DTEK Holdings Limited

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

31 December 2008

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of DTEK Holdings Limited

We have audited the accompanying consolidated financial statements of DTEK Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

LLC PricewaterhouseCoopers Audit

Kyiv, Ukraine
9 April 2009

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DTEK Holdings Limited
Consolidated Balance Sheet

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

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

Maksym Timchenko
Director

DTEK Holdings Limited

DTEK Holdings Limited
Consolidated Income Statement

In millions of Ukrainian Hryvnia	Note	2008	2007
Revenue	27	12,969	8,969
Cost of sales	28	(9,921)	(6,948)
Gross profit		**3,048**	**2,021**
Other operating income	29	116	263
Distribution costs	30	(77)	(51)
General and administrative expenses	31	(532)	(368)
Other operating expenses	32	(321)	(232)
Impairment of property, plant and equipment	9	(354)	-
Net foreign exchange gain (other than on borrowings)		112	-
Operating profit		**1,992**	**1,633**
Foreign exchange losses less gains from borrowings		(1,307)	(14)
Finance income	33	64	241
Finance costs	33	(469)	(431)
Share of result of associates	11	(32)	(23)
Profit before income tax		**248**	**1,406**
Income tax expense	34	(129)	(213)
Profit for the year		**119**	**1,193**
Profit/(loss) is attributable to:			
Equity holders of the Company		119	1,288
Minority interest		-	(95)
Profit for the year		**119**	**1,193**

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

DTEK Holdings Limited
Consolidated Statement of Changes in Equity

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

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

In millions of Ukrainian Hryvnia	Note	2008	2007
Cash flows from operating activities			
Profit before income tax		**248**	**1,406**
Adjustments for:			
Depreciation and impairment of property, plant and equipment and amortisation of intangibles, net of amortisation of government grants		1,080	771
Excess of interest in fair value of entities' net assets acquired over the cost of investment		(1)	-
Impairment of property, plant and equipment		354	-
Losses less gains on disposals of property, plant and equipment	32	46	5
Assets received free of charge	29	(34)	(1)
Less gain from sale of investments available-for-sale	29	(1)	(138)
Impairment of trade and other receivables	32	97	79
Impairment of financial investments	32	17	-
Change in provisions for other liabilities and charges		16	(58)
Income from previously written off trade and other receivables	29	(5)	(2)
Net increase in retirement benefit obligation	23	348	66
Extinguishment of accounts payable	29	(1)	(5)
Share of result of associates	11	32	23
Unrealised result on associate	11	16	-
Unrealised foreign exchange loss		1,084	-
Realised foreign exchange loss on financing activities		181	14
Finance costs, net	33	405	190
Operating cash flows before working capital changes		**3,882**	**2,350**
Increase in trade and other receivables		(10)	(575)
Increase in inventories		(99)	(114)
(Decrease)/increase in prepayments received		(2)	20
Increase in trade and other payables		50	302
(Decrease) in other financial liabilities		(15)	(21)
Increase in taxes payable		68	38
Cash generated from operations		**3,874**	**2,000**
Income taxes paid		(624)	(352)
Defined employee benefits paid	23	(112)	(60)
Interest paid		(289)	(108)
Interest received		43	29
Net cash generated from operating activities		**2,892**	**1,509**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,733)	(971)
Proceeds from sale of property, plant and equipment		4	7
Purchase of financial investments		(1,359)	(1,260)
Prepayment for shares in Dniproenergo OJSC		-	(1,052)
Proceeds from sale of financial investments		34	-
Acquisition of minority interest and subsidiary		(4)	(124)
Deposits placed		(422)	(186)
Deposits received		339	41
Net cash used in investing activities		**(3,141)**	**(3,545)**
Cash flows from financing activities			
Proceeds from borrowings		2,713	2,129
Repayment of borrowings		(2,275)	(940)
Repayment of debts under amicable agreement		(4)	(25)
Issue of ordinary shares		-	1,003
Net cash generated from financing activities		**434**	**2,167**
Net increase in cash and cash equivalents		**185**	**131**
Cash and cash equivalents at the beginning of the year	15	**368**	**237**
Exchange gains on cash and cash equivalents		**42**	-
Cash and cash equivalents at the end of the year	15	**595**	**368**

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

1 The Organisation and its Operations

DTEK Holdings Limited (the "Company") is a private limited liability company incorporated in Cyprus on 10 April 2006. On incorporation all the shares were owned by SCM (System Capital Management) Limited, a 100% owned subsidiary of Joint Stock Company System Capital Management ("SCM"), registered in Donetsk, Ukraine. In September 2007, InvestCom Services Limited, another wholly owned subsidiary of SCM contributed UAH 1,003 million to the Company, thereby becoming a 25% shareholder. The Company and its subsidiaries (together referred to as "the Group") are ultimately controlled by Mr. Rinat Akhmetov. Mr. Akhmetov also has a number of other business interests outside of the Group. Related party transactions are detailed in Notes 8 and 37.

