EFFICIENCY. SUSTAINABILITY

INTEGRATED REPORT | 2013

Financial and non-financial performance

DTEK

Content

Message
from Oleg Popov, DTEK Supervisory Board Chairman

Dear colleagues and partners,

I am proud to present to you DTEK's Annual Report for 2013. For the Company, this has been a year of active steps toward our strategic goal: building the best energy company in Ukraine and creating a national champion in the energy sector. The steps we took were aimed at building up a dynamic, effective and responsible business that not only realises its own potential but helps the communities where its companies operate to unlock their potential. These were steps to shape a business in which people work for people.

The main areas DTEK focused on in 2013 were the implementation of a large scale investment programme, diversification, and the development of the regions where we operate.

DTEK invested more than USD 1.3 billion to develop its assets in 2013. Of this amount, USD 0.3 billion was allocated to retrofit and re-equip the operating power generation units of our thermal power plants, which reduced the units' fuel consumption, increased their capacity and prolonged their service life by 10 to 15 years.

Some of the largest investment projects in the area of electricity generation were the completion of the modernization of unit #6 at the Kurakhovska thermal power plant (TPP) and the retrofit of unit #4 at the Zuivska TPP, which significantly improved the environmental situation in the region. We also continued the construction of the second phase of the Botievo wind farm, as a result of which the plant will commission 35 modern wind turbines with a total capacity of more than 107 MW in 2014.

DTEK invested another USD 0.5 billion in the development of its coal mining assets: to renew its roadheading equipment fleet, provide new equipment for production sections, upgrade the transportation chain, and improve miners' working conditions.

Some of the largest coal production and processing projects were the re-equipment of section 2 of the washery at CCM Pavlohradska, the reconstruction of a winder at the Heroiv Kosmosu Mine, the construction of fresh air shafts at the M.V. Frunze mine and the V.V. Vakhrusheva mine and return air shafts at the Yuvileina mine and the Dobropilska mine.

In terms of diversification, last year DTEK significantly expanded its operations in the area of natural gas and gas condensate production by obtaining control over Private Joint Stock Company Naftogazvydobuvannya and integrating into the East European gas market.

We have been building an efficient and sustainable Company that respects the interests of all stakeholders. For this purpose, we invest not only in upgrading, but also in sustainable growth. DTEK invested USD 0.45 billion in environmental protection, health and safety, employee development, social partnership, and social asset maintenance in 2013. In the reporting period, we started the implementation of three-year social partnership and development strategies in 22 regions where we operate, retrofitted the dust separation equipment at the units of the Kurakhovska and Luhanska TPPs and audited the heath, safety and environmental management systems at the majority of DTEK's companies.

These investments multiplied by the professionalism of DTEK's team - at the headquarters, mines, power plants, and service companies - enabled us to make another big step toward implementing the strategy of our energy holding company.

I want to thank DTEK's team for their good work last year and for everything you have been doing for the Company and its future!

Message
from Maxim Timchenko, DTEK CEO

Dear colleagues,

Today we present the results of our work in 2013, which turned out to be a critical year for Ukraine and Ukrainian business. Despite a drop in Ukraine's industrial production, downgrade of the sovereign credit rating and the unstable political situation in the country, DTEK's financial and production performance in 2013 generally met our expectations.

I would like to point out that in 2013 there was a significant change in Ukraine's energy market: the government passed the Law of Ukraine On Operating Principles for the Electricity Market of Ukraine. The law is primarily aimed at protecting the rights of electricity consumers, and specifically their most essential right of free access to the market and the right to choose an electricity supplier. The law lays the foundation for the liberalisation of the Wholesale Electricity Market and the establishment of efficient competition in the electricity market, taking into account the respective EU Directive. A full-fledged electricity market will start operating from July1, 2017 and will include a bilateral contracts market, a day-ahead market, a balancing market, an auxiliary services market, and a retail market. DTEK, as Ukraine's largest energy company, fully supports the market reforms and is willing to change its operations accordingly.

In the reporting year, we managed to sustain growth in our production indicators: DTEK produced 41.4 mln tons of coal (+4% YoY). DTEK Pavlogradugol and DTEK Sverdlovanthracite had record coal production, with more than 18 million tons and 7 million tons, respectively. DTEK's electricity output grew by 3% to 53 bln kWh and electricity transmission increased by 14% to 56.9 bln kWh. This was partly due to growth in exports: DTEK increased coal exports by a record 73%, supplying coal to the markets of Asia, Africa, China, and South Korea.

In 2013, we started actively working in natural gas markets as we need to meet the demand of DTEK's generation companies and SCM Group's enterprises of 6 bln cubic meters per year. In 2013, we finalised the acquisition of a 50% stake in Private Joint Stock Company Naftogazvydobuvannia, Ukraine's largest private gas producer, which has potential output of up to 1.5 bln cubic meters per year and imports 628.3 mln cubic meters of gas from Western Europe.

Our financial performance was in line with overall market trends and Ukraine's macroeconomic indicators: DTEK's consolidated revenues in 2013 grew by 12.4% YoY to USD 11.6 bln (vs. USD 10.3 bln in 2012). This increase was mainly attributable to the consolidation of companies acquired in the first half of 2012 and growth in natural gas sales. Net profit for the reporting period decreased from USD 745 mln in 2012 to USD 417 mln. DTEK's currency risk exposure (the company receives most of its revenues in UAH) is naturally hedged by its hard currency revenues from exports, which in 2013 were about 1 billion US dollars. This helps us service our credit portfolio, and kept our net debt to EBITDA ratio at a safe 1.5x.

Despite the volatility in financial markets in 2013, we made several successful borrowings, including the issuance of USD 750 mln in Eurobonds and a USD 375 mln debut pre-export financing credit line.

In 2013, we continued our large-scale investment programme, spending USD 1.3 bln to upgrade our production. Last year DTEK retrofitted eight power units, improved the safety of coal mining, constructed new substations and electricity transmission lines to improve the reliability of electricity supply, commissioned a new gas well, and completed the construction of the Botievo wind farm.

Last year we started building a continuous improvement system to ensure better efficiency through continuous process improvements, loss reduction, and quality control. Furthermore, we launched a process automation programme, which covers administrative and technological processes and is aimed at building a unified up-to-date IT infrastructure. We plan to make a technological breakthrough by the end of 2015, though some processes will not be completed before 2025. We kept financing sustainable development and social infrastructure maintenance projects: in 2013, DTEK invested USD 0.45 bln in sustainable development, including social partnership projects with towns where we operate, HSE projects, social facility maintenance, and personnel development. Last year the company launched the volunteer neighbourhood cleanup and planting initiatives Clean City and Green City that included 15,000 DTEK employees in 29 cities.

In 2013, our company also received recognition from the Ukrainian business community. We came in first in a transparency and accountability rating of Ukrainian companies based on methodology from the Beyond Business organiыation and in the non-financial reports competition Readers' Choice Award. GVardia magazine named DTEK the leading socially responsible company, and the chief editors of Ukrainian business magazines awarded DTEK a prize in the category Best Contribution to the Development of Ukraine. DTEK received the grand prize in the category Regional Development in the national business case competition CSR Development for its project that set up local development agencies in the regions where we operate.

Finally, I would like to thank DTEK's management team and all of its 140,000 employees. Of DTEK's eight years, 2013 turned out to be a special year: it taught us stay alert and react flexibly to the changing situation, and make well-balanced decisions. It is important for us to keep working together – and I do not only mean DTEK's team. We managed to build trusting relationships with the public and with local officials, which were great achievements and are also the foundation for the sustainability of our business in the future.

In 2014, we will focus on the reliable operation of the company, improving operational efficiency and channelling investments into the most promising projects. We will actively develop our gas production, which is becoming increasingly important for the energy independence of Ukraine. We will continue our large-scale programme to retrofit power units and improve the reliability of electricity and heat supply networks. Our main task is to ensure the sustainable operation of DTEK's entire production chain from coal mining to electricity generation and supply to consumers.

This year we will keep working on developing trusting relationships between the business, society, and local regulators to ensure the uninterrupted operation of the grid and stabilisation of the economy, as being a reliable partner in the non-market environment and an efficient industry leader in times of dramatic changes is the ultimate goal of any responsible business. This is the work that changes lives for the better.

About the Company

About the Company

DTEK is Ukraine's largest energy company, annually producing nearly half of Ukraine's coal and generating one-third of the country's electricity. It is a part of System Capital Management (SCM), a financial and industrial group whose shareholder is Rinat Akhmetov. DTEK's enterprises operate in 10 regions of Ukraine, which have a population of more than 25 million people.

The Company is developing businesses in the following areas:

- Coal production and preparation
- Electricity generation
- Electricity distribution
- Oil and gas production
- Renewable energy

In 2014, DTEK completed the construction of the Botievo Wind Farm, the largest wind power plant in Eastern Europe. DTEK has five electricity distribution enterprises that provide service to 5.2 million customers. The Company employs 140,000 people and is one of the best Ukrainian employers according to surveys by Ernst & Young and national business publications.

The Company is an active participant in European industrial and business associations, including Eurelectric, Euracoal and EFET. DTEK has representation in five European countries, including trading companies in Geneva and Budapest. The Company exports coal to 36 countries, electricity to six countries and became the largest natural gas importer from Europe to Ukraine in 2013.

Serves

5.2 million clients

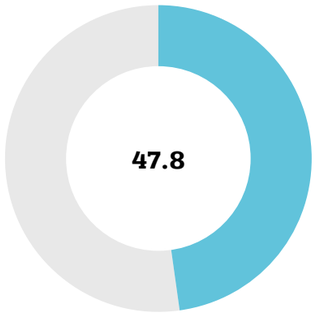
DTEK adheres to the principles of sustainable social development and is a member of the UN Global Compact. The Company upholds the transparency and openness of its business by introducing international best practices for management and efficiency. The Company's investments into sustainable development projects (including HSE, staff development, social projects, and social facility maintenance) amounted to USD 0.45 billion in 2013.

Investments into sustainable development projects

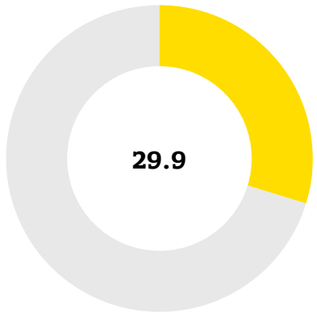
USD 0.45 billion

Proportional market share, %

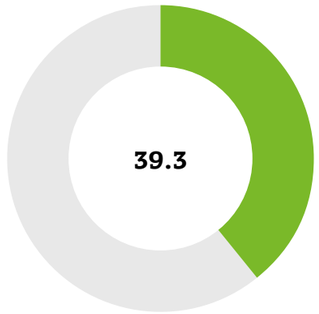
Coal mining



Electricity generation



Electricity distribution



Production performance

41.4 million tons
Coal output

29.3 million tons
Run-of-mine coal processing

53.0 billion kWh
Electricity generation

56.9 billion kWh
Electricity distribution

Financial performance

11,612 USD million
Revenues

417 USD million
Net profit

1,872 USD million
EBITDA

1,290 USD million
Capex

Key achievements in 2013

DTEK Pavlogradugol mined a record 18 million tons of coal and DTEK Sverdlovanthracite – 7 million tons.

Acquisition of a controlling stake in Naftohazvydobuvannya, Ukraine's largest private gas company.

Entry into the gas market and organisation of centralised natural gas trading for SCM.

Fund raising:

- placement of USD 750 million in Eurobonds;
- conclusion of a debut USD 375 million pre-export financing facility;
- raising EUR 138 million in loans for the second phase of construction of the Botievo Wind Farm.

Launch of projects to improve operating efficiency:

- Novator program, a system for the continuous improvement of production processes;
- Platforma program, a system for the comprehensive automation of key business processes

Launch of corporate volunteering in DTEK via the Clean City and Green City campaigns.

Mission, vision, values

Mission

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

Vision

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

Values

Professionalism

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

Responsibility

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

Pursuit of excellence

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

Unity

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

Openness

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

Development strategy 2030. Reorganisation

Development Concept

- DTEK will be developing in Ukraine with entering the markets of neighbouring countries as a diversified and fuels efficient energy company.
- DTEK will focus on the sale of electricity to all categories of consumers with maintaining high standards of service and building a strong retail brand.
- DTEK will rely on the key success factors: the talent and potential of employees and efficiency of production, investments and management.
- DTEK will participate in the reforming and modernisation of Ukraine's economy, social development of regions of its presence and promotion of the best standards in the industrial and environmental safety.

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

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

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

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

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

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

Stages and priorities of DTEK's Corporate Strategy to 2030

In 2013, DTEK started implementing its long-term development strategy to 2030, which sets key directions for business development, project management and technologies that the Company will apply to its activities in the long-term.

DTEK's Corporate Strategy has three stages

Stage 1. 2013-2015. Integration. Infrastructure. Reforms.

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

This will be the key stage for implementing energy market reforms, introducing an incentive tariff-setting system in electricity distribution and changing housing and public utility regulation principles.

Companies whose potential for rapid improvement has been mostly exhausted will become platforms for pilot projects that deal with structural changes in efficiency and innovation: lean*, smart technologies, etc.

DTEK, during this stage, will create the basis for new businesses development; it will form teams and launch pilot projects.

Stage 2. 2015-2020. Efficiency.
The second stage will focus on rolling-out successful efficiency programs, primarily by expanding the application of lean* concepts. This project will require changes in the corporate culture at all levels and increasing people's involvement in all internal processes in the Company.

Current asset development programs will be completed (reconstruction of power facilities and coal mines), and pilot projects to build new power units will be implemented. During this period, it will be possible to develop the conventional business by starting to actively invest in facilities abroad.

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

Stage 3. 2020-2030. Innovation.
The final stage of the long-term strategy is aimed at applying advanced technologies in all areas of the Company's activities. The use of new technologies will be focused on technological safety and automation, electricity sales and related services.

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

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

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

DTEK Reorganisation

The first stage of DTEK's long-term strategy to 2030 provides for the separation of businesses into conventional and renewable energy production and oil & gas production under the common strategic management of DTEK.

Objectives

1 Evolution of the management system in line with the business development strategy

- Separation of operational control from strategic development functions
- Creation of an organisational structure focused on long-term development and new projects
- Formation of the industry expertise centres (conventional electricity generation, renewable energy generation, oil & gas production) to improve operational efficiency

2 Flexible management of the finance and investment portfolios

- Development of a legal framework for fundraising on the most beneficial terms
- Creation of internal competition for financial resources and efficient management of the investment portfolio

Major benefits

Improvement in managerial decision making

- Increased responsibility at the level of the Strategic Holding will allow Industry Sub-holdings to focus on operations
- Industry Sub-holdings will become industry expertise centres
- The new model will secure minimal functional overlap

Separation of businesses

- Separation will allow the projects of Industry Sub-holdings to be financed without any adverse effects on the loan debt burden of the conventional electricity business
- Separation of Industry Sub-holdings will foster the engagement of various partners in various businesses

Transparent structure

- In the context of improving the ownership structure, it is envisaged that a clearer corporate governance system will be setup

Structure

DTEK Energy	DTEK Renewables	DTEK Naftogaz
Conventional electricity production:	**Renewable energy generation:**	**Oil and gas business:**
Coal production and preparation	Wind power generation	Oil and natural gas production
Electricity generation	Hydroelectricity generation	Offshore exploration
Electricity distribution	Solar power generation	Unconventional hydrocarbons

DTEK's management

Maxim Timchenko

**Chief Executive Officer
Head of DTEK since July 2005. Combines his position as CEO with Chairman of DTEK's Management Board.**

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

Mr. Timchenko, along with the heads of the world's 20 largest energy companies, was one of the founding signatories of Energy for Society, a global initiative of the World Economic Forum.

Under the leadership of Mr. Timchenko, DTEK has become one of the top ten most dynamically developing companies in Central and Eastern Europe, according to Deloitte (2013), and the regional leader in terms of the revenue growth. DTEK was also named among the top three largest Ukrainian companies by Forbes Ukraine, top five most profitable companies by Kapital newspaper and top ten best national employers by Ernst & Young.

In 2013, Mr. Timchenko was recognised as the best top manager in Ukraine by Kompanion magazine and Gvardia ratings and was named one of the ten best senior executives by Forbes Ukraine. Mr. Timchenko was ranked by the Ukrainian National Top-100 Ratings as the best top manager in the energy sector of Ukraine in 2012 and 2013.

Vsevolod Starukhin

**Chief Financial Officer
Head of the Financial Division of DTEK since March 2010. Member of DTEK's Management Board.**

Mr. Starukhin was the Chief Financial Officer of the alumina division of Rusal in 2008-2009.

He worked at Schlumberger in 2006-2008 as the Chief Financial Officer responsible for Russia. He headed the financial departments of Mars in Russia, Hungary, the Netherlands and South American countries in 1996-2006. Mr. Starukhin began his career in 1995 at Kraft Jacobs Suchard as a financial manager.

In 2012 and 2013, he was twice named the best Chief Financial Officer in Ukraine by «& Financier" magazine, and best Chief Financial Officer in the fundraising category by Investgazeta.

Under the leadership of Mr. Starukhin, in 2013 the Company held its second placement of Eurobonds in the amount of USD 750 million, concluded a debut pre-export financing facility for USD 375 million, and gained the first experience in DTEK's history of cooperating with an international financial institution – the Black Sea Trade and Development Bank (BSTDB).

Andrey Favorov

**Commercial Director
Head of the Commercial Division of DTEK since January 2012. Member of DTEK's Management Board.**

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

Under the leadership of Mr. Favorov, in 2013 DTEK became the largest natural gas importer from Europe to Ukraine. The Company opened trading enterprises in Geneva and Budapest; DTEK Hungary Power Trade LLC was licensed to trade natural gas in Hungary. DTEK enhanced its presence in the domestic coal market by increasing its coal sales to foreign markets by 72.7%.

Andrey Smirnov

**Coal Production Director
Head of the Coal Production Division of DTEK since June 2011. Member of DTEK's Management Board.**

Mr. Smirnov joined DTEK in June 2011 as the Coal Production Director. Before that, he was General Director of En+ Coal (Russia), a large international coal market player. In 2007-2008, he was in charge of the reconstruction and construction of mines and thermal power plants in the Rostov and Tula regions of the Russian Federation, and was an advisor on the fuel and energy sectors to the Tula region governor. Mr. Smirnov became the head of the Southern Coal-Mining Company (Rostov region, Russia) in 2004. He started his career in 1989 at the Vorgashorskaya Mine (Vorkutaugol) where he advanced from surveyor to general director.

Mr. Smirnov was awarded the «Miner of Russia" Golden Medal for his personal contribution to the development of mining; he is a Full Cavalier of the «Miners' Glory" Order. Under the leadership of Mr. Smirnov, in 2013 the mine groups of DTEK Pavlogradugol, for the first time in the Company's history, achieved coal production of 18 million tons, and the mine groups of DTEK Sverdlovanthracite produced more than 7 million tons.

Igor Maslov

Electricity Distribution and Sales Director Head of the Electricity Distribution and Sales Division of DTEK since January 2012. Member of DTEK's Management Board.

Mr. Maslov joined DTEK in October 2005, first as head of the Electricity Distribution Department, then as Deputy Director of Electricity Generation and Sales. Prior to that, he worked as an engineer at Donbasenergo, as head of the production laboratory at the Donetsk Regional Dispatch Centre of the Power Industry of Ukraine and as head of the Relay Protection and Automation Service at Service-Invest, an electricity distribution company. He started his career in 1983 as a worker at Zuivska TPP-2.

In 2013, under the leadership of Mr. Maslov, the Company conducted a comprehensive campaign aimed at enhancing the customer orientation of DTEK's electricity distribution companies: 4 customer service centres (CSC) were opened, the functional scope of the Kyiv call centre was extended, a call centre was opened in Nikopol, and online customer services were introduced.

Aleksandr Kucherenko

Human Resources Director Head of the HR Division of DTEK since May 2011. Member of DTEK's Management Board.

Mr. Kucherenko, before being appointed HR Director permanently, had been the HR and Corporate Communications Director of DTEK since July 2010. He joined DTEK in 2009 as Deputy Director of HR and was in charge of establishing a knowledge management centre at the Company, DTEK Academy, as well as programs for personnel appraisal and development. Before coming to DTEK, he worked for Unilever and InBev; at the latter, he advanced to the position of Training and Development Director for the Eastern European region.

Mr. Kucherenko also held the position of the head of the Training and Development Department at Raiffeisen Bank Aval. In 2013, he was recognised the best HR director in Ukraine by Investgazeta and DTEK was named among the best employers in ratings by the publications Kapital and Korrespondent. In 2013, DTEK's corporate university, DTEK Academy, opened a branch in Kyiv and announced the launch of service delivery to the international market. DTEK Academy is expected to become the flagship for business education in Ukraine.

Dmitry Sakharuk

Legal Support Director Head of the Legal Support Division of DTEK since May 2011. Member of DTEK's Management Board.

Mr. Sakharuk joined the Company in March 2010 as Deputy Head of the Legal Support Department and was later appointed acting Legal Support Director of DTEK. Before joining DTEK, he worked for the international legal company Squire, Sanders & Dempsey L.L.P.

In 2013, the Legal Support Division of DTEK led by Mr. Sakharuk made it into the top three leaders of the independent study «50 Leading Legal Departments of Ukraine.»

Sergey Polyanskiy

Security Director Head of the Security Division since April 2007.

Mr. Polyanskiy joined DTEK in 2005 as Deputy Head of DTEK's Security Service in charge of economic security. Later, he was appointed head of DTEK's Economic Security Department. He held executive positions in the Criminal Investigation Department of the Ministry of Internal Affairs prior to that, dating back to 1994.

During his service there, he undertook special training courses on anti-terrorism operations and explosives and firearms offences as part of an international training system in the US, UK and Turkey. Mr. Polyanskiy has worked for law enforcement agencies since 1986, where he has specialised in operations. He advanced from an investigator to head of the Anti-Drug Trafficking Division of the Ministry of Internal Affairs in Donetsk region.

Under the leadership of Mr. Polyanskiy, in 2013 the Company launched the SCM Trustline project and extended its system of personnel and information security, safety, and risk management.

Operations. Company structure

Coal production and preparation

DTEK's portfolio of coal mining assets consists of 31 mines and 13 preparation plants in Donetsk, Dnipropetrovsk and Luhansk regions of Ukraine, and in the Rostov region of the Russian Federation. In 2013, the Ukrainian mines of DTEK produced 41.4 million tons of coal. The volume of ROM coal processed over this period amounted to 29.3 million tons.

DTEK mines thermal and coking coal that is processed by the Company's own enterprises. The Company's range of coal products includes G, DG, T and A coal grades. ROM coal and coal concentrate are used in the electricity generation and coking industries; and sorted fuel is supplied to households. DTEK is one of the largest players in the post-Soviet coal market and the European anthracite market. The aggregate reserves of DTEK's mines amount to 1,742.8 million tons of coal, with an average sufficiency of 55 years.

In 2013, DTEK completed a reform of the management model of its coal mining enterprises. In particular, coal mines were incorporated into mine groups and directly subordinated to DTEK's Corporate Centre. This allows for a closer connection between the Corporate Centre and the enterprises, improving the Company's managerial efficiency.

Electricity generation

The production assets of DTEK's electricity generation business are represented by 10 thermal power plants (TPPs) located in eastern, central and western Ukraine. The group also has two combined heat and power plants (CHPPs) at Kyivenergo. The total installed capacity of DTEK's electricity generation companies exceeds 18 GW. All generated electricity is supplied to the wholesale electricity market (WEM). The aggregate electricity output supplied by DTEK's generation companies to the WEM was 53.0 billion kWh. DTEK's enterprises also produce and supply heating energy to customers in the city of Kyiv and Dnipropetrovsk region.

DTEK also includes the Burshtyn TPP, which is vital for ensuring electricity exports to Hungary, Slovakia and Romania. The power plant is part of the so-called Burshtyn Energy Island, which operates in the European Network of Transmission System Operators for Electricity (ENTSO-E) with an export transmission capacity of 650 MW.

Capacity of DTEK's elecricity generation companies

18.2 GW

DTEK's TPPs are mostly fuelled by coal and CHPPs by natural gas. Along with thermal generation, DTEK also owns the Botievo Wind Farm, the largest wind power plant in Eastern Europe, with an installed capacity of 200 MW, which was completed in 2014. The Botievo Wind Farm produced 267.7 million kWh of power in 2013, and this output was included in DTEK's overall electricity generation indicator.

Electricity distribution

DTEK is the largest Ukrainian company in the segment of electricity purchasing for distribution to end consumers. DTEK has five electricity distribution and sales enterprises: DTEK Donetskoblenergo, DTEK Power Grid, DTEK Dniprooblenergo, DTEK Krymenergo, and Kyivenergo.

DTEK's distribution companies service over 5.2 million customers, including enterprises in the metallurgy, coal mining, machine building and other industries, organisations and households in the city of Donetsk, Donetsk and Dnipropetrovsk regions, and the Autonomous Republic of Crimea. Kyivenergo provides the full range of electricity and heating to the Ukrainian capital.

The total length of DTEK's network grid lines is 156,600 km. In 2013, DTEK's electricity distribution companies purchased about 56.9 billion kWh of power from the WEM. The Company ensures reliable electricity supplies to its customers by upgrading and constructing new power transmission lines and substations.

Lentgth of DTEK's network grid lines

156,600 km

Heating supply

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

The Company sells heating services to public utilities, legal entities and households. Heating is distributed and transmitted through heating pipelines, which are mostly owned by the municipalities.

In 2013, the Company produced

12,100 Gcal of heating energy

Trading operations

DTEK is the largest company that exports coal and electricity from Ukraine and a key anthracite market player.

Electricity exported to EU countries is produced by DTEK power plants (Burshtyn and Dobrotvir TPPs). DTEK's electricity supplies make up about 10% of Hungary's national consumption, 42% of Moldova's consumption, and 8% of Belarus' consumption. The Company also exports electricity to Poland, Romania and Slovakia.

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

DTEK's coal is supplied to power plants, coke plants and metallurgical complexes in Ukraine, as well as to power plants and industrial enterprises in Europe, Asia, North and South Americas, and Africa. In 2013, DTEK extended its presence in the domestic coal market, in particular supplies to cement and lime production plants and metallurgical enterprises increased to 1.2 million tons.

DTEK's supplies to Hungary make up
10%
of consumption

The Company supplies coal to the following foreign markets:

- Coal grade KSK: RSA, Brazil, China, South Korea, Thailand, Japan, Mexico
- Coal grade ASSh: Russia, Bulgaria, China, South Korea
- Coal grade G/DG: Turkey, Morocco, UK, Spain.

In 2013, DTEK entered the international open freight market and chartered its first vessels on optimal market conditions.

DTEK has business relations with key European energy players: Alpiq Energy SE (Czech Republic), Axpo Trading AG (Switzerland), E.ON Energy Trading (Germany), EDF Trading Limited (UK), and Gazprom Marketing & Trading (UK). DTEK set up a trading branch in Switzerland, DTEK Trading S.A., to ensure direct sales to end consumers in Europe. The Company is a full-fledged member of the European energy system and part of the European Federation of Energy Traders (EFET).

** Data, respectively, by: ENTSO-E, the National Energy Regulatory Agency of Moldova (ANRE), and Belenergo State Production Association*

Renewable Energy Generation

Aside from conventional generation, DTEK has been actively developing alternative energy production. The development of DTEK's business in the wind power segment is implemented by its subsidiary Wind Power LLC.

In 2013, DTEK completed the installation of 35 V112-3.0 MW Vestas wind turbines for the second stage of the Botievo Wind Farm. The wind farm achieved its design capacity of 200 MW in the first half of 2014. Total investments in the construction of the Botievo Wind Farm have amounted to approximately EUR 339 million. In 2013, the Botievo Wind Farm received investments in the amount of USD 183 million.

The Botievo Wind Farm is the first wind farm of the DTEK Priazovskiy Wind Park (Zaporizhya region), which will also include the Berdiansk Wind Farm (150 MW) and Primorsk Wind Farm (200 MW). Currently, the construction of infrastructure is ongoing at the sites of these power plants. Investments in the three wind farms of the DTEK Priazovskiy Wind Park will total about EUR 943 million. Full commissioning of the wind park is planned to take place by the end of 2017.

Oil and gas business

Development of the oil and gas production business is a key strategic area for DTEK's growth. Its primary target is to satisfy the needs for fuel of SCM Group's companies. More than 6 billion cubic meters of natural gas per year is needed for this purpose.

In December 2013, DTEK completed the acquisition of a 50% stake in PJSC Naftohazvydobuvannya, Ukraine's largest private gas production company. Naftohazvydobuvannya develops licensed sites at the Machukhske and Semyrenkivske fields in Poltava region with 20.0 billion cubic meters of proven natural gas reserves and 2.0 million tons of proven condensate reserves.

Naftohazvydobuvannya operates 11 wells in total and is also drilling three new wells. Extracted gas is brought to market standards at two complex gas processing facilities (CGPF) – Machukhska and Semyrenkivska. The company plans to complete construction of the Olefirivka CGPF in the first half of 2014.

SCM Group annually needs in natural gas

6.0
billion cubic meters

Company structure

At present, DTEK is undergoing structural changes. The purpose is to improve the Company's competitive position through better efficiency and managerial flexibility. In 2013, as a part of these changes, the Company underwent a transition from the three-level management model to a two-level one. Now DTEK consists of:

13 mine groups
(including 31 mines and 6 preparation plants):

Pershotravensk Mine Group
Pavlohradsk Mine Group
Dniprovske Mine Group
Ternivae Mine Group
Heroiv Kosmosu Mine Group
Bilozerske Mine Group
Dobropilllia Mine Group
Komsomolets Donbasu Mine Group
Rovenky Mine Group
Chervonyi Partyzan Mine Group
Sverdlovsk Mine Group
Yasenivskyi Mine Group
Obukhivska Mine Group

7 preparation plants

Pavlohradska CPP
Mospinska CPP
Kurakhivska CPP
Komendantska CPP
Dobropilska CPP
Oktyabrska CPP
Sverdlovska CPP

10 TPPs

Kurakhove TPP
Luhanska TPP
Zuivska TPP
Kryvorizka TPP
Zaporizka TPP
Prydniprovska TPP
Burshtyn TPP
Dobrotvir TPP
Ladyzhyn TPP
Myronivska TPP

5 electricity distribution companies

DTEK Donetskoblenergo
DTEK Dniprooblenergo
DTEK Krymenergo
DTEK Power Grid
Kyivenergo

Renewable energy generation

Botievo Wind Farm (Wind Power LLC)

Oil and gas production

PJSC Naftohazvydobuvannya (controlling stake)
Vanco Prykerchenska Ltd

In 2014, DTEK's long-term development strategy envisages the separation of businesses into conventional and renewable energy production and oil and gas production under the common strategic management of DTEK (Page 18).

Key events of the reporting period

January

Modernisation of the Power Unit 4 at DTEK Zuivska TPP was completed

Power Unit 4 of DTEK Zuivska TPP was reconnected to the power system of Ukraine after reconstruction. Modernisation of the power unit with state-of-the-art technologies improved the reliability of the equipment and significantly reduced the environmental impact. Investments in the modernisation of the unit amounted to USD 31.5 million.

February

DTEK launched the Energy Efficient Schools project

DTEK launched the pilot stage at 11 educational institutions in Kyiv from February to May. The elective course Fundamentals of Heating Supplies and Heat Savings was offered in the capital's schools. In the course, students created projects to improve the energy efficiency of their schools. DTEK allocated USD 125 thousand for the implementation of these projects at all 11 schools that participated in this pilot initiative. In October, the second stage of the project launched at 55 schools in 22 cities of Ukraine.

March

Modernisation of Power Unit 6 at DTEK Kurakhove TPP was completed

The work was carried out in record short time of 11 months. Total investments in the project amounted to USD 73 million. The main equipment of the power unit, such as the turbine, boiler, generator, transformer and electrical equipment, was reconstructed based on new technical solutions.

Agencies for Local Economic Development project was launched

DTEK, the East European Foundation, Sokal Agency for Regional Development, and the British Council in Ukraine announced the launch of a new project to support social entrepreneurship. The project, in which DTEK invested USD 125 thousand, is aimed at improving the competitive position of the regions where DTEK operates by strengthening their economic potential. Agencies for Local Economic Development are being established as part of the project and funds have been allocated to support and promote social enterprises.

April

DTEK placed Eurobonds

DTEK placed USD 750 million in Eurobonds with a coupon 7.875% due in 2018. Proceeds were used for a partial buyback of the previous bond issue of 2010, as well as for general corporate purposes, including but not limited to financing current CapEx programs, replenishing working capital, and paying separate debts.

June

DTEK set up a trading company in Switzerland

DTEK set up a trading company in Switzerland to obtain direct access to European energy markets. DTEK Trading S.A. was registered on June 20, 2013 in Geneva, Switzerland. DTEK Trading S.A. carries out the bulk of DTEK's trading operations with coal and electricity on European markets.

DTEK raised EUR 138 million for the second stage of the Botievo Wind Farm

Wind Power LLC, a subsidiary of DTEK, attracted EUR 138 million for construction of the second stage of the Botievo Wind Farm. The construction included the installation of 35 state-of-the-art Vestas V-112 wind turbines with a total capacity of 105 MW; this work is expected to be completed in 2014. The investor is LandesBank Berlin, one of the largest banks in Germany.

July

DTEK started importing gas from Europe

The volume of gas imports until the end of the year was adjusted based on economic feasibility and market conditions in the Ukrainian and European gas markets. DTEK's entry into the oil and gas business was caused by the need to provide resources to its own electricity generation facilities and other SCM Group enterprises, which is estimated at about 6.0 billion cubic meters per year.

August

DTEK launched a program to create new jobs

DTEK launched a program to create new jobs in regions where the Company's enterprises operate. DTEK's existing and potential business partners were invited to participate in the program. All other conditions with respect to price and quality being equal, the Company, when awarding contracts, is ready to give preference to suppliers who create new jobs in the regions where DTEK operates.

September

DTEK signed a credit facility agreement for RUB 5.35 billion

DTEK signed an agreement with VTB Capital plc (VTB Group) for a RUB 5.35 billion credit facility. Financing under the credit facility will be provided in two tranches for three and five years. The funds were used for general corporate purposes, including the replenishment of working capital and financing of capital expenditures.

DTEK concluded a debut pre-export financing facility for USD 375 million

DTEK concluded a debut pre-export financing facility for USD 375 million, which was organised by Deutsche Bank AG, RBI AG, Unicredit Austria AG, Erste Group Bank AG and Gazprombank. Financing under the credit facility will be provided in two tranches for three and five years. Proceeds were used to support DTEK's export activities.

November

DTEK got licensed in Hungary to import gas to Ukraine

DTEK Magyarorszag Kft (DTEK Hungary Power Trade LLC) was granted a license for natural gas trading in Hungary. This enabled DTEK to enhance gas import efficiency in order to meet the fuel demand of its own generation facilities and SCM Group companies.

DTEK gained control over Ukrainian engineering company Elektronaladka

On November 1, 2013, DTEK became one of the participants of Elektronaladka, after obtaining all of the necessary permissions from anti-monopoly authorities and the state registration of the revised Articles of Association of the company. This new enterprise will centralise the management of large-scale projects to retrofit energy equipment, construct new power units at TPPs, and increase the efficiency of investments.

December

DTEK acquired a controlling stake in PJSC Naftohazvydobuvannya

Naftohazvydobuvannya, Ukraine's largest private gas producer, develops the Machukhske and Semyrenkivske fields in Poltava region with 20.0 billion cubic meters of proven gas reserves and 2.0 million tons of proven gas condensate reserves. The company produced 506.0 million cubic meters of gas in 2013 and plans to increase its output to 800.0 million cubic meters in 2014.

Industry review

Macroeconomic indicators

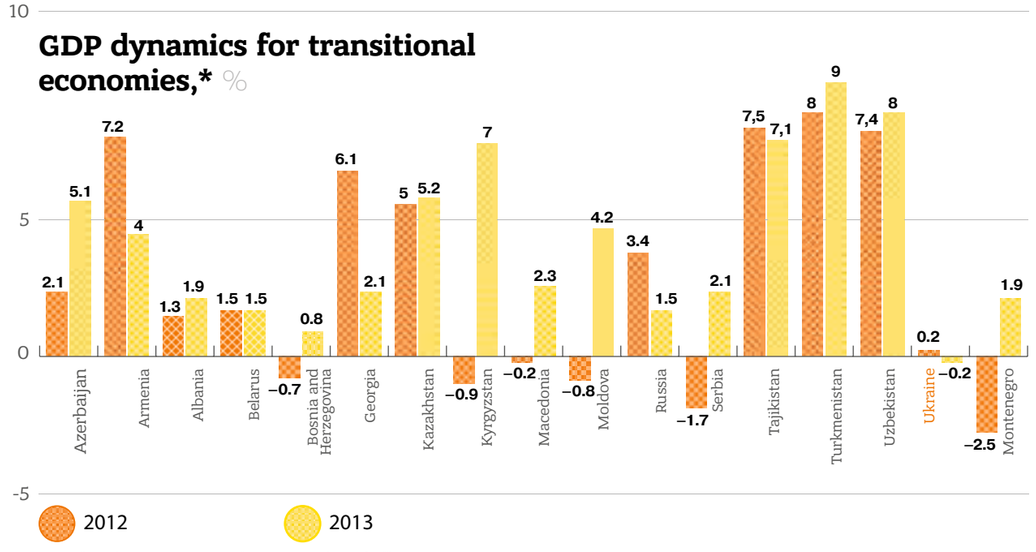
The growth rate of Ukraine' economy has been slowing for three consecutive years. The country's real GDP remained at the same level in 2013 as in 2012, though the government targeted a 3% increase. This was the result of the persistence of adverse international market conditions, including trade restrictions imposed by the Customs Union, high energy prices and decreased debt-raising potential.

Ukraine's GDP*

Year	GDP in current prices		GDP increase
	UAH billion	USD billion	%
2011	1,302	163	5.2
2012	1,411	177	0.3
2013	1,455	182	0.0
2014**	1,524	145	–3.0

* Data from the State Statistics Service of Ukraine
** Government projection

Ukraine was last in GDP growth in 2013 among 17 transitional economies. The Eurozone came out of a prolonged recession, the US economy was still on the rebound, and the situation was improving in China and some other large countries. The UN forecasts 3.0% global GDP growth in 2014, following a 2.1% increase in 2013.



* Data from the UN Department of Economic and Social Affairs

Ukraine's nominal GDP reached USD 181 billion in 2013. This was the third largest index in the region after Russia and Kazakhstan, which are exporters of energy products and raw materials. According to the government's forecast, Ukraine's nominal GDP will amount to USD 145 billion at the end of 2014, while the economy will contract by 3.0%.

In 2013, the country's domestic market continued developing, which was a stabilising economic factor. The market development was assisted by higher social benefits and stable prices due to high crop yields for three years in a row. Retail turnover rose by 9.5% in 2013 vs. 15.9% in 2012. This was due to a lower increase in real wages: 8.2% in 2013 vs. 14.4% in 2012.

After deflation in 2012, Ukraine gave up its strict monetary policy. The consumer price index amounted to 100.5% in 2013 and is forecasted to reach 108.5% in 2014. Moderate inflation is expected to boost the economic revival. At the same time, the risks of uncontrollable price growth persist due to the political crisis and deteriorating economic situation.

Retail turnover in 2013 grew by **9.5%**

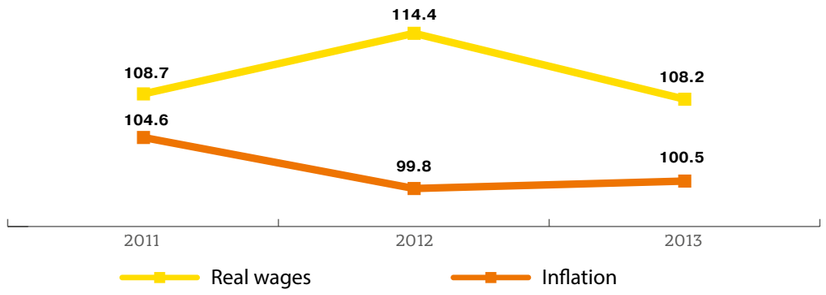
Variation in consumer prices

(December, year-on-year)*, %

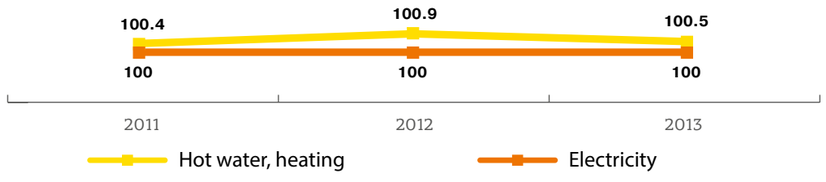
Year	Inflation
2011	4.6
2012	–0.2
2013	0.5
2014**	8.5

* Data from the State Statistics Service of Ukraine
** Government projection

Dynamics in inflation and real wages, %



Index of consumer prices in electricity and heating supply,* %



* Data from the State Statistics Service of Ukraine

The decline in industrial output sped up. The industrial production index went down 4.3% in 2013, following a 0.5% drop in 2012 and 8.0% growth in 2011. The downtrend was observed in the metallurgy, machine building, textiles, basic chemicals, coke and petrochemical products and construction materials industries.

This was due to weak demand for Ukraine's exported products in international markets. Supplies of Ukrainian goods dropped by 8.0% year-on-year to USD 63 billion in 2013. Exports of metallurgy products sank by 7.0% and chemical products by 15.0%. These two industries accounted for 40% of Ukraine's exports.

The import of goods to Ukraine went down 9.1% to USD 77 billion. The deficit in trading of goods and services decreased 5.7% to USD 8.5 billion in 2013. In 2014, import of goods and services to Ukraine is forecasted to total USD 95.3 billion and export - USD 82.7 billion.

The competitiveness of Ukrainian goods in foreign markets was constrained by the stable UAH exchange rate while other currencies were weakening. In 2013, the official exchange rate amounted to UAH/USD 7.99, just like in 2012. Since early 2014, the National Bank of Ukraine started to pursue a more flexible exchange rate policy, in part due to the complicated political situation in the country. According to the Ministry of Finance, the average annual UAH exchange rate is expected to be UAH/USD 11, provided that the country resumes cooperation with international financial institutions.

Growth in prices for industrial goods accelerated to 1.7% in 2013 vs. 0.3% in 2012. In 2014, the price index of industrial goods manufacturers is expected to be 112.3%. The financial condition of enterprises deteriorated in 2013. Large and medium-sized companies' financial results before taxation decreased by a factor of 3.4x in 2013 from USD 3 billion to USD 11 billion. 62.8% of enterprises reported profit at yearend (vs. 66.4% in 2012).

As a result, capital investments dropped by 1.1% to USD 31 billion, compared to an increase of 8.5% in 2012. 63.0% of capital investments were accounted for by the companies' own funds. In particular, investments in the industry increased by 0.3% to USD 12.8 billion.

Direct foreign investments in Ukraine's economy totalled USD 5.7 billion in 2013 compared to USD 6 billion in 2012.

Ukraine's international reserves decreased by 16.8% to USD 20.4 billion in 2013 due to the need to repay substantial foreign debts, following a decline of 22.8% in 2012.

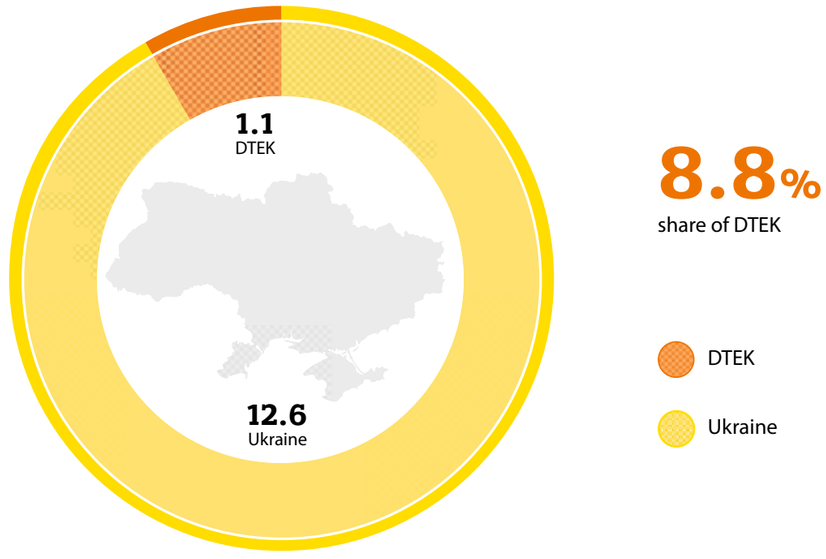
Ukraine's state debt and government-backed debt rose 13.3% to USD 73 billion over 2013. The debt-to-GDP ratio was 40% (vs. 37% in 2012), whereas the critical level is 60%.

Ukraine's public borrowings amounted to USD 18.3 billion in 2013 vs. USD 13.7 billion in 2012.

The country raised USD 11.8 billion from the domestic market and USD 6.5 billion internationally, including USD 463 million for development projects implemented jointly with international financial institutions. Revenues from privatisation plummeted to USD 185 million vs. USD 850 million in 2012. Consolidated budget income was USD 55.4 billion in 2013. The budget deficit amounted to USD 8 billion.

Ukraine expects to receive substantial macrofinancial assistance from its foreign partners in 2014. In March, EU financial institutions decided to allocate EUR 11 billion to Ukraine in 2014-2015. The IMF Board of Directors approved a 2-year credit program for Ukraine in the amount of USD 17 billion on April 30. This May, Ukraine placed 5-year Eurobonds guaranteed by the US government in the amount of USD 1 billion.

Capital investments in Ukraine's industry in 2013*, USD billion



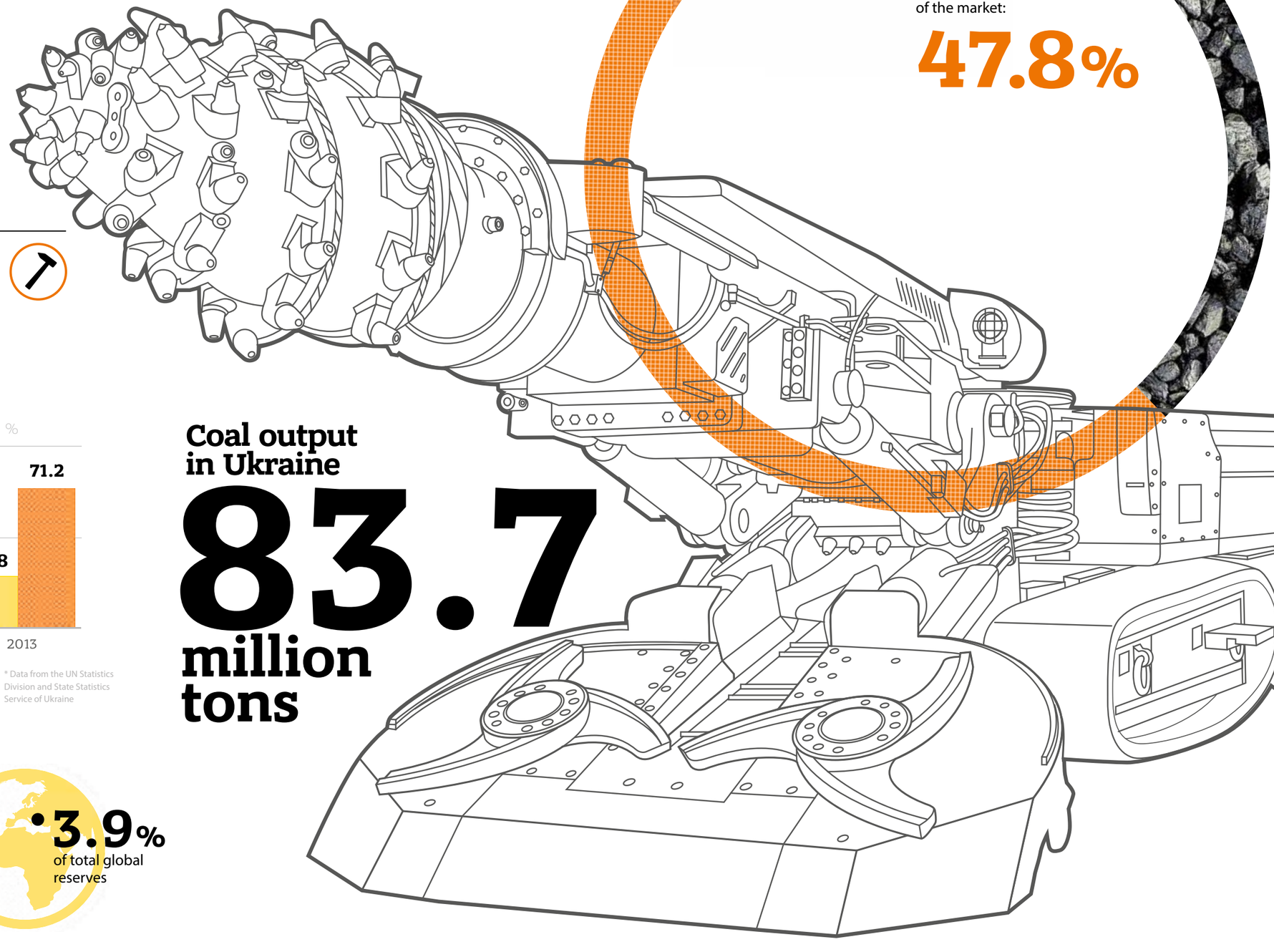
* Data from DTEK, State Statistics Service of Ukraine

Coal market

41.5%
of Ukraine's electricity is produced by coal-fired TPPs

212
thousand people are employed by the coal industry

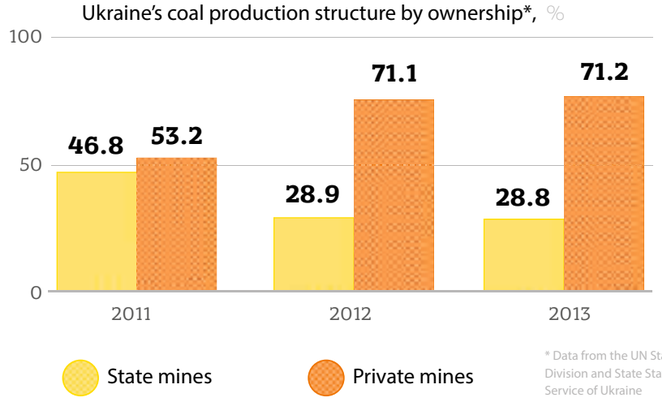
145 mines



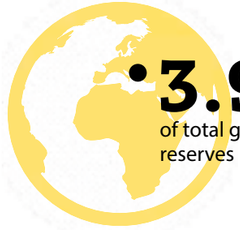
DTEK's proportional share of the market:
47.8%

Coal output in Ukraine
83.7 million tons

Ukraine's coal production structure by ownership*, %



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



3.9%
of total global reserves

Coal industry overview

Ukraine's proven coal reserves amount to 34.0 billion tons. According to various estimates, the country accounts for 3.3-3.9% of global reserves and approximately 10% of European reserves. The coal reserves of operating mines total 6.1 billion tons, including 3.5 billion tons of thermal coal and 2.6 billion tons of coking coal.

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

Ukraine has 145 mines. The Ministry of Energy and Coal Industry manages 20 coal production enterprises that consist of 91 mines. Ukraine's five major coal companies provide more than 50% of the country's coal output.

The number of people employed by the coal industry decreased by 5,100 within 12 months to 212,000, including approximately 155,000 people working at state-owned mines.

Miners' average monthly salary reached USD 740 in December 2013 vs. USD 689 one year earlier. The salary increase was 7.3%, compared to 0.4% in 2012. Miners' wages were 43.7% higher than average industrial salary and second highest overall after the pharmaceutical sector.

In 2013, Ukrainian enterprises increased their sales of hard coal and lignite by 7.4% year-on-year to USD 6 billion. In industrial product sales, coal accounted for 4.3%, compared to 4.0% in 2012. Ukraine is a European leader in terms of hard coal output.

Sales of hard coal and lignite in 2013

USD 6.0 billion

Largest producers of hard coal in Europe*, million tons

	2012	2013**	Δ, %
Spain	6.4	4.3	–32.8
Czech Republic	11.4	8.6	–24.6
Germany	11.1	7.7	–30.6
Great Britain	16.6	12.9	–22
Ukraine	64.7	63.3	–2.2
Poland	79.2	76.5	–3.4

* Euracoal (projected data)
** Marketable coal products

Coal balance

According to the Ministry of Energy and Coal Industry, coal production in Ukraine declined by 2.6% year-on-year to 83.7 million tons in 2013. The volume of thermal coal production went down 1.8% to 60.0 million tons, while coking coal production declined by 4.4% to 23.7 million tons. The decrease was the result of lower demand in the energy sector and a surplus of coal products on the market.

Miner's average labour productivity rose by 0.3 tons/month year-on-year to 28.6 tons/month. In 2013, the total length of driven access ways and preparatory workings equalled 439.8 km, which was 9.5 km less than in 2012. 194 working faces were operational as of December 2013.

The export growth, achieved primarily due to DTEK's efforts, enabled Ukrainian TPPs to reduce their coal reserves in storage by 1.6 million tons in 2013 following a 1.8 million tons increase in 2012 due to a coal surplus on the market.

Worker's labour productivity

28.6 tons per month

Coal production volumes by leading Ukrainian producers *, million tons

ROM coal production	2012	2013	Δ, %
DTEK Pavlogradugol	17.0	18.2	7.1
Chervonoarmiiska Zakhidna	8.3	8.6	3.6
DTEK Sverdlovanthracite	6.9	7.0	1.4
DTEK Rovenkyanthracite	7.3	6.7	–8.2
Krasnodon Coal	5.4	5.4	0
DTEK Mine Komsomolets Donbasu	4.5	4.0	–11.1
DTEK Dobropolyeugol	3.3	2.8	–15.2
Makiivugol	2.2	2.2	0

State-run companies decreased production by 2.9% to 24.1 million tons in 2013, including 17.4 million tons of thermal coal (-1.6%) and 6.8 million tons of coking coal (-6.1%). The share of state-run companies in the total coal production structure is decreasing due to structural industry reforms and increased investments by private mine owners.

Capital investments into DTEK's coal assets reached USD 527 million in 2013. Capital investments into all state-owned mines made up USD 53.8 million in the same period vs. USD 56 million in 2012.

Ukraine intends to continue the privatisation of coal enterprises. This process was suspended in 2013 due to the complicated financial and economic situation.

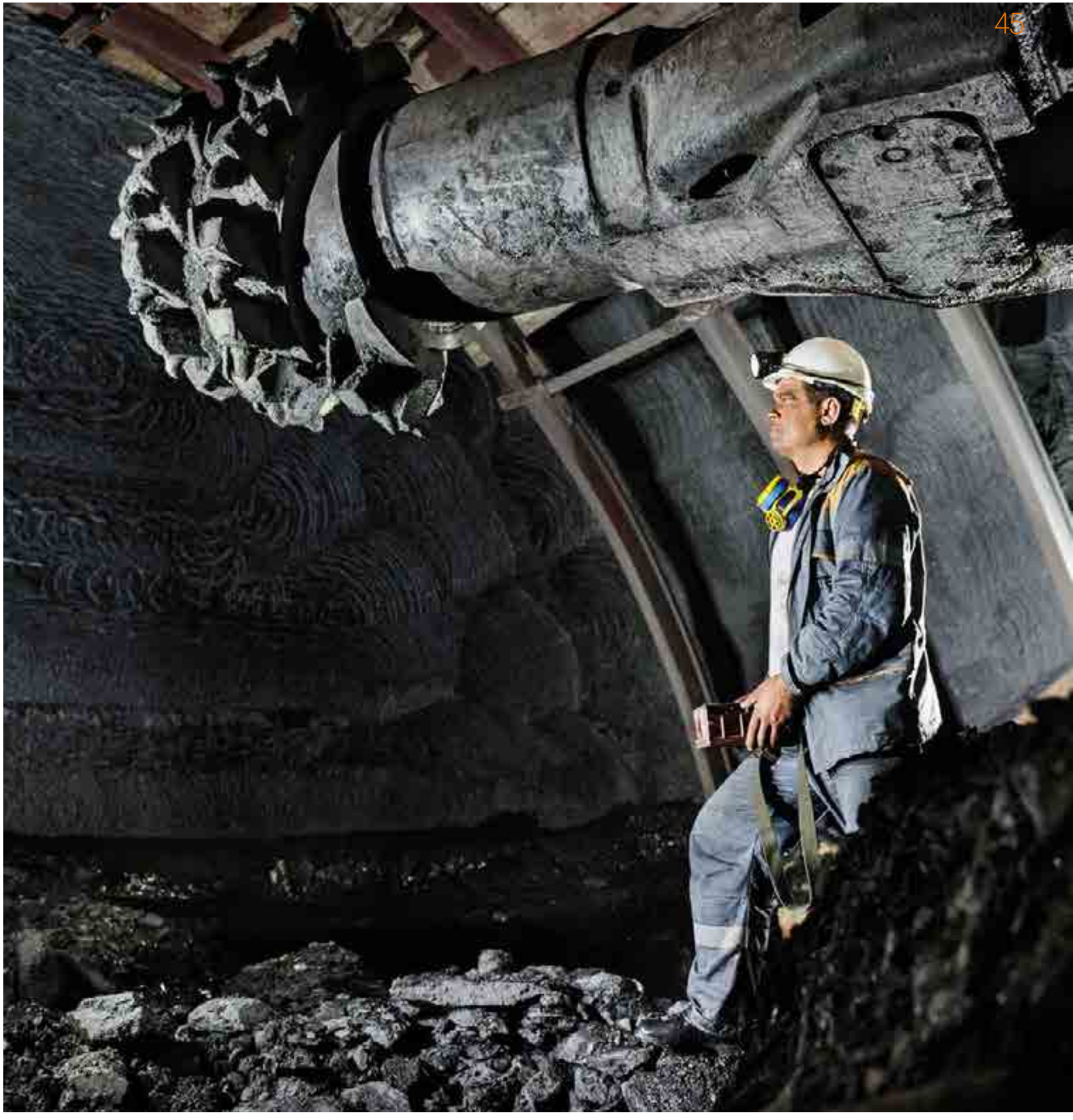
Coal exports reached

10.5 million tons

Part of the extracted coal is not fit for use due to high ash content. Coal quality is improved at preparatory plants. The volume of marketable coal products available for sales declined 2.2% year-on-year to 63.3 million tons.

