or a Notes Guarantee and shall be paid by them to the Trustee on demand; and

(b) as a primary obligation to indemnify the Trustee and each holder, as the case may be, against any loss suffered by any of them as a result of any sum expressed to be payable by the Issuer or a Guarantor under the Indenture or a Notes Guarantee not being paid on the date and otherwise in the manner specified therein or being or becoming void, voidable or unenforceable for any reason (whether or not now existing and whether or not known or becoming known to the Issuer, any Guarantor, the Trustee, or any holder of Notes and whether or not the Issuer or any Surety or other Guarantor has been dissolved, amalgamated, reconstructed or reorganized, or any provision of the Indenture or a Notes Guarantee or any of the Issuer's, Sureties' or other Guarantors' obligations under any of them is illegal, invalid, defective or unenforceable, and irrespective of any bankruptcy or liquidation of, or any analogous proceedings taken against, the Issuer, any Surety or other Guarantor), the amount of that loss being the amount expressed to be payable by the Issuer, a Guarantor or relevant Surety, or in respect of the relevant sum.

The Ukrainian Deeds of Surety will also provide that claims by the Trustee against Ukrainian Sureties on behalf of the holders of Notes will be direct claims on such Ukrainian Sureties. However, the obligations of each Ukrainian Surety under the Ukrainian Deeds of Surety will be limited under relevant laws applicable to such Ukrainian Surety.

Cyprus

In addition, the Notes Guarantee to be provided by each of the Guarantors organized under the laws of Cyprus (each, a "**Cypriot Guarantor**") will contain the following limitations:

The obligations and liabilities of each Cypriot Guarantor in respect of its Notes Guarantee shall not include any obligation which if incurred would constitute a violation of the provisions on financial assistance within the meaning of section 53 of the Cyprus Companies Law Cap. 113.

Exceptions to Requirements to Provide Notes Guarantees

Notwithstanding the foregoing, the Parent Guarantor shall not be obligated to cause a Restricted Subsidiary to provide a Note Guarantee to the extent that such Note Guarantee would reasonably be expected to give rise to or result in:

(1) any violation of applicable law;

(2) any liability for the officers, directors or shareholders of such Restricted Subsidiary; or

(3) any cost, expense, liability or obligation (including with respect to any taxes, duties, levies, assessments or other **governmental** charges) other than reasonable out-of-pocket expenses and other than reasonable governmental expenses incurred in connection with any regulatory filings required as a result of, or any measures pursuant to clause (1) undertaken in connection with, such Note Guarantee,

in each case, which cannot be avoided or otherwise prevented through measures reasonably available to the Parent Guarantor or such Restricted Subsidiary.

Guarantee Release

The Notes Guarantee of a Subsidiary Guarantor will be automatically and unconditionally released (and thereupon shall terminate and be discharged and be of no further force and effect):

(1) upon the full and final payment and performance of all obligations of the Issuer under the Indenture and the Notes;

(2) in connection with any sale or other disposition of all or substantially all of the assets of that Subsidiary Guarantor (including by way of merger or consolidation) to a Person that is not (either before or after giving effect to such transaction) the Parent Guarantor or a Restricted Subsidiary, if the sale or other disposition does not violate the "Asset Sale" provisions of the Indenture;

(3) in connection with any sale or other disposition of Equity Interests of that Subsidiary Guarantor held by the Parent Guarantor and/or its Restricted Subsidiaries to a Person that is not (either before or after giving effect to such transaction) the Parent Guarantor or a Restricted Subsidiary, if (x) such sale or other disposition does not violate the covenant described below under "—Limitation on Sales of Assets and Subsidiary Stock" and (y) such Subsidiary Guarantor ceases to be a Restricted Subsidiary of the Parent Guarantor as a result of such sale or other disposition;

(4) if the Parent Guarantor designates such Subsidiary Guarantor to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture as set forth under "—Limitation or Designation of Unrestricted Subsidiaries";

(5) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Notes and the Indenture as set forth under the heading "—Defeasance" or "—Satisfaction and Discharge" below, as applicable; or

(6) in the case of a Notes Guarantee arising as a result of clause (b) of the first paragraph of the covenant described under "—Additional Guarantees", upon the release of the guarantee or security that gave rise to the obligation to provide the Notes Guarantee, so long as no Event of Default would arise as a result and no other Indebtedness of the Issuer, the Parent Guarantor or Subsidiary Guarantor is at that time guaranteed or secured by such Subsidiary Guarantor, or in respect of which such Subsidiary Guarantor has provided a surety, in a manner which would require the granting of a Notes Guarantee.

Upon any occurrence giving rise to a release of a Note Guarantee as specified above, the Trustee will execute any documents reasonably required in order to evidence or effect such release, discharge and termination in respect of such Note Guarantee. Neither the Issuer nor any Guarantor will be required to make a notation on the Notes to reflect any such Note Guarantee or any such release, termination or discharge.

If a Subsidiary Guarantor is released from its obligations under a Notes Guarantee at a time when the Notes are admitted to trading on the Global Exchange Market of the Irish Stock Exchange, and the rules of such stock exchange so require, the Issuer will notify the Irish Stock Exchange of such release.

Optional Redemption

Make-Whole Redemption

At any time or from time to time prior to the Maturity Date, the Issuer may redeem all or a part of the Notes, upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to the registered address of each Holder of Notes or otherwise delivered in accordance with the procedures of DTC, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest to, the date of redemption (the "**Redemption Date**"), subject to the rights of holders of record on the relevant record date to receive interest due on the relevant interest payment date.

For purposes hereof, the following terms have the meaning ascribed below:

"**Applicable Premium**" means, with respect to any Note on any Redemption Date, the greater of:

(1) % of the principal amount of such Note; and

(2) the excess, if any, of (a) the present value at such Redemption Date of 100% of the principal amount thereof plus all required interest payments due on such Note through the Maturity Date (excluding accrued but unpaid interest to the Redemption Date), computed using a discount rate equal to the Treasury Rate as of such Redemption Date plus 50 basis points; over (b) the then outstanding principal amount of such Note.

"**Treasury Rate**" means, as of any Redemption Date, the yield to maturity as of such Redemption Date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the Redemption Date (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the Redemption Date to the Maturity Date; provided, however, that if the period from the Redemption Date to the Maturity Date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Redemption with the Proceeds of Equity Offerings

In addition, at any time or from time to time prior to the maturity date, the Issuer, its option, may redeem up to 35% of the aggregate principal amount of the Notes issued under the Indenture with the net cash proceeds of one or more Equity Offerings at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption; provided that (1) at least 65% of the aggregate principal amount of Notes issued under the Indenture remains outstanding immediately after the occurrence of such redemption and (2) the redemption occurs within 90 days of the date of the closing of any such Equity Offering.

Optional Tax Redemption

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice (which notice shall be irrevocable and given in accordance with the procedures set forth under the section entitled "—Selection and Notice" below) to the holders of Notes, at their principal amount (together with interest accrued to the date fixed for redemption), if (i) the Issuer (or a Guarantor) satisfies the Trustee immediately prior to the giving of such notice that it (or, if a Notes Guarantee were called, the Guarantor) has or will become obliged to pay Additional Amounts (as defined below under the section entitled "—Payment of Additional Amounts") as a result of any change in, or amendment to, the laws, regulations or treaties of a Relevant Taxing Jurisdiction or Additional Taxing Jurisdiction (each, as defined below under the section entitled "—Payment of Additional Amounts"), or any change in the application or official interpretation or administration of such laws, regulations or treaties, which change or amendment becomes effective on or after the Issue Date, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor) taking reasonable measures available to it, provided that no such notice of redemption will be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor) would be obliged to pay such Additional Amounts were a payment in respect of the Notes (or the Notes Guarantee) then due. Prior to the publication of any notice of redemption pursuant to this provision, the Issuer (or the Guarantor) will deliver to the Trustee a Director's Certificate of the Issuer (or the Guarantor) stating that the Issuer (or a Guarantor) has, or will become obliged, to pay Additional Amounts in the manner set forth in clause (i) of the immediately

preceding sentence and that the condition set forth in clause (ii) of such sentence has been met and the Trustee will be entitled to accept such certificate as sufficient evidence of the satisfaction of such conditions in which event it will be conclusive and binding on the holders of Notes, and an opinion of independent tax counsel (the choice of such counsel to be subject to the prior written approval of the Trustee, such approval not to be unreasonably withheld) in form and substance reasonably satisfactory to the Trustee to the effect that the Issuer (or the Guarantor) has, or will become obliged, to pay Additional Amounts (as defined below under the section entitled "—Payment of Additional Amounts") including the reasoning behind such opinion.

No Sinking Fund

The Issuer is not required to make mandatory sinking fund payments with respect to the Notes.

Selection and Notice

If less than all of the Notes are to be redeemed at any time, the Trustee will select Notes for redemption on *a pro rata* basis (or, in the case of Notes issued in global form as discussed under "—Book-Entry, Delivery and Form", based on a method that most nearly approximates *a pro rata* selection as the Trustee deems fair and appropriate) unless otherwise required by law or applicable stock exchange or depositary requirements. The Trustee shall not be liable for any such selections made by it in accordance with this paragraph.

No Notes of $200,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each Holder of Notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture. For Notes which are represented by global certificates held on behalf of Euroclear or Clearstream, notices may be given by delivery of the relevant notices to Euroclear or Clearstream for communication to entitled Holders in substitution for such mailing. Notices of redemption may not be conditional.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount of that Note that is to be redeemed. A new Note in principal amount equal to the unredeemed portion of the original Note will be issued in the name of the Holder of Notes upon cancellation of the original Note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of Notes called for redemption.

For so long as the Notes are admitted to trading on the Global Exchange Market of the Irish Stock Exchange and the rules of such stock exchange shall so require, the Issuer will notify the Irish Stock Exchange of any such notice and publish notice in the Irish Stock Exchange's Daily Official List or as otherwise required by the rules of the Irish Stock Exchange.

Payment of Additional Amounts

All payments made by the Issuer or any Guarantor or a successor of any of the foregoing (each, a "**Payor**") under, or with respect to, the Notes or any Notes Guarantee will be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and other liabilities related thereto) (collectively, "Taxes") imposed, levied, collected or assessed by or on behalf of (1) The Netherlands, the Republic of Cyprus, the United Kingdom or Ukraine or any political subdivision or governmental authority thereof or therein having power to tax, (2) any jurisdiction from or through which payment on the Notes or such Notes Guarantee is made by or on behalf of a Payor, or any political subdivision or governmental authority thereof or therein having the power to tax or (3) any other jurisdiction in which a Payor is organized or otherwise resident for tax purposes, or any political or governmental authority thereof or therein having the power to tax (each of clause (1), (2) and (3), a "**Relevant Taxing Jurisdiction**"), unless the withholding or deduction of such Taxes is then required by law or the interpretation or administration thereof.

If any deduction or withholding for, or on account of, any Taxes of any Relevant Taxing Jurisdiction will at any time be required from any payments made with respect to the Notes or the Notes Guarantees, including payments of principal, redemption price, interest or premium, if any, the Payor will pay (together with such payments) such additional amounts (the "**Additional Amounts**") as may be necessary in order

that the net amounts received in respect of such payments by each Holder, after such withholding or deduction (including any such deduction or withholding from such Additional Amounts), will not be less than the amounts which would have been received in respect of such payments in the absence of such withholding or deduction; *provided, however,* that no such Additional Amounts will be payable with respect to:

(1) any Taxes that would not have been so imposed but for the existence of any present or former connection between the relevant Holder or beneficial owner (or between a fiduciary, settlor, beneficiary, member, partner or shareholder of, or possessor of power over, such Holder or beneficial owner, if such Holder or beneficial owner is an estate, trust, partnership or corporation) and the Relevant Taxing Jurisdiction (other than the mere receipt of such payment or the ownership or holding of such Note or enforcement of rights thereunder or under a Notes Guarantee thereof or the receipt of payments in respect thereof);

(2) any estate, inheritance, gift, sales, excise, transfer, personal property tax or similar tax, assessment or governmental charge;

(3) any Taxes payable otherwise than by deduction or withholding from payments on or in respect of any Note or Note Guarantee;

(4) any Taxes which would not have been imposed, payable or due if the Notes were held in definitive registered form ("**Definitive Registered Notes**") and the presentation of Definitive Registered Notes for payment had occurred within 30 days after the date such payment was due and payable or was provided for, whichever is later, except for Additional Amounts with respect to Taxes that would have been imposed had the Holder presented the Note for payment within such 30-day period;

(5) any Taxes that are imposed or withheld by reason of the failure of the Holder or beneficial owner of a Note to comply, at the Payor's reasonable request, with certification, information or other reporting requirements concerning the nationality, residence or identity of the Holder or such beneficial owner if such compliance is required or imposed by a statute, treaty or regulation or administrative practice of the taxing jurisdiction as a precondition to exemption from all or part of such Tax;

(6) any taxes withheld, deducted or imposed on a payment to an individual and required to be made pursuant to the European Council Directive 2003/48/EC (the "**EU Savings Tax Directive**") or any other directive implementing the conclusions of ECOFIN Council Meeting of 26 and 27 November 2000, or any law implementing or complying with, or introduced to conform to, such directive (including any successor provision);

(7) any Taxes which could have been avoided by the presentation (where presentation is required) of the relevant Note to another Paying Agent in a member state of the European Union;

(8) any Taxes withheld or deducted pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code (or any amended or successor version of such Sections), any U.S. Treasury regulations promulgated thereunder, any official interpretations thereof or any agreements entered into in connection with the implementation thereof; or

(9) any combination of the above.

Also, such Additional Amounts will not be payable with respect to any payment of principal of (or premium, if any, on) or interest on such Note to any Holder who is a fiduciary or partnership or any person other than the sole beneficial owner of such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such payment would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual Holder of such Note.

The Payor will (1) make any required withholding or deduction and (2) remit the full amount deducted or withheld to the Relevant Taxing Jurisdiction in accordance with applicable law. The Payor will use all reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Relevant Taxing Jurisdiction imposing such Taxes and will provide such certified copies to the Trustee. The Payor will attach to each certified copy a certificate stating (x) that the amount of withholding Taxes evidenced by the certified copy was paid in connection with payments in respect of the principal amount of Notes then outstanding and (y) the amount of such withholding Taxes paid per $1,000 principal amount of the Notes. Copies of such documentation will be available for

inspection during ordinary business hours at the office of the Trustee by the holders of Notes upon request and will be made available at the offices of the Paying Agent located in the United Kingdom.

The Indenture will further provide that, if the Payor conducts business in any jurisdiction (an "**Additional Taxing Jurisdiction**") other than a Relevant Taxing Jurisdiction and, as a result, is required by the law of such Additional Taxing Jurisdiction to deduct or withhold any amount on account of taxes imposed by such Additional Taxing Jurisdiction from payments under the Notes or any Notes Guarantee thereof, as the case may be, which would not have been required to be so deducted or withheld but for such conduct of business in such Additional Taxing Jurisdiction, the Additional Amounts provision described above shall be considered to apply to such holders as if references in such provision to "Taxes" included taxes imposed by way of deduction or withholding by any such Additional Taxing Jurisdiction (or any political subdivision thereof or taxing authority therein).

At least 30 days prior to each date on which any payment under or with respect to the Notes or any Notes Guarantee thereof is due and payable (unless such obligation to pay Additional Amounts arises before or after the 30th day prior to such date, in which case it shall be promptly thereafter), if the Payor will be obligated to pay Additional Amounts with respect to such payment, the Payor will deliver to the Trustee a Director's Certificate stating the fact that such Additional Amounts will be payable, the amounts so payable and will set forth such other information necessary to enable the Paying Agents to pay such Additional Amounts to holders of Notes on the payment date. Each such Director's Certificate shall be relied upon by the Trustee without further enquiry until receipt of a further Director's Certificate addressing such matters. The Issuer will provide the Trustee with documentation reasonably satisfactory to the Trustee evidencing the payment of Additional Amounts. The Issuer will promptly publish a notice in accordance with the procedures set forth in "—Notices" stating that such Additional Amounts will be payable and describing the obligation to pay such amount.

The Payor will pay any stamp, issue, registration, documentary, value added, excise, property or other similar taxes and other duties (including interest and penalties) imposed by a Relevant Taxing Jurisdiction that are payable in respect of the creation, issue, offering, execution or enforcement of the Notes, or any documentation with respect thereto or the receipt of any payments with respect to the Notes or any Notes Guarantee thereof (limited, in the case of any such Taxes in respect of the receipt of any payments with respect to the Notes or any Note Gurantee, to Taxes not excluded under clauses (1) through (2) or (4) through (8) above).

The foregoing obligations will survive any termination, defeasance or discharge of the Indenture and will apply *mutatis mutandis* to any jurisdiction in which any (1) successor Person to a Payor is organized or (2) Subsidiary of the Parent Guarantor which becomes a Subsidiary Guarantor after the Issue Date is organized or, in each case, any political subdivision or taxing authority or agency thereof or therein.

Whenever in the Indenture or in this description there is mentioned, in any context, (1) the payment of principal, premium, if any, or interest, (2) redemption prices or purchase prices in connection with the redemption or purchase of Notes or (3) any other amount payable under or with respect to any Note or Notes Guarantee thereof, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Repurchase at the Option of Holders upon a Change of Control

If a Change of Control occurs, each Holder will have the right to require the Issuer to repurchase all or any part of such Holder's Notes (in principal amount equal to $200,000 or an integral multiples of $1,000 in excess thereof) at a purchase price in cash equal to 101% of the principal amount of the Notes plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Within 30 days following any Change of Control, the Issuer will mail a notice (the "**Change of Control Offer**") to each holder with a copy to the Trustee stating:

(1) that a Change of Control has occurred and that such Holder has the right to require the Issuer to purchase such Holder's Notes at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on a record date to receive interest on the relevant interest payment date) (the "**Change of Control Payment**");

(2) the repurchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the "**Change of Control Payment Date**"); and

(3) the procedures determined by the Issuer, consistent with the Indenture, that a Holder must follow in order to have its Notes repurchased.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

(1) accept for payment all Notes or portions of Notes (in principal amount equal to $200,000 or integral multiples of $1,000 in excess thereof) properly tendered pursuant to the Change of Control Offer;

(2) deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Notes or portions thereof so tendered; and

(3) deliver or cause to be delivered to the Trustee the Notes so accepted together with a Director's Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Issuer.

The Paying Agent will promptly pay to each Holder of Notes properly tendered and not withdrawn the Change of Control Payment for such Notes in accordance with the procedures described in the Indenture and the Registrar will promptly authenticate and mail (or cause to be transferred by book entry) to each Holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any. The Issuer will either publicly announce, or mail a notice to each holder (with a copy to the Trustee) confirming, the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

If the Change of Control Payment Date is on or after an interest record date and on or before the related interest payment date, any accrued and unpaid interest, if any, will be paid to the Person in whose name a Note is registered at the close of business on such record date, and no additional interest will be payable to holders who tender pursuant to the Change of Control Offer.

The Change of Control provisions described above will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the holders to require that the Issuer repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Notes properly tendered and not withdrawn under the Change of Control Offer, or (2) notice of redemption has been given pursuant to the Indenture as described above under the caption "—Optional Redemption", unless and until there is a default in payment of the applicable redemption price.

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**") and any other securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations described in the Indenture by virtue thereof.

The Issuer's ability to repurchase Notes pursuant to a Change of Control Offer may be limited by a number of factors. Future Indebtedness of the Parent Guarantor and its Subsidiaries may also contain prohibitions of certain events that would constitute a Change of Control or require such Indebtedness to be repurchased upon a Change of Control. Moreover, the exercise by the holders of their right to require the Issuer to repurchase the Notes could cause a default under such Indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on the Issuer. Finally, the Issuer's ability to pay cash to the holders upon a repurchase may be limited by the Issuer's or the Group's then existing financial resources, which could result in a default under the Notes or other Indebtedness thereby resulting in a cross default under the Notes. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases.

Even if sufficient funds were otherwise available, the terms of other Indebtedness of the Parent Guarantor and its Restricted Subsidiaries may prohibit the Issuer's prepayment of Notes prior to their scheduled maturity. Consequently, if the Issuer is not able to prepay any such other Indebtedness containing similar restrictions or obtain requisite consents, as described above, the Issuer will be unable to fulfil its

repurchase obligations if holders of Notes exercise their repurchase rights following a Change of Control, thereby resulting in a default under the Indenture. A default under the Indenture may result in a cross-default under other Indebtedness.

The Change of Control provisions described above may deter certain mergers, tender offers and other takeover attempts involving the Issuer by increasing the capital required to effectuate such transactions. The definition of Change of Control includes a disposition of all or substantially all of the property and assets of the Parent Guarantor to any Person other than a Permitted Holder. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of all or substantially all of the property or assets of a Person. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Holder of Notes may require the Issuer to make an offer to repurchase the Notes as described above.

The Issuer will publish notices relating to the Change of Control Offer in accordance with "—Notices".

Certain Covenants

The Indenture will contain, among others, the following covenants:

Limitation on Indebtedness

The Parent Guarantor will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (individually and collectively, to "**incur**") any Indebtedness (including Acquired Debt); provided that the Parent Guarantor, the Issuer or any of the Subsidiary Guarantors may incur Indebtedness (including Acquired Debt) if on the Transaction Date and giving effect to the incurrence of such Indebtedness and the application of the proceeds thereof, on a *pro forma* basis, the Consolidated Leverage Ratio would not be greater than 3.0 to 1.0.

Notwithstanding the preceding paragraph, the Parent Guarantor and its Restricted Subsidiaries may incur the following items of Indebtedness (collectively, "**Permitted Indebtedness**"):

(1) Indebtedness of the Parent Guarantor owing to and held by any Restricted Subsidiary and Indebtedness of any Restricted Subsidiary owing to and held by any of the Parent Guarantor or any other Restricted Subsidiary; provided, however, that:

   (a) in the case of Indebtedness of the Issuer or a Guarantor owing to and held by a non-Guarantor Restricted Subsidiary, such Indebtedness of the Issuer or such Guarantor is expressly subordinated in right of payment (whether at Stated Maturity, acceleration or otherwise) to the prior payment in full in cash of all obligations with respect to the Notes or Notes Guarantees, as applicable; and

   (b) (i) any subsequent issuance or transfer of Equity Interests or any other event which results in any such Indebtedness being beneficially held by a Person other than the Parent Guarantor or a Restricted Subsidiary and (ii) any sale or other transfer of any such Indebtedness to a Person other than the Parent Guarantor or a Restricted Subsidiary shall be deemed, in each case, to constitute an incurrence of such Indebtedness by the issuer or borrower thereof which is not permitted under this clause (1);

(2) Indebtedness of the Issuer and the Guarantors represented by the Notes issued on the Issue Date and the Notes Guarantees, respectively;

(3) Indebtedness outstanding on the Issue Date after giving effect to the intended use of proceeds of the Notes;

(4) Permitted Refinancing Indebtedness incurred in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge any Indebtedness (other than intercompany Indebtedness) that was permitted under the first paragraph of this covenant or clauses (2), (3), (4) or (10) of this paragraph;

(5) Hedging Obligations that are incurred for the purpose of fixing, hedging, swapping or managing interest rate, commodity price or foreign currency exchange rate risk, and not for speculative purposes;

(6) Indebtedness in respect of workers' compensation claims, self insurance obligations, bankers' acceptances, performance, surety or appeal bonds or completion guarantees provided in the ordinary course of business and not in connection with the borrowing of money or the obtaining of advances of credit;

(7) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (except in the case of daylight overdrafts) drawn against insufficient funds; provided that such Indebtedness is extinguished within five Business Days of incurrence;

(8) Indebtedness representing the guarantee by the Parent Guarantor or any Restricted Subsidiary of Indebtedness of the Parent Guarantor or any Restricted Subsidiary to the extent that the guaranteed Indebtedness was permitted to be incurred under this covenant; *provided* that if the Indebtedness being guaranteed is subordinated to or *pari passu* with the Notes, then the guarantee must be subordinated to the relevant Note Guarantee or *pari passu*, as applicable, to the same extent as the Indebtedness guaranteed;

(9) Indebtedness in respect of any customary cash management, cash pooling or netting or setting off arrangements in the ordinary course of business;

(10) Indebtedness of any Person that is assumed by the Parent Guarantor or any Restricted Subsidiary in connection with its acquisition of assets from such Person or any Affiliate thereof or is issued and outstanding on or prior to the date on which such Person was acquired by the Parent Guarantor or any Restricted Subsidiary or merged or consolidated with or into the Parent Guarantor or any Restricted Subsidiary (other than Indebtedness incurred to finance, or otherwise incurred in connection with, or in contemplation of, such acquisition), provided that on the date of such acquisition, merger or consolidation, after giving *pro forma* effect thereto, (x) the Parent Guarantor would be permitted to incur at least $1.00 of additional Indebtedness pursuant to the first paragraph of this covenant or (y) the Consolidated Leverage Ratio of the Parent Guarantor would equal or be less than the Consolidated Leverage Ratio of the Parent Guarantor immediately prior to giving such *pro forma* effect thereto; and

(11) additional Indebtedness not to exceed $200.0 million at any time outstanding.

For purposes of determining compliance with this covenant, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Indebtedness described in clauses (1) through (11) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, the Parent Guarantor will be permitted to classify such item of Indebtedness at the time of its incurrence, or later reclassify all or a portion of such item of Indebtedness, in any manner that complies with this covenant.

Accrual of interest, accrual of dividends, amortization of debt discount, the accretion of accreted value, the payment of interest in the form of additional Indebtedness and the payment of dividends on Preferred Stock or Disqualified Stock in the form of additional shares of Preferred Stock or Disqualified Stock, the obligation to pay a premium in respect of Indebtedness arising in connection with the issuance of a notice of redemption or the making of a mandatory offer to purchase such Indebtedness and the reclassification of preferred stock as Indebtedness due to a change in accounting principles will not be deemed to be an incurrence of Indebtedness for purposes of this covenant.

For purposes of determining compliance with any U.S. dollar denominated restriction on the incurrence of Indebtedness, the U.S. dollar equivalent principal amount of Indebtedness denominated in a currency other than U.S. dollars shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; *provided* that if such Indebtedness is incurred to refinance other Indebtedness denominated in a currency other than U.S. dollars, and such refinancing would cause the applicable U.S. dollar dominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar dominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced (plus all accrued interest on the Indebtedness being refinanced and the amount of all expenses and premiums incurred in connection therewith), *provided* that if any such Indebtedness denominated in a different currency is subject to a currency agreement (with respect to U.S. dollars) covering principal amounts payable on such Indebtedness, the amount of such Indebtedness expressed in U.S. dollars will be adjusted to take into account the effect of such agreement. The principal amount of any Indebtedness incurred to refinance other Indebtedness, if incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency

exchange rate applicable to the currencies in which such respective Indebtedness is denominated that is in effect on the date of such refinancing. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Parent Guarantor or any Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in exchange rates or currency values.

The amount of any Indebtedness outstanding as of any date will be:

(1) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount;

(2) the principal amount or liquidation preference of the Indebtedness, in the case of any other Indebtedness;

(3) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of:

   (a) the Fair Market Value of such assets at the date of determination; and

   (b) the amount of such Indebtedness of the other Person.

For purposes of determining compliance with this covenant, guarantees of, or obligations in respect of letters of credit relating to, Indebtedness that is otherwise included in the determination of a particular amount of Indebtedness shall not be included in the amount of such Indebtedness; provided that the incurrence of the Indebtedness represented by such guarantee or letter of credit, as the case may be, was in compliance with this covenant.

The Parent Guarantor will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur any Indebtedness that is or purports to be by its terms (or by the terms of any agreement governing such Indebtedness) subordinated to any other Indebtedness of the Parent Guarantor or of such Restricted Subsidiary, as the case may be, unless such Indebtedness is also by its terms (or by the terms of any agreement governing such Indebtedness) made expressly subordinate to the Notes or the Note Guarantee, to the same extent and in the same manner as such Indebtedness is subordinated to such other Indebtedness of the Parent Guarantor or such Restricted Subsidiary, as the case may be. For purposes of the foregoing, no Indebtedness will be deemed to be subordinated in right of payment to any other Indebtedness of the Parent Guarantor or any Restricted Subsidiary solely by virtue of being unsecured or secured by a junior priority lien or by virtue of the fact that the holders of such Indebtedness have entered into intercreditor agreements or other arrangements giving one or more of such holders priority over the other holders in the collateral held by them.

Limitation on Restricted Payments

The Parent Guarantor will not, and will not permit any Restricted Subsidiary, directly or indirectly, to:

(1) declare or pay any dividend or make any other payment or distribution on account of the Parent Guarantor's or any Restricted Subsidiaries' Equity Interests of (including, without limitation, any payment in connection with any merger or consolidation involving the Parent Guarantor or any Restricted Subsidiary) or to the direct or indirect holders of Equity Interests of the Parent Guarantor or any Restricted Subsidiary in their capacity as such, in each case, other than dividends, payments or distributions payable in Equity Interests (other than Disqualified Stock) of the Parent Guarantor or payable to the Parent Guarantor or any Restricted Subsidiary;

(2) purchase, redeem, defease or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving the Parent Guarantor or any Restricted Subsidiary) any Equity Interests of the Parent Guarantor, any Parent, or any Restricted Subsidiary (other than, in each case, any such Equity Interests owned by the Parent Guarantor or any Restricted Subsidiary);

(3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value, any Subordinated Indebtedness (excluding intercompany Indebtedness between or among the Parent Guarantor and any Restricted Subsidiary), except for payments of interest or payments of the principal at the Stated Maturity thereof (other than any such payment, purchase, redemption, defeasance or other acquisition or retirement or in anticipation of satisfying a sinking fund obligation, principal instalment or final maturity, in each case, due within one year of the date of payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement); or

(4) make any Restricted Investment

(all such payments and other actions set forth in clauses (1) through (4) of this paragraph being collectively referred to as "**Restricted Payments**"),

unless, at the time and after giving effect to such Restricted Payment,

(I) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;

(II) the Parent Guarantor would, at the time of such Restricted Payment and after giving *pro forma* effect thereto as if such Restricted Payment had been made at the beginning of the most recently ended LTM Period prior to the date of such Restricted Payment, have been permitted to incur at least $1.00 of Indebtedness (other than Permitted Indebtedness) pursuant to the covenant described under "—Limitation on Indebtedness"; and

(III) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Parent Guarantor and the Restricted Subsidiaries after the Issue Date (excluding Restricted Payments permitted by clauses (2), 3(ii), (5) and (6) of the second paragraph of this covenant), shall not exceed the sum (the "**Restricted Payments Basket**") (without duplication) of:

(a) 50% of the Consolidated Net Income of the Parent Guarantor for the period (taken as one accounting period) beginning on January 1, 2012 and ending at the end of the Parent Guarantor's then most recently ended fiscal six-month period for which internal financial statements are available prior to the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit);

(b) 100% of the aggregate net cash proceeds (including Cash Equivalents) received by the Parent Guarantor from the issue or sale (other than to a Subsidiary of the Parent Guarantor) of, or from capital contributions with respect to, Equity Interests of the Parent Guarantor (other than Disqualified Stock) after the Issue Date, other than any such proceeds or assets received from a Subsidiary of the Parent Guarantor;

(c) 100% of the aggregate principal amount of Indebtedness (other than Subordinated Indebtedness) of the Parent Guarantor or any Restricted Subsidiary incurred subsequent to the Issue Date (other than to a Subsidiary of the Parent Guarantor) that has been converted or exchanged into Equity Interests (other than Disqualified Stock) of the Parent Guarantor (less the amount of any cash, or other property, distributed by the Parent Guarantor upon such exchange or conversion);

(d) 100% of the aggregate net cash and Cash Equivalents received by the Parent Guarantor or any Restricted Subsidiary since the Issue Date (to the extent not included in Consolidated Net Income) from a Restricted Investment made after the Issue Date (up to the amount of such Restricted Investment), whether through interest payments, principal payments, dividends or other distributions and payments or the sale or other disposition thereof (other than a sale as disposition made to a Subsidiary of the Parent Guarantor);

(e) to the extent that any Restricted Investment that was made after the Issue Date and reduced the Restricted Payments Basket is made in an entity that subsequently becomes a Restricted Subsidiary or is subsequently sold for cash, the amount of such Restricted Investment;

(f) to the extent that any Unrestricted Subsidiary of the Parent Guarantor designated as such after the Issue Date is redesignated as a Restricted Subsidiary after the Issue Date, the lesser of (x) the Fair Market Value of the Parent Guarantor's interest in such Subsidiary as of the date of such redesignation and (y) the aggregate amount of the Restricted Investments in such Subsidiary prior to such redesignation to the extent such investments reduced the Restricted Payments Basket (less any return on such investment received by the Parent Guarantor and/or any Restricted Subsidiaries prior to such redesignation to the extent such return on investment increased the Restricted Payments Basket); and

(g) 100% of any dividends received in cash by the Parent Guarantor or a Restricted Subsidiary after the Issue Date from an Unrestricted Subsidiary of the Parent Guarantor, to the extent that such dividends were not otherwise included in the Consolidated Net Income of the Parent Guarantor for such period.

The first paragraph of this covenant will not prohibit:

(1) the payment of any dividend or the consummation of any irrevocable redemption within 60 days after the date of declaration of the dividend or the giving of the redemption notice, as the case may be, if at the date of declaration or notice the dividend or redemption payment would have complied with the provisions of the Indenture;

(2) (x) the redemption, repurchase, retirement or other acquisition for value of any Subordinated Indebtedness of the Parent Guarantor or any Restricted Subsidiary (a) in exchange for, or out of the net cash proceeds of the substantially concurrent sale or issuance of, Equity Interests (other than Disqualified Stock) of the Parent Guarantor or from the substantially concurrent contribution to the common equity capital of the Parent Guarantor (provided that such proceeds or increase in equity shall not be taken into account for purposes of clause (III)(b) of the first paragraph of this covenant) or (b) in exchange for, or out of the net cash proceeds of the substantially concurrent incurrence of, Permitted Refinancing Indebtedness which refinances such Subordinated Indebtedness permitted to be incurred under the "—Limitation on Indebtedness" covenant, or (y) the redemption, repurchase, retirement or other acquisition for value of any Equity Interests of the Parent Guarantor or any Restricted Subsidiary in exchange for, or out of the net cash proceeds of the substantially concurrent issuance of, Equity Interests (other than Disqualified Stock) of such Person (provided that such newly issued equity shall not be taken into account for purposes of clause (III)(b) of the first paragraph of this covenant);

(3) the payment of any dividend (or in the case of a partnership or limited liability company, any similar distribution) by a Restricted Subsidiary (i) to the holders of its Equity Interests on a *pro rata* basis and (ii) as required by law, where such Restricted Subsidiary has been the subject of privatization efforts by the Ukrainian government;

(4) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby, the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of the Parent Guarantor or any Restricted Subsidiary held by any current or former officer, director or employee of the Parent Guarantor or any Restricted Subsidiary pursuant to any equity subscription agreement, stock option agreement, shareholders' agreement or similar agreement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed $2.0 million in any calendar year, with any unused amounts from any calendar year being carried over to the following calendar year plus an amount equal to the proceeds of any subsequent sales of Equity Interests to current officers, directors and employees (*provided* that such proceeds are not taken into account for purposes of calculating clause (III)(b) of the first paragraph of this covenant);

(5) the repurchase of Equity Interests deemed to occur upon the exercise of stock options to the extent such Equity Interests represent a portion of the exercise price of those stock options;

(6) the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Stock of the Parent Guarantor or any preferred stock of any Restricted Subsidiary issued on or after the Issue Date in accordance with the covenant described under "—Limitation on Indebtedness";

(7) payments of cash, dividends, distributions, advances or other Restricted Payments by the Parent Guarantor or any of its Subsidiaries to allow the payment of cash in lieu of the issuance of fractional shares upon (i) the exercise of options or warrants or (ii) the conversion or exchange of Capital Stock of any such Person;

(8) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby, following a public Equity Offering, the payment of dividends on the Capital Stock of the Parent Guarantor up to 6% per annum of the net cash proceeds received by the Parent Guarantor in any such Equity Offering or any subsequent public Equity Offering; *provided* that if such public Equity Offering was of Capital Stock of a Parent of the Parent Guarantor, the net proceeds of any such dividend are used to fund an equal dividend on the Capital Stock of such Parent; and

(9) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby, any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Indebtedness upon a Change of Control or an Asset Sale to the extent required by the Indenture or any agreement or instrument pursuant to which such Subordinated Indebtedness was

issued, but only if (a) in the case of a Change of Control, the Issuer (or a third party to the extent permitted by the Indenture) has first purchased all Notes validly tendered and not withdrawn in the Change of Control Offer contemplated under the section entitled "—Repurchase at the Option of Holders upon a Change of Control" above or (b) in the case of an Asset Sale, the Issuer has first purchased all Notes validly tendered and not withdrawn in the Asset Sale Offer contemplated under the covenant described below under "—Limitation on Sales of Assets and Subsidiary Stock".

The amount of all Restricted Payments (other than cash) shall be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be paid, transferred or issued by the Parent Guarantor or such Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment.

Limitation on Sales of Assets and Subsidiary Stock

The Parent Guarantor will not, and will not permit any Restricted Subsidiary to, make any Asset Sale unless:

(1) the Parent Guarantor or such Restricted Subsidiary, as the case may be, receives consideration at the time of such Asset Sale at least equal to the Fair Market Value (including as to the value of all non-cash consideration), measured as of the date of the definitive agreement with respect to such Asset Sale, of the assets or Equity Interests issued or sold or otherwise disposed of; and

(2) at least 75% of the consideration thereof received in the Asset Sale by the Parent Guarantor or such Restricted Subsidiary, as the case may be, is in the form of cash or Cash Equivalents. For purposes of this provision, each of the following will be deemed to be cash:

   (a) any liabilities, as shown on the Parent Guarantor's most recent consolidated balance sheet, of the Parent Guarantor or any Restricted Subsidiary (other than contingent liabilities and liabilities that are Subordinated Indebtedness) that is assumed by the transferee of any such assets pursuant to a customary novation or indemnity agreement that releases the Parent Guarantor or such Restricted Subsidiary from or indemnifies against further liability;

   (b) any securities, notes or other obligations received by the Parent Guarantor or any such Restricted Subsidiary from such transferee that are contemporaneously, subject to ordinary settlement periods, converted by the Parent Guarantor or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion; and

   (c) any Equity Interests or assets of the kind referred to in clause (1) of the next paragraph of this covenant.

Within 365 days after the receipt of any Net Available Cash from an Asset Sale, the Parent Guarantor (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Available Cash to:

(1) invest in properties and assets to replace the properties and assets that were the subject of the Asset Sale or in properties and assets that will be used or are useful in a Permitted Business or in Equity Interests of a Person engaged in a Permitted Business;

(2) make a capital expenditure;

(3) repay any secured Indebtedness, Indebtedness which is required to be repaid upon the occurrence of the subject Asset Sale and/or Indebtedness of non-Guarantor Subsidiaries;

(4) make an Asset Sale Offer (and redeem Pari Passu Indebtedness) in accordance with the procedures described below; and/or

(5) do any combination of the foregoing clauses.

Pending the final application of any such Net Available Cash, the Parent Guarantor or any Restricted Subsidiary may temporarily reduce revolving credit borrowing or otherwise invest such Net Available Cash in any manner that is not prohibited by the terms of the Indenture.

If any a legally binding agreement to invest such Net Available Cash is terminated or the performance of such agreement is delayed for reasons outside the control of the Parent Guarantor or any Restricted Subsidiary, then the Parent Guarantor or relevant Restricted Subsidiary may, within 90 days of such termination or delay or within six months of such Asset Sale, whichever is later, invest such net cash proceeds as provided in the second paragraph of this covenant.

Any Net Available Cash from Asset Sales that is not applied or invested as provided in the preceding paragraph will be deemed to constitute "**Excess Proceeds**". If the aggregate amount of Excess Proceeds exceeds $50.0 million, the Issuer will be required to make an offer (an "**Asset Sale Offer**") to all holders of Notes and, to the extent required by the terms thereof, to all holders of other Indebtedness that is not Subordinated Indebtedness ("**Senior Indebtedness**") of the Parent Guarantor or any Restricted Subsidiary outstanding with similar provisions requiring the Issuer to make an offer to purchase, prepay or redeem such Senior Indebtedness with the proceeds of sales of assets ("**Pari Passu Indebtedness**"), to purchase, prepay or redeem the maximum principal amount of Notes and any such Pari Passu Indebtedness to which the Asset Sale Offer applies that may be purchased, prepaid or redeemed out of the Excess Proceeds, at an offer price in cash in an amount equal to 100% of the principal amount thereof plus accrued and unpaid interest to the date of purchase, prepayment or redemption and the amount of all fees and expenses, including premiums incurred in connection therewith, in accordance with the procedures set forth in the Indenture or the agreements governing the Pari Passu Indebtedness, as applicable. Upon receiving notice of the Asset Sale Offer, holders may elect to tender their Notes in whole or in part in integral multiples of $1,000 (provided that no Note of less than $200,000 may remain outstanding thereafter), in exchange for cash. To the extent that the aggregate amount of Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to an Asset Sale Offer is less than the Excess Proceeds, the Issuer may use any remaining Excess Proceeds for any purpose not prohibited by the Indenture. If the aggregate principal amount of Notes surrendered by holders thereof and other Pari Passu Indebtedness surrendered by holders or lenders thereof, collectively, exceeds the amount of Excess Proceeds, the Trustee shall select the Notes and Pari Passu Indebtedness to be purchased on a pro rata basis on the basis of the aggregate principal amount of Notes and Pari Passu Indebtedness tendered or required to be prepaid. Upon completion of such Asset Sale Offer, the amount of Excess Proceeds shall be reset at zero.

The Issuer will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of Notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the "Limitation on Sales of Assets and Subsidiary Stock" provisions of the Indenture, the Issuer shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under the "Limitations on Sales of Assets and Subsidiary Stock" provisions of the Indenture by virtue thereof.

Limitation on Lines of Business

The Parent Guarantor will not, and will not permit any Restricted Subsidiary to, engage in any business other than a Permitted Business.

Limitation on Affiliate Transactions

The Parent Guarantor will not, and will not permit any Restricted Subsidiary to, directly or indirectly, make any payment to, or sell, lease, transfer or otherwise dispose of any of their properties or assets to, or purchase any properties or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate of the Parent Guarantor (each, an "Affiliate Transaction"), unless:

(1) such Affiliate Transaction is on terms that are no less favourable to the Parent Guarantor or the relevant Restricted Subsidiary than those that would have been obtained in a comparable arm's-length transaction by it with a Person that is not an Affiliate of the Issuer; and

(2) with respect to any Affiliate Transaction or series of related Affiliate Transactions by the Parent Guarantor or any Restricted Subsidiary involving aggregate consideration in excess of $50.0 million, the Parent Guarantor delivers to the Trustee a resolution of the Parent Guarantor's Board of Directors resolving, with the participation of the majority of the Disinterested Directors (or in the event that there is only one Disinterested Director, by the resolution of such Disinterested Director), that such transaction or transactions comply with clause (1) above, and a Director's Certificate certifying that such Affiliate Transaction complies with clause (1) above; and

(3) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of $100.0 million or, where there are no Disinterested Directors, with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of $50.0 million, the Parent Guarantor will deliver to the Trustee a written

opinion issued by an Independent Appraiser that such Affiliate Transaction is fair to the Parent Guarantor or the relevant Restricted Subsidiary from a financial point of view.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the first paragraph of this covenant:

(1) customary directors' fees, indemnification and similar arrangements (including the payment of directors' and officers' insurance premiums), consulting fees, employee salaries, bonuses, employment agreements and arrangements, compensation or employee benefit arrangements, including stock options or legal fees of officers, directors, employees or consultants of the Parent Guarantor or any Restricted Subsidiary in the ordinary course of business, and payments with respect thereto;

(2) issuances or sales of Equity Interests (other than Disqualified Stock) of the Parent Guarantor;

(3) transactions with a Person that is an Affiliate of the Parent Guarantor solely because the Parent Guarantor owns, directly or through a Restricted Subsidiary, an Equity Interest in, can appoint one or more members of the board of directors of, or controls, such Person;

(4) any transactions between or among the Parent Guarantor and/or the Restricted Subsidiaries;

(5) Restricted Payments that are permitted by the covenant described under "—Certain Covenants—Limitation on Restricted Payments" or Permitted Investments (other than any Permitted Investment described in clause (3), (16) or (17) of the definition of Permitted Investments);

(6) transactions pursuant to written agreements existing on the Issue Date or any amendment, modification or supplement thereto or replacement thereof, *provided* that following such amendment, modification, supplement or replacement the terms of any such agreement or arrangement so amended, modified, supplemented or replaced are not, taken as a whole, more disadvantageous to the holders of Notes and to the Parent Guarantor and the Restricted Subsidiaries, as applicable, than the original agreement or arrangement as in effect on the Issue Date;

(7) transactions with customers, clients, suppliers or purchasers or sellers of goods or services, in each case in the ordinary course of business and otherwise in compliance with the Indenture, which are fair to the Parent Guarantor or the relevant Restricted Subsidiary in the reasonable determination of the Board of Directors of the Parent Guarantor or the senior management of the Parent Guarantor or the relevant Restricted Subsidiary, as applicable, or are on terms no less favourable than those that could reasonably have been obtained at such time from an unaffiliated party; and

(8) any transaction with respect to any Alternative Energy Assets.