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

As discussed in Note 37, in prior periods the Group had consolidated Pavlogradugol OJSC on the basis that SCM had delegated to the Group the power to govern its financial and operational activities. In February 2007, the Group acquired a 7.81% interest in Pavlogradugol OJSC from the State Property Fund of Ukraine and in July 2007, the Group legally acquired a 92.11% interest in Pavlogradugol OJSC from SCM subsidiaries. In March 2008, the Group acquired additional 10.97% and 16.25% stakes in CCM Dobropolskaya and CCM Oktyabrskaya respectively, and increased its interest in these entities to 60.06% and 60.85% respectively.

The principal subsidiaries are presented below:

Name	% interest held as at 31 December		Segment	Country of incorporation
	2008	2007		
DTEK LLC	100.00	100.00	Management	Ukraine
DTEK Corporation	98.64	98.64	Management	Ukraine
Pavlogradugol OJSC (Note 37)	99.92	99.92	Coal Mining	Ukraine
Komsomolets Donbassa OJSC	94.64	94.64	Coal Mining	Ukraine
Eastenergo LLC	100.00	100.00	Power generation	Ukraine
Tehrempostavka LLC	100.00	100.00	Power generation	Ukraine
Servis-Invest LLC	100.00	100.00	Electricity distribution	Ukraine
PES-Energougol OJSC	91.12	91.12	Electricity distribution	Ukraine
CCM Kurahovskaya LLC	99.00	99.00	Coal Enrichment	Ukraine
CCM Pavlogradskaya LLC	99.00	99.00	Coal Enrichment	Ukraine
Mospino CPE LLC	99.00	99.00	Coal Enrichment	Ukraine
CCM Dobropolskaya OJSC	60.06	49.09	Coal Enrichment	Ukraine
CCM Oktyabrskaya OJSC	60.85	44.60	Coal Enrichment	Ukraine
Pershotravensky RMZ LLC	99.92	99.92	Other	Ukraine
Sotsis LLC	99.00	99.00	Other	Ukraine
Ekoenergoresurs LLC	99.00	99.00	Other	Ukraine
Servis Enterprise LLC	99.00	99.00	Other	Ukraine

The Group was formed in 2006 through a reorganisation of entities under common control, and accordingly the formation was recorded using the predecessor basis of accounting in a manner similar to the pooling of interest method of accounting. As such, the financial statements, including corresponding amounts, have been presented as if the transfers of controlling interests in the subsidiaries had occurred at the beginning of the earliest period presented or, if later, on the date of the acquisition of the subsidiary by the transferring entities under common control. The difference between the predecessor carrying amounts of net assets and the purchase consideration was recorded as an adjustment to equity.

The Company's registered address is Themistokli Dervi 3, Julia House, P.C.1066, Nicosia, Cyprus. The principal place of business is 11 Shevchenko blvd, 83055 Donetsk, Ukraine.

As at 31 December 2008, the Group employed approximately 44 thousand people (31 December 2007: 47 thousand people).

2 Operating Environment of the Group

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies

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

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

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

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

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

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

As at 31 December 2008, the exchange rate used for translating foreign currency balances was USD 1 = UAH 7.70 (31 December 2007: USD 1 = UAH 5.05); EUR 1 = UAH 10.86 (31 December 2007: EUR 1 = UAH 7.42). At the date of issuance of these financial statements the exchange rates were as follows: USD 1 = UAH 7.70, EUR 1 = UAH 10.22. Exchange restrictions in Ukraine are limited to compulsory receipt of foreign receivables within 90 days of sales. Foreign currency can be easily converted at a rate close to the NBU rate. Prior to April 2005, there was a requirement to convert 50% of foreign currency receipts to UAH. At present, the UAH is not freely convertible outside Ukraine.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. Accounting polices of subsidiaries have been changed where necessary to ensure consistency with the polices of the Group.

3 Summary of Significant Accounting Policies (Continued)

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Group. Minority interest forms a separate component of the Group's equity.

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

Purchases of minority interests. The Group has acquired minority shareholdings in its subsidiaries. Where such transactions are with parties under the common control of the ultimate shareholder, the difference between the carrying value of a minority interest and the amount paid to acquire it is recorded as a debit or credit in additional paid-in capital in the statement of changes in equity. Where such transactions are with third parties, the difference is recorded as goodwill or negative goodwill.

Investments in associates. Associates are entities over which the Group has significant influence, but not control, generally presumed for shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are recorded at cost adjusted for the Group's share of the net assets after acquisition, as well as any impairment charges. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured accounts receivable, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

Segment reporting. A business segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in another economic environment.

Property, plant and equipment. Effective 31 December 2006, the Group changed its accounting policy for property, plant and equipment from the cost model to the revaluation model. Fair value was based on valuations by external independent valuers. The frequency of revaluation will depend upon the movements in the fair values of the assets being revalued. The latest independent valuation of the fair value of the Group's property, plant and equipment was performed as of 1 August 2008. Subsequent additions to property plant and equipment are recorded at cost. Cost includes expenditure directly attributable to acquisition of the items. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. As at 31 December 2008, property, plant and equipment are stated at revalued amounts less accumulated depreciation and provision for impairment, if required.