Ukraine conducted coal export-import transactions with 58 countries in 2013. The country imported 14.9 million tons of coal products for a total of USD 2.2 billion vs. 15.3 million tons for USD 2.9 billion in 2012, including 14.2 million tonnes of hard coal for USD 2.0 billion, 702,000 tons of coke for USD 190 million and minor amounts of peat and lignite. The largest coal suppliers to Ukraine are Russia, the USA and Kazakhstan.

Coal exports reached 10.5 million tons for a total of USD 1.1 billion. The largest volumes were shipped to Turkey, Bulgaria, Russia, and Slovakia. Hard coal supplies rose from 6.1 million tons in 2012 to 8.5 million tons in 2013, while export revenues grew from USD 609.4 million to USD 737.0 million. Coke exports dropped from 2.6 million tons to 2.0 million tons or in monetary terms from USD 626 million to USD 405 million.



Thermal coal balance*, million tons

	2012	2013	Δ, %
Production	39.8	42.4	6.5
Import	4.6	3.1	–32.6
Level of storage	3.4	2.6	–23.5
Total: enriched coal	**47.8**	**48.1**	**0.6**
Energy	37.4	36.8	–1.6
Metallurgy	4.8	4.4	–8.3
Export	1.0	2.5	150.0
Other	4.6	4.4	–4.3
Total: consumption	**47.8**	**48.1**	**0.6**

* DTEK's calculations

Pricing

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

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

The wholesale price of one ton of state-owned companies' marketable coal products dropped by 9.7% to UAH 491.90 (USD 61.60) in 2013. The production cost went up by 11.2% to UAH 1,348.30 (USD 168.70). The state allocated UAH 13.302 billion (USD 1.7 billion) from the national budget to partially cover this gap, compared to UAH 10.172 billion (USD 1.3 billion) in 2012.

API2* index reflects the price of thermal coal with a calorific value of 6,000 kCal/kg, delivery CIF Amsterdam, Rotterdam, Antwerp

Year	2011	2012	2013
Share, USD/ton	121.54	92.55	81.68
Δ, % of previous year		–23.9%	–11.7%

* Data from McCloskey.

Price of thermal coal with a calorific value of 6,000 kCal/kg, delivery FOB Mariupol*

Year	2011	2012	2013
Share, USD/ton	109.1	102.5	91.6
Δ, % of previous year		–6%	–10.6%

* Data from Metall-Expert

ASH grade coal price on the domestic market, delivery FCA*

Year	2011	2012	2013
UAH/t, net of VAT	689	729	620
Δ, % of previous year		5.8%	–15%

* Data from Metall-Expert

G grade coal price on the domestic market, delivery FCA*

Year	2011	2012	2013
UAH/t, net of VAT	601	611	537
Δ, % of previous year		1.7%	-12.1%

* Data from Metall-Expert

Industry regulation

The main state authority that determines the government's policy in the coal sector is the Ministry of Energy and Coal Industry (hereinafter, the Ministry).

The updated Energy Strategy of Ukraine to 2030 (hereinafter, the Energy Strategy) serves as the Ministry's main benchmark for reforming and developing the industry.

As before, the following five goals remain crucial for the industry's development and restructuring:

- liberalise the coal market, pricing and marketing mechanisms
- privatise coal mining companies and provide for various measures to make them more attractive for investors; close loss-making coal and peat production enterprises
- improve governmental support mechanisms
- set up a system of social support for coal industry workers in the impact areas of coal production and processing companies during closure or mothballing
- modernise mine assets through private investments and optimise management systems

The Energy Strategy provides for the following strategic goals to be achieved in three stages:

1. *Reforms, completion of privatisation, implementation of public-private partnership mechanisms and closure or mothballing of unsustainable mines — to 2015, inclusive*
2. *Intensive upgrading of mines and coal processing companies — 2015-2020*
3. *Steady industry growth — 2020-2030*

Key events of 2013

- The Ministry issued an order to approve a plan to liquidate Ugol Ukrainy no later than 2015.
- All subordinate legislative acts were approved with regards to the specific features of the privatisation of coal companies.
- The privatisation plan for 2014 was approved for coal production companies and the pre-privatisation preparation of these companies was launched.
- Ukraine's Cabinet of Ministers issued an order to approve the plan to implement a concept to setup a system of social support for coal industry workers and the population in the impact areas of coal production and processing companies during closure or mothballing.

Objectives and challenges of the coal industry in 2014

Liberalisation of the coal market, pricing and marketing mechanisms:

- Conduct measures to liquidate state enterprise Ugol Ukrainy and setup a mechanism to ensure that market participants fulfil their financial obligations to Ugol Ukrainy and that it fulfils its financial obligations to commercial banks
- Take steps to prevent growth in Ugol Ukrainy's loan portfolio
- Submit to the Verkhovna Rada of Ukraine a draft law to improve commodity markets
- Publish legislative acts required to implement the Law of Ukraine «On the Commodity Exchange»

Improvement of the budgetary support mechanism for the coal industry:

- Develop a legislative framework to improve the governmental support mechanism for the coal industry

Privatisation of enterprises:

- Submit to the Verkhovna Rada of Ukraine a draft law on the repayment of outstanding debts to the budgetary and state-controlled special-purpose funds of state-owned coal production companies for which a privatisation or liquidation resolution has been passed
- Transfer into community property 100% of the social infrastructure facilities of state-owned coal companies that were included into the Ministry's forecasted plan, where respective funds were allocated to transfer them in the 2014 state budget before the end of 2014
- Privatise coal companies (mines, mine groups) on the basis of executive orders from the Cabinet of Ministers of Ukraine in line with the 2014 plan and taking into account fulfilment of the 2013 privatisation plan
- Corporatise at least 50% of the total number of state-owned coal production companies that were not privatised following the completion of privatisation auctions and investment tenders

Closure of unfeasible coal and peat production companies:

- Complete projects to wind up unfeasible coal and peat production companies in accordance with budget funding.

Ensuring the market's capability to effectively reallocate the workforce:

- Conduct a set of measures to implement the concept to setup a system of social support for coal industry workers and the population in the impact areas of coal production and processing companies during liquidation (mothballing).

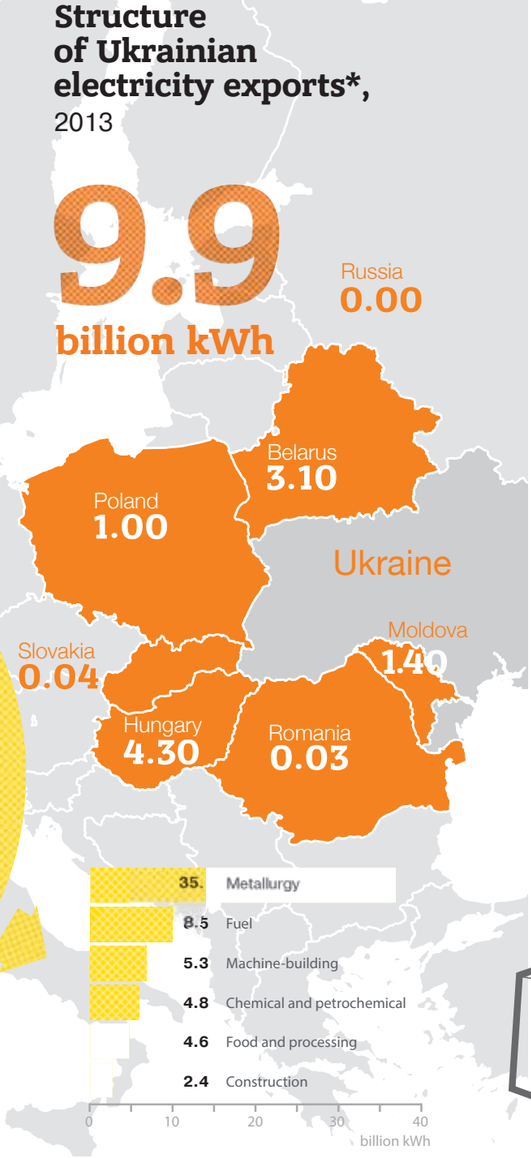
Electricity market

200 thousand people are employed by the electricity sector

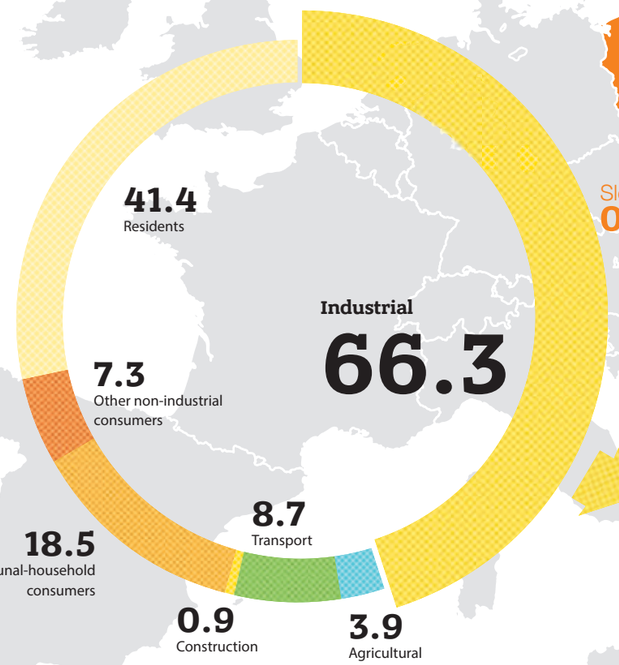
5 major companies in the heat generation market

Structure of Ukrainian electricity exports*, 2013

9.9 billion kWh



Structure of electricity consumption in Ukraine*, 2013, billion kWh



*Data from the Ministry of Energy and Coal Industry

Electricity transmission:

56.9 billion kWh

DTEK's proportional share of the electricity transmission market:

39.3%

Electricity industry overview

Ukraine's energy system is the sixth largest in Europe after Germany, France, Italy, Spain, and the UK. Ukraine ranks fifth in terms of the installed capacity of its thermal power plants.

The installed capacity of Ukrainian power plants was 54.5 GW in 2013, which was 727 MW more than in 2012. This increase was due to the retrofit of TPPs and the commissioning of new wind farms, solar power plants, and isolated generation plants.

The maximum load of 29.4 GW in the electricity system was recorded in December 2013. Ukraine still has around 30% reserve capacity, provided retrofits.

Thermal power plants and co-generation plants produce 34.3 GW or 62.9% of Ukraine's electricity. Nuclear power plants have a capacity of 13.8 GW or 25.4% of the total energy mix. NPPs have a larger share in the energy mix as they provide the base load. The combined capacity of hydroelectric and pumped storage plants is 5.5 GW, which accounts for 10.0% of total electricity generation in Ukraine.

Reserve capacity

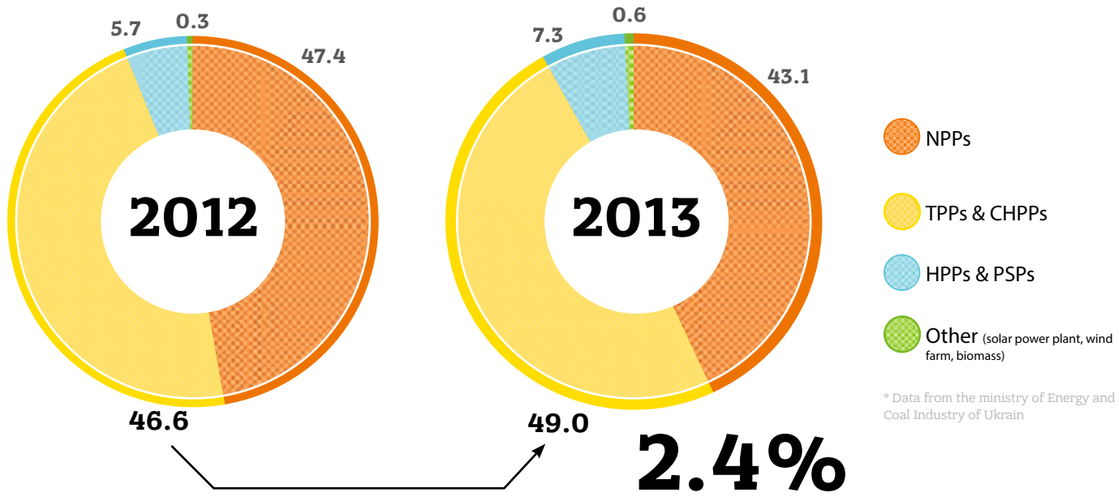
30%

Installed capacity of power plants*, %

	2012	2013	Δ, %
TTPs	51.0	50.7	–0.3
NPPs	25.7	25.4	–0.3
CHPPs and isolated generation plants	12.0	12.2	0.2
HPPs	8.6	8.5	–0.1
PSPs	1.6	1.6	0
Solar power plants	0.6	1.0	0.4
Wind farms	0.5	0.7	0.2

* Data from Ukrenergo

Electricity generation structure in Ukraine*, %



* Data from the ministry of Energy and Coal Industry of Ukrain

2.4%
the increase of TPPs & CHPPs share on market

More than half of the country's electricity is generated by state-owned nuclear and hydro-power plants. The thermal generation sector is made up of six major companies, which account for 95.0% of electricity generation in the segment. The sector's private companies are DTEK Skhidenergo, DTEK Dniproenergo, DTEK Zakhidenergo, Kyivenergo, and Donbassenergo. The privatisation of Centrenergo, which was scheduled for 2013, was postponed for an indefinite period of time due to a fire at the Uhlehirska TPP in March 2013.

Ukraine's electricity generation and distribution companies received UAH 169 billion in income (USD 21.1 billion) in 2013, which was 2.3% more than in 2012. Electricity generation and distribution accounted for 15.2% of total industrial product sales (vs. 14.8% in 2012).

All electricity is sold on the wholesale electricity market, which is operated by state-owned enterprise Energorynok. Ukraine plans to abandon the single buyer model and gradually move to a bilateral contract and balancing market.

This transition is provided for by the Law of Ukraine «On the Functioning of the Electricity Market of Ukraine,» which came into force on January 1, 2014.

According to this document, a full-scale competitive electricity market is planned to be introduced in July 2017.

More than 150 companies are engaged in electricity generation, distribution, and supply. The electricity sector employs more than 200,000 people. The average salary in the sector is one of the highest in Ukrainian industry. The average salary in the electricity generation and distribution sector was UAH 4,500 (USD 563) in 2013, which was 9.4% higher than in 2012. Higher salaries are paid only in the pharmaceutical and mining industries.

Income of electricity generation and distribution companies

USD 21.1 billion

Electricity industry overview

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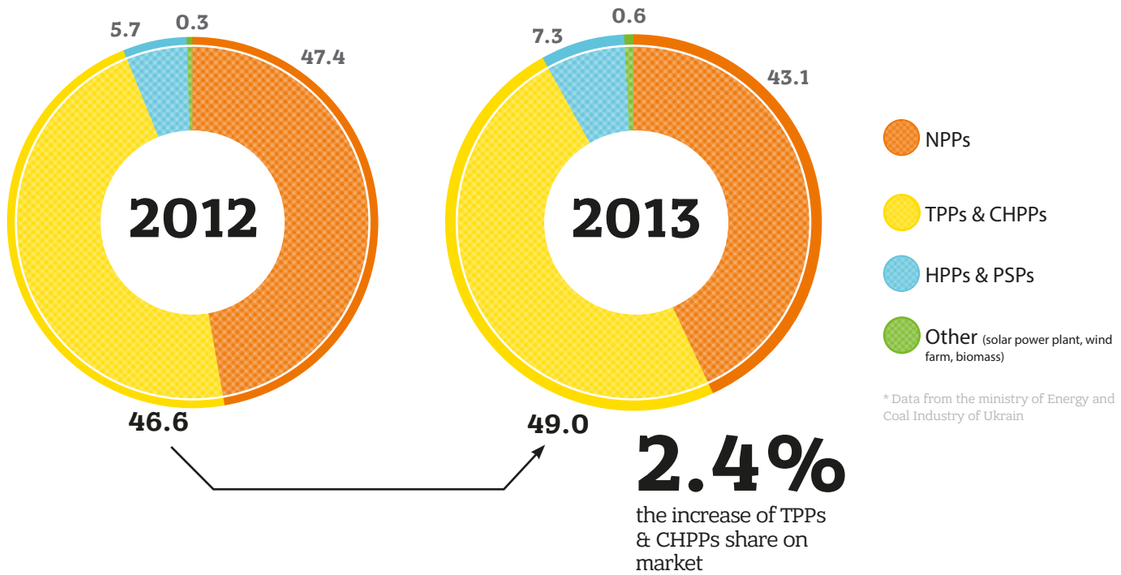
Electricity generation structure in Ukraine*, %



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Income of electricity generation and distribution companies

USD 21.1 billion

Electricity balance

Ukraine decreased electricity production by 2.3% to 193.6 billion kWh in 2013 becase of economic stagnation. NPPs cut production by 7.7% to 83.2 billion kWh and TPPs and CHPPs by 2.2% to 86.6 billion kWh, while utility CHPPs and isolated generation plants increased production by 4.5% to 8.3 billion kWh, and HPPs and PSPPs by 31.2% to 14.2 bln kWh. Renewable electricity generation almost doubled to 1.2 billion kWh.

Utility CHPPs and isolated generation plants increased production by **4.5%**

Total (net) consumption dropped by 2.3% to 147.3 billion kWh in 2013. The industrial, construction, and transportation sectors reduced consumption, but households and the agricultural sector started consuming more electricity.

Total losses of electricity reached 36.5 billion kWh in 2013, which was 3.3% less than in 2012.

Structure of electricity consumption in Ukraine*, mln kWh

Categories of cosumers	2012	2013	Δ, mln kWh	Δ, %	2012 share, %	2013 share, %
Electricity consumption (gross)	**188,458**	**183,732**	**–4,726**	**–2.5**		
Electricity consumption (net), including:	**150,720**	**147,256**	**–3,464**	**–2.3**	**100.0**	**100.0**
1. Industry, including:	70,761	66,318	–4,443	–6.3	46.9	45.0
iron and steel	36,936	35,143	–1,793	–4.9	24.5	23.9
fuel	8,936	8,536	–400	–4.5	5.9	5.8
machine-building	5,834	5,300	–534	–9.2	3.9	3.6
chemical and oil & gas	5,993	4,851	–1,142	–19.1	4.0	3.3
food and processing	4,713	4,678	–35	–0.7	3.1	3.2
construction materials	2,530	2,489	–41	–1.6	1.7	1.7
2. Agricaltural consumers	3,831	3,925	94	2.5	2.5	2.7
3. Transport	9,279	8,694	–585	–6.3	6.2	5.9
4. Construction	1,013	999	–14	–1.4	0.7	0.7
5. Utilities	18,508	18,564	56	0.3	12.3	12.6
6. Other non-industrial consumers	7,061	7,345	284	4.0	4.7	5.0
7. Households	40,267	41,411	1,144	2.8	26.7	28.1

* Data from the Ministry of Energy and Coal Industry of Ukraine

Ukraine increased electricity exports by 1.2% year-on-year to 9.9 bln kWh in 2013.

This growth was due to increased sales to Hungary and Moldova. Total exports amounted to USD 580 million (vs. USD 575 million in 2012). The breakdown of exports is as follows – Hungary: USD 237 million, Belarus: USD 192 million, and Moldova: USD 100 million. Electricity imports from Russia and Moldova amounted to USD 1.7 million, compared to USD 5.7 million in 2012.

Electricity export amounted to **USD 580 million**

Structure of exports of Ukrainian electricity*, bln kWh

	2012	2013	Δ, %
Belarus	4.05	3.10	–23.5
Hungary	3.60	4.30	19.4
Poland	1.01	1.00	–1.0
Moldova	0.85	1.40	64.7
Rumania	0.16	0.03	–81.3
Slovakia	0.10	0.04	–60.0
Total	9.75	9.87	1.2

* Data from the Ministry of Energy and Coal Industry of Ukraine

Market model

The Wholesale Electricity Market (WEM) is organised based on the single-buyer principle. This buyer is state-owned Energorynok. By July 2017, Ukraine intends to transition from this model to a bilateral contract and balancing market, which now operates in the majority of developed countries.

The only competitive electricity market segment today is thermal generation, which operates on the principle of day ahead price bids. Power plants submit price bids for each unit. Energorynok uses these bids and the consumption forecast for the next day to prepare a load schedule, choosing the units with the lowest cost first. The last accepted bid defines the base electricity price for all units included on the list. In this way, the companies with the lowest production get the highest load and profit margin.

Selling tariffs for other electricity producers are set by the National Electricity Regulatory Commission (NERC).

Energorynok also calculates a single hourly wholesale electricity price for electricity suppliers based on all administrative expenses and subsidies. End consumers receive electricity the electricity supply companies at fixed prices set by the NERC depending on the voltage class. All consumers are divided into two classes: those connected to the grid at voltages of 27.5 kV and above (first class) and below 27.5 kV (second class).

Some independent suppliers are also present on the market. They do not own any networks, but can supply electricity at non-regulated tariffs. Their market share does not exceed 15%.

Electricity tariffs for consumers

In 2013, the unified tariff rose 9.1% to 81.1 kop/kWh for first class consumers and 9.0% to 103.2 kop/kWh for second class consumers (December over December).

In 2012, the unified tariff increased 6.5% to 74.4 kop/kWh for first class consumers and 5.6% to 94.7 kop/kWh for second class consumers (December over December).

Preferential tariffs continue to apply to the following categories:

Subsidies for these categories amounted to USD 4.7 billion in 2013, which was USD 0.4 billion more than in 2012. Subsidies accounted for 29.9% of the wholesale market price of electricity in 2013 and 29.2% in 2012.

- residents;
- companies that supply electricity for street lighting;
- municipal electric transportation;
- coal production companies;
- Artek and Moloda Gvardiya children's health centres; and
- entities that implement innovative projects.

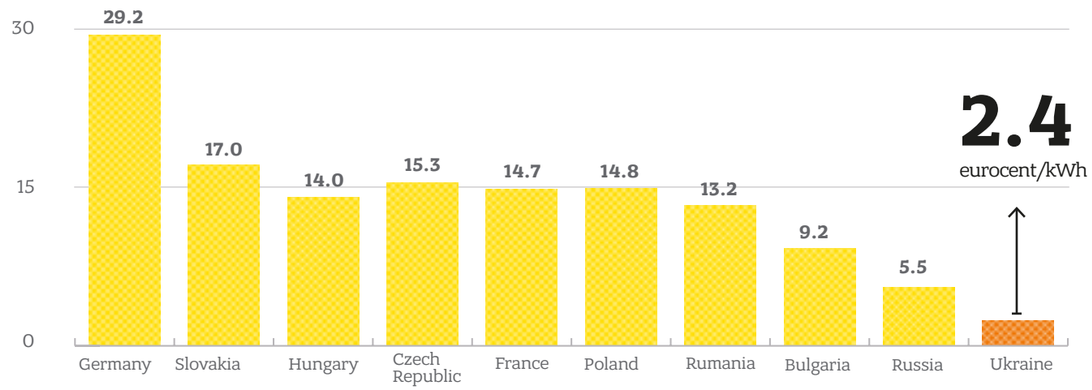
In 2011, the NERC introduced differentiated tariffs for residents:

- for consumers of less than 150 kWh per month (250 kWh per month for consumers with electric ovens and electric heating);
- for consumers of more than 150 kWh per month (250 kWh per month for consumers with electric ovens and electric heating);
- Tariffs for the first group increased by 15% in April 2011; tariffs for the second group increased in two stages: by 30% in February 2011 and by 15% in April 2011.

Those consuming less than 150 kWh pay 23.35 kop/kWh net of VAT. Every kWh above the 150 kWh threshold costs 30.4 kop/kWh. Households with electric ovens and electric heating pay 17.95 kop/kWh for every kWh below 250 kWh and 23.35 kop/kWh for every kW above this threshold.

In 2012, residential tariffs were not revised. However, in May 2012 the NERC introduced a separate tariff for the wealthiest households that consume more than 800 kWh per month. The tariff for them is 79.8 kop/kWh. In 2013, residential electricity tariffs also remained unchanged.

Retail tariffs for residential consumers*, eurocent/kWh



* Data from Eurostat and the Ministry of Energy and Coal Industry of Ukraine

Electricity transmission

In 2013, the tariffs for electricity transmission via local networks and electricity supply tariffs for electricity suppliers remained unchanged:

- most companies continued to use a «cost-plus» approach;
- five regional power companies (oblenergos) that were privatised in 2001 by strategic investors (Kyivoblenergo, Rivneenergo, Kirovohradoblenergo, Sevastopolenergo, and Zhytomyroblenergo) continued to use an approach based on regulating their profit margin with some incentives.

In 2013, the NERC adopted a regulatory package to introduce an incentive tariff-setting system (RAB regulation) in 2014. This new methodology was planned to be used by nine electricity suppliers, including DTEK Power Grid, DTEK Dniprooblenergo, and DTEK Krymenergo. However, some elements of the tariff reform proposed by the NERC (i.e. zero return on "old" assets in 2014) did not allow for the implementation of the reform. The introduction of RAB regulation was postponed.

Electricity transmission and supply tariffs were revised several times by the NERC throughout 2013 mainly due to an increase in the average salary.
In 2013, the average weighted tariff for electricity transmission to first class consumers increased by 3.6% to 21.6 UAH/MWh (net of VAT), while for second class consumers the tariff increased by 1.2% to 127.2 UAH/MWh.

The tariff for electricity supply to first class consumers grew by 5.8% to 5.1 UAH/MWh

Industry regulation

The NERC (National Electricity Regulatory Commission) is the main regulator of the electricity sector in Ukraine.

Key tasks of the NERC:

- Regulate natural monopolies in the electricity sector and entities that operate in adjacent markets at the state level;
- Promote competition in the electricity generation and supply sectors;
- Participate in the development of public policy and operation of the Wholesale Electricity Market (WEM) of Ukraine;
- Implement pricing and tariff policies; issue licenses for energy companies;
- Protect the rights of electricity consumers

NERC
is collegiate body accountable to the Cabinet Ministers of Ukraine

Key events in 2013

Adoption of the Law of Ukraine «On the Operating Principles of the Wholesale Electricity Market of Ukraine»

The law is primarily aimed at protecting the rights of electricity consumers and ensuring basic consumer rights: freedom to access the market and choose an electricity supplier. The law envisages the fundamentals for liberalising the WEM and creating an effective competitive environment in the electricity market, taking into account the basic requirements of EU Directive No. 2003/54/EC «Common rules for the internal market in electricity» and Regulation No. 1228/2003 on the conditions for accessing the cross-border transmission network. The introduction of a full-scale electricity market is scheduled for July 1, 2017. The future market will consist of the following segments: a bilateral contract market, «day ahead» market, balancing market, ancillary services market, and retail market. Prior to the introduction of the full-scale market, there will be a transition period when the current market will still operate alongside the ancillary services and retail markets. This transition period will start in 2016. During this period, the market will be tested: electricity will be purchased and sold and payments will be made according to the newly adopted law.

Adoption of the Energy Strategy of Ukraine to 2030 (hereinafter, the Energy Strategy)

After lengthy public debates and the approval of industry experts, the Cabinet of Ministers of Ukraine approved the Energy Strategy to 2030 in July 2013. Measures provided for in the Energy Strategy were designed to achieve the following results:

- fully cover the growing electricity demand by retrofitting thermal power plants; increasing the life cycle of existing nuclear power plants; investing in upgrades and the expansion of the electricity grid; and after 2018 by commissioning new generation facilities and reducing specific fuel costs;
- increase annual gas production to 40-45 billion cubic meters per year and cover 90% of gas demand with domestic gas;
- fully cover coal demand by increasing cost-effective thermal coal production to 75 million tons per year and coking coal production to 40 million tons per year;
- significantly reduce public spending by terminating subsidies and increasing the efficiency of electricity sector companies;
- implement comprehensive energy efficiency programs to reduce specific energy consumption by 30-35% by 2030;
- attract necessary investments (about USD 200 billion) into the energy sector; this will require developing an industry reform program, creating competitive markets, increasing electricity prices in order to create a favourable investment climate for private investors, strengthening control over monopolies, and improving and stabilising the regulatory framework.

Adoption of a regulatory framework to introduce incentive regulation for tariffs for the transmission and supply of electricity by distribution companies

In 2013, pursuant to the Law of Ukraine «On Natural Monopolies», a full package of regulatory acts was developed and approved to implement incentive regulation for tariffs for the transmission and supply of electricity by distribution companies. The State Property Fund of Ukraine approved «Methods for assessing the assets of natural monopolies and entities in adjacent markets operating in the field of combined electricity and heat production.» This methodology was used to re-evaluate the assets of nine electricity distribution companies in Ukraine (of the 27 companies in total), including DTEK Dniprooblenergo and DTEK Krymenergo. The Ministry of Economic Development approved the 14.79% threshold for the profit margin of new capital in power transmission via local power networks and electricity supply.

The NERC adopted regulatory documents regulating the transition and use of incentive regulation for electricity distribution companies, namely:

- procedure for calculating the necessary income;
- conditions for the transition to incentive regulation;
- long-term control parameters;
- procedure for the approval of tariffs;
- guidelines for the separation of electricity transmission and supply in terms of cost, assets, and income during the transition to incentive regulation.

The basis of the aforementioned regulations was the concept for incentive regulation of tariffs for the transmission and supply of electricity:

- long-term and predictable tariff regulation: the first regulatory period is 3 years, then 5 years;
- the company is free to use its tariff profit. The tariff profit is calculated on the basis of the regulatory asset base (RAB) and rate of return. There are two RABs: old assets existing at the time of transition to incentive regulations and new assets that are created after the transition. Accordingly, there are two different rates of return on equity/assets: 0.0-5.0% for the old RAB and 14.79% for the new RAB;
- introduction of incentives to improve the quality of customer service. The NERC sets the parameters for customer service quality for each company whose tariffs are set using the incentive regulation method and applies fines on tariff income in cases of non-compliance;
- introduction of mandatory conditions for the subjects of the regulations on the volume of investment, reduction of normative losses, and payment for purchased electricity.

Nine electricity distribution companies in Ukraine (out of 27 companies in total), including DTEK Dniprooblenergo, DTEK Krymenergo, and DTEK Power Grid applied to the NERC asking to transition to incentive regulation in 2014. However, a decision by the Cabinet of Ministers in October 2013 imposed a moratorium on increases in the prices and tariffs of natural monopolies in 2013 and 2014. Because of this, the transition of these companies to incentive regulation starting from January 1, 2014 did not take place.

Continuation of the privatisation process of energy facilities:

In 2013, the privatisation of energy facilities continued. A 60.773% stake in Donbasenergo was sold for USD 89.9 million, and a 75.0% stake in Volynoblenergo was sold for USD 57.8 million.

In 2013, the regulatory framework for Ukraine's energy sector underwent a number of changes:

- The Law of Ukraine «On the Resumption of Debtor's Solvency or Declaring Bankruptcy» was amended. These amendments extended the prohibition for initiating bankruptcy proceedings at mining companies (mines, quarries, pits, and processing plants) with a state stake of at least 25% until January 1, 2015.
- The Law «On Amending Some Laws of Ukraine on Ensuring the Stable Operation of Strategic Enterprises in the Energy Sector» was adopted.
- Amendments were made to the Tax Code of Ukraine regarding transfer pricing. The principles of transfer pricing, terms and scope of operations were defined.
- The Law «On Amending Some Laws of Ukraine Concerning the Lease or Concession of Facilities in the Spheres of Heating, Water Supply and Drainage that are Owned by Municipalities.» The document eliminates terminological inconsistencies between the Laws of Ukraine «On Concessions» and «On the Lease or Concession of Facilities of Centralised Water and Heat Supply and Drainage that are Owned by Municipalities.» The law aims to create favourable conditions for attracting private investment in this area by establishing transparent terms of investment, securing returns, ensuring transparency of competition, etc.
- Article 17 of the Law of Ukraine «On Heat Supply» was amended. The purpose of the document was to bring in line the Law of Ukraine «On Licensing Certain Types of Activities «and the Law of Ukraine» On Heat Supply» with regard to the licensing authority in the field of heating if heat energy is produced by thermal power plants and nuclear power plants.
- Its adoption eliminates gaps in legislation in the field of heating, improving state regulation of heat energy that is produced by thermal and nuclear power plants and expanding the powers of the NERC.
- In order to improve the quality of customer service, the NERC adopted the resolution «On Ensuring the Operation of Call Centres by Entities Supplying Electricity at the Regulated Tariff.» In doing so, the Commission asked suppliers to create new call centres for electricity consumers or improve existing ones. This will improve the quality of power supply, facilitate consumers' access to information, allow them to identify relevant issues of concern, and release dispatchers from working directly with consumers.
- In order to simplify the procedure for connecting new consumers to the grid, the NERC adopted the following regulatory documents: Rules for the Connection of Electric Installations to the Grid, Methods for Calculating Connection Charges, and Procedure for Financing Services to Connect Electric Installations to the Grid. These regulatory documents will regulate the relationship between network companies and consumers that connect to the grid, ensure transparent pricing for connection services, and resolve specific issues related to the connection of certain installations (especially green energy installations) to the grid.

Objectives and challenges for the electricity industry in 2014

Liberalisation of the electricity sector

To apply the provisions of the Law of Ukraine related to the basics of the Ukrainian electricity market in effect, one should make the following institutional, legal and regulatory changes:

- establish structural departments that act as market operators and guaranteed buyers and are a part of the enterprise that performs the bulk delivery of electricity;
- replace the current system for distributing the capacity of international power lines at auctions that comply with European norms;
- ensure the initial implementation of the auxiliary services market;
- develop and introduce into the Verkhovna Rada of Ukraine an act on the legal and structural division of electricity distribution enterprises so that electricity distribution is separated from other activities; and
- endorse the code of electricity lines and 10-year development plan for the united energy system.

Implementation of incentive pricing. The following actions should be taken:

- Ensure conditions for the transition of electricity distribution companies (oblenergos) to incentive ratemaking.
- Increase the quality of consumer service via implementation of the first stage of call centres and control over the quality of their work.

Privatisation of energy companies and better management of state-owned energy companies. The following actions should be taken:

- Adopt regulatory documents on the privatisation of thermal power generators and suppliers.
- Organise the sale of stakes in energy companies that are scheduled for privatisation in 2014.

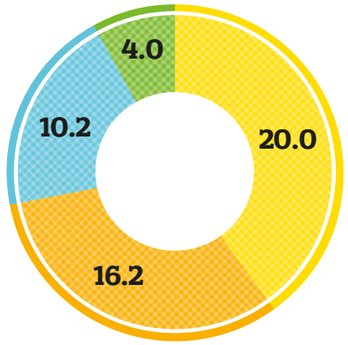
Natural gas market

Domestic gas production in Ukraine

21.0
billion m³

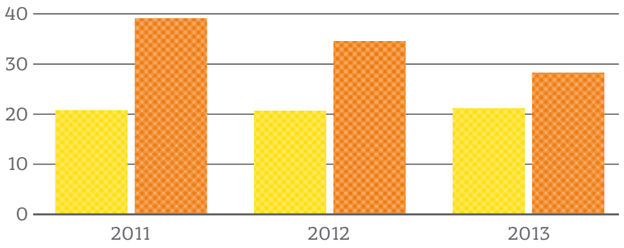
+2%
to 2012

Gas consumption in Ukraine
in 2013, billion m³



- Industry
- Population and budget-funded organisations
- Heat generation enterprises
- Technical gas

Correlation of gas extraction and import in Ukraine*,
billion m³



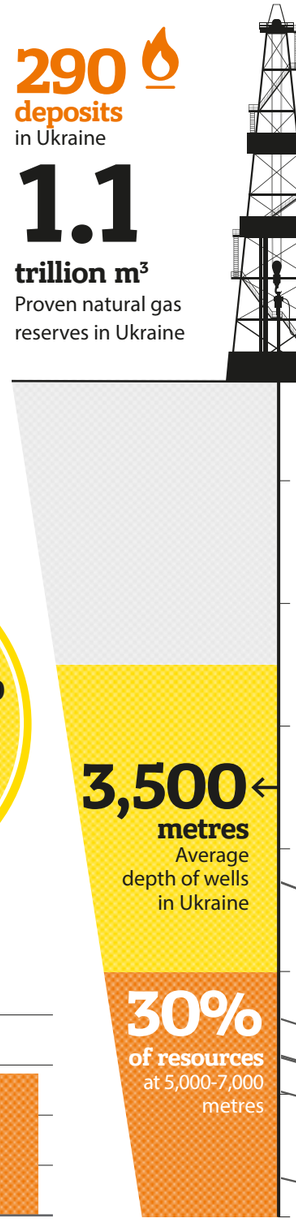
Domestic extraction
Imported gas

* Data from the Ministry of Energy and Coal Industry of Ukraine

290 deposits in Ukraine

1.1 trillion m³
Proven natural gas reserves in Ukraine

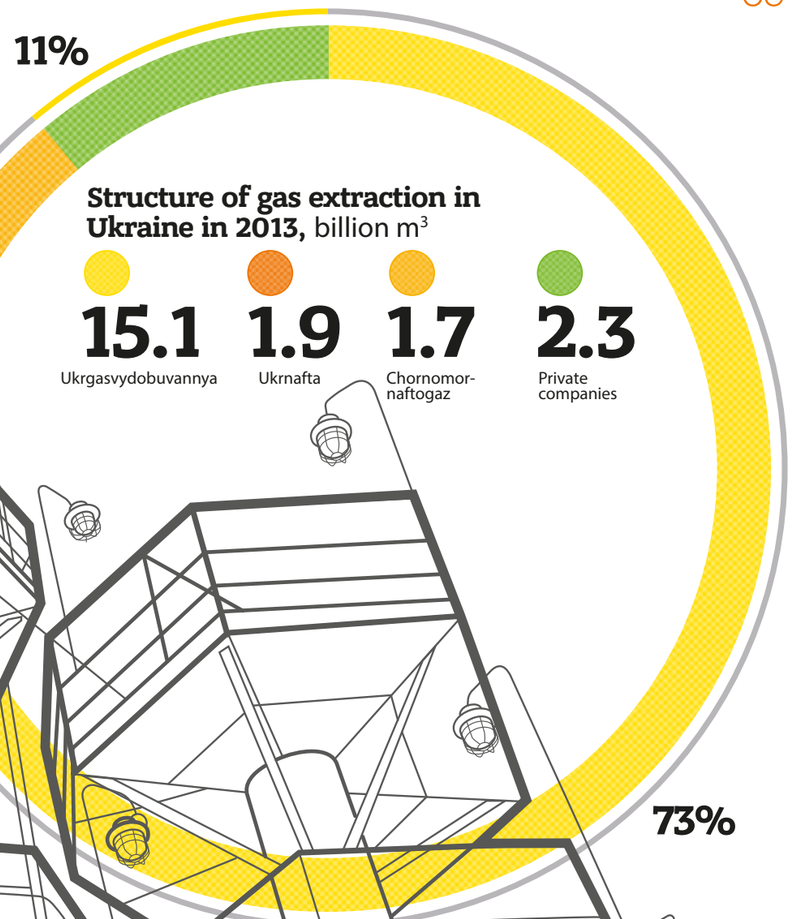
Probable natural gas reserves in Ukrainee
49.9 trillion m³



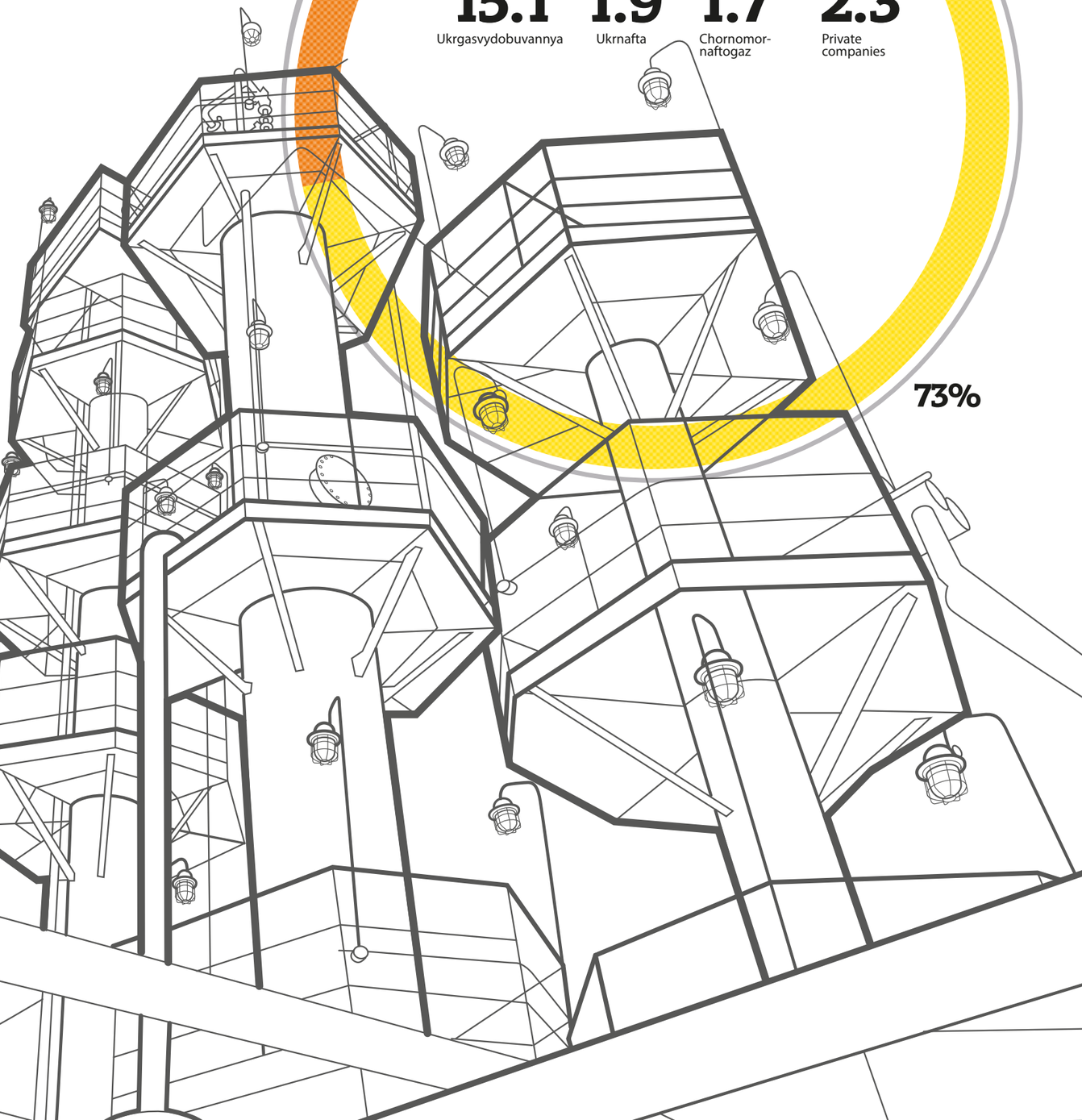
3,500 metres
Average depth of wells in Ukraine

30% of resources
at 5,000-7,000 metres

Structure of gas extraction in Ukraine in 2013, billion m³



15.1	1.9	1.7	2.3
Ukrgasvydobuvannya	Ukrnafta	Chornomor-naftogaz	Private companies



Natural gas extraction

Ukraine's probable reserves of natural gas, according to various estimates, range between 39.0 and 49.9 trillion m^3; the country's proven reserves amount to 1.1 trillion m^3. Ukraine's share of global reserves is 0.3–0.6%.

At current volumes of consumption, extraction and import, Ukraine's own proven gas reserves will cover the country's demand for more than 30 years (excluding the possibility of reserves increasing).

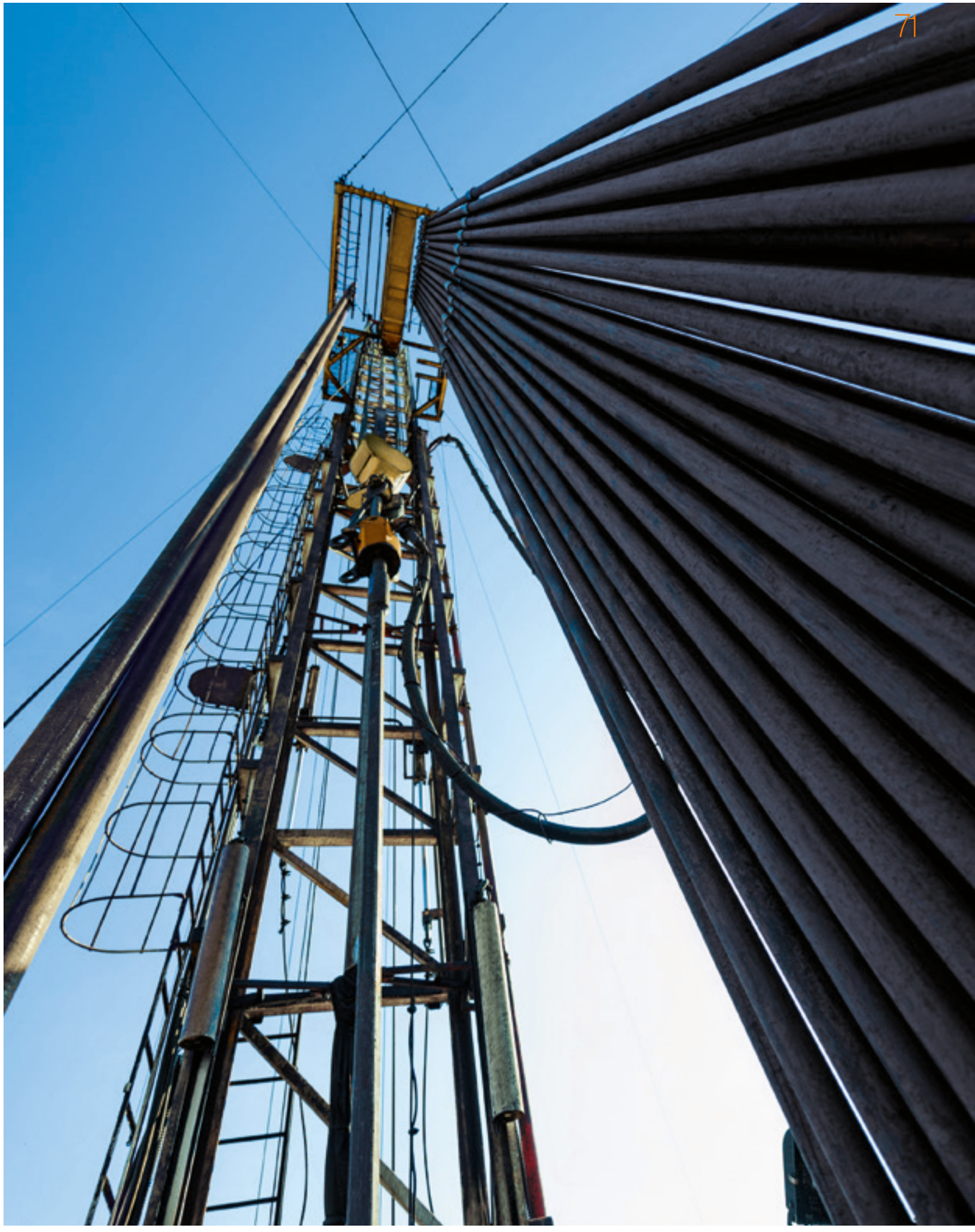
The main gas deposits are concentrated in three oil and gas basins. The largest one, the Dnipro-Donets basin, accounts for more than 80% of all proven gas reserves. The Carpathian basin (western Ukraine) holds 13%. The Black Sea-Crimean basin includes deposits in the lowland part of Crimea and in the nearby offshore areas of the Black Sea and the Sea of Azov. This basin accounts for 6% of the country's proven reserves.

In total, Ukraine has approximately 290 gas deposits. More than 75% of them initially had extractable reserves of less than 10.0 billion m^3. Only four deposits have reserves that exceed 100.0 billion m^3: Yablunivske, Yefremivske, Zahidno-Khrestyshchenske, Shebelynske. They are 60-70% exhausted now, but still supply more than 20% of the total volume of extracted gas.

More than 15% of Ukraine's natural gas reserves are problematic due to the low permeability of collectors, multiple formations in the structure of deposits and high lithological heterogeneity. More than one third of hydrocarbon resources is concentrated at the depth of 5-7 km. The average depth of gas wells today is approximately 3.5 thousand metres, and the maximum depth is over 6 thousand metres.

Ukraine's own gas will cover internal needs for more than

30 years



In the 1970s, Ukraine's annual gas production exceeded 60 billion m³. Since independence, this figure has decreased to 18-21 billion m³. The decline was the result of slowing exploration of new reserves (which do not compensate for extracted gas), the difficult geological conditions of the gas extraction process, use of outdated technologies and equipment, low investments in the industry and lack of government support.

According to Ukraine's Energy Strategy to 2030, the gas extraction will be 15-24 billion m³ in the next two decades. The production increase, according to the authors, can be possible provided that small and very small onshore deposits (up to 1 billion m³) are actively developed, new drilling technologies are implemented at 6,000-7,000 metres and the efficiency of operating wells is improved.

The highest increase in production in the short term can be achieved by intensifying gas extraction in offshore deposits in the Black Sea and the Sea of Azov and later in deep-water areas. Marine hydrocarbon resources are only 4% explored, according to estimates.

The government has prepared the high-potential Subbotino and Bezimene deposits for commercial operation and has started work at the Shtormove and Odeske deposits.

Projections of the prospects for non-conventional gas extraction in Ukraine differ substantially (estimates of projected reserves vary between 2 and 30 trillion m³). A quality estimate cannot be prepared due to the lack of required geological data. Under any scenario, commercial extraction of shale gas, coalbed methane and tight gas is only be possible no sooner than in 7-10 years.

Status of natural gas reserves in Ukraine,* %

Basin	Proven reserves, % of total	Degree of depletion, %
Dnipro-Donets	80	57
Carpathian	13	42
Black Sea-Crimean	6	5

* According to Ukraine's Energy Strategy to 2030, State Service of Geology and Mineral Recourses

Natural gas balance

In 2013, Ukraine decreased its gas consumption by 8% to 50.4 billion m³. Ukraine has been cutting consumption since 2005, due to two key factors: dramatic growth in the cost of imported gas, which has forced more sparing use or switches to alternative sources of energy, and declining commercial production, which has been a direct consequence of the country's economic situation.

Ukraine's own gas production increased by 2% to 21 billion m³, which covers almost 42% of domestic gas demand. Of the total volume, 18.7 billion m³ or 89 % is produced by companies where the state owns a controlling stake. (Ukrgasvydobuvannya, Ukrnafta, Chornomornaftogaz). The cumulative share of private companies amounted only to 11% or 2.3 billion m³.

Industry accounts for the largest share of total consumption: 20 billion m³. This includes metallurgical, chemical and energy enterprises. The population and budget-funded organisations consumed 16.2 billion m³ of gas, and heat generation companies 10.2 billion m³. The remaining gas was used for the production and technical needs of gas extraction and gas transportation companies.

Ukraine reduced gas consumption by

8%

in 2013

Chornomornaftogaz made the largest contribution to the increase in output, extracting 1.65 billion m³ (41% more than in 2012). This was due to the acquisition of new drilling equipment. The indicators of other state-owned companies remained at the same level or have declined in recent years. Several private companies increased output substantially at the end of 2013.

Natural gas imports to Ukraine amounted to 28 billion m³, which covered 56% of the country's demand. Compared to the previous year, 15% less gas was imported. This volume is half of the volume of imported gas ten years ago. The largest share of imported gas, as in previous years, came from Russia (almost 26 billion m³).

In addition, Ukraine continued to diversify its energy imports in 2013. More than 2 billion m³ of natural gas came from Poland and Hungary. Reverse flows have become possible due to agreements reached by NJSC Naftogaz of Ukraine and Ukraine's major private companies with European suppliers.

According to the Energy Strategy, gas consumption before 2030 will remain at the current level of 47-53 billion m³ annually. At the same time, demand for imported gas will remain substantial from 36% to 54% of total consumption. The Energy Strategy provides for the need to minimise the share of gas acquired from one supplier to 35% of the total imported amount.

In addition, Ukraine continued to diversify its energy imports in 2013. More than 2 billion m³ of natural gas came from Poland and Hungary. Reverse flows have become possible due to agreements reached by NJSC Naftogaz of Ukraine and Ukraine's major private companies with European suppliers

Natural gas imports amounted to

28

billion m³ in 2013

Liquefied gas imports are expected to ensure higher diversification.

These options require billions in investments in infrastructure and long-term agreements with foreign partners. The Energy Strategy also considers the possibility of intensifying reverse gas flows from Europe in the existing gas pipeline system.

Correlation of gas extraction and import in Ukraine*, billion m^3

Year	Extraction	Import
2011	20.6	38.7
2012	20.5	34.2
2013	21.0	28.0

Structure of gas extraction in Ukraine*, billion m^3

	2011	2012	2013
Share of state-owned companies	88.2%	88.9%	89.1%
Share of private companies	11.8%	11.1%	10.9%

Structure of gas extraction in Ukraine in 2013*, billion m^3

Company	Extraction
Ukrgasvydobuvannya	15.1
Ukrnafta	1.9
Chornomornaftogaz	1.7
Private companies	2.3
Total	**21.0**

Structure of gas consumption in Ukraine in 2013, billion m^3

Consumer group	Consumption
Industry	20.0
Population and budget organisations	16.2
Heat generation companies	10.2
Technical gas	4.0
Total	**50.4**

* According to the Ministry of Energy and Coal Industry

Pricing

Most natural gas in Ukraine is sold at the regulated tariff by suppliers. This includes state-owned company Naftogaz of Ukraine, which sells gas directly to large industrial enterprises, and regional gas distribution companies (oblgazy), which sell natural gas to small enterprises, budget-funded entities and residents.

The regulator determines the prices for industrial consumers and budget-funded organisations on the basis of the cost of imported gas, also taking into account certain expenses of Naftogaz of Ukraine associated with the procurement of energy resources and storage. In 2013, the marginal gas cost for this category of consumers was approved at less than UAH 3,500/1 ths. m^3.

A similar scheme is used to determine the tariffs for budget-funded organisations. For heat generation enterprises, the regulator sets a privileged price for gas to be used to supply heating and hot water to residents. In 2013, it was UAH 1,300/1 ths. m^3. The difference between the privileged tariff and market price is covered by the government from its budget with the help of NJSC Naftogaz of Ukraine.

The country's domestically produced gas is supplied to residents. According to the law, all companies with a state-owned share of over 50% must sell their gas for this purpose. The tariff for this gas is determined based on its prime cost and the required associated costs. The profit of gas production companies is set at either a minimal level or zero.

Nevertheless, the price approved by the regulator does not take into account a number of extra charges to be paid by the customer, such as a surcharge of 2% of the gas cost, a tariff for gas transportation through mains and distribution networks, and value-added tax. Thus, the actual gas price for industrial consumers exceeded UAH 4,5000/1 ths. m^3 in 2013.

The tariff for residents amounted to UAH 1,309.20/1 ths. m^3 in 2013.

Private gas production companies, acting as suppliers at an unregulated tariff, derive their product prices from the marginal tariffs for industrial enterprises approved by the regulator. Thus, the actual price of natural gas at the well collar is approximately equal to the average price of imports to Ukraine.This price also includes a gas trader's discount.

The average price of imported natural gas at the state border of Ukraine reached USD 426/1 ths. m^3 in January 2013. The price went down to USD 392/1 ths. m^3 in December. The price decrease was related to higher amounts of gas procured from Europe in the second half of the year and also by a slight decrease in the cost of hydrocarbons in international markets, which had an impact on Russian gas prices.

Marginal prices of natural gas for various groups of consumers, UAH / 1 thousand m^3

	2011*	2012	2013
Industry	2,282.0	3,509.0	3,509.0
Budget-funded organisations	2,282.0	3,509.0	3,509.0
Heat generation enterprises	1,309.2	1,309.2	1,309.2
Population**	725.4–2,685.6	725.4–2,685.6	725.4–2,685.6

* As of January 1 of each year
** The tariff varies depending on the consumption volume and on whether a metering unit is installed.

Industry regulation

The oil & gas industry is regulated by the Laws «On the Principles of the Functioning of the Oil & Gas Market», «On Oil & Gas», «On the Pipeline System», «On Natural Monopolies», «On Licensing of Certain Types of Economic Activity», etc. Many norms are recorded in subordinate legislative acts: regulations of the Cabinet of Ministers of Ukraine, National Electricity Regulatory Commission of Ukraine, and State Geology and Subsoil Service.

The fragmentary nature of the legislation and lack of clearly defined provisions result in high-level administrative regulation and lower transparency in the state decision-making process. Apart from that, the operating conditions of oil & gas companies are subject to frequent changes due to the adoption of new legislative acts, which lessens the industry's investment appeal.