Merger, Consolidation or Sale of Assets

The Issuer may not, directly or indirectly, merge, consolidate, amalgamate or otherwise combine with or into another Person (whether or not the Issuer is the surviving Person), or sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Issuer in one or more related transactions, to another Person (including by means of a scheme of arrangement pursuant to which the Issuer becomes a wholly owned Restricted Subsidiary of another Person), unless:

(1) either the Issuer is the surviving Person or the Person formed by or surviving any such merger, consolidation, amalgamation or other combination (if other than the Issuer) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation, joint stock company, limited liability company or partnership (or substantially similar legal entity) organized or existing under the laws of Ukraine, Cyprus, The Netherlands, the United Kingdom or an Approved Jurisdiction;

(2) the Person formed by or surviving any such merger, consolidation, amalgamation or other combination (if other than the Issuer) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of the Issuer under the Notes and the Indenture pursuant to a supplemental Indenture and/or other documents as may reasonably be required by, and delivered to, the Trustee; and each Guarantor shall, by way of such documentation as the Trustee shall reasonably deem appropriate, confirm their respective obligations under the relevant Notes Guarantee and the Indenture;

(3) immediately after such transaction, no Default or Event of Default exists; and

(4) the Parent Guarantor:

(d) will, immediately after giving *pro forma* effect to such transaction, be permitted to incur at least $1.00 of additional Indebtedness pursuant to the Consolidated Leverage Ratio test set forth in the first paragraph of the covenant described under "—Limitation on Indebtedness"; and

(e) furnishes to the Trustee a Director's Certificate (attaching the computations to demonstrate compliance with paragraph (a) above) and a written opinion, in form and substance reasonably satisfactory to the Trustee, of counsel confirming that the transaction does not violate the applicable terms of the Indenture and that all conditions precedent in the Indenture relating to such transaction have been satisfied and that the Indenture and the Notes constitute legal, valid and binding obligations of the Issuer (or Person formed by, or surviving, any such merger, consolidation, amalgamation or other combination) enforceable in accordance with their terms.

In addition, notwithstanding the foregoing provisions of this covenant, the Issuer may not, directly or indirectly, lease all or substantially all of its properties and assets, in one or more related transactions, to any other Person.

The Parent Guarantor may not, directly or indirectly, merge, consolidate, amalgamate or otherwise combine with or into another Person (whether or not the Parent Guarantor is the surviving Person), or sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Parent Guarantor in one or more related transactions, to another Person, unless:

(1) either the Parent Guarantor is the surviving Person or the Person formed by or surviving any such merger, consolidation, amalgamation or other combination (if other than the Parent Guarantor) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation, joint stock company, limited liability company or partnership organized or existing under the laws of Ukraine, Cyprus, The Netherlands, the United Kingdom or an Approved Jurisdiction;

(2) the Person formed by or surviving any such merger, consolidation, amalgamation or other combination (if other than the Parent Guarantor) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of the Parent Guarantor under the Parent Guarantee pursuant to a supplemental Indenture and/or other documents as may reasonably be required by, and delivered to, the Trustee;

(3) immediately after such transaction, no Default or Event of Default exists; and

(4) the Parent Guarantor or the Person (as applicable) formed by or surviving any such merger, consolidation, amalgamation or other combination (if other than the Parent Guarantor), or to which such sale, assignment, transfer, conveyance or other disposition has been made:

(f) will, immediately after giving *pro forma* effect to such transaction, be permitted to incur at least $1.00 of additional Indebtedness (other than Permitted Indebtedness) pursuant to the Consolidated Leverage Ratio test set forth in the covenant described under "—Limitation on Indebtedness"; and

(g) furnishes to the Trustee a Director's Certificate (attaching the computations to demonstrate compliance with paragraph (a) above) and a written opinion, in form and substance reasonably satisfactory to the Trustee, of counsel confirming that the transaction does not violate the applicable terms of the Indenture and that all conditions precedent in the Indenture relating to such transaction have been satisfied and that the Indenture and the Parent Guarantee constitute legal, valid and binding obligations of the Parent Guarantor (or Person formed by, or surviving, any such merger, consolidation, amalgamation or other combination) enforceable in accordance with their terms.

In addition, notwithstanding the foregoing provisions of this paragraph, the Parent Guarantor may not, directly or indirectly, lease all or substantially all of the properties or assets of it and its Restricted Subsidiaries, taken as a whole, in one or more related transactions, to any other Person.

The Parent Guarantor will not permit any Subsidiary Guarantor to:

(1) directly or indirectly consolidate or merge with or into another Person (whether or not such Subsidiary Guarantor is the surviving Person); or

(2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of its assets, taken as a whole, in one or more related transactions, to another Person unless:

(a) immediately after such transaction, no Default or Event of Default exists; and

(b) either:

(i) such Subsidiary Guarantor is the surviving Person; or the Person formed by or surviving any such consolidation or merger (if other than such Subsidiary Guarantor) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation, joint stock company, limited liability company or partnership organized or existing under the laws of Ukraine, Cyprus, The Netherlands, the United Kingdom or an Additional Jurisdiction and, immediately after such transaction, the surviving Person assumes all the obligations of that Subsidiary Guarantor under the relevant Notes Guarantee pursuant to an assumption agreement or other agreement to such effect delivered to the Trustee, along with a Director's Certificate (attaching the computations to demonstrate compliance with paragraph (a) above) and a written opinion, in form and substance reasonably satisfactory to the Trustee, of counsel confirming that the transaction does not violate the applicable terms of the Indenture and that all conditions precedent in the Indenture relating to such transaction have been satisfied and that the Indenture and the relevant Notes Guarantee constitute legal, valid and binding obligations of such Subsidiary Guarantor (or Person formed by or surviving any such merger, consolidation, amalgamation or other combination) enforceable in accordance with their terms; or

(ii) the net cash proceeds of such sale or other disposition are applied in accordance with the covenant described below under "—Limitation on Sales of Assets and Subsidiary Stock".

The provisions of this covenant shall not apply to a merger, consolidation, amalgamation or other combination or sale, sale of assets, assignment, transfer, conveyance, lease, change of form of incorporation or other disposition between or among any of the Issuer, the Parent Guarantor and any Restricted Subsidiary or between or among any Restricted Subsidiaries; provided, however, if the Issuer, the Parent Guarantor or any Subsidiary Guarantor merges with or into, or consolidates with, a Restricted Subsidiary that is not a Guarantor, and such Restricted Subsidiary is the surviving entity or transfers all or substantially all of its assets to a restricted subsidiary that is not a Guarantor, then such Restricted Subsidiary must assume the predecessors' obligations under the Notes and must be organized or existing under the laws of Ukraine, Cyprus, The Netherlands, the United Kingdom or an Approved Jurisdiction.

Limitations on Activities of the Issuer

The Issuer will not engage in any business activity or undertake any other activity or obligations except activities and obligations relating to or required by the issuance of the Notes (including Additional Notes, if any), the issuance of other debt securities on the international capital markets by the Issuer, the Parent Guarantor or any Restricted Subsidiary, the raising of bank financing in the international loan markets by the Issuer, the Parent Guarantor or any Restricted Subsidiary, and actions incidental thereto, including without limitation lending or otherwise advancing the proceeds thereof to the Parent Guarantor or any Restricted Subsidiary, paying dividends and making other payments to the Parent Guarantor or any Restricted Subsidiary, making payments in respect of the Notes and establishing and maintaining its legal existence and otherwise take actions to comply with the terms of the Indenture.

Listing

The Issuer will use its reasonable best efforts to effect and, if the Issuer so succeeds, maintain the listing of the Notes on the Global Exchange Market of the Irish Stock Exchange or another international securities exchange for so long as the Notes are outstanding.

Limitation on Restrictions on Distributions from Restricted Subsidiaries

The Parent Guarantor will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction of any kind on the ability of any such Restricted Subsidiary to:

(1) pay dividends, in cash or otherwise, or make any other distributions on or in respect of its Capital Stock or any other interest or participation in, or measured by, its profits, in each case, to the Parent Guarantor or any Restricted Subsidiary;

(2) pay any Indebtedness owed to the Parent Guarantor or any Restricted Subsidiary;

(3) make loans or advances to the Parent Guarantor or any Restricted Subsidiary; or

(4) transfer any of its properties or assets to the Parent Guarantor or any Restricted Subsidiary.

The provisions referred to in the first paragraph of this covenant will not apply to:

(1) encumbrances and restrictions imposed by the Notes, the Indenture or any Notes Guarantee;

(2) encumbrances or restrictions contained in any agreement in effect on the Issue Date and any amendments, modifications, restatements, renewals, extensions, supplements, refundings, replacements or refinancings thereof, *provided* that the encumbrances and restrictions in any such amendments, modifications, restatements, renewals, extensions, supplements, refundings, replacements or refinancings are no more restrictive, taken as a whole, than those contained in such agreement as in effect on the Issue Date;

(3) encumbrances and restrictions: (i) that restrict in a customary manner the subletting, assignment or transfer of any properties or assets that are subject to a lease, license, conveyance or other similar agreement to which the Parent Guarantor or any Restricted Subsidiary is a party; and (ii) contained in operating leases for real property and restricting only the transfer of such real property upon the occurrence and during the continuance of a default in the payment of rent;

(4) encumbrances or restrictions contained in any agreement or other instrument of a Person acquired by the Parent Guarantor or any Restricted Subsidiary in effect at the time of such acquisition (but not created in contemplation thereof), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired;

(5) customary encumbrances or restrictions contained in contracts for sales of Capital Stock or assets with respect to the Capital Stock (including distributions in respect thereof) or assets to be sold pursuant to such contract;

(6) Liens permitted to be incurred under the provisions of the covenant described below under the caption "—Limitation on Liens" that limit the right of the debtor to dispose of the assets subject to such Liens;

(7) encumbrances or restrictions imposed by applicable law or regulation or by governmental licenses, concessions, franchises or permits;

(8) encumbrances or restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business;

(9) any encumbrance or restriction arising by reason of customary non-assignment provisions in agreements;

(10) encumbrances and restrictions under agreements governing other Indebtedness permitted to be incurred under the covenant described under "—Limitations on Indebtedness" and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements (i) if the restrictions therein are not materially more restrictive, taken as a whole, than those contained in the Indenture, the Notes and the Note Guarantees or (ii) if such encumbrances or restrictions are not materially more disadvantageous to the holders of Notes than is customary in comparable financings (as determined in good faith by the Parent Guarantor) and either (x) the Parent Guarantor determines that such encumbrance or restriction will not materially affect the Parent Guarantor's or the Issuer's ability to make principal or interest payments on the Notes as and when they come due or (y) such encumbrance or restriction applies only if a default occurs in respect of a payment or financial covenant prescribed under the terms of such Indebtedness;

(11) encumbrances or restrictions limiting the disposition or distribution of assets or property in joint venture agreements, asset sale agreements, sale-leaseback agreements, stock sale agreements and other similar agreements (including agreements entered into in connection with a Restricted Investment) entered into with the approval of the Parent Guarantor's Board of Directors, which limitation is applicable only to the assets that are the subject of such agreements; and

(12) encumbrances or restrictions contained in any agreement or document related to Permitted Refinancing Indebtedness; *provided* that the restrictions contained in the agreements governing such

Permitted Refinancing Indebtedness are not materially more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced.

Limitation on Liens

The Parent Guarantor will not, and will not permit any Restricted Subsidiary to, create or permit to exist any Lien (other than a Permitted Lien) upon the whole or any part of its property, assets or revenues, present or future, to secure payment of any sum due in respect of any Indebtedness of any Person (such Lien, an "**Initial Lien**") unless all payments due under the Indenture and the Notes are secured (i) on an equal and rateable basis with the obligations so secured or (ii) in the case of Indebtedness subordinated to all payments due under the Notes and the Indenture or, as the case may be, any Notes Guarantee, prior or senior thereto, with the same relative priority as the Notes will have with respect to such Subordinated Indebtedness. Any Lien created for the benefit of the holders of Notes pursuant to this covenant will provide by its terms that such Lien will be automatically and unconditionally released and discharged (a) upon the release and discharge of the Initial Lien, (b) upon the sale or other disposition of the assets subject to such Initial Lien (or the sale or other disposition of the Person that owns such assets) in compliance with the terms of the Indenture, (c) upon the effectiveness of any legal defeasance, covenant defeasance or satisfaction and discharge of the Notes as specified in the Indenture or (d) upon the designation of a Restricted Subsidiary whose property or assets are the subject of such Initial Lien as an Unrestricted Subsidiary in accordance with the terms of the Indenture.

Limitation on Designation of Unrestricted Subsidiaries

The Board of Directors of the Parent Guarantor may designate any Restricted Subsidiary other than the Issuer to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate Fair Market Value of all outstanding Investments owned by the Parent Guarantor and the Restricted Subsidiaries in the Subsidiary so designated will be deemed to be an Investment made as of the time of such designation and will reduce the amount available for Restricted Payments under the first paragraph of the covenant described under "—Limitations on Restricted Payments" or reduce the amount available for Investments under one or more clauses of the definition of Permitted Investments, as the Parents Guarantor shall determine. That designation will only be permitted if such Investment would be permitted at that time and if such Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Board of Directors of the Parent Guarantor may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if the redesignation would not cause a Default.

Any designation of a Subsidiary of the Parent Guarantor as an Unrestricted Subsidiary will be evidenced to the Trustee by filing with the Trustee a certified copy of a resolution of the Board of Directors giving effect to such designation and a Directors' Certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption "—Limitation on Restricted Payments".

Additional Guarantees

If, after the Issue Date, (a) any Restricted Subsidiary that was not a Guarantor on the Issue Date is or becomes a Significant Subsidiary (whether or not such Restricted Subsidiary existed on the Issue Date or was created or acquired thereafter), (b) any Restricted Subsidiary (including any newly formed or newly acquired Restricted Subsidiary (unless, otherwise already a Subsidiary Guarantor)) guarantees or provides surety or credit support in respect of any Indebtedness of the Parent Guarantor or any other Restricted Subsidiary or (c) the Parent Guarantor otherwise elects to cause any Restricted Subsidiary to become a Guarantor, then, in each case, the Parent Guarantor shall cause such Restricted Subsidiary to:

(1) execute and deliver to the Trustee a notation of guarantee or deed of surety, as applicable, in respect of its Note Guarantee and/or supplemental indenture, in each case, as required by the terms of the Indenture; and

(2) deliver to the Trustee one or more opinions of counsel in form and substance reasonably satisfactory to the Trustee that such supplemental indenture, notation of guarantee and/or deed of surety (a) has been duly authorized, executed and delivered by such Restricted Subsidiary and (b) constitutes a valid and legally binding obligation of such Restricted Subsidiary enforceable in accordance with its terms;

provided, however, that the foregoing provisions of this paragraph will not apply to any guarantee or surety given to a bank or trust company organized in Ukraine, any member state of the European Union or any commercial banking institution that is a member of the U.S. Federal Reserve System, (or any branch, subsidiary or Affiliate thereof), in each case, having combined capital and surplus and undivided profits of not less than $500 million, whose indebtedness has a rating, at the time such guarantee was given, of at least A or the equivalent thereof by S&P and at least A2 or the equivalent thereof by Moody's, in connection with the operation of cash management programs established for its benefit or that of the Parent Guarantor or any Restricted Subsidiary.

The provisions described above under "Guarantees—Guarantee Limitations" and "—Exceptions to Requirements to Provide Notes Guarantees" shall apply with respect to the provisions of this "—Additional Guarantees" covenant.

Any Notes Guarantee by a Restricted Subsidiary shall provide by its terms that it shall be automatically and unconditionally released and discharged in the circumstances described under the heading "—Guarantees—Guarantee Release" above.

Reports to Holders

The Parent Guarantor will furnish the Trustee with the following:

(1) within 120 days after the end of each of the Parent Guarantor's fiscal years beginning with the fiscal year ended December 31, 2012, an annual report containing (a) information with a level of detail that is substantially comparable in all material respects to the sections in this offering memorandum entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations", and (b) the audited consolidated balance sheet of the Parent Guarantor as of the end of the most recent fiscal year and audited consolidated income statements and statements of cash flow of the Parent Guarantor for the most recent two fiscal years, including appropriate footnotes to such financial statements, and the report of the Auditors on the financial statements;

(2) within 90 days following the end of the first half of each fiscal year of the Parent Guarantor beginning with the six-months ended June 30, 2013, half-year financial statements containing the following information the Parent Guarantor's unaudited condensed consolidated balance sheet as of the end of such half-year and unaudited condensed consolidated income statements and statements of cash flow for the most recent half-year and the comparable period in the prior year, together with condensed footnote disclosure (provided that if Parent Guarantor provides similar information to its shareholders on a quarterly basis it shall also provide such quarterly information to the Trustee);

(3) as soon as practicable after their date of publication, every balance sheet, profit and loss account, report or other notice, statement or circular issued (or which under any legal or contractual obligation should be issued) to the members or holders of debentures or creditors (or any class of them) of the Issuer in their capacity as such at the time of the actual (or legally or contractually required) issue or publication thereof and procure that the same are made available for inspection by Holders at the specified offices of the Agents as soon as practicable thereafter; and

(4) promptly after the occurrence of any material acquisition, disposition, restructuring affecting the Issuer, Parent Guarantor or any Significant Subsidiary, senior management changes at the Parent Guarantor, incurrence of debt for borrowed money or an Equity Offering or change in Auditors, a report containing a description of such event or transaction, including in the case of any such debt incurrence or Equity Offering, or an as adjusted or pro forma statement of capitalization giving effect thereto.

If the Parent Guarantor has designated any of its Subsidiaries as Unrestricted Subsidiaries and any such Unrestricted Subsidiary or group of Unrestricted Subsidiaries constitute Significant Subsidiaries of the Parent Guarantor, then the annual and half-yearly information required by clauses (1) and (2) of the preceding paragraph of this covenant shall include in the footnotes thereto, a summary of the financial condition and results of operations of the Parent Guarantor and the Restricted Subsidiaries separate from the financial condition and results of operations of such Unrestricted Subsidiaries of the Parent Guarantor.

In addition, so long as the Notes remain "restricted securities" within the meaning of Rule 501 under the Securities Act and during any period during which the Parent Guarantor is not subject to Section 13 or 15(d) of the U.S. Exchange Act nor exempt therefrom pursuant to Rule 12g3-2(b), the Parent Guarantor

shall furnish to the holders of Notes and to prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

All financial statement information required under this covenant shall be prepared on a consistent basis in accordance with IFRS.

Contemporaneously with the provision of each report discussed above, the Parent Guarantor will also (1) post such report on the Parent Guarantor's website and (2) for so long as the Notes are admitted to trading on the Global Exchange Market of the Irish Stock Exchange and the rules of such exchange so require, make the above information available through the offices of the Paying Agent.

Currency Indemnity

The U.S. dollar is the sole currency of account and payment for all sums payable by the Issuer and the Guarantors under the Notes, the related Notes Guarantees and the Indenture. Any amount received or recovered in currency other than the U.S. dollar in respect of the Notes or the related Notes Guarantees (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding up or dissolution of the Issuer, any Guarantor, any Subsidiary or otherwise) by the Holder in respect of any sum expressed to be due to it from the Issuer or any Guarantor will constitute a discharge of the Issuer or the Guarantors only to the extent of the U.S. dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient under any Note or a related Notes Guarantee, the Issuer and the Guarantors will indemnify the recipient against any loss sustained by it as a result. In any event, the Issuer and the Guarantors will indemnify the recipient against the cost of making any such purchase.

Events of Default

Each of the following is an Event of Default under the Indenture:

(1) default for 30 days in any payment of interest on any Note when due;

(2) default in the payment of principal of or premium, if any, on any Note when due at its Stated Maturity, upon optional redemption, upon required repurchase or otherwise;

(3) (a) failure to comply after notice with the covenant described under "—Certain Covenants—Merger, Consolidation or Sale of Assets" with respect to the Parent Guarantor or the Issuer or (b) failure to comply for 10 Business Days after notice with (x) the covenant described under "—Certain Covenants—Merger, Consolidation or Sale of Assets" in respect of a Subsidiary Guarantor, (y) "—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock" or (z) the provisions under "Repurchase at the Option of holders upon a Change of Control";

(4) failure to comply for 60 days after notice with any other agreements contained in the Indenture;

(5) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Parent Guarantor or any Restricted Subsidiary (or the payment of which is guaranteed by the Parent Guarantor or any Restricted Subsidiary), whether such Indebtedness or guarantee now exists, or is created after the Issue Date, which default:

   (a) is caused by a failure to pay principal of such Indebtedness at maturity prior to the expiration of the grace period provided in such Indebtedness ("**payment default**"); or

   (b) results in the acceleration of such Indebtedness prior to its Stated Maturity (the "**cross acceleration provision**");

and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been such a payment default or the maturity of which has been so accelerated, aggregates $50.0 million or more;

(6) certain events of bankruptcy, insolvency or reorganization, as more fully described in the Indenture, of the Parent Guarantor or a Restricted Subsidiary that is a Significant Subsidiary or group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Parent Guarantor and its Restricted Subsidiaries), would constitute a Significant Subsidiary (the

"**bankruptcy provisions**"); except that the bankruptcy provisions shall not apply in relation to any Ukrainian company (being a Restricted Subsidiary) a majority of the Capital Stock of which was acquired by the Parent Guarantor or a Restricted Subsidiary after the Issue Date (such acquired Ukrainian Restricted Subsidiary, a "**Ukrainian Bankrupt Subsidiary**") at a time when such Ukrainian company was subject to Ukrainian bankruptcy or similar proceedings and for so long as such Ukrainian bankruptcy or similar proceedings are continuing, notwithstanding that such Restricted Subsidiary (alone or together with other Restricted Subsidiaries) would otherwise constitute a Significant Subsidiary (provided that such bankruptcy or similar proceedings apply only to the Ukrainian Bankrupt Subsidiary and do not cause any other Significant Subsidiary to be subject to any bankruptcy or similar proceedings);

(7) one or more judgments in an aggregate amount in excess of $50.0 million shall have been rendered against the Parent Guarantor or any Restricted Subsidiary and are not covered by indemnities or third party insurance as to which the Person giving such indemnity or such insurer has not disclaimed coverage and such judgments remain undischarged, unpaid or unstayed for a period of 60 days after such judgment or judgments become final and non-appealable (and, in the case of a Ukrainian judgment, no longer eligible to be the subject of a petition of cassation) (the "**judgment default provision**");

(8) any Notes Guarantee ceases to be in full force and effect (except as permitted by its terms or the terms of the Indenture) or is declared null and void in a judicial proceeding or any Guarantor denies or disaffirms its obligations under its Notes Guarantee (the "Guarantee provision"); or

(9) the ability of the Parent Guarantor or a Restricted Subsidiary that is a Significant Subsidiary or group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Parent Guarantor and its Restricted Subsidiaries), would constitute a Significant Subsidiary to conduct its or their business is wholly or substantially curtailed by any seizure, expropriation, nationalization or compulsorily acquisition of all or substantially all the assets of the Parent Guarantor, such Restricted Subsidiary or such group of Restricted Subsidiaries by, or any other action of, any governmental or regulatory authority or agency with authority over the Parent Guarantor, such Restricted Subsidiary or such group of Restricted Subsidiaries or their respective assets; or

(10) it is or will become unlawful for the Issuer or any Guarantor to perform or comply with any one or more of its obligations under any of the Notes, the Indenture, any Notes Guarantee.

However, a default under clauses (3) and (4) of this paragraph that has occurred and is continuing will not constitute an Event of Default until holders of at least 25% in aggregate principal amount of the Notes then outstanding voting as a single class notify the Issuer (with a copy of such notice to be sent to the Trustee) of the default and the Issuer does not cure such default within the time specified in clauses (3) and (4) of this paragraph after receipt of such notice.

If an Event of Default (other than an Event of Default described in clause (6) above) occurs and is continuing, the Trustee by notice to the Issuer, or the holders of at least 25% in principal amount of the outstanding Notes by notice to the Issuer and the Trustee, may, and Trustee at the written request of such holders shall, declare the principal of, premium, if any, and accrued and unpaid interest, if any, on all the Notes to be due and payable. Upon such a declaration, such principal, premium and accrued and unpaid interest will be due and payable immediately. In the event of a declaration of acceleration of the Notes because an Event of Default described in clause (5) under "Events of Default" has occurred and is continuing, the declaration of acceleration of the Notes shall be automatically annulled if the event of default or payment default triggering such Event of Default pursuant to clause (5) shall be remedied or cured by the Parent Guarantor or a Restricted Subsidiary or waived by the holders of the relevant Indebtedness within 10 Business Days after the declaration of acceleration with respect thereto and if (1) the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all existing Events of Default, except non-payment of principal, premium or interest on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived. If an Event of Default described in clause (6) above occurs and is continuing, the principal of, premium, if any, and accrued and unpaid interest on all the Notes will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any holders. The holders of a majority in principal amount of the outstanding Notes may waive all past defaults (except with respect to non-payment of principal, premium or interest) and rescind any acceleration with respect to the Notes and its consequences if (1) rescission would not conflict with any judgment or decree

of a court of competent jurisdiction and (2) all existing Events of Default, other than the non-payment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived.

Upon becoming aware of a Default or an Event of Default, the Issuer shall deliver to the Trustee, promptly and in any event within 15 Business Days thereafter, written notice of any events which would constitute a Default or an Event of Default, their status, and what action the Issuer is taking or proposes to take in respect thereof.

Subject to the provisions of the Indenture relating to the duties of the Trustee, if an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the holders unless such holders have offered the Trustee an indemnity and/or security satisfactory to the Trustee in its sole discretion against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, or interest when due, no holder may pursue any remedy with respect to the Indenture or the Notes or Notes Guarantees unless:

(1) such holder has previously given the Trustee written notice that an Event of Default is continuing;

(2) holders of at least 25% in principal amount of the outstanding Notes have requested the Trustee in writing to pursue the remedy;

(3) such holders have agreed to fully indemnify and/or secure the Trustee to its satisfaction in relation thereto;

(4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security and/or indemnity; and

(5) the holders of a majority in principal amount of the outstanding Notes have not given the Trustee a direction that, in the opinion of the Trustee, is inconsistent with such request within such 60-day period.

Holders of Notes may not enforce the Indenture, the Notes or the Notes Guarantees except as provided in the Indenture. Subject to certain restrictions, the holders of a majority in principal amount of the outstanding Notes are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee, subject to the Trustee being indemnified and/or secured to its satisfaction. The Indenture will provide that in the event an Event of Default has occurred and is continuing, the Trustee will be required in the exercise of its powers to use the degree of care that a prudent person would use in the conduct of its own affairs. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of any other holder or that would involve the Trustee in personal liability. Prior to taking any action under the Indenture, the Trustee will be entitled to indemnification and/or security satisfactory to it in its sole discretion against all losses, liabilities, fees and expenses caused by taking or not taking such action.

The Indenture provides that if a Default occurs and is continuing and is known to the Trustee, the Trustee must mail to each holder notice of the Default within 90 days after it occurs. Except in the case of a Default in the payment of principal of, premium, if any, or interest on any Note, the Trustee may withhold notice if and so long as the Trustee in good faith determines that withholding notice is in the interests of the holders. The Parent Guarantor shall deliver to the Trustee, within 120 days after the end of each fiscal year, a Director's Certificate stating that a review of the activities of the Parent Guarantor and the Restricted Subsidiaries during the preceding fiscal year has been made under the supervision of the signing Directors with a view to determining whether it has kept, observed, performed and fulfilled its obligations under the Indenture and further stating, as to each such Director signing such certificate that, to the best of such signing Director's knowledge, the Parent Guarantor and the Issuer during such preceding fiscal year has kept, observed, performed and fulfilled each and every such covenant contained in the Indenture and no Default occurred during such year and at the date of such certificate there is no Default which has occurred and is continuing or, if such signers do know of any such Default, the certificate shall describe its status, with particularity and that, to the best of such signing Director's knowledge, no event has occurred and remains by reason of which payments on the account of the principal of or interest, if any, on the Notes is prohibited or if such event has occurred, a description of the event and what action each is taking or proposes to take with respect thereto. The Trustee shall be entitled to rely on any such certificate without further enquiry.

Amendments and Waivers

Except as set forth in the next two succeeding paragraphs, the Indenture, the Notes and the Notes Guarantees may be amended or supplemented with the consent of the holders of a majority in aggregate principal amount of the Notes then outstanding voting as a single class (including without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes) and any past or existing Default or Event of Default or compliance with any provision of the Indenture, the Notes and the Notes Guarantees may be waived (other than Default in respect of the payment of principal, interest or Additional Amounts due on the Notes) with the consent of the holders of a majority in aggregate principal amount of the Notes then outstanding voting as a single class (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes).

However, without the consent of holders of Notes holding not less than 90% of the aggregate principal amount of the Notes then outstanding, no amendment may, among other things:

(1) reduce the principal amount of Notes whose holders must consent to an amendment, supplement or waiver;

(2) reduce the stated rate of or extend the stated time for payment of interest on any Note;

(3) reduce the principal of or extend the Stated Maturity of any Note;

(4) reduce the premium payable upon the redemption or repurchase of any Note or change the time at which any Note may be redeemed or repurchased as described above under the section entitled "—Optional Redemption", "—Repurchase at the Option of holders upon a Change of Control" and "—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock", whether through an amendment, waiver of provisions in the covenants, definitions or otherwise;

(5) make any Note payable in currency other than that stated in the Note;

(6) impair the right of any Holder to receive payment of, premium, if any, principal of, interest on such Holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holder's Notes;

(7) waive a Default or Event of Default in the payment of principal of, or interest or premium, if any, on, the Notes (except a rescission of acceleration of the Notes by the holders of at least a majority in aggregate principal amount of the then outstanding Notes and a waiver of the payment default that resulted from such acceleration);

(8) make any change in the provisions of the Indenture described under the section entitled "Payment of Additional Amounts" that adversely affects the rights of any Holder of such Notes in any material respect or amends the terms of such Notes in a way that would result in a loss of an exemption from any of the Taxes described thereunder or an exemption from any obligation to withhold or deduct Taxes so described thereunder unless the Payor agrees to pay Additional Amounts, if any, in respect thereof;

(9) make any change in the provisions of the Indenture affecting the ranking of the Notes or any Guarantee in a manner adverse to the Holders;

(10) release any of the Notes Guarantees other than in accordance with the terms of the Indenture or such Note Guarantee; or

(11) make any change in the preceding amendment and waiver provisions.

Notwithstanding the foregoing, without the consent of any Holder, the Issuer, the Guarantors and the Trustee may amend the Indenture, the Notes and the Notes Guarantees to:

(1) cure any ambiguity, omission, defect or inconsistency;

(2) provide for the assumption by a successor entity of the obligations of the Issuer's or Guarantor's obligations to holders of Notes and Notes Guarantees in the case of a merger or consolidation or sale of all or substantially all of the Issuer's or such Guarantor's assets, as applicable, in accordance with the Indenture;

(3) provide for uncertificated Notes in addition to or in place of certificated Notes;

(4) add Notes Guarantees with respect to the Notes or release a Subsidiary Guarantor upon its designation as an Unrestricted Subsidiary or as otherwise permitted by the Indenture; *provided, however,* that the release complies with the applicable provisions of the Indenture;

(5) add to the covenants of the Issuer or the Guarantors for the benefit of the holders or surrender any right or power conferred upon the Issuer or any Guarantor;

(6) conform the text of the Indenture, the Notes or the Notes Guarantees to any provision of this Description of the Notes to the extent that such provision in this Description of the Notes was intended to be a verbatim recitation of a provision of the Indenture, the Notes or the Notes Guarantees;

(7) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;

(8) comply with the rules of any applicable securities depository;

(9) to mortgage, pledge, hypothecate or grant a Lien in favour of the Trustee for the benefit of the holders of Notes, as security for the payment and performance of the Issuer's or any Guarantor's obligations under the Notes, the Indenture or the relevant Notes Guarantee;

(10) evidence and provide for the acceptance and appointment under the Indenture of a successor Trustee pursuant to the requirements thereof; or

(11) make any change that does not adversely affect the rights of any Holder.

The consent of the holders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment. A consent to any amendment or waiver under the Indenture by any Holder of Notes given in connection with a tender of such Holder's Notes will not be rendered invalid by such tender.

In formulating its opinion on such matters, the Trustee shall be entitled to rely absolutely on such evidence as it deems appropriate, including an opinion of counsel and a Directors' Certificate.

In determining whether the holders of the requisite principal amount of Notes have given any request, demand, authorization, consent, vote or waiver in connection with the Indenture and the Notes, Notes owned by the Parent Guarantor or the Issuer or any Affiliate of the Parent Guarantor or the Issuer shall be disregarded and deemed not to be outstanding for these purposes, except that in determining whether the Trustee shall be protected in relying upon such request, demand, authorization, consent, vote or waiver, only Notes which the Trustee knows to be so owned shall be so disregarded.

The Issuer will publish a notice of any amendment, supplement or waiver in accordance with the provisions of the Indenture described under the section entitled "—Notices", and for so long as the Notes are admitted to trading on the Global Exchange Market of the Irish Stock Exchange and the rules of such exchange so require, the Issuer will notify the Irish Stock Exchange of any such amendment, supplement and waiver.

Defeasance

The Issuer may, at its option and at any time, elect to have its obligations and the obligations of the Guarantors discharged with respect to the outstanding Notes ("**Legal Defeasance**"). Legal Defeasance means that the Issuer and the Guarantors shall be deemed to have paid and discharged the entire indebtedness represented by the Notes and the Notes Guarantees, and the Indenture shall cease to be of further effect as to all outstanding Notes and Notes Guarantees, except as to

(1) rights of Holders to receive payments in respect of the principal of and interest on the Notes when such payments are due from the trust funds referred to below,

(2) the Issuer's obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes, and the maintenance of an office or agency for payment and money for security payments held in trust,

(3) the rights, powers, trust, duties, and immunities of the Trustee, and the Issuer's obligation in connection therewith, and

(4) the Legal Defeasance provisions of the Indenture.

In addition, the Issuer may, at its option and at any time, elect to have its obligations and the obligations of the Guarantors released with respect to most of the covenants under the Indenture, except as described otherwise in the Indenture ("**Covenant Defeasance**"), and thereafter any omission to comply with such obligations shall not constitute a Default. In the event Covenant Defeasance occurs, certain Events of Default (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events (each an "**Excluded Event of Default**")) will no longer apply. If an Excluded Event of Default has occurred and is continuing, then the Covenant Defeasance will not be effective until each such Excluded Events of Default are no longer continuing. The Issuer may exercise its Legal Defeasance option regardless of whether it previously exercised Covenant Defeasance.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Issuer must irrevocably deposit with the Trustee, as trust funds, in trust solely for the benefit of the Holders, U.S. legal tender, U.S. Government Obligations or a combination thereof, in such amounts as will be sufficient (without consideration of any reinvestment of interest) in the opinion of an internationally recognized firm of independent public accountants selected by the Issuer and approved by the Trustee (such approval not to be unreasonably withheld), to pay the principal of and interest on the Notes on the stated date for payment or on the redemption date of the principal or instalment of principal of or interest on the Notes,

(2) in the case of Legal Defeasance, the Issuer shall have delivered to the Trustee an Opinion of Counsel in the United States confirming that:

  (c) the Issuer has received a ruling from, or a ruling has been published by the Internal Revenue Service, or

  (d) since the date of the Indenture, there has been a change in the applicable U.S. federal income tax law,

in either case to the effect that, and based thereon this Opinion of Counsel shall confirm that, the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred,

(3) in the case of Covenant Defeasance, the Issuer shall have delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee confirming that the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if the Covenant Defeasance had not occurred,

(4) no Default shall have occurred and be continuing on the date of such deposit (other than a Default resulting from the borrowing of funds to be applied to such deposit),

(5) the Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of or under any material agreement or instrument to which the Issuer or any of its Subsidiaries is a party or by which the Issuer or any of its Subsidiaries is bound (other than any such Default or default resulting solely from the borrowing of funds to be applied to such deposit),

(6) the Issuer shall have delivered to the Trustee a Directors' Certificate stating that the deposit was not made by it with the intent of preferring the Holders over any other of its creditors or with the intent of defeating, hindering, delaying or defrauding any other of its creditors or others, and

(7) the Issuer shall have delivered to the Trustee a Directors' Certificate and an Opinion of Counsel, each stating that the conditions provided for in, in the case of the Directors' Certificate, clauses (1) through (6) and, in the case of the opinion of counsel, clauses (2) and/or (3) and (5) of this paragraph have been complied with.

If the funds deposited with the Trustee to effect Covenant Defeasance are insufficient to pay the principal of and interest on the Notes when due, then the Issuer's obligations and the obligations of Guarantors under the Indenture will be revived and no such defeasance will be deemed to have occurred.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to rights of registration of transfer or exchange of Notes which shall survive until all Notes have been cancelled) as to all outstanding Notes when either:

(1) all the Notes that have been authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from this trust) have been delivered to the Trustee for cancellation, or

(2) (a) all Notes not delivered to the Trustee for cancellation (i) have become due and payable by reason of the mailing of notice of redemption or otherwise, or (ii) will become due and payable within one year and, in any case, the Issuer has irrevocably deposited or caused to be deposited with the Trustee as trust funds, in trust solely for the benefit of the Holders, U.S. legal tender, U.S. Government Obligations or a combination thereof, in such amounts as will be sufficient (without consideration of any reinvestment of interest) to pay and discharge the entire Indebtedness (including all principal and accrued interest, Additional Amounts and premium, if applicable) on the Notes not theretofore delivered to the Trustee for cancellation,

(b) the Issuer has paid all sums payable by it under the Indenture,

(c) and the Issuer has delivered irrevocable instructions to the Trustee to apply the deposited money toward the payment of the Notes at maturity or on the date of redemption, as the case may be.

In addition, the Issuer must deliver a Directors' Certificate and an Opinion of Counsel stating that all conditions precedent to satisfaction and discharge have been complied with.

No Personal Liability of Directors, Officers, Employees and Stockholders

No past, present or future director, officer, employee, incorporator, promoter, advisor or stockholder of the Issuer or any Guarantor, as such, will have any liability for any obligations of the Issuer or the Guarantors under the Notes, the Indenture or the Notes Guarantees or the Proceeds Loan or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under U.S. federal securities laws.

Concerning the Trustee

BNY Corporate Trustee Services Limited will be the Trustee under the Indenture.

The Issuer shall deliver written notice to the Trustee promptly and in any event within 15 Business Days of becoming aware of a Default or an Event of Default.

The Indenture directly or by reference, contains limitations on the rights of the Trustee under the Indenture in the event the Trustee becomes a creditor of the Issuer, any Guarantor or any Subsidiary. These include limitations on the Trustee's rights to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee will be permitted to engage in other transactions.

The Indenture provides that, except during the continuance of an Event of Default, the Trustee will perform only such duties as are set forth specifically in the Indenture. During the existence of an Event of Default, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. The Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any holder of Notes, unless such holder has offered the Trustee security and/or indemnity satisfactory to it in its sole discretion against any loss, liability or expense. In the event any collateral or other security (collectively, ''Collateral'') is granted in favour of the Noteholders in connection with the Notes, the Trustee will not be responsible for any unsuitability, inadequacy or unfitness of any Collateral as security in relation to the Notes and shall not be obliged to make any investigation into, and shall be entitled to assume, the suitability, adequacy and fitness of any Collateral as security for the Notes. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any Collateral being uninsured or inadequately insured.

The Indenture sets out the terms under which the Trustee may retire or be removed, and replaced. Such terms will include, among others, (1) that the Trustee may be removed at any time by the holders of a majority in principal amount of the then outstanding Notes, or may resign at any time by giving written notice to the Issuer and (2) that if the Trustee at any time (a) has or acquires a conflict of interest that is not eliminated, (b) fails to meet certain minimum limits regarding the aggregate of its capital and surplus or (c) becomes incapable of acting as Trustee or becomes insolvent or bankrupt, then the Issuer may remove the Trustee, or any holder who has been a bona fide holder for not less than six months may petition any court for removal of the Trustee and appointment of a successor Trustee.

Any removal or resignation of the Trustee shall not become effective until the acceptance of appointment by the successor Trustee.

The Indenture provides for the indemnification of the Trustee and for its relief from responsibility in connection with its actions under the Indenture. The Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any holder of Notes, unless such holder has offered the Trustee security and/or indemnity satisfactory to it against any loss, liability or expense.

Governing Law

The Indenture provides that it, the Notes and the Notes Guarantees (other than the Ukrainian Deeds of Surety) will be governed by, and construed in accordance with, the laws of the State of New York. The Ukrainian Deeds of Surety will be governed by and construed in accordance with, the laws of England and Wales.

Consent to Jurisdiction, Dispute Resolution and Service of Process

Any legal action or proceedings arising out of or in connection with the Indenture and the Notes will be settled by arbitration in accordance with the Arbitration Rules of the International Chamber of Commerce, as then in effect. The seat of any arbitration shall be in the Borough of Manhattan in the City of New York. The language of the arbitration shall be English.

In addition, the Indenture provides that if any dispute or difference of whatever nature arises from or in connection with the Indenture, the Notes, or the Notes Guarantees (other than the Deeds of Surety, which shall be subject to arbitration only) (each a "**Dispute**"), the Trustee may elect, by notice in writing to the Issuer, to have such Dispute brought and heard in, and each of the Issuer and the Guarantors will irrevocably submit to the jurisdiction of, the federal and state courts in the Borough of Manhattan in the City of New York, County and State of New York, United States of America.

Notices

In the event the Notes are in the form of definitive Notes, notices will be sent, by first-class mail, with a copy to the Trustee and to each Holder at such Holder's address as it appears on the registration books of the registrar. If and so long as such Notes are admitted to trading on the Global Exchange Market of the Irish Stock Exchange, notices will also be given in accordance with any applicable requirements of such securities exchange. Any such notices delivered to the Global Exchange Market of the Irish Stock Exchange will be published on the Daily Official List of the Irish Stock Exchange so long as the rules so require. If and so long as any Notes are represented by one or more Global Notes and ownership of Book-Entry Interests therein are shown on the records of Euroclear, Clearstream or any successor clearing agency appointed by the Common Depositary at the request of the Issuer, notices will be delivered to such clearing agency for communication to the owners of such Book-Entry Interests. Notices given by publication will be deemed given on the first date on which publication is made and notices given by first-class mail, postage prepaid, will be deemed given five calendar days after mailing.

Certain Definitions

"**Acquired Debt**" means, with respect to any specified Person, Indebtedness of any other Person existing at the time such other Person is merged, consolidated, amalgamated or otherwise combined with or into, or becomes a Restricted Subsidiary of, such specified Person.

"**Additional Amounts**" has the meaning ascribed thereto under the section entitled "—Payment of Additional Amounts".

"**Additional Jurisdiction**" means any Approved Jurisdiction, any other member state of the European Union as of the Issue Date, Turkey, Russia, Serbia, Croatia, Slovenia, Macedonia and/or Bosnia.

"**Additional Notes**" has the meaning ascribed thereto under the section entitled "—General".

"**Affiliate**", in respect of any specified Person, means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person, and, in the case of a natural Person, any immediate family member of such Person. For purposes of this definition, "**control**", as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; provided that (a) for purposes of the covenant entitled "Limitation on Affiliate Transactions" beneficial ownership of 10% or more of the Voting Stock of a Person shall be deemed to be control and (b) for purposes of this definition, the terms "**controlling**"; "**controlled by**" and "**under common control with**" shall have correlative meanings.

"**Affiliate Transaction**" has the meaning ascribed thereto in the covenant described above under "—Certain Covenants—Limitation on Affiliate Transactions".

"**Alternative Energy Assets**" means any assets related to the exploration, production and development of oil and gas, wind power, solar power, hydroelectric power and alternative energy generation and related technologies and any business related, ancillary or complementary to any of the foregoing.

"**Approved Jurisdiction**" means the United States of America, any state thereof or the District of Columbia and any Member State of the European Union.

"**Asset Sale**" means any sale, lease, transfer or other disposal in a transaction or series of related transactions by the Parent Guarantor or any Restricted Subsidiary of all or any of the Equity Interests of any Subsidiary of the Parent Guarantor or any other property or assets of the Parent Guarantor or any Restricted Subsidiary and the issuance by any Restricted Subsidiary of Equity Interests; provided that "**Asset Sale**" shall not include:

(1) sales, leases, transfers or other disposals of inventory, stock-in-trade, goods, services and other current assets (including accounts receivable) in the ordinary course of business;

(2) dispositions by the Parent or any Restricted Subsidiary of assets or Equity Interests in a single transaction or a series of related transactions with an aggregate Fair Market Value of less than $15.0 million;

(3) any transfers of assets or transfer or issuances of Equity Interests to, between or among the Parent Guarantor and/or any Restricted Subsidiary;

(4) a disposition by the Parent or any Restricted Subsidiary of damaged, obsolete or worn-out equipment or equipment that is no longer useful in the conduct of business of the Parent or any Restricted Subsidiary and that is disposed in each case in the ordinary course of business (including the abandonment or other disposition of intellectual property that is, in the reasonable judgment of the Parent Guarantor, no longer economically practicable to maintain or useful in the conduct of the business of the Group);

(5) the granting of any Lien not prohibited by the Indenture and dispositions in connection with a Permitted Lien;

(6) dispositions in accordance with a transaction governed by the first and third paragraphs of the covenant described under "—Certain Covenants—Merger, Consolidation or Sale of Assets" or the section entitled "—Repurchase at the Option of holders upon a Change of Control";

(7) a Restricted Payment that is permitted by the covenant described under "—Certain Covenants—Limitation on Restricted Payments" and any Permitted Investment;

(8) the sale or other disposition of cash and Cash Equivalents;

(9) licenses and sublicenses by the Parent or any Restricted Subsidiary of software or intellectual property in the ordinary course of business so long as such licenses or sublicenses do not prohibit the licensor or sublicensor from using such software or intellectual property; and

(10) any surrender or waiver of contract rights or settlement, release, recovery on or surrender of contract, tort or other claims in the ordinary course of business.