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

All other financial assets are included in the *available-for-sale* category.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the

3 Summary of Significant Accounting Policies (Continued)

securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

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

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

Borrowings and other financial liabilities. Borrowings and other financial liabilities are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. The Group does not capitalise borrowing costs.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

All interest and other costs incurred in connection with borrowings are expensed using the effective interest rate method.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

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

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

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

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

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

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

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

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

Interest rates applied to long-term liabilities. Judgement has been used to estimate the fair value of long-term liabilities in the absence of similar financial instruments (Notes 19 and 20). A change in the effective interest rates used in assessing the fair value of loans and borrowings may have a material impact on the consolidated financial statements.

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

Related party transactions. In the normal course of business the Group enters into transactions with related parties. Judgement is applied in determining if transactions are priced at market or non-market rates, where there is no active market for such transactions. Financial instruments are recorded at origination at fair value using the effective interest method. The Group's accounting policy is to record gains and losses on related party transactions, other than business combination or equity investments, in the income statement. The basis for judgement is pricing for similar types of transactions with unrelated parties and an effective interest rate analysis (Note 8).

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

5 Adoption of New or Revised Standards and Interpretations

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

IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);

IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008); and

IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

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

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

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early-adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). This standard applies to public entities. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Group does not expect IFRS 8 to significantly affect its financial reporting.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of expensing borrowing costs that relate to assets under construction. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amended standard on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

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

6 New Accounting Pronouncements (Continued)

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group does not expect the amendment to affect the consolidated financial statements.

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

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

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

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

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

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

7 Segment Information

Primarily reporting format – business segments.

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

- Coal mining and enrichment
- Power generation
- Electricity distribution

The Group's mining and power generation operations are vertically integrated and while the operating businesses are organised and managed separately, with each segment offering different products and serving different markets, there remains significant inter-dependence between the segments. The primary reporting format, business segments, is based on the Group's management and internal reporting structure. Inter-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.

Other includes the other companies of the Group that provide auxiliary services, e.g. transportation, security and other services primarily to the Group companies.

Secondary reporting format – geographical segments.

Geographical segments for reporting of external revenue are based on the location of customers, and for reporting of segment assets and capital expenditure on the location of assets. Capital expenditure excludes assets acquired through business combinations. The Group's production assets are located in Ukraine. Majority of the Group's customers are located in Ukraine.

7 Segment Information (Continued)

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

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

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

7 Segment Information (Continued)

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

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

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

8 Balances and Transactions with Related Parties

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2008 are detailed below. At 31 December, the outstanding balances with related parties were as follows:

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

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

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

8 Balances and Transactions with Related Parties (Continued)

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

Revenue, trade and other receivable

The trade receivables balances as at 31 December 2008 due from entities under common control and an associates are non-interest bearing. The balances outstanding from related parties as at 31 December 2008 and 2007 are unsecured and settlements are made either in cash, in the form of a debt set-off or by means of exchanging promissory notes issued by the settling counterparties or third parties to the transaction. The Group created no provision for impairment of accounts receivable due from related parties as of 31 December 2008 and 2007.

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

Purchases, trade and other payables

Purchases and outstanding trade and other payables as at 31 December 2008 and 2007 comprised balances due to related parties for supplies of iron shoring for mines, raw materials and steaming coal. Balances payable are non-interest bearing and are repayable in the normal course of business.

Key management personnel compensation

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

9 Property, Plant and Equipment

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

In millions of Ukrainian Hryvnia	Mining assets	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
At 31 December 2006						
Cost	1,267	2,455	2,465	205	380	**6,772**
Accumulated depreciation	-	(43)	(508)	(81)	-	**(632)**
Carrying amount at 1 January 2007	1,267	2,412	1,957	124	380	**6,140**
Year ended 31 December 2006						
Opening net book amount	1,267	2,412	1,957	124	380	**6,140**
Acquisition of subsidiaries	-	1	-	-	4	**5**
Additions	42	53	204	34	704	**1,037**
Disposals	(6)	(4)	(6)	(1)	(1)	**(18)**
Depreciation charge	(172)	(177)	(433)	(29)	-	**(811)**
Transfer	256	92	349	14	(711)	-
Carrying amount at 31 December 2007	**1,387**	**2,377**	**2,071**	**142**	**376**	**6,353**
At 31 December 2007						
Cost or valuation	**1,533**	**2,580**	**3,015**	**248**	**376**	**7,752**
Accumulated depreciation	**(146)**	**(203)**	**(944)**	**(106)**	-	**(1,399)**
Carrying amount at 31 December 2007	1,387	2,377	2,071	142	376	**6,353**
Year ended 31 December 2007						
Opening net book amount	1,387	2,377	2,071	142	376	**6,353**
Acquisition of subsidiaries		24	22	2	2	**50**
Additions	34	140	614	24	1,025	**1,837**
Disposals	(7)	(3)	(24)	(14)	(1)	**(49)**
Depreciation charge	(128)	(228)	(697)	(63)		**(1,116)**
Revaluation surplus	683	1,220	1,725	113	121	**3,862**
Impairment	(99)	(53)	(194)	(6)	(2)	**(354)**
Transfer	161	44	328	45	(578)	-
Carrying amount at 31 December 2008	**2,031**	**3,521**	**3,845**	**243**	**943**	**10,583**
At 31 December 2008						
Cost or valuation	**2,088**	**3,644**	**4,227**	**317**	**943**	**11,219**
Accumulated depreciation	**(57)**	**(123)**	**(382)**	**(74)**		**(636)**
Carrying amount at 31 December 2008	2,031	3,521	3,845	243	943	**10,583**
NBV had no revaluation taken place at 31 December 2007	**1,099**	**632**	**1,210**	**95**	**376**	**3,412**
NBV had no revaluation taken place at 31 December 2008	**1,248**	**762**	**1,942**	**110**	**647**	**4,709**