The doption of the Law of Ukraine «On the Principles of the Functioning of the Oil & Gas Market» in 2010 was an important landmark for the process of standardisation and liberalisation of the country's legislative environment (which was one of the prerequisites for Ukraine's accession to the European Energy Community). The law gave consumer the possibility to choose their gas suppliers freely, equal access to the gas pipeline system and delimitation of the gas extraction, transportation and supply functions of NJSC Naftogaz of Ukraine.

The subsoil use legislation also requires systematisation and updating. Market participants point out the need to review the mechanism for the issuance and re-issuance of special subsoil use permits and companies' interaction with industry-specific state bodies. The existing procedure is complicated and is intermittently modified by orders and regulations by these state bodies.

The ddoption of the Law of Ukraine «On the Principles of the Functioning of the Oil & Gas Market» brought about a number of positive changes, in particular, private companies started importing gas from Europe in 2013, for the first time in a long while. Still, as of early 2014, not all of the law's provisions had been implemented. The role of NJSC Naftogaz of Ukraine in the market remains high and limits business opportunities for other market participants.

In October 2013, the Cabinet of Ministers of Ukraine approved a revised draft of the Subsoil Code of Ukraine. It contained a number of forward-looking innovations, including the introduction of the “single window” principle for licensees with state authorities, the introduction of subsoil use rights into civil use, and the abolishment of special subsoil use permits. As of May 2014, the draft Subsoil Code of Ukraine had not been submitted to the Verkhovna Rada.

The main legal acts regulating joint activities and cooperation under production sharing agreements are the Laws of Ukraine «On Oil & Gas» and «On Production Sharing Agreements».

Market participants and dedicated organisations also see the need to refine these mechanisms, which will allow for increasing private investments into the extraction of hydrocarbons.

It is also important for the development of the oil & gas industry to bring the legislative framework regulating land allocation and the commissioning of new facilities in compliance with modern standards. Today, companies often complain that these procedures lack transparency and involve substantial time outlays and extra costs.

Performance results

Operations

In 2013, coal production by DTEK's enterprises amounted to 41.4 million tons; the volume of coal preparation was 29.3 million tons; electricity supply by generation enterprises was 53.0 TWh, and electricity network transmission was 56.9 TWh.

«Amidst the decline in industrial production in Ukraine, sovereign rating downgrades and the unstable political situation, DTEK's financial and operational performance in 2013 was generally consistent with our expectations,» Maxim Timchenko, CEO of DTEK, said of the results..

Key production indicators

Indicators	Unit	2012	2013	Δ	Δ, %
Coal production	ths tons	39,693	41,408	1,715	4.3
Coal processing: ROM coal processing Concentrate output	 ths tons ths tons	 27,692 18,311	 29,338 19,182	 1,646 871	 5.9 4.8
Electricity generation	mln kWh	47,649	53,054	5,405	11.3
Transmission of electricity by grids	mln kWh	49,996	56,931	6,935	13.9
Electricity exports	mln kWh	9,707	9,828	121	1.25
Coal exports	ths tons	2,745	4,740	1,995	72.7
Natural gas imports	million m^3	0	628	628	–

Electricity balance

Ukraine decreased electricity production by 2.3% to 193.6 billion kWh in 2013 becase of economic stagnation. NPPs cut production by 7.7% to 83.2 billion kWh and TPPs and CHPPs by 2.2% to 86.6 billion kWh, while utility CHPPs and isolated generation plants increased production by 4.5% to 8.3 billion kWh, and HPPs and PSPPs by 31.2% to 14.2 bln kWh. Renewable electricity generation almost doubled to 1.2 billion kWh.

Total (net) consumption dropped by 2.3% to 147.3 billion kWh in 2013. The industrial, construction, and transportation sectors reduced consumption, but households and the agricultural sector started consuming more electricity.

Total losses of electricity reached 36.5 billion kWh in 2013, which was 3.3% less than in 2012.

Utility CHPPs and isolated generation plants increased production by

4.5%

Structure of electricity consumption in Ukraine*, mln kWh

Categories of cosumers	2012	2013	Δ, mln kWh	Δ, %	2012 share, %	2013 share, %
Electricity consumption (gross)	**188,458**	**183,732**	**–4,726**	**–2.5**		
Electricity consumption (net), including:	**150,720**	**147,256**	**–3,464**	**–2.3**	**100.0**	**100.0**
1. Industry, including:	70,761	66,318	–4,443	–6.3	46.9	45.0
iron and steel	36,936	35,143	–1,793	–4.9	24.5	23.9
fuel	8,936	8,536	–400	–4.5	5.9	5.8
machine-building	5,834	5,300	–534	–9.2	3.9	3.6
chemical and oil & gas	5,993	4,851	–1,142	–19.1	4.0	3.3
food and processing	4,713	4,678	–35	–0.7	3.1	3.2
construction materials	2,530	2,489	–41	–1.6	1.7	1.7
2. Agricaltural consumers	3,831	3,925	94	2.5	2.5	2.7
3. Transport	9,279	8,694	–585	–6.3	6.2	5.9
4. Construction	1,013	999	–14	–1.4	0.7	0.7
5. Utilities	18,508	18,564	56	0.3	12.3	12.6
6. Other non-industrial consumers	7,061	7,345	284	4.0	4.7	5.0
7. Households	40,267	41,411	1,144	2.8	26.7	28.1

* Data from the Ministry of Energy and Coal Industry of Ukraine

Ukraine increased electricity exports by 1.2% year-on-year to 9.9 bln kWh in 2013.

This growth was due to increased sales to Hungary and Moldova. Total exports amounted to USD 580 million (vs. USD 575 million in 2012). The breakdown of exports is as follows – Hungary: USD 237 million, Belarus: USD 192 million, and Moldova: USD 100 million. Electricity imports from Russia and Moldova amounted to USD 1.7 million, compared to USD 5.7 million in 2012.

Electricity export amounted to

USD 580 million

Structure of exports of Ukrainian electricity*, bln kWh

	2012	2013	Δ, %
Belarus	4.05	3.10	–23.5
Hungary	3.60	4.30	19.4
Poland	1.01	1.00	–1.0
Moldova	0.85	1.40	64.7
Rumania	0.16	0.03	–81.3
Slovakia	0.10	0.04	–60.0
Total	9.75	9.87	1.2

* Data from the Ministry of Energy and Coal Industry of Ukraine

Market model

The Wholesale Electricity Market (WEM) is organised based on the single-buyer principle. This buyer is state-owned Energorynok. By July 2017, Ukraine intends to transition from this model to a bilateral contract and balancing market, which now operates in the majority of developed countries.

The only competitive electricity market segment today is thermal generation, which operates on the principle of day ahead price bids. Power plants submit price bids for each unit. Energorynok uses these bids and the consumption forecast for the next day to prepare a load schedule, choosing the units with the lowest cost first. The last accepted bid defines the base electricity price for all units included on the list. In this way, the companies with the lowest production get the highest load and profit margin.

Selling tariffs for other electricity producers are set by the National Electricity Regulatory Commission (NERC).

Energorynok also calculates a single hourly wholesale electricity price for electricity suppliers based on all administrative expenses and subsidies. End consumers receive electricity the electricity supply companies at fixed prices set by the NERC depending on the voltage class. All consumers are divided into two classes: those connected to the grid at voltages of 27.5 kV and above (first class) and below 27.5 kV (second class).

Some independent suppliers are also present on the market. They do not own any networks, but can supply electricity at non-regulated tariffs. Their market share does not exceed 15%.

Electricity tariffs for consumers

In 2013, the unified tariff rose 9.1% to 81.1 kop/kWh for first class consumers and 9.0% to 103.2 kop/kWh for second class consumers (December over December).

In 2012, the unified tariff increased 6.5% to 74.4 kop/kWh for first class consumers and 5.6% to 94.7 kop/kWh for second class consumers (December over December).

Preferential tariffs continue to apply to the following categories:

Subsidies for these categories amounted to USD 4.7 billion in 2013, which was USD 0.4 billion more than in 2012. Subsidies accounted for 29.9% of the wholesale market price of electricity in 2013 and 29.2% in 2012.

- residents;
- companies that supply electricity for street lighting;
- municipal electric transportation;
- coal production companies;
- Artek and Moloda Gvardiya children's health centres; and
- entities that implement innovative projects.

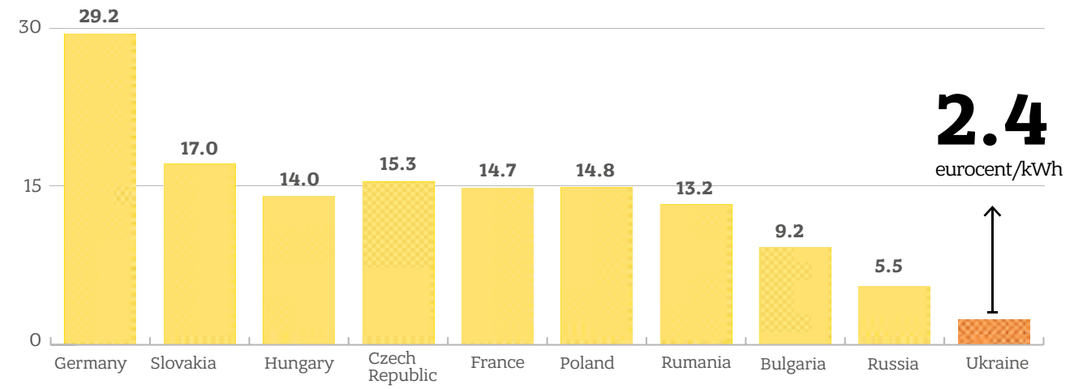
In 2011, the NERC introduced differentiated tariffs for residents:

- for consumers of less than 150 kWh per month (250 kWh per month for consumers with electric ovens and electric heating);
- for consumers of more than 150 kWh per month (250 kWh per month for consumers with electric ovens and electric heating);
- Tariffs for the first group increased by 15% in April 2011; tariffs for the second group increased in two stages: by 30% in February 2011 and by 15% in April 2011.

Those consuming less than 150 kWh pay 23.35 kop/kWh net of VAT. Every kWh above the 150 kWh threshold costs 30.4 kop/kWh. Households with electric ovens and electric heating pay 17.95 kop/kWh for every kWh below 250 kWh and 23.35 kop/kWh for every kW above this threshold.

In 2012, residential tariffs were not revised. However, in May 2012 the NERC introduced a separate tariff for the wealthiest households that consume more than 800 kWh per month. The tariff for them is 79.8 kop/kWh. In 2013, residential electricity tariffs also remained unchanged.

Retail tariffs for residential consumers*, eurocent/kWh



* Data from Eurostat and the Ministry of Energy and Coal Industry of Ukraine

Electricity transmission

In 2013, the tariffs for electricity transmission via local networks and electricity supply tariffs for electricity suppliers remained unchanged:

- most companies continued to use a «cost-plus» approach;
- five regional power companies (oblenergos) that were privatised in 2001 by strategic investors (Kyivoblenergo, Rivneenergo, Kirovohradoblenergo, Sevastopolenergo, and Zhytomyroblenergo) continued to use an approach based on regulating their profit margin with some incentives.

In 2013, the NERC adopted a regulatory package to introduce an incentive tariff-setting system (RAB regulation) in 2014. This new methodology was planned to be used by nine electricity suppliers, including DTEK Power Grid, DTEK Dniprooblenergo, and DTEK Krymenergo. However, some elements of the tariff reform proposed by the NERC (i.e. zero return on "old" assets in 2014) did not allow for the implementation of the reform. The introduction of RAB regulation was postponed.

Electricity transmission and supply tariffs were revised several times by the NERC throughout 2013 mainly due to an increase in the average salary.
In 2013, the average weighted tariff for electricity transmission to first class consumers increased by 3.6% to 21.6 UAH/MWh (net of VAT), while for second class consumers the tariff increased by 1.2% to 127.2 UAH/MWh.

The tariff for electricity supply to first class consumers grew by 5.8% to 5.1 UAH/MWh

Industry regulation

The NERC (National Electricity Regulatory Commission) is the main regulator of the electricity sector in Ukraine.

Key tasks of the NERC:

- Regulate natural monopolies in the electricity sector and entities that operate in adjacent markets at the state level;
- Promote competition in the electricity generation and supply sectors;
- Participate in the development of public policy and operation of the Wholesale Electricity Market (WEM) of Ukraine;
- Implement pricing and tariff policies; issue licenses for energy companies;
- Protect the rights of electricity consumers

NERC
is collegiate body accountable to the Cabinet Ministers of Ukraine

Key events in 2013

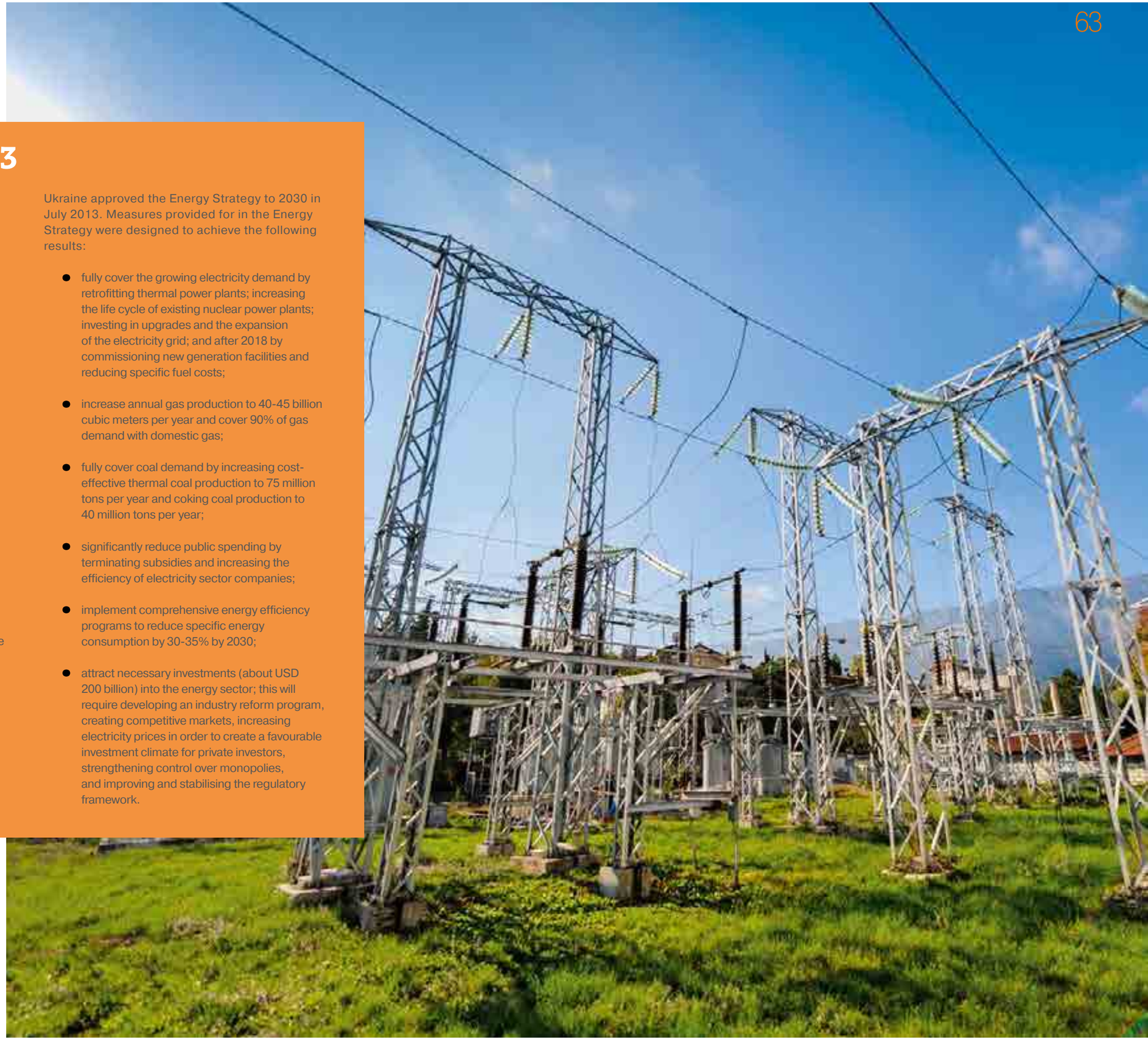
Adoption of the Law of Ukraine «On the Operating Principles of the Wholesale Electricity Market of Ukraine»

The law is primarily aimed at protecting the rights of electricity consumers and ensuring basic consumer rights: freedom to access the market and choose an electricity supplier. The law envisages the fundamentals for liberalising the WEM and creating an effective competitive environment in the electricity market, taking into account the basic requirements of EU Directive No. 2003/54/EC «Common rules for the internal market in electricity» and Regulation No. 1228/2003 on the conditions for accessing the cross-border transmission network. The introduction of a full-scale electricity market is scheduled for July 1, 2017. The future market will consist of the following segments: a bilateral contract market, «day ahead» market, balancing market, ancillary services market, and retail market. Prior to the introduction of the full-scale market, there will be a transition period when the current market will still operate alongside the ancillary services and retail markets. This transition period will start in 2016. During this period, the market will be tested: electricity will be purchased and sold and payments will be made according to the newly adopted law.

Adoption of the Energy Strategy of Ukraine to 2030 (hereinafter, the Energy Strategy)

After lengthy public debates and the approval of industry experts, the Cabinet of Ministers of Ukraine approved the Energy Strategy to 2030 in July 2013. Measures provided for in the Energy Strategy were designed to achieve the following results:

- fully cover the growing electricity demand by retrofitting thermal power plants; increasing the life cycle of existing nuclear power plants; investing in upgrades and the expansion of the electricity grid; and after 2018 by commissioning new generation facilities and reducing specific fuel costs;
- increase annual gas production to 40-45 billion cubic meters per year and cover 90% of gas demand with domestic gas;
- fully cover coal demand by increasing cost-effective thermal coal production to 75 million tons per year and coking coal production to 40 million tons per year;
- significantly reduce public spending by terminating subsidies and increasing the efficiency of electricity sector companies;
- implement comprehensive energy efficiency programs to reduce specific energy consumption by 30-35% by 2030;
- attract necessary investments (about USD 200 billion) into the energy sector; this will require developing an industry reform program, creating competitive markets, increasing electricity prices in order to create a favourable investment climate for private investors, strengthening control over monopolies, and improving and stabilising the regulatory framework.



Adoption of a regulatory framework to introduce incentive regulation for tariffs for the transmission and supply of electricity by distribution companies

In 2013, pursuant to the Law of Ukraine «On Natural Monopolies», a full package of regulatory acts was developed and approved to implement incentive regulation for tariffs for the transmission and supply of electricity by distribution companies. The State Property Fund of Ukraine approved «Methods for assessing the assets of natural monopolies and entities in adjacent markets operating in the field of combined electricity and heat production.» This methodology was used to re-evaluate the assets of nine electricity distribution companies in Ukraine (of the 27 companies in total), including DTEK Dniprooblenergo and DTEK Krymenergo. The Ministry of Economic Development approved the 14.79% threshold for the profit margin of new capital in power transmission via local power networks and electricity supply.

The NERC adopted regulatory documents regulating the transition and use of incentive regulation for electricity distribution companies, namely:

- procedure for calculating the necessary income;
- conditions for the transition to incentive regulation;
- long-term control parameters;
- procedure for the approval of tariffs;
- guidelines for the separation of electricity transmission and supply in terms of cost, assets, and income during the transition to incentive regulation.

The basis of the aforementioned regulations was the concept for incentive regulation of tariffs for the transmission and supply of electricity:

- long-term and predictable tariff regulation: the first regulatory period is 3 years, then 5 years;
- the company is free to use its tariff profit. The tariff profit is calculated on the basis of the regulatory asset base (RAB) and rate of return. There are two RABs: old assets existing at the time of transition to incentive regulations and new assets that are created after the transition. Accordingly, there are two different rates of return on equity/assets: 0.0-5.0% for the old RAB and 14.79% for the new RAB;
- introduction of incentives to improve the quality of customer service. The NERC sets the parameters for customer service quality for each company whose tariffs are set using the incentive regulation method and applies fines on tariff income in cases of non-compliance;
- introduction of mandatory conditions for the subjects of the regulations on the volume of investment, reduction of normative losses, and payment for purchased electricity.

Nine electricity distribution companies in Ukraine (out of 27 companies in total), including DTEK Dniprooblenergo, DTEK Krymenergo, and DTEK Power Grid applied to the NERC asking to transition to incentive regulation in 2014. However, a decision by the Cabinet of Ministers in October 2013 imposed a moratorium on increases in the prices and tariffs of natural monopolies in 2013 and 2014. Because of this, the transition of these companies to incentive regulation starting from January 1, 2014 did not take place.

Continuation of the privatisation process of energy facilities:

In 2013, the privatisation of energy facilities continued. A 60.773% stake in Donbasenergo was sold for USD 89.9 million, and a 75.0% stake in Volynoblenergo was sold for USD 57.8 million.

In 2013, the regulatory framework for Ukraine's energy sector underwent a number of changes:

- The Law of Ukraine «On the Resumption of Debtor's Solvency or Declaring Bankruptcy» was amended. These amendments extended the prohibition for initiating bankruptcy proceedings at mining companies (mines, quarries, pits, and processing plants) with a state stake of at least 25% until January 1, 2015.
- The Law «On Amending Some Laws of Ukraine on Ensuring the Stable Operation of Strategic Enterprises in the Energy Sector» was adopted.
- Amendments were made to the Tax Code of Ukraine regarding transfer pricing. The principles of transfer pricing, terms and scope of operations were defined.
- The Law «On Amending Some Laws of Ukraine Concerning the Lease or Concession of Facilities in the Spheres of Heating, Water Supply and Drainage that are Owned by Municipalities.» The document eliminates terminological inconsistencies between the Laws of Ukraine «On Concessions» and «On the Lease or Concession of Facilities of Centralised Water and Heat Supply and Drainage that are Owned by Municipalities.» The law aims to create favourable conditions for attracting private investment in this area by establishing transparent terms of investment, securing returns, ensuring transparency of competition, etc.
- Article 17 of the Law of Ukraine «On Heat Supply» was amended. The purpose of the document was to bring in line the Law of Ukraine «On Licensing Certain Types of Activities «and the Law of Ukraine» On Heat Supply» with regard to the licensing authority in the field of heating if heat energy is produced by thermal power plants and nuclear power plants.
- Its adoption eliminates gaps in legislation in the field of heating, improving state regulation of heat energy that is produced by thermal and nuclear power plants and expanding the powers of the NERC.
- In order to improve the quality of customer service, the NERC adopted the resolution «On Ensuring the Operation of Call Centres by Entities Supplying Electricity at the Regulated Tariff.» In doing so, the Commission asked suppliers to create new call centres for electricity consumers or improve existing ones. This will improve the quality of power supply, facilitate consumers' access to information, allow them to identify relevant issues of concern, and release dispatchers from working directly with consumers.
- In order to simplify the procedure for connecting new consumers to the grid, the NERC adopted the following regulatory documents: Rules for the Connection of Electric Installations to the Grid, Methods for Calculating Connection Charges, and Procedure for Financing Services to Connect Electric Installations to the Grid. These regulatory documents will regulate the relationship between network companies and consumers that connect to the grid, ensure transparent pricing for connection services, and resolve specific issues related to the connection of certain installations (especially green energy installations) to the grid.

Objectives and challenges for the electricity industry in 2014

Liberalisation of the electricity sector

To apply the provisions of the Law of Ukraine related to the basics of the Ukrainian electricity market in effect, one should make the following institutional, legal and regulatory changes:

- establish structural departments that act as market operators and guaranteed buyers and are a part of the enterprise that performs the bulk delivery of electricity;
- replace the current system for distributing the capacity of international power lines at auctions that comply with European norms;
- ensure the initial implementation of the auxiliary services market;
- develop and introduce into the Verkhovna Rada of Ukraine an act on the legal and structural division of electricity distribution enterprises so that electricity distribution is separated from other activities; and
- endorse the code of electricity lines and 10-year development plan for the united energy system.

Implementation of incentive pricing. The following actions should be taken:

- Ensure conditions for the transition of electricity distribution companies (oblenergos) to incentive ratemaking.
- Increase the quality of consumer service via implementation of the first stage of call centres and control over the quality of their work.

Privatisation of energy companies and better management of state-owned energy companies. The following actions should be taken:

- Adopt regulatory documents on the privatisation of thermal power generators and suppliers.
- Organise the sale of stakes in energy companies that are scheduled for privatisation in 2014.

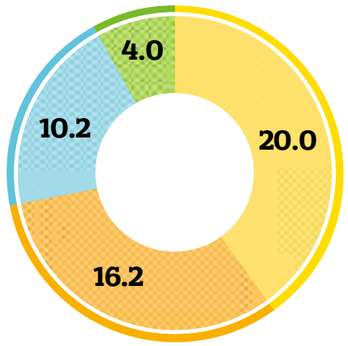
Natural gas market

Domestic gas production in Ukraine

21.0 billion m³

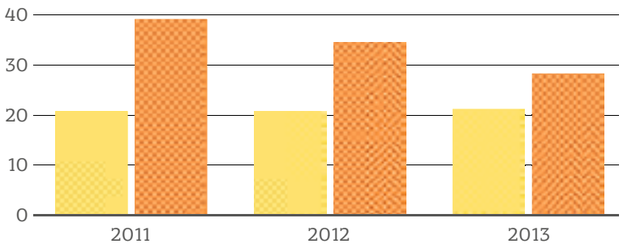
+2%
to 2012

Gas consumption in Ukraine
in 2013, billion m³



- Industry
- Population and budget-funded organisations
- Heat generation enterprises
- Technical gas

Correlation of gas extraction and import in Ukraine*,
billion m³



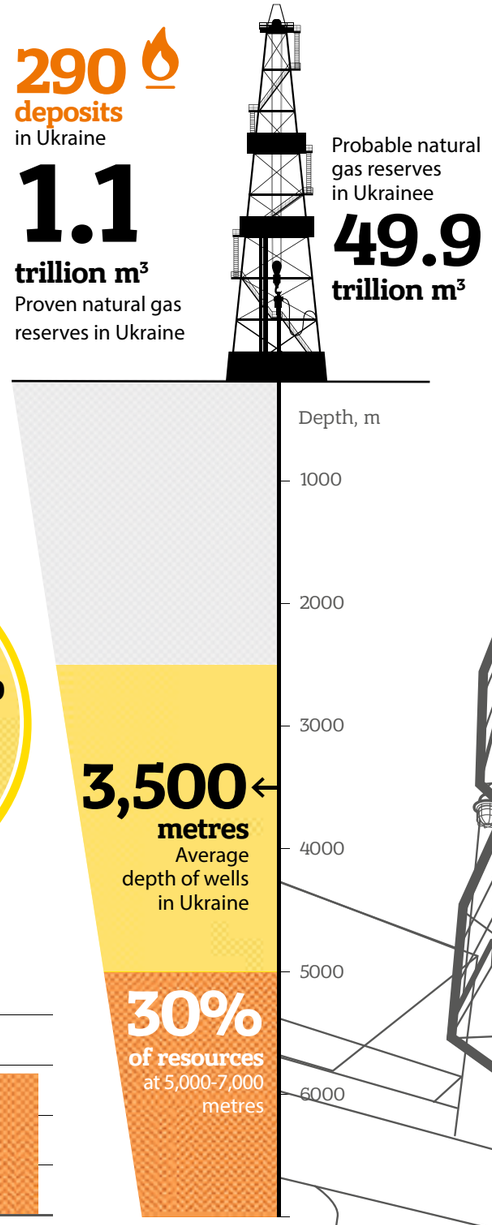
Domestic extraction
Imported gas

*Data from the Ministry of Energy and Coal Industry of Ukraine

290 deposits in Ukraine

1.1 trillion m³
Proven natural gas reserves in Ukraine

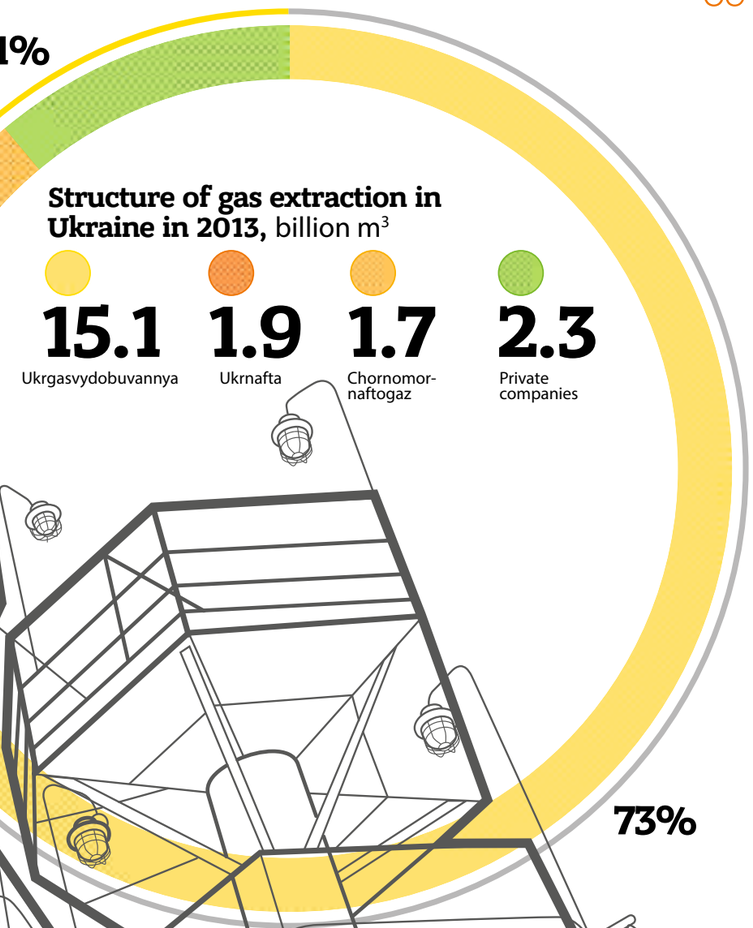
Probable natural gas reserves in Ukrainee
49.9 trillion m³



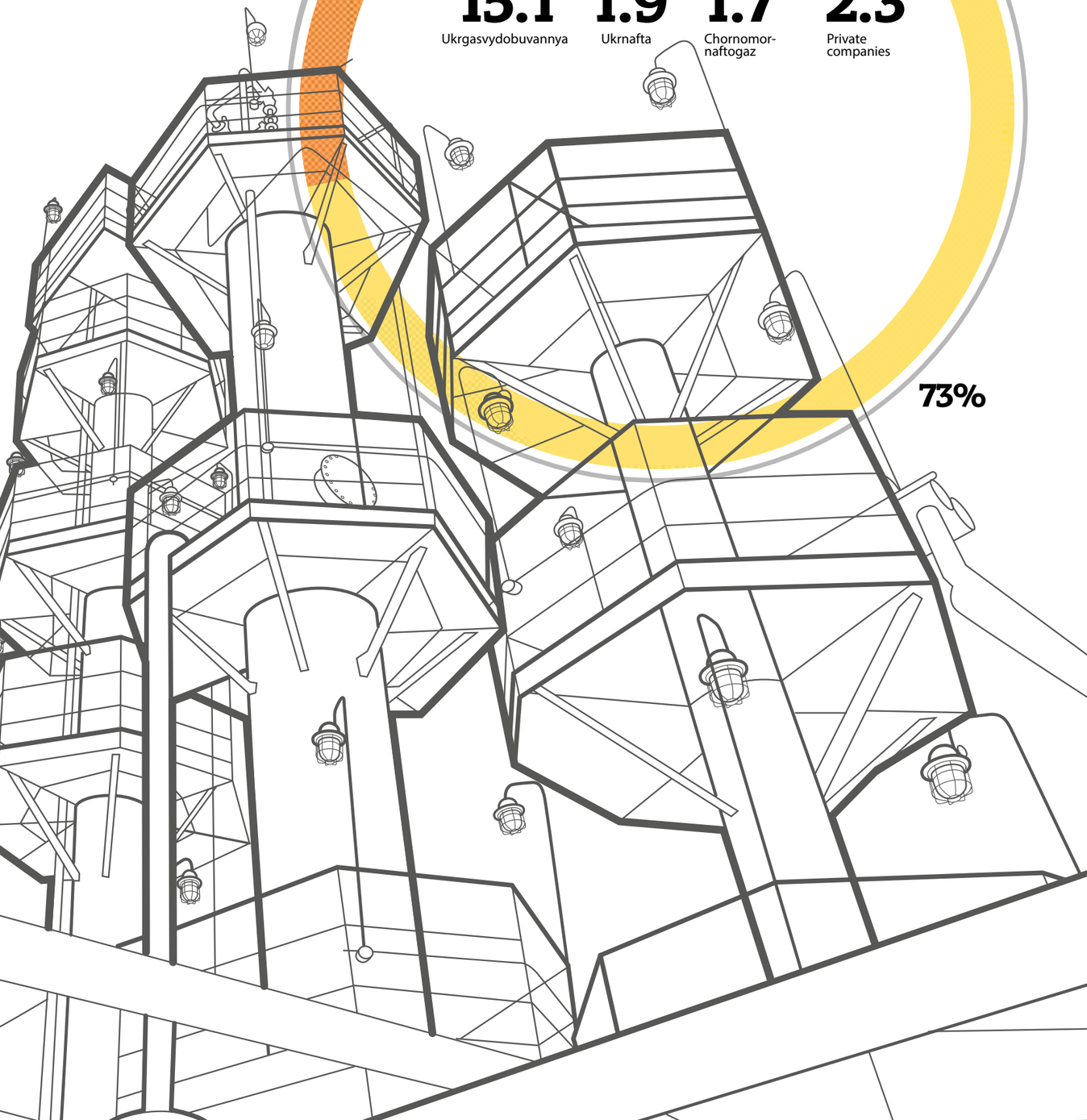
3,500 metres
Average depth of wells in Ukraine

30% of resources
at 5,000-7,000 metres

Structure of gas extraction in Ukraine in 2013, billion m³



15.1	1.9	1.7	2.3
Ukrgasvydobuvannya	Ukrnafta	Chornomor-naftogaz	Private companies



Natural gas extraction

Ukraine's probable reserves of natural gas, according to various estimates, range between 39.0 and 49.9 trillion m^3; the country's proven reserves amount to 1.1 trillion m^3. Ukraine's share of global reserves is 0.3–0.6%.

At current volumes of consumption, extraction and import, Ukraine's own proven gas reserves will cover the country's demand for more than 30 years (excluding the possibility of reserves increasing).

The main gas deposits are concentrated in three oil and gas basins. The largest one, the Dnipro-Donets basin, accounts for more than 80% of all proven gas reserves. The Carpathian basin (western Ukraine) holds 13%. The Black Sea-Crimean basin includes deposits in the lowland part of Crimea and in the nearby offshore areas of the Black Sea and the Sea of Azov. This basin accounts for 6% of the country's proven reserves.

In total, Ukraine has approximately 290 gas deposits. More than 75% of them initially had extractable reserves of less than 10.0 billion m^3. Only four deposits have reserves that exceed 100.0 billion m^3: Yablunivske, Yefremivske, Zahidno-Khrestyshchenske, Shebelynske. They are 60-70% exhausted now, but still supply more than 20% of the total volume of extracted gas.

More than 15% of Ukraine's natural gas reserves are problematic due to the low permeability of collectors, multiple formations in the structure of deposits and high lithological heterogeneity. More than one third of hydrocarbon resources is concentrated at the depth of 5-7 km. The average depth of gas wells today is approximately 3.5 thousand metres, and the maximum depth is over 6 thousand metres.

Ukraine's own gas will cover internal needs for more than

30 years

In the 1970s, Ukraine's annual gas production exceeded 60 billion m³. Since independence, this figure has decreased to 18-21 billion m³. The decline was the result of slowing exploration of new reserves (which do not compensate for extracted gas), the difficult geological conditions of the gas extraction process, use of outdated technologies and equipment, low investments in the industry and lack of government support.

According to Ukraine's Energy Strategy to 2030, the gas extraction will be 15-24 billion m³ in the next two decades. The production increase, according to the authors, can be possible provided that small and very small onshore deposits (up to 1 billion m³) are actively developed, new drilling technologies are implemented at 6,000-7,000 metres and the efficiency of operating wells is improved.

The highest increase in production in the short term can be achieved by intensifying gas extraction in offshore deposits in the Black Sea and the Sea of Azov and later in deep-water areas. Marine hydrocarbon resources are only 4% explored, according to estimates.

The government has prepared the high-potential Subbotino and Bezimene deposits for commercial operation and has started work at the Shtormove and Odeske deposits.

Projections of the prospects for non-conventional gas extraction in Ukraine differ substantially (estimates of projected reserves vary between 2 and 30 trillion m³). A quality estimate cannot be prepared due to the lack of required geological data. Under any scenario, commercial extraction of shale gas, coalbed methane and tight gas is only be possible no sooner than in 7-10 years.

Status of natural gas reserves in Ukraine,* %

Basin	Proven reserves, % of total	Degree of depletion, %
Dnipro-Donets	80	57
Carpathian	13	42
Black Sea-Crimean	6	5

* According to Ukraine's Energy Strategy to 2030, State Service of Geology and Mineral Recourses

Natural gas balance

In 2013, Ukraine decreased its gas consumption by 8% to 50.4 billion m³. Ukraine has been cutting consumption since 2005, due to two key factors: dramatic growth in the cost of imported gas, which has forced more sparing use or switches to alternative sources of energy, and declining commercial production, which has been a direct consequence of the country's economic situation.

Ukraine's own gas production increased by 2% to 21 billion m³, which covers almost 42% of domestic gas demand. Of the total volume, 18.7 billion m³ or 89 % is produced by companies where the state owns a controlling stake. (Ukrgasvydobuvannya, Ukrnafta, Chornomornaftogaz). The cumulative share of private companies amounted only to 11% or 2.3 billion m³.

Industry accounts for the largest share of total consumption: 20 billion m³. This includes metallurgical, chemical and energy enterprises. The population and budget-funded organisations consumed 16.2 billion m³ of gas, and heat generation companies 10.2 billion m³. The remaining gas was used for the production and technical needs of gas extraction and gas transportation companies.

Ukraine reduced gas consumption by **8%** **in 2013**

Chornomornaftogaz made the largest contribution to the increase in output, extracting 1.65 billion m³ (41% more than in 2012). This was due to the acquisition of new drilling equipment. The indicators of other state-owned companies remained at the same level or have declined in recent years. Several private companies increased output substantially at the end of 2013.

Natural gas imports to Ukraine amounted to 28 billion m³, which covered 56% of the country's demand. Compared to the previous year, 15% less gas was imported. This volume is half of the volume of imported gas ten years ago. The largest share of imported gas, as in previous years, came from Russia (almost 26 billion m³).

In addition, Ukraine continued to diversify its energy imports in 2013. More than 2 billion m³ of natural gas came from Poland and Hungary. Reverse flows have become possible due to agreements reached by NJSC Naftogaz of Ukraine and Ukraine's major private companies with European suppliers.

According to the Energy Strategy, gas consumption before 2030 will remain at the current level of 47-53 billion m³ annually. At the same time, demand for imported gas will remain substantial from 36% to 54% of total consumption. The Energy Strategy provides for the need to minimise the share of gas acquired from one supplier to 35% of the total imported amount.

Liquefied gas imports are expected to ensure higher diversification.

These options require billions in investments in infrastructure and long-term agreements with foreign partners. The Energy Strategy also considers the possibility of intensifying reverse gas flows from Europe in the existing gas pipeline system.

In addition, Ukraine continued to diversify its energy imports in 2013. More than 2 billion m³ of natural gas came from Poland and Hungary. Reverse flows have become possible due to agreements reached by NJSC Naftogaz of Ukraine and Ukraine's major private companies with European suppliers

Natural gas imports amounted to **28** **billion m³ in 2013**

Correlation of gas extraction and import in Ukraine*, billion m^3

Year	Extraction	Import
2011	20.6	38.7
2012	20.5	34.2
2013	21.0	28.0

Structure of gas extraction in Ukraine*, billion m^3

	2011	2012	2013
Share of state-owned companies	88.2%	88.9%	89.1%
Share of private companies	11.8%	11.1%	10.9%

Structure of gas extraction in Ukraine in 2013*, billion m^3

Company	Extraction
Ukrgasvydobuvannya	15.1
Ukrnafta	1.9
Chornomornaftogaz	1.7
Private companies	2.3
Total	**21.0**

Structure of gas consumption in Ukraine in 2013, billion m^3

Consumer group	Consumption
Industry	20.0
Population and budget organisations	16.2
Heat generation companies	10.2
Technical gas	4.0
Total	**50.4**

* According to the Ministry of Energy and Coal Industry

Pricing

Most natural gas in Ukraine is sold at the regulated tariff by suppliers. This includes state-owned company Naftogaz of Ukraine, which sells gas directly to large industrial enterprises, and regional gas distribution companies (oblgazy), which sell natural gas to small enterprises, budget-funded entities and residents.

The regulator determines the prices for industrial consumers and budget-funded organisations on the basis of the cost of imported gas, also taking into account certain expenses of Naftogaz of Ukraine associated with the procurement of energy resources and storage. In 2013, the marginal gas cost for this category of consumers was approved at less than UAH 3,500/1 ths. m^3.

A similar scheme is used to determine the tariffs for budget-funded organisations. For heat generation enterprises, the regulator sets a privileged price for gas to be used to supply heating and hot water to residents. In 2013, it was UAH 1,300/1 ths. m^3. The difference between the privileged tariff and market price is covered by the government from its budget with the help of NJSC Naftogaz of Ukraine.

The country's domestically produced gas is supplied to residents. According to the law, all companies with a state-owned share of over 50% must sell their gas for this purpose. The tariff for this gas is determined based on its prime cost and the required associated costs. The profit of gas production companies is set at either a minimal level or zero.

Nevertheless, the price approved by the regulator does not take into account a number of extra charges to be paid by the customer, such as a surcharge of 2% of the gas cost, a tariff for gas transportation through mains and distribution networks, and value-added tax. Thus, the actual gas price for industrial consumers exceeded UAH 4,5000/1 ths. m^3 in 2013.

The tariff for residents amounted to UAH 1,309.20/1 ths. m^3 in 2013.

Private gas production companies, acting as suppliers at an unregulated tariff, derive their product prices from the marginal tariffs for industrial enterprises approved by the regulator. Thus, the actual price of natural gas at the well collar is approximately equal to the average price of imports to Ukraine.This price also includes a gas trader's discount.

The average price of imported natural gas at the state border of Ukraine reached USD 426/1 ths. m^3 in January 2013. The price went down to USD 392/1 ths. m^3 in December. The price decrease was related to higher amounts of gas procured from Europe in the second half of the year and also by a slight decrease in the cost of hydrocarbons in international markets, which had an impact on Russian gas prices.

Marginal prices of natural gas for various groups of consumers, UAH / 1 thousand m^3

	2011*	2012	2013
Industry	2,282.0	3,509.0	3,509.0
Budget-funded organisations	2,282.0	3,509.0	3,509.0
Heat generation enterprises	1,309.2	1,309.2	1,309.2
Population**	725.4–2,685.6	725.4–2,685.6	725.4–2,685.6

* As of January 1 of each year
** The tariff varies depending on the consumption volume and on whether a metering unit is installed.

Industry regulation

The oil & gas industry is regulated by the Laws «On the Principles of the Functioning of the Oil & Gas Market», «On Oil & Gas», «On the Pipeline System», «On Natural Monopolies», «On Licensing of Certain Types of Economic Activity», etc. Many norms are recorded in subordinate legislative acts: regulations of the Cabinet of Ministers of Ukraine, National Electricity Regulatory Commission of Ukraine, and State Geology and Subsoil Service.

The fragmentary nature of the legislation and lack of clearly defined provisions result in high-level administrative regulation and lower transparency in the state decision-making process. Apart from that, the operating conditions of oil & gas companies are subject to frequent changes due to the adoption of new legislative acts, which lessens the industry's investment appeal.

The doption of the Law of Ukraine «On the Principles of the Functioning of the Oil & Gas Market» in 2010 was an important landmark for the process of standardisation and liberalisation of the country's legislative environment (which was one of the prerequisites for Ukraine's accession to the European Energy Community). The law gave consumer the possibility to choose their gas suppliers freely, equal access to the gas pipeline system and delimitation of the gas extraction, transportation and supply functions of NJSC Naftogaz of Ukraine.

The subsoil use legislation also requires systematisation and updating. Market participants point out the need to review the mechanism for the issuance and re-issuance of special subsoil use permits and companies' interaction with industry-specific state bodies. The existing procedure is complicated and is intermittently modified by orders and regulations by these state bodies.

The ddoption of the Law of Ukraine «On the Principles of the Functioning of the Oil & Gas Market» brought about a number of positive changes, in particular, private companies started importing gas from Europe in 2013, for the first time in a long while. Still, as of early 2014, not all of the law's provisions had been implemented. The role of NJSC Naftogaz of Ukraine in the market remains high and limits business opportunities for other market participants.

In October 2013, the Cabinet of Ministers of Ukraine approved a revised draft of the Subsoil Code of Ukraine. It contained a number of forward-looking innovations, including the introduction of the “single window” principle for licensees with state authorities, the introduction of subsoil use rights into civil use, and the abolishment of special subsoil use permits. As of May 2014, the draft Subsoil Code of Ukraine had not been submitted to the Verkhovna Rada.

The main legal acts regulating joint activities and cooperation under production sharing agreements are the Laws of Ukraine «On Oil & Gas» and «On Production Sharing Agreements».

Market participants and dedicated organisations also see the need to refine these mechanisms, which will allow for increasing private investments into the extraction of hydrocarbons.

It is also important for the development of the oil & gas industry to bring the legislative framework regulating land allocation and the commissioning of new facilities in compliance with modern standards. Today, companies often complain that these procedures lack transparency and involve substantial time outlays and extra costs.

Performance results

Operations

In 2013, coal production by DTEK's enterprises amounted to 41.4 million tons; the volume of coal preparation was 29.3 million tons; electricity supply by generation enterprises was 53.0 TWh, and electricity network transmission was 56.9 TWh.

«Amidst the decline in industrial production in Ukraine, sovereign rating downgrades and the unstable political situation, DTEK's financial and operational performance in 2013 was generally consistent with our expectations,» Maxim Timchenko, CEO of DTEK, said of the results..

Key production indicators

Indicators	Unit	2012	2013	Δ	Δ, %
Coal production	ths tons	39,693	41,408	1,715	4.3
Coal processing:					
ROM coal processing	ths tons	27,692	29,338	1,646	5.9
Concentrate output	ths tons	18,311	19,182	871	4.8
Electricity generation	mln kWh	47,649	53,054	5,405	11.3
Transmission of electricity by grids	mln kWh	49,996	56,931	6,935	13.9
Electricity exports	mln kWh	9,707	9,828	121	1.25
Coal exports	ths tons	2,745	4,740	1,995	72.7
Natural gas imports	million m³	0	628	628	–

Coal mining and processing

In 2013, DTEK's coal production enterprises increased their output by 4.3% compared to 2012, despite the decrease in total electricity consumption in Ukraine by 2.3% or 3.5 TWh. The Company's coal preparation plants also increased production: ROM coal preparation volume grew by 5.9% and concentrate production by 4.8%. The consolidation of the production indicators of coal mining enterprises acquired by the Company in 2012 ensured a positive trend in production performance.

In 2013, DTEK's coal production enterprises increased their output by **4.3%**

Factors affecting the performance indicators:

- increase in coal production by DTEK Pavlogradugol in 2013 by 7.1%;
- consolidation of the Russian enterprises (three mines and one coal preparation plant) and Bilozerske Mine Group, which were acquired by the Company in March and July 2012, respectively, into the coal production results;
- increase in the sales of export quality coal due to the implementation of the capital investment program for coal preparation plants.

Commercial coal reserves by grade, as of January 1, 2014

Grade	Commercial reserves, mln t	Production capacity, mln t	Lifetime, years
D, DG, G	1,079.1	17.2	62.7
A	510.1	12.0	42.5
T	153.6	2.6	59.1
Total	**1,742.8**	**31.8**	**54.8**

Structure of coal produced in 2013, ths tons

Coal grade	Total	including thermal coal	including coking coal
G/DG	22,246.3	22,097.0	149.3
A	15,133.7	15,133.7	–
T	4,028.2	4 ,028.2	–
Total	**41,408.2**	**41,258.9**	**149.3**

G – gas coal, DG – long-flame gas coal, T – lean coal, A – anthracite

Coal production by CCP, mln tones

	2011		2012		2013	
	C	T	C	T	C	T
Gas coal	0.7	7.2	0.3	8.1	0.02	9.0
Lean coal	0.0	3.2	0.0	3.4	0.0	2.9
Anthracite	0.0	0.8	0.0	3.2	0.0	10.0

T – thermal coal (including exportable coal concentrate), C – coking coal

Cost of ROM coal production by DTEK enterprise in 2013

Enterprise	Output, ton/man-month	Cost per 1 ton, UAH
DTEK Pavlogradugol	92.5	478.7
DTEK Mine Komsomolets Donbasu	93.8	431.6
DTEK Sverdlovanthracite	73.5	450.9
Public Mining Corporation Obukhivska	58.8	585.0
Mine Bilozerske ALC	57.2	632.1
DTEK Rovenkyanthracite	54.7	526.2
DTEK Dobropolyeugol	35.9	861.2

Electricity generation

In 2013, the total electricity supplied by DTEK's generation enterprises rose by 11.3% to 53.0 TWh.

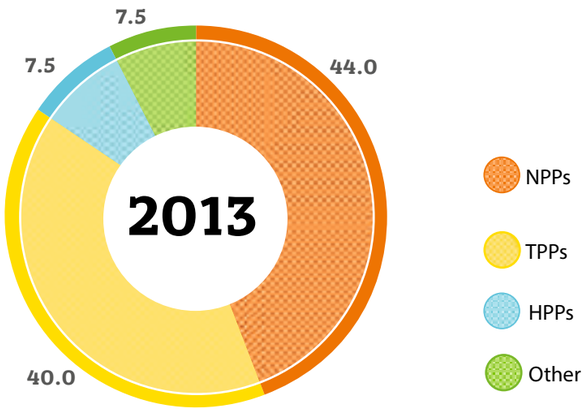
Key factors affecting the performance indicators:

- effect from the full consolidation of the performance indicators of DTEK Dniproenergo and DTEK Zakhidenergo, which were acquired in 2012;
- start of sales of electricity generated by the Botievo WPP;
- increase of DTEK TPPs' market share in 2013 due to the high technical availability of DTEK's power units.

DTEK's production facilities include nine major thermal power plants: Zuivska TPP, Kurakhove TPP, Luhanska TPP, Zaporizka TPP, Kryvorizka TPP, Prydniprovska TPP, Burshtyn TPP, Dobrotvir TPP and Ladyzhyn TPP. The power plants are located in Donetsk, Luhansk, Dnipropetrovsk, Zaporizhya, Lviv, Ivano-Frankivsk and Vinnitsya regions. In addition, DTEK has the Myronivska TPP of DTEK Donetskoblenergo and two combined heat and power plants (CHPP) of Kyivenergo.

DTEK owns the largest wind farm in Eastern Europe, the Botievo wind farm, construction of which was completed in 2014.

Generation of electricity in Ukraine (output), %



Generation of thermal electricity in Ukraine (output), TWh, 2013

TPPs of DTEK	49.5
Centrenergo	12.6
Donbasenergo	9.0

Installed capacity utilisation rate (ICUR) of thermal electricity generation companies in Ukraine, %, 2013

TPPs of DTEK	46.9
Donbasenergo	40.6
Centrenergo	20.8

Fuel supply for DTEK's TPPs

The share of coal in the fuel structure of DTEK's generation enterprises is **98.2%**

DTEK's thermal power plants mainly use coal. The share of coal in the fuel structure of the Company's enterprises is 98.2%.Gas and oil account for 1.8%.

The Zuivska, Kurakhove, Zaporizka, Burshtyn, Dobrotvir and Ladyzhyn TPPs use gaseous grade coal, the Luhanska TPP — anthracite, Kryvorizka TPP — lean coal, and Prydniprovska TPP uses anthracite and lean coal grades.

In 2013, the actual consumption of coal by the nine TPPs amounted to 25.6 million tons. That said, a major part of coal supplies (93.3%) was provided by DTEK Trading LLC. The remaining 6.7% of coal was purchased from other suppliers.

Key operational indicators of DTEK's TPPs, mln kWh

Company	Indicators	2012	2013	Δ
Kurakhove TPP	Electricity generation	6,006.0	7 122.1	1,116.1
	Electricity consumption for its own needs, %	10.5	10.2	–0.3
	Electricity supply	5,370.8	6,388.5	1,017.7
	ICUR, %	45.8	53.9	8.1
Zuivska TPP	Electricity generation	5,271.7	6,573.7	1,302.0
	Electricity consumption for its own needs, %	7.5	7.2	–0.3
	Electricity supply	4,875.3	6,100.3	1,25.0
	ICUR, %	48.2	59.6	11.4
Luhanska TPP	Electricity generation	6,095.6	5,353.8	–741.8
	Electricity consumption for its own needs, %	10.9	10.9	0.0
	Electricity supply	5,428.2	4,767.4	–660.8
	ICUR, %	48.4	41.9	–6.5
Prydniprovska TPP	Electricity generation	4,084.1	3,993.6	–90.5
	Electricity consumption for its own needs, %	10.5	10.6	0.1
	Electricity supply	3,629.0	3,544.6	–84.4
	ICUR, %	26.3	25.8	–0.5
Zaporizka TPP	Electricity generation	4,710.4	5,997.4	1,287.0
	Electricity consumption for its own needs, %	8.1	7.5	–0.6
	Electricity supply	4,330.7	5,548.1	1,217.4
	ICUR, %	14.9	19.0	4.1
Kryvorizka TPP	Electricity generation	8,896.5	7,516.0	–1,380.5
	Electricity consumption for its own needs, %	7.7	7.7	0.0
	Electricity supply	8,210.4	6,934.5	–1,275.9
	ICUR, %	35.9	30.3	–5.6
Burshtyn TPP	Electricity generation	9,632.0	9,954.7	322.7
	Electricity consumption for its own needs, %	9.8	9.8	0.0
	Electricity supply	8,691.3	8,974.7	283.4
	ICUR, %	47.6	49.0	1.4
Dobrotvir TPP	Electricity generation	2,346.3	2,004.2	–342.1
	Electricity consumption for its own needs, %	9.5	9.5	0.0
	Electricity supply	2,121.9	1,759.0	–362.9
	ICUR, %	53.4	45.8	–7.6
Ladyzhyn TPP	Electricity generation	4,575.8	5,904.6	1,328.8
	Electricity consumption for its own needs, %	7.7	7.6	–0.1
	Electricity supply	4,215.9	5,452.6	1,236.7
	ICUR, %	28.9	37.5	8.6

Production capacity of DTEK's power plants,
as of January 1, 2014

Unit	Installed capacity, MW	Date of commissioning/ last major overhaul or retrofit	Hours in service	Major overhaul/retrofit
DTEK Zuivska TPP				
1	325	1982/2009	186,596	Retrofit in 2009. Increased installed capacity by 25 MW
2	320	1982/2008	182,249	Retrofit in 2008. Increased installed capacity by 20 MW
3	300	1986/2006	164,534	Retrofit in 2014-2015. Expected increase in installed capacity by 25 MW
4	325	1988/2012	150,815	Retrofit in 2012. Increased installed capacity by 25 MW
Total	**1,270**			
DTEK Kurakhove TPP				
3	200	1972/2007	269,328	Retrofit in 2018. Expected increase in installed capacity by 25 MW
4	210	1973/2008	248,538	Retrofit in 2016. Expected increase in installed capacity by 15 MW
5	222	1973/2009	230,604	Retrofit in 2008-2009. Increased installed capacity by 12 MW
6	225	1973/2013	223,436	Retrofit in 2012-2013. Increased installed capacity by 15 MW
7	225	1974/2010	236,781	Retrofit in 2009-2010. Increased installed capacity by 15 MW
8	225	1974/2012	233,135	Retrofit in 2010-2012. Increased installed capacity by 15 MW
9	210	1975/2006	236,712	Retrofit in 2014-2015. Expected increase in installed capacity by 15 MW
Total	**1,517**			
DTEK Luhanska TPP				
9	200	1962/2007	314,562	Retrofit in 2017. Expected increase in installed capacity by 10 MW
10	210	1962/2012	300,553	Retrofit in 2008-2012. Increased installed capacity by 35 MW
11	200	1963/2004	313,678	Retrofit in 2014-2015. Expected increase in installed capacity by 10 MW
12	–		199,661	Mothballed. No electricity generation possible physically
13	175	1968/2013	274,987	Retrofit in 2012-2013. Increased installed capacity by 35 MW
14	200	1968/2006	274,435	Retrofit in 2016. Expected increase in installed capacity by 10 MW
15	200	1969/2005	284,324	Retrofit in 2015-2016. Expected increase in installed capacity by 10 MW
Total	**1,185**			

Unit	Installed capacity, MW	Date of commissioning/ last major overhaul or retrofit	Hours in service	Major overhaul/retrofit
DTEK Zaporizka TPP				
1	325	1972/2012	262,788	Retrofit in 2011-2012. Increased installed capacity by 25 MW
2	300	1972/2006	256,850	Retrofit in 2017. Expected increase in installed capacity by 30 MW
3	300	1972/1999	263,650	Retrofit in 2013-2014. Expected increase in installed capacity by 30 MW
4	300	1973/2002	243,857	Retrofit in 2016. Expected increase in installed capacity by 30 MW
5	800	1975/1995	148,998	Gas-and-oil-fired unit. No plans
6	–	1976/1993	127,365	Mothballed
7	800	1977/1992	133,190	Gas-and-oil-fired unit. No plans
Total	**2,825**			
DTEK Kryvorizka TPP				
1	282	1965/1993	297,497	Retrofit in 2013-2014. Expected increase in installed capacity by 33 MW
2	282	1966/1998	300,555	Retrofit in 2018. Expected increase in installed capacity by 33 MW
3	300	1966/2012	259,332	Retrofit in 2007-2012. Increased installed capacity by 18 MW
4	282	1968/2004	237,816	Retrofit in 2022. Expected increase in installed capacity by 33 MW
5	282	1968/1994	283,921	Retrofit in 2016-2017. Expected increase in installed capacity by 33 MW
6	282	1969/1995	242,314	Retrofit in 2017. Expected increase in installed capacity by 33 MW
7	–	1970/1991	190,390	Retrofit is not planned (dismantling)
8	282	1970/1996	253,005	Major overhaul in 2014. Retrofit is not planned (dismantling)
9	–	1972/1994	178,750	Mothballed. Retrofit in 2020. Expected increase in installed capacity by 33 MW
10	282	1973/1992	193,753	Retrofit is not planned (dismantling)
Total	**2,274**			

Production capacity of DTEK's power plants,
as of January 1, 2014

Unit	Installed capacity, MW	Date of commissioning/ last major overhaul or retrofit	Hours in service	Major overhaul/retrofit
DTEK Prydniprovska TPP				
7	150	1959/2013	322,110	Retrofit is not planned (dismantling)
8	150	1960/2007	345,098	Major overhaul in 2014. Retrofit is not planned (dismantling)
9	150	1960/2012	311,639	Retrofit in 2008-2012 without increase in installed capacity
10	150	1961/2006	322,851	Retrofit is not planned (dismantling)
11	310	1963/2001	258,277	Retrofit in 2022. Expected increase in installed capacity by 5 MW
12	–	1964/1990	221,579	Retrofit is not planned (dismantling)
13	285	1965/1997	294,061	Retrofit in 2017. Expected increase in installed capacity by 30 MW
14	–	1966/1993	246,384	Mothballed
Total	**1,195**			
DTEK Burshtyn TPP				
1	195	1965/2010	281,313	Major overhaul in 2017. Retrofit is not planned
2	185	1965/2008	264,792	Major overhaul in 2014. Retrofit is not planned
3	185	1966/2013	275,509	Retrofit is not planned
4	195	1966/2013	295,281	Retrofit is not planned
5	195	1967/2013	286,445	Retrofit in 2012-2013. Increased installed capacity by 13 MW
6	185	1967/2010	290,783	Major overhaul in 2016. Retrofit is not planned
7	206	1968/2012	272,899	Retrofit in 2007-2012. Increased installed capacity by 21 MW
8	195	1968/2009	293,763	Retrofit in 2017-2018. Expected increase in installed capacity by 15 MW
9	195	1968/2006	276,087	Retrofit in 2016-2017. Expected increase in installed capacity by 15 MW
10	195	1969/2004	288,346	Retrofit in 2014-2015. Expected increase in installed capacity by 15 MW
11	195	1969/2011	252,600	Retrofit in 2018. Expected increase in installed capacity by 15 MW
12	195	1969/2012	245,755	Retrofit in 2019. Expected increase in installed capacity by 15 MW
Total	**2,321**			
DTEK Dobrotvir TPP				
5	100	1960/2010	325,207	Major overhaul in 2016. Retrofit is not planned
6	100	1961/2009	320,787	Major overhaul in 2014. Retrofit is not planned
7	150	1963/2011	331,084	Retrofit in 2015-2016. Expected increase in installed capacity by 10 MW
8	150	1964/2007	304,379	Retrofit in 2012-2014. Expected increase in installed capacity by 10 MW
Total	**500**			
DTEK Ladyzhyn TPP				
1	300	1970/2007	237,597	Major overhaul in 2017. Retrofit is not planned
2	300	1971/2009	229,125	Major overhaul in 2018. Retrofit is not planned
3	300	1971/2011	216,763	Major overhaul in 2019. Retrofit is not planned
4	300	1971/2001	227,610	Retrofit in 2016-2017. Expected increase in installed capacity by 25 MW
5	300	1971/2003	214,177	Retrofit in 2017-2018. Expected increase in installed capacity by 10 MW
6	300	1971/2004	225,551	Major overhaul in 2019. Retrofit is not planned
Total	**1,800**			

Fuel supply for Kyivenergo

In 2013, Kyivenergo used natural gas to produce electricity and heat. Its consumption totalled 2.5 billion cubic meters. Natural gas was purchased from Naftogaz of Ukraine. The company also used 1,000 tons of coal for production.