"**Attributable Indebtedness**" means, with respect to any Sale and Leaseback Transaction at the time of determination, the present value (discounted at the interest rate implicit in the lease determined in accordance with IFRS or, if not known, at the Parent Guarantor's incremental borrowing rate) of the total obligations of the lessee of the property subject to such lease for rental payments during the remaining term of the lease included in such Sale and Leaseback Transaction, including any period for which such lease has been extended or may, at the option of the lessor, be extended, or until the earliest date on which the lessee may terminate such lease without penalty or upon payment of penalty (in which case the rental payments shall include such penalty), after excluding from such rental payments all amounts required to be paid on account of maintenance and repairs, insurance, taxes, assessments, water, utilities and similar charges; provided, that if such Sale and Leaseback Transaction results in a Capital Lease Obligation, the amount of Indebtedness represented thereby will be determined in accordance with the definition of Capital Lease Obligation.

"**Auditors**" means the independent auditors of the Parent Guarantor from time to time.

"**Board of Directors**" means (a) with respect to a corporation, the board of directors of the corporation and, in the case of any corporation having both a supervisory board and an executive or management board, either the supervisory board or the executive or management board, and any authorized committee of any of the foregoing, (b) with respect to a partnership, the board of directors of the general partner of the partnership, and (c) with respect to any other Person, the board or committee of such Person serving a similar function.

"**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in each of London, New York City, Ukraine, The Netherlands and the cities in which the specified office of the Principal Paying and Transfer Agent and the Registrar are located and, in the case of presentation or surrender of a Note, in the place of the specified office of the relevant Paying and Transfer Agent to whom the relevant Note is presented or surrendered.

"**Capital Lease Obligation**" means, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet in accordance with IFRS, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

"**Capital Stock**" means (a) in the case of a corporation, corporate stock, (b) in the case of a company, share capital, (c) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock, (d) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited), and (e) any other interest or participation in the nature of an equity interest in the issuing Person or that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"**Cash Equivalents**" means:

(1) Hryvnia, Russian Roubles, euro, U.S. dollars and British pound sterling;

(2) securities issued or directly and fully guaranteed or insured by the government of any of the United States of America or any member state of the European Union or Ukraine or any agency or instrumentality of any of the foregoing (provided that the full faith and credit of the relevant jurisdiction is pledged in support thereof) or by any European Union central bank, and in each case having maturities of not more than one year from the date of acquisition;

(3) certificates of deposit, time deposits and money market deposits denominated in Hryvnia, Russian Roubles, euro, U.S. dollars or British pound sterling with maturities of one year or less from the date of acquisition, bankers' acceptances with maturities not exceeding six months and overnight bank deposits, in each case, with a commercial bank or trust company (or with any Ukraine-based Subsidiary of such commercial bank or trust company) which commercial bank or trust company has one of the three highest rating categories obtainable from Moody's, Fitch or S&P, or with any Ukrainian commercial bank or trust company having one of the two highest rating categories obtainable by Ukrainian banks from Moody's, Fitch or S&P;

(4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in paragraphs (2) and (3) above entered into with any commercial bank or trust company or

with any Ukraine-based Subsidiary of such commercial bank or trust company) which commercial bank or trust company has one of the three highest rating categories obtainable from Moody's, Fitch or S&P, or with any Ukrainian commercial bank or trust company having one of the two highest rating categories obtainable by Ukrainian banks from Moody's, Fitch or S&P;

(5) commercial paper having a rating at the time of the investment of at least "P-l" from Moody's or "A-l" from S&P (or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term debt obligations, an equivalent rating) and in each case maturing within one year after the date of acquisition;

(6) and money market funds at least 95.0% of the assets of which constitute Cash Equivalents of the kinds described in paragraphs (1) through (5) of this definition.

"**Change of Control**" means the occurrence of any of the following events:

(1) the Permitted Holders (taken together as a group) cease to own (directly or beneficially), or to have the power to vote or direct the voting of, Voting Stock representing more than 50% of the voting power of the total outstanding Voting Stock of the Parent Guarantor;

(2) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Parent Guarantor and the Restricted Subsidiaries taken as a whole to any Person (including any *"person"* or *"group"* (as such terms are used in Sections 13(d)(3) and 14(d)(3) of the Exchange Act)) other than a Permitted Holder;

(3) the adoption a plan of liquidation or dissolution the of Parent Guarantor or the Issuer, other than in a transaction which complies with the covenant described under "—Certain Covenants—Merger, Consolidation or Sale of Assets"; or

(4) the Parent Guarantor consummates any transaction (including, without limitation, any merger, consolidation, amalgamation or other combination) pursuant to which the Parent Guarantor's outstanding Voting Stock is converted into or exchanged for cash, securities or other property, other than any such transaction where the Voting Stock of the Parent Guarantor outstanding immediately prior to such transaction is converted into or exchanged for Voting Stock of the surviving or transferee Person constituting a majority of the outstanding shares of such Voting Stock of such surviving or transferee Person immediately after giving effect to such Issuance; or

(4) the Parent Guarantor ceases to own 100% of the Equity Interests of the Issuer.

"**Clearstream**" has the meaning ascribed thereto in the section entitled "—Principal Maturity and Interest".

"**Consolidated Cash Flow**" means, for any period, (A) the Consolidated Net Income of such the Parent Guarantor *plus* (B) the following to the extent deducted in calculating such Consolidated Net Income (without duplication):

(1) all taxes (including deferred taxes and social charges on employee salaries) of the Parent Guarantor and the Restricted Subsidiaries paid or accrued as determined on a consolidated basis in accordance with IFRS for such period;

(2) Consolidated Interest Expense of the Parent Guarantor and the Restricted Subsidiaries;

(3) Consolidated Non-Cash Charges of the Parent Guarantor and the Restricted Subsidiaries less any non-cash items increasing Consolidated Net Income of the Parent Guarantor, in each case, for such period;

(4) any expenses or charges (other than depreciation or amortization expense) related to any equity offering, Permitted Investment, acquisition, disposition, recapitalization, listing or the incurrence of Indebtedness or issuances of Preferred Stock permitted to be incurred under the covenant described under "—Limitation on Indebtedness" (including refinancing thereof) whether or not successful, including (i) such fees, expenses or charges related to any incurrence of Indebtedness issuance and (ii) any amendment or other modification of any incurrence Indebtedness; and

(4) any minority interest expense consisting of income attributable to minority equity interests of third parties in such period or any prior period, except to the extent of dividends declared or paid on, or other cash payments in respect of Capital Stock held by such third parties.

Notwithstanding the foregoing, clauses (1) and (3) relating to amounts of a Restricted Subsidiary shall be added to Consolidated Net Income to compute Consolidated Cash Flow only to the extent (and in the same proportion) that the net income of such Restricted Subsidiary was included in calculating Consolidated Net Income and (other than with respect to a Subsidiary Guarantor) only to the extent that a corresponding amount would be permitted at the date of determination to be dividended or distributed, directly or indirectly, to the Parent Guarantor by such Restricted Subsidiary, without breaching or violating a restriction, directly or indirectly, applicable to such Restricted Subsidiary.

"**Consolidated Interest Expense**" means, with respect to the Parent Guarantor for any period, the sum (without duplication) of:

(1) the consolidated interest expense of the Parent and the Restricted Subsidiaries for such period, whether paid or accrued (including, without limitation, amortization of original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Indebtedness, commissions, discounts and other fees and charges incurred in respect of a letter of credit or bankers' acceptance financings, and including amortization of debt issuance costs, the net costs under interest rate swap agreements, interest rate cap agreements, interest rate collar agreements and other agreements or arrangements with respect to interest rates;

(2) the product of (i) all dividends, whether paid or accrued and whether or not in cash, on any series of Preferred Stock of the Parent Guarantor or any Restricted Subsidiary, other than dividends on Equity Interests payable solely in Equity Interests of the Parent Guarantor (other than Disqualified Stock) or to the Parent Guarantor or a Restricted Subsidiary, *times* (ii) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined national, state and local statutory tax rate of such Person, expressed as a decimal, in each case, determined on a consolidated basis in accordance with IFRS;

(3) any interest on Indebtedness of another Person that is guaranteed by the Parent Guarantor or a Restricted Subsidiary or secured by a Lien on assets of the Parent Guarantor or a Restricted Subsidiary, whether or not such guarantee or Lien is called upon;

(4) net costs associated with Hedging Obligations; and

(5) any consolidated interest expense of the Parent Guarantor and the Restricted Subsidiaries that was capitalized during such period.

"**Consolidated Leverage Ratio**" means, with respect to the Parent Guarantor and on any Transaction Date, the ratio of (a) the outstanding Indebtedness of the Parent Guarantor and the Restricted Subsidiaries on a consolidated basis on such Transaction Date (but not giving effect to any Permitted Indebtedness to be incurred on such Transaction Date), to (b) the Consolidated Cash Flow of the Parent Guarantor and the Restricted Subsidiaries for the LTM Period and, for purposes of calculating Consolidated Cash Flow for such period, if, as of such date of determination:

(1) since the beginning of such period through such Transaction Date the Parent Guarantor or any Restricted Subsidiary has disposed of any company, any business, or any group of assets constituting an operating unit of a business (any such disposition, a "**Sale**") or if the transaction giving rise to the need to calculate the Consolidated Leverage Ratio is such a Sale, Consolidated Cash Flow for such period will be reduced by an amount equal to the Consolidated Cash Flow (if positive) attributable to the assets which are the subject of such Sale for such period or increased by an amount equal to the Consolidated Cash Flow (if negative) attributable thereto for such period;

(2) since the beginning of such period through such Transaction Date the Parent Guarantor or any Restricted Subsidiary (by merger or otherwise) has made an Investment in any Person that thereby becomes a Restricted Subsidiary, or otherwise has acquired any company, any business, or any group of assets constituting an operating unit of a business (any such Investment or acquisition, a "**Purchase**"), including any such Purchase occurring in connection with a transaction causing a calculation to be made hereunder, Consolidated Cash Flow for such period will be calculated after giving *pro forma* effect thereto as if such Purchase occurred on the first day of such period;

(3) since the beginning of such period through such Transaction Date any Person that became a Restricted Subsidiary or was merged or otherwise combined with or into the Parent Guarantor or any Restricted Subsidiary since the beginning of such period will have made any Sale or any Purchase that would have required an adjustment pursuant to clause (1) or (2) of this definition if made by the

Parent Guarantor or any Restricted Subsidiary since the beginning of such period, Consolidated Cash Flow for such period will be calculated after giving *pro forma* effect thereto as if such Sale or Purchase occurred on the first day of such period; and

(4) since the beginning of such period through such Transaction Date, the Parent Guarantor or any Restricted Subsidiary incurs, assumes, guarantees, repays, repurchases, redeems, defeases or otherwise discharges any Indebtedness (other than ordinary working capital borrowings), Consolidated Cash Flow will be calculated after giving *pro forma* effect to such incurrence, assumption, Guarantee, repayment, repurchase, redemption, defeasance or other discharge of Indebtedness and the use of the proceeds therefrom as if the same occurred on the first day of such period.

For purposes of this definition, whenever *pro forma* effect is to be given to any transaction or calculation under this definition, the *pro forma* calculations shall be determined in good faith by the Chief Financial Officer of the Parent Guarantor on the basis of reasonable assumptions, provided that, in calculating "Consolidated Interest Expense" for purposes of the calculation of "Consolidated Leverage Ratio", interest determined on a fluctuating basis (including Indebtedness actually incurred on the date of the transaction giving rise to the need to calculate the Consolidated Leverage Ratio) and which will continue to be so determined thereafter shall be deemed to have accrued at a fixed rate per annum equal to the rate of interest on such Indebtedness as in effect on the Transaction Date.

"**Consolidated Net Income**" means, with respect to the Parent Guarantor for any period, the aggregate of the consolidated net profit (or loss) of the Parent Guarantor and the Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with IFRS; provided that there shall be excluded therefrom:

(1) any net gain (or loss) realized upon the sale or other disposition of any asset, disposed operations or abandonments or reserves relating thereto of the Parent Guarantor or any Restricted Subsidiaries including pursuant to any Sale and Leaseback Transaction) which is not sold or otherwise disposed of in the ordinary course of business;

(2) any extraordinary, exceptional, unusual or non-recurring gain, loss or charge;

(3) solely for purposes of determining compliance with the covenant described under "—Limitation on Restricted Payments", the net income of any Restricted Subsidiary will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that Net Income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its shareholders (other than (i) restrictions that have been waived or otherwise released, (ii) restrictions pursuant to the Notes or the Indenture, (iii) restrictions in effect on the Issue Date with respect to a Restricted Subsidiary and other restrictions with respect to such Restricted Subsidiary that taken as a whole are not materially less favourable to the holders of Notes than such restrictions in effect on the Issue Date and (iv) restrictions specified in clause (10) of the second paragraph of the covenant described under "—Limitation on Restrictions on Distributions from Restricted Subsidiaries"); *provided* that Consolidated Net Income will be increased by the amount of dividends or distributions or other payments actually paid in cash (or to the extent converted into cash) to the Parent Guarantor or a Restricted Subsidiary in respect of such period, to the extent not already included therein (provided that the Parent Guarantor's equity in a net loss of any such Restricted Subsidiary for such period shall be included in determining Consolidated Net Income);

(4) the net income or loss of any Person that is not a Restricted Subsidiary of the Parent Guarantor or that is accounted for by the equity method of accounting, except to the extent of the amount of dividends or distributions actually paid in cash by such Person to the Parent Guarantor or a Restricted Subsidiary;

(5) any restoration to income of any contingency reserve, except to the extent that provision for such reserve was made out of Consolidated Net Income accrued at any time following the Issue Date;

(6) non-cash gains or losses with respect to Hedging Obligations attributable to mark-to-market valuation of Hedging Obligations;

(7) any goodwill or other intangible asset impairment charge;

(8) any non-cash compensation charge arising from any grant of stock, stock options or other equity based awards; and

(9) the cumulative effect of a change in accounting principles during such period.

"**Consolidated Non-Cash Charges**" means, with respect to the Parent Guarantor for any period, the aggregate depreciation, amortization (including amortization of intangibles) and any other non-cash charges and expenses of the Parent Guarantor and the Restricted Subsidiaries for such period determined on a consolidated basis in accordance with IFRS (excluding any such charge that represents either an accrual of or a reserve for a cash expense in any future period or amortization of a prepaid cash expense that was paid in a prior period).

"**Consolidated Tangible Assets**" of the Parent Guarantor as of any date means the total assets of the Parent Guarantor and its Restricted Subsidiaries as of the end of the most recently ended fiscal six month period for which internal financial statements are available, minus intangible assets of the Parent Guarantor and its Restricted Subsidiaries reflected in such financial statements, all calculated on a consolidated basis in accordance with IFRS.

"**continuing**" means, with respect to any Default or Event of Default, that such Default or Event of Default has not been cured or waived.

"**Control**" shall have the meaning provided in the definition of "**Affiliate**" and "**controlled**" shall be construed accordingly.

"**Default**" means an event or circumstance which, with the giving of notice or lapse of time, would constitute an Event of Default.

"**Director's Certificate**" means, as applied to any Person, a certificate executed on behalf of such Person by a member of the Board of Directors of such Person (or, if such Person is the Issuer, two members of its Board of Directors); provided that every Director's Certificate with respect to the compliance with the Indenture shall include (a) a statement that each signer making or giving such Director's Certificate has read such condition requiring the Certificate and any definitions or other provisions contained in the Indenture relating thereto, (b) a statement that, in the opinion of such signer, he has made or has caused to be made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such condition has been complied with and (c) a statement as to whether, in the opinion of such signer, such condition has been complied with.

"**Disinterested Director**" means, with respect to any transaction or series of related transactions, a member of the Parent Guarantor's Board of Directors who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions or is not an Affiliate, or an officer, director, or employee of any Person (other than the Parent Guarantor) who has any direct or indirect financial interest in or with respect to such transaction or series of related transactions.

"**Disqualified Stock**" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to the date that is 91 days after the date on which the Notes mature; provided that any Capital Stock that would constitute Disqualified Stock solely because the holders thereof have the right to require the repurchase of such Capital Stock upon the occurrence of a change of control or an asset sale shall not constitute Disqualified Stock if the terms of such Capital Stock provide that any such Capital Stock may not be repurchased or redeemed pursuant to such provisions unless such repurchase or redemption complies with the covenant described under "—Certain Covenants—Limitation on Restricted Payments".

"**DTEK Holdings Ltd.**" means DTEK Holdings Ltd., a limited liability company organized under the laws of the Republic of Cyprus.

"**DTEK Trading Ltd.**" means DTEK Trading Ltd., a limited liability company organized under the laws of the Republic of Cyprus.

"**Equity Interests**" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"**Equity Offering**" means a public or private offering and sale of either (1) of Equity Interests of the Parent Guarantor by the Parent Guarantor (other than Disqualified Stock and other than to a Subsidiary of the

Parent Guarantor) or (2) of Equity Interests of a direct or indirect parent entity of the Parent Guarantor (other than to the Parent Guarantor or a Subsidiary of the Parent Guarantor) to the extent that the net proceeds therefrom are contributed to the common equity capital of the Parent Guarantor.

"**European Union**" means the European Union, including the countries of Austria, Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, Sweden and the United Kingdom but (unless explicitly stated herein) not including any country which became a member of the European Union after 6 May 2003.

"**Event of Default**" has the meaning ascribed thereto under the section entitled "—Events of Default";

"**Exchange** Act" means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder;

"**Fair Market Value**" means, with respect to any property, asset or Investment, the fair market value of such property, asset or Investment at the time of the event requiring such determination, as determined in good faith by the senior management of the Parent Guarantor or of the relevant Subsidiary of the Parent Guarantor, as applicable, or, with respect to any asset or Investment in excess of $10.0 million (other than cash or Cash Equivalents), as determined in good faith by the Board of Directors of the Parent Guarantor.

"**Fitch**" means Fitch Ratings.

"**Global Notes**" has the meaning ascribed thereto in the section entitled "—General".

"**Group**" means collectively the Parent Guarantor and its consolidated Subsidiaries from time to time, taken as a whole.

"**guarantee**" means a direct or indirect guarantee by any Person of any Indebtedness of any other Person and includes any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services (unless such purchase arrangements are on arm's-length terms and are entered into in the ordinary course of business), to take-or-pay, or to maintain financial statement conditions or otherwise); or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); "guarantee", when used as a verb, and "**guaranteed**" have correlative meanings.

"**Hedging Obligations**" means, with respect to any Person, the obligations of such Person under:

(1) interest rate swap agreements, interest rate cap agreements, interest rate collar agreements and other agreements or arrangements with respect to interest rates;

(2) commodity swap agreements, commodity option agreements, forward contracts and other agreements or arrangements with respect to commodity prices; and

(3) foreign exchange contracts, currency swap agreements and other agreements or arrangements with respect to foreign currency exchange rates.

"**holder**" or "**Holder**" or "**Noteholder**" means the Person in whose name a Note is registered on the Registrar's books.

"**IFRS**" means International Financial Reporting Standards, as in effect from time to time, and which are consistent with the accounting principles and practices then applied by the Parent Guarantor, and any variation to such accounting principles and practices which is not material.

"**Incur**" has the meaning ascribed thereto in the covenant described above under "—Certain Covenants—Limitation on Indebtedness".

"**Indebtedness**" means, without duplication, with respect to any specified Person, any indebtedness of such Person, whether or not contingent (including, without limitation, guarantees):

(1) in respect of moneys borrowed or raised;

(2) evidenced by bonds, notes, debentures, loan stock or similar instruments or letters of credit (or reimbursement agreements in respect thereof), excluding letters of credit or similar instruments supporting (i) trade payables or (ii) obligations funding the acquisition of equipment or other tangible assets, in each case in the ordinary course of business that are not overdue by 45 days or more or are

being contested in good faith by appropriate proceedings promptly instituted and diligently conducted;

(3) in respect of bankers' acceptances;

(4) in respect of the balance deferred and unpaid of the purchase price of any property, except any such balance that constitutes an accrued expense or trade payable;

(5) representing Capital Lease Obligations or Attributable Indebtedness;

(6) representing net obligations under Hedging Obligations (the amounts of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time);

(7) all Disqualified Stock of such Person valued at the greater of its voluntary maximum fixed repurchase price and involuntary maximum fixed repurchase price but excluding accrued dividends; and

(8) Preferred Stock of any Subsidiary of the Parent Guarantor, excluding accrued dividends;

if and to the extent any of the preceding items (other than letters of credit, Attributable Debt and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with IFRS and, in addition, the term "Indebtedness" of a specified Person includes all indebtedness of any other Person secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, any guarantee by the specified Person of any Indebtedness of any other Person, and the amount of any Indebtedness outstanding as of any date shall be the accreted value thereof, in the case of any Indebtedness issued with original issue discount and the principal amount thereof, in the case of any other Indebtedness; provided that for the avoidance of doubt the term "Indebtedness" does not include trade payables, current liabilities (other than short-term debt and the current portion of long-term debt), retirement benefit obligations or investment obligations pursuant to concession or long-term lease agreements entered into with respect to assets leased by the Group from the Ukrainian government.

"**Independent Appraiser**" means any independent investment banking, accountancy or appraisal firm of internationally recognized standing or external audit firm of the Parent Guarantor selected by the Parent Guarantor (with the prior written consent of the Trustee, such consent not to be unreasonably withheld), provided it is not an Affiliate of the Parent Guarantor.

"**Initial Subsidiary Guarantors**" means DTEK Holdings Ltd., DTEK Trading Ltd. and each Initial Ukrainian Surety.

"**Initial Ukrainian Sureties**" means DTEK Skhidenergo Limited Liability Company, DTEK Mine Komsomolets Donbassa, Public Joint-Stock Company, Tehrempostavka Limited Liability Company, DTEK Pavlogradugol, Public Joint-Stock Company, DTEK Limited Liability Company, Limited Liability Company "DTEK Trading", Limited Liability Company DTEK Sverdlovanthracite, Limited Liability Company DTEK Rovenkyanthracite, Limited Liability Company "DTEK Dobropolyeugol", Public Joint-Stock Company "DTEK Zakhidenergo", Public Joint-Stock Company "Kyivenergo", Public Joint-Stock Company "DTEK Dniproenergo" and Limited Liability Company "Servis-Invest", each of the foregoing being organized under the laws of Ukraine (and each of the foregoing an "**Initial Ukrainian Surety**").

"**Investments**" means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the form of (a) Equity Interests and the making of capital contributions, corporate bonds, promissory notes, commercial paper, certificates of deposit and other securities, the granting of loans and the making of advances (excluding commission, travel, housing, transportation and similar advances to officers and employees made in the ordinary course of business), the extension of credit (including, without limitation, commodity credits) and (e) the acquisition, as creditor, of any Indebtedness (including guarantees, indemnities or other like obligations), together with all items that are or would be classified as investments on a balance sheet prepared in accordance with IFRS. If (a) the Parent Guarantor or any Restricted Subsidiary sells or otherwise disposes of any Equity Interests of any Restricted Subsidiary of the Parent Guarantor or such Restricted Subsidiary issues any Equity Interests, in each case, such that, after giving effect to any such sale, disposition or issuance, as the case may be, such Person is no longer a Restricted Subsidiary, or (b) such Restricted Subsidiary for any other reason ceases to be a Restricted Subsidiary, the Parent Guarantor shall be deemed to have made an Investment on the date of any such sale, disposition, issuance or cessation, as the case may be, equal to the Fair Market Value of the Equity Interests of such Restricted Subsidiary held directly or indirectly by the Parent Guarantor

(immediately following such sale, disposition, issuance or cessation, as the case may be). Except as otherwise provided in the Indenture, the amount of an Investment will be determined at the time the Investment is made and without giving effect to subsequent changes in value.

"**Issue Date**" means the initial date on which Notes are issued pursuant to the Indenture.

"**Lien**" means any mortgage, charge, pledge, lien or other form of encumbrance or security interest.

"**LTM Period**" means, as of any Transaction Date, the most recently ended two consecutive six-month fiscal periods prior to such Transaction Date for which IFRS consolidated financial statements have been provided to the Trustee in accordance with the covenant described under "—Reports to Holders".

"**Moody's**" means Moody's Investors Service, Inc.

"**Net Available Cash**" from an Asset Sale means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or instalment receivable or otherwise, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Sale or received in any other non-cash form) therefrom, in each case net of:

(1) all legal, accounting, investment banking, title and recording tax expenses, commissions and other fees and expenses incurred, and all Taxes paid or required to be paid or accrued as a liability under IFRS, as a consequence of such Asset Sale;

(2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Sale, in accordance with the terms of such Indebtedness or any Lien upon such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Sale, or by applicable law, be repaid out of the proceeds from such Asset Sale;

(3) all distributions and other payments required to be made to minority interest holders in Subsidiaries or joint ventures as a result of such Asset Sale; and

(4) the deduction of appropriate amounts required to be provided by the seller as a reserve or indemnification obligation, in accordance with IFRS, against any liabilities associated with the assets disposed of in such Asset Sale and retained by the Parent Guarantor or any Restricted Subsidiary after such Asset Sale.

"**Opinion of Counsel**" means a written opinion from legal counsel satisfactory to the Trustee. The counsel may be an employee of or external counsel to the Issuer or the Trustee.

"**Parent**", with respect to any Person, any direct or indirect parent entity of such Person.

"**Parent Guarantee**" means the Parent Guarantor's guarantee of the Issuer's obligations under the Indenture.

"**Pari Passu Indebtedness**" means any Indebtedness of the Issuer or any Guarantor (whether outstanding on the Issue Date or thereafter incurred) that ranks equally in right of payment with the Notes or the relevant Notes Guarantee, as the case may be.

"**Permitted Business**" means any business which is the same as any of the businesses of the Parent Guarantor and the Restricted Subsidiaries on the Issue Date, and shall include (but not be limited to) coal mining and related coal exploration and development, exploration, production and development of oil and gas, power generation (including wind power, solar power, hydroelectric power and alternative energy generation and related technologies), electricity transmission and electricity distribution and any business related, ancillary or complementary to any of the foregoing.

"**Permitted Holders**" means Mr Rinat Akhmetov, Mrs Liliya Akhmetova, any Affiliate of Mr Rinat Akhmetov that is controlled, directly or indirectly, by Mr Rinat Akhmetov and/or any Affiliate of Mrs Liliya Akhmetova that is controlled, directly or indirectly, by Mrs Liliya Akhmetova and (b) any Person acting in the capacity as an underwriter in connection with any public or private offering of the Parent Guarantor's or any of its Affiliates' Capital Stock. Any person or group whose acquisition of beneficial ownership constitutes a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the Indenture will thereafter, together with its or their Affiliates, constitute an additional Permitted Holder.

"**Permitted Investments**" means:

(1) any Investment in the Parent Guarantor or in a Restricted Subsidiary (including in any Equity Interests of a Restricted Subsidiary);

(2) any Investment in cash or in Cash Equivalents;

(3) any Investment by the Parent Guarantor or a Restricted Subsidiary in a Person if as a result of such Investment such Person becomes a Restricted Subsidiary or such Person, in one transaction or a series of substantially concurrent related transactions, is merged, consolidated or amalgamated with or into, transfers or conveys substantially all of its assets to, or is liquidated into, the Parent Guarantor or a Restricted Subsidiary;

(4) Investments solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of the Parent Guarantor or through the application of the net proceeds of a sale for cash of Equity Interests (other than Disqualified Stock) of the Parent Guarantor within 60 days of such sale;

(5) loans to officers, directors and employees of the Parent Guarantor or any Restricted Subsidiary made in the ordinary course of business in an aggregate amount up to $5.0 million or its equivalent at any time outstanding, and not otherwise excluded from the definition of Investment;

(6) Investments in stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Parent Guarantor or any Restricted Subsidiary or in satisfaction of judgments or administrative or tribunal decisions or pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of a debtor;

(7) Investments in receivables owing to the Parent Guarantor or any Restricted Subsidiary, if created or acquired in the ordinary course of business;

(8) Investments represented by Hedging Obligations that are incurred for the purpose of fixing, hedging, swapping or managing interest rate, commodity price or foreign currency exchange rate risk, and not for speculative purposes;

(9) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made in compliance with the covenant described under "—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock";

(10) any purchases or repurchases of Notes;

(11) advances, loans or extensions of credit to suppliers in the ordinary course of business;

(12) Investments received in satisfaction of judgments;

(13) extensions of credit in the nature of accounts receivable or notes receivable arising in the sale or lease of goods in the ordinary course of business;

(14) any guarantee of Indebtedness permitted to be incurred by the covenant described under "—Limitation on Indebtedness";

(15) Investments acquired after the Issue Date as a result of the acquisition by the Parent Guarantor or any Restricted Subsidiary of another Person, including by way of a merger, amalgamation or consolidation with or into any member of the Group in a transaction that is not prohibited by the covenant described under "—Certain Covenants—Merger, Consolidation or Sale of Assets" after the Issue Date; provided that such Investments were not made in contemplation of such acquisition, merger, amalgamation or consolidation and were in existence on the date of such acquisition, merger, amalgamation or consolidation;

(16) so long as no Default or Event of Default has occurred and is continuing, the making of (a) Investments in Vanco Ukraine Ltd. and/or Vanco Prykerchenska Ltd., having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (a) since the Issue Date, not to exceed $200 million in the aggregate, and (b) Investments in any Person (i) that is engaged in a Permitted Business and (ii) in which the Ukrainian government is at the time of the Investment, or has been within the five years preceding such Investment, the largest direct or indirect holder of voting stock in such Person; and

(17) so long as no Default or Event of Default has occurred and is continuing, the making of any Investment in an entity that is not a Restricted Subsidiary, having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (17) since the Issue Date, not to exceed ten per cent (10%) of Consolidated Tangible Assets in the aggregate.

"**Permitted Lien**" means:

(1) any Lien in respect of Indebtedness created by a Person prior to it becoming a Subsidiary of the Parent Guarantor or a Restricted Subsidiary, provided that such Lien was not created in contemplation thereof or in connection therewith;

(2) any Lien on property (including Capital Stock) existing at the time of acquisition of such property by the Parent Guarantor or any Restricted Subsidiary, provided that such Lien was not created in contemplation of such acquisition or in connection therewith;

(3) any Lien in favor of the Parent Guarantor or any Restricted Subsidiary;

(4) any Lien created to secure liabilities under letters of credit or bank guarantees issued in connection with the acquisition and disposal of inventory, stock in trade, goods, services and other current assets (and, in each case, the proceeds thereof) in the ordinary course of business;

(5) any Lien in respect of Hedging Obligations that are incurred for the purpose of fixing, hedging or swapping interest rate, commodity price or foreign currency exchange rate risk, and not for speculative purposes, and that do not increase the Indebtedness of the obligor outstanding at any time other than as a result of fluctuations in interest rates, commodity prices or foreign currency exchange rates or by reason of fees, indemnities and compensation payable thereunder;

(6) any Lien arising in the ordinary course of banking transactions (including, without limitation, sale and repurchase transactions and share, loan and bond lending transactions), provided that the Lien is limited to the assets which are the subject of the relevant transaction, and any netting or set-off arrangements entered into by the Parent Guarantor or any Restricted Subsidiary for the purpose of netting debit and credit balances;

(7) any Lien in existence on the Issue Date;

(8) judgment or attachment liens against the Parent Guarantor or any Restricted Subsidiary not giving rise to an Event of Default;

(9) any Lien securing Permitted Refinancing Indebtedness, provided such Lien shall be limited to all or part of the same property and assets that (a) secured the Indebtedness being refinanced or, (b) under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to, such property or proceeds or distributions thereof);

(10) any Lien for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; *provided* that any reserve or other appropriate provision as is required in conformity with IFRS has been made therefor;

(11) any Lien imposed by law, such as carriers', warehousemen's, landlord's and mechanics' Liens, in each case, incurred in the ordinary course of business;

(12) survey exceptions, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property that were not incurred in connection with Indebtedness and that do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

(13) any Lien on insurance policies and proceeds thereof, or other deposits, to secure insurance premium financings;

(14) any Lien on cash, Cash Equivalents or other property or assets used to defease or to satisfy and discharge Indebtedness; provided that such defeasance or satisfaction and discharge is not prohibited by the Indenture;

(15) any Lien to secure the performance of statutory obligations, insurance, surety or appeal bonds, workers compensation obligations, performance bonds or other obligations of a like nature incurred in the ordinary course of business (including Liens to secure letters of credit issued to assure payment of such obligations);

(16) any encumbrance or restriction with respect to Capital Stock of any joint venture or similar arrangement pursuant to any joint venture or similar agreement;

(17) any extension, renewal or replacement in whole or in part of any Lien referred to in the foregoing paragraphs (1) through (16), inclusive, provided, however, that (i) the principal amount of Indebtedness secured thereby shall not exceed the principal amount of Indebtedness so secured at the time immediately preceding the time of such extension, renewal or replacement, and (ii) such extension, renewal or replacement shall be limited to all or a part of the assets which were covered by the Lien so extended, renewed or replaced;

(18) any Lien arising in connection with the acquisition of equipment under finance leases, purchase agreements or similar contracts (including export credit agency facilities) with retention of title arrangements; provided that the aggregate amount secured pursuant to this clause (18) shall not exceed $50 million at any time outstanding and provided further that any such Lien is only created over or only affects the equipment thereby acquired and such acquisition is made by the relevant member of the Group in the ordinary course of its business on arms length terms;

(19) any Lien arising in connection with Indebtedness incurred in respect of cash management, cash pooling, netting or setting off arrangements, or other similar arrangements, in each case in the ordinary course of business;

(20) any Lien in respect of pre-export financings; and

(21) Liens in respect of other Indebtedness or obligations; provided that the aggregate Fair Market Value of all assets secured pursuant to this clause (21) shall not at any time exceed 15% of the Consolidated Tangible Assets of the Parent Guarantor (determined at the time such Lien is incurred); and provided further, that any Liens securing Indebtedness incurred to refinance Indebtedness that was originally secured by Liens incurred pursuant to this clause (21) shall be deemed to be incurred pursuant to this clause (21) and not pursuant to clause (9) or (17) of this definition.

"**Permitted Refinancing Indebtedness**" means any Indebtedness of the Parent Guarantor or any Restricted Subsidiary issued in exchange for, or the net proceeds of which are used to renew, refund, extend, refinance, replace, defease or discharge other Indebtedness of the Parent Guarantor or any of its Subsidiaries (other than intercompany Indebtedness); provided that:

(1) the principal amount (or accreted value) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness extended, refinanced, renewed, replaced, defeased, refunded or discharged (plus all accrued interest on the Indebtedness and the amount of all expenses and premiums incurred in connection therewith);

(2) such Permitted Refinancing Indebtedness has (a) a final maturity date equal to or later than (i) the final maturity date of the Indebtedness being extended, refinanced, renewed, replaced, defeased, refunded or discharged or (ii) 91 days after the maturity date of the Notes and (b) has a Weighted Average Life to Maturity that is equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being extended, refinanced, renewed, replaced, defeased, refunded or discharged;

(3) if the Indebtedness being extended, refinanced, renewed, replaced, defeased, refunded or discharged is subordinated in right of payment to the Notes, such Permitted Refinancing Indebtedness is subordinated in right of payment to the Notes on terms at least as favorable to the holders of Notes as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and

(4) if the Indebtedness being extended, refinanced, renewed, replaced, defeased, refunded or discharged is Indebtedness of the Issuer or a Guarantor, such Permitted Refinancing Indebtedness is incurred only by the Issuer or a Guarantor.

"**Person**" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company, government or any agency or political subdivision thereof or any other entity.

"**Preferred Stock**" of any Person means any Capital Stock of such Person that has preferential rights in relation to any other Capital Stock of such Person with respect to dividends or redemptions or upon liquidation.

"**Restricted Investment**" means any Investment other than a Permitted Investment.

"**Restricted Payments**" has the meaning ascribed thereto in the covenant described under "—Certain Covenants—Limitation on Restricted Payments".

"**Restricted Subsidiary**" means any Subsidiary of the Parent Guarantor other than an Unrestricted Subsidiary.

"**S&P**" means Standard & Poor's, a division of The McGraw-Hill Companies, Inc. and any successor thereto.

"**Sale and Leaseback Transaction**" means any arrangement relating to property owned or hereafter acquired by the Parent Guarantor or any Restricted Subsidiary whereby the Parent Guarantor or such Restricted Subsidiary transfers such property to a Person and the Parent Guarantor or any Restricted Subsidiary leases such asset from such Person.

"**Securities Act**" means the U.S. Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder.

"**Significant Subsidiary**" means any Restricted Subsidiary which meets any of the following conditions:

(1) the Parent Guarantor and the Restricted Subsidiaries' investments in and advances to such Subsidiary exceed ten percent (10%) of the total consolidated assets of the Parent Guarantor and the Restricted Subsidiaries as of the end of the most recently completed financial year; or

(2) the Parent Guarantor and the Restricted Subsidiaries' proportionate share of the total assets (after intercompany eliminations) of such Restricted Subsidiary exceeds ten percent (10%) of the total consolidated assets of the Parent Guarantor and the Restricted Subsidiaries as of the end of the most recently completed financial year; or

(3) the Parent Guarantor and the Restricted Subsidiaries' equity in the consolidated income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle of such Restricted Subsidiary exceeds ten percent (10%) of such consolidated income of the Parent Guarantor and the Restricted Subsidiaries for the most recently completed financial year.

"**Stated Maturity**" means, with respect to any installment of interest or principal on any Indebtedness, the date on which such payment of interest or principal was scheduled to be paid in the original documentation governing such Indebtedness, and shall not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for payment thereof.

"**Subordinated Indebtedness**" means any Indebtedness of the Issuer or any Guarantor that is subordinate or junior in right of payment to the Notes or the relevant Notes Guarantee, as the case may be, pursuant to a written agreement.

"**Subsidiary**" means:

(1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders' agreement that effectively transfers voting power) to vote in the election of directors, managers or Trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

(2) any partnership or limited liability company of which (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general and limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof, whether in the form of membership, general, special or limited partnership interests or otherwise, and (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

"**Transaction Date**" means, with respect to any incurrence of Indebtedness by any Person, the date such Indebtedness is to be incurred.

"**Unrestricted Subsidiary**" means any Subsidiary of the Parent Guarantor and its direct or indirect Subsidiaries that is designated at any time by the Board of Directors of the Parent Guarantor as an Unrestricted Subsidiary, but only if such designation and the related Investment of the Parent Guarantor in such Subsidiary complies with the limitations in the covenant described under "—Limitation on Restricted Payments", above, and if:

(1) no Default or Event of Default will have occurred and be continuing or would otherwise result therefrom;

(2) the Parent Guarantor would be able to incur on *a pro forma* basis $1.00 of additional Indebtedness pursuant to the first paragraph of the covenant described under "—Limitation on Indebtedness";

(3) all the Indebtedness of such Subsidiary and its Subsidiaries shall, at the date of designation and at all times thereafter, consist of non-recourse debt to the Parent Guarantor or any Restricted Subsidiary other than recourse to the Equity Interests of an Unrestricted Subsidiary);

(4) neither such Subsidiary nor any of its Subsidiaries are party to any agreement, contract, arrangement or understanding with the Parent Guarantor, the Issuer or any Restricted Subsidiary unless the terms of any such agreement, contract, arrangement or understanding (a) are no less favorable to the Parent Guarantor or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Parent Guarantor or (b) are (or at the time of entering into the contract, agreement, arrangement, understanding or obligation would have been) otherwise permitted under the provisions of the Indenture described under the covenant described under "—Limitation on Affiliate Transactions", above;

(5) each of such Subsidiary and its Subsidiaries is a Person with respect to which neither the Parent Guarantor nor any Restricted Subsidiary has any direct or indirect obligation (A) to subscribe for additional Equity Interests of such Person or (B) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; and

(6) neither such Subsidiary nor any of its Subsidiaries owns any Equity Interests or Indebtedness of, or has any Investment in or owns or holds any Lien on any property of, the Parent Guarantor or any other Subsidiary of the Parent Guarantor which is not a Subsidiary of the Subsidiary to be so designated or otherwise an Unrestricted Subsidiary.

"**U.S. dollar equivalent**" means, with respect to any monetary amount in a currency other than the U.S. dollar, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the spot rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by Reuters at approximately 11:00 a.m. (New York time) on the date not more than two Business Days prior to the date of the determination.

"**U.S. dollars**", "**$**" or "**dollars**" means such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

"**U.S. Government Obligations**" means direct non-callable obligations of, or guaranteed by, the United States of America for the payment of which guarantee or obligations the full faith and credit of the United States is pledged.

"**Voting Stock**" of any person means the Capital Stock of such Person that is ordinarily entitled to vote in the election of the Board of Directors of such Person.

"**Weighted Average Life to Maturity**" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(1) the sum of the products obtained by multiplying (i) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (ii) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the date of the making of such payment; by

(2) the then outstanding principal amount of such Indebtedness.

BOOK-ENTRY, DELIVERY AND FORM

The Notes will initially be represented by two or more Notes in global form that together will represent the aggregate principal amount of the Notes. Notes sold in reliance on Rule 144A will be represented by one or more Rule 144A Global Note(s). Notes sold in reliance on Regulation S under the U.S. Securities Act initially will be represented by one or more Regulation S Global Note(s). When issued, the Rule 144A Global Notes and the Regulation S Global Notes will be deposited with, or on behalf of, DTC and registered in the name of Cede & Co., as DTC's nominee. Except as set forth below, record ownership of the Global Notes may be transferred, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee.

The Notes will be issued only in registered form and in minimum denominations of US$200,000 and integral multiples of US$1,000 in excess thereof.

Investors who are "qualified institutional buyers" (as defined in Rule 144A) and who purchase Notes in reliance on Rule 144A may hold their interests in a Rule 144A Global Note directly through DTC if they are DTC participants (the "**Participants**" or indirectly through organizations that are DTC participants ("**Indirect Participants**").

Investors who hold beneficial interests in a Regulation S Global Note may hold such interests only directly through Euroclear Bank S.A./N.V, as operator of Euroclear, or Clearstream, if they are participants in these systems, or indirectly through organizations that are participants in these systems. After the expiration of the period ending 40 days after the later of the commencement of the Offering of the Notes and the date the Notes were originally issued (the "**Distribution Compliance Period**"), investors may hold interests in a permanent Regulation S Global Note through participants in the DTC system other than Euroclear and Clearstream. Euroclear and Clearstream will hold interests in a Regulation S Global Note on behalf of their participants through their respective depositaries, which in turn will hold the interests in such Regulation S Global Note in customers' securities accounts in the depositaries' names on the books of DTC.

Regulation S prohibits Initial Purchasers of the Notes under Regulation S from offering, selling or delivering the Notes within the United States or to or for the account or benefit of U.S. persons until the expiration of the Distribution Compliance Period. Until the expiration of the Distribution Compliance Period, beneficial interests in the Regulation S Global Note may be held only through Euroclear and Clearstream (as indirect participants in DTC), unless transferred to a person that takes delivery through the Rule 144A Global Note in accordance with the certification requirements described below. Beneficial interests in the Rule 144A Global Note may not be exchanged for beneficial interests in the Regulation S Global Note at any time except in the circumstances described below. See "*—Exchanges Between the Global Notes*". In addition, transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC and its Participants or its Indirect Participants (including, if applicable, those of Euroclear and Clearstream), which may change from time to time.

So long as Cede & Co., as the nominee of DTC, is the registered owner of a Global Note, Cede & Co. for all purposes will be considered the sole holder of the Global Note. Owners of beneficial interests in a Global Note will be entitled to have certificates registered in their names and to receive physical delivery of Notes only in the limited circumstances described below under "*Exchange of Global Notes for Definitive Notes*".

The Notes will be subject to certain transfer restrictions and restrictive legends as described under "*Transfer Restrictions*".

Depository Procedures

The following description of the operations and procedures of DTC, Euroclear and Clearstream is provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them from time to time. The Issuer does not take any responsibility for these operations and procedures and urges investors to contact the systems or their participants directly to discuss these matters.

Upon deposit of the Global Notes, DTC will credit the accounts of Participants designated by the Initial Purchasers with portions of the principal amount of the Global Notes.

Payment of principal and other amounts, if any, on a Global Note will be made to Cede & Co., the nominee for DTC, as registered owner of the Global Notes, by wire transfer of immediately available funds

on the applicable payment date. Neither the Issuer nor the Trustee, nor any agent of either of them, will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interest.

The Issuer has been informed by DTC that, with respect to any payment of principal, or premium, interest or other amounts, if any, on a Global Note, DTC's practice is to credit Participants' accounts on the applicable payment date with payments in amounts proportionate to their respective beneficial interests in the Notes represented by the Global Note as shown on the records of DTC, unless DTC has reason to believe that it will not receive payment on such payment date. Payments by Participants to owners of beneficial interests in the Notes represented by the Global Note held through such Participants will be the responsibility of such Participants, as is now the case with securities held for the accounts of customers registered in "street name". In particular, payments to owners of beneficial interests in the Notes held through Euroclear and Clearstream will be made in accordance with the rules and operating procedures of Euroclear and Clearstream.

Transfers between Participants will be effected in the ordinary way in accordance with DTC's rules and will be settled in immediately available funds. Participants in Euroclear and Clearstream will effect transfers with other participants in the ordinary way in accordance with the rules and operating procedures of Euroclear and Clearstream, as applicable. The laws of some U.S. states require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such persons will be limited to that extent. Because DTC can act only on behalf of Participants, which in turn act on behalf of Indirect Participants and certain banks, the ability of a person having beneficial interests in a Global Note to pledge such interests to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

Cross-market transfers between DTC Participants, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, these cross market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in the system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a DTC Participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date, and the credit of any transaction's interests in the Global Note settled during the processing day will be reported to the relevant Euroclear or Clearstream participant on that day.