During 2008 the Group engaged independent appraisers to determine the fair value of its property, plant and equipment. Fair value was determined with reference to depreciated replacement cost or market-based evidence, in accordance with International Valuation Standards. The Group performed a revaluation of its property, plant and equipment as at 1 August 2008.

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

9 Property, Plant and Equipment (Continued)

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

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

Impairment of Property, Plant and Equipment

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

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

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

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

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

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

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

10 Intangible assets

As at 31 December, intangible assets consisted of:

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

Movements in goodwill arising on the acquisition of subsidiaries are:

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

10 Intangible assets (Continued)

Goodwill Impairment Test

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

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

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

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

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

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

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

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

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

11 Investments in Associates

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

In millions of Ukrainian Hryvnia	2008	2007
Carrying amount at 1 January	**85**	-
Acquisition of associates	1,552	123
Transfer from AFS investment to associate	1,190	-
Transfer of associates to subsidiaries	(23)	-
Share of after tax results of associates	(32)	(23)
Share of results of associate while accounted for as AFS	19	(15)
Share in revaluation reserves of associates while accounted for as AFS	36	-
Unrealised profit on operations with associate	(16)	-
Carrying amount at 31 December	**2,811**	**85**

At 31 December 2008, the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

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

At 31 December 2007, the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

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

During 2006, the Group acquired an 8.3% interest in Dniproenergo OJSC which was recorded at a fair value of UAH 201 million at 31 December 2006. Dniproenergo OJSC, a majority State owned power generating company with a capacity of 8,185 MW located in Zaporizhzhya, was under external management in accordance with the Law of Supreme Court # N 2343-XII dated 14 May 1992 on *Restoring debtor's solvency or declaring a debtor bankrupt*. In 2007 the Group actively participated in assisting Dniproenergo OJSC emerge from bankruptcy and continued acquiring additional interests in this entity. In June 2007 the Arbitration Court approved the creditor committee's amicable agreement for restructuring Dniproenergo's OJSC obligations and bringing the entity back to solvency. In accordance with this amicable agreement, in October 2007 the Group's subsidiaries Pavlogradugol OJSC and Komsomolets Donbassa OJSC contributed UAH 1,052 million in cash to a special purpose entity which was then merged with Dniproenergo OJSC. In exchange Pavlogradugol OJSC and Komsomolets Donbassa OJSC each received a 17.12% interest in Dniproenergo OJSC. The majority of these funds were used to repay the creditors while the remaining contribution would be used to fund working capital. Further, the amicable agreement required Pavlogradugol OJSC and Komsomolets Donbassa OJSC to commit to funding Dniproenergo's investment program totalling UAH 1,010 million during the period 2008 through 2012.

11 Investments in Associates (Continued)

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

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

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

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

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

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

Impairment Test for investment in associate – Dniproenergo OJSC

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

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

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

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

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

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

12 Financial Investments

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

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

As a result of the recent volatility in financial markets, as discussed in Note 2, there are no longer regularly occurring transactions in certain equity shares quoted on PFTS, the Ukrainian stock exchange market, and accordingly fair value of such Ukrainian electricity distribution companies have been determined by reference to the discounted operating cash flows of the investee and other valuation techniques based on independent third party assessment. As at 31 December 2008, equity securities with a carrying value of UAH 349 million have been determined by such valuation methods. The fair value of the remaining available or sale securities have been determined based on quoted prices.

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

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

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

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

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

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

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

12 Financial Investments (Continued)

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

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

13 Inventories

As at 31 December, inventories were as follows:

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

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

14 Trade and Other Receivables

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

In millions of Ukrainian Hryvnia	2008	2007
Trade receivables	1,297	776
Less impairment provision	(488)	(401)
Trade receivables - net	**809**	**375**
Other financial receivables	147	334
Less impairment provision	(85)	(77)
Receivable for sale of financial instruments	53	1
Total financial assets	***924***	***633***
Prepayments to suppliers	70	343
Less impairment provision	(10)	(10)
VAT recoverable	3	15
Other	13	12
Less impairment provision	(5)	(5)
Total non-financial assets	***71***	***355***
Total trade and other receivables	**995**	**988**

All trade and other receivables are denominated in UAH.