Kyivenergo used natural gas to produce electricity and heat totalled
2.5 billion cubic meters

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

Company	Indicators	2012	2013	Δ
CHPP-5	Electricity generation	2,520.5	1,975.7	-544.8
	Electricity supply	2,189.5	1,653.7	-535.8
	Electricity consumption for its own needs (for electricity generation), %	5.8	6.5	0.7
	Electricity consumption for its own needs (for heat production), kWh/Gcal	44.3	46.0	1.7
	ICUR, %	41.0	32.2	-8.8
CHPP-6	Electricity generation	2,171.6	1,349.0	-822.6
	Electricity supply	1,915.2	1,159.2	-756.0
	Electricity consumption for its own needs (for electricity generation), %	4.9	5.2	0.3
	Electricity consumption for its own needs (for heat production), kWh/Gcal	47.5	52.8	5.3
	ICUR, %	49.4	30.8	-18.6
Kyivenergo	Electricity generation	4,692.2	3,324.7	-1,367.5
	Electricity supply	4,104.7	2,812.9	-1,291.8
	Electricity consumption for its own needs	603.5	569.6	-33.9
	ICUR, %	44.5	31.6	-12.9

Production capacity of Kyivenergo's combined heat and power plants (CHPP-5, CHPP-6), as of January 1, 2014

Unit	Installed capacity, MW	Date of commissioning/ last major overhaul or retrofit	Hours in service	Major overhaul/retrofit
Electricity generation				
CHPP-5				
Power unit 1	100	25.12.1971/2009	299,056	2009/–
Power unit 2	100	30.06.1972/2012	290,093	2012/–
Power unit 3	250	29.12.1974/2013	259,808	2013/–
Power unit 4	250	25.11.1976/2008	216,401	2008/–
Total	**700**		**11,065,358**	
CHPP-6				
Power unit 1	250	28.02.1982/2013	205,932	2013/–
Power unit 2	250	18.09.1984/2012	194,233	2012/–
Total	**500**		**400,165**	

Unit	Installed capacity, MW	Date of commissioning/ last major overhaul or retrofit	Hours in service	Major overhaul/ retrofit
Heat production				
CHPP-5 of Kyivenergo — 1,874 Gcal/h				
Power unit 1	160	25.12.1971/2009	299,056	2009/–
Power unit 2	160	30.06.1972/2012	290,093	2012/–
Power unit 3	324	29.12.1974/2013	259,808	2010/–
Power unit 4	330	25.11.1976/2008	216,401	2008/–
Water boiler PTVM-180 St. no.1	180	01.02.1972/2008	31,451	2008/–
Water boiler PTVM-180 St. no.2	180	26.12.1972/1994	23,916	1994/–
Water boiler PTVM-180 St. no.3	180	30.11.1977/1997	39,838	1997/–
Water boiler PTVM-180 St. no.4	180	29.12.1992/–	47,579	–/–
Water boiler PTVM-180 St. no.5	180	29.12.1998/–	32,915	–/–
CHPP-6 of Kyivenergo — 1,740 Gcal/h				
Power unit 1	330	28.02.1982/2013	205,932	2013/–
Power unit 2	330	18.09.1984/2012	194,233	2012/–
Water boiler KVGM-180 St. no.1	180	30.06.1981/2010	53,287	2010/–
Water boiler KVGM-180 St. no.2	180	28.09.1982/2011	47,664	2011/–
Water boiler KVGM-180 St. no.3	180	22.12.1983/2011	47,771	2011/–
Water boiler KVGM-180 St. no.4	180	21.12.1986/2010	44,381	2010/–
Water boiler KVGM-180 St. no.5	180	25.12.1998/–	10,471	2012/–
NAS-209-150 (manufactured by Alstom) St. no.6	180	28.12.2004/–	9,650	–/–

Electricity distribution

In 2013, DTEK increased electricity network transmission by 13.9% (+6.9 TWh) from 50.0 TWh to 56.9 TWh, despite the decline in electricity consumption in Ukraine by 2.7% (– 4.5 TWh).

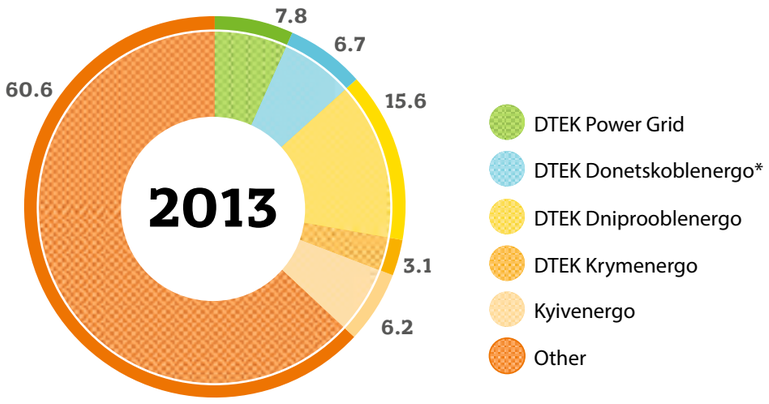
Key factors affecting the performance indicators: :

- effect from the full consolidation of DTEK Dniprooblenergo and DTEK Krymenergo's performance indicators (acquired in April and May 2012, respectively) (+8.7 TWh);
- reduction in electricity transmission by DTEK Power Grid LLC and DTEK Donetskoblenergo by 5.1% and 3.3%, respectively, due to reduced demand from industrial enterprises.

DTEK's electricity distribution companies provide their service to more than

5 million customers

Share of DTEK's enterprises, %



* Hereinafter, since October 2012, DTEK Energogugol ENE is part of this company

Characteristics of DTEK's electricity distribution enterprises;*

as of December 31, 2013

Enterprise name	Total length of transmission lines, km	Total number of SS, pcs.	Total power of SS, MVA
DTEK Power Grid	2,711	91	2,643
DTEK Donetskoblenergo	63,346	13,478	12,880
DTEK Dniprooblenergo	47,354	12,592	11,325
DTEK Krymenergo	30,581	9,053	6,178
Kyivenergo	12,558	3,787	7,333
DTEK	**156,550**	**39,001**	**40,359**

* ETL – electricity transmission line; SS – (electric) substations; MVA – megavolt-ampere: power measurement unit.

Electricity transmission: DTEK's enterprises, million kWh

Enterprise name	2012	2013	Δ	Δ, %
DTEK Power Grid	12,123.1	11,277.7	–845.4	–7.0
DTEK Donetskoblenergo	9,775.8	9,615.5	–160.3	–1.6
DTEK Dniprooblenergo	23,674.4	22,579.8	–1,094.6	–4.6
DTEK Krymenergo	4,548.3	4,517.6	–30.7	–0.7
Kyivenergo	7,928.9	8,905.1	976.2	12.3

Actual network losses, %

Enterprise name	2012	2013	Δ	Δ, %
DTEK Power Grid	1.07%	1.13%	0.06	5.61
DTEK Donetskoblenergo	14.40%	14.00%	–0.40	–2.78
DTEK Dniprooblenergo	4.52%	4.41%	–0.11	–2.43
DTEK Krymenergo	15.75%	15.55%	–0.20	–1.26
Kyivenergo	9.89%	7.92%	–1.97	–19.92
DTEK average	**7.40%**	**7.04%**	**–0.36**	**–4.86**

DTEK Power Grid* provides electricity to the approximately 1,000 largest industrial consumers in the Donbas region. Iron & steel and coal enterprises accounted for almost 90% of its electricity sales in 2013. That said, the largest consumers of DTEK Power Grid are Ilyich Iron and Steel Works of Mariupol, which accounted for 19.7% of total electricity supplies in 2013, Northern Iron Ore Enrichment Works — 18.5% and Azovstal Iron and Steel Works — 16.1 %. Overall, SCM Group's industrial enterprises accounted for 80.6% of electricity supplied by the Company.

DTEK Donetskoblenergo provides electricity to consumers in the city of Donetsk and Donetsk region. Most of them are households, which accounted for 42.7% of the total electricity supplies in 2013; public organisations and utility enterprises were 15.6%. The largest customers of DTEK Donetskoblenergo are public companies Voda Donbassa, Elektrostal LLC and Yenakiieve Iron and Steel Works.

Since October 2012 **DTEK Energougol ENE** has been part of DTEK Donetskoblenergo. The company provides electricity distribution services to more than 27,000 end users, including 1,656 legal entities and 25,390 individuals. Industrial consumers account for most of its electricity sales. In particular, supplies to coal industry enterprises were approximately 53.5% of the total in 2013, while electricity transmission to public utilities, public organisations and the population came to 10.4% of total supplies.

DTEK Dniprooblenergo is the largest electricity transmission company in Ukraine. The company supplies electricity to consumers in Dnipropetrovsk region, among which metallurgical, chemical and machine-building plants account for the major load. Overall, industrial consumers accounted for 71.3% of total electricity supplies in 2013, where 60.0% was the share represented by iron and steel plants. The following companies were among the largest customers: ArcelorMittal Kryvyi Rih, Nikopol Ferroalloy Plant and Ingulets Iron Ore Enrichment Works. 21.1% of total electricity supplies in 2013 was to utility enterprises, public organisations and residents.

DTEK Krymenergo is the main supplier of electricity in the Autonomous Republic of Crimea, covering more than 80% of the electricity needs of Crimeans. Consumption by utility enterprises, public organisations and the population accounted for 64.0% of total electricity supplies in 2013. 44.6% of that share was supplied to resdients. The largest industrial consumers of electricity supplied by DTEK Krymenergo are: Bahchisaray construction enterprise PJSC Stroyindustriya, PJSC Brom, and PJSC Zaliv Shipyard.

Kyivenergo supplies electricity to consumers in the Ukrainian capital. The main customers of the Company are households in Kyiv, utility enterprises and public organisations, as well as urban electric transport and industrial consumers.

* before 27.12.2013 r. – «Servis-Invest»

In November-December 2013, natural gas production by the company amounted to

92.32 million cubic meters

Hydrocarbon production

In 2013, DTEK completed the acquisition of a 50% stake in Naftohazvydobuvannya, Ukraine's largest private gas production company. In November-December 2013, natural gas production by the company amounted to 92.32 million cubic meters. Production of gas condensate totalled 3,840 tons. Overall, the volume of natural gas production by the company in 2013 amounted to 506 million cubic meters and volume of gas condensate to 20,000 tons.

In 2014, Naftohazvydobuvannya plans to increase gas production by more than 1.5 times to 800 mln cubic meters and output of gas concentrate to 27,000 tons. Investment in field and infrastructure development will exceed USD 175 million in 2014

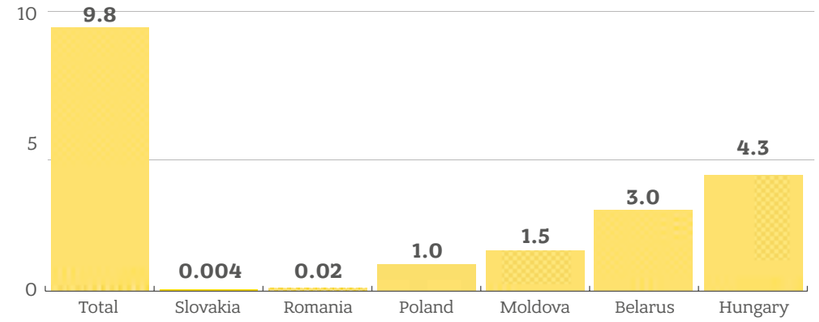
Export and import transactions

Electricity export

DTEK increased its exports of electricity by 1.25% to 9,828 million kWh in 2013, due to a positive first half of the year. One of the important factors that influenced this result was a rise in the cross-section capacity of National Energy Company Ukrenergo from 500 to 650 MW. This growth resulted from the modernisation of equipment and relay protection of the Burshtyn TPP's power grid, as well as due to the conclusion of agreements with system operators from the Continental Europe regional group of neighbouring power systems on emergency backups of agreed upon export volumes.

Also notable was the downward dynamics in electricity prices: the average spot price for electricity in 2013 decreased by 11% in Poland compared with 2012 and by 18% in Hungary.

Sales of electricity by DTEK enterprises, TWh



Coal export

In 2013, the Company increased coal supplies to foreign markets by 72.7% to 4,740 million tons. The growth of coal exports was due to DTEK's entrance into new coal sales markets in Asia and Africa and expansion of cooperation with iron and steel companies in China and South Korea. Supplies to new, non-traditional markets rose to 1.26 million tons compared to 0.34 million tons in 2012 (+267%). The company also extended its presence in the domestic coal market. In particular, it increased coal sales to cement and lime plants and iron & steel plants. The Company's share in the construction market increased from 27% to 43%.

In 2013, DTEK entered the open world freight market and chartered its first vessels based on optimal market conditions.

In 2013, European coal prices (API2 index) decreased by 12% compared to 2012. Prices for Australian coking coal (Hard Coking Coal, FOB Australia), to which international prices for anthracite are linked dropped by 20% compared to 2012.

Key factors affecting the performance indicators:

- ystrengthening of DTEK's position in traditional sales markets and entrance into the Asian coal market;
- extended cooperation with iron & steel companies in China and South Korea, which confirms the efficiency of using anthracite for coke-replacing technologies in blast furnaces;
- conclusion of contracts with leading international energy companies for coal supply to meet the needs of thermal power plants in Europe;
- renewal of thermal coal supplies (G and DG grades) to countries in the Mediterranean;
- improved efficiency of export operations and increase in the proportion of direct sales to end consumers in Europe.

Gas export

In 2013, DTEK became the largest importer of natural gas from Europe. Imports by DTEK to Ukraine amounted to 628.3 million cubic meters. In addition, DTEK obtained a license for gas trading in Hungary by DTEK Hungary Power Trade LLC. The creation of the new business line was dictated by the need to provide resources to internal generation facilities and the needs of enterprises that are part of SCM Group, which in total make up about 6 billion cubic meters of gas per year.

Imports by DTEK to Ukraine amounted to

628.3 million cubic meters

Investment projects

DTEK is simultaneously implementing several large-scale projects to modernise its production system. The modernisation is not only aimed at increasing production figures. Another important component is to ensure decent working conditions for the Company's employees.

Investments, USD mln

Business segment	2012	2013	Δ	Δ, %
Coal mining and preparation [1]	482	527	45	8.5
Electricity generation [2]	398	311	-87	– 27.9
Sales of electricity, including Kyivenergo [3]	196	226	-30	–13.3
Other, including Wi nd Power and Naftohazvydobuvannya [4]	199	226	27	11.8
Total	**1,275**	**1,290**	**15**	**1.1**

[1] **Includes the following enterprises::**
2012 — DTEK Pavlogradugol, DTEK Mine Komsomolets Donbasu, DTEK Dobropolyeugol, DTEK Rovenkyanthracite, DTEK Sverdlovanthracite, Mine Bilozerske ALC, Public Mining Corporation Obukhivska, Pavlohradska CPP, Kurakhivska CPP, DTEK Dobropilska CPP, DTEK Oktyabrska CPP, Mospinska CPP.
2013 — Same as in 2012
[2] **Includes the following enterprises:**
2012 — DTEK Skhidenergo, DTEK Zakhidenergo, DTEK Dniproenergo.
2013 — DTEK Skhidenergo, DTEK Zakhidenergo, DTEK Dniproenergo, Myronivska TPP of DTEK Donetskoblenergo.
[3] **Includes the following enterprises:**
2012 — Service-Invest*, DTEK Energougol ENE, Kyivenergo, DTEK Donetskoblenergo, DTEK Dniprooblenergo, DTEK Krymenergo.
2013 — DTEK Power Grid, Kyivenergo, DTEK Donetskoblenergo, DTEK Dniprooblenergo, DTEK Krymenergo.
[4] **Includes the following enterprises:**
2012 — DTEK, Wind Power, DTEK Service, Sotsis.
2013 — Same as in 2012, Naftohazvydobuvannya.

* As of now DTEK Power Grid

Coal mining and processing

Over 2013, DTEK invested USD 527 million into the development of its coal mining enterprises. Of that, USD 152 million was spent on breaking face equipment and USD 64 million to update the tunnelling machinery fleet and modernise the transport chain. Thanks to the active introduction of modern machinery, the working conditions for miners has improved and the efficiency of underground operations has increased.

Key projects:

- increase in the throughput capacity of the winding unit at the Heroiv Kosmosu Mine (total project budget: USD 19.2 million);
- replacement of the main fan at DTEK Mine Komsomolets Donbasu (total project budget: USD 8 million);
- construction of the air intake shaft at the Vakhrusheva Mine (total project budget: USD 16 million);
- construction of the air intake shaft at the Frunze Mine (total project budget: USD 27 million);
- construction of the ventilation hole at the Yuvileina Mine (total project budget: USD 29.4 million);
- construction of the ventilation hole at the Dobropilllia Mine (total project budget: USD 8.8 million);
- technical re-equipment of the second section of Pavlohradska CCP (total project budget: USD 16.7 million). The project will make it possible to increase the production capacity of the plant from 4.2 million tons to 5.6 million tons of raw coal processing per year, thereby reducing the costs of processing at third-party coal processing plants and optimising the mine–CCP–TPP logistics scheme.

The company is systematically introducing modern mining equipment and upgrading its transportation chains. In 2013, more than USD 213 million was used for this purpose

The replacement of outdated equipment can improve working conditions for miners, and increase the productivity and efficiency of underground operations.

Electricity generation

In 2013, the Company spent USD 311 million to retrofit and technically re-equip the power units of thermal power plants. Upgrading the power units can extend their service life by 10-15 years, increase their capacity and flexibility range while reducing specific fuel consumption. Starting from 2012, during the modernisation of power units, DTEK has been refitting the electrostatic precipitators to achieve a dust emission level in line with Directive 2001/80/EC.

In particular, after the completion of a retrofit in 2013, the installed capacity of power units #6 at DTEK Kurakhove TPP and #5 at DTEK Burshtyn TPP was increased by 15 MW and 13 MW, respectively, and the manoeuvrability range of the units was extended by 45 and 29 MW. That said, specific fuel consumption for electricity generation decreased by 10.3% and 12.5%. In 2013, the Company also completed the modernisation of power unit #5 at the Myronivska TPP, increasing its operating capacity to the installed (design) capacity — 115 MW.

The company is continuing to retrofit power units #3 at DTEK Zaporizka TPP, #1 at DTEK Krivorizka TPP, #13 at DTEK Luhanska TPP, #8 at DTEK Dobrotvir TPP and #3 at DTEK Zuivska TPP. About USD 250 million is planned to be spent on the modernisation of these units.

Starting from 2012, during the modernisation of power units, DTEK is retrofitting the electrostatic precipitators to achieve a dust emission level in line with Directive 2001/80/EC. In addition to the requirements for dust emissions, the Directive stipulates emission rates for sulfur dioxide (SO2) and nitrogen oxides (NOx). The construction of pilot/trial plants is necessary for the development of gas cleaning technologies. In 2014-2015, the Company plans to develop technical guidelines to introduce technology for flue gases cleaning from sulfur oxides and for equipping power unit #2 at DTEK Zaporizka TPP with a denitrification system. Other plans include the development of a package of tender documentation for the construction of a denitrification system for power unit #7 at DTEK Dobrotvir TPP. The total budget of the projects is USD 213 thousand.

Along with traditional generation, DTEK is actively developing electricity generation from alternative energy sources. Business development in the wind energy segment is implemented by subsidiary Wind Power. In 2013, 35 V112-3.0 MW Vestas wind turbines, part of phase two of the construction of the Botievo Wind Farm, were installed. In the first half of 2014, the wind farm's operation was ramped up to the planned capacity of 200 MW. The total investments into the construction of the Botievo Wind Farm totalled about EUR 339 million.

The Botievo Wind Farm is the first wind farm of the DTEK Priazovskiy Wind Park (Zaporizhya region), which will also include the Berdiansk Wind Farm (150 MW) and Primorsk Wind Farm (200 MW). Currently, the construction of infrastructure is ongoing at the sites of these power plants. Investments in the three wind farms of the DTEK Priazovskiy Wind Park will total about EUR 943 million. Full commissioning of the wind park is planned to take place before the end of 2017.

In 2013,
35
wind turbines
were installed

Transmission and sale of electricity and heat

To ensure reliable and high-quality electricity distribution to consumers, DTEK's electricity distribution enterprises invested USD 108.6 million in the technical re-equipment of electricity transmission lines and substations in 2013. At yearend, the enterprises built, designed and repaired almost 9,000 km of electricity transmission lines and about 6,500 substations.

Renewal of electricity transmission lines by distribution enterprises of DTEK in 2013, km*

	35 kV and above	3–10 kV	0.38 kV	Total
Construction	7	0	0	**7**
Replacement	39	108	297	**444**
Major overhaul	1,343	2,755	3,075	**7,173**
Repair	648	274	408	**1,330**

Renewal of electricity substations by distribution enterprises of DTEK in 2013, units*

	35 kV and above	3–10 kV	Total
Construction	3	4	**7**
Rehabilitation	3	8	**11**
Upgrade	111	937	**1,048**
Major overhaul	126	3,846	**3,972**
Repair	30	1,374	**1,404**

* Information based on the actual commissioned facilities of DTEK Dniprooblenergo, DTEK Donetskoblenergo, DTEK Krymenergo, DTEK Power Grid, and Kyivenergo

The largest substation (SS) construction and modernisation projects in 2013 included:

- construction of the Rodniki SS (DTEK Dniprooblenergo) to improve the quality of electricity distribution to 4,400 household consumers and more than 200 legal entities in Novomoskovsk (Dnipropetrovsk region) and creation of spare capacity for the connection of new consumers;
- modernisation of the Southern Iron Ore Enrichment Works 150 kV SS and Northern 150/35/6 kV SS (DTEK Dniprooblenergo), ensuring electricity supply to metals & mining enterprises in Dnipropetrovsk region and part of the household sector of Kriviy Rih and Zhovti Vody;
- construction of the City 11 SS (DTEK Donetskoblenergo) to increase the capacity of electricity supply to the residential areas of Mariupol (Donetsk region) and contribute to the development of urban infrastructure;
- retrofit of the Zhavoronki SS (DTEK Krymenergo), which supplies electricity to the pumping stations of the Mezhgorniy district and Saki irrigation systems' centre, feeding water to the residents of Simferopol, Yevpatoria, Saki and some city districts of Sevastopol;
- retrofit of the Pecherska SS (Kyivenergo), which will make it possible to eliminate the power shortage in the central part of Kyiv and meet increasing demand for electricity;
- retrofit of the Mayak SS (DTEK Krymenergo) that supplies electricity to the resort area of Yevpatoria;
- construction of the Kubanska SS (DTEK Krymenergo) in Simferopol to ensure reliable electricity supply to the Hoshkeld district and the connection of new consumers;
- technical re-equipment of the Novotroitska SS (DTEK Power Grid) that supplies electricity to the Voda Donbasa Utility Company, Novotroitske Mine Administration, and the Donetsk Western Electric Networks of DTEK Donetskoblenergo;
- retrofit of the Chasov Yar SS (DTEK Power Grid) to improve the reliability of electricity distribution to the pumping station of the Voda Donbasa Utility Company, Chasovyarskiy Refractory Plant and residents of the Artemivskiy district of Donetsk region;
- modernisation of the Novo-Tsentralna SS (DTEK Power Grid) that supplies electricity to consumers in the central districts of the city of Donetsk, including Shcherbakova Park and the Horkoho Mine.

To improve the quality of customer service, the distribution enterprises are developing online services to pay for electricity and offer modern customer service centres (CSC) that operate based on a single window principle.

Kyivenergo

In 2013, Kyivenergo continued to implement infrastructure projects in the area of electricity and heat distribution.

In particular, it replaced the most worn out and problematic sections of heating networks that were laid in the early 1950s, 1960s and 1970s. In 2013, to ensure a natural increase in electricity consumption and create backup capacity to connect new consumers, the company ramped up its Moskovska SS that supplies electricity to five electricity load centres in the capital, and put into operation a new Universitetska SS that will supply electricity to residential areas and subway stations on the Kurenivsko-Chervonoarmiiska line.

The company continued retrofit projects at the Elenovska SS that will make it possible to eliminate power shortages in the central part of the Kyiv and Podil area. In addition, Kyivenergo started the construction of cable lines for the Novokyivska-Moskovska SS to ensure reliable power supplies to consumers in the central part of the capital.

The Company continued the project to reconstruct the outdoor switchgear at CHPP-5 that it started in 2012 and is designed to cover power shortages in the central districts of the capital and increase the reliability of operations in high temperatures.

Hydrocarbon production

The main investments into Naftohazvydobuvannya are to drill new wells. In particular, in early 2014 Naftohazvydobuvannya completed drilling well #8 in the Semyrenkivske gas condensate field in Poltava region. The daily natural gas production of the new well is 170,000 cubic metres, and gas condensate output is 5 tons. Investments into drilling and developing this well exceeded USD 12.5 million. This is the first well that was commissioned by Naftohazvydobuvannya in more than three years.

The company continues to drill three new wells and plans to begin drilling six more wells in the second quarter of 2014. In addition, it is planned to complete major workovers of existing wells by the end of the current year.

One of the largest infrastructure projects in 2014 will be the commissioning of the Olefirivka complex gas processing facility. The Company is investing USD 8.8 million into that project. The construction of gas pipelines, electricity transmission lines, and access roads will also continue.

Total investments in the construction and development of fields in 2014 will exceed USD 175 million. The Company is investing more than USD 6.3 million in a comprehensive study of subsurface resources, including the introduction of hydrocarbon prospecting and exploration methods that are new to Ukraine.

Financial performance analysis

In 2013, the Company continued to implement a large-scale investment program to invest in infrastructure and optimising cost structures. It commenced production of natural gas and gas condensate, having gained control over PJSC Naftohazvydobuvannya.

The Company's consolidated revenue increased by 12.4% to USD 11,612 million in 2013 compared to USD 10,332 million in 2012. The revenue growth was largely due to the consolidation of companies acquired in the first half of 2012 for the full period and the expansion of natural gas sales.

The cost of products sold increased by 16.8% to USD 10,346 million. The main factors that influenced the increase in the cost of products sold were the effect from the full period consolidation of companies acquired in 2012, the rising cost of electricity generation (due to increasing tax rates for environmental pollution) and the increase cost of coal production (increase in wages, transportation costs and the cost of coal preparation).

Gross profit amounted to USD 1,266 million, which was 14.2% less than in 2012 (USD 1,477 million). Net profit for the reporting period decreased to USD 417 million from USD 745 million in 2012. Net operating cash flow increased by 20.7% to USD 1,261 million, compared to USD 1,045 million in 2012. This improvement resulted from a reduction in working capital.

Capital expenditures changed slightly, increasing by 1.2% to USD 1,290 million

The Company's consolidated revenue in 2013 is

USD 11,612 million

Revenues

DTEK's revenues are generated from selling electricity wholesale to state-owned enterprise Energorynok; from selling coal, gas and gas condensate; and from transmitting and selling electricity and heat to end customers.

In 2013, revenues from the sale of electricity to end customers and electricity exports amounted to 46.4% of consolidated proceeds, wholesale electricity sales to 37.9%, revenues from the sale of coal to 6.6%, revenues from heat sales to end consumers (including compensation of the difference in tariffs for heat) to 5.7%, revenues from the sale of natural gas and gas condensate to 3.1%, and other sales to 0.3%.

The major part of revenues — 91.6% of consolidated revenues (including compensation for the difference in tariffs for heat) — are domestic sales. In 2013, the Company maintained a stable level export revenues USD 979 million in 2013 compared to USD 970 million in 2012. The share of export earnings in the consolidated revenue of DTEK was 8.4% in 2013.

The following changes in revenue were observed in the key business segments in 2013:

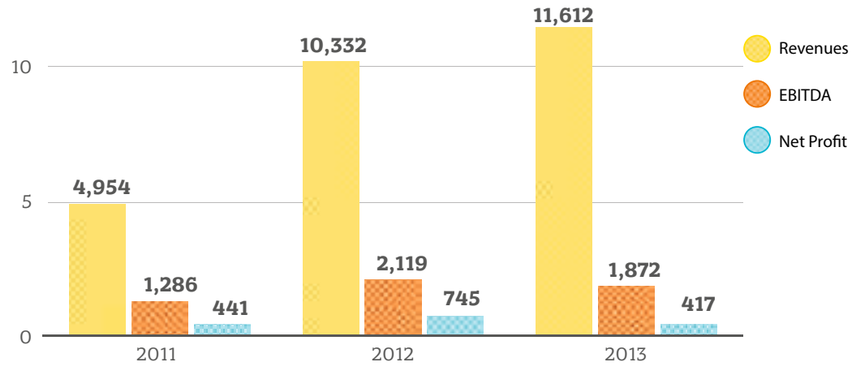
- earnings from the sale of coal decreased by 12.6% to USD 772 million compared to USD 883 million, which was largely due to the consolidation of DTEK Dniproenergo that was one of the major external buyers of coal in 2012 before its acquisition (in March 2012). Proceeds from coal exports amounted to USD 413 million, compared to USD 345 million in 2012;

- earnings from electricity generation increased by 14.4% to USD 4,400 million compared to USD 3,845 million in 2012, due to the partial replacement of electricity output after the accident at the Uhlehirska TPP of Centrenergo in March 2013, as well as due to the full period consolidation of DTEK Dniproenergo and DTEK Zakhidenergo;

- earnings from the electricity transmission and supply segment increased by 21.0% to USD 4,820 million, compared to USD 3,983 million in 2012. This increase was mainly due to the full period consolidation of DTEK Dniprooblenergo and DTEK Krymenergo that caused growth in revenue in 2013 in the amount of USD 723 million. In addition, revenues from electricity exports declined by 9.6% due to the decrease in export prices for electricity to USD 566 million;

- earnings from the heat production segment, taking into account the compensation for difference in tariffs, fell by 33.4% to USD 657 million. This decline was due to the transition to an accounting method based on the accrual of compensation for the difference in tariffs for heat in 2012. As a result, part of the compensation for the difference in heat tariffs attributable to previous periods and to the reporting year (2009-2011 and 2012, respectively) was recognised as revenues in 2012, and that attributable only to to the reporting year — as revenues in 2013.

DTEK's financial performance, USD mln



Cost of sales

DTEK's cost of sales increased by USD 1,491 to USD 10,346 million in 2013. The growth was due to the following factors:

- an increase in the costs for purchasing electricity by distribution companies from Energorynok for subsequent sale to end consumers by USD 819 million or 19.8%, which amounted to USD 4,948 million (including due to the effect the full period of consolidation of DTEK Dniprooblenergo and DTEK Krymenergo by USD 640 million);
- cost of raw materials decreased by USD 111 million or 6.4% to USD 1,611 million compared to USD 1,722 million in 2012;
- personnel expenses in production costs increased by USD 154 million or 11.3% to USD 1,514 million;
- depreciation of property, plant and equipment and intangible assets in the cost of sales increased by USD 84 million or 11.4% to USD 819 million;
- taxes in the cost of sales grew by USD 86 million or 71.1% to USD 206 million. This increase was mainly connected to growth in tax rates for environmental pollution for electricity generation entities;
- cost of gas purchased for resale in 2013 amounted to USD 302 million, and incurred due to active development of the oil and gas business line by DTEK

Cost of raw materials declined by

USD 111 million

Gross profit amounted to USD 1,266 million in 2013, down USD 210 million or 14.2% from 2012. The gross margin decreased from 14.3% to 10.9% in 2013 due to an increase in the share of the electricity distribution segment in total revenue. The gross margin in this segment was much lower than in other segments because of the state regulation of tariffs for the purchase, supply and transmission of electricity. Another reason for the overall decline in margins was the relatively low operational efficiency of entities acquired in 2012. The gross margin was also influenced by a decrease in the marginality of commercial operations.

Gross profit in 2013 amounted to

USD 1,266 million

Operating expenses and income

The most significant operating expense and income items in 2013 were general administrative and other expenses, as well as other operating income.

General administrative expenses increased by 13.1% to USD 316 million in 2013. The main item of general and administrative expenses were staff costs, including payroll taxes, which made up 64.6% of all general and administrative expenses in 2013.

Other operating expenses grew by 26.4% to USD 223 million, among other things due to an increase in social payments, charitable donations and expenses on maintenance of social infrastructure (by USD 33 million).

Other operating income decreased by 10.9% to USD 364 million. A significant part of this income was from the recovery of bad debt provisions in the amount of USD 176 million, which was related to debt settlements between companies in the electricity generation, distribution and coal sectors in Ukraine, according to Resolution #167 of the Cabinet of Ministers of Ukraine.

Assets

DTEK's assets grew by 23.7% to USD 11,903 million in 2013, compared to USD 9,619 million in 2012. The carrying value of non-current assets increased by 21.3% to USD 8,891 million. Non-current assets grew mainly due to the acquisition of Naftohazvydobuvannya in November 2013 and due to implementing the investment programs by the entities of the Group.

Current assets increased by USD 723 million from USD 2,290 million in 2012 to USD 3,013 million in 2013. This change was because of a significant increase in the carrying value of trade and other receivables from USD 941 million in 2012 to USD 1,542 million in 2013 (in particular, due to USD 206 million in growth in the difference in tariff compensation for heat of Kyivenergo) and an increase in the aprepaid income tax by Ukrainian entities from USD 34 million in 2012 to USD 167 million in 2013, as a result of changes in the Tax Code of Ukraine.

Liabilities and equity

Changes in DTEK's liabilities were mainly related to the increase in the borrowings — the amount of loans and borrowings increased from USD 2,585 at yearend 2012 to USD 3,379 million at yearend 2013. Among the significant borrowings in 2013 were a USD 750 million Eurobond placement, debut pre-export financing facility in the amount of USD 375 million, and attracting a credit line in the amount of EUR 107 million to finance the Botievo Wind Farm's second construction phase. Of the funds raised from the new Eurobonds issue, USD 300 million went toward the partial redemption of DTEK's Eurobonds issued in 2010.

In 2013, long-term financial liabilities increased by 94.4% mainly due to growth in the amount of deferred payment for the acquisition of companies and in the fair value of derivative financial instruments. Short-term financial liabilities decreased by 3.3% to USD 36 million in 2013.

DTEK's accounts payable increased by 15.1% from USD 1,021 million to USD 1,176 million in 2013, mainly due to growth in payables for gas. Prepayments received received as of December 31, 2013 went up by 20.8% to USD 503 million, mainly due to growth in prepayments received by the entities of the Group for the future supplies of coal and electricity. In 2013 DTEK's equity increased by 6.7% up to USD 4,344 million, primarily due to profit received in 2013 of USD 417 million.

Cash flow

In 2013, net cash flow from operating activity increased by 20.7% to USD 1,261 million. Key factors that affected the growth of this indicator:

- changes in working capital, which led to an increase in net operating cash flow by USD 594 million;
- decrease in income taxes paid (as a result of changes in the profitability of the Group's entities), which led to an increase in net operating cash flow by USD 23 million;
- change in the profit before tax and non-cash adjustments, which resulted in a reduction in net operating cash flow by USD 320 million;
- growth in interest paid resulting from the increased credit portfolio of the Group, which led to a reduction in net operating cash flow by USD 66 million

Cash flows used in investing activities,excluding the acquisition of subsidiaries and cash acquired in the business combinations, amounted to USD 1,652 million, which exceeded the 2012 figure by USD 364 million. The key factor that affected the growth of this indicator was an increase in the funds allocated for the investment program of the Group's entities, including the construction of the Botievo Wind Farm, that amounted to USD 227 million. Additionally, in 2013, the net amount of deposits increased by USD 167 million, which also led to an increase in investment cash flow.

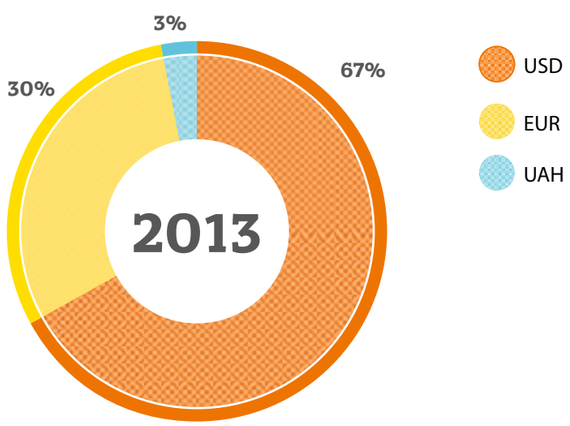
Loan portfolio

Most of DTEK's loan debt at the end of 2013 was denominated in U.S. dollars, Russian rubles and Euros.

The amount of loans in U.S. dollars is USD 1,459 million, which is equivalent to 43.2% of the credit portfolio; amount in Russian rubles is USD 927 million, equivalent to 27.4%; and in Euros is USD 875 million, equivalent to 25.9%. Debt denominated in hryvnias amounted to USD 118 million or 3.5% of the credit portfolio. The Company's debt is mostly long-term — the average debt maturity was 3.9 years at the end of 2013 compared to 3.3 years in 2012. The main share of loans is Eurobonds, bilateral bank loans, pre-export financing and a club loan. The share of long-term loans in the total credit portfolio is 82.4%.

Borrowings in U.S. dollars and hryvnias (UAH) were made both at floating rates with reference to LIBOR and at fixed rates, in Euros - mainly at floating rates with reference to EURIBOR. Loans in Russian rubles - at a floating rate with reference to Mosprime. In 2011-2013, DTEK concluded agreements for a swap of RUB loans with floating rate for a USD and EUR loans with fixed rate. The share of unsecured loans was almost 85% of the total credit portfolio

Debt currency profile,*
as of December 31, 2013, %



* Taking into account the swapping of credits in Russian rubles into U.S. dollars and Euros

DTEK's key ratios of equity to borrowed funds,
as of year end

	2012	2013
Total debt/EBITDA	1.2	1.9
Net debt/EBITDA	0.9	1.5

As of the end of 2013, net debt to EBITDA ratio grew up from 0.9 to 1.5 mainly due to the growth of the credit portfolio by USD 794 million and decrease in the balances of cash and cash equivalents by USD 15 million.

Credit ratings

Rating agencies restrict the ratings of Ukrainian corporate borrowers by the so-called country ceiling. Accordingly, due to a number of revisions in Ukraine's sovereign rating, Fitch Ratings assigned a long-term CCC credit rating to DTEK Holdings Limited in February 2014, which corresponds to the country's ceiling set by the agency.

In April 2014, Moody's Investors Service assigned a long-term credit rating of Caa2 to DTEK Holdings B.V., which corresponds to the country ceiling, but is one step higher than the sovereign rating of Ukraine set by Moody's. At the same time, the agency rated the independent credit profile of DTEK Holdings B.V., excluding the sovereign factor, at the level of Ba1, which is eight steps above the actually assigned rating.

Agency	Rating	Outlook	Date
Fitch			
LT FC IDR	CCC	Negative	February 2014
LT LC IDR	B-	Negative	February 2014
Moody's			
LT CFR	Caa2	Negative	April 2014

Corporate governance

Corporate governance structure

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

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

Currently, DTEK's corporate structure includes the holding company (DTEK Holdings B.V., the Netherlands), the corporate headquarters (DTEK LLC, in the cities of Kyiv and Donetsk) and operational companies (in eight regions of Ukraine). This structure ensures an efficient and transparent corporate property management and ownership system; sets up mechanisms for making and communicating strategic decisions in line with international best practices; and improves competitiveness and shareholders' value of DTEK.

DTEK's long-term strategy to 2030 is aimed at improving efficiency under the conditions of further business development; as part of its implementation we envisage splitting-up the businesses of traditional energy, renewable energy and oil & gas under the overall strategic governance of DTEK (see page 18).

DTEK Group structure

DTEK B.V.

- General meeting of shareholders
- Management Board

DTEK Energy B.V.

- General meeting of shareholders
- Supervisory Board
- Management Board

DTEK Renewables B.V.

- General meeting of shareholders
- Supervisory Board
- Management Board

DTEK Oil & Gas B.V.

- General meeting of shareholders
- Supervisory Board
- Management Board

- **Coal mining and enrichment**
- **Power generation**
- **Electricity distribution**
- **Others***
- **Renewables**
- **Oil & Gas**

** Companies of additional services, trading companies, companies to attract credit facilities*

Supervisory Board

We have seven directors on our Supervisory Board; three of them are independent.

Oleg Popov

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

Oleg Popov graduated from the Donetsk Polytechnic Institute in 1991 and from the Donetsk State University in 1996. He worked in various state institutions from 1991 to 2000. He came to SCM in 2000 as deputy chief executive and in 2001-2006 served as executive director. He became SCM's chief executive officer in January 2006. At SCM, Oleg Popov chairs the supervisory boards DTEK and the Shakhtar football club. He takes and approves key financial, investment and personnel decisions related to SCM and the Group's assets and assesses the performance of their chief executives.

Damir Akhmetov

Member of the Supervisory Board

From 1998 to 2006 he attended Le Rosey (Switzerland) under International Baccalaureate Diploma Programme.

In 2010 Damir Akhmetov graduated from Sir John Cass Business School (City University London) as a Master of Science in Finance (MSc in Finance).

Damir Akhmetov has served as Senior Manager of SCM Advisors (UK) Limited since February 1 2013.

Johan Bastin

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

Dr. Bastin holds a Ph. D. in regional planning with a speciality in public finance from the Universite de Montreal in Canada and an M. Sc. In urban planning from the Eindhoven University of Technology in the Netherlands. From 1985 to 1992, he worked at Harvard University's Institute for International Development (HIID) (Indonesia).

From 1993 to 2002, Dr. Bastin held several senior management positions with the European Bank for Reconstruction and Development in London (Great Britain), lastly as Business Group Director responsible for debt instruments and equity investments in infrastructure, transportation and energy utilities, municipal and environmental services and energy efficiency. He then worked as Managing Director at Darby Private Equity. Currently Johan Bastin is the CEO of CapAsia, an international company focusing on private equity investing in the infrastructure sectors of Emerging Asia.

Sergey Korovin

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

Sergey Korovin graduated with honours from the Faculty of Applied Mathematics and Cybernetics of Lomonosov Moscow State University in 1993. He worked at the Danish and Russian offices of leading international consultancy McKinsey & Company from 2002 to 2008. He was responsible for working with telecommunications organisations and served as member of the Board of Microsoft's office in Russia starting in 2008. Sergey Korovin has served as Director of Energy Business Development of JSC SCM since 2010.

Irina Mykh

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

Irina Mykh graduated from the law school of the Ivan Franko State University in Lviv in 1994. She later studied at Osgoode Hall Law School, York University, Toronto, Canada. She was a senior lawyer at The Silecky Firm, an affiliate of Squire, Sanders & Dempsey LLP from 1996 to 2006, where she became a partner in 2006. From June to October 2008, she was a legal adviser to the Ukrainian Agrarian Investments group owned by Renaissance Capital. Irina then worked as Head of the Legal Department of Klub Syra Ltd until June 2009. Now she is a Senior Lawyer at the law firm Voropayev & Partners Ltd.

Catherine Stalker

Member of the Supervisory Board,
Independent Director

Catherine Stalker graduated from Heriot-Watt University Edinburgh (Scotland) with a Bachelor's degree and then obtained a Master's degree from the London School of Economics (Great Britain). Catherine began her career in 1991 in the Bank of England as a research analyst and banking supervisor. From 1995 to 2007, she worked in PricewaterhouseCoopers in Moscow and Berlin, and was the Partner in charge of HR Management and Reward services in the CEE-CIS region. She has vast experience in developing programmes in the areas of executive compensation, organisational restructuring, and increasing the effectiveness of human resource policies and processes.

Robert Sheppard

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

Robert Sheppard graduated from the University of Wyoming in 1972 and has a Bachelor's degree in physics and mathematics. He graduated from the Columbia University Business School in 1991 with an Executive MBA. He began his career in the oil industry at Amoco in 1972. In the middle of the 1980s, he worked at Amoco Exploration as a vice president. He was Executive Director of GUPCO (the Gulf of Suez Petroleum Company) from 1992 to 1995. He was the President and CEO of the Amoco representative offices in Argentina and Egypt from 1995 to 1998. He worked as Chief Operating Officer, and then as President of Sidanco from 1998 until it merged with BP. From 2002 to 2004, he was a Senior Vice President at BP responsible for overseeing assets in Russia. He is currently Chairperson of the consulting company IPM Advisors.

Supervisory Board committees

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

1. Nomination and Remuneration Committee

Committee member: **O. Popov.**
Committee member: **C. Stalker.**

Main tasks:

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

In 2013, the Committee had six meetings and considered 19 agenda items.

2. Strategy and Investments Committee

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

Main tasks:

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

In 2013, the Committee had nine meetings and considered 22 agenda items.

3. Health, Safety and Environment Committee

Chairperson: **R. Sheppard**
Committee member: **I. Mykh**

Main tasks:

- To identify risks in labour safety and environmental protection and develop measures to minimise them.
- To develop approaches to promote safe behaviour.
- To hold emergency drills at DTEK enterprises.

In 2013, the Committee had four meetings and considered 18 agenda items.

4. Audit Committee

Chairperson: **S. Korovin**
Committee member: **I. Mykh**

Main tasks:

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

In 2013, the Committee had 11 meetings, eight in presentia and three in absentia, and considered 57 agenda items.

Dividend policy

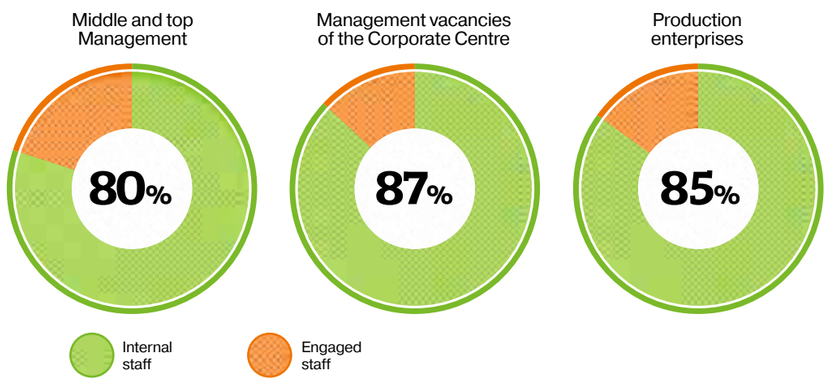
DTEK's dividend policy is based on maintaining balance between the need to invest in the further development of the Company and the observation of the rights of shareholders to receive a portion of the Company's net profit. This approach is a defining factor in the long-term growth of DTEK's shareholder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

The expediency and size of dividends is currently determined on a case-by-case basis by the Supervisory Board and is approved at the General Shareholders' Meeting.

Sustainable development

Sustainable development

Vacancies filled by internal staff trained at DTEK Academy

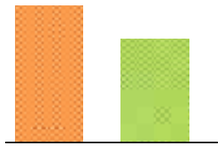


47
children's playgrounds and sports facilities constructed in areas around residential buildings

12
grounds constructed and refurbished for children's pre-school and school institutions

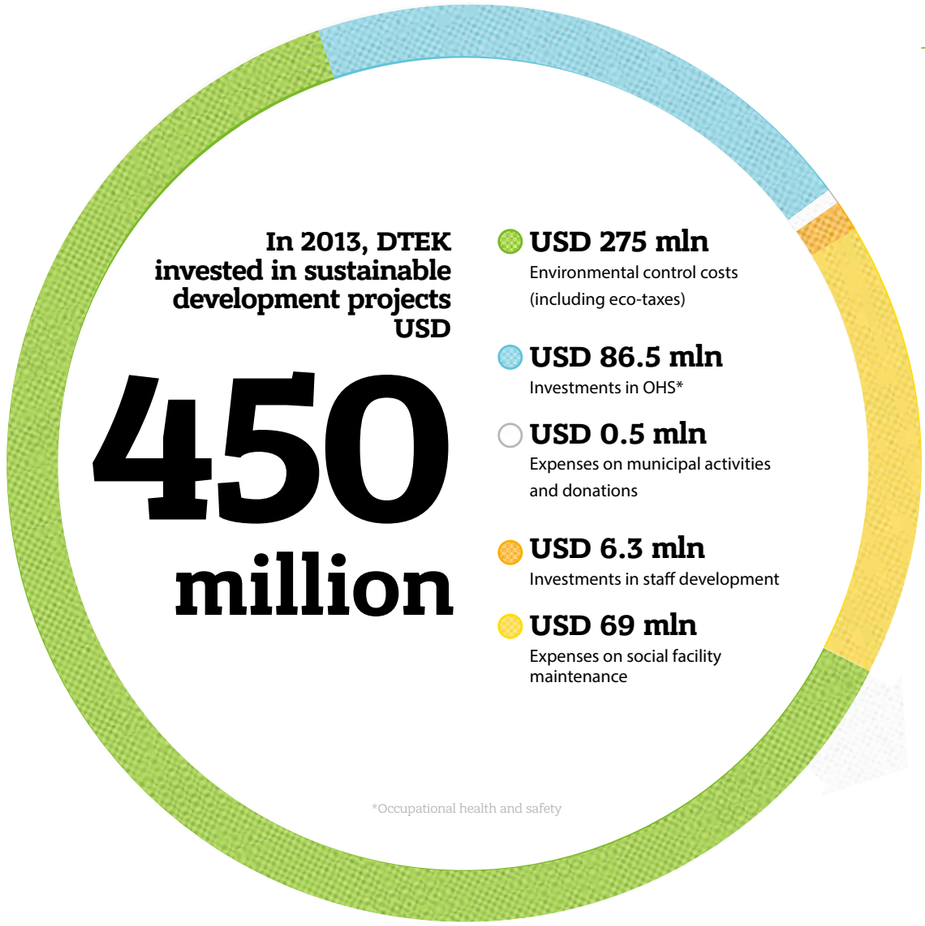
3 parks were improved

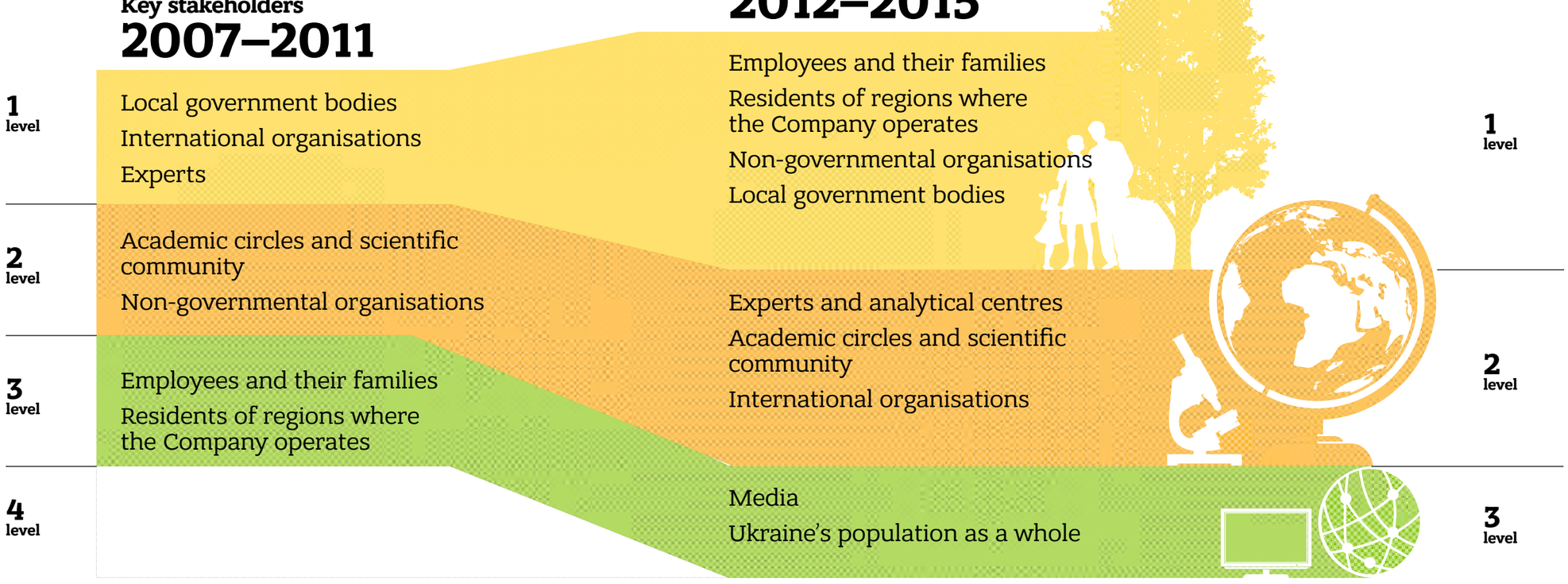
Investments in the project «Your City in Your Hands,»
USD thousand



250 DTEK

173 Additionally raised funds





Sustainable development goals

DTEK is a member of the UN Global Compact and adheres to principles of sustainable development.

The Company contributes to the development of the regions where it operates and of Ukraine in general.

DTEK actively promotes the best standards in occupational health and safety, environmental protection, business ethics, anti-corruption efforts, and respect for human rights.

The Company fosters the development of corporate social responsibility in Ukraine by supporting the discussion of sustainable development issues; building of trust-based relations between business, the community andofficials; and the latter three's interaction for the community's benefit.