Neither the Issuer nor the Trustee, nor any agent of either of them, will have responsibility for the performance of DTC, Euroclear, Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations. DTC has advised the Issuer that it will take any action permitted to be taken by a holder of the Notes (including, without limitation, the presentation of the Notes for exchange as described below) only at the direction of one or more Participants to whose accounts with DTC interests in a Global Note are credited, and only in respect of the Notes represented by the Global Note as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the Notes, DTC reserves the right to exchange the Global Notes for Notes in definitive form, which it will distribute to its Participants.

DTC has also advised the Issuer that DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the U.S. Exchange Act. DTC was created to hold securities for its Participants and to facilitate the clearance and settlement of securities transactions between Participants through electronic book-entry changes to accounts of its Participants, thereby eliminating the need for physical movement of

certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations such as the Initial Purchasers. Certain of such Participants (or their representatives), together with other entities, own DTC. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a Participant, either directly or indirectly.

Euroclear and Clearstream have also advised the Issuer that Euroclear and Clearstream hold securities for participant organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry charges in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although the Issuer expects that DTC, Euroclear and Clearstream will agree to the foregoing procedures in order to facilitate transfers of interests in the Global Notes among their respective participants, DTC, Euroclear and Clearstream are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

Exchange of Global Notes for Definitive Notes

A Global Note is exchangeable for Notes in registered definitive form ("**Definitive Notes**") if:

(a) DTC notifies the Issuer that it is unwilling or unable to continue as depositary for the Global Notes or has ceased to be a clearing agency registered under the U.S. Exchange Act and, in either case, the Issuer thereupon fails to appoint a successor depositary within 120 days after the date of such notice, or

(b) DTC so requests following an Event of Default under the Indenture, or

(c) The Issuer, at its option, notifies the Trustee in writing that it elects to exchange in whole, but not in part, the Global Note for Definitive Notes.

In all cases, Definitive Notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of DTC (in accordance with its customary procedures) and will bear the restrictive legend referred to in "*Transfer Restrictions*", unless the Issuer determines otherwise in compliance with the requirements of the indenture.

Definitive Notes delivered in exchange for Global Notes will be delivered to or upon the order of DTC or an authorized representative of DTC, and may be delivered to Noteholders at the office of the Transfer Agent in One Canada Square, London E14 5AL, United Kingdom.

Exchange of Definitive Notes for Global Notes

If issued, Definitive Notes may not be exchanged or transferred for beneficial interests in a Global Note except upon consummation of an exchange offer. See "*Transfer Restrictions*".

Exchange of Definitive Notes for Definitive Notes

If issued, Definitive Notes may be exchanged or transferred by presenting or surrendering such Definitive Notes at the office of the Registrar located in Luxembourg with a written instrument of transfer in form satisfactory to such Registrar, duly executed by the holder of the Definitive Notes or by its attorney, duly authorized in writing. If the Definitive Notes being exchanged or transferred have restrictive legends, such holder must also provide a written certificate (in accordance with the terms of the Indenture) to the effect that such exchange or transfer will comply with the appropriate transfer restrictions applicable to such Notes. See "*Transfer Restrictions*".

In the case of a transfer in part of a Definitive Note, a new Definitive Note in respect of the balance of the principal amount of the Definitive Note not transferred will be delivered at the office of the relevant Registrar.

If a holder of a Definitive Note claims that such Definitive Note has been lost, destroyed or stolen, or if such Definitive Note is mutilated and is surrendered to the office of the relevant Registrar, the Issuer will issue and the Registrar will authenticate a replacement Definitive Note if the Trustee's and the Issuer's requirements are met. The Issuer or the Trustee may require a holder requesting replacement of a Definitive Note to furnish such security and/or indemnity as may be required to protect them and any agent from any loss which they may suffer if a Definitive Note is replaced. The Issuer may charge for any expenses incurred by it in replacing a Definitive Note. In case any such mutilated, destroyed, lost or stolen Definitive Note has become or is about to become due and payable, the Issuer, in its discretion, may, instead of issuing a new Definitive Note, pay such Definitive Note.

Exchanges Between the Global Notes

Beneficial interests in the Regulation S Global Note may be exchanged for beneficial interests in the Rule 144A Global Note only if such exchange occurs in connection with a transfer of the Notes pursuant to Rule 144A and the transferor first delivers to the Transfer Agent a written certificate (in accordance with the terms of the Indenture) to the effect that the Notes are being transferred to a person who the transferor reasonably believes to be a qualified institutional buyer, purchasing for its own account or the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A and in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Beneficial interests in the Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, whether before or after the expiration of the Distribution Compliance Period, only if the transferor first delivers to the Transfer Agent a written certificate (in accordance with the terms of the Indenture) to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S.

Transfers involving an exchange of a beneficial interest in one of the Global Notes for a beneficial interest in another Global Note will be effected in DTC by means of an instruction originated by the Transfer Agent through the DTC Deposit/Withdraw at Custodian system. Accordingly, in connection with any such transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the Global Note representing the beneficial interest that is transferred and a corresponding increase in the principal amount of the other Global Note. Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to be an interest in such Global Note and will become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for so long as it remains such an interest.

Same-Day Settlement and Payment

The Notes represented by the Global Notes will be eligible to trade in DTC's Same Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. The Issuer expects that secondary trading in any Definitive Notes would also be settled in immediately available funds.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a Participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC.

DTC has advised the Issuer that cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a Participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

Methods of Receiving Payments on the Notes

Principal of, premium, if any, and interest on registered Notes held in global form will be payable at the corporate trust office or agency of the Paying Agent in London. All payments on the Global Notes will be made by transfer of immediately available funds to an account of the holder of the Global Notes in accordance with instructions given by the holder. Principal of, premium, if any, and interest on any Definitive Notes will be payable at the corporate trust office or agency of the paying agent in New York and London maintained for such purposes. In addition, interest on Definitive Notes may be paid by check mailed to the person entitled thereto as shown on the register for such Definitive Notes.

TAXATION

Prospective purchasers of the Notes are advised to consult their own tax advisers as to the tax consequence of purchasing, holding and selling the Notes under the tax laws of the country of which they are resident, including, without limitation, the consequences of receipt of interest and premium, if any, on and sale or redemption of, the Notes or any interest therein. The discussions that follow do not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase, hold or sell notes. In particular, these discussions do not consider any specific facts or circumstances that may apply to a purchaser of the Notes. The discussions that follow for each jurisdiction are based upon the applicable laws and interpretations thereof as in effect as of the date of this offering memorandum. These tax laws and interpretations are subject to change, possibly with retroactive or retrospective effect.

Certain UK Tax Consideration

The following is a general description of certain UK tax consequences of acquiring, holding and disposing of the Notes and is based on current UK law and the practice of Her Majesty's Revenue and Customs ("**HMRC**") (which may not be binding on HMRC) as at the date hereof, both of which are subject to change, possibly with retrospective effect. This description is not exhaustive and relates only to the position of persons who are the absolute beneficial owners of the Notes and interest payable on their Notes and may not apply to certain classes of persons, such as brokers, dealers in securities, persons connected with the Issuer or certain professional investors, to whom special rules may apply. Furthermore, it does not purport to constitute legal or tax advice and any prospective holders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the UK should consult their independent professional advisors.

Withholding Tax

Payments of interest on the Notes may be made without withholding or deduction for or on account of UK income tax so long as they are and remain listed on a "recognized stock exchange" within the meaning of section 1005 of the Income Tax Act 2007. The Irish Stock Exchange is a recognized stock exchange for these purposes. The Notes will be treated as listed on the Irish Stock Exchange if they are both admitted to trading on the Irish Stock Exchange's Global Exchange Market and officially listed in Ireland in accordance with provisions corresponding to those generally applicable in European Economic Area states.

Interest on the Notes may also be paid without withholding or deduction for or on account of UK income tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer (and any person by or through whom interest on the Notes is paid) reasonably believes that the beneficial owner of the interest is (a) a company resident in the UK; or (b) a company not resident in the UK which carries on a trade in the UK through a permanent establishment and which brings into account the interest in computing its UK taxable profits; or (c) a partnership each member of which is a company referred to in (a) or (b) or a combination of companies referred to in (a) or (b); or (d) otherwise entitled to receive interest without withholding or deduction on account of UK income tax pursuant to Chapter 11 of Part 15 of the Income Tax Act 2007, provided that HMRC has not given a direction that the interest should be paid under deduction of tax. In all other cases, interest will generally be paid under deduction of UK income tax at the basic rate (currently 20%) subject to any direction to the contrary from HMRC in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty and subject to any other exemption that may be available to particular noteholders. If interest is paid under deduction of UK income tax (for example, if the Notes cease to be listed on a recognized stock exchange), noteholders who are not resident in the UK may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

Any premium payable on redemption may be treated as a payment of interest for UK tax purposes and may accordingly be subject to the withholding tax treatment described above. The interest on the Notes has a UK source and therefore may be subject to UK income tax or corporation tax by direct assessment irrespective of the residence of the Noteholders. However, where the interest is paid free of any withholding or deduction, the interest will not be assessed to UK tax in the hands of noteholders who are not resident in the UK, except where the noteholder carries on a trade, profession or vocation through a UK branch or agency or carries on a trade through a UK permanent establishment in connection with which the interest is received or to which the Notes are attributable, in which case (subject to exemptions for interest received by certain categories of agent) tax may be levied on the UK branch or agency, or

permanent establishment. The above description of the UK withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution. References herein to "interest" are to "interest" as understood in UK tax law. The statements above do not take any account of any different definitions of "interest" which may prevail under any other law.

If a Guarantor makes any payment under the Guarantees such payments might be subject to withholding tax at the basic rate (currently 20%) subject to such relief as may be available under the provisions of any double taxation treaty or to any other exemption which may apply. It is not certain that such payments by the Guarantor will be eligible for all the exemptions described above.

UK holders subject to corporation tax

In general, noteholders who are within the charge to UK corporation tax (including non-resident Noteholders whose Notes are used, held or acquired for the purpose of a trade carried on in the UK through a permanent establishment) will be charged to tax on income in respect of all profits, gains and losses on, and fluctuations in value of, the Notes (whether attributable to currency fluctuations or otherwise) measured and recognized in each accounting period broadly in accordance with their statutory accounting treatment.

UK holders not subject to corporation tax

Interest

Noteholders who are either individuals or trustees and are resident or ordinarily resident for tax purposes in the UK or who carry on a trade, profession or vocation in the UK through a branch or agency to which the Notes are attributable will generally be liable to UK tax on the amount of any interest received in respect of the Notes.

Transfers

A disposal of Notes by a noteholder who is resident or ordinarily resident in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Notes are attributable, may give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains. On a disposal of Notes by a noteholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules relating to accrued income profits as set out in Part 12 of the Income Tax Act 2007 if that Noteholder is resident or ordinarily resident in the UK or carries on a trade in the UK through a branch or agency to which the Notes are attributable. Those provisions will not apply to Notes which are deemed to be "deeply discounted securities" for the purposes of Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act ("**ITTOIA**") 2005. If the Notes do constitute "deeply discounted securities", individual holders who are resident for tax purposes in the UK or who carry on a trade, profession or vocation in the UK through a branch or agency to which the Notes are attributable will generally be held liable to UK income tax on any gain made on the sale or other disposal (including redemption) of the Notes. The Notes would generally be treated as deeply discounted securities for these purposes if, as at the Issue Date, the amount payable on maturity or certain other occasions of redemption, other than an Optional Redemption or Optional Tax Redemption, ("**A**") exceeds, or may exceed, the issue price of the Notes by more than A $\times$ 0.5% $\times$ Y, where "**Y**" is the number of years between the Issue Date and redemption. Noteholders are advised to consult their own professional advisers if they require any advice or further information relating to deeply discounted securities.

Provision of Information

Noteholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of interest) from any person in the UK by or through whom interest is paid or credited or by or through whom amounts payable on the redemption of the Notes which constitute "deeply discounted securities" as defined in Chapter 8 of Part 4 of ITTOIA 2005 are paid or credited, although HMRC published practice indicates that HMRC will not exercise the power referred to above to require this information in respect of such amounts payable on redemption of Notes where such amounts are paid on or before April 5, 2014. The details provided to HMRC may, in certain cases, be passed on to the tax authorities of the jurisdiction in which the Noteholder is resident for taxation purposes.

UK Stamp Duty and Stamp Duty Reserve Tax

No UK stamp duty or stamp duty reserve tax will be payable on the issue of the Notes and no UK stamp duty or stamp duty reserve tax should be payable on a transfer of (or agreement to transfer) any Notes.

EU Savings Directive

The EU has adopted Council Directive 2003/48/EC (the "**Directive**") regarding the taxation of savings income. The Directive requires the tax authorities of the Member States to provide each other with details of payments of interest and similar income paid by a person established within its jurisdiction to or for the benefit of individuals or certain other persons in that other Member State, except that Austria and Luxembourg will instead impose a withholding tax on the payments concerned for a "transitional period" (although it also provides that no such withholding tax should be levied where the beneficial owner of the payment authorizes an exchange of information and/or where the beneficial owner presents a certificate from the tax authority of the Member State in which the beneficial owner is resident) unless during such period they elect otherwise. The Directive does not preclude Member States from levying other types of withholding tax. The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

Certain Netherlands Tax Considerations

General

The following is a general summary of certain Netherlands tax consequences of the acquisition, holding and disposal of the Notes to the extent it relates to payments made by Holdings B.V. in its capacity as Guarantor. This summary does not purport to describe all possible tax considerations or consequences that may be relevant to a holder or prospective holder of Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as investors that are subject to taxation in Bonaire, Sint Eustatius and Saba and trusts or similar arrangements) may be subject to special rules. In view of its general nature, it should be treated with corresponding caution. Holders or prospective holders of Notes should consult with their tax advisers with regard to the tax consequences of investing in the Notes in their particular circumstances. The discussion below is included for general information purposes only.

Except as otherwise indicated, this summary only addresses Netherlands national tax legislation and published regulations, as in effect on the date hereof and as interpreted in published case law until this date, without prejudice to any amendment introduced at a later date and implemented with or without retroactive effect.

Withholding Tax on Payments by Holdings B.V. in its Capacity as Guarantor

All payments made by the Holdings B.V. in its capacity as Guarantor may be made free of withholding or deduction of, for or on account of any taxes of whatever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein.

Taxes on Income and Capital Gains on Payments by Holdings B.V. in its Capacity as Guarantor

Please note that the summary in this section does not describe the Netherlands tax consequences for:

(i) holders of Notes if such holders, and in the case of individuals, his/her partner or certain of their relatives by blood or marriage in the direct line (including foster children), have a substantial interest or deemed substantial interest in the Issuer or Holdings B.V. under The Netherlands Income Tax Act 2001 (in Dutch: "*Wet inkomstenbelasting 2001*"). Generally speaking, a holder of securities in a company is considered to hold a substantial interest in such company, if such holder alone or, in the case of individuals, together with his/her partner (as defined in The Netherlands Income Tax Act 2001), directly or indirectly, holds (i) an interest of 5% or more of the total issued and outstanding capital of that company or of 5% or more of the issued and outstanding capital of a certain class of shares of that company; or (ii) rights to acquire, directly or indirectly, such interest; or (iii) certain profit sharing rights in that company that relate to 5% or more of the company's annual profits and/or to 5% or more of the company's liquidation proceeds. A deemed substantial interest arises if a substantial interest (or part thereof) in a company has been disposed of, or is deemed to have been disposed of, on a non-recognition basis;

(ii) pension funds, investment institutions (in Dutch: "*fiscale beleggingsinstellingen*"), exempt investment institutions (in Dutch: "*vrijgestelde beleggingsinstellingen*") (as defined in The Netherlands Corporate Income Tax Act 1969; in Dutch: "*Wet op de vennootschapsbelasting 1969*") and other entities that are exempt from Netherlands corporate income tax; and

(iii) holders of Notes who are individuals for whom the Notes or any benefit derived from the Notes are a remuneration or deemed to be a remuneration for activities performed by such holders or certain individuals related to such holder (as defined in The Netherlands Income Tax Act 2001).

Residents of the Netherlands

Generally speaking, if the holder of Notes is an entity that is a resident or deemed to be resident of the Netherlands for Netherlands corporate income tax purposes, any payment under the Notes or any gain or loss realized on the disposal or deemed disposal of the Notes is subject to Netherlands corporate income tax at a rate of 25% (a corporate income tax rate of 20% applies with respect to taxable profits up to €200,000, the bracket for 2013).

If a holder of Notes is an individual, resident or deemed to be resident of the Netherlands for Netherlands income tax purposes (including the non-resident individual holder who has made an election for the application of the rules of The Netherlands Income Tax Act 2001 as they apply to residents of the Netherlands), any payment under the Notes or any gain or loss realized on the disposal or deemed disposal of the Notes is taxable at the progressive income tax rates (with a maximum of 52%), if:

(i) the Notes are attributable to an enterprise from which the holder of Notes derives a share of the profit, whether as an entrepreneur or as a person who has a co-entitlement to the net worth of such enterprise without being a shareholder (as defined in The Netherlands Income Tax Act 2001); or

(ii) the holder of Notes is considered to perform activities with respect to the Notes that go beyond ordinary asset management (in Dutch: "*normaal, actief vermogensbeheer*") or derives benefits from the Notes that are (otherwise) taxable as benefits from other activities (in Dutch: "*resultaat uit overige werkzaamheden*").

If the above-mentioned conditions (i) and (ii) do not apply to the individual holder of Notes, such holder will be taxed annually on a deemed income of 4% of his/her net investment assets for the year at an income tax rate of 30%. The net investment assets for the year are the fair market value of the investment assets less the allowable liabilities on 1 January of the relevant calendar year. The Notes are included as investment assets. A tax free allowance may be available. An actual gain or loss in respect of the Notes is as such not subject to Netherlands income tax.

Non-residents of the Netherlands

A holder of Notes that is neither resident nor deemed to be resident of the Netherlands nor has made an election for the application of the rules of The Netherlands Income Tax Act 2001 as they apply to residents of the Netherlands will not be subject to Netherlands taxes on income or capital gains in respect of any payment under the Notes or in respect of any gain or loss realized on the disposal or deemed disposal of the Notes, provided that:

(i) such holder does not have an interest in an enterprise or deemed enterprise (as defined in The Netherlands Income Tax Act 2001 and The Netherlands Corporate Income Tax Act 1969) which, in whole or in part, is either effectively managed in the Netherlands or carried on through a permanent establishment, a deemed permanent establishment or a permanent representative in the Netherlands and to which enterprise or part of an enterprise the Notes are attributable; and

(ii) in the event the holder is an individual, such holder does not carry out any activities in the Netherlands with respect to the Notes that go beyond ordinary asset management and does not derive benefits from the Notes that are (otherwise) taxable as benefits from other activities in the Netherlands.

Other Taxes and Duties

No Netherlands registration tax, customs duty, stamp duty or any other similar documentary tax or duty will be payable by the holders of the Notes in respect of or in connection with the issue of the Notes or with respect to the payment of interest or principal under the Notes.

Certain Ukraine Tax Considerations

The following summary of certain Ukrainian taxation matters relevant to the purchase, ownership and disposal of the Notes, the payment of interest pursuant to the Notes and making the payments under the Suretyship is based on the laws and practice in force as of the date of this offering memorandum and is subject to any changes in law and the interpretation and application thereof that may come into effect after that date. The following summary is included for general information only and does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of the Notes, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules. As with other areas of Ukrainian legislation, tax law and practice in Ukraine is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or understanding of the practice may change or that the law may be amended. Accordingly, it is possible that payments to be made to the holders of the Notes could become subject to taxation or that rates currently in effect with respect to such payments could be increased in ways that cannot be anticipated as of the date of this offering memorandum.

Tax residency and tax basis

Individuals

An individual is considered to be a tax-resident of Ukraine if:

(a) He/she has a place of abode in Ukraine. Where an individual has a place of abode in another country as well, such individual is deemed to be a tax resident of Ukraine if he/she has a permanent place of abode (domicile) in Ukraine.

(b) If an individual has a domicile in another country as well, he/she is deemed to be a tax resident of Ukraine if he/she has a center of vital interests in Ukraine. A sufficient, but not exclusive ground for determining the country of an individual's center of vital interest is the place of permanent abode of the individual's family members or the place of his/her registration as an individual entrepreneur.

(c) In the event an individual's center of vital interests cannot be determined or the individual has no domicile in any country, he/she is deemed to be a tax resident of Ukraine if he/she stays in Ukraine at least 183 days during the tax year (calendar year).

(d) If residency status cannot be determined based on the above rules, an individual shall be deemed to be a tax resident of Ukraine if he/she is a citizen of Ukraine.

An individual may also elect voluntarily that his or her main place of abode (and therefore tax residence) is in Ukraine. The law does not define the procedure for how this election should be made. However, based on procedures established by the tax authorities, a foreign national may apply in writing to the local tax office where he or she has a place of abode asking to be considered as tax resident. Registration of an individual as a self-employed person is considered sufficient grounds for such person to be deemed to be a tax resident of Ukraine.

Non-residents for tax purposes are individuals who do not qualify as tax residents of Ukraine.

Companies

Residents shall be understood as legal entities and business entities, which do not have the status of a legal entity (branches, agencies, etc.), set up and operating in accordance with Ukrainian legislation.

A non-resident company is regarded as having a "permanent establishment" in Ukraine if it has a permanent place of business through which the business activity of the company is wholly or partly carried out. A permanent establishment includes, inter alia, a place of management, branch, office, plant, etc. Where a resident of Ukraine, other than an independent agent, is acting on behalf of only one non-resident company and has authority to conclude contracts on behalf of such non-resident company, such non-resident company shall be deemed to have a permanent establishment in Ukraine.

Tax basis

All Ukrainian tax residents are taxed on their worldwide income. Non-Ukrainian tax residents are taxed on income derived from sources in Ukraine or from a business activity which is carried out through a permanent establishment in Ukraine.

Taxation of interest income

Non-residents

Interest received by individuals and companies who are non-tax residents of Ukraine and do not have a permanent establishment in Ukraine (in case of companies) is not subject to taxes in Ukraine, provided that such interest income is derived from sources outside of Ukraine.

Resident individuals

Interest income derived from the Notes, which is received by individuals who are tax residents of Ukraine, is subject to 15% personal income tax in Ukraine. If the total amount of such interest received exceeds an amount equal to 10 times the minimum wage in Ukraine (approximately US$1,430 per month), such excess will be subject to 17% personal income tax.

Resident companies/permanent establishments

Any interest income received by resident companies or permanent establishments of non-resident companies is subject to 19% corporate profit tax. From January 1, 2014, the corporate profits tax rate will be reduced to 16%.

Payment under the Suretyships

If a Surety makes any payments in respect of interest on the Notes (or other amounts due in respect of the Notes), such payments could be viewed as Ukrainian source income of the recipient of such payments and, thereby, may be subject to 15% withholding tax.

Article 160.1 of the Tax Code does not specifically list payments made under a Suretyship as Ukrainian source income of the beneficiary of such payments. However, Article 160.1 of the Tax Code contains a catch-all clause, which considers any other income of a foreign resident received from carrying out business in Ukraine as Ukrainian source income.

At the same time, a position may be taken by the Ukrainian tax authorities that all the amount of payments made by Sureties under the Deed of Surety should be regarded as other income received from carrying out business in Ukraine and thus should be subject to Ukrainian 15% withholding tax. However, in this case such payments might be exempt from withholding tax by virtue of the UK / Ukraine Double Tax Treaty. Nevertheless, we believe that the risk of such treatment being applied to all payments made by Sureties under the Deed of Surety is low.

If the payments of interest under the Deeds of Surety are viewed to be Ukrainian source income and, thereby, subject to 15% withholding tax, nevertheless, the payment should be exempted from withholding tax in Ukraine according to the provisions of the UK / Ukraine Double Tax Treaty, provided the recipient is (i) a tax resident of a jurisdiction, which has a tax treaty with Ukraine, (ii) entitled to the benefits of such tax treaty, (iii) the beneficial owner of such interest, and (iv) deemed not to carry on business in Ukraine through its permanent establishment. In order to benefit from the tax treaty, confirmation of the current tax residency status of the foreign beneficiary must be available on or prior to the date of payment of Ukrainian source income.

If the Issuer and the Guarantors fail to perform their obligations under the Notes, a Trustee will represent the noteholders and will claim performance of the obligations by the Sureties under the Deeds of Surety. In such case the Paying Agent will receive payments from the Ukrainian entities on behalf of the noteholders and will transfer the funds onto the noteholders. As a result, benefits under the UK / Ukraine Double Tax Treaty may cease to be applicable to payments under any of such Deed of Surety and they may become subject to withholding tax in Ukraine unless the Paying Agent meets all the criteria for the exemption under the UK / Ukraine Double Tax Treaty or provides evidence and documents confirming that the noteholders meet all the criteria for the exemption under the UK / Ukraine Double Tax Treaty.

Gross-up clauses

If any payments (including payments of interest) under the Deed of Surety are subject to any withholding tax, Sureties may, in certain circumstances specified in the Deed of Surety and subject to certain exceptions, become obliged to pay such additional amounts as may be necessary so that the net payments received by the noteholders or the Paying Agent, as the case may be, will not be less than the amount the noteholders or the Paying Agent, as the case may be, would have received in the absence of such

withholding. Notwithstanding the foregoing, the Tax Code prohibits contractual provisions under which residents undertake to pay taxes for non-residents on their income received from sources in Ukraine. If interpreted broadly, such restriction would also apply to gross-up provisions of any of such relevant Deed of Surety and obligations of the Sureties to pay additional amounts thereunder. As a result, gross-up provisions could be found null and void and, therefore, unenforceable in Ukraine.

Transfers of Notes by Non-Ukrainian Investors to Ukrainian Investors

In accordance with Ukrainian tax law, Ukrainian-sourced capital gains derived from trade in securities are generally subject to Ukrainian withholding tax at 15% in the case of non-resident companies and at the marginal rate of 17% in the case of non-resident individuals (the rate of 15% is applicable with respect to income in the amount up to approximately USD1,430). Such capital gains, however, may be exempted from Ukrainian taxation in accordance with an applicable double tax treaty with Ukraine. Thus, non-resident holders of the Notes may be subject to Ukrainian withholding tax on any capital gain derived from their disposal of the Notes where the proceeds of such disposal are received from a source within Ukraine.

Other taxes and duties

No Ukrainian VAT and no Ukrainian registration tax, customs duty, stamp duty or any other similar documentary tax or duty will be payable by the noteholders in respect or in connection with the issue of the Notes or with respect to the payment of interest or principal by the Issuer, Guarantor or Sureties under the Notes. Transfer of the Notes will not be subject to the special excise tax on transactions with securities and derivatives in Ukraine (introduced as of January 3, 2013) provided that the Issuer is a non-resident of Ukraine.

Certain Cyprus Taxation Considerations

The following general summary of the material Cyprus tax consequences relevant to the purchase, ownership, and disposal of the Notes and the payment of interest pursuant to the Notes is based upon the tax laws, regulations, rulings, income tax conventions (treaties), administrative practice and judicial decisions of Cyprus in effect on the date of this offering memorandum and is subject to any change that may come into effect after that date. Legislative, judicial or administrative changes or interpretations (including those that may result from the anticipated Cyprus Economic Adjustment Program) may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Notes. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the Notes. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of the Notes, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as at the date of this offering memorandum, and of any actual changes in applicable tax laws after such date.

Payments made under the Holdings Ltd Guarantee and the Trading Ltd Guarantee

Taxation of payments made under the Holdings Ltd Guarantee and the Trading Ltd Guarantee will depend on the tax residency status of the noteholders and nature of the payment (interest or principal on the Notes).

Tax residency and tax basis

Individuals

An individual is considered to be a tax-resident of Cyprus if he or she is physically present in Cyprus for a period or periods exceeding in aggregate more than 183 days in any calendar year.

Companies

A company is considered to be tax resident in Cyprus if its management and control is exercised in Cyprus. There is no definition in the Cyprus income tax laws as to what constitutes "management and control". In practice, the OECD model convention definition of "resident of a contracting state" is followed by the Cyprus tax authorities, even though this interpretation has not yet been tested in Cypriot courts. "Resident

of a contracting state" is defined as "any person who, under the laws of that state, is liable to tax therein by reason of his domicile, residence, place of management or any other criterion of a similar nature" and "where a person other than an individual is a resident of both contracting states, it shall be deemed to be a resident of that state in which its place of effective management is situated". The OECD's commentary regarding the model convention states: "The place of effective management is the place where key management and commercial decisions that are necessary for the conduct of the entity's business are in substance made. The place of effective management will ordinarily be the place where the most senior person or group of persons (for example a board of directors) makes its decisions, the place where the actions to be taken by the entity as a whole are determined and where the majority of such persons are residents; however, no definitive rule can be given and all relevant facts and circumstances must be examined to determine the place of effective management. An entity may have more than one place of management, but it can have only one place of effective management at any one time".

A non-resident company is regarded as having a "permanent establishment" in Cyprus if it has a fixed place of business through which the business of the company is wholly or partly carried on, including a place of management, a branch or an office.

Tax basis

All Cyprus tax residents are taxed on their worldwide income. Non-Cyprus tax residents are taxed on income derived from sources in Cyprus (in the case of individuals) or from a business activity which is carried out through a permanent establishment in Cyprus (in the case of companies). Holdings Ltd was issued a Cyprus tax residency certificate on February 13, 2008.

Withholding taxes on principal and interest payments

Repayment of principal

Repayment of principal upon redemption of the Notes will not be subject to any withholding taxes in Cyprus, irrespective of whether or not the noteholder is a resident of Cyprus or not.

Interest payments to non-residents (individuals or companies)

Interest payments made by a Cyprus tax resident company to non-residents of Cyprus are not subject to any withholding taxes in Cyprus, whether the interest is paid to an individual or a company.

Interest payments to residents (individuals or companies)/permanent establishments

Interest payments made by a Cyprus tax resident company to residents of Cyprus (individuals or companies) or Cyprus permanent establishments of non-resident companies, which does not arise in or is not closely connected to the ordinary course of their business, is subject to special defense contribution in Cyprus at the rate of 15% on the gross interest received.

Cyprus tax resident companies that are paying interest to such Cyprus tax resident individuals or companies, are obliged to withhold the special defense contribution at source and remit the tax to the Cypriot tax authorities.

No special defense contribution is withheld on interest income that arises in or is closely connected to the ordinary course of the business.

Taxation of interest income

Non-resident individuals

Interest received or credited by individuals who are non-tax residents of Cyprus is not subject to taxes in Cyprus.

Resident individuals

Interest income received or credited by a resident individual is subject to special defense contribution at the rate of 15% on the gross interest received, unless it can be established that such interest income arises in or is closely connected to the ordinary course of the individual's business, in which case it will be exempt from special defense contribution and subject to income tax at the rates applicable to the individual's level of income.

Resident companies/permanent establishments

Any interest received or credited by resident companies/permanent establishments that arises in or is closely connected to the ordinary course of the business, is subject to income tax in Cyprus at the rate of 10% (after deduction of allowable expenses) and is exempt from special defense contribution.

Any interest received or credited by resident companies/permanent establishments that does not arise in or is not closely connected to the ordinary course of the business, is subject to special defense contribution at the rate of 15% (without deducting expenses) and is exempt from income tax.

Certain United States Tax Considerations for U.S. Holders

TO COMPLY WITH TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE INTERNAL REVENUE CODE; (B) ANY SUCH DISCUSSION IS INCLUDED HEREIN IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) A TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion is a summary of certain U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes by a U.S. holder (as defined below), but does not purport to be a complete analysis of all potential tax effects and does not address the effects of any state, local or non-U.S. tax laws. This discussion is based upon the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), Treasury regulations issued thereunder, and judicial and administrative interpretations thereof, each as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. This discussion does not address the newly effective Medicare tax imposed on certain income or all of the U.S. federal income tax consequences that may be relevant to a holder in light of such holder's particular circumstances or to holders subject to special rules, such as certain financial institutions, U.S. expatriates, insurance companies, dealers in securities or currencies, traders in securities, U.S. holders whose functional currency is not the U.S. dollar, tax-exempt organizations, regulated investment companies, real estate investment trusts, partnerships or other pass through entities, persons liable for alternative minimum tax and persons holding the Notes as part of a "straddle," "hedge," "conversion transaction" or other integrated transaction. In addition, this discussion is limited to persons who purchase the Notes for cash at original issue and at their "issue price" (the first price at which a substantial part of the Notes is sold to the public for cash, excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) and who hold the Notes as capital assets within the meaning of section 1221 of the Code. This discussion also does not apply to holders who tender notes in the Tender Offer and Consent Solicitation.

For purposes of this discussion, a "U.S. holder" is a beneficial owner of a note that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States; (ii) a corporation or any entity taxable as a corporation created or organized in the United States or under the laws of the United States or of any political subdivision thereof (including the District of Columbia); (iii) any estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or if a valid election is in place to treat the trust as a U.S. person.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A holder that is a partnership, and partners in such partnerships, should consult their tax advisors regarding the tax consequences of the purchase, ownership and disposition of the Notes.

Prospective purchasers of the Notes should consult their tax advisors concerning the tax consequences of holding Notes in light of their particular circumstances, including the application of the U.S. federal income tax considerations discussed below, as well as the application of U.S. federal estate and gift tax laws and state, local, foreign or other tax laws.

Characterization of the Notes

Although the proper characterization of the Notes for U.S. federal income tax purposes is not entirely free from doubt, we intend to treat the Notes as debt for such purposes. This characterization is binding on all U.S. holders unless the holder discloses on its U.S. federal income tax return that it is treating the Notes in a manner inconsistent with our characterization. However, our characterization is not binding on the IRS or the courts, and no ruling is being requested from the IRS with respect to the proper characterization of the Notes for U.S. federal income tax purposes. The classification of an instrument as debt or equity is highly factual, and there can be no assurance that the IRS will not contend, and that a court will not ultimately hold, that the Notes are equity of the Issuer. If the Notes were treated as equity for U.S. federal income tax purposes, then U.S. holders of Notes would likely be treated as owning an equity interest in a "passive foreign investment company" and, accordingly, gains realized on the sale of, and interest paid on, the Notes could be subject to deferred tax charges and other adverse consequences, including additional reporting requirements.

Prospective purchasers of the Notes are urged to consult their own tax advisors regarding these and other potential tax consequences in the event the Notes are recharacterized as equity for U.S. federal income tax purposes.

Payments of interest

Payments of stated interest on the Notes (including any non-U.S. tax withheld on such payments and any Additional Amounts) generally will be taxable to a U.S. holder as ordinary income at the time that such payments are received or accrued, in accordance with such U.S. holder's method of accounting for U.S. federal income tax purposes.

Original Issue Discount

The Notes may be issued with OID for U.S. federal income tax purposes. In such event, U.S. holders will be subject to special rules relating to the accrual of income for tax purposes. U.S. holders of Notes issued with OID generally must include OID in gross income (as ordinary income) for U.S. federal income tax purposes on an annual basis under a constant yield accrual method, regardless of their regular method of tax accounting. As a result, U.S. Holders of Notes issued with OID will include OID in income in advance of the receipt of cash attributable to such income.

The Notes will be treated as issued with OID if the stated principal amount of the Notes exceeds their "issue price" by an amount equal to or greater than a statutorily defined *de minimis* amount (0.0025 of the stated principal amount multiplied by the number of complete years to maturity from the "issue date"). The issue price of the Notes will be the first price at which a substantial amount of the Notes is sold for money. The issue date of the Notes will be the first settlement date or closing date, as applicable, upon which a substantial amount of the Notes is sold for money. For purposes of determining the issue price and the issue date of the Notes, sales to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers are ignored.

In the event that the Notes are issued with OID, the amount of OID includible in income by an initial U.S. holder issued with OID is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year or portion thereof on which such U.S. holder holds such Note ("accrued OID"). A daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID that accrued in such period. The "accrual period" of a Note may be of any length up to one year and may vary in length over the term of the Note, provided that each scheduled payment of principal or interest occurs either on the first or last day of an accrual period. The amount of OID that accrues with respect to any accrual period is the excess of (i) the product of the Note's "adjusted issue price" at the beginning of such accrual period and its yield to maturity, determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of such period, over (ii) the amount of stated interest allocable to such accrual period. The adjusted issue price of a Note at the start of any accrual period is generally equal to its issue price, increased by the accrued OID for each prior accrual period.

Foreign Tax Credit

Interest income and OID, if any, on a Note generally will constitute foreign source income and be considered "passive category income" or, in the case of certain U.S. holders, "general category income" in computing the foreign tax credit allowable to U.S. holders under U.S. federal income tax laws. Any non-U.S. withholding tax paid by a U.S. holder at a rate applicable to such holder may be eligible for

foreign tax credits (or, at such holder's election, a deduction in lieu of such credits) for U.S. federal income tax purposes, subject to applicable limitations. The calculation of foreign tax credits involves the application of complex rules that depend on a U.S. holder's particular circumstances. U.S. holders should consult their tax advisors regarding the availability of foreign tax credits.

Sale, exchange, retirement, or other taxable disposition of Notes

Upon the sale, exchange, retirement, or other taxable disposition of a Note, a U.S. holder generally will recognize U.S. source gain or loss equal to the difference between the amount realized upon the sale, exchange, retirement or other disposition (less an amount equal to any accrued but unpaid interest, which will be taxable as interest income as discussed above to the extent not previously included in income tax by the U.S. holder) and the adjusted tax basis of the Note. A U.S. holder's adjusted tax basis in a Note will, in general, be its cost for that Note, increased by any previously accrued OID.

Any gain or loss will be capital gain or loss. Capital gains of non-corporate U.S. holders (including individuals) derived in respect of capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. In the event a U.S. holder is subject to non-U.S. tax upon the disposition of a Note, such U.S. holder may not be able to credit such non-U.S. tax against its U.S. federal income tax liability with respect to any gain realized by the U.S. holder upon the disposition. U.S. holders should consult their tax advisors regarding the creditability of any such tax.

Certain Information Reporting Requirements with Respect to Foreign Financial Assets

Certain U.S. holders who are individuals are required to file IRS Form 8938 (Statement of Foreign Financial Assets) to report information relating to an interest in our Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by certain financial institutions). Under certain circumstances, an entity may be treated as an individual for purposes of the foregoing rules. U.S. holders should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of the Notes. Penalties may apply for failure to properly complete and file IRS Form 8938.

Information reporting and backup withholding

In general, information reporting requirements will apply to certain payments of principal and interest paid (including accruals of OID) on the Notes and to the proceeds of the sale or other disposition of a Note paid to a U.S. holder unless such U.S. holder is an exempt recipient, such as a corporation. Backup withholding may apply to such payments if the U.S. holder fails to provide a taxpayer identification number or a certification that it is not subject to backup withholding.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a U.S. holder's U.S. federal income tax liability provided the required information is timely furnished to the IRS.

Foreign Account Tax Compliance

Pursuant to FATCA, a "foreign financial institution" may be required to withhold U.S. tax on payments on certain debt instruments and the gross proceeds from the disposition of such debt instruments. Even if the Issuer (or any of the Guarantors or Sureties) were treated as a foreign financial institution, the Notes issued on or prior to the date that is six months after the date on which applicable final regulations are filed generally would be "grandfathered" unless materially modified after such date. Non-U.S. governments may enter into agreement with the IRS to implement FATCA in a manner that alters the rules described herein. Holders should consult their own tax advisors on how these rules may apply to their investment in the Notes. In the event any withholding under FATCA is required or advisable with respect to any payments on the Notes, there will be no Additional Amounts payable to compensate for the withheld amount.

TRANSFER RESTRICTIONS

The Notes are subject to restrictions on transfer as summarized below. By purchasing Notes, you will be deemed to have made the following acknowledgements, representations to and agreements with us and the Initial Purchasers:

(1) You understand and acknowledge that:

- the Notes have not been and will not be registered under the U.S. Securities Act or any other applicable securities laws and are subject to U.S. tax law requirements;
- the Notes are being offered for resale in transactions that do not require registration under the U.S. Securities Act or any other securities laws; and
- unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.

(2) You represent that you are not an "affiliate" (as defined in Rule 144) of ours, that you are not acting on our behalf and that either:

- you are a "qualified institutional buyer" (as defined in Rule 144A) and are purchasing Notes for your own account or for the account of another qualified institutional buyer, and you are aware that the Initial Purchasers are selling the Notes to you in reliance on Rule 144A; or
- you are not a "U.S. person" (as defined in Regulation S) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing Notes in an offshore transaction in accordance with Regulation S.

(3) You acknowledge that neither we nor the Initial Purchasers nor any person representing us or the Initial Purchasers has made any representation to you with respect to us or the offering of the Notes, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the Notes. You agree that you have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase Notes, including an opportunity to ask questions of and request information from us.

(4) You represent that you are purchasing Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the U.S. Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that until the end of the resale restriction period (as defined below), the Notes may be offered, sold or otherwise transferred only:

- to the Issuer;
- under a registration statement that has been declared effective under the U.S. Securities Act;
- for so long as the Notes are eligible for resale under Rule 144A, to a person the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A;
- through offers and sales that occur outside the United States to a non-U.S. person within the meaning of Regulation S; or
- under any other available exemption from the registration requirements of the U.S. Securities Act;

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller or account's control and in compliance with applicable state and other securities laws.

You also acknowledge that:

- the above restrictions on resale will apply from the closing date until the date that is one year (in the case of Rule 144A Notes) or 40 days (in the case of Regulation S Notes) after the later of the

closing date and the last date that we or any of our affiliates was the owner of the Notes or any predecessor of the Notes (the "**Resale Restriction Period**"), and will not apply after the applicable Resale Restriction Period ends;

- we and the Trustee reserve the right to require in connection with any offer, sale or other transfer of Notes under the fourth or fifth bullet point above the delivery of an opinion of counsel, certifications and/or other information satisfactory to us and the Trustee; and
- each Global Note will contain a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") THAT IS IN THE CASE OF RULE 144A NOTES: ONE YEAR AND IN THE CASE OF REGULATION S NOTES: 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY), ONLY (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

BY ACCEPTING THIS NOTE (OR AN INTEREST IN THE NOTES REPRESENTED HEREBY), EACH BENEFICIAL OWNER HEREOF IS DEEMED TO REPRESENT AND WARRANT (I) EITHER (A) IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS NOTE OR AN INTEREST HEREIN WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS NOTE OR AN INTEREST HEREIN WILL NOT BE ACTING ON BEHALF OF) AN EMPLOYEE BENEFIT PLAN, AS DEFINED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**"), THAT IS SUBJECT TO THE PROVISIONS OF PART 4 OF SUBTITLE B OF TITLE I OF ERISA, A PLAN TO WHICH SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED ("**CODE**") APPLIES, OR AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF SUCH AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN SUCH ENTITY (EACH, A "**BENEFIT PLAN INVESTOR**"), OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL, NON-U.S. OR OTHER LAWS OR

REGULATIONS THAT ARE SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY OR THE PROHIBITED TRANSACTION PROVISIONS OF ERISA AND/OR SECTION 4975 OF THE CODE ("**SIMILAR LAWS**"), AND NO PART OF THE ASSETS BEING USED BY IT TO ACQUIRE OR HOLD SUCH NOTE OR ANY INTEREST HEREIN CONSTITUTES THE ASSETS OF ANY SUCH BENEFIT PLAN INVESTOR OR SUCH A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, OR (B) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE OR AN INTEREST HEREIN DOES NOT AND WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA AND/OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, A VIOLATION OF ANY SIMILAR LAWS); AND (II) IT WILL NOT SELL OR OTHERWISE TRANSFER THIS NOTE OR ANY INTEREST HEREIN OTHERWISE THAN TO AN ACQUIRER OR TRANSFEREE THAT IS DEEMED TO REPRESENT AND AGREE WITH RESPECT TO ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE TO THE SAME EFFECT AS THE ACQUIRER'S REPRESENTATION AND AGREEMENT SET FORTH IN THIS SENTENCE.

(5) You acknowledge that the registrar will not be required to accept for registration of transfer any Notes acquired by you, except upon presentation of evidence satisfactory to us and the registrar that the restrictions set forth herein have been complied with.

(6) You acknowledge that we, the Initial Purchasers and others, will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of Notes is no longer accurate, you will promptly notify us and the Initial Purchasers. If you are purchasing any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

(7) You agree that you will give to each person to whom you transfer these Notes notice of any restrictions on the transfer of the Notes.

Each Initial Purchaser has agreed that, except as permitted by the purchase agreement dated April 2, 2013, it will not offer, sell or deliver the Notes, the Guarantees and the Deeds of Surety (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes, the Guarantees and the Deeds of Surety (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes, the Guarantees and the Deeds of Surety within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes, the Guarantees and the Deeds of Surety, an offer or sale of Notes, the Guarantees and the Deeds of Surety within the United States by a dealer that is not participating in the offering may violate the registration requirements of the U.S. Securities Act.

PLAN OF DISTRIBUTION

Pursuant to the terms and subject to certain conditions contained in the purchase agreement dated April 2, 2013, which are customary in agreements of this nature, the Issuer has agreed to sell to the Initial Purchasers, and the Initial Purchasers have agreed to purchase from the Issuer, the entire principal amount of the Notes.

The obligations of the Initial Purchasers under the purchase agreement, including their agreement to purchase Notes from the Issuer, are several and not joint. The purchase agreement provides that the Initial Purchasers will purchase all the Notes if any of them are purchased and the Issuer will sell the respective principal amount of Notes set forth opposite their names in the table below.

Initial Purchaser	Principal Amount of Notes
Deutsche Bank AG, London Branch	US$100,000,000
ING Bank N.V., London Branch	US$100,000,000
J.P. Morgan Securities plc	US$100,000,000
SIB (Cyprus) Limited	US$100,000,000
UniCredit AG	US$100,000,000
VTB Capital plc	US$100,000,000
Total	US$600,000,000

The Initial Purchasers initially propose to offer the Notes for resale at the Issue Price that appears on the cover of this offering memorandum. After the initial offering, the Initial Purchasers may change the offering price and any other selling terms. The Initial Purchasers may offer and sell Notes through certain of their affiliates.