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

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

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

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

14 Trade and Other Receivables (Continued)

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

	2008			2007		
In millions of Ukrainian Hryvnia	Trade receivables	Receivable for sale of financial instruments	Other financial receivables	Trade receivables	Receivable for sale of financial instruments	Other financial receivables
Current and not impaired – exposure to						
- Energorynok, SE	271	-	-	165	-	-
- Large Ukrainian corporates	153	-	4	112	-	5
- Medium sized companies	86	53	7	19	1	49
Total current and not impaired	**510**	**53**	**11**	**296**	**1**	**54**
Past due but not impaired						
- less than 30 days overdue	92	-	38	30	-	48
- 30 to 90 days overdue	137	-	1	10	-	146
- 90 to 180 days overdue	5	-	2	13	-	2
- 180 to 360 days overdue	21	-	2	13	-	1
- over 360 days overdue	44	-	8	13	-	6
Total past due but not impaired	**299**	**-**	**51**	**79**	**-**	**203**
Individually determined to be impaired (gross)						
- less than 30 days overdue	-	-	-	-	-	2
- 30 to 90 days overdue	-	-	-	-	-	-
- 180 to 360 days overdue	-	-	-	-	-	22
- over 360 days overdue	488	-	85	401	-	53
Total individually impaired	**488**	**-**	**85**	**401**	**-**	**77**
Less impairment provision	**(488)**	**-**	**(85)**	**(401)**	**-**	**(77)**
Total	**809**	**53**	**62**	**375**	**1**	**257**

15 Cash and Cash Equivalents

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

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

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

15 Cash and Cash Equivalents (Continued)

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

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

16 Share Capital

As at 31 December 2006, the authorised share capital comprised 32,272 ordinary shares with a par value of USD 1.00 each (equivalent of UAH 5.05); 10,000 shares were fully paid, the remaining 22,272 were paid in May 2007. In September 2007, the authorised share capital was increased to 50,000 ordinary shares of USD 1.00 each and 17,728 shares were issued for a cash consideration of USD 200 million, (equivalent to UAH 1,010 million). As at 31 December 2007 USD 1.5 million (equivalent to UAH 7.4 million) of the share issuance remains unpaid. The net capital contribution totalling UAH 1,003 million has been recorded in additional paid in capital.

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

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

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

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

17 Other Reserves

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

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

In millions of Ukrainian Hryvnia	Additional paid in capital	Revaluation reserve	AFS reserve	Total
Balance at 1 January 2007	**971**	**2,243**	**76**	**3,290**
Financial investments:				
- Fair value gains less losses	-	-	1,482	**1,482**
- Disposals or transfer of AFS to associates	-	-	(270)	**(270)**
Property, plant and equipment:				
- Realised revaluation reserve	-	(259)	-	**(259)**
Income tax recorded in equity	-	65	(36)	**29**
Share issue (Note 16)	1,003	-	-	**1,003**
Acquisition of minority interest in Pavlogradugol OJSC (Note 37)	(500)	-	-	**(500)**
Balance at 31 December 2007	**1,474**	**2,049**	**1,252**	**4,775**
Financial investments:				
- Fair value gains less losses	-	-	(905)	**(905)**
- Disposals or transfer of AFS to associates	-	-	(752)	**(752)**
Property, plant and equipment:				
- Revaluation	-	3,811	-	**3,811**
- Change in estimate relating to asset retirement provision recorded in equity	-	(57)	-	**(57)**
- Realised revaluation reserve	-	(522)	-	**(522)**
Income tax recorded in equity	-	(777)	100	**(677)**
Share issue (Note 16)	1,872	-	-	**1,872**
Balance at 31 December 2008	**3,346**	**4,504**	**(305)**	**7,545**

18 Liability to minority participants

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

The movements in the liability to minority participants were as follows:

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

19 Borrowings

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

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

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

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

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

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

	2008			2007		
In % per annum	UAH	USD	EUR	UAH	USD	EUR
Bank borrowings	14%-25%	LIBOR 1m+4%-LIBOR 1m+12%	EURIBOR 1m+4.5%-18%	9.5%-13.5%	LIBOR 1m+4%-10.3%	-
Total borrowings	**337**	**2,387**	**1,007**	**173**	**1,758**	**-**

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

20 Other Financial Liabilities

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

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

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

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

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

21 Indebtedness under Amicable Agreement

In 2005 the creditors of Pavlogradugol OJSC initiated bankruptcy procedures against the company asking for the repayment of the amounts due by Pavlogradugol OJSC. As a result of these procedures, Pavlogradugol OJSC concluded an amicable agreement with its creditors. Under the agreement the company shall repay the total amount of UAH 386 million during 2007 - 2019, which represents a substantial modification of the terms of the liability and was accounted for as an extinguishment of the original liability and the recognition as a new liability. As at 31 December 2005, the Group recorded a new liability to its creditors at its fair value using an effective interest rate of 16%.

A summary of the restructured obligations is presented below:

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

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

22 Government Grants

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

Movements in government grants during 2008 and 2007 are summarised as follows:

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

23 Retirement Benefit Obligations

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

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

None of the employee benefits plans stated below are funded.