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DTEK fully shares the long-term sustainable development goals of SCM Group and strives to:

- make every effort to bring safety incidents at the Company's enterprises down to zero;
- create a system to protect the health and safety of employees and extend their employment longevity;
- become the most attractive employer in regions where we operate, including by providing good working conditions and competitive salaries;
- make a strong contribution to improving the quality of education offered to the students of Ukraine's universities and vocational schools and ensuring they meet the needs of the real economy;
- create conditions for the social and economic development of the regions where DTEK operates;
- improve living standards in the regions where DTEK operates;
- meet EU air emission standards;
- comply with international best practices in terms of the quality of discharged waste water and waste management;
- meet international best practices in respective industries on the efficient use of fuel and energy resources;
- meet the highest international standards of business ethics and business practices;
- enhance the energy-related literacy of Ukrainian institutions, enterprises and households; ensure efficient electricity generation, transmission and supply.

In 2013, DTEK invested

USD 450 million

in sustainable development projects

CSR Policy

**DTEK's CSR Policy was adopted in January 2009.
It defines the Company's CSR objectives and principles and rests upon the following documents:**

- The Constitution and applicable laws of Ukraine;
- UN Universal Declaration of Human Rights of 1948;
- International Labour Organisation Declaration on Fundamental Principles and Rights at Work of 1998;
- Rio Declaration on Environment and Development;
- UN Global Compact;
- The Code of Conduct of the European Business Association.

Implementation of the Policy is coordinated by the Social Development Department. The managers and employees of the Company integrate social aspects in their day-to-day activities as well as in strategic planning. The basic principles of the CSR Policy are applied in risk management, budgeting and other areas, without regard to the interests of respective stakeholders that can have adverse effects both on the community and the business itself.

For example, in budget planning, the CSR Policy has an influence on decisions made on financing environmental expenses, labour safety measures and staff development.

The Company actively engages stakeholders in the planning, implementation and monitoring of social partnership programmes. Adherence to the CSR Policy is the responsibility of every DTEK employee, irrespective of their position.

In 2014, SCM Group is developing a new Sustainability Policy. This policy will become the framework document that outlines the joint principles and unified approaches to sustainable development for all of the companies within SCM Group, including DTEK.

The Company plans to update the existing CSR Policy in line with the Group's common policy.

Management of sustainable development

To manage social and sustainable development issues, the Company set up the Sustainable Development Committee at the Management Board and the Social Development Department in 2012. The tasks of the Sustainable Development Committee include:

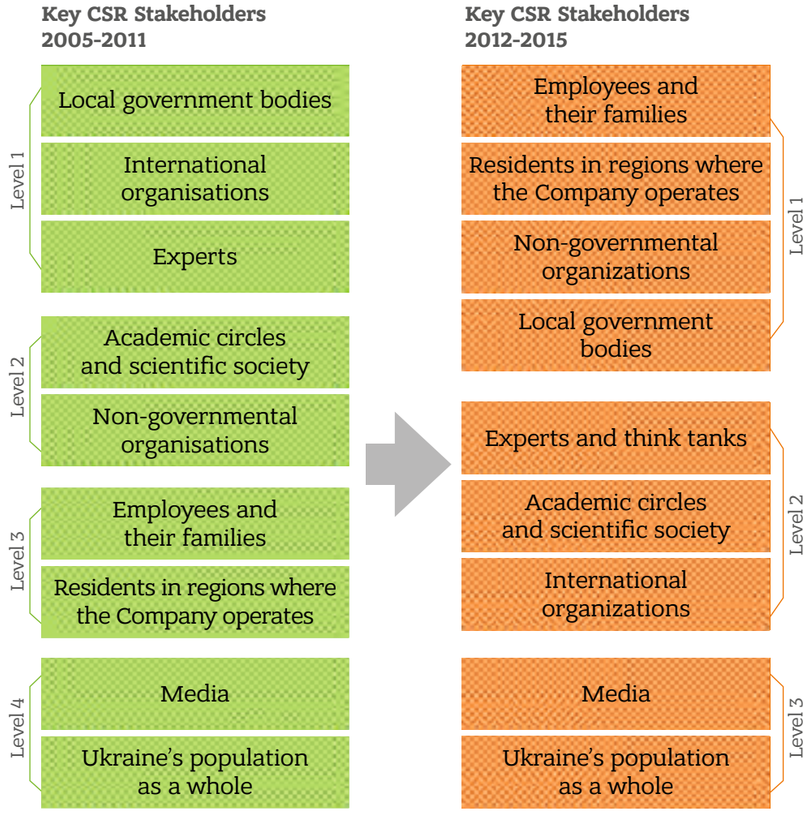
- consideration of the problem map and approval of social development strategies in regions where DTEK operates;
- approval of plans to reform social facilities on the Company's balance sheet;
- management of the occupational medicine system being developed by the Company;
- implementation of the environmental protection strategy;
- consideration of other issues unrelated to operational and financial activities, but that are capable of having a significant impact on the performance of the Group's business tasks.

The Social Development Department deals with the planning, implementation, and monitoring of social projects and evaluating their efficiency in regions where DTEK operates, as well as the stakeholder relations, CSR development in Ukraine, the elaboration of a national CSR strategy, and participation in national and international CSR initiatives. Ten of the Department's employees in the regions are in charge of managing sustainable development at DTEK's enterprises.

Interaction with stakeholders

Business stability is directly connected to the perception of local communities and to their welfare. DTEK is fully aware that the energy industry is one of the most important branches of the country's economy and, therefore, one of the key partners in the dialogue between business, the government and the community.

In 2012, the Company reconsidered its key groups of stakeholders. Most importantly, DTEK establishes close interaction with stakeholders in regions that include employees.



To discuss cooperation between business and communities in solving local development issues, and to ensure the transparent and efficient implementation of social partnership projects and programmes, the Social Partnership Steering Committee (SPSC) has been operating since 2008. B. The SPSC consists of the mayors of cities that sign the Social Partnership Declaration, the directors of DTEK's production enterprises, and DTEK's top managers. Traditionally, partners of social projects are invited to the SPSC's meetings (international donor organisations and NGOs).

In 2012, two meetings were held by the Social Partnership Steering Committee, and in 2013 one meeting took place to summarise projects that were implemented in 2013, and to discuss new opportunities for the regions' development. The meeting was attended by representatives of the Regional Policy Department of the Ministry of Economic Development and Trade, the Department for Cooperation with International Financial Institutions and Coordination of International Technical Assistance of the Ministry of Economic Development and Trade, the State Foundation for the Promotion of Local Self-Governance in Ukraine, representatives of the Association of Ukrainian Cities, Aida Invest, GIZ, USAID, East Europe Foundation, and IREX, which came up with new ideas and opportunities for cooperation on local development.

In 2013, DTEK organised the international conference "Development of the Business Environment in Small and Medium Size Cities of Ukraine," which included a debate with stakeholders on the development of the business environment in the regions where the Company operates. In November 2013, DTEK took part in the national forum "Business and Universities," which was organised by the Centre for CSR Development, where participants together with all stakeholders discussed issues related to partnerships between private business companies and universities. DTEK participated in a roundtable on employing graduates in small towns and partnerships between businesses and universities for this purpose.

DTEK's statement on progress in implementing the UN Global Compact has also become a tool for public disclosure of information to stakeholders. DTEK has been a member of this initiative since 2007, and annually reports on its performance regarding human rights, labour relations, environmental protection and fighting corruption.

DTEK also undertook an obligation to report once every two years on its sustainable development activities and, since 2008, has been publishing respective that conform to the Global Reporting Initiative's (GRI) international guidelines. In 2013, the Company issued the report "Era of Sustainable Growth: Future Outlines" for 2010-2011. DTEK made a decision to annually disclose its performance in sustainable development in 2013 as a part of its annual report, moving further toward integrated reporting.

The Company sees its main task for next year as intensifying interaction with stakeholders. It is necessary to carry out an open dialogue with local communities in regions where DTEK's enterprises operate, searching for common interests and new opportunities for cooperating in the country's development.

Participation in CSR promotion activities in Ukraine and in the world

DTEK is one of the founders of the UN Global Compact Alliance in Ukraine. The Company is also a member of the international organisation CSR Europe and a co-founder of the global social initiative of energy companies Energy for Society. The Company headed the Environment Protection Committee within the UN Global Compact.

The Company's representatives actively participated in events organised by the Centre for CSR Development, the Compact's Ukrainian network, the National Institute for Strategic Studies, and the Research Centre for the Interaction of Business and Society (IBS), where they shared the Company's own experience and best practices in sustainable development.

In 2012-2013, DTEK supported the annual international CSR conference; CSR Marketplace, an exhibition of social and environmental projects; and the educational programme for CSR teachers at Ukrainian universities "CSR University."

Key events

February 2012

The Social Partnership Steering Committee held a meeting to reconsider social partnerships in regions where DTEK operates and the Social Development Concept for 2012-2013 was approved.

June-September 2012

Strategies were developed for social partnerships with regions where DTEK operates that signed the Social Partnership Declaration: Kurakhove (including Marinskyi district), Zugres, Schastya, Petrivka, Energodar, Zelenodolsk, Dobrotvir, Burshtyn, Ladyzhyn, Pavlohrad, Pershotravensk, Ternivka, Pavlohradskyi and Petropavlovskyi districts of Dnipropetrovsk region, Kirovske, Dobropillia (including Bilozerske and Belitske), Mospino, Rovenky, and Sverdlovsk. The development of the strategies involved 747 representatives of the government, businesses, NGOs and activities, and 11 Ukrainian experts in strategic planning of municipal development.

August 2012

DTEK and the State Service for Mining Supervision and Industrial Safety of Ukraine signed a Memorandum of Cooperation. The Memorandum is aimed at improving the system for occupational health and safety management at the Company's mining enterprises. This is the first such document in Ukraine. Cooperation with the State Service for Mining Supervision and Industrial Safety will allow the Company to expand its research into occupational health and safety. It is planned to develop preventive measures against accidents and industrial injuries, conduct workshops and panel discussions on the topic of safe working conditions, explore international experience, and initiate changes in industrial safety regulations.

October 2012

The Social Partnership Steering Committee held a meeting where social partnership strategies with regions where DTEK operates for 2013-2015 were presented, and the key problems of the regions and possible solutions were discussed.

December 2012

For the third time, DTEK became a general partner of CSR Marketplace, an exhibition of social and environmental projects, organized with the assistance of UNITER, PACT, and the financial support of USAID. The exhibition was aimed at creating efficient partnerships between government institutions, businesses, NGOs and universities.

May 2013

The "Your City in Your Hands" mini-grant contest was launched in 16 cities where DTEK operates. Project financing by the Company totalled USD 250 thousand. The project is aimed at increasing community participation in the municipal improvement process.

October 2013

The conference "Development of the Business Environment in Small and Medium Size Cities of Ukraine" took place in Kyiv. The conference was attended by the mayors of cities, representatives of government bodies, NGOs, international donors, representatives of DTEK and SCM Group, and the employees of 14 Local Economic Development Agencies (LEDAs) in cities where DTEK operates. LEDAs were set up with DTEK's assistance in 2012-2013 in the cities of Burshtyn, Dobrotvir, Ladyzhyn, Pavlohrad, Pershotravensk, Ternivka, Zelenodolsk, Sverdlovsk, Rovenky, Kurakhovo, Zugres, Dobropilla, Schastya and Energodar.

November 2013

On November 28-29, 2013, the first Telemedicine and Information Technologies scientific workshop with the participation of international partners was held in Lviv at the initiative and with the financial support of DTEK. At the workshop, the results of the first phase of the Telemedicine project were presented and the prospects for its further implementation and expansion were discussed. In 2012-2013, DTEK helped connect nine medical institutions to the national telemedicine network.

CSR recognition:

- **#1 in the Transparency and Accountability Index of Ukrainian Companies in 2013,** a rating based on a websites assessment according to international methodology from Beyond Business.
- **#1 in the Socially Responsible Companies rating in 2013** by GVardia magazine.
- **Grand Prize in the Regions Development category** based on an assessment by international CSR experts in the National Business Case contest organised by the Centre for CSR Development in 2013. The Grand Prize was awarded for setting up Local Economic Development Agencies in the regions where the Company operates.
- **#2 in the National Business Case contest held by Centre for CSR Development in 2012 for business case "Development and support of community"** according to the chief editors of Ukrainian business publications for setting up the Local Economic Development Agencies.
- **#1 in the "Best Contribution to the Country" according to the chief editors of Ukrainian business publications for setting up the Local Economic Development Agencies**
- **Leader of the "Charitable Budget Amount and Healthcare Support" category** of the National Philanthropists Rating in 2012 conducted by the Ukrainian Philanthropists Forum (UPF), an association of charitable foundations. In total, 59 philanthropists participated in the rating, including 34 charitable foundations and organisations, 20 companies and five individuals.
- **#1 in the Readers' Choice Award, a non-financial reports contest,**according to an expert panel, for the document "Era of Sustainable Growth: Future Outlines" (2010-2011).
- **Winner of the Best Employer in 2013 category** according to students of Ukrainian universities. The survey was conducted by the international audit company Ernst & Young. More than 2,640 respondents participated in the survey.

Compliance and corporate ethics

Ethical business practices are an essential component of the efforts taken by the Company to prevent corruption and to meet regulatory requirements.

DTEK adopted its Compliance policy in 2011. This document reflects the principle of strict observance of corporate and internal ethical standards. The policy is one of the tools for managing the key compliance risks of the business and is based on national laws and international practices for fighting corruption.

In September 2013, the Company adopted a new Ethics and Business Conduct Code. This document contains provisions for preventing conflicts of interest, anti-corruption efforts, communication with government bodies, business hospitality and business gift controls, partner relations, as well as provisions for political and religious activities, environmental protection, anti-money laundering and fighting the financing of terrorism.

Implementation of the Compliance Policy and the Ethics and Business Conduct Code is assigned to the Compliance Management Department. This department is directly subordinated to the Chief Executive Officer and the Supervisory Board of DTEK. Measures taken by the Compliance Management Department include the following:

- promotion of ethical standards among employees;
- business gift and business hospitality oversight;
- prevention of conflicts of interest;
- protection of people who report violations and coordination of the prevention of corruption .

Key compliance risks are reviewed by the Risk Committee of DTEK's Management Board.

The Compliance Officer regularly conducts trainings for managers and employees on the fundamentals of DTEK's Compliance Policy, the Corporate Ethics and Business Conduct Code, and anti-corruption requirements. The Company has the SCM Trust Line, which allows for promptly and efficiently responding to violations of the Corporate Ethics Code, and to abuse, fraud and bribery.

DTEK annually collects declarations of conflicts of interest from the Group's managers; in 2011-2013, more than 2,400 top and middle managers went through this procedure. The declarations are aimed at identifying and rectifying situations where employees have personal interests that can influence their business decisions, whereas the compliance process is intended to ensure the long-term and sustainable development of DTEK's business.

Community

The Company seeks to take into consideration all of the factors that can influence the sustainable development of the community and business, and balances the interests of both.

Integral to DTEK's CSR Policy is the improvement of the quality of life in regions where the Company operates, building relations and maintaining cooperation with residents in the regions, strengthening and involving local communities, and increasing the efficiency of self-governance and resource utilisation.

One of the tools to achieve these goals is the development and implementation of social partnership strategies together with the local communities in the regions where DTEK operates. In 2012, the Company improved its approach to the management of social investments by transferring to 3-year planning of its joint development activities with the regions. In addition, DTEK appointed 10 regional representatives at its enterprises to be in charge of project management in the respective regions where It operates.

Tasks completed in 2012-2013	Tasks for 2014
Interaction with stakeholders	
Development of social partnership strategies for regions where DTEK operates for 2013-2015	
Elaboration of DTEK's development strategy for occupational medicine	Assistance to communities with reforming local self-governance to exten
Implementation of DTEK's social partnership strategies with regions for 2013-2015 regarding tasks planned for 2013	Implementation of DTEK's social partnership strategies with regions for 2013-2015 regarding tasks planned for 2014
Interaction with the community	
Building a system to monitor and assess the efficiency of the implementation of DTEK's social partnership programmes with regions where it operates for 2013-2015	
	Updating DTEK's CSR Policy Elaborating DTEK's Human Rights Policy

Development and implementation of social partnership strategies

In 2012, to increase the efficiency of its social investments, DTEK decided to switch to themed-term planning and the development of 3-year Social Partnership Strategies (SPS) with regions where it operates, for 2013-2015. These strategies are aimed at solving root cause problems in regions where the Company operates, rather than single point mitigation of the consequences of those issues. This approach is important for improving the efficiency of social investments, planning for the sustainable development of the cities and towns, and enhancing the living and working standards of residents and employees.

Priorities and objectives:

- improvement of living standards in the regions where DTEK operates;
- systemic approach to solving community problems jointly with stakeholders (local and national officials, NGOs, residents of the regions of operations, international donors, and other businesses and foundations);
- implementation of strategies for the social and economic development of the regions and focus on long-term results;
- direct connection between programmes to cooperate with local communities and strategic issues related to DTEK's business development;
- openness and dialogue;
- creating new opportunities for the most residents in the regions where DTEK operates.

DTEK's social partnership strategies with the regions where it operates for 2013-2015 were drafted with stakeholders and approved at local municipal council sessions. In 2012, DTEK developed 19 social partnership strategies in total, together with 22 regions where DTEK operates. Social Partnership Programmes were developed with the cities of Kyiv, Dnipropetrovsk and Lviv. In 2013, three more social partnership strategies were worked out with five towns where DTEK operates in Zaporizhya region.

Rolling out social partnerships to the regions became an important part of DTEK's work in the areas where it operates. As a result, the Company signed social partnership cooperation agreements on social and economic development with the regional state administrations of Ivano-Frankivsk, Luhansk, Dnipropetrovsk, and Donetsk, as well as with the Autonomous Republic of Crimea.

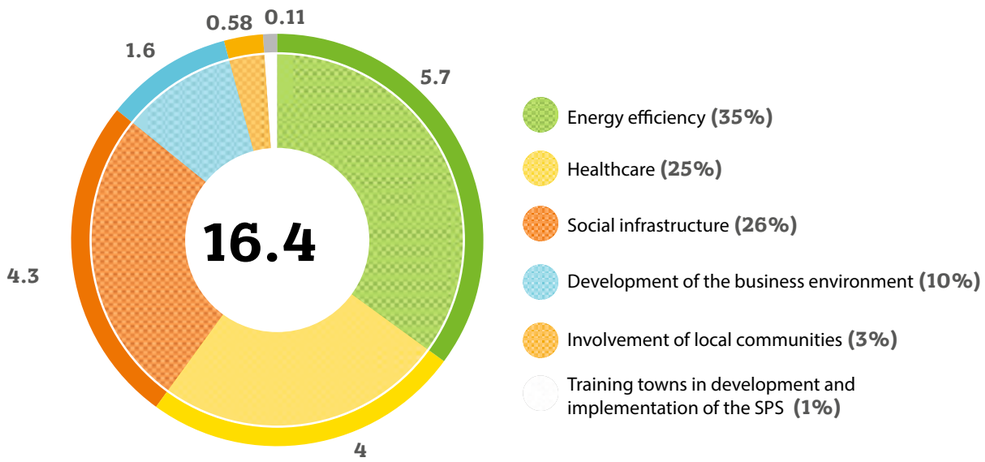
Investments in the social partnership projects in 2013 amounted to

USD 16.4 million

In the social partnership strategies, 5 key social investment areas were defined for 2013-2015:

- **Energy efficiency in the public utilities sector** (improving the energy efficiency of the public utilities sector, improving the quality of electricity and heat supply services);
- **Health care** (improving access to quality medical services, promoting healthy lifestyles among residents);
- **Social infrastructure** (improving the quality and availability of social services, solving pressing problems for essential infrastructure facilities, improving preschool and school education opportunities, and offering opportunities for recreation and sports);
- **Development of the business environment** (creating favourable conditions for the development of small and medium sized businesses, creating new employment opportunities, increasing payments to the state budget, expanding the range of services, development of social entrepreneurship);
- **Involvement of local communities** (formation of a new mentality in communities; development of leadership, initiatives, and responsibility by promoting self-organisation and enhancing the competences of active residents in tackling community problems).

Social investments by area, USD million



Projects

Setting up Local Economic Development Agencies:

Since DTEK is interested in developing the regions where it operates and its employees live, the Company is actively investing in the long-term social and economic development of these areas. DTEK also stimulates the development of the business environment by seeking to reduce the dependence of towns and cities on its enterprises.

Tasks of the Local Economic Development Agencies:

- searching for funding sources to finance the comprehensive economic development of towns and cities;
- forecasting and evaluating prospects for the further economic growth of the regions;
- preparing and fundraising for projects and implementing them to improve the quality of life of people and create conditions for their self-realisation and development of the business environment;
- implementing social partnership projects for local development put together by the cities and DTEK;
- providing practical and methodological assistance to local government bodies and NGOs on economic development programmes for the regions

To remedy the problems that have accumulated in cities and townswhere the Company operates, it was decided to set up non-profit organizations, Local Economic Development Agencies (LEDAs), headed by community representatives. The main objective of the LEDAs is to establish efficient cooperation between businesses and NGOs with local governmentofficials, foster the development of the business environment and attract investments to the cities and towns.

The first three agencies started work in 2012 in Burshtyn, Ladyzhyn and Dobrotvir. In 2013, with DTEK's assistance, they were followed by 11 more in cities and towns where the Company operates.

Dobrotvir: In its first year of work, the Agency in Kamianka-Buzkyi district managed to raise more than USD 18,266 in funds for different projects and provide almost 200 consultations to first-time entrepreneurs on drafting business plans, obtaining repayable financial aid from the Support Fund for Entrepreneurs, and writing applications to participate in the Company's "Your City in Your Hands" contest.

Through the Support Fund for Small and Medium Sized Enterprises, which was financed by DTEK, the LEDA provided two financial aid facilities: USD 7,507 to open a milk processing shop in the Dobrotvir settlement (six jobs created) and USD 3,753 for a fish farming and sales business initiative (two more jobs to be created).

Another successful initiative of the LEDA is a project to replace the lighting systems in residential building entrances and common areas in the settlement of Dobrotvir, which was jointly financed by DTEK (USD 6,656) and the United Nations Development Programme's project "Transforming the Market for Efficient Lighting" (USD 3,503). New lighting systems and energy saving bulbs were installed at the entrances and common use areas of four apartment buildings at 15, 17, 19 and 21 Stroitelna Street, which significantly reduced their electricity consumption.

Ladyzhyn: Ladyzhyn's LEDA held 40 consultations and assisted in setting up four new private business entities. The agency also provided one financial aid facility in the amount of USD 2,252 from its Micro-Finance Fund for small and medium sized business that was financed by DTEK. In total, the Micro-Finance Fund manages USD 12,511. Repayable financial aid was provided to an entrepreneur who collects solid household wastes (plastic).

Burshtyn: Burshtyn's LEDA piloted the "Youth Business" project to help young people aged between 18 and 35 to start their own businesses. The project provides unsecured loans to qualified applicants who submit business plans. It is co-financed by DTEK (USD 12,511) and the Association for Social and Economic Strategies and Partnerships (USD 12,511).

To create jobs for women, a "Sewing and Tailoring Craft" training course was organised at a local vocational school and a "Sewing Start-Up" training course was organized at the Kamianka-Buzkyi district LEDA for everyone willing to start their own businesses in the clothing industry.

To raise awareness of the importance of power saving among residents, the agency's staff prepared informational materials for local media. Trainings and roundtables on energy efficiency were organised for representatives of the Burshtyn City Council, Zhytlovyk public utility company, academic and educational institutions and the local community. As part of this project and with DTEK's financial support (USD 45,039), energy audits were performed at Kindergarten #6 and Comprehensive School #1, individual heating plants were installed, and incandescent light bulbs were replaced with energy efficient bulbs.

In 2014, the economic development agency PPV Knowledge Networks, supported by DTEK and the analytical centre CSR Ukraine Community, released the publication "Local Economic Development: Local Development Agencies", which is available on DTEK's website: http://dtek.com/ru/corporate-social-responsibility/stakeholders_and_social_partnership/projects/amr

The publication covers various aspects of setting up and operating and the impact of the local economic development agencies. It shows the LEDAs' role in transitioning from obtaining and allocating budget funds to programme-based and project-based development management, as well as in improving synergies between local governments, local communities and businesses in development issues.

Social entrepreneurship development project

The objective of the social entrepreneurship development project is to improve the competitiveness of the regions where DTEK operates by developing their economic potential and social entrepreneurship. The project was implemented in Burshtyn, Dobrotvir, Rovenky, Sverdlovsk, Dobropillia, and Zugres. For entrepreneurs in the four latter towns, the project established a special USD 46,291 fund of interest-free repayable loans. These towns set up local expert committees to assess the business plans of social enterprises and entrepreneurs received advisory assistance to draft these business plans.

As a result of the loans, 22 new jobs were created in 2013. In January 2014, another 13 jobs followed, and in March two more are planned to be created. In total, within the limits of the current loan fund, 37 jobs will be produced in Donetsk and Luhansk regions.

A contest for social business plans was organized; 13 applications were received. Eight projects were shortlisted for revolving financing for a total of USD 40,536. The amounts that will be repaid to the loan fund will finance new projects in the regions. An additional amount of USD 5,755 will be allocated to support young entrepreneurs that create three jobs for themselves. For that purpose, they were provided with training in business planning basics and assistance in drafting their own business plans.

As a result of interest-free loans in 2013

22

jobs

were created

Project "Your Hometown in Your Hands"

In an effort to stimulate the development of social activities and the initiatives of local residents, DTEK organised an open contest for mini-grants called "Your Hometown in Your Hands" for citizen initiative groups and non-governmental organisations committed to solving local community problems.

18 cities and towns where DTEK operates participated in the project "Your Hometown in Your Hands". Over the month that the contest took place, participants had an opportunity to receive training and consultations on the application forms and other organisational issues. 262 applications were submitted for consideration and 105 projects were awarded mini-grants of up to USD 2,502 each. The projects that received grants were improved the areas around residential buildings, kindergartens, and schools, and organised recreational activities for children and youth. Workshops were conducted with the winners to teach them how to properly organise projects and basic community cooperation principles. One of the results of these measures was that different initiative groups joined forces to implement these projects together.

By the end of 2013, all of the projects that received grants were implemented. The results of the contest were summed up at a closing conference in Donetsk on January 23, 2014.

Participant cities involved	18
Applications submitted	262
Projects implemented	105
Amount of DTEK's investments in the projects	USD 250 thousand
Amount of additionally attracted funds	USD 173 thousand
Volunteer cleanup events organised	501
Active citizens involved in implementation	More than 5,600 people

Results of implemented projects:

- 47 children's playgrounds and sports areas were constructed in areas around residential buildings
- 12 children's playgrounds and sports areas constructed and refurbished at preschools and schools
- special playgrounds for children to study traffic rules and meteorological conditions were created and a classroom for a kindergarten group studying under the Montessori system were equipped at preschools
- 3 gym halls were refurbished
- a rock-climbing wall was created
- 3 parks were improved
- a computer classroom was repaired at a school
- a sewing classroom and a crafts club were opened
- the areas around 2 residential buildings were improved (sidewalks and front access roads were repaired)
- an access road to a garage area was refurbished

Telemedicine Project

The Telemedicine project is being jointly implemented by DTEK, MTS Ukraine, the Foundation for the Development of Ukraine, the National Academy of Medical Sciences of Ukraine, and the Ministry of Health of Ukraine. The key objective of the telemedicine in cities and towns where DTEK operates is to connect prevention and treatment facilities in cities to the national telemedicine network to improve access to quality, timely and highly-skilled medical assistance from professionals in leading healthcare institutions of Ukraine in case of the urgent need for such assistance and for that to be right at the doctor's workplace irrespective of the patient's location.

In 2013, thanks to DTEK's initiative and financial support, six medical institutions were connected to the national telemedicine network: Burshtyn City Hospital, Ladyzhyn City Territorial Medical Association, Pavlohrad City Hospital #4, Pavlohrad Maternity Hospital, Dobrotvir City Hospital, and the Dobropillia Central City Hospital. The necessary equipment was purchased and installed at eight hospitals.

The "last mile*" was laid to ensure access to the Internet and VPN connections in the hospitals of Pershotravensk, Dobrotvir, Rovenky, Energodar, Zelenodolsk, Zaporizhya, Prymorsk, Pryazovskyi, and Novopetrivka. The second phase of the project launched at the Ladyzhyn City Territorial Medical Association provides for the computerization of the hospital. Works are ongoing to install and setup the Doctor Eleks system on 60 workstations and doctors are being trained on how to operate the system.

The necessary equipment was purchased and installed at

8
hospitals

* The "last mile" is a channel connecting the end user's (customer's) equipment with the access node of the provider (communications operator)

Under the project, trainings were also organised for technical and medical staff at healthcare facilities in cities where the telemedicine system operates that is both technical and practical in nature. On November 28-29, 2013, the first Telemedicine and Information Technology scientific workshop with the participation of international partners was held in Lviv. At the workshop, the results of the first phase were presented and the prospects for the project's second phase and its expansion were discussed.

Energy efficient schools project

The Energy Efficient Schools Project is aimed at educating pupils in the sixth, seventh and eighth grades in the basics of energy savings both in theory and practice. At the end of the course, the students prepared their own projects to improve the energy efficiency of their schools.

The first phase of the Energy Efficient Schools Project took place at 11 educational institutions in Kyiv from February to May 2013. Through the project, DTEK provided grants to implement energy efficiency projects designed by the students.

The five schools that created the best projects to reduce electricity consumption and conducted the most active awareness campaigns were awarded USD 22,520 each to implement their projects. Two schools received USD 2,502 each and four schools USD 1,877 each to implement their energy saving measures. According to the poll, 95% of students at the pilot schools and 98% of their parents changed their habits to more energy-efficient ones as a result of the project.

Five schools that created the best projects to reduce electricity consumption and conducted the most active awareness campaigns were each awarded

USD 22,520

The second phase of the project started in the second half of 2013: 55 schools from 20 cities and towns where the Company operates were selected. Introductory awareness trainings for teachers were held in Kyiv, Donetsk, and Dnipropetrovsk that included teachers from all regions. Project launch ceremonies took place in educational institutions. Now, all the schools have an optional energy efficiency course in their curriculum. Excursions to DTEK's electricity generation enterprises were organised for the pilot classes. Some children visited thermal power plants where they had the opportunity to see with their own eyes how electricity is generated and ask all questions to professional engineers. These excursions will continue from March to April 2014. The number of the project participants reached 72,500 people (30,024 students and 2,516 teachers and parents).

The announcement of the results of the schools' contest to reduce electricity consumption and for students to develop energy efficiency projects for their schools is planned to take place in February-March 2014. The results of the second phase of the project will be summarised in May 2014.

Municipal heating reform project in Dnipropetrovsk

BIn July 2011, DTEK, the United States Agency for International Development (USAID) and the Dnipropetrovsk City Council signed a Memorandum of Cooperation on municipal heating reform.

Following energy audits of typical municipal buildings, some facilities were selected for the implementation of demonstration projects on thermal rehabilitation. The heating losses of the old buildings of two schools and a

kindergarten in the city of Dnipropetrovsk, due to a number of reasons (panel structures, poor quality joints on building facades, and the obsolete design of the windows and heating system), amounted to 37 to 55%. Students and teachers had to have lessons in extremely uncomfortable temperatures that did not really facilitate the studying process. As a result of the joint efforts, the schools and kindergarten had their roofs and external walls insulated from heat, building facades refurbished, windows replaced for more energy efficient options, and energy-saving bulbs installed. More comfortable conditions for studying were created for more than 1,000 students. These projects reduced energy consumption at the schools by 35%. The average temperature at the school increased to 22˚C and in some classrooms to 26˚C.

Based on results from the pilot projects with DTEK, the Dnipropetrovsk City Council managed to go further and attracted a loan facility from the European Bank for Reconstruction and Development in the amount of EUR 10 million and a grant in the amount of EUR 2.5 million from the Eastern Europe Energy Efficiency and Environment Partnership Fundto implement new energy efficiency projects in 84 schools and kindergartens in the city. The city's officials plan to allocate the savings to update municipal educational facilities, for example, by purchasing new computers.

Partner project with the Federation of Canadian Municipalities on the Local Economic Development of Western Donbass

The Ukraine Municipal Local Economic Development (MLED) project is being implemented by the Federation of Canadian Municipalities and sponsored by the Canadian government. The project aims to improve the planning and delivery of services that foster the regional economic development of Lviv and Dnipropetrovsk regions. DTEK became one of the project's partners, as well as three towns where the Company's enterprises operate – Pavlohrad, Pershotravensk and Ternivka.

DTEK and the Ukraine MLED project developed a long-term development strategy for Western Donbass with its 230,000 residents. The priority for the region's development is to improve the handling of solid waste. Pavlohrad approved waste management as one of its development priorities and identified six steps for solving the solid waste problem: 1) audit the current situation; 2) analyse the structure and volume of solid waste in the region; 3) identify priority methods to manage the region's solid waste; 4) analyse the geological and hydrogeological issues; 5) elaborate a feasibility study; and 6) design work and construction for a new site.

On April 13, 2013, MLED project representatives signed a respective agreement with Pavlohrad city officials. Under the agreement, the city will be provided with international technical assistance and a financial contribution of CAD 100,000. The aim of the joint project is to develop an integrated and comprehensive system that will provide for the efficient collection, storage, sorting, processing (recycling), removal, detoxification and disposal of waste by combining the efforts of local communities, regional authorities and companies operating in the region. DTEK committed to provide financial support totalling USD 250,000 to finance complementary activities aimed at creating an effective system of integrated Solid Waste Management (SWM).

By 2014, an analytical report was prepared by national experts on the condition of the existing SWM system in Western Donbas and the SWM strategy in the Western Donbass subregion was developed and presented.

Unification of the east and west of Ukraine

DTEK's enterprises work in 10 regions of Ukraine, covering the country's east, west and centre, as well as the capital and Crimea. The Company employs 140,000 people from widely different social positions, and for DTEK it is important that each of them can feel like an integral part of the Company and like citizens of a united and undivided country. That is why in 2013 DTEK implemented several projects designed to unify Eastern and Western Ukraine.In December 2012, DTEK arranged a trip for the Energetik junior football team from Dobrotvir (Lviv region) to visit the Energiya team from Kurakhove (Donetsk region). Young football players played two friendly matches on a new football field covered with artificial turf that was jointly installed by DTEK and the Kurakhovo City Council as part of their social partnership project in 2012. The visiting team from Dobrotvir also swam in the outdoor pool in Kurakhove, went on excursions to Donbass Arena and Football Club Shakhtar's training facility in Donetsk. The trip culminated in a visit to the Champions League match between FC Juventus and FC Shakhtar.

DTEK also supported the TV project "Show them! Lviv-Donbass Show" created together with the TV channels Donbass (Donetsk) and ZIK (Lviv). The project was intended to tackle the stereotypes of Eastern and Western Ukraine, and show that despite historical and cultural distinctions, Ukraine is a single and integral country, and residents of its regions have a lot in common. In the project, people of one and the same profession for a few days exchanged working places and places of residence.

DTEK became a project sponsor and organised the shooting for three of ten programmes. In the programmes, places were swapped between the miners from the DTEK Yasenivskyi Mine Group and Nadiya state-owned mine, high voltage electricians of DTEK Dniprooblenergo and Lvivoblenergo, and the mayors of the electricity engineering towns of Kurakhove and Burshtyn where DTEK power stations operate.

Roman Nikolayev,
Dobrotvir Mayor: *"The impressions from our trip are unforgettable for everyone. These memories and emotions will remain with the kids and also with us for all of our lives. After we saw the stadium, the game against Juventus, and the complex where young football players are trained, it could not have been otherwise. This trip by Dobrotvir kids to visit the young Donbass football players was an excellent opportunity to make friends through the sport."*

Modern diagnostic equipment in Rovenky

Until quite recently, the Rovenky Primary Health Centre, which every day receives approximately 300 residents , did not have a mammography unit or modern X-ray unit. As a result, cancerous diseases for many patients were detected too late.

With the support of DTEK, a digital mammography unit and an X-ray unit were purchased for the Rovenky Primary Health Centre. The project allowed local doctors to detect cancerous diseases in their early stages. News about the installation of the mammography unit quickly spread through the city and a lot of women rushed to have a breast examination.

Yuriy Osipov, ***head of the Public Health Department of the Rovenky City Council:*** *«"Since the mammography unit has been installed, 98 women have been screened. The results are amazing. Within the first two weeks, we examined 20 patients and detected 3 cases of breast cancer in the early stage. This means that treatment can be started at the proper time and the prognosis is very favourable. In total, of 98 examinations we made 9 diagnoses, all of them in the early stages. This is really important. Without this device, early detection is not always precise and often women come to doctors with more advanced cases. Now we stand a better chance, and there's hope that we can help a lot of people."*

New equipment for the physiotherapeutic room of the Zelenodolsk Primary Health Centre

One of the health care problems for the residents of Zelenodolsk was the lack of access to quality physiotherapy. For example, children under 1 year old did not have the opportunity to get physiotherapeutic treatment. To solve this problem, DTEK financed the purchase of Radius-01 and Undaterm devices for the physiotherapeutic room of the Zelenodolsk Primary Health Centre.

In 2013, the Radius-01 unit was used to treat 537 people, including children under 1 year old suffering from various movement disorders. The Undaterm device (UHF 80) was used for 603 residents of Zelenodolsk. Investments in the hospital and the wide range of services offered there now provide convincing arguments to local officials that are for preserving specialised and diagnostic services in the hospital along with family doctors.

New educational equipment for future power engineers in Energodar

Electricity generation enterprises are the main employers of the local community in Energodar. Many of the city's residents work at DTEK Zaporizka TPP and Zaporizka NPP and they want their children to follow their path in this industry. However, due to the lack of laboratory and computer equipment in classrooms, students were deprived of the possibility to gain knowledge and skills in physics, chemistry and biology that are necessary to enroll in higher education establishments. To solve this problem, DTEK made a donation that was used to equip physics, chemistry and biology classrooms in three of the city's schools with modern furniture, multimedia blackboards, notebooks and over 50 pieces of training equipment and various guidance manuals. In 2013, studying conditions significantly improved for 1,424 Energodar students, which will definitely influence their educational progress and broaden opportunities for obtaining higher education in the future.

Energy efficiency campaign at the Sagayeva Sports School in Ladyzhyn

Around 300 children attend sport classes at the Sagayeva Children and Youth Sports School in Ladyzhyn. The most popular classes are sambo and football. However, due to the lack of air ventilation in the school, children quickly get tired when training and the close quarters affects their physical state and the efficiency of their training. Coaches had to open windows, which decreased the temperature. This meant lower quality training and higher exposure to respiratory diseases for trainees.

This problem was solved with the financial assistance of DTEK. The ventilation system was replaced, in addition to the windows and doors.

The solution to the ventilation problem in Sagayeva Children and Youth Sports School's gym eliminated the negative effects on the children's health (close quarters, draughts, and unfavourable temperatures) and ensured the appropriate temperature in the training premises. Some savings on heating are already expected this season.

Sergiy, sambo coach at the sports school: *"The development of a healthy nation is impossible without sport education for children and youth. Our town is known for its sambo wrestlers both in Ukraine and at the international level. However, as they say, enthusiasm will only get you so far. It's good that we have in our city a company like DTEK that has social programmes and creates comfortable conditions for our work and for training children. I am sure that in the future this must have an effect on our trainees' results in competitions."*

Charity

In 2012, DTEK donated USD 200 thousand to charity. In 2013, DTEK companies provided USD 150 thousand in charitable support to organizations and residents in the regions where they operate. The Company strives to reduce single point charity donations and reallocate resources to systemic social partnership projects that solve local problems in the regions and produce sustainable results.

Corporate volunteering

DTEK is starting to actively develop corporate volunteering. Voluntary activities allow all staff members to join together, inspire them, improve relations between colleagues, make them part of the Company's social initiatives. The key objective of corporate volunteering in the Company is to develop the corporate culture and create proper conditions for the self-realisation of employees, as well as to make a practical contribution to the development of local communities and the regions where it operates.

In 2012, employees of the Group's companies implemented several corporate volunteering projects. DTEK Power Grid conducted a No Smoking Day when employees of the enterprise lobbied their colleagues to quit their bad habit. From the beginning of the work day, initiative group members offered to exchange cigarettes for juice and informational leaflets about the positive benefits from quitting smoking. The initiative group put all of their collected "trophies" on a canvas that depicted a graffiti picture "Smoking Kills." At the end of the campaign, a discussion was held with Volodymyr Udodov, coordinator of the regional Health of the Nation programme, which deals with health preservation conditions in the 21st century.

Over 2012-2013, employees of DTEK's electricity distribution companies volunteered in organising a series of lessons in electrical safety. These lessons give children insights into safe conduct in the vicinity of electric substations and transmission lines.

In April 2013, to mark World Earth Day, DTEK organised its first large-scale volunteering campaign "Clean City", which covered 24 Ukrainian cities and towns where DTEK operates and united 8,600 employees of all of the Group's enterprises. DTEK's volunteers collected over 600 tons of inorganic waste in parks and public gardens. In particular, the Kyiv clean-up event gathered more than 300 volunteers from DTEK's employees from its Corporate Centre and Kyivenergo. Participants cleaned the Hydropark area and collected 725 bags of inorganic waste, including 60 bags of glass waste and 245 bags of plastic waste. More than 2,000 employees of DTEK volunteered in a clean-up event in the city of Donetsk and in Donetsk region; 3,000 DTEK miners and electricity workers did the same in Luhansk region; and more than 1,000 volunteers of the Company did the same in Dnipropetrovsk.

DTEK volunteers collected over

600

tons of inorganic waste

in parks and public gardens

The "Clean City" project was organised as part of the framework of the nationwide campaign "Let's Make Ukraine Clean!" under the aegis of the UN Global Compact. In turn, this campaign is a part of the global initiative "Let's do it, world!" which was supported by 96 countries.

Future tasks

Despite the significant success achieved by the Company and the local communities in improving the quality of life in the regions where DTEK operates, a lot of problems remain unsolved. The main reason is the lack of full valid power at the local level. That is why in the nearest future it is necessary to strengthen local governance and enhance the role of local communities.

Strengthened local power will foster quick and efficient solutions to the problems of local infrastructure, healthcare, education, culture, and economic development. DTEK is committed to supporting steps taken in this direction and ready to participate in expert meetings for discussing relevant draft laws; it is also ready to continue close cooperation with public officials on local development and improving living standards.

Monitoring and assessing the efficiency of social investments

In 2012, a Social Project Monitoring and Evaluation Unit was set up in the DTEK Corporate Centre within the Social Development Department. The main tasks of the unit include monitoring, evaluating and reporting on the implementation of the approved social development strategies and programmes for 2013-2015.

The Company has a developed system for monitoring and assessing the efficiency of social partnership programmes. Regular monitoring will be conducted throughout the implementation of 3-year social partnership strategies, by means of:

- emonthly collection and analysis of data on funds used;
- monthly collection and analysis of data on actual project implementation in line with work plans;
- monitoring visits to sites for expert evaluations of project progress.

The efficiency of the implementation of strategies will be analysed by comparing the situation in cities and towns where the Company operates before the start of implementation and afterward.

At the first stage of preparing Social Partnership Strategies in 2012, an overall assessment and ranking was conducted for problems in the regions where DTEK operates. As a result of the assessment, the Company found out about the needs of employees and local residents, and identified key problem areas. The survey of social and economic problems of the cities and towns involved 5,558 DTEK employees and 826 deputies of local councils, managers of enterprises and organizations.

Vitaliy Vodolazskyi,
production line supervisor of the boiler repair shop at DTEK Luhanska TPP:
"I first saw information about the upcoming cleanup event on the news website of DTEK. I discussed it with my friends and we remembered that this was a heavily polluted area. To involve more people, I took a photo of this place and created a group "Clean City" on the social network Vkontakte. I believe that to make our town Schastya clean and the country in general, we should change our mentality. If every person joined in a cleanup like we did on April 20, then they would never drop garbage everywhere."

An assessment of the efficiency and impact of the strategic partnership programmes is planned to be performed 2 and 4 years after the launch of the implementation of the 3-year strategies.

At present, all necessary statistical and sociological baseline indicators have been collected for further use in identifying changes in the regions where the Company operates.

In 2012, a public opinion survey at DTEK's enterprises and in cities where it operates was conducted. This campaign helped to collect data on the public awareness of DTEK's Social Partnership Programmes, assess their contribution to solving social problems in the regions, and learn about public opinion on the most pressing municipal problems and changes that occurred in the cities during the period when the Company's social partnership strategies are being implemented and their expectations for the cities' future.

Also in 2012 a large-scale survey was performed on the business environment in the cities and towns where DTEK operates, which is an important focus area for the Company. This survey gives insight into the way entrepreneurs consider opportunities for their business in these cities and evaluates changes that have occurred in this area in recent years.

After further waves of these surveys (in 1.5 and 4 years), it will be possible to identify changes that have taken place in the cities and towns in the main areas of DTEK's social investments.

As a comprehensive consolidated assessment of the efficiency of DTEK's social programmes will only be possible after a certain period after implementation starts, the Company is currently using alternative methods to evaluate efficiency, for example, by collecting "success stories."

Monitoring processes for projects are organised jointly with the regions where DTEK operates. When the social partnership strategies for 2013-2015 were launched, Implementation Management Committees (IMCs) were founded in the cities and towns.

Their task is to ensure the implementation and control of timely and quality projects. IMC meetings take place once every quarter and reports on actual project progress are submitted on a quarterly basis to the Social Development Department. Unscheduled meetings may also be convened at the initiative of the IMC's members to promptly solve issues that might arise during the implementation of projects.

Employees

People are DTEK's key asset and a competitive advantage. DTEK's HR Policy determines the Company's strategic goals in HR management:

- attract the best personnel in the labour market
- ensure decent remuneration and motivation for employees
- identify, develop and support employees' potential
- build a uniform corporate culture

DTEK's main principles in attracting human resources are openness, transparency and no gender, age or other discrimination.

The Company's strategic goal for 2013 (to fill at least 80% of top and middle management vacancies with internal DTEK candidates) was achieved. DTEK's policy for career planning and filling key positions is to develop the required human resources inside the Company. With this view, DTEK is implementing continuity programs: Talent Pool (since 2006) and Top 50 (since 2008), training personnel at DTEK Academy and collaborating with the students of target universities in Ukraine.

One of DTEK's strategic objectives is to achieve 100% staffing of occupations where there are shortfalls of staff. Mechanisms used for this purpose include training and upgrading qualifications at production-and-training centres at the Company's enterprises. For instance, vacancies for control room operators at DTEK's Kurakhove TPP, Zuivska TPP and Luhanska TPP are filled by internal candidates. To do that, auxiliary operators are trained every year from the graduates of engineering schools, including obligatory internships at production facilities.

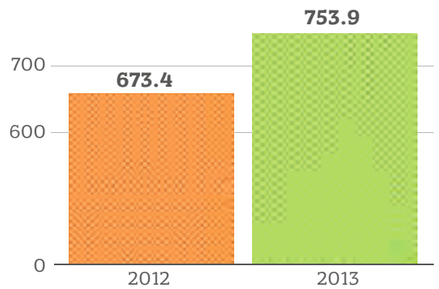
In 2013, DTEK achieved its strategic goal to fill 80% of top and middle management vacancies with internal candidates. 87% of the corporate centre's management vacancies and 85% of production enterprises' vacancies were filled with DTEK's own employees who were trained at DTEK Academy.

Unification of the payroll and remuneration system

In 2012, the Company developed a high-level payroll planning model for DTEK's enterprises based on dynamic indicators of their economic and production efficiency.

In 2013, the Company developed a position category matrix as a uniform system for allocating positions within DTEK. In April 2013, DTEK's Corporate Centre introduced a grading remuneration system based on Hay Group methodology and launched a project to introduce a grading remuneration system at DTEK's electricity generation enterprises.

Dynamics for the average salary at DTEK's enterprises, USD*



*Data does not include DTEK LLC.
See reporting data in Annex 2.

Personnel training and development

DTEK provides substantial opportunities for its employees' professional and personal development and encourages their pursuit of excellence. The Company's corporate university, DTEK Academy, is the main training centre.

DTEK Academy offers a wide range of training programs: from remote training courses to MBA programs. The employees participating in the Talent Pool and Top-50 programs undergo training in the "Energy of a Leader" and "Power of Knowledge" programs developed jointly with Kyiv Mohyla Business School (Ukraine) and INSEAD (France). These programs train candidates for key managerial positions. So far, 144 employees of the Company completed the corporate training programs "Energy of a Leader" and "Power of Knowledge" and have received respective certificates.

In December 2013, DTEK developed a business process for horizontal career management. The corporate centre introduced an intellectual talent search system based on DTEK Academy's portal to match any new vacancy of the Company with a candidate from among the participants of the Talent Pool and Top-50 programs. In future, this system will simplify and automate the personnel recruitment process.

The program for the recruitment and development of talent pool participants was also introduced at production enterprises in 2013. A list of talent pool members (529 employees) was approved and a five-module program for their professional development was prepared. An electronic candidate search form was launched on the corporate portal to look for candidates for managerial positions among talent pool members.

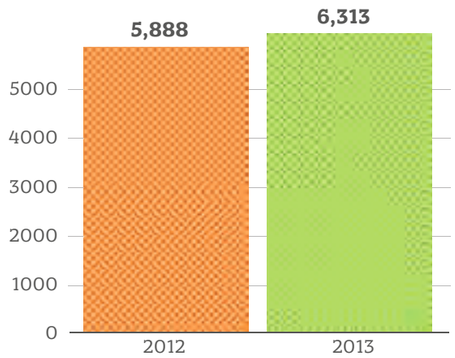
Modernisation of the Training System at DTEK Group Enterprises

To bring training to a new qualitative level, the materials and technical resources of the training centres were upgraded:

- 235 computers and laptops, 42 screens and projectors, 35 printers and multi-functional units were purchased.
- Development of a complex simulator was launched to train the operational personnel of DTEK's Ladyzhyn TPP. The areas for welding and rigging works at DTEK's Luhanska TPP and Ladyzhyn TPP were modernised. The relay protection and controls laboratory at DTEK Donetskoblenergo was upgraded.
- 14 simulator robots for cardio-pulmonary resuscitation were purchased.
- 7 training videos were made.
- DTEK's coal production enterprises started to restore their training sites, and overhauled and modernised their training centre buildings.
- The Company started to develop an innovative three-dimensional training course for the operational personnel of thermal power plants.
- The training centre of Western Donbass mine groups was equipped with a modern electrohydraulics macro training complex.

In 2013, total investments amounted to more than USD 750 thousand. USD 1.75 million was budgeted for upgrading the materials and technical resources of training centres in 2014.

Investments in training, USD ths*



* See reporting data in Annex 2.

Cooperation with universities

DTEK is an active participant in the reform process of higher educational institutions in Ukraine. Since 2009, DTEK has been implementing cooperation programs with leading Ukrainian universities, including the Donetsk National Technical University, Dnipropetrovsk National Mining University, National Technical University Kyiv Polytechnic Institute, and Lviv Polytechnic National University.

As part of this collaboration, DTEK Group selects high-potential students majoring in respective fields for further training under a special program and for subsequent employment at DTEK's enterprises. These students undergo training at the enterprises in line with their respective programs; they also attend open lessons at DTEK Academy and meet the Company's managers. The students also receive additional scholarships from DTEK.

In 2013, the Company set up two research and methodology centres organised as "DTEK chairs" at the country's leading field-specific universities: Coal Mining and Preparation at the Dnipropetrovsk National Mining University and Electricity Generation and Distribution at the Donetsk National Technical University. The centers' functions include methodological support of the training process, development and updating of the training program, and the approval of the list of teachers from among the university's faculty and DTEK's in-house experts, their training and re-training.

In September 2013, uniform standards were developed for training personnel in the following basic jobs: Underground Mining Worker, Auxiliary Operator of Boiler Equipment, and Distribution Network Electrician. The task set for 2014 is to develop eight professional standards for blue-collar jobs jointly with DTEK's centres.

Apart from its collaboration with students, DTEK supports universities in upgrading their material and technical resources. On December 17, 2012, DTEK marked the opening of three laboratories at the National Technical University Kyiv Polytechnic Institute, which were sponsored by the Company. DTEK's total investments amounted to approximately USD 87.6 thousand.

In 2012–2013, 56 graduates of DTEK Group were employed by the Company's production enterprises. In September 2013, 58 students were selected to form a new group. In total, 130 graduates of DTEK Groups became our employees in 2009–2013.

Appraisal, remuneration and motivation of employees

DTEK evaluates its personnel, their performance and competences on an annual basis every first quarter. Personnel appraisals determine the best candidates for the Company's Talent Pool, and serve as the basis for remuneration, annual goal setting, and the approval of a development and training program for each employee.

Annual appraisals are based on the following principles and rules:

- transparency and accessibility of principles and stages of the annual appraisal procedure
- well-balanced appraisal indicators
- clear appraisal criteria
- confidential individual appraisals
- system embeddability into the other managerial practices of the Company

Corporate culture

DTEK believes in the following values to serve as the basis of its corporate culture: professionalism, responsibility, pursuit of excellence, team spirit and openness. The Company is paying a lot of attention to aligning the culture in newly integrated enterprises. During integration, meetings with the enterprises' employees take place to detect and balance cultural differences.

DTEK performs an annual survey of the social climate in its labour collectives. 15,000 employees participated in the 2013 survey. The results revealed a general cross-section of attitudes in labour collectives, measured the levels of satisfaction and the involvement of the employees, and analysed their motivational factors.

The Nasha Gazeta corporate newspaper actively informs employees about all the activities of DTEK's enterprises, the Company's social initiatives and the performance of individual employees. DTEK's in-house information portal is becoming more and more popular as a source of information. Timely news publications makes it the primary source of information for many employees.

The Company conducts regular managerial conferences dedicated to summarising annual performance and implementing strategic initiatives for the future. Collected information is further cascaded to production enterprises.

Mechanisms to inform top management about employees' opinions

The Company has a practice of quarterly meetings between business unit managers and the leaders of trade unions where the most important issues are discussed and reports are submitted on compliance with the provisions of the enterprises' collective agreements.

The following methods are used to inform and communicate with enterprises' employees:

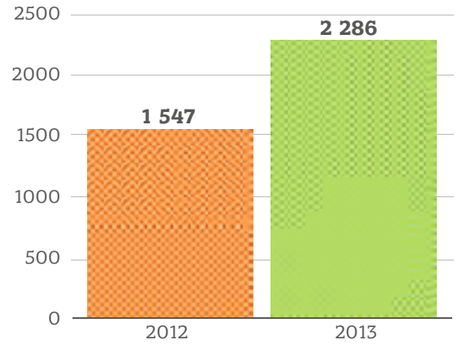
- Telephone conferences with the general directors and dedicated directors where DTEK's top managers answer any questions from employees.
- Direct communication lines with the HR Director on DTEK's portal.
- Telephone conference calls with the enterprises' directors and HR managers. Today, this practice has been adopted at all electricity generation enterprises in connection with the implementation of the grading payroll system.
- DTEK's hotline helps the enterprises' employees report observed violations.

Responsible reorganisation

In 2013, DTEK's personnel underwent the following changes according to reorganisation plans:

- staff insourcing: accounting and taxation, IT function, quality control services
- staff outsourcing: motor transport departments, security services, administrative departments, electricity supply services
- staff transfer to communal property enterprises:
- housing and public utilities, pump stations, treatment facilities

Number of outsourced employees,
headcount.*



*See reporting data in Annex 2.

At the same time, DTEK is implementing programs to curtail the negative impact of reorganisation.

Key areas:

- Priority right for dismissed employees to fill other vacancies at the enterprise provided their qualifications and work experience match the requirements for the position/occupation
- Negotiations with external contractors that are going to provide outsourced services to the Company to ensure the employment of former DTEK employees
- Assistance to employees with preparing paperwork to register at the employment centre and to find further employment
- Creating favourable conditions for development of the business environment in areas where DTEK operates (see more detailed information in the Society section).

Social support

The structure of the social packages at DTEK's enterprises is determined by collective agreements and industry contracts.

The development of a uniform system of non-material motivation was a highlight of the reporting period. Within the framework of the project, DTEK analysed its personnel's needs for non-material motivation (social package) and approved a uniform policy for providing benefits as part of remuneration and schedules for DTEK enterprises to transition to the uniform standards. The implementation of the new non-material motivation system is planned for 2014-2015.

Every year, DTEK's enterprises offer recreation programs for the Company's employees and their family members, both at the Company's own and at external recreation facilities and health resorts, in addition to recreation programs for children at summer camps. Employees can choose the health resort they want, and the Company pays part of the price for a voucher to the resort. In 2013, the Company's total investments in recreation programs for its employees and their family members amounted to approximately USD 2.25 million (excluding employees' recreation time paid for by the social security fund, to which the Company makes deductions under the applicable laws).

Occupational health and safety

DTEK's employees' lives and health are highly valued by the Company. DTEK prioritises occupational health and safety, into which it invests substantial funds.

DTEK invested more than USD 250 million in occupational health and safety from 2007 to 2013, reducing its industrial injury rate from 1.55 to 0.67.

OHSAS 18001:2007 compliant health and management systems either have been implemented or are being introduced at all of DTEK's production enterprises. The health and safety committees accountable to the Supervisory Board, Management Board, each production division of DTEK and each production enterprise are working to evaluate the Company's health and safety objectives, implementation of DTEK's OHS policy and to ensure compliance with legislation at all levels of the Company's management.

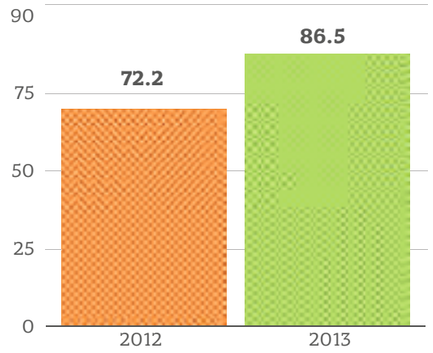
To ensure safe work by DTEK's contractors, the Company implemented the Regulation "On the Safety of Contractors' Services."
DTEK puts forward the highest demands to contractors, and if these standards are not complied with, the Company takes respective measures, right up to banning work and terminating agreements with contractors.