The Issuer has agreed with the Initial Purchaser that it will not offer or sell any of its debt securities having a maturity of more than one year from the date of issue of the Notes (other than the Notes), without the prior consent of the Initial Purchasers, for a period of 30 days after the closing date of the offering of Notes. The Issuer will indemnify the Initial Purchasers against certain liabilities in connection with the offer and sale of the Notes.

Certain of the Initial Purchasers are not broker-dealers registered with the SEC. These Initial Purchasers will only make sales of Notes in the United States, or to nationals or residents of the United States, through one or more affiliated U.S. registered broker-dealers.

United States

Each purchaser of Notes offered by this offering memorandum, in making its purchase, will be deemed to have made the acknowledgements, representations and agreements as described under "*Transfer Restrictions*".

The Notes have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A and to persons in offshore transactions in reliance on Regulation S. Until 40 days after the later of (i) the commencement of this offering and (ii) the issue date of the Notes, an offer or sale of Notes initially sold in reliance on Regulation S within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements for the U.S. Securities Act is such offer or sale is made otherwise than in accordance with Rule 144A. For a description of certain further restrictions on resale or transfer of the Notes, see "*Transfer Restrictions*".

The Notes may not be offered to the public within any jurisdiction. By accepting delivery of this offering memorandum, you agree not to offer, sell, resell, transfer or deliver, directly or indirectly, any Note to the public.

United Kingdom

In the purchase agreement, each Initial Purchaser has also represented and agreed that:

(i) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and

(ii) it has only communicated or caused to be communicated and it will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer, Guarantors or Sureties.

Each Initial Purchaser has also agreed in the purchase agreement that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this offering memorandum, and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject.

This offering memorandum is directed solely at persons who (i) are outside the United Kingdom or (ii) are investment professionals, as such term is defined in Article 19(1) of the Financial Promotion Order (iii) are persons falling within Article 49(2)(a) to (d) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons together being referred to as "relevant persons"). This offering memorandum must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

European Economic Area

In relation to each member state of the EEA which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), it has not made and will not make an offer of the Notes which are the subject of the offering contemplated by this offering memorandum to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the Directive 2010/73/EU, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU), and includes any relevant implementing measure in each Relevant Member State.

Republic of Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") pursuant to Italian securities legislation and, accordingly, each Initial Purchaser has represented and agreed that any offer, sale or delivery of the Notes or distribution of copies of the offering memorandum or any other document relating to the Notes in the Republic of Italy has been and will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation. Moreover, and subject to the foregoing, any offer, sale or delivery of the Notes or distribution of copies of this offering memorandum or any other document relating to the Notes in Italy must be:

- made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Legislative Decree n. 58 of February 24, 1998, Legislative Decree No. 385 of 1 September 1993, CONSOB Regulation No. 16190 of 29 October 2007, all as amended; and

- in compliance with any securities, tax, exchange control and any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority.

Netherlands

Each Initial Purchaser has represented and agreed that it has not offered nor sold and will not offer nor sell any Notes in the Netherlands other than to persons or entities which are qualified investors (*gekwalificeerde beleggers*) as defined in article 1:1 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

Hong Kong

Each Initial Purchaser has represented and agreed that:

(a) it has not offered nor sold and will not offer nor sell in Hong Kong, by means of any document, any Notes other than: (i) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued nor had in its possession for the purposes of issue, and will not issue nor have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"). Accordingly, each Initial Purchaser has represented and agreed that it has not offered nor sold any of the Notes and that it will not offer nor sell any Notes nor cause such Notes to be made the subject of an invitation for subscription or purchase, nor has it and will it circulate or distribute this offering memorandum or any other document or material in connection with the offer or sale or invitation for subscription or purchase of the Notes, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the SFA; (b) to a relevant person, or any person pursuant to Section 275(1 A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (c) pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law; or

(iv) as specified in Section 276(7) of the SFA.

General

The Notes are a new issue of securities, and there is currently no established trading market for the Notes. In addition, the Notes are subject to certain restrictions on resale and transfer as described under "*Transfer Restrictions*". The Issuer will apply to list the Notes on the Official List of the Irish Stock Exchange and to trade on the Global Exchange Market. The Initial Purchasers are not obligated to make a market in the Notes and accordingly, the Issuer cannot assure you that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the prices that you receive when you sell will be favorable.

You should be aware that the laws and practices of certain countries require investors to pay stamp taxes and other charges in connection with purchases of securities.

In connection with the offering of the Notes, the Initial Purchasers may engage in overallotment, stabilizing transactions and syndicate covering transactions. Overallotment involves sales in excess of the offering size, which creates a short position for the Initial Purchasers. Stabilizing transactions involve bids to purchase the Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Notes. Syndicate covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions and syndicate covering transactions may cause the price of the Notes to be higher than it would otherwise be in the absence of those transactions. If the Initial Purchasers engage in stabilizing or syndicate covering transactions, they may discontinue them at any time.

Certain of the Initial Purchasers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and their affiliates in the ordinary course of business for which they have received (and expect to continue to receive) customary fees and reimbursement of expenses. In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates and may cause the Initial Purchasers to vote on certain matters of the Issuer or the Issuer's affiliates. Certain of the Initial Purchasers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Initial Purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of Notes. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

LEGAL MATTERS

Certain legal matters in connection with the offering will be passed upon for us by Latham & Watkins, with respect to U.S. federal, New York and English law, Avellum Partners, with respect to Ukrainian law, NautaDutilh N.V., with respect to Dutch law and Antis Triantafyllides & Sons LLC, with respect to Cypriot law. Certain legal matters in connection with the offering will be passed upon for the Initial Purchasers by Linklaters LLP, with respect to U.S. federal, New York and English law and Sayenko Kharenko, with respect to Ukrainian law.

INDEPENDENT ACCOUNTANTS

The special purpose financial statements of Holdings B.V. as of December 31, 2011 and 2010 and for each of the two years then ended, included in this offering memorandum have been audited by LLC Audit Firm "PricewaterhouseCoopers (Audit)", independent accountants, of 75 Zhylyanska Str., Kyiv, 01032, Ukraine, as stated in their reports appearing herein ("**PwC Ukraine**"). PwC Ukraine is a member of the Chamber of Auditors of Ukraine.

The consolidated financial statements of Holdings B.V. as of and for the year ended December 31, 2012, included in this offering memorandum, have been audited by PricewaterhouseCoopers Accountants N.V., independent accountants, of Thomas R. Malthusstraat 5, 1066JR, Postbus 90351, Amsterdam, The Netherlands, as stated in their reports appearing herein ("**PwC Netherlands**").

LISTING AND GENERAL INFORMATION

Admission to Trading and Listing

Application has been made to the Irish Stock Exchange for the approval of this document as Listing Particulars. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List of the Irish Stock Exchange and for trading on the Global Exchange Market which is the exchange-regulated market of the Irish Stock Exchange. We cannot assure you, however, that this application will be accepted.

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official Listing of the Irish Stock Exchange or to trading on the Global Exchange Market of the Irish Stock Exchange.

Documents Available for Inspection

For so long as the Notes are listed on the Global Exchange Market of the Irish Stock Exchange and the rules of that exchange so require, copies of the following documents may be inspected during usual business hours at our principal executive offices, as well as at the registered offices of the Issuer:

For the life of the offering memorandum, copies of the following documents may be inspected free of charge in hardcopy at the offices of the Principal Paying Agent during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

(a) the Articles of Association of the Issuer;

(b) the Articles of Association of Holdings B.V.;

(c) the Memorandum and Articles of Association of Holdings Ltd.;

(d) the Memorandum and Articles of Association of Trading Ltd.;

(e) the Charter of each Surety;

(f) the Indenture;

(g) each Deed of Surety;

(h) the purchase agreement relating to the purchase of the Notes;

(i) the financial statements included in this offering memorandum, including:

- Holdings B.V. 'special purpose' consolidated financial statements as of and for the financial year ended December 31, 2010;
- Holdings B.V. 'special purpose' consolidated financial statements as of and for the financial year ended December 31, 2011; and
- Holdings B.V. consolidated financial statements as of and for the financial year ended December 31, 2012; and

(j) this offering memorandum.

Clearing Information

The Notes sold pursuant to Regulation S have been accepted for clearance through the facilities of DTC, Clearstream and Euroclear under common code 078395028. The Notes sold pursuant to Rule 144A have been accepted for clearance through the facilities of DTC, Clearstream and Euroclear under the common code 078395010. The international securities identification number for the Notes sold pursuant to Regulation S is USG2941DAA03 and the international securities identification number for the Notes sold pursuant to Rule 144A is US23339BAA70.

Yield and Total Expenses

The yield of the Notes is 8.125% on an annual basis. Total expenses related to the admission to trading of the Notes were approximately EUR5,050.

Consents and Authorizations

The creation and issuance of the Notes has been duly authorized by a resolution of our board of directors, dated March 11, 2013.

No Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer since the date of its incorporation, or of the Guarantors, the Sureties or the Group since December 31, 2012, the end of the last financial period for which consolidated financial information for the group has been published.

There has been no material adverse change in the prospects of the Issuer since the date of its incorporation, or the Guarantors, the Sureties or the Group since December 31, 2012, the date of the most recent annual audited consolidated financial information for the Group.

Legal Proceedings

None of the Issuer, any Guarantor, any Surety nor any member of the Group is or has been engaged in or, so far as the Issuer, any Surety, any Guarantor or any member of the Group is aware, has pending or threatened, any governmental, legal or arbitration proceedings which may have, or have had, a significant effect on the Issuer's financial position or profitability since the date of its incorporation, or on the Group's financial position or profitability during the 12 months preceding the date of this offering memorandum.

Material Contracts

Neither the Issuer, since the date of its incorporation, or any Surety, any Guarantor nor any member of the Group has, since December 31, 2012, has entered into any contracts outside the ordinary course of business that could have a material adverse effect on the ability of the Issuer, any Guarantor or any Surety to meet their obligations under the Notes.

Constitutional Documents of the Issuer

The Articles of Association of the Issuer set out the powers, capacity and corporate governance structure of the Issuer, which restrictions, procedures and measures help to ensure that Holdings B.V. does not abuse the control it exerts over the Issuer by virtue of its 100% shareholding in the Issuer.

Composition of the Consolidated Financial Statements of Holdings B.V.

The consolidated financial statements of Holdings B.V. presented in this offering memorandum include the financial results of (a) each Guarantor and Surety and (b) each other member of the Group that is not a Guarantor or a Surety. As at December 31, 2012:

(i) the Guarantors and the Sureties together recorded in aggregate Adjusted EBITDA of UAH16,570 million and net assets of UAH47,240 million, representing 98% and 145%, respectively, of the Group's Adjusted EBITDA and net assets as at December 31, 2012; and

(ii) the members of the Group that are not Guarantors or Sureties together recorded in aggregate Adjusted EBITDA of UAH366 million and negative net assets of UAH14,553 million, representing 2% and (45)%, respectively, of the Group's Adjusted EBITDA and net assets as at December 31, 2012.

The Issuer was incorporated on February 27, 2013, solely for the purpose of issuing the Notes and has no revenue generating operations of its own and no trading record.

Information on Certain Members of the Group

Holdings B.V.

Holdings B.V. is a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) company incorporated under the laws of the Netherlands on April 15, 2009 with registration number 34334895 and registered address: Schiphol Boulevard 231 Tower B, 5th floor 1118BH, Luchthaven Schiphol, The Netherlands. Holdings B.V. is the Group's holding company. There are currently no encumbrances on Holdings B.V.'s assets that could materially affect its ability to meet its obligations under the Holdings B.V. Guarantee. As at December 31, 2012, Holdings B.V. recorded negative Adjusted EBITDA of UAH20 million and net assets of UAH27,670 million, representing (0.1)% and

84.7%, respectively, of the Group's Adjusted EBITDA and net assets as at December 31, 2012. Although Holdings B.V., as the Group holding company, may be affected by some or all the general risks set out in *"Risk Factors—Risk Relating to our Operations and Business"*, we do not believe there are any risks specific to Holdings B.V. that could adversely impact on the Holdings B.V. Guarantee.

Holdings Ltd

Holdings Ltd is a private company with limited liability, incorporated under Cyprus law and in accordance with the provisions of the Cyprus Companies Law, Cap.113, on April 10, 2006 with registration number 174860 and registered address: Julia House, 3,Themistoklis Dervis Street, CY-1066 Nicosia, Cyprus. There are currently no encumbrances on Holdings Ltd's assets that could materially affect its ability to meet its obligations under the Holdings Ltd Guarantee. As at December 31, 2012, Holdings Ltd recorded Adjusted EBITDA of UAH1,058 million and net assets of UAH9,664 million, representing 6.2% and 29.6%, respectively, of the Group's Adjusted EBITDA and net assets as at December 31, 2012. Although Holdings Ltd may be affected by some or all the general risks set out in *"Risk Factors—Risk Relating to our Operations and Business"* and in *"Risk Factors—Risks Relating to Cyprus"*, we do not believe there are any risks specific to Holdings Ltd that could adversely impact on the Holdings Ltd Guarantee.

Komsomolets Donbassa

We own approximately 94.64% of the share capital of Komsomolets Donbassa, with the remaining 5.36% being held by certain private individuals, including employees and ex-employees of Komsomolets Donbassa.

Pavlogradugol

We own approximately 99.92% of the share capital of Pavlogradugol, with the remaining 0.08% of the share capital being held by certain private individuals, including employees and ex-employees of Pavlogradugol

Dniproenergo

We own approximately 73.30% of the share capital of Dniproenergo, with 25% + 1 share being held by JSC Energy Company of Ukraine, and the remaining 1.70% being held by certain private individuals, including employees and ex-employees of Dniproenergo.

Zakhidenergo

We own approximately 72.19% of the share capital of Zakhidenergo, with 25% + 1 share being held by JSC Energy Company of Ukraine and the remaining 2.81% being held by certain private individuals, including employees and ex-employees of Zakhidenergo.

Kyivenergo

We own approximately 72.33% of the share capital of Kyivenergo, with 25% + 1 share being held by JSC Energy Company of Ukraine and the remaining 2.67% being held by certain private individuals, including employees and ex-employees of Kyivenergo.

The Sureties which are not 100% subsidiaries of Holdings B.V. are non-material. All Guarantors (other than Holdings B.V. itself) are 100% subsidiaries of Holdings B.V. All Guarantors and Sureties are controlled by Holdings B.V. and are fully consolidated into Holdings B.V.'s financial statements. Holdings B.V. exercises control over the financial and operational policies of all Guarantors and Sureties.

GLOSSARY OF TECHNICAL TERMS

"anthracite"	hard, black, lustrous coal containing a high percentage of fixed carbon and a low percentage of volatile matter; often referred to as hard coal; abbreviated "A" based on the Russian coal classification system used in Ukraine.
"balance reserves"	total coal reserves calculated by the Ukrainian government to fall within a particular license area in respect of which a coal license has been granted.
"bituminous"	"soft" black coal with a heat content that ranges from 9,500 to 15,000 Btu per pound used for electricity generation, industrial steam purposes and for steel production.
"Btu per pound"	British steam unit representing the amount of energy required to raise one pound of water, one degree Fahrenheit.
"enrichment in dense media" .	coal enrichment method of separating coal particles from rock, based on thickness by using heavy fluids or mineral suspensions.
"coal seam"	a stratum of ore or coal thick enough to be mined with profit.
"coke"	solid carbonaceous material derived from destructive distillation of low-ash, low-sulfur bituminous coal and used as a fuel and as a reducing agent in smelting iron ore in a blast furnace.
"coking"	process consisting of heating coal in the absence of air to drive off the volatile compounds.
"coking coal"	coal that is used for the production of coke for use in a blast furnace charge.
"flotation"	method of coal enrichment based on the difference in physical and chemical qualities of coal and rock surfaces, especially in how they are watered.
"gas coal"	a light, fiery, high volatile bituminous coal; abbreviated "G" based on the Russian coal classification system used in Ukraine
"hard coal"	hard natural coal that burns slowly and gives intense heat.
"industrial reserves"	the amount of balance reserves that we believe are economically feasible to mine and which are greater than 60 centimeters in thickness.
"jigging"	coal enrichment method based on the separation of material by its thickness by using a vertical, variable direction water jet; applied for enrichment of coal with sizes ranging from 0.3 to 250 millimeters.
"joule"	SI unit of energy measuring heat, electricity and mechanical work.
"kilowatt" (symbol: kW)	equal to one thousand watts.
"kilowatt hours" (symbol: kW/h and or kW/hour)	a measure of electricity consumed by a continuous load or produced by the continuous generation of one kilowatt over one hour.
"longwall mining"	highly productive mechanized coal mining technique where a long wall (typically about 250-400 m long) of coal is mined in a single slice (typically 1-2 m thick).
"megavoltampere" (symbol: MVA)	measure of electrical capacity equal to the product of the voltage times the current.
"megawatts" (symbol: MW) . .	one million watts.

"non-industrial reserves"	coal reserves in locations where it is not considered economically efficient to mine such coal, for several reasons, including, among others, high concentration of population in such area or inadequacy of the thickness of coal.
"open pit mining"	open pit mining, also known as opencast mining and open-cut mining and strip mining; method of extracting rock or minerals from the earth by their removal from an open pit or borrow.
"panels"	rectangular blocks of coal as wide as the mining machinery and as long as 3,650 meters.
"pulverized coal injection" . .	injection of coal into the blast furnace (which is central to steel industry) to principally increase productivity of blast furnace, reduce consumption of more expensive coking coals, by replacing coke with cheaper soft coking or steam coals.
"run-of-mine" coal, or "ROM"	worked coal that is not processed and is raw material for coal enrichment.
"sinkhole"	natural depression in a land surface communicating with a subterranean passage, generally occurring in limestone regions and formed by solution or by collapse of a cavern roof
"soil remediation"	removal of harmful contaminants in soil
"steam coal"	coal typically used for generating steam for power plants
"substation"	assembly of equipment in an electric power system through which electricity is passed for transmission, transformation, distribution, or switching
"turbine"	rotary engine that extracts energy from a fluid flow.
"Terawatt"	one trillion watts.
"terawatt hours" (symbol: TWh)	one billion kilowatt hours
"watt"	SI derived unit of power, equal to one joule of energy per second measuring a rate of energy use or production.
"watthour"	an electricity unit of measure equal to one watt of power supplied to (or taken from) an electric circuit steadily for one hour.

INDEX TO FINANCIAL STATEMENTS

Consolidated Financial Statements as of and for the year ended December 31, 2012

Independent Auditor's Report F-4
Consolidated Balance Sheet F-6
Consolidated Income Statement F-7
Consolidated Statement of Comprehensive Income F-7
Consolidated Statement of Changes in Equity F-8
Consolidated Statement of Cash Flows F-9
Notes to the Consolidated Financial Statements F-10

Special Purpose Consolidated Financial Statements as of and for the year ended December 31, 2011

Independent Auditor's Report F-72
Special Purpose Consolidated Balance Sheet F-73
Special Purpose Consolidated Income Statement F-74
Special Purpose Consolidated Statement of Comprehensive Income F-74
Special Purpose Consolidated Statement of Changes in Equity F-75
Special Purpose Consolidated Statement of Cash Flows F-76
Notes to the Special Purpose Consolidated Financial Statements F-77

Special Purpose Consolidated Financial Statements as of and for the year ended December 31, 2010

Independent Auditor's Report F-129
Special Purpose Consolidated Balance Sheet F-130
Special Purpose Consolidated Income Statement F-131
Special Purpose Consolidated Statement of Comprehensive Income F-131
Special Purpose Consolidated Statement of Changes in Equity F-132
Special Purpose Consolidated Statement of Cash Flows F-133
Notes to the Special Purpose Consolidated Financial Statements F-134

DTEK Holdings B.V.

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

31 December 2012

CONTENTS

Independent Auditor's report

Consolidated Financial statements

Consolidated Balance Sheet 1
Consolidated Income Statement 2
Consolidated Statement of Comprehensive Income 2
Consolidated Statement of Changes in Equity 3
Consolidated Statement of Cash Flows 4

Notes to the Consolidated Financial Statements

1 The Organisation and its Operations 5
2 Operating Environment of the Group 6
3 Summary of Significant Accounting Policies 6
4 Critical Accounting Estimates and Judgements 14
5 Adoption of New or Revised Standards and Interpretations 16
6 Segment Information 17
7 Balances and Transactions with Related Parties 20
8 Property, Plant and Equipment 22
9 Intangible Assets 23
10 Goodwill 23
11 Investments in Associates 26
12 Financial Investments 27
13 Inventories 28
14 Trade and Other Receivables 28
15 Cash and Cash Equivalents 30
16 Share Capital 30
17 Other Reserves 31
18 Borrowings 33
19 Other Financial Liabilities 34
20 Retirement Benefit Obligations 35
21 Provisions for Other Liabilities and Charges 37
22 Trade and Other Payables 37
23 Other Taxes Payable 38
24 Revenue and Heat Tariff Compensation 39
25 Cost of Sales 39
26 Other Operating Income 40
27 Distribution Costs 40
28 General and Administrative Expenses 40
29 Other Operating Expenses 41
30 Finance Income and Finance Costs 41
31 Income Taxes 42
32 Contingencies, Commitments and Operating Risks 44
33 Business Combinations 46
34 Financial Risk Management 56
35 Management of Capital 60
36 Fair Value of Financial Instruments 60
37 Reconciliation of Classes of Financial Instruments with Measurement Categories 63
38 Subsequent events 64

Independent auditor's report[1]

To: the general meeting of shareholders of DTEK Holdings B.V.

Report on the financial statements

We have audited the accompanying financial statements 2012 of DTEK Holdings B.V., Luchthaven Schiphol. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2012, the consolidated income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2012, the company income statement for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the directors' report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the 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 financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the 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 company's internal control. An audit also includes evaluating the

[1] The above auditor's report is the original auditor's report that was issued on 6 March 2013 with respect to the statutory Financial Statements for the period ending 31 December 2012. These Financial Statements also contained the directors' report and the company financial statements. For purposes of the Offering Memorandum the directors' report and company financial statements have been omitted.

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'PwC' is the brand under which PricewaterhouseCoopers Accountants N.V. (Chamber of Commerce 34180285), PricewaterhouseCoopers Belastingadviseurs N.V. (Chamber of Commerce 34180284), PricewaterhouseCoopers Advisory N.V. (Chamber of Commerce 34180287), PricewaterhouseCoopers Compliance Services B.V. (Chamber of Commerce 51414406), PricewaterhouseCoopers Pensions, Actuarial & Insurance Services B.V. (Chamber of Commerce 54226368), PricewaterhouseCoopers B.V. (Chamber of Commerce 34180289) and other companies operate and provide services. These services are governed by General Terms and Conditions ('algemene voorwaarden'), which include provisions regarding our liability. Purchases by these companies are governed by General Terms and Conditions of Purchase ('algemene inkoopvoorwaarden'). At www.pwc.nl more detailed information on these companies is available, including these General Terms and Conditions and the General Terms and Conditions of Purchase, which have also been filed at the Amsterdam Chamber of Commerce.

appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of DTEK Holdings B.V. as at 31 December 2012, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of DTEK Holdings B.V. as at 31 December 2012, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

Amsterdam, 6 March 2013
PricewaterhouseCoopers Accountants N.V.

Original signed by A.J. Brouwer RA

DTEK Holdings B.V.
Consolidated Balance Sheet

In millions of Ukrainian Hryvnia	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	8	50,752	30,627
Intangible assets	9	1,985	183
Goodwill	10	4,563	1,116
Investments in associates	11	12	5,574
Financial investments	12	289	563
Deferred income tax asset	31	899	549
Other non-current assets		50	137
Total non-current assets		**58,550**	**38,749**
Current assets			
Inventories	13	5,055	2,214
Trade and other receivables	14	7,068	4,608
Financial investments	12	99	328
Current income tax		272	23
Cash and cash equivalents	15	5,360	10,426
Total current assets		**17,854**	**17,599**
TOTAL ASSETS		**76,404**	**56,348**
EQUITY			
Share capital	16	0	0
Share premium		9,909	9,909
Other reserves	17	3,470	5,731
Retained earnings		14,291	8,785
Equity attributable to owners of the parent		**27,670**	**24,425**
Non-controlling interest in equity		**5,017**	**401**
TOTAL EQUITY		**32,687**	**24,826**
LIABILITIES			
Non-current liabilities			
Liability to non-controlling participants		5	4
Borrowings	18	17,256	12,405
Other financial liabilities	19	3,860	2,615
Retirement benefit obligations	20	4,241	3,519
Provisions for other liabilities and charges	21	578	600
Deferred income tax liability	31	1,499	937
Total non-current liabilities		**27,439**	**20,080**
Current liabilities			
Borrowings	18	3,406	2,677
Other financial liabilities	19	300	756
Prepayments received		2,951	899
Trade and other payables	22	8,162	5,814
Current income tax payable		375	356
Other taxes payable	23	1,084	940
Total current liabilities		**16,278**	**11,442**
TOTAL LIABILITIES		**43,717**	**31,522**
TOTAL LIABILITIES AND EQUITY		**76,404**	**56,348**

Signed by entire Management Board
on 6 March 2013.

Maksym Timchenko
Director

Vistra (Amsterdam) B.V.
Director

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

/s/ Oleg Popov

/s/ Natalia Izosimova

/s/ Sergey Korovin

/s/ Irina Mykh

/s/ Robert Sheppard

/s/ Damir Akhmetov

/s/ Catherine Stalker

/s/ Johan Bastin

The accompanying notes are an integral part of these financial statements.

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

Consolidated Statement of Comprehensive Income

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

The accompanying notes are an integral part of these financial statements.

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

The accompanying notes are an integral part of these financial statements.

DTEK Holdings B.V.
Consolidated Statement of Cash Flows

In millions of Ukrainian Hryvnia	Note	2012	2011
Cash flows from operating activities			
Profit before income tax		7,422	5,668
Adjustments for:			
Depreciation and impairment of property, plant and equipment and amortisation of intangibles, net of amortisation of government grants		6,024	2,334
Losses less gains on disposals of property, plant and equipment	29	83	35
Assets received free of charge	26	(95)	(73)
Net movement in provision for impairment of trade and other receivables and prepayments made	26,29	(2,576)	48
Gain from sale of investments available-for-sale		2	-
Impairment of non-current prepayments for shares		-	15
Change in provisions for other liabilities and charges	21	(112)	214
Non-cash operating charge/(credit) to retirement benefit obligation	20	242	(244)
Extinguishment of accounts payable	26	(114)	(122)
Share of result and impairment of associates	11	205	494
Recognition of AFS reserve on transfer to subsidiary	17	63	-
Recognition of AFS reserve on transfer to associate	17	-	349
Loss from fair valuation of associate on transfer to subsidiary	11,17	385	334
Loss on disposal of associate	11	15	-
Unrealised result on associate	11	(8)	42
Gain from a bargain purchase	33	(604)	-
Unrealised foreign exchange (gain)/loss		6	133
Realised and unrealised foreign exchange (gain)/loss on financing activities		448	12
Finance costs, net	30	3,581	1,061
Operating cash flows before working capital changes		**14,967**	**10,300**
Decrease/(increase) in trade and other receivables		886	(282)
Increase in inventories		(1,390)	(499)
Increase/(decrease) in prepayments received		544	(195)
Increase/(decrease) in trade and other payables		264	(1,011)
Repayment of restructured obligations		(2,678)	(38)
Increase in other financial liabilities		769	135
(Decrease)/increase in taxes payable		(415)	280
Cash generated from operations		**12,947**	**8,690**
Income taxes paid		(2,763)	(2,150)
Defined employee benefits paid	20	(582)	(223)
Interest paid		(1,482)	(486)
Interest received		263	157
Provisions utilised		(28)	(8)
Net cash generated from operating activities		**8,355**	**5,980**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(9,698)	(3,580)
Proceeds from sale of property, plant and equipment		15	6
Purchase of financial investments		-	(34)
Purchase of additional interest in associates		-	(25)
Acquisition of associates	11	-	(280)
Prepayment for acquisition of subsidiaries	12	(160)	(355)
Withdrawal/(placement) of restricted cash	12,15	(171)	1
Capitalised borrowings cost paid		(124)	-
Redemption/(acquisition) of deposit certificates		-	12
Dividends received from associates	11	-	45
Finance lease related to acquisitions paid		(21)	-
Deposits placed and financial aid or loan provided		(169)	(128)
Repayment of deposits and loans provided		332	599
Acquisition of subsidiary	33	(4,653)	(451)
Cash acquired in business combination	33	261	497
Deferred consideration related to acquisitions paid		(103)	(91)
Net cash used in investing activities		**(14,491)**	**(3,784)**
Cash flows from financing activities			
Proceeds from borrowings		20,989	12,016
Repayment of borrowings		(18,148)	(4,550)
Commitment fee paid		(52)	-
Repayment of debts under amicable agreement		(12)	(90)
Dividends paid		(1,766)	(641)
Acquisition of non–controlling interest		(37)	(14)
Net cash generated from financing activities		**974**	**6,721**
Net (decrease) increase in cash and cash equivalents		(5,162)	8,917
Cash and cash equivalents at the beginning of the year	15	10,426	1,692
Exchange gains/(losses) on cash and cash equivalents		5	(183)
Cash and cash equivalents at the end of the year	**15**	**5,269**	**10,426**

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

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

The principal subsidiaries are presented below:

Name	% interest held as at 31 December 2012	2011	Segment	Country of incorporation
Management companies				
DTEK Finance B.V.	100.00	100.00	Management	Netherlands
DTEK Investments B.V.	100.00	100.00	Management	Netherlands
DTEK Holdings Limited	100.00	100.00	Management	Cyprus
DTEK LLC	100.00	100.00	Management	Ukraine
DTEK Corporation	98.64	98.64	Management	Ukraine
Coal mining				
DTEK Pavlogradugol PJSC	99.92	99.92	Coal Mining	Ukraine
DTEK Mine Komsomolets Donbassa PJSC	94.64	94.64	Coal Mining	Ukraine
DTEK Dobropolyeugol LLC	100.00	100.00	Coal Mining	Ukraine
Bilozerska Mine ALC	95.44	-	Coal Mining	Ukraine
DTEK Rovenkiantracyte LLC	100.00	100.00	Coal Mining	Ukraine
DTEK Sverdlovantracyte LLC	100.00	100.00	Coal Mining	Ukraine
CCM Kurahovskaya LLC	99.00	99.00	Coal Mining	Ukraine
CCM Pavlogradskaya LLC	99.00	99.00	Coal Mining	Ukraine
Mospino CPE LLC	99.00	99.00	Coal Mining	Ukraine
DTEK Dobropolskaya CEP PJSC	60.06	60.06	Coal Mining	Ukraine
DTEK Oktyabrskaya CEP PJSC	60.85	60.85	Coal Mining	Ukraine
Pershotravensky RMZ LLC	99.92	99.92	Coal Mining	Ukraine
Ekoenergoresurs LLC	99.00	99.00	Coal Mining	Ukraine
Public company Don-Anthracite	100.00	-	Coal Mining	Russian Federation
Public Mining Corporation Obukhovskaya	100.00	-	Coal Mining	Russian Federation
Sulinathracite LLC	100.00	-	Coal Mining	Russian Federation
Power generation				
Eastenergo LLC	100.00	100.00	Power generation	Ukraine
Tehrempostavka LLC	100.00	100.00	Power generation	Ukraine
Wind Power LLC	100.00	100.00	Power generation	Ukraine
DTEK Dniproenergo PJSC	73.30	47.93	Power generation	Ukraine
DTEK Zakhidenergo PJSC	72.19	25.83	Power generation	Ukraine
Electricity distribution				
Servis-Invest LLC	100.00	100.00	Electricity distribution	Ukraine
DTEK Energougol ENE PJSC	94.24	94.24	Electricity distribution	Ukraine
Kyivenergo JSC	72.33	72.33	Electricity distribution	Ukraine
DTEK Donetskoblenergo PJSC	71.35	31.28	Electricity distribution	Ukraine
DTEK Dniprooblenergo PJSC	51.51	1.51	Electricity distribution	Ukraine
DTEK Krymenergo PJSC	57.60	12.49	Electricity distribution	Ukraine
Other				
Sotsis LLC	99.00	99.00	Other	Ukraine
DTEK Servis LLC	99.00	99.00	Other	Ukraine
DTEK Trading LLC	100.00	100.00	Other	Ukraine
DTEK Trading Limited	100.00	100.00	Other	Cyprus
Power Trade LLC	100.00	100.00	Other	Ukraine
DTEK Neftegaz LLC	100.00	100.00	Other	Ukraine
DTEK Hungary Power Trade LLC	100.00	100.00	Other	Hungary

1 The Organisation and its Operations (Continued)

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

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

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. Starting from 2010, the Ukrainian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Ukrainian Hryvnia against major foreign currencies, and increased liquidity levels in the banking sector.

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

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

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

3 Summary of Significant Accounting Policies

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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. Bank overdrafts are included into borrowings line item in the consolidated balance sheet.

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

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

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

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

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

Contingent 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's generating companies sells all electricity produced by its electricity generation plants to Energorynok, a state-owned electricity distribution monopoly, at prices determined based on the competitive pool model adopted by the National Electricity Regulatory Committee of Ukraine ("NCRE"). The Group's distribution companies buy electricity from Energorynok and sell it to the end-customers, at prices determined by NCRE. Revenue from the sale of electricity is the value of units supplied during the year and includes an estimate of the value of units supplied to customers between the date of their last meter reading and the year end. Revenue from sale of electricity to end customers is recognised on a gross basis.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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 25 million (2011: 148 million).

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

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

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

4 Critical Accounting Estimates and Judgements (Continued)

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

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

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

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

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

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

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

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

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

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

4 Critical Accounting Estimates and Judgements (Continued)

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

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

5 Adoption of New or Revised Standards and Interpretations

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

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

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

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

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

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

6 Segment Information

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

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

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

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

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

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

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

6 Segment Information (Continued)

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

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

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

In millions of Ukrainian Hryvnia	Coal mining	Power generation	Electricity distribution	Total
2012				
Energorynok SE	-	30,733	-	**30,733**
Entities under common control of SCM	901	-	7,238	**8,139**
Total	**901**	**30,733**	**7,238**	**38,872**

6 Segment Information (Continued)

In millions of Ukrainian Hryvnia	Coal mining	Power generation	Electricity distribution	Total
2011				
Energorynok SE	-	10,356	-	**10,356**
Dniproenergo JSC	5,353	-	-	**5,353**
Zakhidenergo JSC	3,973	-	-	**3,973**
Entities under common control of SCM	875	-	5,398	**6,273**
Total	**10,201**	**10,356**	**5,398**	**25,955**

Geographical information

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

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

7 Balances and Transactions with Related Parties

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2012 are detailed below. At 31 December, the outstanding balances with related parties were as follows:

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

7 Balances and Transactions with Related Parties (Continued)

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

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

Revenue, trade and other receivable

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

Purchases, trade and other payables

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

Key management personnel compensation

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

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

8 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	Con-struction in progress	Total
At 1 January 2011						
Cost or valuation	2,413	3,851	7,023	453	1,361	**15,101**
Accumulated depreciation	(365)	(738)	(2,227)	(196)	-	**(3,526)**
NBV at 1 January 2011	**2,048**	**3,113**	**4,796**	**257**	**1,361**	**11,575**
Acquisition of subsidiaries (Note 33)	4,489	2,770	2,417	360	1,110	11,146
Additions	327	190	1,468	192	2,146	4,323
Disposals	(6)	(15)	(26)	(3)	(13)	(63)
Depreciation charge	(268)	(352)	(1,447)	(116)	-	(2,183)
Revaluation recorded in equity	1,384	1,358	3,017	79	189	6,027
Impairment of property, plant and equipment	(29)	-	(141)	(4)	(24)	(198)
Transfer	52	19	166	2	(239)	-
NBV at 31 December 2011	**7,997**	**7,083**	**10,250**	**767**	**4,530**	**30,627**
At 31 December 2011						
Cost or valuation	8,255	7,412	11,569	1,032	4,530	32,798
Accumulated depreciation	(258)	(329)	(1,319)	(265)	-	(2,171)
NBV at 31 December 2011	**7,997**	**7,083**	**10,250**	**767**	**4,530**	**30,627**
Acquisition of subsidiaries (Note 33)	1,147	6,637	5,850	302	2,013	15,949
Additions	451	1,060	4,062	509	4,111	10,193
Disposals	-	(15)	(118)	(4)	(7)	(144)
Depreciation charge	(443)	(1,191)	(3,760)	(518)	-	(5,912)
Foreign exchange differences	27	4	7	1	-	39
Transfer	235	234	2,082	39	(2,590)	-
NBV at 31 December 2012	**9,414**	**13,812**	**18,373**	**1,096**	**8,057**	**50,752**
At 31 December 2012						
Cost or valuation	10,111	16,021	24,606	2,039	8,057	60,834
Accumulated depreciation	(697)	(2,209)	(6,233)	(943)	-	(10,082)
NBV at 31 December 2012	**9,414**	**13,812**	**18,373**	**1,096**	**8,057**	**50,752**
NBV without revaluation at 31 December 2011	**5,938**	**3,701**	**6,710**	**673**	**4,372**	**21,394**
NBV without revaluation at 31 December 2012	**7,550**	**10,684**	**15,858**	**1,026**	**7,911**	**43,029**

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

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

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

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

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

8 Property, Plant and Equipment (Continued)

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

9 Intangible Assets

As at 31 December, intangible assets comprise:

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

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

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

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

10 Goodwill

The movements of goodwill were as follows:

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

Goodwill Impairment Test

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

10 Goodwill (Continued)

Management allocated goodwill to seven main CGUs:

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

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

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

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

10 Goodwill (Continued)

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

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

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

No impairment was recognised as a result of the assessment.

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

The above estimates are particularly sensitive in the following areas:

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

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

11 Investments in Associates

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

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

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

2012

In millions of Ukrainian Hryvnia	Country of incorporation	% of ownership	Carrying value	Total assets	Total liabilities	Revenue	Profit/ (loss)
Other	Ukraine	various	12	43	14	-	(1)
Total			**12**	**43**	**14**	**-**	**(1)**

2011

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

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

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

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

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

12 Financial Investments

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

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

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

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

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

As at 31 December 2012, UAH 84 million of term deposits were pledged as collateral for gross-settled derivative financial instruments (31 December 2011: UAH 211 million for borrowings or bank guarantees received), UAH 80 million of restricted cash was pledged as collateral for the letter of credit agreement (31 December 2011: nil).
Current financial investments are neither past due nor impaired. The carrying amounts of deposits and loans approximate their fair values.

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

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

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

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

13 Inventories

As at 31 December, inventories were as follows:

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

14 Trade and Other Receivables

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

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

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

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

14 Trade and Other Receivables (Continued)

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

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

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

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

15 Cash and Cash Equivalents

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

In millions of Ukrainian Hryvnia	2012	2011
Bank balances payable on demand	4,959	4,922
Term deposits with original maturity of less than three months	310	5,504
Restricted cash	91	-
Total cash and cash equivalents	**5,360**	**10,426**

As at 31 December 2012, cash and cash equivalents of UAH 901 million were denominated in US dollars (31 December 2011: UAH 698 million), UAH 789 million were denominated in EUR (31 December 2011: UAH 125 million), UAH 218 million were denominated in RUB (31 December 2011: 5,639).

As at 31 December 2012 and 2011, no term deposits with original maturity of less than three months were pledged as collateral for borrowings or bank guarantees received.

As at 31 December 2012, there was UAH 91 million cash restricted in use under letter of credit arrangements (31 December 2011: nil). For the purposes of the cash-flow statements this amount is not included in cash and cash equivalents balance.

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

	2012			2011		
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						
- A1 rated	-	-	-	169	2,317	-
- Aa3 rated	-	-	-	4	-	-
- A3 rated	31	1	-	3	-	-
- A3.ua rated	730	-	-	236	-	-
- A2 rated	20	-	-	-	-	-
- B1 rated	75	-	-	-	-	-
- Ba1 rated	34	-	-	-	-	-
- Baa1 rated	271	8	-	-	-	-
- Ba3 rated	-	-	-	-	3,152	-
- A2.ua rated	-	-	-	2,788	-	-
- B2 rated	-	-	-	73	1	-
- Ba2 rated	-	-	-	80	-	-
- B3 rated	108	-	88	-	-	-
- Baa3.ua rated	2,294	296	3	-	-	-
- Caa1 rated	208	-	-	-	-	-
Non-rated	1,188	5	-	1,569	34	-
Total	**4,959**	**310**	**91**	**4,922**	**5,504**	**-**

16 Share Capital

The authorised share capital of DTEK Holdings B.V. comprises 15,000 ordinary shares with a nominal value of Euro 10 per share. All shares carry one vote. At 31 December 2012 and 2011, the issued and fully paid share capital comprised 3,000 ordinary shares.

17 Other Reserves

In millions of Ukrainian Hryvnia	Additional paid in capital	Revaluation reserve	AFS reserve	Currency translation reserve	Total
Balance at 1 January 2011	**(4,194)**	**3,460**	**(131)**	**-**	**(865)**
Financial investments:					
- Fair value losses less gains	-	-	(334)	-	**(334)**
- Recognition of AFS reserve on transfer to associate	-	-	349	-	**349**
- Share of other equity movements of associate	24	-	-	-	**24**
Property, plant and equipment:					
- Revaluation of PPE	-	5,962	-	-	**5,962**
- Change in estimate relating to asset retirement provision recorded in equity	-	2	-	-	**2**
- Realised revaluation reserve	-	(888)	-	-	**(888)**
- Share in revaluation of PPE of associates	-	1,887	-	-	**1,887**
- Share in realised revaluation reserve of associates	-	(127)	-	-	**(127)**
Income tax recorded in equity	-	282	(28)	-	**254**
Transfer from associates to subsidiary - recycling of revaluation reserve to retained earnings	(29)	(504)	-	-	**(533)**
Balance at 31 December 2011	**(4,199)**	**10,074**	**(144)**	**-**	**5,731**
Financial investments:					
- Fair value gains less losses	-	-	60	-	**60**
- Recognition of AFS reserve on transfer to subsidiary	-	-	63	-	**63**
Property, plant and equipment:					
- Change in estimate relating to asset retirement provision recorded in equity	-	(9)	-	-	**(9)**
- Realised revaluation reserve	-	(1,356)	-	-	**(1,356)**
- Share in revaluation of PPE of associates	-	-	-	-	**-**
- Share in realised revaluation reserve of associates	-	-	-	-	**-**
Income tax recorded in equity	-	195	(4)	-	**191**
Transfer from associates to subsidiary - recycling of revaluation reserve to retained earnings	-	(1,252)	-	-	**(1,252)**
Currency translation reserve	-	-	-	42	**42**
Balance at 31 December 2012	**(4,199)**	**7,652**	**(25)**	**42**	**3,470**

During 2012, fair value gains on available-for-sale investments totalling UAH 60 million (2011: UAH 334 million losses) were recorded directly in other reserves.

During 2012, accumulated fair value losses totalling UAH 63 million related to Dniprooblenergo JSC and Krymenergo JSC, recognised while this asset was recorded as an available-for-sale investment, have been recycled to profit and loss, following its transfer to subsidiary (2011: UAH 349 million related to Zakhidenergo JSC transfer to equity accounting).

The revaluation reserve, AFS reserve and currency translation reserve are not distributable to the shareholders until they are transferred to retained earnings.

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

17 Other Reserves (Continued)

Other comprehensive income, net of tax, is as follows:

In millions of Ukrainian Hryvnia	*Other reserves*	Total	Non-controlling interests	Total other comprehensive income
2011				
Financial investments:				
- Fair value gain/(loss)	(334)	**(334)**	-	**(334)**
- Income tax recorded on available-for-sales financial assets	36	**36**	-	**36**
- Recognition of AFS reserve on transfer to associate	349	**349**	-	**349**
- Reversal of income tax recorded in equity due to transfer of AFS to associate	(64)	**(64)**	-	**(64)**
Share of other equity movements in associates	24	**24**	-	**24**
Property, plant and equipment:				
- Change in estimate for asset retirement obligation	2	**2**	-	**2**
- Revaluation of property plant and equipment	5,962	**5,962**	65	**6,027**
- Income tax recorded on revaluation of property plant and equipment	(1,052)	**(1,052)**	-	**(1,052)**
- Share in revaluation of PPE of associates	1,887	**1,887**	-	**1,887**
Reversal of Income tax recorded in equity due to change in tax legislation	1,228	**1,228**	-	**1,228**
Total	**8,038**	**8,038**	**65**	**8,103**
2012				
Financial investments:				
- Fair value gain/(loss) , net of tax	60	**60**	-	**60**
- Income tax recorded on available-for-sales financial assets	(4)	**(4)**	-	**(4)**
- Recognition of AFS reserve on transfer to subsidiary, net of tax	63	**63**	-	**63**
Property, plant and equipment:				
- Change in estimate for asset retirement obligation	(9)	**(9)**	-	**(9)**
Currency translation reserve	42	**42**	-	**42**
Total	**152**	**152**	-	**152**

18 Borrowings

As at 31 December, borrowings were as follows:

In millions of Ukrainian Hryvnia	2012	2011
Non-current		
Eurobonds	3,941	3,920
Bank borrowings	13,315	8,485
	17,256	**12,405**
Current		
Bank borrowings	3,109	2,453
Interest accrual	297	224
	3,406	**2,677**
Total borrowings	**20,662**	**15,082**

In April 2010, DTEK Finance B.V., a finance vehicle of the Company, issued USD 500 million (UAH 3,963 million) 5 year Eurobonds bearing a 9.5% coupon. The Eurobonds are unsecured. The bond indenture contains specific covenants, including limitation on payments to shareholders, restrictions on permissible business activities, requirements for arm's length affiliate transactions, financial disclosure requirements and maximum permissible level of leverage. Events of default are comprehensive and include cross-default to other DTEK debt.