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

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

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

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

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

23 Retirement Benefit Obligations (Continued)

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

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

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

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

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

The principal actuarial assumptions used were as follows:

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

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

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

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

24 Provisions for Other Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

In millions of Ukrainian Hryvnia	Assets retirement provision	Provision for legal claims	Other provisions	Total
At 1 January 2007	**63**	**66**	**7**	**136**
Change in estimates	58	-	-	58
Arising during the year	11	4	-	15
Unwinding of discount	1	-	-	1
Reversal of provision	-	(62)	-	(62)
Utilised	(4)	-	(7)	(11)
At 31 December 2007	**129**	**8**	**-**	**137**
Change in estimates	57	-	-	57
Arising during the year	12	8	7	27
Unwinding of discount	5	-	-	5
Utilised	(3)	(1)	(7)	(11)
At 31 December 2008	**200**	**15**	**-**	**215**

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

In accordance with the Mining Law of Ukraine No. 1127 – XIV dated 6 October 1999, and the Law On environmental protection No. 1264 – XII dated 26 June 1991 with subsequent changes, Pavlogradugol OJSC and Komsomolets Donbassa Mine OJSC have the mandatory obligation to dismantle and remove the mines and restore the sites to their original condition. As at 31 December 2008 the Group has estimated the present value of the mines retirement obligation at UAH 166 million (31 December 2007: UAH 98 million). The mines are planned to be closed at the end of their estimated useful lives.

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

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

During 2007, PES-Energougol OJSC and Energorynok SE reached an agreement on restructuring of PES-Energougol's obligation (Note 20). Accordingly the provision for penalties and interest totalling UAH 42 million has been reversed. While Energorynok SE continues to claim the penalties and interest, the management believes the risk of additional payment is remote.

Following favourable court rulings, in 2007 the Group's subsidiary Servis-Invest has reversed provisions totalling UAH 20 million associated with claims made by one of its customers in connection with supply of electricity.

25 Trade and Other Payables

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

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

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

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

26 Other Taxes Payable

As at 31 December other taxes payable were as follows:

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

27 Revenue

Analysis of revenue by category is as follows:

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

Analysis of revenue by regions is as follows:

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

28 Cost of Sales

In millions of Ukrainian Hryvnia	2008	2007
Cost of electricity purchased for resale	3,482	2,211
Staff cost, including payroll taxes	2,675	1,680
Raw materials	1,799	1,263
Depreciation of property, plant and equipment net of amortisation and government grants	1,060	762
Cost of merchandise	83	375
Cost of coal purchased for resale	37	-
Production overheads	178	217
Taxes, other than income tax	141	119
Transportation services and utilities	384	243
Equipment maintenance and repairs	102	79
Change in finished goods and work in progress	(35)	(14)
Other costs	15	13
Total	**9,921**	**6,948**

29 Other Operating Income

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

30 Distribution Costs

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

31 General and Administrative Expenses

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

32 Other operating expenses

In millions of Ukrainian Hryvnia	2008	2007
Maintenance of social infrastructure	17	22
Social payments	80	76
Charge for impairment of trade and other receivables and prepayments made	114	79
Charitable donations and sponsorship	10	25
Non-recoverable VAT	12	10
Net loss on disposal and write-off of equipment	46	5
Increase in provision for legal claims	7	4
Other	35	11
Total	**321**	**232**

33 Finance Income and Finance Cost

In millions of Ukrainian Hryvnia	2008	2007
Interest income		
- bank deposits	43	29
- other (Note 8)	7	3
Gain on early repayment of promissory notes issued	14	-
Gain on initial recognition of promissory notes issued	-	109
Gain on initial recognition of bonds issued	-	60
Gain on extinguishment of financial liabilities	-	30
Gain on early repayment of promissory notes receivable	-	6
Other finance income	-	4
Total finance income	**64**	**241**
Interest expense		
- borrowings	225	122
- promissory notes payable	18	10
- bonds issued	65	2
- long-term payables	11	-
- investment obligation relating to OJCS Dniproenergo (Note 11)	23	-
Loss on early repayment of long-term promissory notes (Note 8)	-	126
Unwinding of discounts on pension obligations	118	72
Loss on early repayment of bonds issued (Note 8)	-	68
Minority interest of participants	-	24
Loss on early repayment of long-term payables	1	3
Other finance costs	8	4
Total finance costs	**469**	**431**

34 Income Taxes

Income tax expense comprises the following:

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

34 Income tax (continued)

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

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

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

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

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

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

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

In prior years, pensions obligations were treated as permanent differences, however in 2007, the tax authorities clarified the rules on deductibility of pension's costs and accordingly a deferred tax asset was recognised in respect of the entire pension obligation.