DTEK's Health and Safety Policy is the Company's basic document for managing health and safety. The Company and its shareholder Rinat Akhmetov personally control safe working conditions at DTEK's production enterprises.

Priority investments in health and safety:

1. Eliminating the impact of dangerous and hazardous production factors on employees.
2. Bringing key assets in compliance with the requirements of health and safety regulations.
3. Providing employees with effective personal protection equipment.
4. Creating safe working conditions at workplaces.
5. Training and improving the qualifications of the enterprises' employees.
6. Providing medical support to the enterprises' employees.

Investments in health and safety, USD million *



* See reporting data in Annex 2

Main health and safety projects in 2013:

- A certification audit of occupational health and safety assessment systems (OHSAS) for compliance with the requirements of the OHSAS 18001:2007 international standard was performed at DTEK Dniprooblenergo.
- The implementation of OHSAS is being completed at DTEK's mines in the Dobropillia and Bilozerske mine groups. A pre-certification audit was carried out successfully in 4Q. The certification audit was performed in 1Q 2014.
- Compliance audits were carried out at DTEK's Pavlohradsk, Heroiv Kosmosu, Ternive, Pershotravensk, Dniprovske and Komsomolets Donbasu mine groups, as well as at DTEK's Zuivska TPP, Kurakhove TPP, Luhanska TPP, Prydniprovska TPP, Kryvorizka TPP and Zaporizka TPP. All of the audits confirmed that the OHSAS in place are compliant with the requirements of the OHSAS 18001:2007 standard. All of the employees of these enterprises are subject to the scope of the certification.
- Was implemented in line with the requirements of OHSAS 18001:2007 at DTEK Krymenergo, DTEK's Burshtyn TPP, Ladyzhyn TPP and Dobrotvir TPP, and at the Rovenky, Yasenivskyi, Sverdlovsk and Chervonyi Partyzan mine groups. Certification of these enterprises is scheduled for 2014 and 2015.
- A three-level in-house health and safety control procedure was developed and implemented at DTEK's coal production and preparation enterprises.
- A personnel motivation system for achievements in health and safety was developed and implemented, including regulations on motivating employees in the health and safety services and ventilation and safety units who exercise routing control at DTEK's coal production and preparation enterprises.
- A performance appraisal methodology was developed and implemented for the enterprises' top managers in charge of health and safety.
- A uniform regulation was developed for providing coal production enterprises with labour-saving devices.
- DTEK Dniprooblenergo carried out an advanced clinical/diagnostic examination based on the results of a regular medical checkup. The Regulation "On Providing Medical Services to Employees"was approved.
- DTEK's Zuivska TPP implemented a pilot project to introduce the LOTO (LockOut/TagOut) safety system.
- A program for eliminating the use of asbestos and asbestos-containing materials was developed and is being implemented at DTEK's electricity generation enterprises.
- The projects "Management of Visualization Tools" and "Corporate Style of Workwear, Footwear and other Personal Protection Equipment" were implemented at DTEK's electricity distribution enterprises.
- Early 2014 marked the successful completion of a certification audit for compliance with the requirements of OHSAS 18001:2007 at Wind Power.

2014 objectives:

- Complete OHSAS certification audits for compliance with the requirements of OHSAS 18001:2007 at DTEK Krymenergo, DTEK's Dobropillia and Bilozerske mine groups, DTEK Burshtyn TPP, Dobrotvir TPP and Ladyzhyn TPP.
- Develop the standard for providing DTEK's electricity distribution enterprises with collective protective equipment, safety tools and devices.
- Develop documentation for the LOTO (LockOut/TagOut) system to be implemented at DTEK's electricity generation enterprises.
- Switch to the centralized procurement of personal protective equipment for DTEK's electricity generation enterprises.
- Introduce the Uniform Monitoring System software suite.
- Optimize the health and safety managers' appraisal system at all of DTEK's production enterprises.
- Introduce a regulation on motivating employees of the ventilation and safety units and health and safety service to exercise routing control of health and safety at all of DTEK's mine groups.

Industrial injury indicators

Compared to the previous reporting period, some industrial injury indicators went down in 2012 and 2013. However, the zero loss target was not achieved.

Industrial injury ratios

Indicator	2012	2013
Industrial injury frequency rate (LTAFR)	0.67	0.67
Fatal injury frequency rate (FAFR)	0.022	0.023

Number of industrial injury victims, headcount.

Indicator	2012	2013
Number of industrial injury victims	682	679
Including fatalitites	23	24

Main causes of industrial injuries:

- Violations of occupational and production discipline
- Violations of technological processes
- Violations of safety requirements in the operation of machines, mechanisms and equipment
- Failure to use individual protection equipment when it is available
- Violations of the safety requirements for operating mine transport equipment

On January 3, 2013, a sudden outburst of coal and gas occurred at DTEK Mine Komsomolets Donbasa, resulting in the loss of three lives. The internal investigation revealed a violation of the coal seams' outburst hazard estimate technology and incorrect classification of roadway gas content as the main causes of the accident. The roadway was not transferred in a timely manner to safer development technology (concussion blasting).

Based on the accident investigation, corrective measures were developed to prevent similar incidents in the future. These included:

- Acquisition of a state-of-the-art German laboratory to estimate the outburst hazard of coal seams when driving development workings.
- Retraining engineering and technical executives and responsible employees on programs for forecasting gas-dynamic events and operations in outburst-prone seams, including training at field-specific educational institution.
- Development of a set of measures to counteract gas-dynamic events jointly with a dedicated research institute.
- Development of new methods to forecast and counteract gas-dynamic events jointly with the National Academy of Sciences of Ukraine.

DTEK has a procedure for internal incident investigations in place. All accidents, both with and without the loss of labour capacity, are subject to internal investigations. The same applies to incidents and hazardous situations that could potentially harm human health. To inform other enterprises about investigations into accidents involving the loss of labour capacity and to prevent similar injuries in the future, enterprises prepare accident-based insights and send them out to other production enterprises.

Health and safety training

All of DTEK's enterprises have implemented a procedure for health and safety trainings, briefings and knowledge testing.
The Company's coal production enterprises, within the framework of OHSAS 18001:2007, conduct biannual off-job technological documentation trainings for their employees.
All of DTEK's coal production enterprises have an operating system of pre-shift video briefings.
In 2013, all coal production enterprises introduced a computer-aided system of training and knowledge testing based on PROTEK software. For this purpose, the enterprises of the Coal Business Unit setup computer classrooms and purchased 258 computers in 2012. More than 40,000 employees, including 60 first-tier and second-tier executives, completed trainings and tests through the program in 2013. Compared to the previous reporting period, some industrial injury rates went down in 2012 and 2013. However, the zero loss target has not yet been achieved.

DTEK's electricity generation enterprises have their own production-and-training centres that are unparalleled in Ukraine. They are outfitted with exclusive training and controlling computer software and simulators, state-of-the-art equipment and devices. The purpose of the production-and-training centres is to train employees in health and safety, fire safety and safe technological operations, and offer simulator-aided training for employees in the course of their work activities. This training system ensures the required personnel are qualified for safe and efficient operations and overhauls of power plants.

Safety Management Consultants conducted a "Leadership in Occupational Health and Safety" training for the top managers of DTEK's distribution enterprises. In 2013, the Company completed the reconstruction of DTEK Dniprooblenergo's training site (Pavlohradskiy distribution zone, village of Mezhirechi) where modern equipment was installed to teach personnel practical skills for safe operations in complex teams.

DTEK Sverdlovske Mine Group launched a process for training instructors within the framework of the strategic project "Modernization of Training at Production Enterprises" in 2013. The employees of the Sverdlovske Mine Group became internal coaches for these trainings.
The mine group conducts "Effective Mentorship" trainings involving instructors rom the Sverdlovske Mine Gorup three times a month. As of late December 2013, more than 100 people completed trainings. According to the plan, 340 employees will undergo training in 2014.

Motivation of employees' responsibility for occupational health and safety

All of DTEK's production enterprises have regulations in place as part of OHSAS that provide for material and non-material (including individual and collective) incentives to motivate personnel to comply with occupational health and safety requirements.

In 2012-2013, an improved procedure for additional incentives for successful health and safety performance was developed and implemented at the coal production and preparation enterprises.

Basic procedure principles:

- No demotivation
- Collective and individual motivation
- Various options for non-material motivation
- Collegial, transparent and unbiased allocation of funds
- Incentives

The main innovation is setting up a bonus pool to incentivise production units and to award personal bonuses to employees, calculated as 0.05% of the approved planned payroll amount.

In November 2012, Kyivenergo approved the Regulation "On Personnel Motivation System for Health and Safety". Now employeesthat take a proactive approach to the prevention of industrial injuries and improvement of the occupational health and safety system can be rewarded with family recreation vouchers, interesting trips and tickets to exciting international sporting events. Their names, activities and achievements are constantly highlighted in the Company's information bulletins.

Medical services for employees

In order to minimise the negative impact of production on employees' health, DTEK is consistently improving their working conditions, investing funds into the prevention of occupational diseases and recreation for employees and their family members, and implementing educational programs aimed at fighting serious diseases.

DTEK renders medical services to its employees through 29 health units at the Company's enterprises and nine health resorts in the regions where they operate. DTEK established the Occupational Medicine Department to ensure the centralised management of healthcare issues. This is a structural unit of the subsidiary DTEK Service that coordinates the operations of all healthcare establishments that belong to DTEK.

In October 2012, DTEK completed the development of its Occupational Medicine Strategy to 2020. The strategy provides for the following:

- creating an internal occupational medicine regulatory framework
- centralising the management of the Company's healthcare facilities
- modernising and standardising the equipment at DTEK's healthcare facilities
- upgrading material and technical resources of state-funded hospitals in the regions where the Company operates
- promoting healthy lifestyles
- providing additional training of medical personnel in line with European standards
- offering medical insurance to employees

DTEK's Occupational Medicine Strategy is expected to decrease the disease rate among the employees of the Company's enterprises, to be shown in an analysis of the disease ratein 2015, starting in 2016.

Environmental Protection

The Company actively works to improve the environmental situation in the regions where it operates and to preserve the environment for future generations.

DTEK makes serious efforts to minimise the negative impact on the environment at all stages of production process from coal mining and processing to electricity generation and transmission. These steps fully align with Ukraine's aspiration to follow European trends in environmental protection.

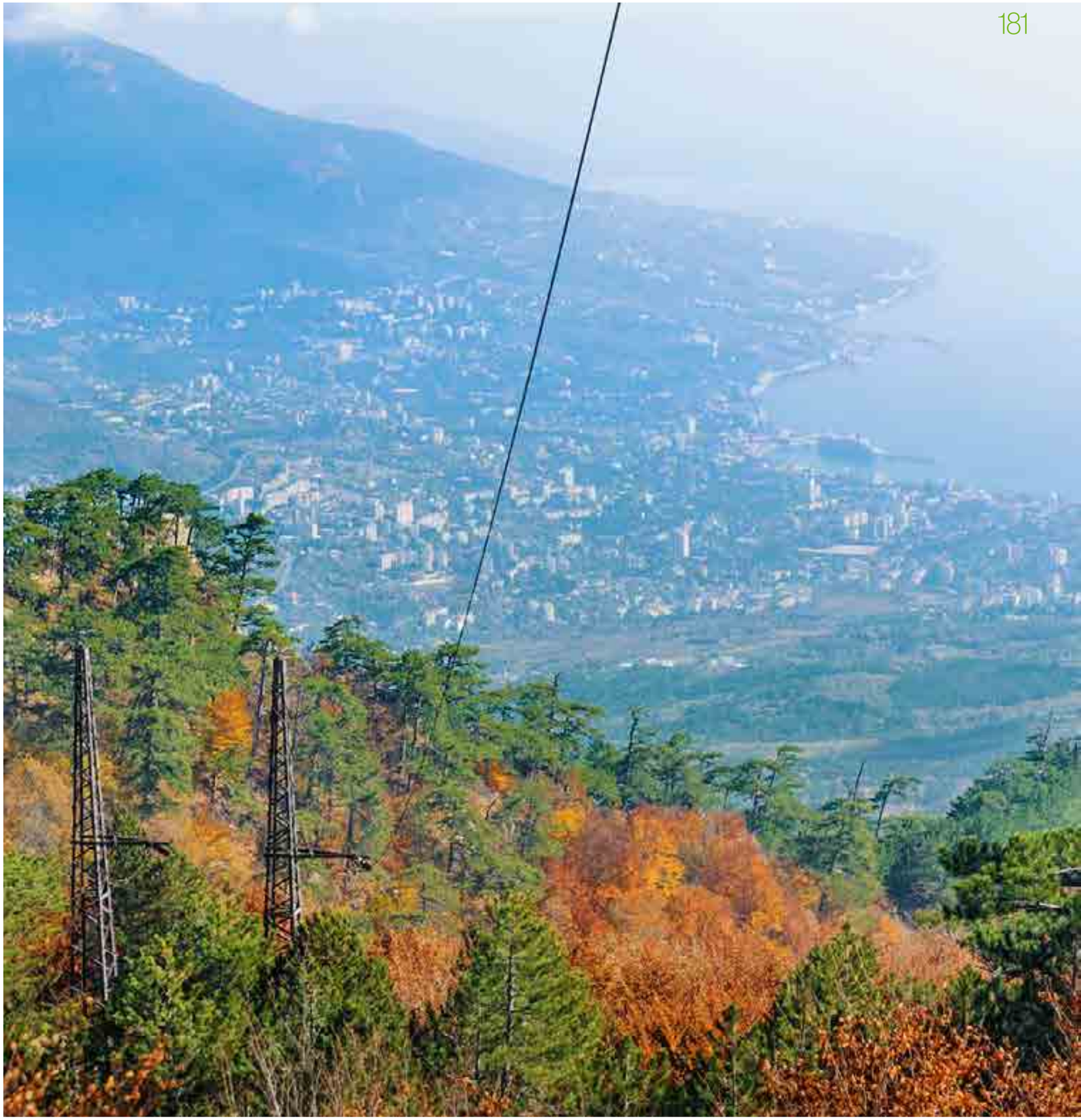
To preserve the environmental balance, DTEK modernises its production capacities to make it possible to ensure reliable power supply and conformity with European environmental standards.

Total expenses for and investment into environmental protection

USD million (net of the environmental tax) *

Year	Capital investments	Operating expenses	Other expenses	Total
2012	46	59	9.6	**114.7**
2013	46.4	65.9	9.8	**122.1**

* See Annex 2 for the scope of reporting.



Major completed projects:

- Retrofit of the dust capturing equipment resulted in a reduction in dust concentration in flue gases to meet the requirements of European Directive 2001/80/EC (no more than 50 mg/nm3) at 8 power units of DTEK's TPPs.
- In 2013, the Company participated in the preparation of the Terms of Reference for the development of the National Plan to reduce the emissions of major pollutants from large combustion plants.
- In December 2013, the Company initiated a workshop on the use of slag and ash materials from DTEK's coal-fired power plants to share knowledge and expertise in the use of ash and slag materials by coal-fired power plants.
- As part of the project on "Construction of a section of road between Zugres town and the solid household waste landfill using ash and slag from DTEK Zuivska TPP," Methodological Guidelines on the use of ash and slag materials of Zuivska TPP in road construction were developed; preparation of project design documentation was started.
- In April 2013, as part of participation in the international environmental forum "Environment for Ukraine" (Kyiv), DTEK acted as an official partner of the Ukrainian Environmental Social Advertising Contest "A new look at environmental issues", which was organized with the support of the Ministry of Ecology and Natural Resources of Ukraine.
- A project to clean the bed of the Ternivka river was accomplished.
- Construction of treatment facilities for cleaning mine water in the Kosminna gully was finished.
- A program to secure ornithological safety at electricity distribution enterprises was developed and is currently being implemented.
- In 2013, DTEK Dniprooblenergo passed through a certification audit focusing on compliance with the requirements of ISO 14001:2004.
- Auditing firm TUV SUD (Germany) confirmed the compliance of the enterprise's environmental management system with international requirements.
- 10 enterprises of DTEK passed re-certification audits.
- International auditing companies Moody International, TUV Nord Ukraine and RusInterTek confirmed that the environmental management systems of the enterprises complied with ISO 14001:2004.
- In 2013, DTEK Prydniprovska, Zaporizka, and Kryvorizka TPPs and Kyivenergo passed compliance audits. Independent auditors from Moody International confirmed that the environmental management system at the enterprises was improving and met the requirements of ISO 14001.
- The introduction of environmental management systems at DTEK Burshtyn, Ladyzhyn, Dobrotvir and Myronivska TPPs was started. Efforts to launch environmental management systems at DTEK Dobropillia Mine Group and Bilozerske Mine Group, at DTEK Donetskoblenergo, DTEK Krymenergo continue. This work is planned to be accomplished by the end of 2014.

Key challenges

With Ukraine's accession to the European Energy Community and the ratification of respective international environmental legislation, the Company faced a huge challenge: by 2018, all of DTEK's TPPs must comply with Directive 2001/80/EC on the limitation of emissions of certain pollutants into the air from large combustion plants. At the same time, any mechanisms ensuring the fulfilment of international obligations at the governmental level are not envisaged (even with available funding, not all the power units of Ukrainian TPPs will be retrofitted by 2018).

The possibility for postpoing the fulfillment of European Directive 2001/80/EC can be envisaged by the National Plan for reduced emissions of major pollutants from large combustion plants.

In 2013, DTEK participated in the preparation of the Terms of Reference for the development of the National Plan. The Company regularly participates in the work of the Energy Community's task force to meet the requirements of Directive 2001/80/EC, and has an active dialog with the Ministry of Ecology and Natural Resources and the

Ministry of Energy and Coal Industry of Ukraine on the timely fulfilment of the requirements contained in Directive 2001/80/EC by thermal electricity generation enterprises.

In 2012–2013, DTEK faced the need to ensure ornithological safety of electric equipment. This is a new issue for Ukraine. We used to have a one-sided approach focusing only on protection of electric lines and neglecting the safety of birds. Today we are taking care of the issue and cooperating with ornithologists and ecologists (for more information see 'Conservation and recovery of biodiversity').

Collection of waste and its delivery for separate disposal by type remains a problematic issue at the enterprises of DTEK.

The branched structure of DTEK's enterprises, especially that of oblenergos, as well as the dispersion of the Company's structural units geographically make the process more complicated. To solve this problem, additional tanks/reservoirs are installed for waste collection, sustainable methods for waste collection and transportation are being organised, and staff is being trained.

Approach to environmental impact assessments

DTEK's enterprises apply different types of environmental impact monitoring in accordance with the requirements of Ukrainian environmental legislation and internal corporate procedures.

In 2013, a new room was outfitted and modern equipment was bought for a specialised certified laboratory to provide services to DTEK Pavlohradska, Ternivska, Pershotravenska, Dniprovska, and the Heroiv Kosmosu Mine Groups. Once or several times per year, the laboratory's professionals control the emissions of pollutants into the atmosphere at each pollution source. The chemical analysis of mine water, and process and household waste water is made on a quarterly basis.

In 2013, as part of DTEK's centralised risk-management system, the "Regulation on the assessment and minimisation of DTEK's environmental impact" and "Procedure for the identification, assessment and analysis of environmental risks and problems" were developed at the enterprises of the Company.

In 2013, an automated system for monitoring atmospheric air in the impact area of DTEK Luhanska TPP was worked out and implemented. Two stationary points for the uninterrupted control of atmospheric air quality were established in Schastye town and one meteorological station was set up on the territory of DTEK Luhanska TPP (control over the content of solid particles, CO_2, SO_2, and NO in atmospheric air). To ensure management decision making in the field of environmental protection, the project envisaged continuous online reporting to local -government bodies and the Ministry of Ecology about the condition of atmospheric air.

Implemented environmental programs

The prevention and minimisation of the negative impact on the environment is a priority area for DTEK. The Company's long-term objectives in the area of environmental protection are declared in the Company's Environmental Policy.

DTEK upgrades its production processes to reduce environmental impact at all stages of the production chain. Key elements of environmental management are designed for that purpose:

- implementation, functioning and improvement of the environmental management system in line with the requirements of ISO 14001;
- audits of the environmental management system;
- identification and assessment of environmental risks, design of measures to manage those risks;
- development and implementation of environmental programs (annual, long-term);
- environmental impact assessments of projects, mandatory preparation of the "Environmental Impact Assessment" section;
- annual environmental training for all employees of the enterprises;
- work with the Company's contractors and suppliers, focusing on their obligations to meet the requirements of environmental legislation, etc.

Atmospheric emissions

DTEK's initiatives meet European requirements for emissions at the Company's TPPs to 2030:

- Retrofits of operational power units include the installation of unit-based and stationary desulfurisation systems of various types, hose filters as part of semidry desulfurization systems, and uncatalyzed and combined denitrification units.
- New power units that will be built will fully meet the requirements of environmental legislation.

In 2013, the following atmospheric emission reduction results were achieved:

- Retrofit of the electrical precipitators at power unit #6 of DTEK Kurakhove TPP resulted in the reduction of dust concentration in atmospheric emissions from 1,903 mg/nm^3 to 31 mg/nm^3.
- Upgrade of the wet fly-ash washers at power unit #13 of DTEK Luhanska TPP resulted in a reduction in the residual concentration of dust in flue gases from 2,300 mg/nm^3 to 50 mg/nm^3.
- Retrofit of the electrical precipitators at power unit #4 of DTEK Zuivska TPP led to a decrease in the concentration of dust in atmospheric emissions from 317.4 mg/nm^3 to 44.2 mg/nm^3.
- Revamping of the electrical precipitators at power unit #5 of DTEK Burshtyn TPP made it possible to reduce dust concentration in atmospheric emissions from 1,147 mg/nm^3 to 50 mg/nm^3.
- Startup and adjustment work at power unit #9 of DTEK Prydniprovska TPP resulted in a reduction in the dust concentration in atmospheric emissions from 1,280 mg/nm^3 to 73 mg/nm^3.
- Startup and adjustment of the new electrical precipitators for power unit #11 of DTEK Prydniprovska TPP, which were mounted in the compartment of unit #12. This made it possible to operate the power unit with residual dust concentration in the flue gases of no more than 50 mg/nm^3 (dust concentration before the upgrade was 1,230 mg/nm^3).
- Replacement of wet fly-ash washers with second generation emulsifiers at the TP-10 boiler of unit #8 of DTEK Dobrotvir TPP reduced the dust concentration in atmospheric emissions from 1,105 mg/nm^3 to 185 mg/nm^3.

In 2013, the enterprises of the Company's coal unit continued work to reduce pollutant emissions into the atmosphere and bring the quality of emissions into compliance with regulations.

The design of installations for the second stage of flue gas treatment was prepared forThe boiler houses of mining sites Zakhidno-Donbaska, Vakhrusheva, Kosmonavtiv and at the Pershotravenskyi Repair and Engineering Plant. Construction and installation work as well as the commissioning of new equipment are planned at the Zakhidno-Donbaska mine site in 2014. A project to retrofit the suction and dust collecting units at CCM Pavlohradska was designed.

In 2013, to meet the requirements of European Directive 2001/80/EC on the emissions of certain pollutants into the air from large combustion plants, the Company replaced and upgraded electrical precipitators at five power units, carried out startup and adjustment work at two power units and commenced the retrofit of the installed gas treatment equipment at three power units. Power units to be the first to introduce the first desulfurization and denitrification units were selected at DTEK's TPPs. All of the revamped gas treatment units were equipped with flue gas monitoring systems for the continuous control of atmospheric emissions.

Gross pollutant emissions into the atmosphere*, thousand tons

Year	Nitrogen oxides	Sulfur oxides	Carbon oxides	Solid particle	Total
2012	127.8	796.5	15.9	186.5	**1,126.7**
2013	136.1	785.9	15.2	153.7	**1,090.9**

* Other quantitative environmental data are given in Annex 2.
See Annex 2 for the scope of reporting.

Climate change and greenhouse gases

DTEK understands the impact of its activity on climate change and undertakes all possible measures to reduce GHG emissions into the atmosphere.

Since 2006, the Company's enterprises have implemented 13 joint implementation projects within the framework of the Kyoto Protocol. This resulted in the prevention of atmospheric emissions of over 20 million tons in CO2 equivalent.

After end of the first period of the Kyoto Protocol (2008-2012), the countries that ratified it did not make a final decision on the prolongation of the document. Therefore, projects aimed at reducing GHG emissionslost their status as Joint Implementation Projects (JI).

In light of the EU's partial waiver of emission reduction units generated as part of JI projects, as well as the low liquidity of the carbon market, the tightening of GHG emission standards in main export markets does not essentially influence decision-making on the introduction of emissions reduction projects at DTEK's enterprises.

In 2013, DTEK's employees, as participants of the task force of the State Environmental Investment Agency of Ukraine, took part in the preparation of legislative initiatives aimed at the harmonization of GHG emission monitoring and verification systems, and at the creation of an internal emissions reduction market. This resulted in a draft law that was submitted to the Cabinet of Ministers of Ukraine for further alignment and approval.

Water resources

DTEK's environmental policy sets out requirements for reducing the quantity and improving the quality of waste water discharge, and for the efficient use of water resources through the use of mine water and recycled water. To this end, the enterprises of the Company exercise continuous control over the quality of waste water, implement projects to upgrade treatment facilities, for the secondary use of waste water and process cycles, and for cleaning cooling water reservoirs from bottom deposits.

Sources of the water resources used by DTEK's enterprises

Generation Business Unit	Coal Business Unit
Seversky Donets – Donbas Dnipro – Kriviy Rih	Voda Donbassa Utility Enterprise Luhanskvoda LLC water from artesian wells
Dnipro, Seversky Donets, Western Bug, Southern Bug, Volchya, Krynka, Hnyla Lypa (left tributary of the Dniester river) rivers Kurakhove, Zuiv, Myironiv, Kakhovka water reservoirs	Production administrations for water supply and the waste water disposal sector of the cities of Dobropillia, Pavlohrad, Kirovsk, and Selydove Vodiana, Hruzska rivers, Gnilusha river pond
Kurahovske, Zuyevske, Mironovske, Kahovske water reservoirs	Vodyana, Gruzska, Gnilusha rivers
	Mine water of DTEK Komsomolets Donbasu Mine Group, DTEK Pavlohradsk Mien Group, DTEK Dobropillia Mine Group, DTEK Sverdlovanthracite, DTEK Rovenkyanthracite (for production purposes like dust suppression and in circulating the water supply of coal preparation enterprises)

Key measures to efficiently use water resources and prevent and minimize the negative impact on water resources that were implemented in 2013:

- Major overhaul of the bed of clarified water reservoir and canal of ash dump #3 at DTEK Luhanska TPP ensured the exclusion of clarified water spill underground.
- Retrofit of the clarified water pipeline from pumping station #1 to the main building of DTEK Kryvorizka TPP was completed.
- Individual water consumption and waste water discharge rates were established at DTEK's TPPs for the purpose of efficient use of water resources.
- Cleaning and deepening of the bed of the Ternivka river was accomplished with the purpose of reclaiming land areas disturbed as a result of mining operations at the Zakhidno-Donbaska mine, as well as to prevent flooding of the area.
- The condition of the river bank area was improved, which made it possible not only to improve the environmental situation, but also to create favourable conditions for local residents' recreation.
- To reduce the loss of drinking water, the electricity generation enterprises are carrying out major overhauls and replacing pipeline sections. All in all, from 2007 to 2013, rates of water consumption for households and for drinking purposes at DTEK Luhanska, Kurakhove and Zuivska TPPs reduced by 50.2% (from 2,660.7 thousand cubic meters in 2007 to 1,337.0 thousand cubic meters in 2013).
- All of the enterprises of the Company are installing metering devices and carrying out regular staff briefings for the purpose of efficient use of water resources and reliable accounting of their consumption.

To ensure optimised water consumption for production needs, the electricity generation enterprises use circulation cooling systems for their main and auxiliary equipment, circulation systems to remove hydraulic ash, and water recycling systems.

Total volume of water intake broken down by sources*, thousand cubic meters

Year	Surface water	Underground water	Water supplied by utilities and other companies	Other sources*	Total
2012	2,025,458.8	9,062.4	12,227.8	147,116.7	**2,193,865.7**
2013	2,035,081.2	6,734.1	13,600.3	134,800.4	**2,190,216.0**

*See Annex 1 for the scope of reporting.

Waste water discharge

Electricity generation

A large-scale project to retrofit the collector and drainage system for industrial and storm water runoff and for the construction of treatment facilities was implemented at DTEK Prydniprovska TPP. A reduction in the discharge of untreated industrial and storm water into the Dnipro river by 400,000 cubic meters per year is expected. This will make it possible to liquidate industrial and storm water outlet #1 and fully exclude the discharge of untreated waste water into the Dnipro river. In addition, a major overhaul and replacement of pumping equipment at the waste water treatment facilities was made at DTEK Dobrotvir TPP.

In 2013, DTEK Zaporizka TPP repaired the oil coolers in its system for turbine bearing lubrication and generator shaft sealing at power units #5 and #7, and DTEK Kryvorizka TPP replaced worn-out equipment of the oil system of the ball tube mill and crushing equipment of power units #8 and #10. The implementation of these measures will ensure the prevention of surface water body contamination with oil products.

Coal mining and preparation

- Completed construction of treatment facilities in the Kosminna gully for the efficient treatment of mine water discharged into water bodies by the enterprises of DTEK Pavlohradsk Mine Group.
- Accomplished a retrofit of the decontamination facility for mine water of the Zakhidno-Donbaska mine to prevent the discharge of untreated mine water into water bodies and its use for production purposes (dust suppression).
- Designed a project to construct bio-engineering treatment facilities at the Sverdlovsk mine to prevent the unauthorized discharge of untreated utility sewage.
- Accomplished a retrofit of a 1,854 meters long utility sewage collector from block #3 of the Zakhidno-Donbaska Mine.
- Designed a project to construct a bypass pressure header for the discharge of mine water from the Sverdlovsk mine.
- Replaced an 839.92 meters long pipeline to the slurry reservoir (second line) of Obukhivska CPP.

Waste water from DTEK's electricity distribution enterprises consists mainly of utility sewage and is discharged into the centralized sewer systems of municipal water utility enterprises.

Total discharge of industrial sewage,
thousand cubic meters

Year	Value
2012	1,640,807.3
2013	1 ,221,038.9

Waste management and land reclamation

Electricity generation

On average, the annual release of ash and slag from coal-fired thermal power plants in Ukraine is about 8 million tonnes. DTEK's TPPs account for 6 million tonnes of that. This is why increasing the use of ash and slag materials is one of the key tasks of DTEK's environmental protection policy.

At all of DTEK's TPPs, programs for the extended use of fly-ash and slag were designed for 2012-2020 and are being implemented. In 2013, provisions of the technical policy on the protection and efficient use of land and waste management, including ash and slag handling, were defined.

In 2013, as part of the aforementioned programs, DTEK started the development of design documentation for the installation of systems for dry ash collection at the power units of DTEK Kryvorizka and DTEK Zuivska TPPs. This will ensure the technical possibility for The collection and utilization of up to 150,000 tons of dry ash per year at each power unit of the TPPs. DTEK Dobrotvir and Myronivska TPPs researched qualitative parameters of ash and slag mixes, and determined the technical possibilities for ash and slag distribution.

In December 2013, at the initiative of DTEK, the workshop "Use of Ash and Slag Materials from DTEK's Coal-fired Power Plants" was held. The event was aimed at exchanging knowledge and experience, presenting ash and slag market research results, assessing the prospects for the extended use of ash and slag materials at DTEK's TPPs, and searching for cooperation opportunities, joint initiatives in the sphere, and technical solutions for installing dry ash removal systems. Representatives of DTEK's electricity generation enterprises, science and research institutes, cement and construction companies, road building companies, and international engineering groups were invited to take part in the workshop as participants and speakers.

To avoid the allocation of new land for the placement of ash and slag, DTEK's TPPs top up the dams of ash dumps. In 2013, capital investments for ash dump topping totaled USD 8 million.

In 2013, research of markets using ash and slag materials was made. As part of that research, a contract was signed with the Polish Union of Ash and Slag Material Utilization and Ekotech IP to carry out an analysis of European legislation in the field of ash and slag material utilization. In 2014, the Polish party will provide a report following their work.

Coal mining and preparation

As part of implementation of the bulk waste management program, the following projects were developed:

- project on the operation of a slag heap at the Novodonetska Mine;
- project on the creation of a slag heap and prevention of the spontaneous combustion and extinguishing of the slag heap of the Pioner Mine;
- project on extinguishing non-operational slag heap #3 of the Kosmonavtiv Mine;
- project on extinguishing fire sources at slag heaps #1 and #2 of the Vakhrusheva Mine.

Work is currently in progress to extinguish the combustion of slag heap #5 of the Tsentrospilka Mine and slag heap #1 of the Vakhrusheva Mine.

Electricity distribution

The electricity distribution enterprises of DTEK continued the work to improve their systems of selective waste collection.
In 2013, the electricity distribution enterprises additionally installed 1,057 containers for the selective collection of industrial waste.

DTEK Pavlogradske, Pershotravenske, Ternivske, Geroiv Kosmosu, Dniprovske Mine Groups continue the use of rock resulting from coal mining for reclamation of the disturbed land. In the course of 2012–2013, biological reclamation covered the area of 21.12 ha. This activity makes it possible to avoid creation of slag heaps at the majority of the coal mines.

Total volume of waste generation broken down by classes of hazard, tons

Indicator	2012	2013
1st class	31.6	39.0
2nd class	393.7	324.6
3rd class	1,442.8	1,910.5
4th class	21,597,496.7	21,475,203.4
Total	**21,599,364.9**	**21,477,477.5**

Hazardous substances and materials

Within the framework of implementing programs for the optimized use of hazardous substances and materials, DTEK's enterprises continuously work toward reducing the use of materials containing asbestos.

The enterprises in the electricity generation business unit do not use materials containing polychlorinated biphenyls (PCBs).

A promising area for reducing the use of hazardous substances and materials is the replacement of mercury-containing energy saving bulbs with LEDs and sodium vapor lamps:

- DTEK Zuivska TPP replaced mercury-containing bulbs with 49 LEDbulbs, 6 floodlight projectors, and 60 LED lamps.
- DTEK Kurakhove TPP replaced illuminators with mercury-containing lamps with 100 sodium vapor lamps.
- DTEK Power Grid and DTEK Energougol ENE installed 458 LED lamps instead of mercury-containing ones.

In 2013, DTEK Energougol ENE switched to the use of environmentally friendly phosphate free household chemicals, buying 450 kilograms of such products (manufactured in Simferopol).

Four electricity distribution enterprises (DTEK Dniprooblenergo, DTEK Krymenergo, DTEK Power Grid,and DTEK Energougol ENE) replaced 205 units of oil-filled equipment with vacuum and gas-insulated equipment, to remove the potential spilling of oil products.

Conservation and recovery of biodiversity

Tree planting

In 2012-2013, the enterprises of the coal business unit carried out the compensatory planting of 38 hectares of forest instead of forest areas disturbed by underground mining operations. The coal preparation plants regularly plant greenery at dump sites and industrial sites disturbed by mining operations.

Fish protection

DTEK's enterprises that take water from open water bodies install fish protection systems. In 2012-2013, the water intakes of DTEK Kryvorizka TPP, DTEK Zaporizka TPP and CHPP-5 of Kyivenergo were equipped with modern gradient fish protection systems. These electrical gradient systems prevent the death of fish when fish get into the water intake area, creating conditions for the protection and reproduction of fish.

Fish protection systems at the Hruzska and Vodiana rivers, the Gnilusha river pond, and at water intakes of the DTEK Kurakhove TPP, DTEK Prydniprovska TPP and DTEK Luhanska TPP to continue their efficient operations.

Bird protection

As part of Ukraine's accession to the European Energy Community in 2011, the country undertook obligations to meet Directive 79/409/EC "On the conservation of wild birds" to protect migrating bird species. In view of that, the electricity distribution enterprises continued efforts to to minimize their impact on rare bird species. DTEK Krymenergo and DTEK Power Grid installed 677 protective caps for high-voltage line insulators. This will prevent the contamination of insulators, possible emergency situations and avoid the threat of killing birds. Work started to install artificial nests for white storks.

In 2013, DTEK Dniprooblenergo installed 5 nests: 4 platforms on its 0.4 kV line and one nest was relocated to a separate electricity pylon of the 35 kV line. Cooperation with ornithologists from the Meotida National Nature Park and Azov-Black Sea Ornithological Station continues with the purpose of monitoring the impact on migrating bird flocks in Priazovia and in the Autonomous Republic of Crimea. The studies are planned to be finished in 2014.

DTEK Donetskoblenergo, following the results of targeted monitoring of the impact of high-voltage lines, determined two potentially hazardous sections of its 10 kV lines: on the territory of the Meotida National Nature Park and in Volodarskiy district of Donetsk region. Following ornithologists' advice, two pilot areas were equipped with bird protection systems for the first time in Ukraine. These systems include a polymeric hood or cover, which is put onto the insulator and nearby wires. A total of 108 such devices were installed.

Sustainable energy

Participation in national and international Initiatives

In 2012, Maxim Timchenko, DTEK's CEO, together with the chief executives of leading international energy companies (RWE, BP, Shell, Nexen, Mitsubishi, Gazpromneft, etc.), became a co-founder of the energy companies' social initiative Energy for Society. The idea of the initiative was put forward at the the World Economic Forum in Davos.

The official document containing a code of voluntary principles that energy companies must adhere to was signed by DTEK and 20 other signatories in March 2012.

- **Secure and Affordable Access to Energy Principle:** we aspire to provide secure and affordable access to energy to meet the needs of a growing world population. We wish to do so in cooperation with governmentsand civil society, who grant the license to operateand ensure regulatory predictability to sustain energy investments.

- **Efficient Energy Systems Principle:** we seek to efficiently produce, transport and deliver energy and to promote more effective demand-side management while minimizing undesirable impact on the environment and climate, always taking into consideration the consequences for posterity.

- **Responsible Citizenship Principle:** we aim to deepen our understanding of societal needs and aspirations and act as a responsible corporate citizenand constructive partner by engaging with civil society and governments in a collaborative and transparent way.

- **Contribution to Economic Development Principle:** we help to drive economic growth, employment, development and innovations in the societies in which we operate, with special focus on strengthening communities related to energy sector operations.

- **Promoting Energy Literacy Principle:** we promote energy literacy and fact-based policy, supported by robust and objective data.

The presentation and communication of the key principles of interaction between the energy sector and society was made on September 11, 2012 as part of the annual meeting of the World Economic Forum in Tianjin (Summer Davos).

In 2012, Rio de Janeiro hosted the UN Sustainable Development Conference where a global task for the next 20 years was put forward — to ensure access to electricity for 1.4 billion people that do not have such access today. Electricity supply services must be reliable, affordable and environmentally friendly as much as possible. The corporate forum within the framework of the conference included a meeting among Ukrainian companies, civil society organizations and media, where the key focuses of sustainable business development in Ukraine were presented.

Reliability of electricity supply

The main focus of DTEK in ensuring reliable electricity supply is investments in the modernization and repair of energy facilities, technical re-equipment and construction of new substations, and the upgrading and construction of electricity transmission lines.

The total investments in efforts to ensure the reliability of the electricity distribution business unit of DTEK in 2012-2013 amounted to USD 197 million.

In 2013, DTEK Donetskoblenergo finished the construction of and commissioned electrical substation (SS) 110 kV Gorod-11 in Mariupol (Donetsk region). The new substation is equipped with two power transformers with a total capacity of 80 MW. The main equipment, provided by leading international manufacturers ABB and Siemens, will raise the reliability and level of the substation's operation in standard and emergency modes and during peak loads. To provide electricity to the substation, two 110 kV cable lines with a total length of over 6 kilometers were built. A SCADA information and control system was also installed and put into operation.

Another good example is the Dzherela-35 substation of DTEK Dniprooblenergo, which was built over a period of four months. The new substation provides electricity for consumers of Novomoskovsk in Dnipropetrovsk region, and a repair and production base for DTEK Dniprooblenergo. The Dzherela-35 substation consists of three modules (separate rooms). To sustain the stable operation of the substation, it is necessary to strictly observe temperature regimes, which is why every module is equipped with systems for heating, air conditioning and forced ventilation. Special filters prevent the penetration of dust inside the modules and microprocessor controllers maintain climatic parameters. The substation is equipped with fire and security alarms, and automatic exterior lighting. Investments in the construction of the substation amounted to USD 2.9 million.

In 2012–2013, total investments into ensuring the reliability of DTEK's electricity distribution business unit amounted to

USD 197 million

The New Gorod-11 substation is not just a European-level innovative power supply system. It also meets the highest requirements in the field of safety and environment. It provides for reliable and uninterrupted power supply to consumers in Mariupol, which is one of the focuses of DTEK's client-oriented policy. Investments into the project amounted to more than USD 6.5 million.

Energy saving and energy efficiency

To concentrate expertise in energy saving and energy efficiency for building the energy management system and creating an energy services centre, an Energy Efficiency Task Force started to work in October 2012.

The key tasks of the group:

- building the energy management system in DTEK;
- creating a package of energy services for DTEK's enterprises and customers.

Implementation of pilot projects to introduce energy management systems started at 10 enterprises. In 2013, DTEK carried out a detailed energy audit of 4 mines, 3 coal preparation plants and 3 thermal power plants.

This resulted in identifying opportunities for improving the energy efficiency of high-power electric motors by installing adjustment systems (forced-draft fans, pumps), cost cutting through the optimization of process equipment's operation (unloading of coal at TPPs, coal mines' water drainage and ventilation systems), and introducing and upgrading accounting and control systems with integration into the general enterprise management system. Following the results of the energy audit, 163 measures for reducing energy consumption were proposed with an effect of USD 69.2 million per year and payback period of 5 years.

To introduce energy management systems at the Company's production enterprises, much attention was given to training. DTEK, togetherwith the National Technical University Kyiv Polytechnic Institute worked out a training course for energy managers. DTEK's costs for training the pilot group will amount to USD 16,264.

DTEK Dniprooblenergo has extensive experience in the construction of high-tech energy facilities. The commissioning of the new substation made it possible to reduce losses in distribution networks and raise energy efficiency.

The commissioning of the new substation made it possible to reduce losses in distribution networks and raise energy efficiency.

USD 62.6 million

In the course of the energy audits, mid-term target programs for improving energy efficiency were developed. The highest priority programs will be implemented as early as 2014.

The Company also carried out a comprehensive energy audit of all DTEK's electricity distribution enterprises using in-house specialists. The total potential for reducing electricity losses in DTEK's distribution companies is estimated to be at the level of USD 62.6 million. Building an efficient system for procuring metering devices alone can produce savings of about USD 37.5 million. The priority for purchasing metering devices was given to smart-meters that allow cutting regional electricity distribution companies' costs for maintenance, provide confidence to consumers of the accuracy and reliability of the readings, and make the procedure of settlements for consumed electricity easier.

Innovation

The Company continues to invest into the maintenance and development of coal mining. Coal is a traditional energy resource in Ukraine and the only fuel type that the country can 100% provide for itself for a period of 400 years. All around the world, coal mining companies are working on raising the safety and environmental friendliness of coal-based energy production.

Within the framework of the 2013 World Mining Congress. in Montreal (Canada), the research paper "Substantiation of selective coal mining technology application for flat-laying seams with thicknesses of 0.5-0.8 meters" was presented. The work was prepared by DTEK's managers (A. Smirnov and Yu. Cherednichenko) and scientists from the National Mining University (V. Bondarenko) that the company has been cooperating with for many years. The Congress brought together more than 1,000 participants from more than 60 countries. The coal industry was an important topic for various sections of the Congress. Many countries with developing economies consider coal an important source for electricity supply. That is why the topic of coal mining from thin and ultrathin coal seams that is being developed by DTEK, is relevant for many countries, including China, India and Vietnam.

Wind power

DTEK is actively developing into the green energy space and increasing the share of renewable energy sources is a strategic priority for the Company. Today, DTEK is focusing on the development of the wind power segment coordinated by its subsidiary Wind Power. The current portfolio of its projects in Zaporizhya and Donetsk regions includes two wind parks with a total nominal capacity of about 1.2 GW.

The Botievo Wind Farm is the highest capacity and most modern wind power plant in Ukraine and DTEK's first project in the green energy space. In 2012, construction of the first phase of the Botievo Wind Farm was accomplished (92.25 MW). The Company installed 30 Vestas V112–3 MW wind turbines with a unit capacity of 3.075 MW. In 2013, installation of the wind turbines as part of the plant's second phase was finished. This included 35 Vestas V112–3 MW turbines to bring the farm's total capacity to 107.625 MW. Full commissioning of the wind turbines of the wind farm's second phase was accomplished in April 2014.

Wind power is our contribution to the security of electricity supplies and the environment of Ukraine. The environmental effect from the operation of the Botievo Wind Farm is expressed in the annual reduction of atmospheric emissions equivalent to 730,000 tons of CO, which corresponds to the emissions from 365,000 cars on the roads of Ukraine every year.

In 2013, the Botievo Wind Farm studied the level of noise, infrasound, electromagnetic emissions near the foundation of its wind turbines, at distances of 10 and 500 meters, and at the work places of the wind farm's staff. The levels of noise, infrasound, and electromagnetic emissions were within the limits of admissible values.

In 2013, Wind Power completed the study of the Botievo Wind Farm's impact on birds and bats, confirming safety of modern wind turbines to their lives. This study at the operatin wind farm was the first of its kind in Ukraine. According to data from the year-round monitoring, the impact of the Botievo Wind Farm's wind turbines on birds and animals is estimated as low. Environmentalists applied an integrated approach to assess all environmental impact factors.

The Botievo Wind Farm is one of the five largest wind power plants in Central and Eastern Europe.

Environmental effect from the operation of the Botievo Wind Farm is expressed in the annual reduction of atmospheric emissions equivalent to

730
ths. tons of CO_2

Smart Grids* Technology

into improve the efficiency and controllability of networks and the quality of electricity, the Company is actively introducing Smart Grid principles.

Objectives of DTEK's distribution enterprises in the area of Smart Grids to 2030

2015–2020	2020–2030
Introduction of basic Smart Grid components: • Smart Metering • Building an automated system for commercial accounting of electricity (ASCAE) consumed by household users • Teleautomation of dispatch centers, 35-110/150 kV substations and 6–10 kV transformer and distribution substations.	**Full-scale deployment of Smart Grids**

DTEK Dniprooblenergo started to introduce an integrated automated system of dispatch control (ASDC) in 2012. This system combines an online scheme for networks of all voltage levels with data of existing automated systems for settlements with consumers. This ensures the minimization of time for repairs, elimination of interruptions in electricity supply and for informing customers about outages.

Today, ASDCs operate in 19 districts of DTEK Dniprooblenergo's power grids. 100 % teleautomation will be made by the enterprise in 2014. The full introduction of the new system will automate the work of dispatchers as much as possible, making it possible to carry out online control over 35–150 kV substations, effectively distributing loads to avoid emergency outages.
In 2013, DTEK Dniprooblenergo allocated over USD 8 million to purchase, introduce and replace dispatch and technological control facilities.

* Advanced power supply grids that use information and communication networks and technology to collect information about electricity output and consumption, making it possible to automatically improve efficiency, reliability, economic benefits, and the sustainability of electricity generation and distribution.

A modern video wall consisting of 15 video monitors was installed in the new online dispatch control center in Kriviy Rih. It is a part of SCADA, a dispatch control program that allows for online controlling the operation of substations. The video wall displays online data and shows immediate alarms to dispatchers in case of any faults. The dispatchers, in turn, can promptly inform maintenance and repair staff to send electrical fitters to the site to eliminate faults and failures. Dispatchers can learns about any faults in equipment from the ASDC and can inform affected consumers about the approximate time needed to restore electricity supply.

Client-oriented approach

DTEK's enterprises responsible for the transmission and supply of electricity continuously focus on improving the quality of power supply and on providing better quality services raise customer satisfaction and earn clients' loyalty as an efficient partner for corporate and household clients.

Currently, DTEK's distribution companies offer the following package of services:

- telephone hotline;
- customer service centers (CSC);
- information and consulting centers;
- official company websites for clients;
- Personal Cabinet Internet resource;
- customer feedback books..

DTEK aspires to become a client-oriented company that is easy and comfortable to work with. To improve the quality of provided services, to make them as modern and convenient as possible, the Company is investing into the development of its network of Client Service Centers. In particular, in 2013, the first CSCs were opened by DTEK Dniprooblenergo and DTEK Donetskoblenergo. At these centers, single contact points were created for solving problems associated with customers' personal issues with the branches of regional electricity distribution companies. RES/ROE (electrical network utilities/power supply utilities) business processes were reorganized to ensure the acceptance of all clients issues and requests to CSCs to minimize the time for processing/handling and time for servicing, given the necessary level and quality of the performed work or provided service.

In addition, DTEK is working to introduce a single corporate Contact Center for distance communications with clients (telephone, SMS, e-mail, and social networks) and separate websites for clients. To track relationship history with customers, DTEK plans to introduce a modern CRM system.

Arrears

The question of debts for electricity consumed by utility enterprises remains just as pressing as before. DTEK is ready to continue to search for solutions to this problem jointly with the utility enterprises and local authorities.

Safety

One of the aspects in the program to develop client-oriented businesses at DTEK's enterprises is information and communication work with residents, focusing on the safe use of electric appliances. In 2012-2013, to prevent residential electricity-related injuries, the Company implemented the following measures:

- Letters about the organization of electrical safety lessons were sent to local educational departments and schools.
- Telephone numbers of on duty enterprise dispatchers were sent to municipal executive power authorities.
- Information on the prevention of injuries associated with electricity was covered in mass media on a monthly basis.
- Schedules of electrical safety lessons with illustrative presentation materials were made and aligned with educational departments to be held in preschool and secondary educational institutions.
- The opposite side of printed electricity bills contains text information on the risks of electric shocks and the telephone numbers of dispatch centers for electricity distribution utilities.

Assessment of customer satisfaction

In 2013, to receive feedback and find areas for improvement, DTEK jointly with GfK carried out a customer satisfaction survey.

The objectives of the survey included:

- analyze the level of satisfaction among household and corporate consumers of DTEK Krymenergo, DTEK Donetskoblenergo and DTEK Dniprooblenergo in the area of electricity distribution and consumer services;
- develop a program to improve customer services and the quality of service
- monitor these performance indicators on an annual basis.

In all, about 500 household consumers and 100 corporate clients of DTEK Donetskoblenergo, «DTEK Dniprooblenergo and DTEK Krymenergo were polled in the course of the survey. This sample group was representative, with an analytical margin of error of less than 3%.

Most importantly, it should be noted that after studying European countries, it became clear that the expectations of clients remain very low, almost equal to the time when the market began. That is why DTEK is doing these surveys to measure the current level of customer satisfaction, but also to ensure a level of service that meets client expectations following liberalization of the market. Our main value is customer loyalty, which, among other things, is built upon their satisfaction with the services of the Company and the quality of customer care.

Household consumers

The general level of the customer satisfaction for DTEK Dniprooblenergo was 84%, while for DTEK Donetskoblenergo and DTEK Krymenergo it was 80%.

All three companies (DTEK Dniprooblenergo, DTEK Donetskoblenergo and DTEK Krymenergo) consider uninterrupted service and the absence of electricity distribution outages as top priority factors. The satisfaction of customers with respect to this factor was 15–20%.

The priority for improvement in all regions is stability in the voltage level. This aspect is of special importance to the customers ofDTEK Donetskoblenergo. In Crimea, more attention should be paid to communicating information: 37% of respondents thought it was not easy to receive information about changes in tariffs, and this aspect is of special importance for them.

89% of clients were satisfied with the quality of service offered by DTEK Dniprooblenergo, compared to 83% of customers of DTEK Donetskoblenergo and 84% at DTEK Krymenergo. The factors that influence the level of satisfaction in the quality of service differed the most from region to region. In Crimea, the priority was the communication of information. In Dnipropetrovsk, many clients were dissatisfied with the untimely communication of information on changes in tariffs and with the incomprehension of the tariff setting system. These factors are priorities now for improvement in these regions.

In Donetsk, an important factor that affects satisfaction with the quality of service is the process of debt settlement. However, it should be note that the issue of debts was only named by 16% of respondents. Another crucial factor was the correct operation of metering devices. The share of respondents dissatisfied because of this aspect did not exceed 10%.

Legal entities

Enterprises in Donetsk region showed the highest level of general satisfaction (77% for small, medium size and large companies). The satisfaction of small and medium size enterprises, and consumers of DTEK Dniprooblenergo and DTEK Krymenergo was 72-73%. The lowest assessment score for an electricity distribution company was given by large companies in Crimea, whose level of satisfaction was only 60%.

The factors that most influenced the satisfaction of corporate customers about the quality of service differed from region to region. In Dnipropetrovsk region, of highest importance was the competence of employees and their readiness to help, in addition to simplicity in the collection of necessary documents for concluding contracts and the Company’s readiness to give consultations and clarifications concerning the package of documents. In Crimea, clients found it important to receive services promptly.They also valued the Company’s readiness to give clarifications on the package of documents for concluding contracts and the procedure for doing that.

In Donetsk region, an important factor that influenced satisfaction with the quality of service was the readiness of the company’s employees to provide consultations by phone without the need for personal visits and the solution of issues in only one visit, as well as clear conditions and procedures for executing contracts.

In general, the survey uncovered some areas for improving services, showed what factors to focus on and where to concentrate resources so that DTEK’s electricity distribution enterprises become more client-oriented.

Appendix 1

About the report and the nonfinancial reporting process

This report, including the Sustainable Development section (hereinafter referred to as the report), reflects the activities undertaken by DTEK Group in the sustainable development sphere in the 2012 and 2013 calendar years (from January 1 to December 31 of each year), and some events in 2014 that are directly connected to the Company's activities in 2012-2013 or that are important for understanding sustainable development objectives.

This report is the Company's fourth nonfinancial report. The previous report was issued in January 2013 and contained information about DTEK's activities in 2010 and 2011. The Company has a two-year nonfinancial reporting cycle.

The report was prepared using:

- some metrics of the Electric Utility Sector Supplement of Sustainability Reporting Guidelines by the Global Reporting Initiative (GRI);
- some indicators of the Mining and Metals Sector Supplement of GRI;
- recommendations for reporting achieved progress in the UN Global Compact ;
- contents of the Leadership Program in corporate sustainability under the UN Global Compact.

GRI compliance level

	C	C+	B	B+	A	A+
Self-declaration			+			
Thirdparty review						
Review by GRI						

Scope of reporting

This report reflects the scale of DTEK's activity, its approaches to management and interaction with stakeholders, its economic and environmental performance indicators, human resources and public relations performance indicators,and client-oriented activities.

The structure of the Company is presented in About the Company section on page 29. Nonfinancial reporting includes quantitative indicators and qualitative (descriptive) elements about DTEK's business areas and its subsidiaries that have the most significant effect on the economy, environment and social aspects of the Company's presence in regions of Ukraine.

Organizational limits of nonfinancial r eporting:

1. Electricity generation

DTEK Skhidenergo LLC, including:
- DTEK Kurakhive TPP
- DTEK Luhanska TPP
- DTEK Zuivska TPP

DTEK Dniproenergo, including:
- DTEK Kryvorizka TPP
- DTEK Zaporizka TPP
- DTEK Prydniprovska TPP

DTEK Zakhidenergo, including:
- DTEK Burshtyn TPP
- DTEK Dobrotvir TPP
- DTEK Ladyzhyn TPP

2. Electricity distribution and sales

DTEK Power Grid
DTEK Donetskoblenergo
DTEK Energougol ENE
DTEK Dniprooblenergo
DTEK Krymenergo (starting from 2013)
Kyivenergo

3. Coal mining and preparation

DTEK Pavlohradugol, including:
- Ternive Mine Group
- Pavlohradsk Mine Group
- Heroiv Kosmosu Mine Group
- Dniprovske Mine Group
- Dniprovske Mine Group
- Pershotravensk Mine Group

DTEK Dobropolyeugol, including:
- Dobropillia Mine Group
- Bilozirska Mine Group

DTEK Sverdlovanthracite, including:
- Chervonyi Partyzan Mine Group
- Svedlovsk Mine Group
- Sverdlovska CPP

DTEK Rovenkyanthracite, including:
- Rovenky Mine Group
- Yasynivskyi Mine Group
- Komendantska CPP

DTEK Mine Komsomolets Donbasu
Kurakhivska CPP
DTEK Oktyabrska CPP
DTEK Dobropilska CPP
Mospinska CPP

For Wind Power, DTEK Power Grid, and Naftohazvydobuvannya mostly qualitative (descriptive) information is provided. Data for these companies is not consolidated in the quantitative GRI indicators. Some quantitative GRI measures for DTEK LLC are given in the Our Employees section.

Quantitative and qualitative data for DTEK Krymenergo were consolidated in GRI's indicators starting from 2013 since DTEK increased its share in this Company in mid-2012.

The scope of sustainable development reporting does not include companies located on the territory of the Russian Federation.

Reasons for excluding organizations from the scope of reporting

In 2012, preparation was made to consolidate data on DTEK Krymenergo. DTEK Krymenergo is an associated company that became part of DTEK in June 2012. Data on DTEK Krymenergo for 2013 is given in full.

In addition, the scope of reporting does not include DTEK Corporation, Tehrempostavka LLC, Pershotravenskyi Repair and Engineering Plant LLC, Ekoenergoresurs LLC, DTEK Power Grid LLC, DTEK Trading LLC, Power Trade LLC, DTEK Oil and Gas LLC (the effect of these organizations is minor or the data is not consolidated in GRI indicators). The geographical boundaries of the reporting does not include companies operating outside of Ukraine (management companies DTEK Holdings Limited, DTEK Finance Plc, DTEK Investments B.V., DTEK Finance B.V., DTEK Hungary Power Trade LLC, and Public Mining Corporation Obukhovskaya).