In October 2011, the Group entered into 5-year loan agreements with Russian Commercial Bank (Cyprus) for RUB 10,000 million (UAH 2,495 million) and Sberbank (Russia) for RUB 15,714 million (UAH 3,986 million). The Group used the proceeds from both loans to finance the Group's participation in the privatisation of energy sector entities in Ukraine and to finance its capital investment programme. The loans are unsecured. The loan agreements contain specific covenants, including restrictions on permissible business activities, financial disclosure requirements and maximum permissible level of leverage. Events of default are comprehensive and include cross-default to other DTEK debt.In October 2012, the Group entered into 5-year loan agreement with ING, Gazprombank OJSC, Sberbank of Russia and UniCredit Bank for EUR 416 million (UAH 4,380 million). The Group used the proceeds from the loan to finance the capital investment programme. The loans are unsecured. The loan agreements contain specific covenants, including restrictions on permissible business activities, financial disclosure requirements and maximum permissible level of leverage. Events of default among others include cross-default to other DTEK debt.

As at 31 December, the Group's borrowings were denominated in the following currencies:

In millions of Ukrainian Hryvnia		2012	2011
Borrowings denominated in:	- UAH	1,810	1,446
	- US Dollars	5,083	5,796
	- Euros	6,744	1,351
	- Roubles	7,025	6,489
Total borrowings		**20,662**	**15,082**

As at 31 December, the Group's loans and borrowings maturity and re-pricing were as follows:

	Maturity		Interest re-pricing	
In millions of Ukrainian Hryvnia	2012	2011	2012	2011
Loans and borrowings due:				
- within 1 year	3,406	2,677	15,660	11,059
- between 1 and 5 years	16,852	12,405	5,002	4,021
- after 5 years	404	-	-	2
Total borrowings	**20,662**	**15,082**	**20,662**	**15,082**

18 Borrowings (Continued)

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

	2012				2011			
In % per annum	**UAH**	**USD**	**EUR**	**RUB**	**UAH**	**USD**	**EUR**	**RUB**
	9.25%-21%	LIBOR 6m + 0.5% - LIBOR 1m +6.5%	EURIBOR 6m + 0.94% - EURIBOR 3m + 7.5%	Mos-prime 3m + 3.4% - 11%	13%-19.5%	LIBOR 6m + 0.5% - LIBOR 3m + 9%	EURIBOR 6m + 1.7% - EURIBOR 1m + 5.25%	Mos-prime 3m + 3.4% - 3.45%
Total borrowings	**1,810**	**5,083**	**6,744**	**7,025**	**1,446**	**5,796**	**1,351**	**6,489**

As at 31 December 2012, borrowings totalling UAH 265 million (31 December 2011: UAH 465 million) were secured with property, plant and equipment (Note 32).

19 Other Financial Liabilities

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

In millions of Ukrainian Hryvnia	2012	2011
Deferred consideration for acquisition (Note 33)	1,951	1,777
Restructured trade payables	1,303	170
Gross-settled derivative financial instruments	284	-
Payable for finance lease	230	-
Restructured taxes payable	71	642
Promissory notes issued by Pavlogradugol	-	9
Other long-term financial liabilities	21	17
Total non-current other financial liabilities	**3,860**	**2,615**

Restructured trade payables include UAH 1,178 million (31 December 2011: UAH 170 million) of restructured long-term payable to the energy seller monopolist state-owned Energorynok which sells the energy to distribution companies of the Group, and UAH 106 million of restructured trade payable for state-owned Vugillya Ukrayiny. Restructured trade payables are recognised at amortised cost and are discounted at a rate range of 13.28% to 19.30%.

During 2011 and 2012 DTEK concluded agreements for a swap of RUB loans with floating rate for a USD loan with fixed rate. Fair value loss on the derivative amounting to UAH 284 million (2011: nil) is recognised in financial costs in profit and loss (Note 30), and included in the value of non-current other financial liabilities.

As part of acquisition of Dobropolyeugol, Rovenkiantracyte and Sverdlovantracyte (Note 33), the Group assumed certain restructured tax obligations that are due between 2012 and 2030. The obligations have been discounted at an implied rate of 16.56% per annum for Dobropolyeugol, and 16.85% per annum for Rovenkiantracyte and Sverdlovantracyte, respectively.

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

In millions of Ukrainian Hryvnia	2012	2011
Current portion of restructured trade payable	146	-
Current portion of deferred consideration	65	85
Restructured taxes payable	46	152
Other current financial liabilities	23	-
Current part of payable for finance lease	20	-
Investment obligation relating to Dniproenergo	-	519
Total current other financial liabilities	**300**	**756**

20 Retirement Benefit Obligations

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

In 2012 the defined benefit plan covers 131,177 people, including 20,519 ex-employees (2011: 114,110 and 13,985 respectively).

None of the employee benefits plans stated below are funded.

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

In millions of Ukrainian Hryvnia	2012	2011
Present value of unfunded defined benefit obligations	4,433	3,894
Unrecognised net actuarial loss	(316)	(517)
Unrecognised past service cost	124	142
Liability in the consolidated balance sheet	**4,241**	**3,519**

In millions of Ukrainian Hryvnia	2012	2011
Retirement benefits	3,039	2,798
Retirement benefits - coal support	1,038	820
Lump sum payments	356	276
Present value of Retirement benefit obligation	**4,433**	**3,894**

The amounts recognised in the income statement were as follows:

In millions of Ukrainian Hryvnia	2012	2011
Current service cost	221	125
Interest cost (Note 30)	554	347
Recognised past service cost	(16)	(371)
Sequester	(19)	-
Foreign exchange losses	4	-
Recognised actuarial losses	56	2
Total	**800**	**103**

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

In millions of Ukrainian Hryvnia	2012	2011
Defined benefit obligation as at 1 January	**3,894**	**1,912**
Acquisition of subsidiaries (Note 33)	504	2,057
Current service cost	221	125
Actuarial (gains)/losses	(145)	401
Interest cost (Note 30)	554	347
Past service cost	2	(725)
Sequester	(19)	-
Foreign exchange losses	4	-
Benefits paid	(582)	(223)
Defined benefit obligation as at 31 December	**4,433**	**3,894**

20 Retirement Benefit Obligations (Continued)

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

In millions of Ukrainian Hryvnia	2012	2011
As at 1 January	**3,519**	**1,582**
Acquisition of subsidiaries (Note 33)	504	2,057
Benefits paid	(582)	(223)
Net expense recognised in the income statement	800	103
As at 31 December	**4,241**	**3,519**

Part of past service cost arose as a result of changes in the pension legislation introduced in 2011, which decreased the benefits payable. To the extent that the benefits were already vested immediately following the changes, past service cost was recognised in 2012 financial statements as credit to income statement in the amount of UAH 16 million under current accounting standard. The remaining UAH 124 million past service cost is recognised as income in accordance with IAS 19 (revised) in 2013. This amount is recorded directly as income.

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

	2012	2011
Nominal discount rate	13.53%	13.80%
Nominal salary increase	5.00%	9.00%
Nominal pension entitlement increase	5.00%	9.00%

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

	2012	2011
Nominal discount rate increase/decrease by 1%	(6.09%)/6.87%	(6.69%)/7.61%
Nominal salary increase/decrease by 1%	2.58%/(2.36%)	2.63%/(2.57%)
Nominal pension entitlement increase/decrease by 1%	2.58%/(2.36%)	2.63%/(2.57%)

Experience adjustments for 2012 do not exceed UAH 146 million (2011: UAH 400 million; 2010: UAH 91 million; 2009: UAH 599 million; 2008: UAH 402 million).

Present value of unfunded defined benefit obligations totalled to UAH 1,912 million as at 31 December 2010 (31 December 2009: UAH 1,655 million, 31 December 2008: UAH 2,041 million).

Payments in respect of post-employment benefit plan obligations expected to be made during the year ending 31 December 2013 are UAH 638 million (2012: UAH 480 million).

21 Provisions for Other Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

In millions of Ukrainian Hryvnia	Assets retirement provision	Provision for legal claims	Long-term incentive plan (Note 7)	Total
At 1 January 2011	**166**	**16**	**129**	**311**
Change in estimates	(2)	-	-	(2)
Arising during the year	11	23	183	217
Acquisition of subsidiaries	244	132	-	376
Unwinding of discount (Note 30)	21	-	-	21
Reversal of provision	-	(3)	-	(3)
Utilised	(5)	(3)	-	(8)
Transfer to current (Note 22)	-	-	(312)	(312)
At 31 December 2011	**435**	**165**	**-**	**600**
Change in estimates	9	-	-	9
Arising during the year	-	13	-	13
Acquisition of subsidiaries	44	8	-	52
Unwinding of discount (Note 30)	57	-	-	57
Reversal of provision	-	(125)	-	(125)
Utilised	(15)	(13)	-	(28)
At 31 December 2012	**530**	**48**	**-**	**578**

The asset retirement provision is attributable to the mining and energy generating activities of the Group resulting from the obligation to dismantle and remove the mines and remediate soils disturbed by the underground works and ash dumps. The increase of the asset retirement obligation was recorded in other reserves as the Group uses the fair value model to measure property, plant and equipment (Note 17).

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

	2012	2011
Pre-tax discount rate	15.72%	16.85%
Inflation long-term	5.00%	5.00%
Inflation middle-term	7.00%	7.00%

22 Trade and Other Payables

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

In millions of Ukrainian Hryvnia	2012	2011
Trade payables	4,654	3,579
Liabilities for purchased securities	35	20
Liabilities for purchased property, plant and equipment	1,219	829
Dividends payable	51	5
Current portion of long term liabilities	-	22
Other creditors	315	245
Total financial payables	**6,274**	**4,700**
Wages and salaries payable	694	281
Accruals for employees' unused vacations	776	453
Long-term incentive bonus program for top executives (Note 7)	312	312
Other payables	106	68
Total non-financial payables	**1,888**	**1,114**
Total	**8,162**	**5,814**

22 Trade and Other Payables (Continued)

Analysis by currency and future undiscounted cash flows of financial trade and other payables is as follows:

31 December 2012 *In millions of Ukrainian Hryvnia*	Trade payables	Liabilities for purchased securities	Liabilities for purchased property, plant and equipment	Dividends payable	Other creditors
Currency analysis:					
UAH denominated	4,523	35	1,128	51	301
USD denominated	2	-	22	-	4
EUR denominated	29	-	1	-	9
RUB denominated	100	-	68	-	1
Total	**4,654**	**35**	**1,219**	**51**	**315**
Future undiscounted cash flow analysis:					
Up to 3 months	4,524	35	1,211	51	290
From 3 to 6 months	23	-	2	-	20
From 6 to 12 months	107	-	6	-	5
Total	**4,654**	**35**	**1,219**	**51**	**315**

31 December 2011 *In millions of Ukrainian Hryvnia*	Trade payables	Liabilities for purchased securities	Liabilities for purchased property, plant and equipment	Current part of long term liabilities	Dividends payable	Other creditors
Currency analysis:						
UAH denominated	3,554	20	679	22	5	239
USD denominated	25	-	-	-	-	-
EUR denominated	-	-	101	-	-	6
RUB denominated	-	-	49	-	-	-
Total	**3,579**	**20**	**829**	**22**	**5**	**245**
Future undiscounted cash flow analysis:						
Up to 3 months	3,361	2	789	5	-	241
From 3 to 6 months	218	-	13	6	5	-
From 6 to 12 months	-	18	27	11	-	4
Total	**3,579**	**20**	**829**	**22**	**5**	**245**

23 Other Taxes Payable

As at 31 December other taxes payable were as follows:

In millions of Ukrainian Hryvnia	2012	2011
Payroll taxes	416	287
Value-added tax	330	490
Other taxes	338	163
Total other taxes payable	**1,084**	**940**

24 Revenue and Heat Tariff Compensation

Analysis of revenue by category is as follows:

In millions of Ukrainian Hryvnia	2012	2011
Sale of electricity to final customers	31,834	8,573
Sale of electricity to electricity pool	30,733	10,356
Heat generation	3,647	244
Sale of steaming and coking coal	7,059	17,344
Sale of electricity abroad	5,002	2,917
Other sales	65	160
Total	**78,340**	**39,594**

Analysis of revenue by regions is as follows:

In millions of Ukrainian Hryvnia	2012	2011
Domestic sales	70,584	33,110
Export sales	7,756	6,484
Total	**78,340**	**39,594**

Heat tariff compensation

Heat tariff compensation is a government grant and represents the difference between heat tariff required to cover all production costs plus reasonable margin and that imposed by the State, compensated to the Group regularly. The amount of the difference compensated to the Group by the State in 2012 was UAH 4,241 million (2011: nil), representing the tariff difference generated in 2009, 2011 and 2012.

25 Cost of Sales

In millions of Ukrainian Hryvnia	2012	2011
Cost of electricity purchased for resale	33,006	10,619
Raw materials	13,764	5,166
Staff cost, including payroll taxes	10,908	3,370
Depreciation of property, plant and equipment and amortisation of intangible assets net of amortisation of government grants	5,878	2,086
Transportation services and utilities	4,355	1,045
Cost of coal purchased for resale	1,060	6,061
Taxes, other than income tax	963	316
Equipment maintenance and repairs	713	162
Production overheads	601	261
Operating costs at Dobropolyeugol, Rovenkiantracyte, Sverdlovantracyte*	19	1,174
Change in finished goods and work in progress	(478)	(319)
Other costs	27	35
Total	**70,816**	**29,976**

*Following the conclusion of concession agreements, DTEK paid an operating fee to the State entities until all employees were transferred to DTEK.

26 Other Operating Income

In millions of Ukrainian Hryvnia	2012	2011
Net movement in provision for impairment of trade and other receivables and prepayments made (Note 14)	2,576	-
Income from write-off of provisions	124	-
Income from extinguishment of accounts payable	114	122
Penalties	102	32
Assets received free of charge	95	73
Income from recovery on previously written off trade receivables	29	20
Gain on sales of inventory	10	-
Income from sale of certified emission rights	10	222
Other	205	46
Total	**3,265**	**515**

Income from sale of certified emission rights was recognised at the moment when they were approved by the relevant authority and there was a binding contract to obtain economic benefits from their sale.

27 Distribution Costs

In millions of Ukrainian Hryvnia	2012	2011
Transportation	456	114
Staff cost, including payroll taxes	39	19
Consulting services	-	15
Depreciation	10	7
Other costs	89	48
Total	**594**	**203**

28 General and Administrative Expenses

In millions of Ukrainian Hryvnia	2012	2011
Staff cost, including payroll taxes	1,507	779
Professional fees	297	229
Depreciation of property, plant and equipment and amortisation of intangible assets	136	43
Office costs	87	45
Transportation	76	23
Taxes, other than income tax	45	30
Other costs	85	35
Total	**2,233**	**1,184**

29 Other Operating Expenses

In millions of Ukrainian Hryvnia	2012	2011
Social payments	397	167
Penalties	273	13
Maintenance of social infrastructure	150	9
Charitable donations and sponsorship	86	27
Expenses on idle capacity	84	137
Loss from disposal of non-current assets	83	35
Non-recoverable VAT	53	25
Loss on sales of services	-	102
Net movement in provision for impairment of trade and other receivables and prepayments made (Note 14)	-	48
Loss from sales of inventory	-	14
Other	282	105
Total	**1,408**	**682**

30 Finance Income and Finance Costs

In millions of Ukrainian Hryvnia	2012	2011
Gain on initial recognition of long term accounts payable	307	24
Interest income on bank deposits	256	164
Unwinding of discount on long-term restructured accounts receivable	25	19
Other finance income	14	15
Total finance income	**602**	**222**
Interest expense		
- bank borrowings	1,169	247
- bonds issued	379	400
Loss on early repayment of long-term payables	977	-
Unwinding of discounts on pension obligations	554	347
Unwinding of discounts on long term accounts payable	359	46
Change in fair value of derivative financial instruments (Note 19)	284	-
Unwinding of discounts on deferred consideration related to acquisition	273	130
Amortised cost expenses on borrowings	58	-
Unwinding of discounts on assets retirement provision	57	21
Unwinding of discounts on investment obligation relating to Dniproenergo	12	22
Loss on initial recognition of long-term restructured accounts receivable	2	43
Other finance costs	59	27
Total finance costs	**4,183**	**1,283**

31 Income Taxes

Income tax expense comprises the following:

In millions of Ukrainian Hryvnia	2012	2011
Current tax	2,517	2,226
Deferred tax	(1,017)	(80)
Income tax expense	**1,500**	**2,146**

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

In millions of Ukrainian Hryvnia	2012	2011
Change in asset retirement obligation	1	-
Unrealised gain on available-for-sale financial assets	(4)	(28)
Property, plant and equipment:		
- revaluation of property plant and equipment	-	(1,052)
- reversal of deferred tax following April 2011 change in Tax Code	-	1,228
Income tax reported in equity	**(3)**	**148**

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine). In 2012 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 21% (2011: 25% during January-March 2011, and 23% starting from 1 April 2011). In 2012, the tax rate for Cyprus operations was 10% (2011: 10%).

On 2 December 2010, a new Tax Code was adopted in Ukraine effective from 1 January 2011. According to the new Tax Code the rates for corporate income tax are due to decrease from 25% to 16% in several stages during 2011-2014. Deferred tax assets and liabilities are measured at the income tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates prescribed by the new Tax Code.

The tax base of the property, plant and equipment was also changed from 1 April 2011 with the aim to remove existing differences between tax and accounting bases. The Group has recognised the respective change in tax legislation regarding the tax base of the property, plant and equipment as at 1 April 2011 which resulted in a deferred tax charge of UAH 427 million in the income statement and deferred tax credit of UAH 1,228 million in other comprehensive income.

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

In millions of Ukrainian Hryvnia	2012	2011
Profit before income tax, including	**7,422**	**5,668**
Profit before income tax of Ukrainian companies	7,244	4,806
Profit/(loss) before income tax of non-Ukrainian companies	178	862
Income tax at statutory rates of 21-25% (Ukrainian operations)	**1,521**	**1,147**
Profit taxed at different rates 25% (Dutch operations)	**(11)**	**(4)**
Profit taxed at different rates 10% (Cyprus operations)	**60**	**89**
Profit taxed at different rates 20% (Russian operations)	**(73)**	**-**
Effect of changes in income tax rates in Ukraine	(74)	(9)
Effect of changes in Tax legislation in Ukraine	-	427
Tax effect of items not deductible or assessable for taxation purposes:		
- non-deductible expenses	683	278
- non-taxable income	(697)	(101)
Share of result and impairment of associates	26	114
Share of result of associate on transfer to subsidiary (2011: on transfer from AFS investment to associate) and AFS transfer to subsidiary (2011: on transfer to associate)	94	143
Unrecognised deferred tax on tax losses carried forward	32	62
Tax effect of gain from a bargain purchase	(61)	-
Income tax expense	**1,500**	**2,146**

31 Income Taxes (Continued)

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

In millions of Ukrainian Hryvnia	2012	2011
Deferred tax asset	899	549
Deferred tax liability	(1,499)	(937)
Net deferred tax liability	**(600)**	**(388)**

In millions of Ukrainian Hryvnia	1 January 2012	Acquisition of subsidiaries (Note 33)	Credited/ (charged) to income	Charged to equity	31 December 2012
Tax effect of deductible temporary differences					
Trade and other payables	142	76	160	-	378
Provisions for other liabilities and charges	99	15	(8)	-	106
Retirement benefit obligations	552	90	46	-	688
Trade and other receivables	237	801	(29)	-	1,009
Prepayments received	44	(7)	20	-	57
Inventories	30	29	209	-	268
Deferred consideration	281	-	34	-	315
Tax losses	103	-	(50)	-	53
Financial investments	51	(3)	190	(4)	234
Gross deferred tax asset	**1,539**	**1,001**	**572**	**(4)**	**3,108**
Tax effect of taxable temporary differences					
Property, plant and equipment	(1,856)	(1,461)	623	1	(2,693)
Other financial liabilities	(61)	-	(199)	-	(260)
Prepayments made	(10)	-	(8)		(18)
Trade and other payables	-	(766)	29	-	(737)
Gross deferred tax liability	**(1,927)**	**(2,227)**	**445**	**1**	**(3,708)**
Recognised deferred tax asset/(liability)	**(388)**	**(1,226)**	**1,017**	**(3)**	**(600)**

31 Income Taxes (Continued)

In millions of Ukrainian Hryvnia	1 January 2011	Acquisition of subsidiaries (Note 33)	Credited/ (charged) to income	Charged to equity	31 December 2011
Tax effect of deductible temporary differences					
Trade and other payables	34	(15)	123	-	142
Provisions for other liabilities and charges	44	69	(14)	-	99
Retirement benefit obligations	234	335	(17)	-	552
Trade and other receivables	-	193	44	-	237
Prepayments received	449	7	(412)	-	44
Inventories	-	(3)	33	-	30
Deferred consideration	-	272	9	-	281
Tax losses	-	103	-	-	103
Financial investments	52	-	27	(28)	51
Gross deferred tax asset	**813**	**961**	**(207)**	**(28)**	**1,539**
Tax effect of taxable temporary differences					
Property, plant and equipment	(730)	(1,078)	(224)	176	(1,856)
Inventories	(23)	-	23	-	-
Other financial liabilities	(27)	-	(34)	-	(61)
Prepayments made	(531)	-	521	-	(10)
Trade and other receivables	(1)	-	1	-	-
Gross deferred tax liability	**(1,312)**	**(1,078)**	**287**	**176**	**(1,927)**
Recognised deferred tax asset/(liability)	**(499)**	**(117)**	**80**	**148**	**(388)**

As at 31 December 2012, the Group has not recorded a deferred tax liability in respect of taxable temporary differences of UAH 537 million (31 December 2011: UAH 747 million) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

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

32 Contingencies, Commitments and Operating Risks

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

The Group conducts intercompany transactions. It is possible with evolution of the interpretation of tax law in Ukraine and changes in the approach of tax authorities under the new Tax Code, that such transactions could be challenged in the future. The impact of any such challenge cannot be estimated; however, management believes that it should not be significant.

The group has income tax liabilities in various countries. The ultimate tax consequences of many transactions and calculations are uncertain, partly because of uncertainty concerning their timing. The Group continually assesses such matters and where final tax sums differ from the estimates such differences are recognised as income tax provisions in the period in which the differences become apparent.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. Management believes that it has provided for all material losses in these financial statements.

32 Contingencies, Commitments and Operating Risks (Continued)

Capital expenditure commitments. As at 31 December 2012 and 2011, the Group does not have contractual capital expenditure commitments in respect of property, plant and equipment.

In December 2012 Dniproenergo issued bonds at nominal value of UAH 1,010 million following the requirements of the amicable agreement to bring the entity out of bankruptcy. The bonds bear nominal interest of 0.01% and mature in 30 years. The bonds are aimed to finance Dniproenergo investment programme. All bonds were purchased by Pavlogradugol and Komsomolets Donbassa Mine.

As discussed in Note 33, the Group is committed to fund investment programmes of newly acquired mining assets totalling UAH 7,727 million during the period 2011 through 2016. As at 31 December 2012 the outstanding commitment equals UAH 5,538 million (31 December 2011: UAH 7,093 million).

Purchase commitments. As at 31 December 2012 and 2011, the Group did not have contractual purchase commitments.

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

In millions of Ukrainian Hryvnia	2012 Asset pledged	2012 Related liability	2011 Asset pledged	2011 Related liability
Financial investments (Note 12)	84	128	211	19
Property, plant and equipment (Note 8)	555	265	1,127	446
Restricted cash (Note 12 and 15)	171	-	-	-
Total	**810**	**393**	**1,338**	**465**

As at 31 December 2012, proceeds from future sale of electricity with the cap of UAH 3,005 million were pledged as security for borrowings (Note 18). The amount of future proceeds pledged is capped in the loan agreements, and depends on the outstanding balance of the loan as at the balance sheet date.

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 covenants as at 31 December 2012 and 2011.

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

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

In millions of Ukrainian Hryvnia	2012	2011
Not later than 1 year	236	16
Later than 1 year and not later than 5 years	6	3
Total operating lease commitments	**242**	**19**

Lease of land. The Group leases the land on which its assets are located. The annual lease payment in 2012 amounted to UAH 103 million (2011: UAH 21 million). Those payments are cancellable lease commitments.

33 Business Combinations

Dniproenergo

On 13 March 2012 the Group acquired 25.00% of Dniproenergo PJSC ('Dniproenergo') in a State organised privatisation auction, for a cash consideration of UAH 1,180 million, thus taking its total share to 72.93%.

Dniproenergo is a power generation company located in Zaporizhzhya, and was acquired via a) a series of transactions resulting in total interest acquired of 47.55% at a total cost of UAH 2,238 million, and b) via privatisation tender on 13 March 2012 resulting in additional 25% interest for a cash consideration of UAH 1,180 million.

The investment in Dniproenergo held prior to the acquisition was accounted for as investment in associate. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 206 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	4,633
Intangible assets	7
Other non-current assets	48
Inventories	623
Trade and other receivables (gross UAH 3,649 million)	1,780
Current income tax	29
Cash and cash equivalents	29
Borrowings	(1,045)
Other financial liabilities – non-current	(93)
Provisions for other liabilities and charges	(2)
Retirement benefit obligations	(198)
Deferred income tax liabilities	(261)
Trade and other payables	(998)
Other taxes payable	(227)
Fair value of 100% of net assets acquired	**4,325**
27.07% non-controlling interest	**(1,170)**
Share of net assets acquired	**3,155**
Purchase consideration:	**5,154**
Fair value of consideration paid	1,180
Fair value of previously held interest	3,974
Goodwill	**1,999**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	29
Consideration paid for acquisition of subsidiary	(1,180)
Net outflow of cash on acquisition of subsidiary	(1,151)

The non-controlling interest represents the share of the net assets of the acquiree attributable to the owners of the non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the purchase consideration and represents the expected future economic benefits from access to the Dniproenergo generation capacities due to synergies.

Revenue and net profit of Dniproenergo included in the consolidated income statement from the date of acquisition totaled UAH 7,546 million and UAH 1,355 million, respectively. If the acquisition had been completed on 1 January 2012, the revenues of the Group would be approximately UAH 1,685 million higher and net profit of the Group would be approximately UAH 400 million lower (unaudited).

33 Business Combinations (Continued)

Zakhidenergo

On 10 January 2012 the Group acquired 45.10% of Zakhidenergo PJSC ('Zakhidenergo') in a State organised privatisation auction, for a cash consideration of UAH 1,932 million, thus taking its total share to 70.94%.

Zakhidenergo PJSC is an electricity generation company located in Lviv.

The investment in Zakhidenergo held prior to the acquisition was accounted for as investment in associate. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 42 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment and intangible assets were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	3,031
Intangible assets	1,825
Other non-current assets	4
Inventories	528
Trade and other receivables (gross UAH 531 million)	393
Financial investments - current	30
Borrowings	(781)
Other financial liabilities – non-current	(26)
Retirement benefit obligations	(167)
Deferred income tax liabilities	(361)
Provisions for other liabilities and charges	(37)
Trade and other payables	(1,101)
Prepayments received	(640)
Other financial liabilities – current	(93)
Other taxes payable	(104)
Fair value of 100% of net assets acquired	**2,501**
29.06% non-controlling interest	**(727)**
Share of net assets acquired	**1,774**
Purchase consideration:	**3,039**
Fair value of consideration paid	1,932
Fair value of previously held interest	1,107
Goodwill	**1,265**

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the purchase consideration and represents the expected future economic benefits from access to the Zakhidenergo generation capacities due to synergies.

As a part of net assets acquired there is an intangible asset of UAH 1,823 million recognised representing the unique capability of Burshtyn thermal power plant to supply the Central European market with electricity ("Burshtyn electricity island"). This intangible asset has a definite useful life of 13 years and is depreciated on a straight line basis over this period. Respective deferred tax liability of UAH 302 million was recognised as a part of net assets acquired.

Revenue and net profit of Zakhidenergo included in the consolidated income statement from the date of acquisition totaled UAH 9,626 million and UAH 174 million, respectively. If the acquisition had been completed on 1 January 2012, the revenues of the Group would be approximately UAH 242 million higher and net profit of the Group would be approximately UAH 40 million lower (unaudited).

33 Business Combinations (Continued)

Donetskoblenergo

On 11 January 2012 the Group acquired 40.06% of Donetskoblenergo PJSC ('Donetskoblenergo') in a State organised privatisation auction, for a cash consideration of UAH 468 million, thus taking its total share to 71.34%.

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

The investment in Donetskoblenergo held prior to the acquisition was accounted for as investment in associate. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 137 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	1,957
Intangible assets	1
Other non-current assets	10
Inventories	46
Trade and other receivables (gross UAH 3,215 million)	367
Cash and cash equivalents	149
Borrowings	(30)
Other financial liabilities – non-current	(291)
Deferred income tax liabilities	(320)
Trade and other payables	(555)
Prepayments received	(260)
Income tax payable	(21)
Other taxes payable	(78)
Fair value of 100% of net assets acquired	**975**
28.66% non-controlling interest	**(279)**
Share of net assets acquired	**696**
Purchase consideration:	**832**
Fair value of consideration paid	468
Fair value of previously held interest	364
Goodwill	**136**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	149
Consideration paid for acquisition of subsidiary	(468)
Net outflow of cash on acquisition of subsidiary	(319)

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the purchase consideration and represents the expected future economic benefits from access to the Donetskoblenergo distribution network and the customer base due to synergies.

Revenue and net loss of Donetskoblenergo included in the consolidated income statement from the date of acquisition totaled UAH 5,355 million and UAH 168 million, respectively. If the acquisition had been completed on 1 January 2012, the revenues of the Group would be approximately UAH 169 million higher and net profit of the Group would be approximately UAH 4 million lower (unaudited).

33 Business Combinations (Continued)

Dniprooblenergo

On 17 April 2012 the Group acquired 50.00% shares of Dniprooblenergo PJSC ('Dniprooblenergo') in a State organised privatisation auction, for a cash consideration of UAH 660 million thus taking its total share to 51.50%.

Dniprooblenergo PJSC is an electricity distribution company located in Dnipropetrovsk.

The investment in Dniprooblenergo held prior to the acquisition was accounted for as available for sale investment. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 59 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	2,486
Intangible assets	12
Inventories	75
Trade and other receivables (gross UAH 1,813 million)	379
Cash and cash equivalents	41
Other financial liabilities – non-current	(687)
Deferred income tax liability	(83)
Trade and other payables	(586)
Prepayments received	(341)
Current income tax payable	(12)
Other taxes payable	(55)
Fair value of 100% of net assets acquired	**1,229**
48.50% non-controlling interest	**(596)**
Share of net assets acquired	**633**
Purchase consideration:	**680**
Fair value of consideration paid	660
Fair value of previously held interest	20
Goodwill	**47**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	41
Consideration paid for acquisition of subsidiary	(660)
Net outflow of cash on acquisition of subsidiary	(619)

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the purchase consideration and represents the expected future economic benefits from access to the Dniprooblenergo distribution network and the customer base due to synergies.

Revenue and net profit of Dniprooblenergo included in the consolidated income statement from the date of acquisition totaled UAH 11,230 million and UAH 268 million, respectively. Since Dniprooblenergo has not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

33 Business Combinations (Continued)

Krymenergo

On 5 May 2012 the Group acquired 45.00% shares of Krymenergo PJSC ('Krymenergo') in a State organised privatisation auction, for a cash consideration of UAH 256 million thus taking its total share to 57.49%.

Krymenergo PJSC is an electricity distribution company located in Simferopol, Ukraine.

The investment in Krymenergo held prior to the acquisition was accounted for as available for sale investment. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 4 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	2,322
Intangible assets	3
Financial investments – non-current	5
Other non-current assets	19
Inventories	14
Trade and other receivables (gross UAH 1,001 million)	103
Cash and cash equivalents	28
Borrowings	(21)
Other financial liabilities – non-current	(444)
Deferred income tax liability	(155)
Trade and other payables	(88)
Prepayments received	(125)
Current income tax payable	(13)
Other taxes payable	(28)
Fair value of 100% of net assets acquired	**1,620**
42.51% non-controlling interest	**(689)**
Share of net assets acquired	**931**
Purchase consideration:	**327**
Fair value of consideration paid	256
Fair value of previously held interest	71
Gain from a bargain purchase	**(604)**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	28
Consideration paid for acquisition of subsidiary	(256)
Net outflow of cash on acquisition of subsidiary	(228)

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Gain from a bargain purchase has been computed as the difference between the net assets acquired and the purchase consideration and occurred as a result of the term and conditions set out in the privatisation process used by the State Property Fund in establishing the starting price calculation. Gain from a bargain purchase is recognised in the income statement.

Revenue and net profit of Krymenergo included in the consolidated income statement from the date of acquisition totaled UAH 1,640 million and UAH 30 million, respectively. Since Krymenergo has not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

33 Business Combinations (Continued)

Bilozerska Mine

On 17 and 24 February 2012 the Group entered into agreements to acquire 95.44% of Bilozerska Mine ALC for a total cash consideration of UAH 202 million. Bilozerska Mine operates one coal mine located in the Donetsk region of Ukraine producing 0.60 million tons of coal per annum.

The following table summarises the preliminary fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment, including mineral reserves	1,100
Intangible assets	1
Inventories	24
Trade and other receivables (gross UAH 20 million)	20
Borrowings	(289)
Retirement benefit obligations	(94)
Other financial liabilities – non-current	(267)
Deferred income tax liability	(32)
Trade and other payables	(64)
Prepayments received	(142)
Other taxes payable	(45)
Fair value of 100% of net assets acquired	**212**
4.60% liability to non-controlling participants	**(10)**
Share of net assets acquired	**202**
Fair value of consideration paid	**202**

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Revenue and net loss of Bilozerska Mine included in the consolidated income statement from the date of acquisition totaled UAH 271 million and UAH 131 million, respectively. Since Bilozerska Mine has not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

33 Business Combinations (Continued)

Rostov Mines

During June 2012 the Group entered into agreement to acquire 100% of Public company Don-Anthracite, Public Mining Corporation Obukhovskaya, and Sulinathracite LLC, for a total cash consideration UAH 310 million. Those companies represent three mines located in Rostov region, Russian Federation.

The following table summarises the preliminary fair values of the net assets acquired at the date of acquisition. Management is still in process of determining the fair values of all assets and liabilities.

In millions of Ukrainian Hryvnia	
Property, plant and equipment, including mineral reserves	420
Intangible assets	16
Inventories	32
Trade and other receivables (gross UAH 46 million)	46
Cash and cash equivalents	14
Borrowings	(89)
Provisions for other liabilities and charges	(13)
Retirement benefit obligations	(45)
Deferred income tax liability	(14)
Trade and other payables	(57)
Fair value of 100% of net assets acquired	**310**
Share of net assets acquired	**310**
Fair value of consideration paid	**310**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	14
Consideration for acquiree's debt to previous owner	(307)
Consideration paid for acquisition of subsidiary	(3)
Net outflow of cash on acquisition of subsidiary	(296)

In case the subsoil exploration licences acquired in this business combination are not renewed by the Group in 2013, DTEK will have the right to claim the associated losses and expenses incurred against the previous owner of the Rostov mines. The latter will have the right to exercise a call option to buy the shares of the mines back. Until this call option agreement is terminated DTEK may not sell any of the shares or debt acquired from the previous owner or make any changes to the common shares of the entities acquired.

Revenue and net loss of Rostov Mines included in the consolidated income statement from the date of acquisition totaled UAH 102 million and UAH 387 million, respectively. Since Rostov Mines have not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

33 Business Combinations (Continued)

Acquisitions during 2011

Acquisitions during 2011 – Dobropolyeugol

On 4 January 2011 the Group entered an agreement with the State Property Fund of Ukraine to lease the integrated property complex of the State Enterprise Dobropolyeugol ('Dobropolyeugol').

Dobropolyeugol comprises five coal mines located in the Donetsk region of Ukraine producing 3 million tons of coal per annum. The lease term is 49 years which substantially covers most of the economic life of the coal reserves. In addition, the Group assumed all current and non-current assets and liabilities of Dobropolyeugol. As the Group assumed all risks and rewards associated with the coal produced by Dobropolyeugol, this transaction has been recorded as a business combination following acquisition method of accounting.

The lease agreement required the Group to pay a monthly rental fee of UAH 7 million for the first month with all subsequent monthly payments being adjusted for the consumer price index ("CPI") in Ukraine. DTEK recognised the net present value of future rental payments as deferred consideration totalling UAH 909 million using CPI assumption of 7.00% per annum for the next five years and 5.00% per annum thereafter and a discount rate of 16.56%. Further, the lease agreement required the Group to commit to funding Dobropolyeugol's investment program totalling UAH 2,000 million during the period 2011 through 2015. As at 31 December 2012 the commitment totals UAH 1,145 million (31 December 2011: UAH 1,548 million).

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. Fair values of defined benefit obligations were determined by independent actuary. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment, including mineral reserves	2,134
Intangible assets	32
Deferred income tax asset	168
Inventories	43
Trade and other receivables	38
Other non-current liabilities – restructured taxes payable	(153)
Borrowings	(160)
Retirement benefit obligations	(511)
Asset retirement provision	(8)
Trade and other payables	(598)
Other provisions for liabilities and charges	(76)
Fair value of 100% of net assets acquired	**909**
Fair value of deferred consideration payable	**909**

Revenue and net loss of Dobropolyeugol included in the 2011 consolidated income statement from the date of acquisition totalled UAH 580 million and UAH 183 million, respectively. If the acquisition had been completed on 1 January 2011, the revenues and net profit of the Group would not have changed significantly.

Acquisitions during 2011 – Rovenkiantracyte and Sverdlovantracyte

On 1 December 2011, the Group entered two agreements with the State Property Fund of Ukraine for concession of the integrated property complex of the State Enterprise Rovenkiantracyte ('Rovenkiantracyte') and State Enterprise Sverdlovantracyte ('Sverdlovantracyte').

Rovenkiantracyte comprises six coal mines and Sverdlovantracyte comprises five coal mines located in the Lugansk region of Ukraine, each producing 6 million tons of coal per annum. The concession term is 49 years which substantially covers most of the economic life of the coal reserves. In addition, the Group assumed current and non-current assets and liabilities of Rovenkiantracyte and Sverdlovantracyte. The Group assumed all risks and rewards associated with the coal produced by Rovenkiantracyte and Sverdlovantracyte and accordingly this transaction has been recorded as a business combination following acquisition method of accounting.

The agreement requires the Group to pay a quarterly rental fee of UAH 19 million and UAH 14 million, respectively for the first quarter with all subsequent quarterly payments being adjusted for CPI in Ukraine and decreasing by quarterly depreciation charge that should be reinvested to capital expenditures during the next 5 years. DTEK recognised the net present value of future rental payments as a deferred consideration totalling UAH 557 million and UAH 359 million, respectively using CPI assumption of 7.00% per annum for the next five years and 5.00% per annum thereafter and a discount rate of 16.85%. Further, the agreement required the Group to commit to funding Rovenkiantracyte's and Sverdlovantracyte's investment program totalling UAH 2,998 million and UAH 2,729 million, respectively during the period 2012 through 2016. As at 31 December 2012 the commitment totals UAH 2,310 million and UAH 2,083 million respectively (31 December 2011: UAH 2,845 million and UAH 2,700 million respectively). In accordance with the agreements for concession, all movable and immovable properties and property rights of the above companies are encumbered with a tax lien.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. Fair values of defined benefit obligations were determined by an independent actuary. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	**Rovenkiantracyte**	**Sverdlovantracyte**
Property, plant and equipment, including mineral reserves	3,699	2,183
Intangible assets	31	15
Trade and other receivables	146	127
Inventory	113	145
Other non-current liabilities – restructured taxes payable	(456)	(79)
Borrowings	(606)	(437)
Retirement benefit obligations	(860)	(589)
Asset retirement provision	(83)	(153)
Trade and other payables	(732)	(508)
Other current liabilities	(407)	(214)
Deferred income tax liability	(286)	(131)
Fair value of 100% of net assets acquired	**559**	**359**
Fair value of deferred consideration payable	**559**	**359**

Revenue and net loss of Rovenkiantracyte included in the 2011 consolidated income statement from the date of acquisition totalled UAH 200 million and UAH 98 million, respectively. Revenue and net loss of Sverdlovantracyte included in the 2011 consolidated income statement from the date of acquisition totalled UAH 136 million and UAH 63 million, respectively. Since Rovenkiantracyte and Sverdlovantracyte have not produced IFRS financial information for the year ended 31 December 2011, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2011.

33 Business Combinations (Continued)

Acquisitions during 2011 – Kyivenergo

On 13 December 2011, the Group acquired 25% of Kyivenergo JSC ('Kyivenergo') in a State organised privatisation auction for a cash consideration of UAH 451 million taking its cumulative interest to 71.82%.

Kyivenergo is an integrated complex, which generates, transmits and distributes all electricity for Kyiv. It has a monopoly in the Kyiv electricity market. In addition, Kyivenergo also supplies the majority of heat consumed in Kyiv.

The investment in Kyivenergo held prior to the acquisition was accounted for as investment in associate and as a result of revaluation of previously held interest to fair value UAH 334 million loss was recognised in the income statement (Note 11).

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	3,130
Intangible assets	3
Deferred income tax asset	132
Available for sale investments	15
Inventories	173
Trade and other receivables (gross UAH 3,632 million)	1,897
Cash and cash equivalents	497
Borrowings	(680)
Retirement benefit obligations	(97)
Long-term accounts payable	(170)
Trade and other payables	(3,122)
Prepayments received	(497)
Provisions for other liabilities and charges	(163)
Fair value of 100% of net assets acquired	**1,118**
28.18% non-controlling interest	**(315)**
Share of net assets acquired	**803**
Purchase consideration:	**1,286**
Fair value of consideration paid	451
Fair value of previously held interest	835
Goodwill	**483**
Cash flow from acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	497
Consideration paid for acquisition of subsidiary	(451)
Net inflow of cash on acquisition of subsidiary	46

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the consideration payable and is due to the expected synergies from the benefits as a result of increased revenues, and business growth by receiving more competitive position when combining Kyivenergo network with the existing distribution business of the Group.

Revenue and net loss of Kyivenergo included in the 2011 consolidated income statement from the date of acquisition totalled UAH 868 million and UAH 142 million, respectively. If the acquisition had been completed on 1 January 2011, the 2011 revenues of the Group would be approximately UAH 9,982 million higher and 2011 net profit of the Group would be approximately UAH 1,054 million lower.

34 Financial Risk Management

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

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

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

Credit risk is managed on an entity by entity basis with oversight by the Group. Credit risk arises from cash and cash equivalents, financial instruments and deposits with banks, as well as credit exposure to wholesale and retail customers, including outstanding receivables and committed transactions. For Banks only SCM related banks or upper tier Ukrainian banks are accepted, which are considered at time of deposit to have minimal risk of default. Customers can be analysed between Energorynok SE, which buys 100% of electricity generated, industrial consumers and other. Due to the monopolistic nature of electricity supply by region, the Group cannot choose its customers, and instead must supply all customers within its distribution network. Sales are metered and management monitors ageing of receivables for industrial customers on a regular basis and ultimately may cut off supply for delinquent customers. For supply to municipal and the general populous, due to the low tariff structure and the political nature of disrupting supply management will continue to supply in the event non-payment and will use non-payment as justification for higher tariff increases for industrial customers. The exposure to credit risk for other customers is approved and monitored on an ongoing basis individually for all significant customers. The Group does not require collateral in respect of trade and other receivables.

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

The maximum exposure to credit risk at the reporting date is UAH 10,477 million (2011: UAH 14,725 million) being carrying value of financial investments, trade and other receivables and cash. The Group does not hold any collateral as security.

34 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 balance sheet	31 December 2012	31 December 2011
First Ukrainian International Bank (FUIB)**	Cash and cash equivalents	1,292	2,788
State Savings Bank of Ukraine PJSC*	Cash and cash equivalents	1,274	236
Ukrsotsbank PJSC*	Cash and cash equivalents	983	-
Subsidiary Bank Sberbank of Russia PJSC*	Cash and cash equivalents	335	-
Prominvestbank PJSC*	Cash and cash equivalents	285	2
VTB Bank PJSC*	Cash and cash equivalents	279	1,224
Marfin Popular Bank	Cash and cash equivalents	208	73
Ukreximbank PJSC*	Cash and cash equivalents	196	-
Ukrsibbank PJSC*	Cash and cash equivalents	158	233
OTP Bank CJSC*	Cash and cash equivalents	109	59
Russian Commercial Bank (CYPRUS) Limited	Cash and cash equivalents	75	3,152
Universal Bank PJSC*	Cash and cash equivalents	49	140
Erste Group Bank AG	Cash and cash equivalents	32	2,493
State Savings Bank of Ukraine PJSC*	Financial investment	17	-
Marfin Popular Bank	Financial investment	-	188
VTB Bank PJSC*	Financial investment	-	57
Prominvestbank PJSC*	Financial investment	-	23
State Company Energorynok	Trade and other receivables	1,824	1,045
Metinvest Holding LLC**	Trade and other receivables	220	45
LLC MAKO-Trading	Trade and other receivables	184	-
Azovstal Steel Works PJSC**	Trade and other receivables	13	9
State Company Belenergo	Trade and other receivables	3	83
Dniproenergo PJSC	Trade and other receivables	-	375

* These banks rank in the top 35 Ukrainian banks by size of total assets and capital (per National Bank of Ukraine).