34 Income tax (continued)

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

In millions of Ukrainian Hryvnia	1 January 2007	Acquisition	Credited/ (charged) to income	Charged to equity	31 December 2007
Tax effect of deductible temporary differences					
Trade and other payables	18	-	13	-	31
Trade and other receivables	39	-	20	-	59
Other provisions for liabilities and charges	18	-	16	-	34
Retirement benefit obligations	12	-	136	-	148
Prepayments received	9	-	6	-	15
Inventories	9	-	2	-	11
Financial investments	(7)	-	72	(36)	29
Gross deferred tax asset	**98**	**-**	**265**	**(36)**	**327**
Tax effect of taxable temporary differences					
Property, plant and equipment	(549)	1	61	-	(487)
Indebtedness under amicable agreement	(40)	-	40	-	-
Other financial liabilities	(23)	-	(113)	-	(136)
Prepayments made	(7)	-	(17)	-	(24)
Gross deferred tax liability	**(619)**	**1**	**(29)**	**-**	**(647)**
Recognised deferred tax asset/(liability)	**(521)**	**1**	**236**	**(36)**	**(320)**

As at 31 December 2008, the Company has not recorded a deferred tax liability in respect of taxable temporary differences of UAH 456 million (31 December 2007: UAH 26 million) associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

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

35 Contingencies, Commitments and Operating Risks

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

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Capital expenditure commitments. As at 31 December 2008, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling UAH 6 million (31 December 2007: UAH 2 million). The Group has already allocated the necessary resources in respect of these commitments. The management of the Group believes that future net income and funding will be sufficient to cover this and any similar commitments.

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

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

Assets pledged and restricted. At 31 December 2007, the Group has the following assets pledged as collateral:

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

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

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group, including increase in the cost of borrowings , declaration of default and demand for immediate repayment of borrowings. The Group is in compliance with the covenants as at 31 December 2008 and 31 December 2007.

35 Contingencies, Commitments and Operating Risks (Continued)

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

36 Business Combinations

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

37 Acquisition of minority interest

Until July 2007, 92.11% of Pavlogradugol OJSC was legally owned by Avdeyevsky Coke Plant OJSC, a company under common control of SCM. In 2006, SCM transferred to the Group the power to govern the financial and operational policies of Pavlogradugol OJSC without transferring ownership. Pavlogradugol is a coal mining entity that is fully integrated with the Group's operation such that up to 90% of its coal production is used by the Group to produce electricity. The Group controls Pavlogradugol OJSC's governing body, which has the power to appoint and remove the managers and effectively obtains the majority of the benefits of Pavlogradugol OJSC activities. Accordingly, Pavlogradugol was consolidated in these financial statements using a method similar to the pooling of interests method using SCM's carrying values for the year ended 31 December 2006, together with a 100% minority interest as the residual equity interest in Pavlogradugol had not been transferred to the Group.

In July 2007, the Group legally completed its reorganisation via the acquisition of 92.11% in Pavlogradugol OJSC from Avdeyevsky Coke Plant OJSC, for consideration of UAH 1,420 million. This transaction has been accounted for as a purchase of minority interest from parties under common control and accordingly the excess of purchase consideration over the carrying amount of the interest acquired has been debited to other reserves in shareholders equity. In December 2007, the Group renegotiated the obligation for Pavlogradugol and replaced it with a new financial instrument bearing interest at 15% and repayable in 2015-2019.

In February 2007, the Group acquired the remaining 7.81% interest in Pavlogradugol OJSC from the State Property Fund of Ukraine for a cash consideration of UAH 110 million. The difference between the consideration paid and the share of the net assets acquired totalling UAH 35 million was recorded as additional goodwill.

As a result of the purchase of the minority interest in Pavlogradugol OJSC, the Group's effective share in Corporation DTEK and Pershotravensky RMZ LLC increased to 98.64% and 99.92 respectively.

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

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

38 Financial Risk Management

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

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

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

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

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

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

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

Counterparty	Classification in the balance sheet	31 December 2008	31 December 2007
Prominvest Bank OJSC*	Financial investment	30	184
Prominvest Bank OJSC*	Cash and cash equivalents	120	146
State Savings Bank of Ukraine JSCB*	Cash and cash equivalents	72	102
VAB Bank JSC*	Cash and cash equivalents	-	30
Dongorbank CJSC**	Cash and cash equivalents	162	25
Marfin Popular Bank	Cash and cash equivalents	212	24
OTP Bank CJSC	Cash and cash equivalents	4	20
Artemzvetmetexport LLC	Trade and other receivables	34	83
Dniproenergo OJSC (Note 11)	Trade and other receivables	153	58
State Company Energorynok	Trade and other receivables	276	166
Metinvest Holding LLC**	Trade and other receivables	134	152

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

38 Financial Risk Management (Continued)

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

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

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

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

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

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

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

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

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

38 Financial Risk Management (Continued)

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

At 31 December 2008, if interest rates on USD denominated borrowings had been 400 basis points higher with all other variables held constant, post-tax profit for the year would have been UAH 21 million lower (2007: UAH 5 million lower).

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

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

The table below summarises the impact of increases of the most significant equity quotations on the Group's equity. The analysis is based on the assumption that the equity quotation had increased by 10% as at 31 December 2008 and 31 December 2007 with all other variables held constant.