Essential topics

To assess the relevance of topics for the purposes of nonfinancial reporting, DTEK relie on the principles of appropriateness and relevance in terms of their context in Ukraine. Following an audit of informational materials from media sources, a study of the social climate at the enterprises of DTEK, review of the contents of nonfinancial reports from leading energy companies, the contents of dialogues with stakeholders organized by DTEK and SCM Group, the following essential topics (based on an expert assessment by DTEK's management) were determined for the report:

Context	Low relevance	Medium relevance	High relevance
International	● Advantages of various types of tariffs for consumers ● Safety of the grid infrastructure for residents ● Scientific research and studies of relations with contractors	● New philosophy: socially and client-oriented energy ● Promotion of responsible energy consumption ● Combined use of various fuel types, development of RES ● Investment into new technologies	● Modernization power systems and restoration of key assets (Eastern Europe) ● Energy efficiency, reduction of pollutant emissions, reduction of GHG emissions ● Relations with clients ● Management of impact
Ukraine	● Risk of Ukrainian market monopolization by DTEK ● Conservation of biodiversity	● Improvement of the environmental monitoring system Necessity of national the Sustainable Development Strategy ● Partnerships with NGOs ● Waste management to full waste disposal ● Development of social entrepreneurship	● DTEK's strategy areas ● Raising the living standards for residents in the cities where DTEK operates ● Workplace safety for miners ● Remuneration system at DTEK's enterprises ● Quality of education and healthcare services

The ● sign indicates topics presented in this report (different scopes).

Calculation of performance indicators

The sources of data are official reporting forms that are provided annually to government statistics bodies. Some indicators are collected and calculated in line with internal reporting forms that are verified by the responsible representatives of the companies as part of internal audit procedures.

Data on greenhouse gas emissions only include direct emissions of greenhouse gases. Currently, SCM Group does not calculate the volume of indirect greenhouse gas emissions due to their low relevance compared to the volumes of direct emissions.

To calculate the personnel turnover rate, the average listed number of full time employees was used. To calculate the ratio of the average monthly salary at the Company's enterprises (EC5), the total listed headcount for all the assets (mines and auxiliary facilities, etc.) was used. Within this indicator, the average monthly salaries at the Company's enterprises are compared year-on-year.

A detailed description of indicator calculation methodology was provided in the DTEK Group's Sustainable Development Report for 2008-2009.

Appendix 2

DTEK's quantitative performance indicators

Economic indicators

DTEK's economic performance indicators are given in the Industry Review and Performance Results sections of this report, as well as in the Consolidated Financial Statements section.

Environmental indicators

Specific emissions of pollutants into the atmosphere, tons per 1 ton of manufactured product

Business unit	Specific atmospheric emissions, tons per 1 ton of produced coal		Specific atmospheric emissions, tons per 1 MW of supplied electricity		Specific atmospheric emissions, tons per 1 ths. Gcal of supplied heat	
	2012	2013	2012	2013	2012	2013
Electricity generation	–	–	0.02308121	0.02202481	0.62664000	0.40123461
Coal mining and preparation	0.00334957	0.00359434	–	–	–	–

Gross greenhouse gas emissions, thousand tones

Year	Methane	Carbon dioxide (CO_2)	Nitrous oxide (N_2O)	Total	In CO_2 equivalent
2012	190.1	56,454.0	0.785	56,644.8	60,688,428.62
2013	209.6	57,887.2	0.827	58,097.6	62,545,708.56

Specific emissions of atmospheric pollutants, tons per 1 ton of yielded product

Business unit	Methane		Carbon dioxide (CO_2)		Nitrous oxide (N_2O)	
	2012	2013	2012	2013	2012	2013
Electricity generation	0.00033	0.00033	0.99044	1.09730	0.00454	0.00469
Coal mining and preparation	0.06981	0.06647	0.06011	0.06981	0.00129	0.00165

Pollutant contents in waste water, ton

Year	BOD [2]	Oil products	Suspended substances	Dry residues	Chlorides	Sulphates	Ammonium nitrogen	Total iron	Nitrates
2012	635.8	15.4	3,333.8	213,610.4	51 ,719.4	74,814.3	76.2	31.5	711.8
2013	514.2	36.1	2,874.11	377,475.4	141 381.4	71,667.7	35.0	33.9	307.7

Total volume of reused water, ths. m^3

Year	Indicator
2012	9,488 611.38
2013	10,097,991.12

Total volume of water consumption for internal needs broken down by source, ths. m^3

Year	Total	Surface water	Underground water	Water supplied by water utilities and other enterprises	Other sources*
2012	2,045,585.4	2,017,998.0	6,001.5	6,302.2	15,283.7
2013	2,058,742.1	2,027,718.4	4,505.8	11,335.9	15,182.7

Waste management methods

Indicator	2012	2013
Disposal volume	16,550,538.3	17,060,455.9
Transferred to external organizations	2,507,129.2	2,377,419.5
Volume of recovered, recycled waste	2,367,959.6	2,634,109.3
Total	**21,425,627.2**	**22,071,984.8**

Land reclamation, ha

Year	Area of land to be reclaimed at beginning of the year	Area of land to be reclaimed at year-end	Area of land to be reclaimed in the reporting year
2012	421.47	411.27	10.20
2013	434.19	423.27	10.92

Land reclamation plans, ha

Year	Area of land plots where restoration of biodiversity is needed, at year-end			Area of land plots for which the Company has specific plans for biodiversity restoration, at year-end		
	1	2	3	1	2	3
2013	–	416.7	–	–	10.0	–

1 – owned; 2 – leased; 3 – in use for production purposes.

Safety

Injury rates

Indicator	2012	2013
Lost time accident frequency rate (LTAFR)	0.67	0.67
Fatal accident frequency rate (FAFR)	0.023	0.024

2012 r.: *excluding DTEK Krymenergo.*
2013 r.: *including DTEK and DTEK Krymenergo; excluding Wind Power, Sotsis and Naftohazvydobuvannya.*

Occupational diseases

Indicator	2012	2013
Occupational disease frequency rate	0.98	1.08
Lost day rate	22.53	17.86

2012 r.: *excluding DTEK Krymenergo.*
2013 r.: *including DTEK and DTEK Krymenergo; excluding Wind Power, Sotsis and Naftohazvydobuvannya.*

Personnel

Personnel turnover rate

2012	2013
4.77	6.12

The indicator is given within the scope of reporting. The personnel turnover rate was calculated according to internal management reporting since it allows for more detailed accounting of the reasons for employee outflow and more accurate receipt of turnover data *(for example, to take into account the migration of employees inside DTEK Group's enterprises). 2012 data does not include DTEK Krymenergo.*

Listed headcount as of 31 December of each year, people

2012	2013
112,280	111,182

Data is given for key enterprises within the scope of reporting, not including subsidiaries.

Average work period at electricity enterprises for employees that left the organization during the reporting year

Year	Total number of employees that left the company, people	Women, people	Men, people	Aged under 30, people	Aged 30 to 50 years old, people	Over 50 years, people	Worked in the Company less years old. than 1 year, people	From 1 to 5 years, people	Over 5 years, people
2012	9,293	3,480	5,813	1,677	3,713	3,903	1,255	2,325	5,713
2013	9,285	3,537	5,748	1,830	4,053	3,402	875	2,360	6,050

2012-2013 data is given for electricity generation, distribution and supply companies within the scope of reporting.

Energy saved as a result of energy efficient measures

Year	Electricity, ths. kWh	Heat		Fuel resources	
		Gcal	GJ	TFOE	GJ
2012	130,027.64	41,819.63	175,224.23	33,452.95	980,425.68
2013	106,392.07	27,833.75	116,623.40	71,402.38	2,92,632.41

Staff structure by categories, people

Year	Staff category		Age, years old			Gender	
	Managers, specialists, officers	Workers	under 30	30–50	over 50	men	women
2012	27,000	85,280	31,524	58,405	22,351	82,879	29,401
2013	32,267	94,548	30,556	69,184	27,175	92,318	34,597

Source: management reporting. data.
2012 data is given for key enterprises that are covered by the scope of reporting, not taking into account subsidiaries
2013 data is given taking into account subsidiaries of enterprises that are covered by the scope of reporting.

Structure of management bodies* broken down by age and gender, people

Year	Headcount of management	Age, years old			Gender	
		under 30	30–50	over 50	men	women
2012	180	4	94	82	163	17
2013	162	5	88	69	146	16

** Management bodies include the chief executive officer, directors, and members of the Management Board (including committees).*

Number of training and qualification improvement sessions

Year	Total number undergoing trainings	Including			
		internal		external	
		engineering and technical staff	workers	engineering and technical staff	workers
2012	73,389	19,392	4,1211	9,796	2,990
2013	79,576	21,458	40,341	14,120	3,657

2012 data includes DTEK LLC. 2013 data includes DTEK LLC and DTEK Krymenergo.

Direct use of energy, including indication of its primary source

Year	Natural gas, GJ	Oil fuel, GJ	Coal, GJ	Coking, coal, GJ	Gasoline, GJ	Diesel fuel, GJ	Total	
							GJ	TFOE
2012	106,137,720	1,482,141	550,114,580	5,595	6,197,151	4,483,378	668,420,565	22,807,073
2013	94,372,356	1,394,760	555,742,117	1,926	564,105	1,123,786	653,199,051	22,287,702

Notes on all tables

2012-2013 data is given for enterprises that are covered in the scope of this report. For more details, please see Appendix 1 "About the Report and the Nonfinancial Reporting Process." The exception is DTEK Krymenergo: the quantitative data for this organization is included starting from 2013.

Appendix 3

Table of standard reporting elements

and indicators of Sustainability Reporting Guidelines by the Global Reporting Initiative (GRI) and UN Global

Standard reporting elements, part I: organizational profile

Reporting elements UNGC Principles/ Criteria	Description	Extent of indicator coverage	Reference to additional information sources/Direct answer	Reason for non-disclosure	Explanation/Reference to information in the report
1. Strategy and analysis					
1,1	Statement from the most senior decision-maker of the organization	Fully covered			Statement from the Chairman of DTEK's Supervisory Board, page 2 Statement from the Chief Executive Officer of DTEK, page 4
1,2 Criteria 1, 2, 4	Description of key impacts, risks, and opportunities	Partially covered	www.dtek.com/library/file/dtek-strategy-20-rus-1.pdf		About the Company, page 8 Sustainable development, page 132 Society, page 145
2,1–2,10 Criterion 22	**2. Organizational profile**	Fully covered	Official website of DTEK, annual reports		Production capacities of DTEK's power plants, page 90 Key operating indicators of DTEK's TPPs, page 89
EU1	Installed capacity, broken down by primary energy source and by regulatory regime	Fully covered			
EU2	Net energy output broken down by primary energy source and by regulatory regime	Fully covered			
EU3	Number of residential, industrial, institutional and commercial customer accounts	Partially covered			DTEK Energogol ENE: as of 01.01.14, number of contracts is 27,046, including household consumers – 25,390, legal entities – 1,656
EU4	Length of above and underground transmission and distribution lines by regulatory regime	Fully covered			Profile of distribution enterprises of DTEK, page 97
EU5	Allocation of CO2e emissions allowances or equivalent, broken down by carbon trading framework	Fully covered	In view of the Kyoto Protocol's suspension since 2013, the adaptation of joint implementation projects implemented at DTEK Group enterprises is only possible after the adoption of new rules for the Kyoto Protocol and the introduction of respective changes to national legislation covering joint implementation projects. Overall, DTEK implemented 13 such projects in 2006-2012 with a total emission reduction of 20 million tons in CO2 equivalent.		
Criteria 23, 24	**3. Report parameters**				
3,1–3,3, 3,5–3,8	Fully covered	Fully covered			Appendix 1
3,4	Contact point	Fully covered	http://www.dtek.com/ru/corporate-social-responsibility/csr-contacts		Company website
3,9	Data measurement techniques and the bases of calculations	Fully covered			Appendix 2, comments on indicators
3,10	Explanation of the effect of any re-statements of information	Fully covered			No any re-statements were made
3,11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	Fully covered			Appendix 2, comments on indicators
3,12	Table identifying the location of the Standard Disclosures in the report	Fully covered			Appendix 3
3,13	Policy and current practice with regard to seeking external assurance for the report	Fully covered			This report is a GRI level self-declaration,DTEK's previous nonfinancial reports were subject to independent third-party review

Reporting elements UNGC Principles/ Criteria	Description	Extent of indicator coverage	Reference to additional information sources/Direct answer	Reason for non-disclosure	Explanation/Reference to information in the report
Criterion 3	**4. Governance, Commitments, and Stakeholder Engagement**				
4,1	Governance structure of the organization, including key committees under the Board of Directors	Fully covered	www.dtek.com/library/file/dtek-strategy-20-rus-1.pdf		Corporate governance, page 118
4,2	Indicate whether the Chair of the highest governance body is also an executive officer of the Company	Fully covered			No, the chair is not
4,3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members	Fully covered	http://www.dtek.com/ru/about-us/corporate-governance/supervisory-board		The Supervisory Board of DTEK Holdings B.V. includes 7 directors, three of which are independent
4,4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Fully covered			Key mechanisms did not change compared to the previous report and include: – negotiations with trade unions on collective agreements; – corporate conferences; – study of the psychological climate in teams of employees; – meetings with senior management as part of safety audits; – participation in DTEK Academy programs; –telephone hot line
4,5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance)	Partially covered			The linkage is established through the assessment of achieved strategic goals and KPIs
4,6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Fully covered	http://www.dtek.com/ru/about-us/code-of-ethics		These are stipulated in the compliance policy
4,7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy	Fully covered			DTEK Group has rules for the searching and recruitment of senior management (from the HR Policy)
4,8 Principle 2	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	Fully covered	http://www.dtek.com/ru/about-us/mission-vision-and-values http://www.dtek.com/ru/about-us/code-of-ethics http://www.dtek.com/ru/corporate-social-responsibility/ethics_code_implementation		Compliance and corporate ethics, page 144
4,9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance	Fully covered			At varying frequencies, management performance assessments of DTEK and its enterprises are made. The results of these assessments are reported to the Management Board. The Management Board annually selects 2-3 topics (including social and sustainable development issues) that become the subject of permanent focus and review for all members of the Management Board throughout the year
4,10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance	Fully covered			Chief Executive Officer, Chief Operating Officer, and the Director for External Affairs have fixed performance indicators for economic, environmental and social aspects.
4,11 Principle 7	Explanation of whether and how the precautionary approach or principle is addressed by the organization	Fully covered			Society, page 145

Reporting elements UNGC Principles/ Criteria	Description	Extent of indicator coverage	Reference to additional information sources/Direct answer	Reason for non-disclosure	Explanation/Reference to information in the report
4,12 Principle 2	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	Fully covered			Sustainable development, page 132
4,13	Memberships in associations and/or national/international advocacy organizations	Fully covered			Participation in CSR promotion activities in Ukraine and worldwide, page 139
4,14	List of stakeholder groups engaged by the organization	Fully covered	http://www.dtek.com/ru/corporate-social-responsibility/stakeholders_and_social_partnership http://www.dtek.com/ru/corporate-social-responsibility/partners		An analysis of stakeholders and a list are provided in Sustainable Development section, page 132. No serious changes were made to the stakeholder map during the reporting period. Every section of the report contains information about stakeholder groups with which the Company dealt during the reporting period, and the topics of interaction.
4,15	Basis for identification and selection of stakeholders with whom to engage	Fully covered			
4,16	Approaches to stakeholder engagement	Fully covered	Corporate ethics code		
4,17	Key topics and concerns that have been raised through stakeholder engagement	Fully covered			

G3 DMA Standard reporting elements, part I: approach to the management

Reporting elements UNGC Principles/ Criteria	Description	Extent of indicator coverage	Reference to additional information sources/Direct answer	Reason for non-disclosure	Explanation/Reference to information in the report
	Approaches to the management of economic impact				
EU6	Management approach to ensure short and long-term electricity availability and reliability	Fully covered			Sustainable energy, page 194
EU7	Demand-side management programs including residential, commercial, institutional and industrial programs	Fully covered			
EU8	Research and development activity and expenditure aimed at providing reliable electricity and promoting sustainable development	Partially covered			
EU9	Provisions for decommissioning of nuclear power sites	No	Not relevant		The Company does not have nuclear power assets
Principle 8 Criteria 1, 2, 11–16	**Approaches to the management of environmental impact**	Partially covered	www.dtek.com/library/file/dtek-envir-policy-rus.pdf		Environmental protection, page 180
Principle 8 Criteria 1, 2, 11–16	**Approaches to the management of labour organization issues**		Policy of employees management http://www.dtek.com/library/file/personnell-management-politic-miccion.pdf		Employees, page 162
Aspects	Employment	Partially covered			
EU14	Programs and processes to ensure the availability of a skilled workforce	Fully covered			Employees, page 162
EU15	Percentage of employees eligible to retire in the next 5 and 10 years broken down by job category and by region	No		Not available	It is not possible to calculate this data accurately
EU16	Policies and requirements regarding health and safety of employees and employees of contractors and subcontractors	Partially covered			Occupational safety and health of employees, page 172
	Health and safety in the workplace	Fully covered	www.dtek.com/ru/corporate-social-responsibility/labour-safety		
	Interaction between employees and management	Fully covered			Employees, page 162
	Training	Fully covered			
Principle 6	Diversity and equal opportunity	Fully covered	HR management policy		Employees, page 162
Human rights Aspects Criteria 5–8	Investment and procurement practices	No		Not relevant	Not applicable as no risk of human rights violation in procurement or investment process was identified
Principle 6	Non-discrimination	Fully covered	Corporate ethics code, HR management policy		
Principle 3	Freedom of Association and Collective Bargaining	Fully covered			Employees, page 162
Principle 5	Child labour	No		Not significant	Child labour and forced labour are prohibited by Ukrainian legislation. The Company does not work in countries with a high risk of such human right violations
Principle 5	Prevention of Forced and Compulsory Labor	No		Not significant	
	Security Practices	No		Not significant	The Company's activity does not imply any risk of the impairment of human rights by the security service
Principles 1, 2	Indigenous rights	No		Not relevant	The Company does not work in areas where indigenous people live
Society Criteria 1, 2	**Approaches to management aspects related to interactions with society**				
Aspect	Society				
EU19	Stakeholder participation in the decision making process related to energy planning and infrastructure development	Fully covered			Society, page 145
EU20	Company's approaches to interaction with stakeholders when addressing issues of location/closure of energy infrastructure facilities	Fully covered			
Principle 10 Criteria 17–20	Corruption	Fully covered	DTEK's compliance policy, corporate ethics code, UN Global Compact 2013 communication on progress http://www.dtek.com/ru/corporate-social-responsibility/otchety-i-dokumenty		Compliance and corporate ethics, page 144
	Public policy	Fully covered			
	Anti-competitive behaviour	Fully covered	DTEK's compliance policy, corporate ethics code		
	Compliance	Fully covered			
EU21	Contingency planning measures, disaster/emergency management plan and training programs, and recovery/restoration plans	Partially covered			Occupational safety and health of employees, page 172
Approaches to the management of aspects associated with products Criteria 1, 2		Partially covered	http://www.dtek.com/ru/corporate-social-responsibility/dtek_clients		Sustainable energy (Client-oriented approach), page 194
EU22	Approaches to increasing access to electricity supply services for the population	No		Not significant	The areas where the Company operates have a developed electricity network. There are no unelectrified populated areas. The government provides subsidies to low income population categories to pay for electricity supply services
EU23	Awareness raising among the population on how to use electricity supply services	Fully covered			Sustainable energy (Client-oriented approach), page 202

Standard reporting elements, part III: performance indicators

Economic

Reporting elements UNGC Principles/ Criteria	Description	Extent of indicator coverage	Reason for non-disclosure	Explanation/Reference to information in the report
EC1	Direct economic value generated and distributed	Partially covered		Performance Results, Consolidated Financial Statements sections of this Report
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	No	Not available	No analysis was made
EC3	Coverage of the organization's defined benefit plan obligations	Fully covered		Social Support, Consolidated Financial Statements sections of this Report
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	Fully covered		Employees, page 162. The indicator was restated
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	No	Not available	No analysis was made
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	No	Not relevant	The share of DTEK's employees (within the scope of the report) not hired locally was less than 1%, which is why the Company does not have special procedures in connection with this aspect
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	Fully covered		Sustainable Development, page 132, Society, page 145
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	Partially covered		Society, page 145
EU10	Planned capacity (MW) against projected electricity demand over the long term, broken down by energy source and regulatory regime	Partially covered		Production activity, page 82
EU11	Average generation efficiency of thermal plants by energy source and by regulatory regime	Fully covered		Production activity, page 82
EU12	Transmission and distribution losses as a percentage of total energy	Partially covered		Production activity (Electricity distribution sub-section, page 96)

Environmental

Reporting elements UNGC Principles/ Criteria	Description	Extent of indicator coverage	Reason for non-disclosure	Explanation/Reference to information in the report
EN1 COMM	Materials used by weight or volume	No	Not available	No analysis was made
EN2	Percentage of materials used that are recycled input materials	No	Not available	No analysis was made
EN3	Direct energy consumption	Fully covered		Appendix 2
EN4	Indirect energy consumption	No	Not available	Data is currently being processed
EN5	Energy saved due to conservation and efficiency improvements	Fully covered		Sustainable Energy, page 194
EN6 Principle 9	Initiatives to provide energy-efficient or renewable energy based products and services	Fully covered		Sustainable Energy, page 194 Society, page 145
EN8 COMM	Total water withdrawal by source	Partially covered		Environmental Protection, page 189 Appendix 2
EN9	Water sources significantly affected by withdrawal of water	Fully covered		Environmental Protection, page 188
EN10	Percentage and total volume of water recycled and reused	Partially covered		Appendix 2
EN11	Location and size of land of high biodiversity value	No	Not available	The Company does not have the necessary data
EN12 COMM	Description of significant impacts of activities, products, and services on biodiversity	Partially covered		Environmental Protection, page 193
EU13	How biodiversity of compensatory ecosystems is compared with biodiversity of habitats which loss they are intended to compensate	No	Not available	No analysis was made

Reporting elements UNGC Principles/ Criteria	Description	Extent of indicator coverage	Reason for non-disclosure	Explanation/Reference to information in the report
EN16 COMM	Total direct and indirect greenhouse gas emissions by weight	Fully covered		Appendix 2
EN17	Other relevant indirect greenhouse gas emissions by weight	No	Not available	The Company does not have the necessary data
EN18 Principle 9	Initiatives to reduce greenhouse gas emissions and reductions achieved	Fully covered		Climate Change and Greenhouse Gases, page 186, Wind Power, page 200
EN19	Emissions of ozone-depleting substances by weight	No	Not relevant	No emissions of ozone-depleting substances
EN20 COMM	NO_x, SO_x, and other significant air emissions by type and weight	Fully covered		Environmental Protection, page 186 Appendix 2
EN21 COMM	Total water discharge by quality and destination, including volume of thermal discharges	Partially covered	Not available	Environmental Protection, page 192 Appendix 2
EN22 COMM	Total weight of waste by type and disposal method. Include PCB waste data	Partially covered		
EN23	Total number and volume of significant spills	No	Not relevant	No analysis was made, but the Company's enterprises do not have significant spills of oil products as DTEK does not produce, process or transport oil products
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous	No	Not relevant	
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Fully covered		Sustainable Energy, page 194 Environmental Protection, page 180
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	No	Not relevant	
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce	No	Not relevant	
EN30	Total environmental protection expenditures and investments by type	Fully covered		Environmental Protection, page 180

Social

Reporting elements UNGC Principles/ Criteria	Description	Extent of indicator coverage	Reason for non-disclosure	Explanation/Reference to information in the report
LA1 COMM	Total workforce by employment type, employment contract, and region	Partially covered	Not available	Appendix 2. Data on the headcount of contractor organizations is not available
LA2 COMM	Total number and rate of employee turnover by age group, gender, and region	Fully covered		Appendix 2
EU17	Days worked by contractor and subcontractor employees involved in construction, operation & maintenance activities of energy facilities	No	Not available	The Company does not have the necessary data
EU18	Percentage of contractor and subcontractor employees that have undergone relevant health and safety training	No	Not available	
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	Fully covered		Employees, page 162, Sustainable Development report for 2008-2009
LA4 COMM	Percentage of employees covered by collective bargaining agreements. Percentage of workers of contractor organizations covered by collective bargaining agreements in their organizations	Partially covered	Not available	Coverage within the reporting scope is 99%. Collective bargaining agreements are used everywhere except DTEK LLC, excluding Wind Power and DTEK Sotsis). Data on contractor organizations is not available
LA5	Minimum notice period(s) regarding material operational changes	Fully covered		According to legislation — 2 months; fixed in collective bargaining agreements

Reporting elements UNGC Principles/ Criteria	Description	Extent of indicator coverage	Reason for non-disclosure	Explanation/Reference to information in the report
LA6	Percentage of total workforce represented in formal joint management–worker health and safety committees	Fully covered		Number of safety committee members at the enterprises is 8-10 people
LA7 COMM Criterion 21	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and in contractor organizations	Partially covered	Not available Not relevant	Occupational safety and health of employees, page 172 Appendix 2. No data on contractors is available Break down by regions is not relevant
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	Fully covered		Occupational Safety and Health of Employees, page 172; Employees, page 164; Society, page 145
LA9 Principle 3	Health and safety topics covered in formal agreements with trade unions	Fully covered		These issues are an essential part of collective bargaining agreements concluded at all production enterprises (see LA4)
LA10	Average hours of training per year per employee by employee category	Fully covered		Employees, page 162. This indicator was restated
LA11	Programs for skills management and lifelong learning that support the continued employability of employees	Fully covered		Employees, page 162.
LA12	Percentage of employees receiving regular performance and career development reviews	No	Not available	Data is currently being processed
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	Partially covered	Not relevant	Appendix 2. No data on minority groups are collected as this aspect is not relevant
LA14 Principle 6	Ratio of basic salary of men to women by employee category	No	Not relevant	Base salaries are common for all employee categories and depend only on the level of employee competence
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	No	Not relevant	See DMA Human Rights
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	No	Not relevant	No screening is made as this issue is not so relevant for contractor operations
HR3 Principle 2	Total hours of employee training on policies and procedures concerning aspects of human rights	Partially covered		Over 9,000 people participated in a training focusing on the Corporate Ethics Code
HR4 Principle 6	Total number of incidents of discrimination and actions taken	No		No data on such situations was received during the reporting period
HR5 COMM MM4 Principle 3	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights Mechanisms related to the rights for strike or announcement of lockout	Fully covered		The right to freedom of association is fixed in collective bargaining agreements. Employees have the rights to strike, but there were no such cases during the reporting year. The negotiation process is the key mechanism for dispute settlement
HR6 Principle 5	Operations identified as having significant risk for incidents of child labor	No	Not relevant	See DMA Human Rights
HR7 Principle 4	Operations identified as having significant risk for incidents of forced or compulsory labor ...	No	Not relevant	
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human	No	Not relevant	
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	No	Not relevant	This indicator is only relevant for DTEK Krymenergo. No violations were identified
SO1 COMM	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities	Partially covered		Society (Monitoring and Assessment of Social Investments sub-section), page 160
EU22 Principle 2	Number of people physically or economically displaced and compensation, broken down by type of project	Fully covered		UN Global Compact 2013 Communication on Progress http://www.dtek.com/ru/corporate-social-responsibility/otchety-i-dokumenty

Reporting elements UNGC Principles/ Criteria	Description	Extent of indicator coverage	Reason for non-disclosure	Explanation/Reference to information in the report
SO2 Principle 10	Percentage and total number of business units analyzed for risks related to corruption	Partially covered		In the reporting period, enterprises were analyzed (within the scope of reporting) to assess the risks associated with charity
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures	No	Not available	Data is currently being processed
SO4 Principle 10	Actions taken in response to incidents of corruption	Fully covered		No such cases were registered
SO5	Public policy positions and participation in public policy development and lobbying	Fully covered		The Company together with other stakeholders participates in the discussion of draft laws and other documents related to DTEK's business, puts forward initiatives. See Environmental Protection section
SO6	Total value of financial and in-kind contributions to political parties	No	Not relevant	The Company does not provide support to any political parties
SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes	No	Not relevant	No such cases were registered
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	No		No such cases were registered
PR1 COMM	Life cycle stages in which health and safety impacts of products and services are assessed for improvement	Partially covered		No analysis of the product or service life cycle was made. Informing consumers about the risks associated with the use of electricity – See Energy Toward the Future section. According to sanitary regulations, electrical installations under 220 kV do not have to have any measures aimed at protecting consumers' health from the impact of electromagnetic fields
PR2	Total number of incidents of non-compliance with regulations and voluntary codes	No	Not relevant	No such cases were registered
EU25	The number of injuries and deaths, diseases of population due to injuries, caused by the property of the company	Fully covered		Over the period 2012-2013, the total number of injuries among the population associated with the enterprises' power facilities was 16 cases, including 10 fatal cases
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	Fully covered		Measures taken by DTEK's electricity distribution enterprises to prevent injuries among the population are described in Sustainable Energy section (Safety subsection), page 203
PR4	Types of product and service information required for compulsory disclosure	No	Not relevant	
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	Fully covered		Sustainable Energy
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	No	Not relevant	
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	No	Not relevant	
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	No		No such cases were registered
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	No		No such cases were registered

Reporting elements UNGC Principles/ Criteria	Description	Extent of indicator coverage	Reason for non-disclosure	Explanation/Reference to information in the report
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	No		No such cases were registered
EU26	Percentage of population unserved in licensed distribution or service areas	No	Not relevant	See EU23
EU27	Number of residential disconnections for non-payment	Partially covered		133,748 household consumers (Donetskoblenergo and Energougol ENE); 95 legal entities (Power Grid and Energougol ENE
EU28	Power outage frequency (SAIFI)	Fully covered		8,19
EU29	Average power outage duration (SAIDI)	Fully covered		1151
EU30	Average plant availability factor by energy source	Partially covered		Donetskoblenergo: 20.92; Power Grid: 0.012

The branch applications for mining and metallurgical sector

Reporting elements UNGC Principles/ Criteria	Description	Extent of indicator coverage	Reason for non-disclosure	Explanation/Reference to information in the report
MM1	Amount of land disturbed or rehabilitated by the Company during the reporting period	Fully covered		Appendix № 2
MM2	The number and percentage of total sites identified as requiring biodiversity management plans according to stated criteria, and the number (percentage) of those sites with plans in place	Fully covered		
MM3	Total amounts of overburden, rock, tailings, and sludges and their associated risks at the beginning and end of reporting period	Fully covered		
MM4	Number of strikes and lock-outs exceeding one week's duration	Fully covered		See HR5
MM6	Number and description of significant disputes relating to land use, customary rights of local communities and Indigenous Peoples	No		
MM7	Which grievance mechanisms were used by the Company to resolve disputes relating to land	No		
MM9	Sites where resettlements took place during the reporting period in connection with mining operations	Fully covered		See EU22
MM10	Number of mines closed during the reporting period	Fully covered		No mine closures took place during the period

Appendix 4.
Commitments and future plans

2012–2013 objectives	Objective fulfilment	2014-2015 objectives
Ethics and corporate governance		
Development of DTEK Group's compliance strategy for 2012-2015. Approval of a new version of DTEK's Corporate Ethics Code	Fulfilled — See Compliance and Corporate Ethics on page 144	Implementation of DTEK Group's compliance strategy for 2012-2015 was part of the objectives for 2014-2015. At least 80% of those who used the trust line reported no harassment at the workplace (in case of addressing the compliance service)
Relations with stakeholders		
Development of DTEK's social partnership strategy with areas where the Company operates for 2013-2015	Fulfilled — See Development and Implementation of the Social Partnership Strategy on page 146	Implementation of DTEK's social partnership strategy with areas where the Company operates for 2013-2015 was part of the objectives for 2014-2015.
Development of DTEK's occupational medicine strategy	Fulfilled — See Healthcare Service for Employees on page 179	Development of DTEK's five-year social partnership strategies with the areas where the Company operates
Occupational health and safety		
Eliminate fatal injuries at all enterprises that have certified health and safety management systems in place	Partially fulfilled: fatal injuries were eliminated at DTEK Zuivska TPP, DTEK Kurakhivska TPP, DTEK Luhanska TPP, DTEK Power Grid, Energougol ENE, Dniprooblenergo, Pavlohradska CCM, Mospino CPE, Dobropilska CEP, and Oktyabrska CEP. The coal mining enterprises had some fatal injuries in the reporting period. The actions taken by the Company to eliminate occupational injuries are described in Main Causes of Industrial Injuries on page 177	Implementation of the regulation to incentivize employees of ventilation and safety units and health and safety services who exercise routing control over health and safety systems at all mine groups of the coal business unit.
Complete pilot projects within the framework of strategic initiatives	Fulfilled: pilot projects to introduce corporate-style PPE were implemented at 7 enterprises of the Company; DTEK Zuivska TPP implemented a pilot project to introduce the LOTO (LockOut/TagOut) protective lock system, etc. See page 174	Transition to corporate-style PPE at the Company's other enterprises
Environmental protection		
Development and implementation of environmental management systems at DTEK Zakhidenergo and Kyivenergo	Fulfilled: See Main Implemented Projects on page 182	Successful completion of certification audits for the environmental management systems at DTEK's enterprises: DTEK Burshtyn TPP, DTEK Dobrotvir TPP, DTEK Ladyzhyn TPP, Myronivska TPP, Dobropillia Mine Group, Bilozerske Mine Group, DTEK Donetskoblenergo, and DTEK Krymenergo
Development and launch of the State Program to Reduce Pollutant Discharge for TPPs and CHPPs in Ukraine	In 2013, the Company participated in preparing the Terms of Reference for the development of the National Plan to Reduce Main Pollutant Discharge from Large Incinerators. Cabinet of Ministers of the Energy Community Resolution #2013/XX/MC-EnC dd. 24.10.2013 determined the deadline for development of the National Plan as 31.12.2015. See Main Challenges on page 183	Participation in development of the National Plan to Reduce Main Pollutant Discharge from Large Incinerators.
Biological recultivation of disturbed land on 10 hectares. Compensatory planting reforestation on 21 hectares to be carried out by the mines of DTEK Pavlohradugol	Fulfilled: 21.12 hectares of disturbed land was recultivated in the reporting period; DTEK Pavlohradugol mines completed the reforestation of 38 hectares	Implementation of programs to increase the utilization of the ash and slag materials at DTEK's TPPs. Recultivation of disturbed land.
		Implementation of measures stipulated by programs to reduce DTEK TPPs' impact on water bodies to 2030. Development of a project for the comprehensive utilization of mine waters for Ternivske Mine Group, Pavlohradske Mine Group, Heroiv Kosmosu Mine Group, Dniprovske Mine Group, and Pershotravenske Mine Group
Climate change		
Registration of the following projects is planned in 2012: "DTEK Dniproenergo", "Construction of Botievo Wind Farm", "Loss Minimization in Servis-Invest's Grids", "Loss Minimization in DTEK Donetskoblenergo's Grids", "Loss Minimization in DTEK Dniprooblenergo's Grids", "Loss Minimization in DTEK Krymenergo 'sGrids", "Loss Minimization in Kyivenergo's Grids". Verification of all implemented projects is scheduled for 2012-13. The expected reduction of greenhouse emissions is equivalent to approximately 17 million tons of CO_2 DTEK Mine Komsomolets Donbasu is planning to verify its greenhouse emission reduction in the amount equivalent to 130,000 tons of CO_2	Partially fulfilled due to the suspension of the Kyoto Protocol in 2013: all listed projects were registered excluding the projects at DTEK Krymenergo, DTEK Mine Komsomolets Donbasu, and the Stepova mine. Overall, DTEK implemented 13 projects in 2006-2012, with total emission reductions amounting to 20 million tons of CO_2 equivalent. See Climate Change and Greenhouse Gases on page 186	The adaptation of joint implementation projects at DTEK Group enterprises shall only be possible after new Kyoto Protocol rules are enacted and respective changes are made to national legislation on joint implementation projects .
The Stepova mine is planning to install a utilized gas metering unit on retrofitted boiler and to register the joint implementation project		

2012–2013 objectives	Objective fulfilment	2014-2015 objectives
Personnel management		
Filling at least 80% of vacancies in middle and top management with the Company's own talent pool candidates	Fulfilled: See Employees on page 162	Automate the process for the collection and analysis of developed key indicators for the efficiency of the personnel management systems at DTEK enterprises
Personnel development		
Implementation of the talent pool development program (3 stages)	Fulfilled: See Personnel Training and Development on page 163	Development of 8 professional standards for working occupations jointly with DTEK Chairs
Development and implementation of the uniform system of professional (production) training	In progress: See Modernization of Training System at DTEK Group Enterprises on page 162	Implementation of the working mentorship system at the electricity generation, distribution and supply enterprises
Interaction with society		
Development of the monitoring and efficiency evaluation system; implementation of social partnership programs	Fulfilled: See Monitoring and Efficiency Evaluation of Social Investments on page 160	Mainstreaming the CSR Policy of DTEK Development of Human Rights Policy
Implementation of DTEK's social partnership strategies with areas where it operates for 2013-2015	Fulfilled with regards to 2013 objectives: See Development and Implementation of Social Partnership Strategies on pages 148-160	Improvement of the quality of automobile roads using ash and slag materials as exemplified by the pilot project for "Construction of the Road Section between Zugres and SHW Landfill Using Ash and Slag Materials of DTEK Zuivska TPP"

DTEK Holdings B.V.

INTERNATIONAL FINANCIAL REPORTING

Consolidated Financial Statements and
Independent Auditor's Report

31 December 2013

Content

Notes to the Consolidated Financial Statements

Independent auditor's report

To: the general meetings of shareholders of DTEK Holdings B.V.

The accompanying summary financial statements, which comprise the summary consolidated balance sheet as at 31 December 2013, the summary consolidated income statement, the statements of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of DTEK Holdings B.V. for the year 2013. We expressed an unqualified audit opinion on those financial statements in our report dated 20 March 2014. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

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

Management board's responsibility

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

Auditor's responsibility

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

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of DTEK Holdings B.V. for the year 2013 are consistent, in all material respects, with those financial statements.

Emphasis of an uncertainty in the financial statements with respect to the political and economic uncertainties in Ukraine

We draw your attention to Note 2 to the consolidated financial statements. The operations of the Group, and those of other entities in Ukraine, have been affected and may continue to be affected for the foreseeable future by the continuing political and economic uncertainties in Ukraine. Our opinion is not qualified in respect of this matter.

Amsterdam, 20 March 2014
PricewaterhouseCoopers Accountants N.V.

Original signed by P.C. Dams RA

Consolidated Balance Sheet

In millions of Ukrainian Hryvnia	Note	31 December 2013	31 December 2012 (as restated) Note 5	1 January 2012 (as restated) Note 5
ASSETS				
Non-current assets				
Property, plant and equipment	8	62,716	50,752	30,627
Intangible assets	9	1,979	1,985	183
Goodwill	10	4,563	4,563	1,116
Investments in associates	11	12	12	5,574
Financial investments	12	592	289	563
Deferred income tax asset	31	934	930	609
Other non-current assets		269	50	137
Total non-current assets		**71,065**	**58,581**	**38,809**
Current assets				
Inventories	13	4,117	5,055	2,214
Trade and other receivables	14	12,328	7,518	4,608
Financial investments	12	1,058	99	328
Current income tax		1,333	272	23
Cash and cash equivalents	15	5,243	5,360	10,426
Total current assets		**24,079**	**18,304**	**17,599**
TOTAL ASSETS		**95,144**	**76,885**	**56,408**
EQUITY				
Share capital	16	0	0	0
Share premium		9,909	9,909	9,909
Other reserves	17	1,118	3,470	5,731
Retained earnings		14,223	14,104	8,470
Equity attributable to owners of the parent		**25,250**	**27,483**	**24,110**
Non-controlling interest in equity		**9,468**	**5,043**	**401**
TOTAL EQUITY		**34,718**	**32,526**	**24,511**
LIABILITIES				
Non-current liabilities				
Liability to non-controlling participants		11	5	4
Borrowings	18	22,258	17,256	12,405
Other financial liabilities	19	7,503	3,860	2,615
Retirement benefit obligations	20	5,131	4,433	3,894
Provisions for other liabilities and charges	21	1,673	578	600
Deferred income tax liability	31	3,173	1,499	937
Total non-current liabilities		**39,749**	**27,631**	**20,455**
Current liabilities				
Borrowings	18	4,752	3,406	2,677
Other financial liabilities	19	290	300	756
Prepayments received		4,017	3,326	899
Trade and other payables	22	9,397	8,162	5,814
Current income tax payable		508	375	356
Other taxes payable	23	1,713	1,159	940
Total current liabilities		**20,677**	**16,728**	**11,442**
TOTAL LIABILITIES		**60,426**	**44,359**	**31,897**
TOTAL LIABILITIES AND EQUITY		**95,144**	**76,885**	**56,408**

Signed by entire Management Board on 20 March 2014.

DTEK Management B.V.
Director

Vistra (Amsterdam) B.V.
Director

Approved for issue and signed by entire Supervisory Board on 20 March 2014.

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

Consolidated Income Statement

In millions of Ukrainian Hryvnia	Note	2013	2012 (as restated) Note 5
Revenue	24	91,140	78,340
Heat tariff compensation	24	1,677	4,241
Cost of sales	25	(82,695)	(70,778)
Gross profit		**10,122**	**11,803**
Other operating income	26	2,910	3,265
Distribution costs	27	(967)	(594)
General and administrative expenses	28	(2,525)	(2,233)
Other operating expenses	29	(1,780)	(1,408)
Net foreign exchange (loss)/gain (other than on borrowings)		38	705
Operating profit		**7,798**	**11,538**
Foreign exchange losses less gains from borrowings		(317)	(448)
Finance income	30	470	602
Finance costs	30	(3,754)	(4,183)
Gain from a bargain purchase	33	991	604
Recognition of loss from fair valuation of associate on transfer to subsidiary		-	(385)
Recognition of AFS reserve on transfer to subsidiary	17	-	(63)
Share of after tax results of associates		-	(205)
Profit before income tax		**5,188**	**7,460**
Income tax expense	31	(1,856)	(1,506)
Profit for the year		**3,332**	**5,954**
Profit is attributable to:			
Equity holders of the Company		2,340	4,712
Non-controlling interest		992	1,242
Profit for the year		**3,332**	**5,954**

Consolidated Statement of Comprehensive Income

In millions of Ukrainian Hryvnia	Note	2013	2012 (as restated) Note 5
Profit for the period		3,332	5,954
Items that may be reclassified to profit or loss:			
Financial investments:			
- Fair value gain/(loss)	17	-	60
- Income tax recorded on available-for-sale financial assets	17	-	(4)
- Recognition of AFS reserve on transfer to subsidiary	17	-	63
Effective portion of change in the fair value of cash flow hedges	17	(281)	-
Reclassification adjustment in relation to cash flow hedges		531	-
Currency translation reserve	17	(26)	42
Items that will not be reclassified to profit or loss:			
Property, plant and equipment:			
- Change in estimate for asset retirement obligation	17	(40)	(9)
Re-measurements of post-employment benefit obligations	17, 20	(572)	145
Income tax recorded on re-measurements of post-employment benefit obligations	31	92	(23)
Other comprehensive income for the year	**17**	**(296)**	**274**
Total comprehensive income for the period		**3,036**	**6,228**
Total comprehensive income attributable to:			
Equity holders of the Company		2,056	4,960
Non-controlling interest		980	1,268
Total comprehensive income for the period		**3,036**	**6,228**

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

In millions of Ukrainian Hryvnia	Attributable to equity holders of the Company						
	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interest	Total Equity
Balance at 1 January 2012 (as previously reported)	**0**	**9,909**	**5,731**	**8,785**	**24,425**	**401**	**24,826**
Restatement (Note 5)	-	-	-	(315)	(315)	-	(315)
Balance at 1 January 2012 (as restated)	**0**	**9,909**	**5,731**	**8,470**	**24,110**	**401**	**24,511**
Profit for 2012	-	-	-	4,712	4,712	1,242	5,954
Other comprehensive income for 2012 (Note 17)	-	-	152	96	248	26	274
Total comprehensive income for 2012	**-**	**-**	**152**	**4,808**	**4,960**	**1,268**	**6,228**
Property, plant and equipment:							
- Realised revaluation reserve (Note 17)	-	-	(1,356)	1,356	-	-	-
- Deferred tax related to realised revaluation reserve	-	-	195	(195)	-	-	-
Transfer of associates to subsidiary – recycling of equity reserves (Note 17)	-	-	(1,252)	1,252	-	-	-
Acquisition of subsidiary (Note 33)	-	-	-	-	-	3,461	3,461
Acquired non–controlling interest	-	-	-	(3)	(3)	(34)	(37)
Dividends declared	-	-	-	(1,584)	(1,584)	(53)	(1,637)
Balance at 31 December 2012 (as restated)	**0**	**9,909**	**3,470**	**14,104**	**27,483**	**5,043**	**32,526**
Profit for 2013	-	-	-	2,340	2,340	992	3,332
Other comprehensive income for 2013 (Note 17)	-	-	184	(468)	(284)	(12)	(296)
Total comprehensive income for 2013	**0**	**0**	**184**	**1,872**	**2,056**	**980**	**3,036**
Property, plant and equipment:							
- Realised revaluation reserve (Note 17)	-	-	(1,098)	1,098	-	-	-
- Deferred tax related to realised revaluation reserve	-	-	148	(148)	-	-	-
Remeasurement of financial liabilities (Note 17)	-	-	(1,586)	-	(1,586)	-	(1,586)
Acquisition of subsidiary (Note 33)	-	-	-	-	-	4,166	4,166
Acquired non–controlling interest	-	-	-	(144)	(144)	(410)	(554)
Dividends declared	-	-	-	(2,559)	(2,559)	(311)	(2,870)
Balance at 31 December 2013	**0**	**9,909**	**1,118**	**14,223**	**25,250**	**9,468**	**34,718**

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

	Note	2013	2012 (as restated) Note 5
Cash flows from operating activities			
Profit before income tax		5,188	7,460
Adjustments for:			
Depreciation and impairment of property, plant and equipment and amortisation of intangibles, net of amortisation of government grants		6,734	6,024
Losses less gains on disposals of property, plant and equipment	29	71	83
Assets received free of charge	26	(89)	(95)
Net movement in provision for impairment of trade and other receivables and prepayments made	26	(1,815)	(2,576)
Gain from sale of investments available-for-sale		-	2
Change in provisions for other liabilities and charges	21	(12)	(112)
Non-cash operating charge to retirement benefit obligation	20	203	204
Extinguishment of accounts payable	26	(79)	(114)
Income from reimbursement of cost of repairs	26	(203)	-
Reversal of provision for long-term incentive bonus program for top executives	7	(282)	-
Share of result and impairment of associates	11	-	205
Recognition of AFS reserve on transfer to subsidiary	17	-	63
Loss from fair valuation of associate on transfer to subsidiary	11	-	385
Loss on disposal of associate	11	-	15
Unrealised result on associate	11	-	(8)
Gain from a bargain purchase	33	(991)	(604)
Unrealised foreign exchange loss		8	6
Realised and unrealised foreign exchange loss on financing activities		305	448
Finance costs, net	30	3,269	3,581
Other non-cash transactions, net		88	-
Operating cash flows before working capital changes		**12,395**	**14,967**
(Increase)/decrease in trade and other receivables		(1,290)	436
Decrease/(increase) in inventories		1,202	(1,390)
Increase in prepayments received		802	919
Increase in trade and other payables		1,346	264
Repayment of restructured obligations		(776)	(2,678)
Increase in other financial liabilities		886	769
Increase/(decrease) in taxes payable		555	(340)
Cash generated from operations		**15,120**	**12,947**
Income taxes paid		(2,581)	(2,763)
Defined employee benefits paid	20	(630)	(582)
Interest paid		(2,012)	(1,482)
Interest received		199	263
Provisions utilised	21	(14)	(28)
Net cash generated from operating activities		**10,082**	**8,355**

Consolidated Statement of Cash Flows (continuance)

	Note	2013	2012 (as restated) Note 5
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(11,513)	(9,698)
Proceeds from sale of property, plant and equipment		-	15
Purchase of financial investments		(1)	-
Prepayment for acquisition of shares	12	(120)	(160)
Placement of restricted cash	12,15	(132)	(371)
Capitalised borrowings cost paid	8	(147)	(124)
Finance lease related to acquisitions paid		(25)	(21)
Deposits placed and financial aid or loan provided		(1,194)	(169)
Repayment of deposits and loans provided		19	332
Acquisition of subsidiary	33	(1,799)	(4,653)
Cash acquired in business combination	33	1,350	261
Deferred consideration related to acquisitions paid		(93)	(103)
Net cash used in investing activities		**(13,655)**	**(14,691)**
Cash flows from financing activities			
Proceeds from borrowings		25,264	20,989
Repayment of borrowings		(19,030)	(18,148)
Commitment fee paid		-	(52)
Repayment of debts under amicable agreement		-	(12)
Dividends paid		(2,859)	(1,766)
Acquisition of non-controlling interest		(4)	(37)
Net cash generated from financing activities		3,371	974
Net decrease in cash and cash equivalents		**(202)**	**(5,362)**
Cash and cash equivalents at the beginning of the year	**15**	**5,069**	**10,426**
Exchange gains/(losses) on cash and cash equivalents		3	5
Cash and cash equivalents at the end of the year	**15**	**4,870**	**5,069**

We draw your attention that this report only contains the consolidated financial statements. The complete annual accounts also comprise the company financial statements and the Directors' report. For a better understanding of the Company's financial position and results, we emphasise that the consolidated financial statements 2013 should be read in conjunction with the statutory financial statements of DTEK Holdings B.V., which include the directors report, company only financial statements 2013 and other information.

The accompanying notes are an integral part of these financial statements.

1. The Organisation and its Operations

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

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

Name/Segment	% interest held as at 31 December 2012	2013	Country of incorporation
Coal mining and power generation			
DTEK Pavlogradugol PJSC	99.92	99.92	Ukraine
DTEK Mine Komsomolets Donbassa PJSC	95.31	94.64	Ukraine
DTEK Dobropolskaya CEP PJSC	60.06	60.06	Ukraine
DTEK Oktyabrskaya CEP PJSC	60.85	60.85	Ukraine
Bilozerska Mine ALC	95.44	95.44	Ukraine
Mospino CPE LLC	99.00	99.00	Ukraine
Pershotravensky RMZ LLC	99.00	99.00	Ukraine
Tehrempostavka LLC	100.00	100.00	Ukraine
CCM Kurahovskaya LLC	99.00	99.00	Ukraine
CCM Pavlogradskaya LLC	99.00	99.00	Ukraine
DTEK Dobropolyeugol LLC	100.00	100.00	Ukraine
DTEK Rovenkiantracyte LLC	100.00	100.00	Ukraine
DTEK Sverdlovantracyte LLC	100.00	100.00	Ukraine
Public company Don-Anthracite	100.00	100.00	Russian Federation
Public Mining Corporation Obukhovskaya	100.00	100.00	Russian Federation
Sulinathracite LLC	100.00	100.00	Russian Federation
DTEK Dniproenergo PJSC	73.54	73.30	Ukraine
DTEK Zakhidenergo PJSC	72.24	72.19	Ukraine
Eastenergo LLC	100.00	100.00	Ukraine
DTEK Hungary Power Trade LLC	100.00	100.00	Hungary
DTEK Trading Limited	100.00	100.00	Cyprus
DTEK Trading SA	100.00	-	Switzerland
Power Trade LLC	100.00	100.00	Ukraine
Interenergoservis LLC	99.00	99.00	Ukraine
DTEK Trading LLC	100.00	100.00	Ukraine
Electricity distribution			
DTEK Energougol ENE PJSC	95.19	94.24	Ukraine
DTEK Donetskoblenergo PJSC	71.35	71.35	Ukraine
DTEK Power Grid LLC	100.00	100.00	Ukraine
DTEK Dniprooblenergo PJSC	51.66	51.51	Ukraine
DTEK Krymenergo PJSC	57.70	57.60	Ukraine
Kyivenergo JSC	72.39	72.33	Ukraine
Renewable power generation			
Wind Power LLC	100.00	100.00	Ukraine
Orlovskaya WEP LLC	100.00	100.00	Ukraine
Primorskaya WEP LLC	100.00	100.00	Ukraine
Oil and Gas			
Naftogazvydobuvania PrJSC	50.00	-	Ukraine
DTEK Neftegaz LLC	100.00	100.00	Ukraine
Other			
DTEK Finance B.V.	100.00	100.00	Netherlands
DTEK Investments B.V.	100.00	100.00	Netherlands
DTEK Finance PLC	100.00	-	United Kingdom
DTEK Investments Ltd	100.00	-	United Kingdom
DTEK Holdings Limited	100.00	100.00	Cyprus
DTEK Servis LLC	99.00	99.00	Ukraine
DTEK LLC	100.00	100.00	Ukraine
Sotsis LLC	99.00	99.00	Ukraine
Elektronaladka LLC	99.00	-	Ukraine

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

As at 31 December 2013, the Group employed approximately 137 thousand people (31 December 2012: 142 thousand people).

2. Operating Environment of the Group

The Ukrainian economy is considered to be developing and characterised by relatively high economic and political risks. The future stability of the Ukrainian economy is largely dependent upon reforms and the effectiveness of economic, financial and monetary measures undertaken by government, together with tax, legal, regulatory, and political developments. As a developing economy, it is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2013 Ukraine's GDP was flat year on year (2012: increase by 0.2%), while industrial output contracted by 4.7% (2012: reduction by 0.5%). The Government of Ukraine introduced a number of restrictions in relation to foreign exchange aiming to support the national currency, the Ukrainian Hryvnia. Inflation during the year was close to zero as the National Bank of Ukraine reduced the money supply. The national foreign exchange reserves reduced to the level of 3 month imports at year end due to reduced inflows from sale of commodities and agro produce, the need to settle scheduled payments, primarily with International Monetary Fund, and to pay the current and past purchase of natural gas.

The political system of Ukraine experienced instability with a number of protests against the Government's actions in late 2013 and street violence in January - February 2014. As a result of those actions, Ukraine's Prime Minister resigned and the President was dismissed. On 26 February, the newly formed Parliament majority coalition appointed a Prime Minister and the Government.

During January-February 2014, the Ukrainian Hryvnia saw a significant decrease in value against the major world currencies. Additionally, Moody's Investors Service downgraded Ukraine's government bond rate to Caa2 from Caa1 with a negative outlook. The new Government called for immediate dialogue with the International Monetary Fund in order provide financing and avoid possible default. On 1 March 2014, the Russian parliament granted approval for the use of armed forces in Ukraine. The Ukrainian armed forces were put on full alert. The government in Crimea held a referendum on joining the Russian Federation on 16 March 2014, following which region of Crimea and the Russian Federation announced the joining of Crimea to Russia.

The Group has significant balances receivable with and prepayments made to various government departments in Ukraine including prepaid income taxes of UAH 1,333 million, VAT recoverable of UAH 753 million, heat tariff compensation of 1,995 million (of which UAH 1,679 million was recovered in February 2014) and receivables from Energorynok and various water and heat supply companies of UAH 3,177 million and UAH 1,213 million, respectively. The timing of settlement of these balances is uncertain and is dependent upon the availability of State funds.

The final resolution and the effects of the political and economic crisis are difficult to predict but they may have further severe effects on the Ukrainian economy and the Group's business. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

3. Summary of Significant Accounting Policies

Basis of preparation.

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

Use of estimates.

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

Functional and presentation currency.

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

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

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

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

As at 31 December 2013, the exchange rates used for translating foreign currency balances were USD 1 = UAH 7.99 (31 December 2012: USD 1 = UAH 7.99); EUR 1 = UAH 11.04 (31 December 2012: EUR 1 = UAH 10.54); RUB 10 = UAH 2.45 (31 December 2012: RUB 10 = UAH 2.63). Exchange restrictions in Ukraine are limited to compulsory receipt of foreign receivables within 90 days of sales and to the compulsory conversion of 50% of proceeds in foreign currency to Ukrainian Hryvnia. Foreign currency can be easily converted at a rate close to the National Bank of Ukraine rate. At present, the UAH is not freely convertible outside Ukraine.

Consolidated financial statements.

Subsidiaries are those companies and other entities (including special purpose entities) over which the group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

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

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

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

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

Transactions with non-controlling interests.

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

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

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

Common control business combinations.

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

Investments in associates.

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

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

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

Segment reporting.

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

In the year 2013 management revised the structure of segment reporting and changed measurement of operating effectiveness from operating income to adjusted EBITDA. Comparative figures for the year 2012 were adjusted respectively. Oil and Gas and Renewable power generation segments are not meet disclosure criteria under IFRS 8 but management decided voluntary disclosure for these segments in order to evaluate and show the result of new business activities.

Property, plant and equipment.

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

The Management estimate that carrying amount of property, plant and equipment as of 31 December 2013 does not differ materially from its fair value. Any increase in the carrying amounts resulting from revaluation are credited to other reserves in equity through other comprehensive income. Decreases that offset previously recognised increases of the same asset are charged against other reserves in equity through other comprehensive income; all other decreases are charged to the income statement. However, to the extent that an impairment loss on the same revalued asset was previously recognised in the income statement, a reversal of that impairment loss is also recognised in the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from other reserves to retained earnings.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the replaced component being written off. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from the continued use of the asset. Gains and losses on disposals determined by comparing proceeds with carrying amount of property, plant and equipment are recognised in the consolidated income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Oil and gas exploration and evaluation expenditures are accounted for using the 'successful efforts' method of accounting. Costs are accumulated on a field-by-field basis. Costs directly associated with an exploration well, and exploration and property leasehold acquisition costs, are capitalised until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are charged to expense. Capitalisation is made within property, plant and equipment.