** FUIB, Metinvest Holding and Azovstal Steel Works PJSC are subsidiaries of SCM.

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

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

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

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

	At 31 December 2012		At 31 December 2011	
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% (2011: 25%)	(2,931)	(2,931)	(1,354)	(1,354)
USD weakening by 25% (2011: 25%)	2,931	2,931	1,354	1,354
Euro strengthening by 25% (2011: 25%)	(1,499)	(1,499)	(339)	(339)
Euro weakening by 25% (2011: 25%)	1,499	1,499	339	339
RUB strengthening by 25% (2011: 25%)	(96)	(96)	(56)	(56)
RUB weakening by 25% (2011: 25%)	96	96	56	56

34 Financial Risk Management (Continued)

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

At 31 December 2012 and 2011, the majority of the Group's variable interest debt is USD, RUB and EUR denominated. As at 31 December 2012, 69% of the total borrowings was provided to the Group at floating rates (31 December 2011: 64 %).

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of issuing new debt management uses its judgment to decide whether fixed or variable rate would be more favourable to the Group over the expected period until maturity. The risk of increase in market interest rates is monitored by the Corporate Finance Department of the Company together with the Treasury Department. The Corporate Finance Department is responsible for planning the financing structure (levels of leverage) and borrowing activities. The key objective to financing is reduction of borrowing costs. As disclosed in Note 19, during 2011 and 2012 DTEK concluded agreements with Sberbank of Russia and Barclays for a swap of RUB floating rate loans for USD loans with fixed rate.

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

The maturity dates and effective interest rates of financial instruments are disclosed in Note18. Re-pricing for fixed rate financial instruments occurs at maturity of fixed rate financial instruments. Re-pricing of floating rate financial instruments occurs continually.

At 31 December 2012, if interest rates on USD, EUR and RUB denominated borrowings had been 200 basis points higher with all other variables held constant, post-tax profit for the year would have been UAH 136 million lower (2011: UAH 118 million lower).

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

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

If the equity quotations of the Group's investments had increased by 10% as at 31 December 2012 and 2011, with all other factors being equal, the Group's equity at 31 December 2012 would have increased by UAH 4 million (31 December 2011: UAH 5 million).

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

34 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 2012 is as follows:

In millions of Ukrainian Hryvnia	Up to 6 months	6 -12 months	1 - 2 years	2 - 5 years	Over 5 years	Total
Liabilities						
Borrowings (Note 18)	2,749	1,910	4,312	10,802	557	20,330
Eurobonds (Note 18)	256	194	385	4,123	-	4,958
Gross settled derivative financial instruments – outflows	214	220	1,760	5,691	-	7,885
Gross settled derivative financial instruments – inflows	(375)	(376)	(2,093)	(5,980)	-	(8,824)
Other financial liabilities - external (Note 19)	131	99	315	1,885	61,957	64,387
Trade and other payables (Note 22)	6,156	118	-	-	-	6,274
Total future payments, including future principal and interest payments	**9,131**	**2,165**	**4,679**	**16,521**	**62,514**	**95,010**

The maturity analysis of financial liabilities at 31 December 2011 is as follows:

In millions of Ukrainian Hryvnia	Up to 6 months	6 -12 months	1 - 2 years	2 - 5 years	Over 5 years	Total
Liabilities						
Borrowings (Note 18)	2,228	724	1,415	9,350	182	13,899
Eurobonds (Note 18)	257	194	385	4,506	-	5,342
Gross settled derivative financial instruments – outflows	28	28	55	906	-	1,017
Gross settled derivative financial instruments – inflows	(42)	(43)	(85)	(951)	-	(1,121)
Other financial liabilities (Note 19)	483	156	162	522	53,469	54,792
- external	*59*	*50*	*162*	*522*	*53,469*	*54,262*
- Dniproenergo	*424*	*106*	-	-	-	*530*
Indebtedness under amicable agreement (Note 19)	-	-	12	-	-	12
Trade and other payables (Note 22)	4,640	60	-	-	-	4,700
Total future payments, including future principal and interest payments	**7,594**	**1,119**	**1,944**	**14,333**	**53,651**	**78,641**

Other financial liability external represents undiscounted future cash flows for deferred consideration payable related to acquisition of Dobropolyeugol, Rovenkiatrantracyte and Sverdlovantracyte, finance lease liability related to acquisition of Bilozerska Mine ALC and other balances.

35 Management of Capital

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

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

The Group has yet to determine its optimum gearing ratio. Presently, the majority of debt is due within 2 - 5 years and the Group is actively pursuing mechanisms to extend the credit terms to match its long-term investment strategy. The Group has obtained a credit rating that matches the Sovereign rating of Ukraine.

	31 December 2012	31 December 2011
Total net debt	15,302	4,656
Total equity	32,687	24,826
Debt to equity ratio	46.81%	18.75%

36 Fair Value of Financial Instruments

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

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

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

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

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows, expected to be received, discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

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

36 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments at 31 December 2012 were as follows:

In millions of Ukrainian Hryvnia	Measurement method: Quoted price in active market	Measurement method: Valuation using observable market inputs	Total fair value	Carrying value
FINANCIAL ASSETS				
Cash and cash equivalents (Note 15)				
- Bank balances payable on demand	-	4,959	4,959	4,959
- Term deposits	-	310	310	310
- Restricted cash	-	91	91	91
Trade and other receivables (Note 14)				
- Trade receivables	-	4,597	4,597	4,597
- Receivables under commission agreements	-	-	-	-
- Receivable for sale of financial instruments	-	-	-	-
- Other financial receivables	-	132	132	132
Other non-current assets				
- Trade and other receivables - non-current	-	46	46	50
Financial investments (Note 12)				
- Securities quoted on Ukrainian stock market	45	-	45	45
- Prepayment for shares	-	160	160	160
- Deposits placed with the maturity more than three months	-	102	102	102
- Restricted cash	-	80	80	80
- Loans receivable	-	1	1	1
TOTAL FINANCIAL ASSETS	**45**	**10,478**	**10,523**	**10,527**
FINANCIAL LIABILITIES				
Liability to non-controlling participants	-	5	5	5
Borrowings (Note 18)	-	16,715	16,715	16,721
Eurobonds (Note 18)	4,113	-	4,113	3,941
Other liabilities – non-current (Note 19)	-	4,100	4,100	3,860
Other financial liabilities – current (Note19)	-	235	235	235
Current part of deferred consideration (Note 19)	-	65	65	65
Trade and other payables (Note 22)	-	6,274	6,274	6,274
TOTAL FINANCIAL LIABILITIES	**4,113**	**27,394**	**31,507**	**31,101**

36 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments at 31 December 2011 were as follows:

In millions of Ukrainian Hryvnia	Measurement method: Quoted price in active market	Measurement method: Valuation using observable market inputs	Total fair value	Carrying value
FINANCIAL ASSETS				
Cash and cash equivalents (Note 15)				
- Bank balances payable on demand	-	4,922	4,922	4,922
- Term deposits	-	5,504	5,504	5,504
- Restricted cash	-	-	-	-
Trade and other receivables (Note 14)				
- Trade receivables	-	3,070	3,070	3,070
- Receivables under commission agreements	-	45	45	45
- Receivable for sale of financial instruments	-	2	2	2
- Other financial receivables	-	225	225	225
Other non-current assets				
- Trade and other receivables - non-current	-	137	137	137
Financial investments (Note 12)				
- Securities quoted on Ukrainian stock market	71	-	71	71
- Prepayment for shares	-	355	355	355
- Deposits placed with the maturity more than three months	-	275	275	275
- Loans receivable	-	190	190	190
TOTAL FINANCIAL ASSETS	**71**	**14,725**	**14,796**	**14,796**
FINANCIAL LIABILITIES				
Liability to non-controlling participants	-	4	4	4
Borrowings (Note18)	-	10,977	10,977	11,162
Eurobonds (Note 18)	3,670	-	3,670	3,920
Other liabilities – non-current (Note 19)	-	2,615	2,615	2,615
Current part of deferred consideration (Note 19)	-	85	85	85
Investment obligation relating to Dniproenergo – current (Note19)	-	519	519	519
Other financial liabilities – current (Note19)	-	152	152	152
Trade and other payables (Note 22)	-	4,700	4,700	4,700
TOTAL FINANCIAL LIABILITIES	**3,670**	**19,052**	**22,722**	**23,157**

37 Reconciliation of Classes of Financial Instruments with Measurement Categories

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2012:

In millions of Ukrainian Hryvnia	Loans and receivables	Available-for-sale assets	Total
ASSETS			
Cash and cash equivalents (Note 15)			
- Bank balances payable on demand	4,959	-	4,959
- Term deposits	310	-	310
- Restricted cash	91	-	91
Trade and other receivables (Note 14)			
- Trade receivables	4,597	-	4,597
- Receivables under commission agreements	-	-	-
- Receivable for sale of financial instruments	-	-	-
- Other financial receivables	132	-	132
Other non-current assets			
- Trade and other receivables - non-current	50	-	50
Financial investments (Note 12)			
- Equity securities	-	45	45
- Prepayment for shares	160	-	160
- Deposits placed with the maturity more than three months	102	-	102
- Loans receivable	1	-	1
- Restricted cash	80	-	80
TOTAL FINANCIAL ASSETS	**10,482**	**45**	**10,527**
NON-FINANCIAL ASSETS	-	-	**65,877**
TOTAL ASSETS			**76,404**

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2011:

In millions of Ukrainian Hryvnia	Loans and receivables	Available-for-sale assets	Total
ASSETS			
Cash and cash equivalents (Note 15)			
- Bank balances payable on demand	4,922	-	4,922
- Term deposits	5,504	-	5,504
- Restricted cash	-	-	-
Trade and other receivables (Note 14)			
- Trade receivables	3,070	-	3,070
- Receivables under commission agreements	45	-	45
- Receivable for sale of financial instruments	2	-	2
- Other financial receivables	225	-	225
Other non-current assets			
- Trade and other receivables - non-current	137	-	137
Financial investments (Note 12)			
- Equity securities	-	71	71
- Prepayment for shares	355	-	355
- Deposits placed with the maturity more than three months	275	-	275
- Loans receivable	190	-	190
TOTAL FINANCIAL ASSETS	**14,725**	**71**	**14,796**
NON-FINANCIAL ASSETS	-	-	**41,552**
TOTAL ASSETS			**56,348**

All of the Group's financial liabilities at 31 December 2012 and 2011 are carried at amortised cost.

38 Subsequent events

There were no significant events subsequent to the year end.

DTEK Holdings B.V.

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

31 December 2011

CONTENTS

Independent Auditor's report

SPECIAL PURPOSE CONSOLIDATED Financial statements

Special Purpose Consolidated Balance Sheet 1
Special Purpose Consolidated Income Statement 2
Special Purpose Consolidated Statement of Comprehensive Income 2
Special Purpose Consolidated Statement of Changes in Equity 3
Special Purpose Consolidated Cash Flow Statement 4

Notes to the Special Purpose Consolidated Financial Statements

1 The Organisation and its Operations 5
2 Operating Environment of the Group 6
3 Summary of Significant Accounting Policies 6
4 Critical Accounting Estimates and Judgements 13
5 Adoption of New or Revised Standards and Interpretations 16
6 Segment Information 17
7 Balances and Transactions with Related Parties 19
8 Property, Plant and Equipment 21
9 Intangible assets 22
10 Investments in Associates 23
11 Financial Investments 25
12 Inventories 26
13 Trade and Other Receivables 27
14 Cash and Cash Equivalents 29
15 Share Capital 29
16 Other Reserves 30
17 Borrowings 31
18 Other Financial Liabilities 32
19 Restructured obligations 33
20 Retirement Benefit Obligations 33
21 Provisions for Other Liabilities and Charges 35
22 Trade and Other Payables 36
23 Other Taxes Payable 37
24 Revenue 37
25 Cost of Sales 37
26 Other Operating Income 38
27 Distribution Costs 38
28 General and Administrative Expenses 38
29 Other operating expenses 38
30 Finance Income and Finance Cost 39
31 Income Taxes 39
32 Contingencies, Commitments and Operating Risks 41
33 Business Combinations 43
34 Financial Risk Management 46
35 Management of Capital 50
36 Fair Value of Financial Instruments 50
37 Reconciliation of Classes of Financial Instruments with Measurement Categories 53
38 Subsequent events 54

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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 2011 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 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

LLC AF PricewaterhouseCoopers Audit

20 April 2012

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DTEK Holdings B.V.
Special Purpose Consolidated Balance Sheet

In millions of Ukrainian Hryvnia	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	8	30,627	11,575
Intangible assets	9	1,299	731
Investments in associates	10	5,574	4,099
Financial investments	11	563	1,279
Deferred income tax assets	31	549	1,041
Other non-current assets		137	38
Total non-current assets		**38,749**	**18,763**
Current assets			
Inventories	12	2,214	1,157
Trade and other receivables	13	4,608	2,984
Financial investments	11	328	1,040
Current income tax		23	-
Cash and cash equivalents	14	10,426	1,693
Total current assets		**17,599**	**6,874**
TOTAL ASSETS		**56,348**	**25,637**
EQUITY			
Share capital	15	-	-
Share premium		9,909	9,909
Other reserves	16	5,731	(865)
Retained earnings		8,785	4,166
Equity attributable to owners of the parent		**24,425**	**13,210**
Non-controlling interest in equity		**401**	**70**
TOTAL EQUITY		**24,826**	**13,280**
LIABILITIES			
Non-current liabilities			
Liability to non-controlling participants		4	3
Borrowings	17	12,405	4,509
Other financial liabilities	18	1,961	118
Restructured obligations	19	651	93
Government grants		3	9
Retirement benefit obligations	20	3,519	1,582
Provisions for other liabilities and charges	21	600	311
Deferred income tax liability	31	937	1,540
Total non-current liabilities		**20,080**	**8,165**
Current liabilities			
Borrowings	17	2,677	993
Other financial liabilities	18	604	485
Restructured obligations	19	152	-
Prepayments received		899	320
Trade and other payables	22	5,814	1,961
Current income tax payable		356	273
Other taxes payable	23	940	160
Total current liabilities		**11,442**	**4,192**
TOTAL LIABILITIES		**31,522**	**12,357**
TOTAL LIABILITIES AND EQUITY		**56,348**	**25,637**

Approved for issue and signed on behalf of the Management Board on 17 April 2012

Maksym Timchenko
Director

FTC Trust B.V.
Director

1

The accompanying notes are an integral part of these financial statements.

In millions of Ukrainian Hryvnia	Note	2011	2010
Revenue	24	39,594	24,294
Cost of sales	25	(29,976)	(18,936)
Gross profit		**9,618**	**5,358**
Other operating income	26	515	298
Distribution costs	27	(203)	(196)
General and administrative expenses	28	(1,184)	(851)
Other operating expenses	29	(682)	(262)
Net foreign exchange (loss)/gain (other than on borrowings)		124	(21)
Impairment of property, plant and equipment	8	(198)	-
Operating profit		**7,990**	**4,326**
Foreign exchange gains less losses from borrowings		(84)	119
Finance income	30	222	113
Finance costs	30	(1,283)	(920)
Recognition of loss from fair valuation of associate on transfer to subsidiary	10	(334)	-
Recognition of AFS reserve on transfer to associate	16	(349)	(72)
Share of after tax results of associates	10	(48)	406
Impairment of investments in associates	10	(446)	-
Profit before income tax		**5,668**	**3,972**
Income tax expense	31	(2,146)	(1,115)
Profit for the year		**3,522**	**2,857**
Profit/(loss) is attributable to:			
Equity holders of the Company		3,555	2,860
Non-controlling interest		(33)	(3)
Profit for the year		**3,522**	**2,857**

Special Purpose Consolidated Statement of Comprehensive Income

In millions of Ukrainian Hryvnia	Note	2011	2010
Profit for the period		3,522	2,857
Other comprehensive income			
Financial investments:			
- Fair value gain/(loss)	16	(334)	234
- Income tax recorded on available-for-sale financial assets		36	(36)
- Recognition of AFS reserve on transfer to associate	16	349	72
- Reversal of Income tax recorded in equity due to transfer of AFS to associate		(64)	-
Share of other equity movements of associates	16	24	5
Property, plant and equipment:			
- Change in estimate for asset retirement obligation	21	2	(13)
- Revaluation of property plant and equipment	8	6,027	-
- Income tax recorded on revaluation of property plant and equipment	31	(1,052)	-
- Share in revaluation of PPE of associates	16	1,887	-
Reversal of Income tax recorded in equity due to change in tax legislation	31	1,228	-
Total comprehensive income for the period		**11,625**	**3,119**
Total comprehensive income attributable to:			
Equity holders of the Company		11,593	3,122
Non-controlling interest		32	(3)
Total comprehensive income for the period		**11,625**	**3,119**

The accompanying notes are an integral part of these financial statements.

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 2010	**-**	**9,909**	**(696)**	**1,507**	**10,720**	**73**	**10,793**
Profit for 2010	-	-	**-**	**2,860**	**2,860**	**(3)**	**2,857**
Other comprehensive income for 2010	-	-	**262**	**-**	**262**	**-**	**262**
Total comprehensive income for 2010	-	-	**262**	**2,860**	**3,122**	**(3)**	**3,119**
Property, plant and equipment:							
- Realised revaluation reserve (Note 16)	-	-	(572)	572	**-**	-	**-**
- Deferred tax related to realised revaluation reserve	-	-	141	(141)	**-**	-	**-**
Dividends declared (Note 15)	-	-	-	(632)	**(632)**	-	**(632)**
Balance at 31 December 2010	**-**	**9,909**	**(865)**	**4,166**	**13,210**	**70**	**13,280**
Profit for 2011				**3,555**	**3,555**	**(33)**	**3,522**
Other comprehensive income for 2011	-	-	**8,038**	**-**	**8,038**	**65**	**8,103**
Total comprehensive income for 2011	-	-	**8,038**	**3,555**	**11,593**	**32**	**11,625**
Property, plant and equipment:							
- Realised revaluation reserve (Note 16)	-	-	(888)	888	**-**	-	**-**
- Deferred tax related to realised revaluation reserve	-	-	106	(106)	**-**	-	**-**
- Share in realised revaluation reserve of associates (Note 16)	-	-	(127)	127	**-**	-	**-**
Transfer of associates to subsidiary – recycling of equity reserves (Note 16)	-	-	(533)	533	**-**	-	**-**
Acquisition of subsidiary (Note 33)	-	-	-	-	-	315	**315**
Acquired non–controlling interest	-	-	-	2	**2**	(16)	**(14)**
Dividends declared (Note 15)	-	-	-	(380)	**(380)**	-	**(380)**
Balance at 31 December 2011	**-**	**9,909**	**5,731**	**8,785**	**24,425**	**401**	**24,826**

The accompanying notes are an integral part of these financial statements.

In millions of Ukrainian Hryvnia	Note	2011	2010
Cash flows from operating activities			
Profit before income tax		**5,668**	**3,972**
Adjustments for:			
Depreciation and impairment of property, plant and equipment and amortisation of intangibles, net of amortisation of government grants		2,334	1,479
Losses less gains on disposals of property, plant and equipment	29	35	(4)
Assets received free of charge	26	(73)	(41)
Net movement in provision for impairment of trade and other receivables and prepayments made	29	48	(149)
Impairment of non-current prepayments for shares		15	-
Change in provisions for other liabilities and charges	21	214	134
Non-cash operating (credit)/charge to retirement benefit obligation	20	(244)	128
Extinguishment of accounts payable	26	(122)	(2)
Share of result and impairment of associates	10	494	(406)
Recognition of AFS reserve on transfer to associate	16	349	72
Loss from fair valuation of associate on transfer to subsidiary	10	334	-
Unrealised result on associate	10	42	37
Unrealised foreign exchange (gain)/loss		133	(8)
Realised foreign exchange (gain)/loss on financing activities		12	(101)
Finance costs, net	30	1,061	807
Operating cash flows before working capital changes		**10,300**	**5,918**
Increase in trade and other receivables		(282)	(881)
Increase in inventories		(499)	(486)
Increase/(decrease) in prepayments received		(195)	237
Increase/(decrease) in trade and other payables		(1,011)	89
Increase/(decrease) in other liabilities		127	(26)
Increase in taxes payable		280	57
Cash generated from operations		**8,720**	**4,908**
Income taxes paid		(2,150)	(1,115)
Defined employee benefits paid	20	(223)	(157)
Interest paid		(486)	(456)
Interest received		157	55
Net cash generated from operating activities		**6,018**	**3,235**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(3,580)	(2,214)
Proceeds from sale of property, plant and equipment		6	19
Purchase of financial investments		(34)	(71)
Purchase of additional interest in associates		(25)	(22)
Acquisition of associates	10	(280)	(267)
Prepayment for acquisition of subsidiaries	11	(355)	-
Withdrawal of restricted cash	14	1	13
Redemption/(acquisition) of deposit certificates		12	175
Dividends received from associates	10	45	2
Deposits placed and financial aid or loan provided		(128)	(675)
Repayment of deposits and loans provided		599	114
Acquisition of subsidiary	33	(451)	-
Acquisition of non–controlling interest		(14)	-
Cash acquired in business combination	33	497	-
Deferred consideration related to Dobropolyeugol acquisition paid		(91)	-
Net cash used in investing activities		**(3,798)**	**(2,926)**
Cash flows from financing activities			
Proceeds from borrowings		12,016	6,139
Repayment of borrowings		(4,550)	(5,057)
Repayment of debts under amicable agreement		(90)	(52)
Repayment of restructured taxes payable		(38)	-
Dividends paid	15	(641)	(371)
Net cash generated from financing activities		**6,697**	**659**
Net increase in cash and cash equivalents		**8,917**	**968**
Cash and cash equivalents at the beginning of the year	14	**1,692**	**725**
Exchange gains/(losses) on cash and cash equivalents		**(183)**	**(1)**
Cash and cash equivalents at the end of the year	14	**10,426**	**1,692**

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

DTEK is a vertically integrated power generating and distribution group. Its principal activities are coal mining for further supply to its power generating facilities and finally distribution of electricity to end customers primarily in Ukraine. The Group's coal mines and power generation plants are located in the Donetsk, Dnipropetrovsk, Lugansk and Kyiv 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
	2011	2010		
Management companies				
DTEK Finance B.V.	100.00	100.00	Management	Netherlands
DTEK Investments 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
Coal mining				
DTEK Pavlogradugol PJSC	99.92	99.92	Coal Mining	Ukraine
DTEK Mine Komsomolets Donbassa PJSC	94.64	94.64	Coal Mining	Ukraine
DTEK Dobropolyeugol LLC	100.00	100.00	Coal Mining	Ukraine
DTEK Rovenkiantracyte LLC*	100.00	-	Coal Mining	Ukraine
DTEK Sverdlovantracyte LLC*	100.00	-	Coal Mining	Ukraine
CCM Kurahovskaya LLC	99.00	99.00	Coal Mining	Ukraine
CCM Pavlogradskaya LLC	99.00	99.00	Coal Mining	Ukraine
Mospino CPE LLC	99.00	99.00	Coal Mining	Ukraine
DTEK Dobropolskaya CEP PJSC	60.06	60.06	Coal Mining	Ukraine
DTEK Oktyabrskaya CEP PJSC	60.85	60.85	Coal Mining	Ukraine
Pershotravensky RMZ LLC	99.92	99.92	Coal Mining	Ukraine
Ekoenergoresurs LLC	99.00	99.00	Coal Mining	Ukraine
Power generation				
Eastenergo LLC	100.00	100.00	Power generation	Ukraine
Tehrempostavka LLC	100.00	100.00	Power generation	Ukraine
Wind Power LLC	100.00	100.00	Power generation	Ukraine
Electricity distribution				
Servis-Invest LLC	100.00	100.00	Electricity distribution	Ukraine
DTEK Energougol ENE PJSC	94.24	91.12	Electricity distribution	Ukraine
Kyivenergo JSC	72.33	39.98	Electricity distribution	Ukraine
Other				
Sotsis LLC	99.00	99.00	Other	Ukraine
DTEK Servis LLC	99.00	99.00	Other	Ukraine
DTEK Trading LLC	100.00	100.00	Other	Ukraine
DTEK Trading Limited	100.00	100.00	Other	Cyprus
Power Trade LLC	100.00	100.00	Other	Ukraine
DTEK Neftegaz LLC*	100.00	-	Other	Ukraine
DTEK Hungary Power Trade LLC	100.00	100.00	Other	Hungary

* - entities created by the Group in 2011

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 2011, the Group employed approximately 104 thousand people (31 December 2010: 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. Starting from 2010, the Ukrainian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Ukrainian Hryvnia against major foreign currencies, and increased liquidity levels in the banking sector.

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

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

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

3 Summary of Significant Accounting Policies

Basis of preparation. DTEK Holdings B.V. has prepared its first statutory financial statements for the 19 months to 31 December 2010. These consolidated financial statements are considered "special purpose financial statements" until the full statutory financial statements for the year ended 31 December 2011 are prepared.

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

3 Summary of Significant Accounting Policies (Continued)

As at 31 December 2011, the exchange rate used for translating foreign currency balances was USD 1 = UAH 7.99 (31 December 2010: USD 1 = UAH 7.96); EUR 1 = UAH 10.30 (31 December 2010: EUR 1 = UAH 10.57). 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.

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

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

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

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

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

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

Investments in associates. Associates are entities over which the Group has significant influence but not control, generally presumed for shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting 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.

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

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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.

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

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

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

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

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

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

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

Contingent 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. In 2011 such transactions were not significant.

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.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to 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 148 million (2010: 152 million).

4 Critical Accounting Estimates and Judgements (Continued)

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 / fair value less costs to sell of the cash-generating units to which goodwill is allocated. Estimating value in use / fair value less costs to sell requires the Group to make an estimate of expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The recoverable amount of goodwill and cash-generating units were estimated based on the fair value less costs to sell. Additional information is disclosed in Note 9.

Revaluation of property, plant and equipment. As at 1 August 2011, the Group's management decided to carry out the revaluation of property, plant and equipment based on changes in economic conditions of business environment and an increase of the inflation rate. Fair value of property, plant and equipment and remaining useful lives as at 1 August 2011 were determined by an independent appraiser. The carrying value and depreciation of property, plant and equipment are 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 8).

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

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

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

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

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

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

4 Critical Accounting Estimates and Judgements (Continued)

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

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

Heat tariff compensation received by Kyivenergo JSC. In December 2011, DTEK acquired 25% interest in Kyivenergo in a State organised privatisation, increasing its share to 71.82% and thereby gaining control over the company (Note 33). 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 National Electricity Regulatory Committee of Ukraine. 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 2011, Kyivenergo received UAH 715 million of heat tariff compensation related to 2010 (2010: UAH 1,902 million related to 2008, 2009 and 2010). The Group recorded share of this gain UAH 286 million. 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

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial periods beginning on or after 1 January 2011:

- Amendment to IAS 24, Related Party Disclosures. IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.
- Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).

These new standards, amendments to standards or interpretations did not have any significant effect on the Group's consolidated financial information.

The following new standards and amendments to standards which are relevant to the Group's consolidated financial statements have been issued, but are not effective for the financial periods beginning on or after 1 January 2011 and have not been early adopted by the Group:

- IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in November 2009, further amended in October 2010 and effective for annual periods beginning on or after 1 January 2015).
- IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- Amended IAS 28, Investments in Associates and Joint Ventures (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- IFRS 12, Disclosure of Interest in Other Entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- IFRS 13, Fair Value Measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- Amendments to IAS 1, Presentation of Financial Statements (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012).
- Amended IAS 19, Employee Benefits (issued in June 2011 and effective for annual periods beginning on or after 1 January 2013).

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

6 Segment Information

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

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

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

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

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

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

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

6 Segment Information (Continued)

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 result	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 and impairment 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

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

In millions of Ukrainian Hryvnia	Coal mining	Power generation	Electricity distribution	Total
2011				
Energorynok SE	-	10,356	-	**10,356**
Dniproenergo JSC	5,353	-	-	**5,353**
Zakhidenergo JSC	3,973	-	-	**3,973**
Entities under common control of SCM	875	-	5,398	**6,273**
Total	**10,201**	**10,356**	**5,398**	**25,955**

In millions of Ukrainian Hryvnia	Coal mining	Power generation	Electricity distribution	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**

6 Segment Information (Continued)

Geographical information

In millions of Ukrainian Hryvnia	2011	2010
Ukraine	33,110	21,927
Western Europe	2,738	906
Eastern Europe	2,179	482
Other	1,567	979
Total revenues	**39,594**	**24,294**

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

7 Balances and Transactions with Related Parties

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

The 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 2011 are detailed below. At 31 December, the outstanding balances with related parties were as follows:

			2011			2010
In millions of Ukrainian Hryvnia	Entities under common control of SCM	Associates of Parent Company	Associates	Entities under common control of SCM	Associates of Parent Company	Associates
Gross amount of trade and other receivables	127	-	451	268	1	285
Promissory notes receivable	-	-	-	3	-	-
Financial aid provided	8	-	-	2	-	-
Deposits placed with a maturity of more than three months	-	-	-	55	-	-
Loans granted and interest accrued (US dollar denominated, 9.8%)	-	-	135	5	-	15
Prepayment for financial investments	-	-	-	107	-	-
Cash and cash equivalents – current account	2,788	-	-	184	-	-
Investment obligation relating to Dniproenergo (Note 18):						
- Non-current	-	-	-	-	-	(83)
- Current	-	-	(519)	-	-	(414)
Bonds issued:	-	-	-			
- Non-current	-	-	-	(18)	-	-
- Current	-	-	-	(12)	-	-
Trade and other payables	(183)	-	(3)	(44)	-	-
Prepayments received	(3)	-	(1)	(3)	-	-
Dividends payable	-	-	-	(261)	-	-

7 Balances and Transactions with Related Parties (Continued)

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

				2011				2010
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	5,398	14	-	-	3,234	10	-	1
Sales of coking coal	815	-	-	-	825	-	-	-
Sales of steam coal	60	3,368	6,010	-	9	-	4,153	-
Sales of inventory	1	-	6	-	-	-	-	-
Purchase of goods for resale	-	-	-	-	(251)	-	-	-
Purchase of raw materials and equipment	(255)	-	-	-	(9)	-	(5)	(67)
Purchase of services	(47)	-	-	-	(101)	-	-	-
Interest income on bank deposits	29	-	-	-	13	-	-	-
Interest expense on bonds issued	(1)	-	-	-	(1)	-	-	-
Interest expense on long-term payables	-	-	-	-	(27)	-	-	-
Interest income on loans provided	-	-	8	-	-	-	-	-

Revenue, trade and other receivable

The trade receivable balances as at 31 December 2011 due from entities under common control and associates are non-interest bearing. The balances outstanding from related parties as at 31 December 2011 and 2010 are unsecured and settlements are made either in cash, in the form of debt set-off or by means of exchanging promissory notes issued by the settling counterparties or third parties to the transaction. The Group created no provision for impairment of accounts receivable due from related parties as at 31 December 2011 and 2010.

Purchases, trade and other payables

Purchases and outstanding trade and other payables as at 31 December 2011 and 2010 comprised mainly balances due to related parties for supplies of iron shoring for mines, raw materials and steaming coal. Balances payable are non-interest bearing and are repayable in the normal course of business.

Key management personnel compensation

Key management personnel consist of seven top executives (2010: seven top executives). In 2011 total compensation to key management personnel included in administrative expenses amounted to UAH 31 million (2010: UAH 31 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 which total 39% of the maximum available. The valuation of the Group as of the respective dates would be performed by quoted price, if the Group's shares are publically traded, or by the Supervisory Board decision based on internationally recognised non-public entity valuation practices. All participants deferred interim vesting and accordingly 100% will become payable in 2012. Probable obligation as at 31 December 2011 was assessed using the forecasted internal valuation of the Group's net worth performed by the Group management. As at 31 December 2011, UAH 312 million has been accrued in these financial statements (2010: UAH 129 million), UAH 183 million charge was recognised in administrative expenses (2010: UAH 129 million).

8 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	Con-struction in progress	Total
At 1 January 2010						
Cost or valuation	2,188	3,757	5,995	384	710	**13,034**
Accumulated depreciation	(214)	(439)	(1,293)	(134)	-	**(2,080)**
NBV at 1 January 2010	**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**
Acquisition of subsidiaries (Note 33)	4,489	2,770	2,417	360	1,110	**11,146**
Additions	327	190	1,468	192	2,146	**4,323**
Disposals	(6)	(15)	(26)	(3)	(13)	**(63)**
Depreciation charge	(268)	(352)	(1,447)	(116)	-	**(2,183)**
Revaluation recorded in equity	1,384	1,358	3,017	79	189	**6,027**
Impairment of property, plant and equipment	(29)	-	(141)	(4)	(24)	**(198)**
Transfer	52	19	166	2	(239)	**-**
NBV at 31 December 2011	**7,997**	**7,083**	**10,250**	**767**	**4,530**	**30,627**
At 31 December 2011						
Cost or valuation	8,255	7,412	11,569	1,032	4,530	**32,798**
Accumulated depreciation	(258)	(329)	(1,319)	(265)	-	**(2,171)**
NBV at 31 December 2011	**7,997**	**7,083**	**10,250**	**767**	**4,530**	**30,627**

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

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

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

As at 31 December 2011, buildings, plant and machinery carried at UAH 1,127 million (31 December 2010: UAH 1,129 million) have been pledged to third parties as collateral for borrowings (Note 32).

In 2011, the depreciation expense of UAH 2,086 million (2010: UAH 1,447 million), net of amortisation of government grants, was included in cost of sales, UAH 43 million (2010: UAH 18 million) in general and administrative expenses, UAH 7 million (2010: UAH 4 million) in distribution expenses.

During 2011 the Group recorded an impairment charge of UAH 198 million as a result of the revaluation of property, plant and equipment.

9 Intangible assets

As at 31 December, intangible assets comprise:

In millions of Ukrainian Hryvnia	2011	2010
Goodwill	1,116	633
Other intangible assets	183	98
Total	**1,299**	**731**

The movements of goodwill were as follows:

In millions of Ukrainian Hryvnia	2011	2010
Book amount as at 1 January	**633**	**633**
Acquisition of Kyivenergo (Note 33)	483	-
Book amount as at 31 December	**1,116**	**633**

Goodwill Impairment Test

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

In millions of Ukrainian Hryvnia	2011	2010
Coal mining:		
- DTEK Pavlogradugol PJSC	590	590
Energy distribution		
- DTEK Energougol ENE PJSC	43	43
- Kyivenergo JSC	483	-
Total	**1,116**	**633**

The recoverable amount has been determined based on a fair value less costs to sell calculations. Cash flow projections, based on financial budgets approved by senior management covering 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.

	2011	2010
Coal mining		
Post-tax discount rate	17%-15%	17%-16%
Revenue growth rate for the five-year period	3%-21%	13%-25%
Revenue growth rate after the five-year period	5%-6%	2%-8%
Gross margin	34%-45%	38%
Energy distribution – DTEK Energougol ENE PJSC		
Post-tax discount rate	17%-15%	17%-16%
Revenue growth rate for the five-year period	3%-19%	3%-28%
Revenue growth rate after the five-year period	4%-5%	5%-8%
Gross margin	11%-14%	15%
Energy distribution – Kyivenergo JSC		
Post-tax discount rate	17%-15%	-
Revenue growth rate for the five-year period	9%-28%	-
Revenue growth rate after the five-year period	3%-7%	-
Gross margin	(9%) -15%	-

9 Intangible assets (Continued)

In assessing goodwill impairment management used a multi-period post-tax discount rate ranging from 16% in 2012 to 17% in 2015, which stabilises at 15% in 2016 and onwards.

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

No impairment was recognised as a result of the assessment.

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 2010	**84**	**(17)**	**67**
Additions / (Charge) for the year	41	(10)	31
As at 31 December 2010	**125**	**(27)**	**98**
Acquisition of subsidiaries (Note 33)	81	(8)	73
Additions / (Charge) for the year	28	(16)	12
As at 31 December 2011	**234**	**(51)**	**183**

10 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	2011	2010
Carrying amount at 1 January	**4,099**	**3,025**
Acquisition of associates	280	612
Purchase of additional interest in associates	149	-
Transfer from AFS investment to associate (Note 11)	885	90
Share of after tax results of associates	(48)	406
Share in revaluation of PPE of associates (Note 16)	1,887	-
Share in other reserves movements of associates (Note 16)	24	5
Unrealised profit on operations with associate	(42)	(37)
Dividends declared by associate	(45)	(2)
Revaluation of previously held Kyivenergo interest to fair value (Note 33)	(334)	-
Reclassification to subsidiary (Note 33)	(835)	-
Impairment of investments in Donetskoblenergo	(446)	-
Carrying amount at 31 December	**5,574**	**4,099**

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

2011

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

10 Investments in Associates (Continued)

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**				

On 13 December 2011, the Group acquired 25% of Kyivenergo JSC in a State organised privatisation auction for a cash consideration of UAH 451 million, taking its cumulative interest to 71.82% (Note 33). The investment in Kyivenergo held prior to the acquisition was accounted for as investment in associate. Share in net loss of Kyivenergo included in the consolidated income statement till the date of acquisition totalled UAH 468 million.

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 million for the period 2008 through 2012.

This capital contribution resulted in the dilution of existing shareholders and certain non-controlling shareholders had challenged the validity of this share issue in Court. 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 non-controlling shareholders cannot be precluded, management believes they will be able to successfully defend their ownership interest.

Impairment assessment for Dniproenergo

At 31 December 2011, the quoted market price for the Group's interest in Dniproenergo was UAH 1,716 million (31 December 2010: UAH 3,689 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 if managed and invested properly, 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:

	2011	2010
Post-tax discount rate	17%-15%	17%-16%
Revenue growth rate 2012 - 2015	8%-38%	5%-34%
Revenue growth rate 2016 - onwards	0%-20%	3%-11%
Gross margin	12%-22%	10%-23%

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.

In 2011 the Parliament of Ukraine adopted a law that permitted energy distribution companies to write off tax charges and respective penalties for abnormal losses of electricity that were included to the deductable expenses. During 2011, according to the above law, Donetskoblenergo has reversed a provision totalling UAH 765 million for tax charges and penalties relating to abnormal electricity losses.The Group's share in the financial results of Donetskoblenergo for 2011 includes UAH 239 million recognised in the income statement as a result of this reversal.

10 Investments in Associates (Continued)

In 2011 the Parliament of Ukraine adopted a law that permitted energy distribution companies to write off accounts payable to SE Energorynok in the amount of written-off accounts receivable for electricity sold to state entities. During 2011, according to this law, Donetskoblenergo has written off UAH 457 million of such payables. The Group's share in the financial results of Donetskoblenergo for 2011 includes UAH 140 million recognised in the income statement as a result of this write off.

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.

	2011	2010
Post-tax discount rate	17%-15%	17%-16%
Revenue growth rate 2012 - 2015	2%-41%	4%-74%
Revenue growth rate 2016 - onwards	0%-15%	7%-8%
Gross margin	10%-15%	9%-12%

As a result of the assessment UAH 446 million impairment loss was recognised.

Zakhidenergo

Zakhidenergo JSC ("Zakhidenergo") is an electricity generation compa ny operating three thermal power plants in western and central regions of Ukraine.

The Group increased its interest in Zakhidenergo from 19.81% as at 31 December 2010 to 25.83% as at 31 December 2011, which was further increased to 70.83% on 11 January 2012. Total consideration for the incremental 5.99% interest was UAH 319 million. An additional 45% was acquired in January 2012 for UAH 1,932 million. The Group has elected to use the fair value as deemed cost at the date of acquisition to account for the transfer from available for sale securities to the equity method of accounting and recognised UAH 349 million of negative available for sale reserve in profit and loss (Note 16) and UAH 885 million was transferred to investments in associates. Fair value of the previously held interest at the date of transfer to the equity investment was based on recent arm's length transaction prices.

11 Financial Investments

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

In millions of Ukrainian Hryvnia	2011	2010
Equity securities:		
- quoted	71	1,247
Prepayment for other shares	355	15
Loans receivable	137	17
Total	**563**	**1,279**

As at 31 December 2011, the Group prepaid UAH 355 million to the State Property Fund of Ukraine to take part in privatisation of State-owned interest in JSC Dniproenergo, JSC Donetskoblenergo and JSC Zakhidenergo (Note 38).

As disclosed in Note 10 the Group increased its interest in Zakhidenergo and the investment was transferred from available for sale securities to the equity method of accounting.

As at 31 December 2011, loans receivable include UAH 135 million of US dollar denominated loan bearing interest at 9.8% granted to associate (31 December 2010: UAH 5 million).

11 Financial Investments (Continued)

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

In millions of Ukrainian Hryvnia	2011	2010
Deposits placed	275	756
Loans receivable (net of provision for impairment of UAH 17 million)	53	48
Prepayment for shares	-	236
Total	**328**	**1,040**

As at 31 December 2011, deposits placed with a maturity of more than three months of UAH 245 million were denominated in US dollars (31 December 2010: UAH 711 million).

As at 31 December 2011, UAH 211 million of term deposits were pledged as collateral for borrowings or bank guarantees received (31 December 2010: UAH 713 million).

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

		2011		2010
In millions of Ukrainian Hryvnia	Other	Deposits	Other	Deposits
Rating by Moody's Investors Service				
-A1 rated	-	6	-	-
- Baa1 rated	-	-	-	-
- Baa2 rated	-	-	-	578
- Ba3 rated	-	23	-	-
- B2 rated	-	188	-	-
- B3 rated	-	-	-	97
Non-rated	53	58	284	81
Total	**53**	**275**	**284**	**756**

12 Inventories

As at 31 December, inventories were as follows:

In millions of Ukrainian Hryvnia	2011	2010
Coal	1,053	643
Spare parts	332	210
Work in progress	303	98
Raw materials	514	196
Goods for resale	12	10
Total inventories	**2,214**	**1,157**

13 Trade and Other Receivables

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

In millions of Ukrainian Hryvnia	2011	2010
Trade receivables	5,156	1,405
Less impairment provision	(2,086)	(272)
Trade receivables - net	**3,070**	**1,133**
Other financial receivables	589	151
Less impairment provision	(364)	(95)
Receivables under commission agreements:		
- with third parties	-	372
- with SCM entities	45	45
Receivable for sale of financial instruments	2	80
Total financial assets	**3,342**	**1,686**
Prepayments to suppliers	858	1,223
Less impairment provision	(4)	(4)
VAT recoverable	221	44
Other	199	39
Less impairment provision	(8)	(4)
Total non-financial assets	**1,266**	**1,298**
Total trade and other receivables	**4,608**	**2,984**

As at 31 December 2011, 6% of trade and other receivables are denominated in USD (31 December 2010: 15%).

As at 31 December 2011, prepayments included UAH 671 million of prepayments for coal (31 December 2010: UAH 1,075 million). The remaining prepayments include prepayments for electricity subsequently sold for export, transportation and other services, and inventories.

During 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 as at 31 December 2010 totalling UAH 403 million is included in trade and other payables.

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

In millions of Ukrainian Hryvnia	2011	2010
Provision for impairment at 1 January	**375**	**525**
Acquisition of subsidiaries	2,040	-
Provision for impairment during the year	164	119
Reversal of provision	(116)	(268)
Amounts written off during the year as uncollectible	(1)	(1)
Provision for impairment at 31 December	**2,462**	**375**

13 Trade and Other Receivables (Continued)

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

In millions of Ukrainian Hryvnia	2011 Trade receivables	2011 Receivables under commission agreements	2011 Receivable for sale of financial instruments	2011 Other financial receivables	2010 Trade receivables	2010 Receivables under commission agreements	2010 Receivable for sale of financial instruments	2010 Other financial receivables
Current and not impaired – exposure to								
- Energorynok SE	1,045	-	-	-	412	-	-	-
- Large Ukrainian corporates	477	-	-	121	132	14	-	-
- Medium sized companies	1,015	-	2	34	226	358	-	29
Total current and not impaired	**2,537**	**-**	**2**	**155**	**770**	**372**	**-**	**29**
Past due but not impaired								
- less than 30 days overdue	-	-	-	-	225	-	-	-
- 30 to 90 days overdue	353	-	-	24	33	-	-	3
- 90 to 180 days overdue	70	-	-	1	100	-	-	-
- 180 to 360 days overdue	99	-	-	30	1	-	80	3
- over 360 days overdue	11	45	-	15	4	45	-	21
Total past due but not impaired	**533**	**45**	**-**	**70**	**363**	**45**	**80**	**27**
Individually determined to be impaired (gross)								
- over 360 days overdue	2,086	-	-	364	272	-	-	95
Total individually impaired	**2,086**	**-**	**-**	**364**	**272**	**-**	**-**	**95**
Less impairment provision	**(2,086)**	**-**	**-**	**(364)**	**(272)**	**-**	**-**	**(95)**
Total	**3,070**	**45**	**2**	**225**	**1,133**	**417**	**80**	**56**

14 Cash and Cash Equivalents

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

In millions of Ukrainian Hryvnia	2011	2010
Bank balances payable on demand	4,922	594
Term deposits with original maturity of less than three months	5,504	1,098
Restricted cash	-	1
Total cash and cash equivalents	**10,426**	**1,693**

As at 31 December 2011, cash and cash equivalents of UAH 698 million were denominated in US dollars (31 December 2010: UAH 813 million), UAH 125 million were denominated in EUR (31 December 2010: UAH 43 million), UAH 5,639 million were denominated in RUB (31 December 2010: nil).

As at 31 December 2011, no term deposits with original maturity of less than three months were pledged as collateral for borrowings or bank guarantees received (31 December 2010: UAH 426 million).