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

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

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are undiscounted cash flows. The maturity analysis of financial liabilities at 31 December 2008 is as follows:

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

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

38 Financial Risk Management (Continued)

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

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

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

39 Management of Capital

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net liabilities divided by total capital under management. Net debt is calculated as total borrowing (current and long-term as shown in the consolidated balance sheet) less cash and cash equivalents. As discussed in Note 1, the Group was formed via a legal reorganisation of the Energy segment of SCM, however the contribution of Pavlogradugol OJSC in 2007 was legally structured as a sales and purchase contract. As at 31 December 2007, the Group management considered the obligation for the acquisition of Pavlogradugol OJSC from related parties as quasi equity and accordingly total capital under management was equity as shown in the consolidated balance sheet plus the Pavlogradugol OJSC obligation plus net debt. This obligation was converted to equity in December 2008.

Since incorporation in 2006, the Group has yet to determine its optimum gearing ratio. Presently, the majority of debt is due within 1 year and the Group is actively pursuing mechanisms to extend the credit terms to match its long-term investment strategy. The Group has obtained a credit rating that matches the Sovereign rating.

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

40 Fair Value of Financial Instruments

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

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

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

Fair values were determined based on quoted market prices or third party valuations using discounted cash flows techniques, except for certain investment securities available for sale for which there were no available external independent market price quotations. These securities have been fair valued by the Group on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows, expected to be received, discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

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

40 Fair Value of Financial Instruments (Continued)

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

In millions of Ukrainian Hryvnia	Fair value by measurement method: Quoted price in an active market	Fair value by measurement method: Valuation technique with inputs observable in markets	Total fair value	Carrying value
FINANCIAL ASSETS				
Cash and cash equivalents (Note 15)				
- Bank balances payable on demand	-	373	373	373
- Term deposits	-	222	222	222
Trade and other receivables (Note 14)				
- Trade receivables	-	809	809	809
- Receivable for sale of financial instruments	-	53	53	53
- Other financial receivables	-	62	62	62
Other non current assets				
- Trade and other receivables - non-current	-	18	18	22
Financial investments (Note 12)				
- Securities quoted on the Ukrainian stock market	900	349	1,249	1,249
- Prepayment for shares	-	19	19	19
- Deposits placed with the maturity more than three months	-	31	31	31
- Financial aid provided	-	226	226	226
TOTAL FINANCIAL ASSETS	**900**	**2,162**	**3,062**	**3,066**
FINANCIAL LIABILITIES				
Liability to minority participants	-	2	2	2
Borrowings (Note 19)	-	3,266	3,266	3,731
Investment obligation relating to OJCS Dniproenergo acquisition – non-current	-	193	193	222
Other liabilities – non-current (Note 20)	-	40	40	45
Indebtedness under amicable agreement (Note 21)	-	103	103	116
Investment obligation relating to OJCS Dniproenergo acquisition – current	-	196	196	200
Trade and other payables (Note 25)	-	1,019	1,019	1,019
TOTAL FINANCIAL LIABILITIES	**-**	**4,819**	**4,819**	**5,335**

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

41 Reconciliation of Classes of Financial Instruments with Measurement Categories

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2008:

In millions of Ukrainian Hryvnia	Loans and receivables	Available-for-sale assets	Held to maturity	Total
ASSETS				
Cash and cash equivalents (Note 15)				
- Bank balances payable on demand	373	-	-	373
- Term deposits	222	-	-	222
Trade and other receivables (Note 14)				
- Trade receivables	809	-	-	809
- Receivable for sale of financial instruments	53	-	-	53
- Other financial receivables	59	-	3	62
Other non current assets				
- Trade and other receivables - non-current	22	-	-	22
Financial investments (Note 12)				
- Securities quoted on the Ukrainian stock market	-	1,249	-	1,249
- Prepayment for shares	19	-	-	19
- Deposits placed with the maturity more than three months	31	-	-	31
- Financial aid provided	226	-	-	226
TOTAL FINANCIAL ASSETS	**1,814**	**1,249**	**3**	**3,066**
NON-FINANCIAL ASSETS	-	-	-	**15,004**
TOTAL ASSETS	-	-	-	**18,070**

All of the Group's financial liabilities are carried at amortised cost.

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2007:

In millions of Ukrainian Hryvnia	Loans and receivables	Available-for-sale assets	Held to maturity	Total
ASSETS				
Cash and cash equivalents (Note 0)				
- Bank balances payable on demand	112	-	-	112
- Term deposits	256	-	-	256
Trade and other receivables (Note 14)				
- Trade receivables	375	-	-	375
- Receivable for sale of financial instruments	1	-	-	1
- Other financial receivables	252	-	5	257
Other non-current assets				
- Trade and receivables – non-current	23	-	-	23
Financial investments (Note 12)				
- Securities quoted on the Ukrainian stock market	-	2,866	-	2,866
- Unquoted securities	-	34	-	34
- Prepayment for shares of Dniproenergo OJSC	1,052	-	-	1,052
- Deposits placed with the maturity more than three months	186	-	-	186
- Financial aid provided	5	-	-	5
TOTAL FINANCIAL ASSETS	**2,262**	**2,900**	**5**	**5,167**
NON-FINANCIAL ASSETS	-	-	-	**8,235**
TOTAL ASSETS	-	-	-	**13,402**

42 Significant non-cash transactions

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

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

43 Events after the Balance Sheet Date

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