As at 31 December 2011, there was no cash restricted in use under letter of credit arrangements (31 December 2010: UAH 1 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:

	2011			2010		
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						
- A1 rated	169	2,317	-	-	-	-
- Aa3 rated	4	-	-	-	-	-
- A3 rated	3	-	-	-	-	-
- A3.ua rated	236	-	-	-	-	-
- Aa3 rated	-	-	-	3	-	-
- B1 rated	-	-	-	-	-	-
- Ba1 rated	-	-	-	-	-	-
- Ba3 rated	-	3,152	-	-	-	-
- A2.ua rated	2,788	-	-	-	-	-
- Baa2 rated	-	-	-	86	-	1
- B2 rated	73	1	-	-	-	-
- Ba2 rated	80	-	-	-	-	-
- B3 rated	-	-	-	474	984	-
- Caa1 rated	-	-	-	-	103	-
Non-rated	1,569	34	-	31	11	-
Total	**4,922**	**5,504**	**-**	**594**	**1,098**	**1**

15 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 2011 and 2010, the issued and fully paid share capital comprised 3,000 ordinary shares.

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) were included in trade and other payables (Note 22) and were paid in full by 31 December 2011. During March-November 2011 DTEK Holdings B.V. declared a dividend of USD 48 million (UAH 380 million), that was fully paid by 31 December 2011.

16 Other Reserves

In millions of Ukrainian Hryvnia	Additional paid in capital	Revaluation reserve	AFS reserve	Total
Balance at 1 January 2010	**(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**
- Share of other equity movements of associate	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)**
Financial investments:				
- Fair value gains less losses	-	-	(334)	**(334)**
- Recognition of AFS reserve on transfer to associate	-	-	349	**349**
Share of other equity movements of associate	24	-	-	**24**
Property, plant and equipment:				
- Revaluation of PPE	**-**	5,962	**-**	**5,962**
- Change in estimate relating to asset retirement provision recorded in equity	-	2	-	**2**
- Realised revaluation reserve	-	(888)	-	**(888)**
- Share in revaluation of PPE of associates	-	1,887	-	**1,887**
- Share in realised revaluation reserve of associates	-	(127)	-	**(127)**
Income tax recorded in equity	-	282	(28)	**254**
Transfer from associates to subsidiary - recycling of revaluation reserve of Kyivenergo to retained earnings	(29)	(504)	-	**(533)**
Balance at 31 December 2011	**(4,199)**	**10,074**	**(144)**	**5,731**

During 2011, unrealised fair value losses on available-for-sale investments totalling UAH 334 million (2010: UAH 234 million gain) were recorded directly in other reserves.

During 2011, accumulated fair value losses totalling UAH 349 million related to Zakhidenergo, 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 (2010: UAH 72 million related to Kyivenergo).

The revaluation reserve is not distributable to the shareholders until it is transferred to retained earnings.

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

17 Borrowings

In millions of Ukrainian Hryvnia	2011	2010
Non-current		
Eurobonds	3,920	3,889
Bank borrowings	8,485	620
	12,405	**4,509**
Current		
Bank borrowings	2,453	919
Interest accrual	224	74
	2,677	**993**
Total borrowings	**15,082**	**5,502**

In April 2010, DTEK Finance B.V., a finance vehicle of the Company, issued USD 500 million (UAH 3,963 million) 5 year Eurobonds bearing a 9.5% coupon. The Eurobonds are unsecured. The bond indenture contains specific covenants, including limitation on payments to shareholders, restrictions on permissible business activities, requirements for arm's length affiliate transactions, financial disclosure requirements and maximum permissible level of leverage. Events of default are comprehensive and include cross-default to other DTEK debt.

In October 2011, the Group entered into 5-year loan agreements with Russian Commercial Bank (Cyprus) for RUB 10,000 million (UAH 2,495 million) and Sberbank (Russia) for RUB 15,714 million (UAH 3,986 million) bearing interest at Mosprime 3m + 3.45% and Mosprime 3m + 3.4% respectively. The Group planned to use the proceeds from both loans to finance the Group's participation in the privatisation of energy sector entities in Ukraine and to finance investment programme. The loans are unsecured. The loan agreements contain specific covenants, including restrictions on permissible business activities, financial disclosure requirements and maximum permissible level of leverage. Events of default are comprehensive and include cross-default to other DTEK debt.

As discussed in Note 33, the Group acquired JSC Kyivenergo in December 2011. Kyivenergo has loan from IBRD totalling UAH 678 million as at 31 December 2011, for which it was not in compliance with certain loan covenants and for which waivers had been obtained.

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

In millions of Ukrainian Hryvnia		2011	2010
Borrowings denominated in:	- UAH	1,446	474
	- US Dollars	5,796	4,545
	- Euros	1,351	483
	- Roubles	6,489	-
Total borrowings		**15,082**	**5,502**

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

	Maturity		Interest re-pricing	
In millions of Ukrainian Hryvnia	2011	2010	2011	2010
Loans and borrowings due:				
- within 1 year	2,677	993	11,059	1,477
- between 1 and 5 years	12,405	4,509	4,023	4,025
Total borrowings	**15,082**	**5,502**	**15,082**	**5,502**

17 Borrowings (Continued)

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

	2011				2010			
In % per annum	UAH	USD	EUR	RUB	UAH	USD	EUR	RUB
Bank borrowings	13%-19,5%	LIBOR(6m)+0,5% - LIBOR(3m)+9%;	EURIBOR(6m)+1.7% - EURIBOR(1m)+5.25%,	Mosprime 3m + 3.4% - 3.45%	14%-22%	LIBOR 1m+6% - 9.5%	EURIBOR 6m+1.7%-EURIBOR 6m+5.15%	-
Total borrowings	**1,446**	**5,796**	**1,351**	**6,489**	**474**	**4,545**	**483**	**-**

As at 31 December 2011, borrowings totalling UAH 465 million (31 December 2010: UAH 1,409 million) were secured with property, plant and equipment, financial investments, cash and cash equivalents (Note 32).

On 21 December 2011 DTEK concluded an agreement with Sberbank of Russia for a swap of RUB 3,155 million loan with a floating rate Mosprime (3m)+3.4% for a USD 100 mln loan with fixed rate 6.85% p.a. (Note 34).

18 Other Financial Liabilities

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

In millions of Ukrainian Hryvnia	2011	2010
Investment obligation relating to Dniproenergo	-	83
Deferred consideration for acquisition (Note 33)	1,777	-
Restructured trade payables	170	21
Other payables	14	14
Total non-current other financial liabilities	**1,961**	**118**

As discussed in Note 10, upon recognition of the Group's additional 34.24% interest in Dniproenergo, the Group 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 2011 UAH 519 million is recorded as short-term (31 December 2010: UAH 414 million). An expense associated with the unwinding of the discount on the investment obligation totalling UAH 22 million (31 December 2010: UAH 34 million) was included in finance costs (Note 30).

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

In millions of Ukrainian Hryvnia	2011	2010
Investment obligation relating to Dniproenergo	519	414
Current part of deferred consideration	85	-
Bonds issued	-	71
Total current other financial liabilities	**604**	**485**

19 Restructured obligations

A summary of the restructured obligations is presented below:

In millions of Ukrainian Hryvnia	Nominal value	2011 Carrying value	Nominal value	2010 Carrying value
Promissory notes issued by Pavlogradugol	12	9	140	93
Restructured taxes payable	1,222	642	-	-
Total restructured obligations	**1,234**	**651**	**140**	**93**

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%.

As part of acquisition of Dobropolyeugol, Rovenkiantracyte and Sverdlovantracyte (Note 33), the Group assumed certain restructured tax obligations that are due between 2012 and 2030. The obligations have been discounted at an implied rate of 17% per annum.

As at 31 December, current restructured obligations of the Group comprise:

In millions of Ukrainian Hryvnia	2011	2010
Restructured taxes payable	152	-
Total restructured obligations	**152**	**-**

20 Retirement Benefit Obligations

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

In 2011 the defined benefit plan covers 114,110 people, including 13,985 ex-employees (2010: approximately 45,500 and 8,030 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	2011	2010
Present value of unfunded defined benefit obligations	3,894	1,912
Unrecognised net actuarial loss	(517)	(118)
Unrecognised past service cost	142	(212)
Liability in the consolidated balance sheet	**3,519**	**1,582**

In millions of Ukrainian Hryvnia	2011	2010
Retirement benefits	2,798	1,567
Retirement benefits - coal support	820	248
Lump sum payments	276	97
Total balance sheet obligations	**3,894**	**1,912**

20 Retirement Benefit Obligations (Continued)

The amounts recognised in the income statement were as follows:

In millions of Ukrainian Hryvnia	2011	2010
Current service cost	125	91
Interest cost	347	232
Recognised past service cost	(371)	41
Recognised actuarial (gains) losses	2	(4)
Total	**103**	**360**

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

In millions of Ukrainian Hryvnia	2011	2010
Defined benefit obligation as at 1 January	**1,912**	**1,655**
Acquisition of subsidiaries (Note 33)	2,057	-
Current service cost	125	91
Actuarial losses/(gains)	401	91
Interest cost	347	232
Past service cost	(725)	-
Benefits paid	(223)	(157)
Defined benefit obligation as at 31 December	**3,894**	**1,912**

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

In millions of Ukrainian Hryvnia	2011	2010
As at 1 January	**1,582**	**1,379**
Acquisition of subsidiaries (Note 33)	2,057	-
Benefits paid	(223)	(157)
Net expense recognised in the income statement	103	360
As at 31 December	**3,519**	**1,582**

Part of past service cost arose as a result of changes in the pension legislation introduced in 2011, which decreased the benefits payable. To the extent that the benefits were already vested immediately following the changes to a defined benefit plan, past service cost was recognised in 2011 financial statements as credit to income statement in the amount of UAH 371 million with the remaining UAH 142 million past service cost being recognised as an income on a straight-line basis over the average period until the benefits become vested.

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

	2011	2010
Nominal discount rate	14%	14%
Nominal salary increase	9%	9%
Nominal pension entitlement increase	9%	9%

20 Retirement Benefit Obligations (Continued)

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

	2011	2010
Nominal discount rate increase/decrease by 1%	(6.69%)/7.61%	(6.35%)/7.14%
Nominal salary increase/decrease by 1%	2.63%/(2.57%)	5.31%/(4.82%)
Nominal pension entitlement increase/decrease by 1%	2.63%/(2.57%)	5.31%/(4.82%)

Experience adjustments for 2011 do not exceed UAH 400 million (2010: UAH 91 million; 2009: UAH 599 million; 2008: UAH 402 million; 2007: UAH 543 million).

Present value of unfunded defined benefit obligations totaled to UAH 1,655 million as at 31 December 2009 (31 December 2008: UAH 2,041 million, 31 December 2007: UAH 1,320 million).

Payments in respect of post-employment benefit plan obligations expected to be made during the year ending 31 December 2012 are UAH 480 million (2011: UAH 209 million).

21 Provisions for Other Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

In millions of Ukrainian Hryvnia	Assets retirement provision	Provision for legal claims	Long-term incentive plan (Note 7)	Total
At 1 January 2010	**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**
Change in estimates	(2)	-	-	(2)
Arising during the year	11	23	183	217
Acquisition of subsidiaries (Note 33)	244	132	-	376
Unwinding of discount	21	-	-	21
Reversal of provision	-	(3)	-	(3)
Utilised	(5)	(3)	-	(8)
Transfer to current (Note 22)	-	-	(312)	(312)
At 31 December 2011	**435**	**165**	**-**	**600**

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 16).

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

	2011	2010
Pre-tax discount rate	17%	17%
Inflation long-term	5%	5%
Inflation middle-term	7%	7%

22 Trade and Other Payables

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

In millions of Ukrainian Hryvnia	2011	2010
Trade payables	3,579	735
Payables under commission agreements		
- to third parties	-	375
Liabilities for purchased securities	20	27
Liabilities for purchased property, plant and equipment	829	135
Dividends payable	5	261
Current part of long term liabilities	22	-
Other creditors	245	39
Total financial payables	**4,700**	**1,572**
Wages and salaries payable	281	149
Accruals for employees' unused vacations	453	218
Long-term incentive bonus program for top executives (Note 7 and 21)	312	-
Other payables	68	22
Total non-financial payables	**1,114**	**389**
Total	**5,814**	**1,961**

As discussed in Note 33, the Group acquired JSC Kyivenergo in December 2011. Trade accounts payable of Kyivenergo amounting to UAH 1,618 million, mainly for supply of gas to NAK "Naftogas of Ukraine" and its subsidiaries, are overdue as at 31 December 2011.

Analysis by currency and future undiscounted cash flows of financial trade and other payables is as follows:

2011 In millions of Ukrainian Hryvnia	Trade payables	Payables under commission agreements	Liabilities for purchased securities	Liabilities for purchased property, plant and equipment	Current part of long term liabilities	Dividends payable	Other creditors
Currency analysis:							
UAH denominated	3,554	-	20	679	22	5	239
USD denominated	25	-	-	-	-	-	-
EUR denominated	-	-	-	101	-	-	6
RUB denominated	-	-	-	49	-	-	-
Total	**3,579**	**-**	**20**	**829**	**22**	**5**	**245**
Future undiscounted cash flow analysis:							
Up to 3 months	3,361	-	2	789	5	-	241
From 3 to 6 months	218	-	-	13	6	5	-
From 6 to 12 months	-	-	18	27	11	-	4
Total	**3,579**	**-**	**20**	**829**	**22**	**5**	**245**

2010 In millions of Ukrainian Hryvnia	Trade payables	Payables under commission agreements	Liabilities for purchased securities	Liabilities for purchased property, plant and equipment	Current part of long term liabilities	Dividends payable	Other creditors
Currency analysis:							
UAH denominated	719	375	27	126	-	-	36
USD denominated	16	-	-	-	-	261	2
EUR denominated	-	-	-	-	-	-	1
RUB denominated	-	-	-	9	-	-	-
Total	**735**	**375**	**27**	**135**	**-**	**261**	**39**
Future undiscounted cash flow analysis:							
Up to 3 months	708	375	1	113	-	-	38
From 3 to 6 months	27	-	-	4	-	261	1
From 6 to 12 months	-	-	26	18	-	-	-
Total	**735**	**375**	**27**	**135**	**-**	**261**	**39**

23 Other Taxes Payable

As at 31 December other taxes payable were as follows:

In millions of Ukrainian Hryvnia	2011	2010
Payroll taxes	287	60
Value-added tax	490	33
Other taxes	163	67
Total other taxes payable	**940**	**160**

24 Revenue

Analysis of revenue by category is as follows:

In millions of Ukrainian Hryvnia	2011	2010
Sale of steaming and coking coal	17,344	9,612
Sale of electricity to electricity pool	10,356	7,845
Sale of electricity to final customers	8,573	6,208
Sale of electricity abroad	2,917	571
Other sales	404	58
Total	**39,594**	**24,294**

Analysis of revenue by regions is as follows:

In millions of Ukrainian Hryvnia	2011	2010
Domestic sales	33,110	21,927
Export sales	6,484	2,367
Total	**39,594**	**24,294**

25 Cost of Sales

In millions of Ukrainian Hryvnia	2011	2010
Cost of electricity purchased for resale	10,619	6,419
Raw materials	5,166	3,787
Operating costs at Dobropolyeugol, Rovenkiantracyte, Sverdlovantracyte*	1,174	-
Cost of coal purchased for resale	6,061	3,209
Staff cost, including payroll taxes	3,370	2,955
Depreciation of property, plant and equipment and amortisation of intangible assets net of amortisation of government grants	2,086	1,451
Transportation services and utilities	1,045	715
Taxes, other than income tax	316	206
Equipment maintenance and repairs	162	144
Production overheads	261	168
Change in finished goods and work in progress	(319)	(134)
Other costs	35	16
Total	**29,976**	**18,936**

*Following the conclusion of concession agreements, DTEK continues paying an operating fee to the State entities until all employees are transferred to DTEK.

26 Other Operating Income

In millions of Ukrainian Hryvnia	2011	2010
Income from sale of certified emission rights	222	-
Income from write-off of accounts payable	122	2
Assets received free of charge	73	41
Income from recovery on previously written off trade receivables	20	7
Net movement in provision for impairment of trade and other receivables and prepayments made	-	142
Gain on sales of inventory	-	74
Other	78	32
Total	**515**	**298**

Income from sale of certified emission rights was recognised at the moment when they were approved by the relevant authority and there was a binding contract to obtain economic benefits from their sale.

27 Distribution Costs

In millions of Ukrainian Hryvnia	2011	2010
Transportation	114	60
Consulting services	15	67
Staff cost, including payroll taxes	19	16
Depreciation	7	4
Other costs	48	49
Total	**203**	**196**

28 General and Administrative Expenses

In millions of Ukrainian Hryvnia	2011	2010
Staff cost, including payroll taxes	779	589
Professional fees	229	124
Office costs	45	57
Depreciation of property, plant and equipment and amortisation of intangible assets	43	24
Taxes, other than income tax	30	17
Transportation	23	18
Other costs	35	22
Total	**1,184**	**851**

29 Other operating expenses

In millions of Ukrainian Hryvnia	2011	2010
Social payments	167	115
Expenses on idle capacity	137	-
Loss on sales of services	102	33
Net movement in provision for impairment of trade and other receivables and prepayments made	48	-
Loss from disposal of non-current assets	35	-
Charitable donations and sponsorship	27	15
Non-recoverable VAT	25	13
Loss from sales of inventory	14	-
Maintenance of social infrastructure	9	7
Other	118	79
Total	**682**	**262**

30 Finance Income and Finance Cost

In millions of Ukrainian Hryvnia	2011	2010
Interest income on bank deposits	164	55
Gain on initial recognition of long term accounts payable	24	32
Unwinding of discount on long-term restructured accounts receivable	19	26
Other finance income	15	-
Total finance income	**222**	**113**
Interest expense		
- bank borrowings	247	255
- promissory notes payable	7	19
- bonds issued	400	274
- long-term payables	-	5
Unwinding of discounts on investment obligation relating to Dniproenergo (Note 18)	22	34
Unwinding of discounts on pension obligations	347	232
Unwinding of discounts on assets retirement provision	21	8
Unwinding of discounts on deferred consideration related to acquisition	130	-
Unwinding of discounts on long term accounts payable	46	-
Loss on initial recognition of long-term restructured accounts receivable	43	86
Loss on early repayment of long-term payables	-	7
Other finance costs	20	-
Total finance costs	**1,283**	**920**

31 Income Taxes

Income tax expense comprises the following:

In millions of Ukrainian Hryvnia	2011	2010
Current tax	2,226	1,183
Deferred tax	(80)	(68)
Income tax expense	**2,146**	**1,115**

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

In millions of Ukrainian Hryvnia	2011	2010
Property, plant and equipment		
- revaluation of property plant and equipment	(1,052)	-
- reversal of deferred tax following April 2011 change in Tax Code	1,228	-
Change in asset retirement obligation	-	(1)
Unrealised gain on available-for-sale financial assets	(28)	(35)
Income tax reported in equity	**148**	**(36)**

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine). In 2011 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25% during January-March 2011, and 23% starting from 1 April 2011 (2010: 25%). In 2011, the tax rate for Cyprus operations was 10% (2010: 10%).

On 2 December 2010, a new Tax Code was adopted in Ukraine effective from 1 January 2011. According to the new Tax Code the rates for corporate income tax are due to decrease from 25% to 16% in several stages during 2011-2014. Deferred tax assets and liabilities are measured at the income tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates prescribed by the new Tax Code.

The tax base of the property, plant and equipment was also changed from 1 April 2011 with the aim to remove existing differences between tax and accounting bases. The Group has recognised the respective change in tax legislation regarding the tax base of the property, plant and equipment as at 1 April 2011 which resulted in a deferred tax charge of UAH 427 million in the income statement and deferred tax credit of UAH 1,228 million in other comprehensive income.

31 Income tax (Continued)

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

In millions of Ukrainian Hryvnia	2011	2010
Profit before income tax, including	**5,668**	**3,972**
Profit before income tax of Ukrainian companies	4,806	3,652
Profit/(loss) before income tax of non-Ukrainian companies	862	320
Income tax at statutory rates of 23%-25% (Ukrainian operations)	**1,147**	**913**
Profit taxed at different rates 25% (Dutch operations)	**(4)**	**(4)**
Profit taxed at different rates 10% (Cyprus operations)	**89**	**34**
Effect of changes in income tax rates in Ukraine	(9)	134
Effect of changes in Tax legislation in Ukraine	427	-
Tax effect of items not deductible or assessable for taxation purposes:		
- non-deductible expenses	278	133
- non-taxable income	(101)	(31)
Share of result and impairment of associates	114	(64)
Share of result on transfer of associates to subsidiary and AFS to associates	143	-
Unrecognised deferred tax on tax losses carried forward	62	-
Income tax expense	**2,146**	**1,115**

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	2011	2010
Deferred tax liability	(937)	(1,540)
Deferred tax asset	549	1,041
Net deferred tax liability	**(388)**	**(499)**

In millions of Ukrainian Hryvnia	1 January 2011	Acquisition of subsidiaries (Note 33)	Credited/ (charged) to income	Charged to equity	31 December 2011
Tax effect of deductible temporary differences					
Trade and other payables	34	(15)	123	-	142
Provisions for other liabilities and charges	44	69	(14)	-	99
Retirement benefit obligations	234	335	(17)	-	552
Trade and other receivables	-	193	44	-	237
Prepayments received	449	7	(412)	-	44
Inventories	-	(3)	33	-	30
Deferred consideration		272	9	-	281
Tax losses	-	103	-	-	103
Financial investments	52	-	27	(28)	51
Gross deferred tax asset	**813**	**961**	**(207)**	**(28)**	**1,539**
Tax effect of taxable temporary differences					
Property, plant and equipment	(730)	(1,078)	(224)	176	(1,856)
Inventories	(23)		23	-	-
Other financial liabilities	(27)	-	(34)	-	(61)
Prepayments made	(531)	-	521	-	(10)
Trade and other receivables	(1)	-	1	-	-
Gross deferred tax liability	**(1,312)**	**(1,078)**	**287**	**176**	**(1,927)**
Recognised deferred tax asset/(liability)	**(499)**	**(117)**	**80**	**148**	**(388)**

31 Income Tax (Continued)

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)**

As at 31 December 2011, the Group has not recorded a deferred tax liability in respect of taxable temporary differences of UAH 747 million (31 December 2010: UAH 502 million) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

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

32 Contingencies, Commitments and Operating Risks

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

The Group conducts intercompany transactions. It is possible with evolution of the interpretation of tax law in Ukraine and changes in the approach of tax authorities under the new Tax Code, that such transactions could be challenged in the future. The impact of any such challenge cannot be estimated; however, management believes that it should not be significant.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. Management believes that it has provided for all material losses in these financial statements.

32 Contingencies, Commitments and Operating Risks (Continued)

Capital expenditure commitments. As at 31 December 2011 and 2010, the Group does not have contractual capital expenditure commitments in respect of property, plant and equipment.

As discussed in Note 10, the Group is committed to fund Dniproenergo's investment program totalling UAH 1,010 million till 2012.

As discussed in Note 33, the Group is committed to fund investment programmes of newly aquired mining assets totalling UAH 7,727 million during the period 2011 through 2016. As at 31 December 2011 the outstanding commitment equals UAH 7,093 million.

Purchase commitments. As at 31 December 2011 and 2010, 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	2011 Asset pledged	2011 Related liability	2010 Asset pledged	2010 Related liability
Cash and cash equivalents (Note 14)	-	-	423	400
Financial investments (Note 11)	211	19	673	84
Property, plant and equipment (Note 8)	1,127	446	1,129	925
Total	**1,338**	**465**	**2,225**	**1,409**

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. As discussed in Note 17, the Group subsidiary Kyivenergo, which was acquired in December 2011, was not in compliance with certain loan covenants for which waivers had been obtained. The Group is in compliance with other covenants as at 31 December 2011 and 2010.

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	2011	2010
Not later than 1 year	16	-
Later than 1 year and not later than 5 years	3	12
Total operating lease commitments	**19**	**12**

Lease of land. The Group leases the land on which its assets are located. The annual lease payment in 2011 amounted to UAH 21 million (2010: UAH 17 million). Those payments are cancellable lease commitments.

33 Business Combinations

Dobropolyeugol

On 4 January 2011 the Group entered an agreement with the State Property Fund of Ukraine to lease the integrated property complex of the State Enterprise Dobropolyeugol ('Dobropolyeugol').

Dobropolyeugol comprises five coal mines located in the Donetsk region of Ukraine producing 3 million tons of coal per annum. The lease term is 49 years which substantially covers most of the economic life of the coal reserves. In addition, the Group assumed all current and non-current assets and liabilities of Dobropolyeugol. As the Group assumed all risks and rewards associated with the coal produced by Dobropolyeugol, this transaction has been recorded as a business combination following acquisition method of accounting.

The lease agreement required the Group to pay a monthly rental fee of UAH 7 million for the first month with all subsequent monthly payments being adjusted for the consumer price index ("CPI") in Ukraine. DTEK recognised the net present value of future rental payments as deferred consideration totalling UAH 909 million using CPI assumption of 7% per annum for the next five years and 5% per annum there after and a discount rate of 16.56%. Further, the lease agreement required the Group to commit to funding Dobropolyeugol's investment program totalling UAH 2,000 million during the period 2011 through 2015. As at 31 December 2011 the commitment totals UAH 1,548 million.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. Fair values of defined benefit obligations were determined by independent actuary. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment, including mineral reserves	2,134
Intangible assets	32
Deferred income tax asset	168
Inventories	43
Trade and other receivables	38
Other non-current liabilities – restructured taxes payable	(153)
Borrowings	(160)
Retirement benefit obligations	(511)
Asset retirement provision	(8)
Trade and other payables	(598)
Other provisions for liabilities and charges	(76)
Fair value of 100% of net assets acquired	**909**
Fair value of deferred consideration payable	**909**

Revenue and net loss of Dobropolyeugol included in the consolidated income statement from the date of acquisition totalled UAH 580 million and UAH 183 million, respectively. If the acquisition had been completed on 1 January 2011, the revenues and net profit of the Group would not have changed significantly.

Rovenkiantracyte and Sverdlovantracyte

On 1 December 2011, the Group entered two agreements with the State Property Fund of Ukraine for concession of the integrated property complex of the State Enterprise Rovenkiantracyte ('Rovenkiantracyte') and State Enterprise Sverdlovantracyte ('Sverdlovantracyte').

Rovenkiantracyte comprises six coal mines and Sverdlovantracyte comprises five coal mines located in the Lugansk region of Ukraine, each producing 6 million tons of coal per annum. The concession term is 49 years which substantially covers most of the economic life of the coal reserves. In addition, the Group assumed current and non-current assets and liabilities of Rovenkiantracyte and Sverdlovantracyte. The Group assumed all risks and rewards associated with the coal produced by Rovenkiantracyte and Sverdlovantracyte and accordingly this transaction has been recorded as a business combination following acquisition method of accounting.

33 Business combinations (Continued)

The agreement requires the Group to pay a quarterly rental fee of UAH 19 million and UAH 14 million, respectively for the first quarter with all subsequent quarterly payments being adjusted for CPI in Ukraine and decreasing by quarterly depreciation charge that should be reinvested to capital expenditures during the next 5 years. DTEK recognised the net present value of future rental payments as a deferred consideration totalling UAH 557 million and UAH 359 million, respectively using CPI assumption of 7% per annum for the next five years and 5% per annum thereafter and a discount rate of 16.85%. Further, the agreement required the Group to commit to funding Rovenkiantracyte's and Sverdlovantracyte's investment program totalling UAH 2,998 million and UAH 2,729 million, respectively during the period 2012 through 2016. As at 31 December 2011 the commitment totals UAH 2,845 million and UAH 2,700 million respectively. In accordance with the agreements for concession, all movable and immovable properties and property rights of the above companies are encumbered with a tax lien.

The following table summarises the preliminary fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. Fair values of defined benefit obligations were determined by an independent actuary. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	Rovenkiantracyte	Sverdlovantracyte
Property, plant and equipment, including mineral reserves	3,699	2,183
Intangible assets	31	15
Trade and other receivables	146	127
Inventory	113	145
Other non-current liabilities – restructured taxes payable	(456)	(79)
Borrowings	(606)	(437)
Retirement benefit obligations	(860)	(589)
Asset retirement provision	(83)	(153)
Trade and other payables	(732)	(508)
Other current liabilities	(407)	(214)
Deferred income tax liability	(286)	(131)
Fair value of 100% of net assets acquired	**559**	**359**
Fair value of deferred consideration payable	**559**	**359**

Revenue and net loss of Rovenkiantracyte included in the consolidated income statement from the date of acquisition totalled UAH 200 million and UAH 98 million, respectively. Revenue and net loss of Sverdlovantracyte included in the consolidated income statement from the date of acquisition totalled UAH 136 million and UAH 63 million, respectively. Since Rovenkiantracyte and Sverdlovantracyte have not produced IFRS financial information for the year ended 31 December 2011, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2011.

Kyivenergo

On 13 December 2011, the Group acquired 25% of Kyivenergo JSC ('Kyivenergo') in a State organised privatisation auction for a cash consideration of UAH 451 million taking its cumulative interest to 71.82%.

Kyivenergo is an integrated complex, which generates, transmits and distributes all electricity for Kyiv. It has a monopoly in the Kyiv electricity market. In addition, Kyivenergo also supplies the majority of heat consumed in Kyiv.

The investment in Kyivenergo held prior to the acquisition was accounted for as investment in associate and as a result of revaluation of previously held interest to fair value UAH 334 million loss was recognised in the income statement (Note 10).

33 Business combinations (Continued)

The following table summarises the preliminary fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	3,130
Intangible assets	3
Deferred income tax asset	132
Available for sale investments	15
Inventories	173
Trade and other receivables (gross UAH 3,632 million)	1,897
Cash and cash equivalents	497
Borrowings	(680)
Retirement benefit obligations	(97)
Long-term accounts payable	(170)
Trade and other payables	(3,122)
Prepayments received	(497)
Provisions for other liabilities and charges	(163)
Fair value of 100% of net assets acquired	**1,118**
28.18% non-controlling interest	**315**
Share of net assets acquired	**803**
Goodwill	483
Fair value of consideration paid	**451**
Fair value of previously held interest (Note 10)	**835**

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the consideration payable and is due to the expected synergies from the benefits as a result of increased revenues, and business growth by receiving more competitive position when combining Kyivenergo network with the existing distribution business of the Group.

Revenue and net loss of Kyivenergo included in the consolidated income statement from the date of acquisition totalled UAH 868 million and UAH 142 million, respectively. If the acquisition had been completed on 1 January 2011, the revenues of the Group would be approximately UAH 9,982 million higher and net profit of the Group would be approximately UAH 1,054 million lower.

34 Financial Risk Management

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

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

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

Credit risk is managed on an entity by entity basis with oversight by the Group. Credit risk arises from cash and cash equivalents, financial instruments and deposits with banks, as well as credit exposure to wholesale and retail customers, including outstanding receivables and committed transactions. For Banks only SCM related banks or upper tier Ukrainian banks are accepted, which are considered at time of deposit to have minimal risk of default. Customers can be analysed between Energorynok SE, which buys 100% of electricity generated, Industrial consumers and other. Due to the monopolistic nature of electricity supply by region, the Group cannot choose its customers, and instead must supply all customers within its distribution network. Sales are metered and management monitors ageing of receivables for industrial customers on a regular basis and ultimately may cut-off supply for delinquent customers. For supply to municipal and 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, Dniproenergo JSC and Zakhidenergo JSC (Note 7) 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 14,725 million (2010: UAH 4,489 million) being carrying value of financial investments, trade and other receivables and cash. The Group does not hold any collateral as security.

34 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 statement of financial position	31 December 2011	31 December 2010
Russian Commercial Bank (CYPRUS) Limited	Cash and cash equivalents	3,152	-
First Ukrainian International Bank (FUIB)**	Cash and cash equivalents	2,788	62
Erste Group Bank AG	Cash and cash equivalents	2,493	-
VTB Bank OJSC*	Cash and cash equivalents	1,224	2
VTB Bank OJSC*	Financial investment	57	81
State Savings Bank of Ukraine JSCB*	Cash and cash equivalents	236	133
Ukrsibbank OJSC	Cash and cash equivalents	233	-
Universalbank OJSC	Cash and cash equivalents	140	
Prominvest Bank OJSC*	Cash and cash equivalents	2	977
Prominvest Bank OJSC*	Financial investment	23	43
Marfin Popular Bank	Financial investment	188	577
Marfin Popular Bank	Cash and cash equivalents	73	87
OTP Bank CJSC*	Cash and cash equivalents	59	164
Dongorbank CJSC**	Cash and cash equivalents	-	122
Dongorbank CJSC**	Financial investment	-	54
VAB Bank OJSC	Cash and cash equivalents	-	103
State Company Energorynok	Trade and other receivables	1,045	412
Dniproenergo OJSC (Note 10)	Trade and other receivables	375	385
State Company Belenergo	Trade and other receivables	83	-
Scanwell Commodities	Trade and other receivables	0	342
Metinvest Holding LLC**	Trade and other receivables	45	71
Azovstal Steel Works PJSC**	Trade and other receivables	9	13

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

** Dongorbank, FUIB, Metinvest Holding and Azovstal Steel Works PJSC are subsidiaries of SCM.

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

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

The following table presents sensitivities of profit or loss and equity 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 2011		At 31 December 2010	
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% (2010: 25%)	(1,354)	(1,354)	(729)	(729)
USD weakening by 25% (2010: 25%)	1,354	1,354	729	729
Euro strengthening by 25% (2010: 25%)	(339)	(339)	(117)	(117)
Euro weakening by 25% (2010: 25%)	339	339	117	117
RUB strengthening by 25% (2010: 25%)	(56)	(56)	-	-
RUB weakening by 25% (2010: 25%)	56	56	-	-

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

34 Financial Risk Management (Continued)

Interest rate risk. As the Group normally has no significant interest bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rate. However, during 2011, due to the delayed privatisation, the Company has accumulated significant cash and cash equivalents balance. 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 2011 and 2010, the majority of the Group's variable interest debt is USD, RUB and EUR denominated. As at 31 December 2011, 64% of the total borrowings was provided to the Group at floating rates (31 December 2010: 20 %).

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of issuing new debt management uses its judgment to decide whether fixed or variable rate would be more favourable to the Group over the expected period until maturity. The risk of increase in market interest rates is monitored by the Corporate Finance Department of the Company together with the Treasury Department. The Corporate Finance Department is responsible for planning the financing structure (levels of leverage) and borrowing activities. The key objective to financing is reduction of borrowing costs. As disclosed in Note 17 in December 2011 DTEK concluded an agreement with Sberbank of Russia for a swap of RUB floating rate loan for USD loan with fixed rate.

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 Note17. 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 2011, 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 118 million lower (2010: UAH 85 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 with fixed prices.

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

If the equity quotations of the Group's investments had increased by 10% as at 31 December 2011 and 2010, with all other factors being equal, the Group's equity at 31 December 2011 would have increased by UAH 5 million (31 December 2010: UAH 125 million).

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

34 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 2011 is as follows:

In millions of Ukrainian Hryvnia	Up to 6 months	6 -12 months	1 - 2 years	2 - 5 years	Over 5 years	Total
Liabilities						
Borrowings (Note 17)	2,228	724	1,415	9,350	182	13,899
Eurobonds (Note 17)	257	194	385	4,506	-	5,342
Gross settled derivative financial instruments – outflows	28	28	55	906	-	1,017
Gross settled derivative financial instruments – inflows	(42)	(43)	(85)	(951)	-	(1,121)
Other financial liabilities (Note 18)	483	156	162	522	53,469	54,792
- external	59	50	162	522	53,469	54,262
- Dniproenergo	424	106	-	-	-	530
Indebtedness under amicable agreement (Note 19)	-	-	12	-	-	12
Trade and other payables (Note 22)	4,640	60	-	-	-	4,700
Total future payments, including future principal and interest payments	**7,594**	**1,119**	**1,944**	**14,333**	**53,651**	**78,641**

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 (Note17)	720	215	384	254	-	1,573
Eurobonds (Note 17)	65	-	-	3,981	-	4,046
Other financial liabilities (Note 18)	-	494	106	-	53	653
- related party	-	12	-	-	-	12
- external	-	58	-	-	53	111
- Dniproenergo	-	424	106	-	-	530
Indebtedness under amicable agreement (Note 19)	-	-	-	140	-	140
Trade and other payables (Note 22)	1,528	44	-	-	-	1,572
Total future payments, including future principal and interest payments	**2,313**	**753**	**490**	**4,375**	**53**	**7,984**

35 Management of Capital

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

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

The Group has yet to determine its optimum gearing ratio. Presently, the majority of debt is due within 2 - 5 years and the Group is actively pursuing mechanisms to extend the credit terms to match its long-term investment strategy. The Group has obtained a credit rating that matches the Sovereign rating of Ukraine.

	31 December 2011	31 December 2010
Total net debt	4,656	3,809
Total equity	24,826	13,280
Debt to equity ratio	18.8%	28.7%

36 Fair Value of Financial Instruments

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

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

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

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

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows, expected to be received, discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

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

36 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments are as follows at 31 December 2011:

In millions of Ukrainian Hryvnia	Measurement method: Quoted price in active market	Measurement method: Valuation using observable market inputs	Total fair value	Carrying value
FINANCIAL ASSETS				
Cash and cash equivalents (Note 14)				
- Bank balances payable on demand	-	4,922	4,922	4,922
- Term deposits	-	5,504	5,504	5,504
- Restricted cash	-	-	-	-
Trade and other receivables (Note 13)				
- Trade receivables	-	3,070	3,070	3,070
- Receivables under commission agreements	-	45	45	45
- Receivable for sale of financial instruments	-	2	2	2
- Other financial receivables	-	225	225	225
Other non current assets				
- Trade and other receivables - non-current	-	137	137	137
Financial investments (Note 11)				
- Securities quoted on Ukrainian stock market	71	-	71	71
- Prepayment for shares	-	355	355	355
- Deposits placed with the maturity more than three months	-	275	275	275
- Loans receivable	-	190	190	190
TOTAL FINANCIAL ASSETS	**71**	**14,725**	**14,796**	**14,796**
FINANCIAL LIABILITIES				
Liability to non-controlling participants	-	4	4	4
Borrowings (Note 17)	-	10,977	10,977	11,162
Eurobonds (Note 17)	3,670	-	3,670	3,920
Other liabilities – non-current (Note 18)	-	1,961	1,961	1,961
Indebtedness under amicable agreement (Note 19)	-	9	9	9
Investment obligation relating to Dniproenergo – current	-	519	519	519
Current part of deferred consideration	-	85	85	85
Trade and other payables (Note 22)	-	4,700	4,700	4,700
TOTAL FINANCIAL LIABILITIES	**3,670**	**18,255**	**21,925**	**22,360**

36 Fair Value of Financial Instruments (Continued)

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

In millions of Ukrainian Hryvnia	Measurement method: Quoted price in active market	Measurement method: Valuation using observable market inputs	Total fair value	Carrying value
FINANCIAL ASSETS				
Cash and cash equivalents (Note 14)				
- 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 13)				
- 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 11)				
- 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	-	3	3	3
Borrowings (Note17)	-	1,787	1,787	1,613
Eurobonds (Note 17)	-	3,889	3,889	3,889
Investment obligation relating to Dniproenergo – non-current (Note 18)	-	76	76	83
Other liabilities – non-current (Note 18)	-	35	35	35
Indebtedness under amicable agreement (Note 19)	-	87	87	93
Investment obligation relating to Dniproenergo – current (Note18)	-	410	410	414
Bonds issued (Note 18)	-	71	71	71
Trade and other payables (Note 22)	-	1,572	1,572	1,572
TOTAL FINANCIAL LIABILITIES	**-**	**7,930**	**7,930**	**7,773**

37 Reconciliation of Classes of Financial Instruments with Measurement Categories

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2011:

In millions of Ukrainian Hryvnia	Loans and receivables	Available-for-sale assets	Total
ASSETS			
Cash and cash equivalents (Note 14)			
- Bank balances payable on demand	4,922	-	4,922
- Term deposits	5,504	-	5,504
- Restricted cash	-	-	-
Trade and other receivables (Note 13)			
- Trade receivables	3,070	-	3,070
- Receivables under commission agreements	45	-	45
- Receivable for sale of financial instruments	2	-	2
- Other financial receivables	225	-	225
Other non current assets			
- Trade and other receivables - non-current	137	-	137
Financial investments (Note 11)			
- Equity securities	-	71	71
- Prepayment for shares	355	-	355
- Deposits placed with the maturity more than three months	275	-	275
- Loans receivable	190	-	190
TOTAL FINANCIAL ASSETS	**14,725**	**71**	**14,796**
NON-FINANCIAL ASSETS	-	-	**41,552**
TOTAL ASSETS			**56,348**

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

In millions of Ukrainian Hryvnia	Loans and receivables	Available-for-sale assets	Total
ASSETS			
Cash and cash equivalents (Note 14)			
- Bank balances payable on demand	594	-	594
- Term deposits	1,098	-	1,098
- Restricted cash	1	-	1
Trade and other receivables (Note 13)			
- 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 11)			
- 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**

All of the Group's financial liabilities at 31 December 2011 and 2010 are carried at amortised cost.

38 Subsequent events

On 11 January 2012 the Group acquired 45% shares of Zakhidenergo JSC for a cash consideration of UAH 1,932 million thus taking its total share to 70.94%. IFRS and fair value information at the acquisition does not exist. Management are currently assessing the purchase price allocation and reporting implications.

On 13 March 2012 the Group acquired 25% of JSC Dniproenergo for a cash consideration of UAH 1,180 million thus taking its total share to 72.93%. Summarised IFRS financial information for Dniproenergo as at 31 December 2011 is presented in Note 10. IFRS and fair value information at the acquisition does not exist. Management are currently assessing the fair values and purchase price allocation and reporting implications.

On 11 January 2012 the Group acquired 40% shares of JSC Donetskoblenergo for a cash consideration of UAH 467 million thus taking its total share to 71.34%. IFRS and fair value information at the acquisition does not exist. Management are currently assessing the purchase price allocation and reporting implications.

On 17 and 24 February 2012 the Group acquired 74.7% and 20.7% shares of JSC Belozerskaya mine respectively for a total cash consideration of UAH 202 million. Belozerskaya mine comprises one coal mine located in the Donetsk region of Ukraine producing 0.6 million tons of coal per annum. IFRS and fair value information at the acquisition does not exist. Management are currently assessing the purchase price allocation and reporting implications.

On 17 April 2012 the Group acquired 50% shares of Dniprooblenergo JSC, an electricity distribution company located in the Dnipropetrovsk region of Ukraine, for a cash consideration of UAH 660 million thus taking its total share to 51.50%. IFRS and fair value information at the acquisition does not exist. Management are currently assessing the purchase price allocation and reporting implications.

DTEK Holdings B.V.

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

31 December 2010

CONTENTS

Independent Auditor's report

SPECIAL PURPOSE CONSOLIDATED Financial statements

Special Purpose Consolidated Balance Sheet 1
Special Purpose Consolidated Income Statement 2
Special Purpose Consolidated Statement of Comprehensive Income 2
Special Purpose Consolidated Statement of Changes in Equity 3
Special Purpose Consolidated Cash Flow Statement 4

Notes to the Special Purpose Consolidated Financial Statements

1 The Organisation and its Operations 5
2 Operating Environment of the Group 6
3 Summary of Significant Accounting Policies 7
4 Critical Accounting Estimates and Judgements 16
5 Adoption of New or Revised Standards and Interpretations 18
6 New Accounting Pronouncements 19
7 Segment Information 20
8 Balances and Transactions with Related Parties 22
9 Property, Plant and Equipment 24
10 Intangible assets 25
11 Investments in Associates 26
12 Financial Investments 28
13 Inventories 29
14 Trade and Other Receivables 30
15 Cash and Cash Equivalents 32
16 Share Capital 32
17 Other Reserves 33
18 Liability to non-controlling participants 33
19 Borrowings 34
20 Other Financial Liabilities 35
21 Indebtedness under Amicable Agreement 35
22 Government Grants 36
23 Retirement Benefit Obligations 36
24 Provisions for Other Liabilities and Charges 38
25 Trade and Other Payables 39
26 Other Taxes Payable 40
27 Revenue 40
28 Cost of Sales 40
29 Other Operating Income 41
30 Distribution Costs 41
31 General and Administrative Expenses 41
32 Other operating expenses 41
33 Finance Income and Finance Cost 42
34 Income Taxes 42
35 Contingencies, Commitments and Operating Risks 44
36 Business Combinations 45
37 Financial Risk Management 46
38 Management of Capital 50
39 Fair Value of Financial Instruments 50
40 Reconciliation of Classes of Financial Instruments with Measurement Categories 53
41 Significant non-cash transactions 54
42 Subsequent events 54

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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

Limited Liability Company Audit Firm "PricewaterhouseCoopers (Audit)", 75 Zhylyanska Str. Kyiv, 01032, Ukraine
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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 31 March 2011
Maksym Timchenko
Director

FTC Trust B.V.
Director

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

/s/ Oleg Popov

/s/ Natalia Izosimova

/s/ Sergey Korovin

/s/ Irina Mykh

/s/ Robert Sheppard

/s/ Roman Bugayov

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

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 group's identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the 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 2011 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).

IFRS 2 (amendments), Group Cash-Settled Share-based Payment Transactions. In addition to incorporating IFRIC 8 Scope of IFRS 2, and IFRIC 11 IFRS 2 – Group and treasury share transactions, the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

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:

In millions of Ukrainian Hryvnia	2010 Entities under common control of SCM	2010 Associates of Parent Company	2010 Associates	2010 Other related parties	2009 Entities under common control of SCM	2009 Associates of parent Company	2009 Associates	2009 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		2009	
	Other	Deposits	Other	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 403 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	2010 Trade receivables	Receivables under commission agreements	Receivable for sale of financial instruments	Other financial receivables	2009 Trade receivables	Receivables under commission agreements	Receivable for sale of financial instruments	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 3 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 2011 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.

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