Depreciation.

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

Mining and oil and gas assets include mineral licences and mineral reserves, which were acquired by the Group and which have finite useful lives. Mineral licenses and mineral reserves are stated at cost less accumulated amortisation and accumulated impairment losses.

Mining assets are amortised on a straight-line basis over the estimated useful life.

Oil and gas reserves and properties are depreciated using a unit-of-production method. The cost of producing wells is amortised over proved developed reserves. Licence acquisition, common facilities and future decommissioning costs are amortised over total proved reserves.

Other property, plant and equipment are depreciated on a straight line basis over its expected useful life. The typical useful lives of the group's other property, plant and equipment are as follows:

	Useful lives in years
Mining and oil and gas 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.

Leases.

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

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

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

Asset retirement obligations.

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

Goodwill.

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

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

Other intangible assets.

All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software. Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring them to use. Other intangible assets are carried at cost less accumulated amortisation and impairment losses, if any. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell. "Burshtyn electricity island") intangible asset has a definite useful life of 13 years and is depreciated on a straight line basis over this period.

Impairment of non-financial assets.

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

Classification of financial assets.

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

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

Sale and repurchase agreements and lending of securities.

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

Initial recognition of financial instruments.

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

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

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

Subsequent measurement of financial instruments.

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

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

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

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

Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement when the Group's right to receive payment is established and the inflow of economic benefits is probable.Impairment losses are recognised in the income statement when incurred as a result of one or more events that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an instrument below its cost is an indicator that it is impaired. The cumulative impairment loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in the income statement, is removed from equity and recognised in the income statement.

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

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

Derecognition of financial assets.

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

Derivative financial instruments, including hedge accounting.

The Group enters, from time to time, into various derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk. Starting from 1 January 2013 the Group applies hedge accounting to such transactions.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as cash flow hedge - hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% – 125%.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 36. Movements on the hedging reserve in other comprehensive income are shown in Note 17. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within «Finance income/costs». Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

Income taxes.

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

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

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

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

Inventories.

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

Trade and other receivables.

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

Prepayments.

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group.

Other prepayments are charged to the income statement when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the income statement.

Offset of Trade and other receivables with Prepayments received.

Trade receivables were partially offset with prepayments received as at 31 December 2012. Management considers that these receivables and prepayments should be presented on a gross basis in financial statements. The effect on the Group was as follows on amounts at 31 December 2012:

In millions of Ukrainian Hryvnia	**31 December 2012** (as originally presented)	**Restatement**	**31 December 2012** (as restated)
Trade and other receivables	7,068	450	7,518
Prepayments received	2,951	375	3,326
Other taxes payable	1,084	75	1,159

There was no impact on trade and other receivables, prepayments and other taxes payable at 1 January 2012.

Changes in presentation.

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

The effect of reclassifications for presentation purposes was as follows on amounts at 31 December 2012:

In millions of Ukrainian Hryvnia	31 December 2012 (as originally presented)	Reclassification	Restatement	31 December 2012 (as reclassified and restated)
Trade receivables	4,597	(345)	450	4,702
Heat tariff compensation receivable	-	345	-	345

Promissory notes.

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

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

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

Cash and cash equivalents.

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

Share capital.

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

Dividends.

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

Value added tax ("VAT").

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

Borrowings and other financial liabilities.

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

Government grants.

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

Trade and other payables.

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

Prepayments received.

Prepayments received are carried at amounts originally received. Amounts of prepayments received are expected to be realised through the revenue received from usual activity of the Group.

Provisions for liabilities and charges.

Provisions for liabilities and charges are provisions for environmental restoration, restructuring costs and legal claims which are recognised when the Group has a present legal or constructive

obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

Contingent assets and liabilities.

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

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

Revenue recognition.

The Group's generating companies sells all electricity produced by its electricity generation plants to Energorynok, a state-owned electricity distribution monopoly, at prices determined based on the competitive pool model adopted by the National Electricity Regulatory Committee of Ukraine ("NCRE"). The Group's distribution companies buy electricity from Energorynok and sell it to the end-customers, at prices determined by NCRE. Revenue from the sale of electricity is the value of units supplied during the year and includes an estimate of the value of units supplied to customers between the date of their last meter reading and the year end. Revenue from sale of electricity to end customers is recognised on a gross basis.

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

Revenue from sale and resale of natural gas are recognised at the point of transfer of risks and rewards associated with ownership of these goods. Revenues are measured at the fair value of the consideration received or receivable, and are shown net of value added tax and discounts.

Recognition of expenses.

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

Finance income and costs.

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

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

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

Management incentive program.

In January 2009, the Group introduced a long-term incentive bonus program for top executives. This cash-settled share based compensation is based upon 2% of the Group's incremental value (net worth) increase over a benchmark amount, assessed at the vesting date of 31 December 2012. The total long term incentive pool is capped at maximum USD 100 million, depending on the increase in the value of the Group, this amount is further capped by individual employee caps.

All participants deferred interim vesting and accordingly 100% are vested as at 31 December 2013. In December 2013 the Group has paid UAH 30 million out of UAH 312 million of provision accrued. No additional payments are expected connecting with this program, and unpaid amount of provision was recognised in other operating income in amount of UAH 282 million.

Employee benefits: Defined Contributions Plan.

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

Employee benefits: Defined Benefit Plan.

Certain entities within the Group participate in a mandatory State defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. The Group also provides lump sum benefits upon retirement subject to certain conditions. The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date. 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 are charged or credited to equity in other comprehensive income in the period in which they arise. Past service costs are recognised immediately in income.

Derivative financial instruments, including cash flow hedge accounting.

The Group enters, from time to time, into various derivative financial instruments to manage its exposure to commodity price risk, foreign currency risk and interest rate risk. Starting from 1 January 2013 the Group applies hedge accounting to such transactions. On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% - 125%. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the statement of income when incurred. Subsequent to initial recognition, derivatives are measured at fair value. When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in statement of comprehensive income and presented in the other comprehensive income. Any ineffective portion of changes in the fair value of a derivative is recognised in the statement of income. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

4. Critical Accounting Estimates and Judgements

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

Fair value of previously held interests.

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

Impairment of property, plant and equipment and goodwill.

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

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

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

Revaluation of property, plant and equipment.

The carrying value and depreciation of property, plant and equipment are affected by the estimates of replacement cost, depreciated replacement cost and remaining useful life. Changes in these assumptions could have a material impact to the fair value of property, plant and equipment (Note 8). The Management estimate that carrying amount of property, plant and equipment as of 31 December 2013 does not differ materially from its fair value.

Revenue measurement.

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

Impairment of trade and other accounts receivable.

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

Post-employment and other employee benefit obligations.

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

Deferred tax asset recognition.

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

Interest rates applied to long-term liabilities.

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

Provision for trade and other receivables.

Starting from 1 January 2013 the Group changed the methodology used to estimate the recoverability of trade and other receivables. Previously individual accounts of certain customers of the electricity distribution entities (including individuals and state-owned entities) were fully provided. Starting from 1 January 2013 management estimates the likelihood of the collection of those balances 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. Had the methodology used to estimate the recoverability of trade and other receivables not changed the Group would have to increase the provision for its trade and other receivables by UAH 1,765 million.

Tax legislation.

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

On 2 December 2010 a new Tax Code was adopted in Ukraine with most of the changes introduced being effective from 1 January 2011. Among the main changes are a change in the rates for corporate income tax from 25% to 16% which is introduced in several stages during 2011-2014, a change in base rate for VAT starting from 1 January 2015 from 20% to 17%, and a change in the methodology for determining the base for VAT and corporate income tax application. Further amendments to Tax code were adopted in 2013 which introduced changes in tax rates for 2014 and 2015 at the level of 18% and 17% respectively. Constant rate at the level of 16% should be applied for 2016 and subsequently.

On 1 September 2013 the Law "On Changes to the Tax Code of Ukraine in respect of transfer pricing rules" came into effect. The new transfer pricing rules are much more detailed than previous legislation and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

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.

Heat tariff compensation received by Kyivenergo JSC.

In accordance with existing legislation, Kyivenergo is entitled to claim heat tariff compensation which is computed as the difference between the heat tariff required to cover all production costs plus reasonable margin and that imposed by the National Electricity Regulatory Committee of Ukraine. Such claims are subject to additional Governmental, Budget and City approvals, prescribed by the state regulations. In October 2012 the Cabinet of Ministers of Ukraine approved Resolution #968 stating that the compensation of the difference between the «economically

grounded» tariffs and that imposed by the State should be calculated by the companies entitled to such compensation and approved by the state regularly. Kyivenergo accounts for such heat tariff compensation as government grants and has recorded amounts of compensation receivable on an accrual basis starting from November 2012. The amount of compensation receivable as at 31 December 2013 UAH 1,995 million (31 December 2012: UAH 345 million).

Accounting of the acquisition of Naftogazvydobuvania PrJSC.

In 2013 the Group acquired a 50% interest in the shares of Naftgazvydobuvania. In determining that the Group controls this company, the Group considered various factors related to the governance and oversight of the company, including the composition of the shareholdings, rights of shareholders, composition of the Supervisory Board and management. Management concluded that is exposed to variable returns of the company, and that its control of the Supervisory Board and management provide the Group with the ability affect those returns through its power over the company. In determining the purchase price, management considered the likelihood of additional consideration payable in the future according to the terms of the purchase and sale agreement, and determined the fair value using relevant valuation techniques.

5. Adoption of New or Revised Standards and Interpretations

The following new standard that is effective for financial year beginning on or after 1 January 2013 and has been adopted by European Union has a material impact on these consolidated financial statements:

Amended IAS 19, Employee Benefits (issued in June 2011 and effective for annual periods beginning on or after 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group reports accumulated amount of these remeasurements in retained earnings in equity.

Retrospective application of the standard had the following impact on the consolidated financial statements:

The effect was as follows on amounts at 1 January 2012:

In millions of Ukrainian Hryvnia	As originally presented	Effect of adopting revised IAS 19	As adjusted at 1 January 2012
Retained earnings	8,785	(315)	8,470
Retirement benefit obligation	3,519	375	3,894
Deferred tax assets	549	60	609

The effect was as follows on amounts at 31 December 2012:

In millions of Ukrainian Hryvnia	As originally presented	Effect of adopting revised IAS 19	As adjusted at 31 December 2012
Retained earnings	14,291	(187)	14,104
Non-controlling interest in equity	5,017	26	5,043
Retirement benefit obligation	4,241	192	4,433
Deferred tax assets	899	31	930

Adoption of New or Revised Standards and Interpretations (Continued)

In millions of Ukrainian Hryvnia	As originally presented	Effect of adopting revised IAS 19	As adjusted for the year 2012
Cost of sale	(70,816)	38	(70,778)
Income tax:	(1,500)	(6)	(1,506)
Other comprehensive income:			
Re-measurements of post-employment benefit obligations	–	145	145
Income tax recorded on re-measurements of post-employment benefit obligations	–	(23)	(23)

The following new standards and amendments to the standards which are relevant to the Group's consolidated financial statements and have been adopted by European Union are effective for the first time for financial year beginning on or after 1 January 2013, but do not have a material impact on these consolidated financial statements:

- IFRS 13, Fair Value Measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- Amendments to IAS 1, Presentation of Financial Statements (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012).
- Amendment to IAS 36, Impairment of assets, on recoverable amount disclosures (issued in May 2013 and effective for annual periods beginning on or after 1 January 2014) was early adopted by the Group for annual period beginning on 1 January 2013.

The following new standards and amendments to standards which are relevant to the Group's consolidated financial statements have been issued, but are not effective for the financial periods beginning on or after 1 January 2013 and have not been early adopted by the Group:

- IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- IFRS 11, Joint arrangements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- IFRS 12, Disclosure of Interest in Other Entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- Amendment to IAS 28, Investments in Associates and Joint Ventures (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).

- Amendment to IAS 32, 'Financial instruments, Presentation' (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).

- Amendment to IAS 39, Financial Instruments: Recognition and Measurement, "Novation of derivatives" (issued in June 2013 and effective for annual periods beginning on or after 1 January 2014

The following new standard which is relevant to the Group's consolidated financial statements, has been issued, but has not been adopted by European Union:

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

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

6. Segment Information

The Management Board is the Group's chief operating decision-maker.

The management has determined the operating segments used for disclosure by the Group based on reports reviewed by the Management Board for the purposes of assessing performance. The Management Board considers the business from a product perspective taking into account the vertical integration of the Group.

The Management Board assesses the performance of the operating segments based on a measure of Adjusted EBITDA. This measurement basis represents profit for the year after excluding the following income statement items: foreign exchange losses less gains from borrowings, certain finance costs, income tax expense, depreciation and amortisation, recognition of loss from fair valuation of associate on transfer to subsidiary, recognition of available-for-sale ("AFS") reserve on transfer to associate, impairment of investment in associates, gain on a bargain purchase, impairment of property, plant and equipment and certain foreign exchange differences. Adjusted EBITDA is a supplemental measure of our performance and liquidity that is not required by or presented in accordance with IFRS.

Reportable segments are analysed by the Management Board on the following dimensions:

- Coal mining and power generation on thermal power plants, coal and gas resale, electricity export
- Electricity distribution
- Heat generation
- Renewable power generation on wind farms.
- Oil and Gas

Revenues included in 'Other' segment mainly include revenues from sales of services to Group companies. These activities are excluded from the reportable operating segments, as they are not reviewed by the Management Board on an on-going basis.

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 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. Revenues and expenses of segments are measured using the same principles as used for consolidated financial statements of the Group.

Segment information for the reportable business segments of the Group for the year ended 31 December 2013 is as follows:

In millions of Ukrainian Hryvnia	Coal and power generation	Electricity distribution	Heat generation	Renewable power generation	Oil and Gas	Other	Elimina-tion	Total
Sales – external	48,455	38,684	3,578	328	25	70	-	91,140
Sales to other segments	9	856	3	-	641	666	(2,175)	-
Total revenue	**48,464**	**39,540**	**3,581**	**328**	**666**	**736**	**(2,175)**	**91,140**
Heat tariff compensation			1,677					1,677
Total revenue and Heat tariff compensation	**48,464**	**39,540**	**5,258**	**328**	**666**	**736**	**(2,175)**	**92,817**
Segment results	11,868	1,952	902	283	410	(71)	(384)	14,960
Depreciation and amortisation	(5,213)	(1,216)	(103)	(70)	(63)	(76)	7	(6,734)
Foreign exchange gain/(loss) on borrowings								(317)
Gain from a bargain purchase								991
Unallocated expenses								(190)
Finance costs not included in Segment results								(3,522)
Profit before income tax								**5,188**
Material non cash item included in segments result:								
Net income from reversal of provision for trade account receivables	524	1,233	51	-	-	7	-	1,815
Reversal of provision for long-term incentive bonus program for top	-	-	-	-	-	282	-	282
Capital expenditure	**6,856**	**1,377**	**260**	**1,562**	**119**	**136**	**-**	**10,310**

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

In millions of Ukrainian Hryvnia	Coal and power generation	Electricity distribution	Heat generation	Renewable power generation	Oil and Gas	Other	Elimination	Total
Sales – external	42,790	31,831	3,646	7	-	66	-	78,340
Sales to other segments	-	796	2	-	-	657	(1,455)	-
Total revenue	**42,790**	**32,627**	**3,648**	**7**	**-**	**723**	**(1,455)**	**78,340**
Heat tariff compensation			4,241					4,241
Total revenue and heat tariff compensation	**42,790**	**32,627**	**7,889**	**7**	**-**	**723**	**(1,455)**	**82,581**
Segment results	12,838	2,747	1,554	(6)	-	142	(335)	16,940
Depreciation and amortisation	(4,848)	(984)	(142)	(3)	-	(51)	4	(6,024)
Foreign exchange gain/(loss) on borrowings								(448)
Gain from a bargain purchase								604
Loss on fair valuation on transfer from associate to subsidiary								(385)
Unallocated expenses								(29)
Finance costs not included in Segment result								(3,198)
Profit before income tax								**7,460**
Material non cash item included in segments result:								
Net income from reversal of provision for trade account receivables	1,964	612	-	-	-	-	-	2,576
Gain on initial recognition of long term accounts payable	298	9	-	-	-	-	-	307
Loss on early repayment of long-term payables	(422)	(396)	(159)	-	-	-	-	(977)
Capital expenditure	**7,077**	**1,337**	**158**	**1,429**	**-**	**192**	**-**	**10,193**

The total of non-current assets other than financial instruments and deferred tax assets (there are no employment benefit assets and rights arising under insurance contracts) located in Ukraine is UAH 68,884 million (2012: UAH 56,772 million) and the total of such non-current assets located in other countries is UAH 787 million (2012: UAH 579 million)

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

In millions of Ukrainian Hryvnia	Coal and power generation	Electricity distribution	Heat generation	Renewable power generation	Oil and Gas	Total
2013						
Energorynok SE	34,840	-	-	328	-	35,168
Entities under common control of SCM	3,109	8,059	-	-	-	11,168
Total	**37,949**	**8,059**	**-**	**328**	**-**	**46,336**

In millions of Ukrainian Hryvnia	Coal and power generation	Electricity distribution	Heat generation	Renewable power generation	Oil and Gas	Total
2012						
Energorynok SE	30,733	-	-	-	-	30,733
Entities under common control of SCM	901	7,238	-	-	-	8,139
Total	**31,634**	**7,238**	**-**	**-**	**-**	**38,872**

Geographical information

In millions of Ukrainian Hryvnia	2013	2012
Ukraine	84,990	74,825
Eastern Europe	4,387	3,349
Western Europe	2,107	3,779
Other	1,333	628
Total revenues and heat tariff compensation	**92,817**	**82,581**

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

7. Balances and Transactions with Related Parties

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2013 are detailed below.

	2013			2012		
In millions of Ukrainian Hryvnia	Entities under common control of SCM	Associates of SCM	Other	Entities under common control of SCM	Associates of SCM	Other
Prepayments for property, plant and equipment	-	-	3	53	-	848
Gross amount of trade and other receivables	297	23	-	296	-	-
Promissory notes receivable	-	-	3	-	-	-
Financial investments	205	-	6	-	-	-
Cash and cash equivalents – current account	2,342	-	-	1,295	-	-
Trade and other payables	(464)	-	(1)	(313)	-	(62)
Prepayments received	(28)	(11)	(1)	(34)	(4)	(176)

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

In millions of Ukrainian Hryvnia	2013				2012			
	Entities under common control of SCM	Asso-ciates of SCM	Asso-ciates	Other	Entities under common control of SCM	Asso-ciates of SCM	Asso-ciates	Other
Sales of electricity	8,059	363	-	7	7,238	279	-	175
Sales of gas	2,527	398	-	-	-	-	-	-
Sales of coking coal	73	1	-	-	739	-	-	-
Sales of steam coal	509	10	-	-	162	-	1,300	-
Sales of inventory	-	-	-	4	1	-	1	-
Purchase of raw materials and equipment	(652)	-	-	-	(380)	-	-	-
Purchase of non-current assets	(668)	-	-	(36)	(368)	-	-	-
Purchase of services	(2,575)	-	-	-	(693)	-	-	-
Interest income on bank deposits	64	-	-	-	43	-	-	-
Interest expense on bank loans	-	-	-	-	(16)	-	-	-
Interest income on loans provided	-	-	-	-	-	-	3	-

Revenue, trade and other receivable

The trade receivable balances as at 31 December 2013 due from entities under common control and associates are non-interest bearing. The balances outstanding from related parties as at 31 December 2013 and 2012 are unsecured and settlements are made either in cash, in the form of debt set-off or by means of exchanging promissory notes issued by the settling counterparties or third parties to the transaction. The Group created no provision for impairment of accounts receivable due from related parties as at 31 December 2013 and 2012.

Purchases, trade and other payables

Purchases and outstanding trade and other payables as at 31 December 2013 and 2012 comprised mainly balances due to related parties for provision of railway services, supplies of iron shoring for mines, raw materials and steaming coal. Balances payable are non-interest bearing and are repayable in the normal course of business.

Key management personnel compensation

Key management personnel consist of eleven top executives (2012: eleven top executives). In 2013 total compensation to key management personnel included in administrative expenses amounted to UAH 72 million (2012: UAH 62 million). Compensation to the key management personnel consists of salary and bonus payments and does not include payment under the long-term incentive program provision, that is described below.

Effective 1 January 2009, the Group entered into a management incentive program with certain top executives. Under the program, top executives are entitled to 2% of the Group's incremental value (net worth) increase over a benchmark amount. Total available under the program is capped at USD 100 million depending on the increase in the value of the Group, this amount is further capped by individual employee caps which total 39% of the maximum available. All participants deferred interim vesting and accordingly 100% were vested. In December 2013 the Group paid UAH 30 million out of UAH 312 million of provision accrued. No additional payments are expected connecting with this program, and unpaid amount of the provision was recognised in other operating income in amount of UAH 282 million.

8. Property, Plant and Equipment

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

In millions of Ukrainian Hryvnia	Mining assets	Oil and gas assets	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Con-struction in progress	Total
At 1 January 2012							
Cost or valuation	8,255	-	7,412	11,569	1,032	4,530	32,798
Accumulated depreciation	(258)	-	(329)	(1,319)	(265)	-	(2,171)
NBV at 1 January 2012	**7,997**	**-**	**7,083**	**10,250**	**767**	**4,530**	**30,627**
Acquisition of subsidiaries (Note 33)	1,147	-	6,637	5,850	302	2,013	15,949
Additions	451	-	1,060	4,062	509	4,111	10,193
Disposals and other movements	-	-	(15)	(118)	(4)	(7)	(144)
Depreciation charge	(443)	-	(1,191)	(3,760)	(518)	-	(5,912)
Foreign exchange differences	27	-	4	7	1	-	39
Transfer	235	-	234	2,082	39	(2,590)	-
NBV at 31 December 2012	**9,414**	**-**	**13,812**	**18,373**	**1,096**	**8,057**	**50,752**
At 31 December 2012							
Cost or valuation	10,111	-	16,021	24,606	2,039	8,057	60,834
Accumulated depreciation	(697)	-	(2,209)	(6,233)	(943)	-	(10,082)
NBV at 31 December 2012	**9,414**	**-**	**13,812**	**18,373**	**1,096**	**8,057**	**50,752**
Acquisition of subsidiaries (Note 33)	-	7,853	380	50	40	1,000	9,323
Additions	664	-	670	3,210	429	5,337	10,310
Disposals and other movements	-	-	(18)	(60)	(10)	(865)	(953)
Depreciation charge	(478)	(53)	(1,372)	(4,356)	(415)	-	(6,674)
Foreign exchange differences	(19)	-	(4)	(15)	(1)	(3)	(42)
Transfer	95	-	662	2,878	109	(3,744)	-
NBV at 31 December 2013	**9,676**	**7,800**	**14,130**	**20,080**	**1,248**	**9,782**	**62,716**
At 31 December 2013							
Cost or valuation	10,841	7,853	17,923	30,519	2,559	9,782	79,477
Accumulated depreciation	(1,165)	(53)	(3,793)	(10,439)	(1,311)	-	(16,761)
NBV at 31 December 2013	9,676	7,800	14,130	20,080	1,248	9,782	62,716
NBV without revaluation at 31 December 2012	7,550	-	10,684	15,858	1,026	7,911	43,029
NBV without revaluation at 31 December 2013	**8,149**	**7,800**	**10,969**	**18,069**	**1,211**	**9,677**	**55,875**

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

The majority of the structures, plant and machinery are specialised in nature and are rarely sold in the open market in Ukraine other than as part of a continuing business. The market for similar property, plant and equipment is not active in Ukraine and does not provide a sufficient number of sales of comparable assets to allow for using a market-based approach for determining fair value. Consequently, the fair value of structures, plant and machinery was primarily determined using

depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economic depreciation, and obsolescence.

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

As at 31 December 2013, buildings, plant and machinery carried at UAH 433 million (31 December 2012: UAH 555 million) have been pledged to third parties as collateral for borrowings (Note 32).

In 2013, the depreciation expense of UAH 6,389 million (2012: UAH 5,733 million), net of amortisation of government grants, was included in cost of sales, UAH 136 million (2012: UAH 101 million) in general and administrative expenses, UAH 10 million (2012: UAH 10 million) in distribution expenses and UAH 55 million was capitalised (2012: UAH 48 million).

As at 31 December 2012, the construction in progress included UAH 848 million of advances made to Elektronaladka LLC. During 2013, the Group acquired 99% of Elektronaladka LLC (Note 33) and the change of advances made to Elektronaladka LLC was included to the disposal and other movements.

During 2013 the Group continued the construction of qualifying assets. This construction is financed through special-purpose and other borrowings. Borrowing costs capitalised during the 2013 were UAH 147 million (2012: UAH 124 million). The rate in the range between 9.16% and 8.63% was used to estimate borrowing costs subject to capitalisation (2012: between 9.60% and 16.00%).

As at 31 December 2013 the Group's property, plant and equipment carried at UAH 2,367 million and related to borrowings with carrying amount of UAH 2,308 million may not be sold, pledged or disposed without prior consent of the bank (31 December 2012 – UAH 1,150 million related to borrowings in amount of UAH 879 million).

9. Intangible Assets

As at 31 December, intangible assets comprise:

In millions of Ukrainian Hryvnia	2013	2012
Burshtyn electricity island	1,546	**1,687**
Other intangible assets	433	298
Total	**1,979**	**1,985**

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

In millions of Ukrainian Hryvnia	Cost	Accumulated amortisation and impairment	Net book value
As at 1 January 2012	**234**	**(51)**	**183**
Acquisition of subsidiaries (Note 33)	1,869	(4)	1,865
Additions / (Charge) for the year	137	(200)	(63)
As at 31 December 2012	**2,240**	**(255)**	**1,985**
Acquisition of subsidiaries (Note 33)	11	-	11
Additions / (Charge) for the year	183	(200)	(17)
As at 31 December 2013	**2,434**	**(455)**	**1,979**

In 2013, the amortisation expense of UAH 160 million (2012: UAH 145 million), net of amortisation of government grants, was included in cost of sales, and UAH 39 million (2012: UAH 35 million) in general and administrative expenses.

As at 31 December 2013 the remaining useful life of "Burshtyn electricity island" intangible asset was 11 years (31 December 2012: 12 years).

10. Goodwill

The movements of goodwill were as follows:

In millions of Ukrainian Hryvnia	2013	2012
Book amount as at 1 January	**4,563**	**1,116**
Acquisition of DTEK Dniproenergo PJSC (Note 33)	-	1,999
Acquisition of DTEK Zakhidenergo PJSC (Note 33)	-	1,265
Acquisition of DTEK Donetskoblenergo PJSC (Note 33)	-	136
Acquisition of DTEK Dniprooblenergo PJSC (Note 33)	-	47
Book amount as at 31 December	**4,563**	**4,563**

Goodwill Impairment Test

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

Management allocated goodwill to seven main CGUs:

In millions of Ukrainian Hryvnia	2013	2012
Coal mining:		
DTEK Pavlogradugol PJSC	590	590
Electricity generation:		
DTEK Dniproenergo PJSC	1,999	1,999
DTEK Zakhidenergo PJSC	1,265	1,265
Energy distribution		
Kyivenergo JSC	483	483
DTEK Dniprooblenergo PJSC	47	47
DTEK Donetskoblenergo PJSC	136	136
DTEK Energougol ENE PJSC	43	43
Total	**4,563**	**4,563**

The recoverable amount has been determined based on a fair value less costs to sell calculations. Cash flow projections, based on strategic model approved by senior management covering 18 years projection period till 2030 for all entities, and market prices were used to determine projected sales. The Management believes that the assumptions used reflect market participant's expectations. In the year 2013 management changed the covering period for all cash flow projection from eight-year period for the period till 2030 according to approved long-term strategic model which described planed step by step changes in Group business process.

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

In millions of Ukrainian Hryvnia	2013	2012
Coal mining – DTEK Pavlogradugol PJSC		
Post-tax discount rate	16%-17%	17%-16%
Revenue growth rate for the five-year period	4%-14%	6%-19%
Revenue growth rate after the five-year period till 18 year (2012 - till eighth year)	(12)%-8%	2%-6%
Gross margin	32%-44%	35%-47%
Electricity generation – DTEK Dniproenergo PJSC		
Post-tax discount rate	16%-17%	17%-16%
Revenue growth rate for the five-year period	8%-17%	(6)%-31%
Revenue growth rate after the five-year period till 18 year (2012 - till eighth year)	(7)%-20%	(5)%-18%
Gross margin	24%-27%	11%-25%
Electricity generation – DTEK Zakhidenergo PJSC		
Post-tax discount rate	16%-17%	17%-16%
Revenue growth rate for the five-year period	1%-16%	13%-29%
Revenue growth rate after the five-year period till 18 year (2012 - till eighth year)	(9)%-32%	3%-12%
Gross margin	14%-22%	16%-29%
Electricity distribution – DTEK Kyivenergo PJSC		
Post-tax discount rate	16%-17%	17%-16%
Revenue growth rate for the five-year period	(3)%-13%	(17)%-33%
Revenue growth rate after the five-year period till 18 year (2012 - till eighth year)	6%-10%	2%-11%
Gross margin	7%-17%	4%-13%

In assessing goodwill impairment management used a multi-period post-tax discount rate ranging from 17% in 2013 down to 16% in 2030 and onwards. The discount rate was calculated based on weighted average cost of capital for the Company.
The values assigned to the key assumptions represent management's best assessment of future trends in the business and are based on both external and internal sources. The Management believes that the assumptions used reflect market participant's expectations.

No impairment was recognised as a result of the assessment.

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

The above estimates are particularly sensitive in the following areas:

- a decrease in selling tariffs by more than 7% in 2014 would cause the Group to recognise impairment of goodwill,

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

Based on the above assumptions, management determined that the fair value less costs to sell exceeds the carrying value of goodwill as at 31 December 2013. Accordingly, no impairment of goodwill was recognised as at 31 December 2013.

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	2013	2012
Carrying amount at 1 January	**12**	**5574**
Additional investment in associates	–	480
Share of after tax results of associates	–	(205)
Unrealised profit on operations with associate	–	8
Revaluation of previously held interest to fair value (Note 33)	–	(385)
Reclassification to subsidiary (Note 33)	–	(5445)
Disposal of associates	–	(15)
Carrying amount at 31 December	**12**	**12**

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

2013

In millions of Ukrainian Hryvnia	Country of incorporation	% of ownership	Carrying value	Total assets	Total liabilities	Revenue	Profit/ (loss)
Other	Ukraine	various	12	68	18	-	-
Total			**12**	**68**	**18**	**-**	**-**

2012

In millions of Ukrainian Hryvnia	Country of incorporation	% of ownership	Carrying value	Total assets	Total liabilities	Revenue	Profit/ (loss)
Other	Ukraine	various	12	43	14	-	(1)
Total			**12**	**43**	**14**	**-**	**(1)**

12. Financial Investments

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

In millions of Ukrainian Hryvnia	2013	2012
Prepayment for other shares	280	160
Long-term deposits	266	84
Equity securities:		
quoted	46	45
Total	**592**	**289**

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

In millions of Ukrainian Hryvnia	2013	2012
Deposits placed	996	18
Restricted cash	53	80
Loans receivable (net of provision for impairment of UAH 17 million)	9	1
Total	**1 058**	**99**

As at 31 December 2013, UAH 266 million deposits placed with a maturity of more than three months were denominated in US dollars (31 December 2012: UAH 84 million).

As at 31 December 2013 the Group has also made prepayments amounting to UAH 280 million (31 December 2012: UAH 160 million) for the controlling stake of Vanco Ukraine Limited, a company that has a license on an offshore oil and gas exploration and production project in the Black Sea. This acquisition is conditional upon certain regulatory approvals. Future commitments for the purchase of the additional shares amount to USD 15 million (UAH at 31 December 2013 – UAH 120 million).

As at 31 December 2013, UAH 266 million of term deposits were pledged as collateral for gross-settled derivative financial instruments (31 December 2012: UAH 84 million), UAH 696 million of term deposits and UAH 45 million of restricted cash were pledged as collateral for bank borrowings (31 December 2012: nil).

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

	2013		2012	
In millions of Ukrainian Hryvnia	**Deposits**	**Other**	**Deposits**	**Other**
Rating by Moody's Investors Service				
A2 rated	–	44	–	–
Ba3.ua rated	299	–	–	–
Baa2 rated	2	9	–	–
B3 rated	–	–	18	–
Non-rated	695	9	–	81
Total	**996**	**62**	**18**	**81**

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

	2013		2012	
In millions of Ukrainian Hryvnia	**Deposits**	**Other**	**Deposits**	**Other**
Rating by Moody's Investors Service				
A2 rated	266	–	84	–
Non-rated	–	326	–	205
Total	**266**	**326**	**84**	**205**

As at 31 December 2013, UAH 280 million out of UAH 326 million represents prepayments made for the controlling stake in Vanco Ukraine Limited.

13. Inventories

As at 31 December, inventories were as follows:

In millions of Ukrainian Hryvnia	2013	2012
Coal	2 219	3 048
Raw materials	858	860
Spare parts	618	807
Work in progress	201	323
Gas	195	–
Goods for resale	26	17
Total inventories	**4 117**	**5 055**

14. Trade and Other Receivables

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

In millions of Ukrainian Hryvnia	2013	2012
Trade receivables (less provision of UAH 4,357 million) (2012: UAH 6,226 million)	8 738	4 702
Other financial receivables (less provision of UAH 587 million) (2012: UAH 589 million)	226	132
Total financial assets	**8 964**	**4 834**
Heat tariff compensation receivable	1 995	345
VAT recoverable (less provision of UAH 85 million) (2012: UAH 85 million)	753	890
Prepayments to suppliers (less provision of UAH 458 million) (2012: UAH 86 million)	490	1 388
Other (less provision of UAH 43 million) (2012: UAH 45 million)	126	61
Total non-financial assets	**3 364**	**2 684**
Total trade and other receivables	**12 328**	**7 518**

As at 31 December 2013, 3% of trade and other receivables are denominated in currency, other than UAH (31 December 2012:1%).

As at 31 December 2013, prepayments included UAH 9 million of prepayments for coal (31 December 2012: UAH 260 million). The remaining prepayments include prepayments for electricity subsequently sold for export, transportation and other services, and inventories.

Other financial receivables are receivables for goods for resale and services provided other than main operation activities of the Group.

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

In millions of Ukrainian Hryvnia	2013	2012
Provision for impairment at 1 January	**7 031**	**2 462**
Acquisition of subsidiaries	367	7 187
Provision for impairment during the year	485	2 706
Reversal of provision	(2 300)	(5 282)
Amounts written off during the year as uncollectible	(53)	(42)
Provision for impairment at 31 December	**5 530**	**7 031**

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

In millions of Ukrainian Hryvnia	2013 Trade receivables	2013 Other financial receivables	2012 Trade receivables	2012 Other financial receivables
Current and not impaired – exposure to				
- Energorynok SE	2,368	-	1,929	-
- Large Ukrainian corporates	157	13	254	4
- Medium sized companies	2,733	174	1,085	20
Total current and not impaired	**5,258**	**187**	**3,268**	**24**
Past due and individually impaired (gross)				
- less than 30 days overdue	1,030	7	1,401	-
- 30 to 90 days overdue	597	9	620	34
- 90 to 180 days overdue	664	9	300	31
- 180 to 360 days overdue	1,754	120	1,080	72
- over 360 days overdue	3,792	481	4,259	560
Total past due and individually impaired	7,837	626	7,660	697
Less impairment provision	(4,357)	(587)	(6,226)	(589)
Total	**8,738**	**226**	**4,702**	**132**

15. Cash and Cash Equivalents

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

In millions of Ukrainian Hryvnia	2013	2012
Bank balances payable on demand	4,735	4,759
Restricted cash	373	291
Term deposits with original maturity of less than three months	135	310
Total cash and cash equivalents	**5,243**	**5,360**

As at 31 December 2013, cash and cash equivalents of UAH 930 million were denominated in US dollars (31 December 2012: UAH 901 million), UAH 591 million were denominated in EUR (31 December 2012: UAH 789 million), UAH 199 million were denominated in RUB (31 December 2012: UAH 218 million).

As at 31 December 2013 and 2012, no term deposits with original maturity of less than three months were pledged as collateral for borrowings or bank guarantees received.

As at 31 December 2013, restricted cash in the amount of UAH 373 million (31 December 2012: UAH 291 million) was used to cover letter of credit for purchase of equipment. For the purposes of the cash-flow statements this amount is not included in cash and cash equivalents balance.

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

In millions of Ukrainian Hryvnia	2013 Bank balances payable on demand	2013 Term deposits	2013 Restricted cash	2012 Bank balances payable on demand	2012 Term deposits	2012 Restricted cash
Rating by Moody's Investors Service						
A3 rated	20	–	–	31	1	–
Caa2 rated	66	–	–	–	–	–
A3.ua rated	–	–	–	530	–	200
A2 rated	367	–	–	20	–	–
B1 rated	–	–	–	75	–	–
Ba1 rated	–	–	–	34	–	–
Baa1 rated	101	31	–	271	8	–
Ba3.ua rated	2 498	104	373	–	–	–
Baa2 rated	134		–	–	–	–
B3 rated	–	–	–	108	–	88
Baa3.ua rated	–	–	–	2 294	296	3
Caa1 rated	–	–	–	208	–	–
Rated by Fitch Ratings						
AAA(UKR)	1 546	–	–	1 135	5	
Non-rated	3	–	–	53		–
Total	**4 735**	**135**	**373**	**4 759**	**310**	**291**

16. Share Capital

The authorised share capital of DTEK Holdings B.V. comprises 15,000 ordinary shares with a nominal value of Euro 10 per share. All shares carry one vote. At 31 December 2013 and 2012, the issued and fully paid share capital comprised 3,000 ordinary shares.

17. Other Reserves

In millions of Ukrainian Hryvnia	Additional paid in capital	Hedge reserve	Financial liabilities remeasurement reserve	Revaluation reserve	AFS reserv	Currency translation reserve	Total
Balance at 1 January 2012	**(4,199)**	**-**	**-**	**10,074**	**(144)**	**-**	**5,731**
Financial investments:							
Fair value losses less gains	-	-	-	-	60	-	60
Recognition of AFS reserve on transfer to associate	-	-	-	-	63	-	63
Property, plant and equipment:							
Change in estimate relating to asset retirement provision recorded in equity	-	-	-	(9)	-	-	(9)
Realised revaluation reserve	-	-	-	(1,356)	-	-	(1,356)
Income tax recorded in equity	-	-	-	195	(4)	-	191
Transfer from associates to subsidiary - recycling of revaluation reserve to retained earnings	-	-	-	(1,252)	-	-	(1,252)
Currency translation reserve	-	-	-	-	-	42	42
Balance at 31 December 2012	**(4,199)**	**-**	**-**	**7,652**	**(25)**	**42**	**3,470**
Property, plant and equipment:							
Change in estimate relating to asset retirement provision recorded in equity	-	-	-	(40)	-	-	(40)
Realised revaluation reserve	-	-	-	(1,098)	-	-	(1,098)
Income tax recorded in equity	-	-	-	148	-	-	148
Effective portion of change in the fair value of cash flow hedges	-	(281)	-	-	-	-	(281)
Reclassification adjustment in relation to cash flow hedges	-	531	-	-	-	-	531
Remeasurement of financial liabilities	-	-	(1,586)	-	-	-	(1,586)
Currency translation reserve	-	-	-	-	-	(26)	(26)
Balance at 31 December 2013	**(4,199)**	**250**	**(1,586)**	**6,662**	**(25)**	**16**	**1,118**

The revaluation reserve, AFS reserve and currency translation reserve are not distributable to the shareholders until they are transferred to retained earnings.

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

Other comprehensive income, net of tax, is as follows:

In millions of Ukrainian Hryvnia	Other reserves	Hedge reserve	Retained earnings	Total other comprehensive income
2012				
Financial investments:				
Fair value gain/(loss)	60	-	-	60
Income tax recorded on available-for-sales financial assets	(4)	-	-	(4)
Recognition of AFS reserve on transfer to associate	63	-	-	63
Re-measurements of post-employment benefit obligations		-	145	145
Income tax recorded on re-measurements of post-employment benefit obligations	-	-	(23)	(23)
Property, plant and equipment:				
Change in estimate for asset retirement obligation	(9)	-	-	(9)
Currency translation reserve	42	-	-	42
Total	**152**	**-**	**122**	**274**
2013				
Financial investments:	-	-	-	-
Fair value gain/(loss) , net of tax	-	-	-	-
Effective portion of change in the fair value of cash flow hedges	-	(281)	-	(281)
Reclassification adjustment in relation to cash flow hedges	-	531	-	531
Re-measurements of post-employment benefit obligations	-	-	(572)	(572)
Income tax recorded on re-measurements of post-employment benefit obligations	-	-	92	92
Change in estimate for asset retirement obligation	(40)	-	-	(40)
Currency translation reserve	(26)	-	-	(26)
Total	**(66)**	**250**	**(480)**	**(296)**

18. Borrowings

As at 31 December, borrowings were as follows:

In millions of Ukrainian Hryvnia	2013	2012
Non-current		
Eurobonds	7,478	3,941
Bank borrowings	14,780	13,315
Current		
Bank borrowings	4,336	3,109
Interest accrual	416	297
	4,752	**3,406**
Total borrowings	**27,010**	**20,662**

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

In April 2010, DTEK Finance B.V., a finance vehicle of the Company, issued USD 500 million (UAH 3,963 million) 5 year Eurobonds bearing a 9.5% coupon. The Eurobonds are unsecured. The bond indenture contains specific covenants, including limitation on payments to shareholders, restrictions on permissible business activities, requirements for arm's length affiliate transactions, financial disclosure requirements and maximum permissible level of leverage. Events of default are comprehensive and include cross-default to other DTEK debt.

In October 2012, the Group entered into 5-year loan agreement with ING, Gazprombank OJSC, Sberbank of Russia and UniCredit Bank for EUR 416 million (UAH 4,380 million). The Group used the proceeds from the loan to finance the capital investment programme. The loans are unsecured. The loan agreements contain specific covenants, including restrictions on permissible business activities, financial disclosure requirements and maximum permissible level of leverage. Events of default among others include cross-default to other DTEK debt.

In April 2013 the Group announced the Tender Offer for cash up to an aggregate principal amount of USD 300 million of the outstanding USD 500 million 5 year Eurobonds due in 2015. The purpose of the Tender Offer is to refinance a portion of the Group's indebtedness and proactively manage the debt maturity profile by acquiring outstanding Notes out of proceeds generated from the issuance and offering of the new Eurobonds. The Tender Offer was dependant on the issue of new Eurobonds due in 2018. Together with the Tender Offer the Group announced the Consent Solicitation to change certain covenants.

In April 2013, DTEK Finance PLC, a finance vehicle of the Company, issued USD 750 million 5 year Eurobonds bearing 7.875% coupon. The Eurobonds are unsecured. The new Eurobond indenture contains specific covenants, including limitations on payments to shareholders, restrictions on permissible business activities, requirements for arm's length affiliate transactions, financial disclosure requirements and a maximum permissible level of leverage. Events of default are comprehensive and include cross-default to other DTEK debt. A portion of net proceeds from the Eurobonds issue were used to finance the Tender Offer and Consent Solicitation. The remaining proceeds were used to finance the Group's investment programme, working capital needs and to repay existing indebtedness.

In August 2013 the Group entered into pre-export financing (PXF) loan agreement with group of banks for the total amount USD 375 million. The PXF loan is structured in two tranches of USD 153 million due in 2016 and of USD 222 million due in 2018. The loan was secured with short-term deposit and future sales proceeds (Note 32). The loan agreements contain specific covenants, including restrictions on permissible business activities, financial disclosure requirements and maximum permissible level of leverage. Events of default among others include cross-default to other DTEK debt.

In September 2013 the Group entered into a 10-year credit line agreement with LandesBank Berlin for the total amount EUR 138 million and a 5-year credit line agreement with VTB Capital PLC for the total amount RUB 4 billion. The Group used the proceeds from the loans to finance the capital investment programme and working capital. Both loans are unsecured. The loan agreements contain specific covenants, including restrictions on permissible business activities, financial disclosure requirements and maximum permissible level of leverage. Events of default among others include cross-default to other DTEK debt.

As at 31 December, the Group's borrowings were denominated in the following currencies:

In millions of Ukrainian Hryvnia		2013	2012
Borrowings denominated in:	– UAH	941	1,810
	– US Dollars	11,663	5,083
	– Euros	6,996	6,744
	– Roubles	7,410	7,025
Total borrowings		**27,010**	**20,662**

As at 31 December, the Group's loans and borrowings maturity and re-pricing were as follows:

	Maturity		Interest re-pricing	
In millions of Ukrainian Hryvnia	2013	2012	2013	2013
Loans and borrowings due:				
– within 1 year	4,752	3,406	19,387	15,660
– between 1 and 5 years	21,015	16,852	7,623	5,002
– after 5 years	1,243	404	-	-
Total borrowings	**27,010**	**20,662**	**27,010**	**20,662**

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

	2013				2012			
In % per annum	**UAH**	**USD**	**EUR**	**RUB**	**UAH**	**USD**	**EUR**	**RUB**
	Kievprime 1m - 18%	Libor (3m -12m, after - 1m) + 5.2% - 9.5%	Euribor 6m + 1.4% - Euribor 3m +7%	Mosprime 3m + 3.4% - Mosprime 3m + 4.45%	9.25%-21%	LIBOR 6m + 0.5% - LIBOR 1m +6.5%	EURIBOR 6m + 0.94% - EURIBOR 3m + 7.5%	Mosprime 3m + 3.4% - 11%
Total borrowings	**27,010**	**20,662**	**27,010**	**20,662**	**1 810**	**5 083**	**6 744**	**7 025**

As at 31 December 2013, borrowings totalling UAH 1 million (31 December 2012: UAH 265 million) were secured with property, plant and equipment (Note 32).

19. Other Financial Liabilities

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

In millions of Ukrainian Hryvnia	2013	2012
Deferred consideration for acquisition	4,954	1,951
Restructured trade payables	1,454	1,303
Gross-settled derivative financial instruments	801	284
Payable for finance lease	233	230
Restructured taxes payable	32	71
Other long-term financial liabilities	29	21
Total non-current other financial liabilities	**7,503**	**3,860**

Restructured trade payables include UAH 1,349 million (31 December 2012: UAH 1,178 million) of restructured long-term payable to the energy seller monopolist state-owned Energorynok which sells the energy to distribution companies of the Group, and UAH 105 million of restructured trade payable for state-owned Vugillya Ukrayiny. Restructured trade payables are recognised at amortised cost and are discounted at a rate range of 14.8% to 19.30%.

During 2011 – 2013 DTEK concluded agreements for a swap of RUB loans with floating rate for a USD and EUR loans with fixed rate. As described in Note 3, the Group adopted hedge accounting for these transactions starting from 1 January 2013. The Group designated these swap agreements as cash flow hedge and recognised a net loss of UAH 281 million (2012: nil) in other comprehensive income, that was reclassified to foreign exchange gains from borrowings in amount of UAH 464 million (2012: nil) and finance costs in amount of UAH 67 million (2012: nil). In 2012 full fair value loss on the derivative amounting to UAH 284 million was recognised in finance costs in the income statement (Note 30).

As part of acquisition of mining assets in 2011, the Group assumed certain restructured tax obligations that are due between 2013 and 2030. The obligations have been discounted at implied rates in a range from 16.6% to 18.6%.

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

In millions of Ukrainian Hryvnia	2013	2012
Current portion of restructured trade payable	180	146
Current portion of deferred consideration	52	65
Restructured taxes payable	38	46
Current part of payable for finance lease	19	20
Other current financial liabilities	1	23
Total current other financial liabilities	**290**	**300**

20. Retirement Benefit Obligations

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

In 2013 the defined benefit plan covers 131,435 people, including 22,636 ex-employees (2012: 131,177 and 20,519 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	2013	2012 (as restated)
Retirement benefits	3,727	3,039
Retirement benefits - coal support	1,004	1,038
Lump sum payments	400	356
Present value of Retirement benefit obligation	**5,131**	**4,433**

The amounts recognised in the income statement were as follows:

In millions of Ukrainian Hryvnia	2013	2012 (as restated)
Current service cost	202	223
Interest cost (Note 30)	557	554
Sequester	1	(19)
Foreign exchange losses	(4)	4
Total	**756**	**762**

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

In millions of Ukrainian Hryvnia	2013	2012 (as restated)
Defined benefit obligation as at 1 January	**4,433**	**3,894**
Acquisition of subsidiaries (Note 33)	-	504
Current service cost	202	223
Interest cost (Note 30)	557	554
Sequester	1	(19)
Foreign exchange losses	(4)	4
Benefits paid	(630)	(582)
Re-measurements of the defined benefit obligation in other comprehensive income	572	(145)
Defined benefit obligation as at 31 December	**5,131**	**4,433**

The estimate of pension obligations requires significant judgement (see Note 4).

The principal actuarial assumptions used were as follows:

	2013	2012
Nominal discount rate	13.44%	13,53%
Nominal salary increase	5.00%	5,00%
Nominal pension entitlement increase	5.00%	5,00%

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

	2013	2012
The sensitivity of the defined benefit obligation to changes in the principal assumptions is as follows:	(6,30)/7,11%	(6,09%)/6,87%
Increase/decrease of nominal salary by 1%	2,69%/(2,48)	(2,58%)/2,36%
Increase/decrease of nominal pension by 1%	2,69%/(2,48)	(2,58%)/2,36%

Experience adjustments for 2013 do not exceed UAH 572 million (2012: UAH 146 million; 2011: UAH 400 million; 2010: UAH 91 million; 2009: UAH 599 million; 2008: UAH 402 million).

The present value of unfunded defined benefit obligations totalled to UAH 3,894 million as at 31 December 2011 (31 December 2010: UAH 1,912 million, 31 December 2009: UAH 1,655 million).

Payments in respect of post-employment benefit plan obligations expected to be made during the year ending 31 December 2014 are UAH 652 million (2013: UAH 638 million).

21. Provisions for Other Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

In millions of Ukrainian Hryvnia	Assets retirement provision	Provision for legal claims	Total
At 1 January 2012	**435**	**165**	**600**
Change in estimates	9	–	9
Arising during the year	–	13	13
Acquisition of subsidiaries (Note 33)	44	8	52
Unwinding of discount (Note 30)	57	–	57
Reversal of provision	–	(125)	(125)
Utilised	(15)	(13)	(28)
At 31 December 2012	**530**	**48**	**578**
Change in estimates	96	–	96
Arising during the year	–	2	2
Acquisition of subsidiaries (Note 33)	3	966	969
Unwinding of discount (Note 30)	56	–	56
Reversal of provision	–	(14)	(14)
Utilised	(6)	(8)	(14)
At 31 December 2013	**679**	**994**	**1 673**

The asset retirement provision is attributable to the mining and energy generating activities of the Group resulting from the obligation to dismantle and remove the mines and remediate soils disturbed by the underground works and ash dumps. The increase of the asset retirement obligation was recorded in other reserves as the Group uses the fair value model to measure property, plant and equipment (Note 17).

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

In millions of Ukrainian Hryvnia	2013	2012
Pre-tax discount rate	14.94%	15.72%
Inflation long-term	5.00%	5.00%
Inflation middle-term	7.00%	7.00%

22. Trade and Other Payables

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

In millions of Ukrainian Hryvnia	2013	2012
Trade payables	6,536	4,654
Liabilities for purchased property, plant and equipment	1,022	1,219
Dividends payable	62	51
Liabilities for purchased securities	17	35
Other creditors	222	315
Total financial payables	**7,859**	**6,274**
Accruals for employees' unused vacations	800	776
Wages and salaries payable	673	694
Long-term incentive bonus program for top executives (Note 7)	-	312
Other payables	65	106
Total non-financial payables	**1,538**	**1,888**
Total	**9,397**	**8,162**

Analysis by currency and future undiscounted cash flows of financial trade and other payables is as follows:

31 December 2013

In millions of Ukrainian Hryvnia	Trade payables	Liabilities for purchased securities	Liabilities for purchased property, plant and equipment	Dividends payable	Other creditors
Currency analysis:					
UAH denominated	6,458	17	935	62	217
USD denominated	6	-	41	-	3
EUR denominated	10	-	15	-	1
RUB denominated	59	-	28	-	1
GBP denominated	3	-	3	-	-
Total	**6,536**	**17**	**1,022**	**62**	**222**
Future undiscounted cash flow analysis:					
Up to 3 months	6,368	16	912	62	222
From 3 to 6 months	31	-	25	-	-
From 6 to 12 months	137	1	85	-	-
Total	**6,536**	**17**	**1,022**	**62**	**222**

31 December 2012

In millions of Ukrainian Hryvnia	Trade payables	Liabilities for purchased securities	Liabilities for purchased property, plant and equipment	Dividends payable	Other creditors
Currency analysis:					
UAH denominated	4,523	35	1,128	51	301
USD denominated	2	-	22	-	4
EUR denominated	29	-	1	-	9
RUB denominated	100	-	68	-	1
Total	**4,654**	**35**	**1,219**	**51**	**315**
Future undiscounted cash flow analysis:					
Up to 3 months	4,524	35	1,211	51	290
From 3 to 6 months	23	-	2	-	20
From 6 to 12 months	107	-	6	-	5
Total	**4,654**	**35**	**1,219**	**51**	**315**

23. Other Taxes Payable

As at 31 December other taxes payable were as follows:

In millions of Ukrainian Hryvnia	2013	2012
Value-added tax	781	405
Payroll taxes	393	416
Other taxes	539	338
Total other taxes payable	**1,713**	**1,159**

24. Revenue and Heat Tariff Compensation

Analysis of revenue by category is as follows:

In millions of Ukrainian Hryvnia	2013	2012
Sale of electricity to final customers	38,525	31,834
Sale of electricity to electricity pool	35,170	30,733
Sale of steaming and coking coal	6,167	7,059
Sale of electricity abroad	4,522	5,002
Heat generation	3,578	3,647
Sale of gas	2,949	-
Other sales	229	65
Total	**91,140**	**78,340**

Geographical analysis of revenue is presented in Note 6.

Heat tariff compensation

Heat tariff compensation is a government grant and represents the difference between heat tariff required to cover all production costs plus reasonable margin and that imposed by the State, compensated to the Group regularly. The amount of the difference to be compensated to the Group by the State for 2013 was UAH 1,677 million (2012: UAH 4,241 million).

25. Cost of Sales

In millions of Ukrainian Hryvnia	2013	2012
Cost of electricity purchased for resale	39,551	33,006
Raw materials	12,879	13,764
Staff cost, including payroll taxes	12,101	10,870
Depreciation of property, plant and equipment and amortisation of intangible assets net of amortisation of government grants	6,549	5,878
Transportation services and utilities	4,674	4,355
Cost of gas purchased for resale	2,417	-
Taxes, other than income tax	1,648	963
Production overheads	1,063	599
Equipment maintenance and repairs	653	713
Change in finished goods and work in progress	523	(478)
Cost of coal purchased for resale	362	1,060
Payment to Kyiv City State Administration for use of property, plant and equipment	238	2
Operating costs at Dobropolyeugol, Rovenkiantracyte, Sverdlovantracyte*	-	19
Other costs	37	27
Total	**82,695**	**70,778**

** Following the conclusion of concession agreements, DTEK paid an operating fee to the State entities until all employees were transferred to DTEK.*

26. Other Operating Income

In millions of Ukrainian Hryvnia	2013	2012
Net movement in provision for impairment of trade and other receivables and prepayments made (Note 14)	1,815	2,576
Income from reimbursement of cost of repairs	203	-
Penalties	97	102
Assets received free of charge	89	95
Income from write-off of provisions	84	124
Income from extinguishment of accounts payable	79	114
Income from recovery on previously written off trade receivables	24	29
Gain on sales of inventory	-	10
Income from sale of certified emission rights	-	10
Other	519	205
Total	**2,910**	**3,265**

Income from sale of certified emission rights was recognised at the moment when they were approved by the relevant authority and there was a binding contract to obtain economic benefits from their sale.

27. Distribution Costs

In millions of Ukrainian Hryvnia	2013	2012
Transportation	740	456
Staff cost, including payroll taxes	40	39
Depreciation	10	10
Other costs	177	89
Total	**967**	**594**

28. General and Administrative Expenses

In millions of Ukrainian Hryvnia	2013	2012
Staff cost, including payroll taxes	1,631	1,507
Office costs	192	87
Professional fees	313	297
Depreciation of property, plant and equipment and amortisation of intangible assets	175	136
Transportation	56	76
Taxes, other than income tax	32	45
Other costs	126	85
Total	**2,525**	**2,233**

29. Other Operating Expenses

In millions of Ukrainian Hryvnia	2013	2012
Social payments	502	397
Expenses on idle capacity	304	84
Charitable donations and sponsorship	203	86
Maintenance of social infrastructure	189	150
Loss from sales of services	99	-
Penalties	91	273
Loss from disposal of non-current assets	71	83
Non-recoverable VAT	48	53
Loss from sales of inventory	24	-
Other	249	282
Total	**1,780**	**1,408**

30. Finance Income and Finance Costs

In millions of Ukrainian Hryvnia	2013	2012
Gain on initial recognition of long term accounts payable	205	307
Interest income on bank deposits	199	256
Unwinding of discount on long-term restructured accounts receivable	13	25
Other finance income	53	14
Total finance income	**470**	**602**
Interest expense		
– bank borrowings	1,398	1,169
– bonds issued	565	379
Unwinding of discounts on pension obligations (Note 20)	557	554
Unwinding of discounts on deferred consideration related to acquisition	302	273
Unwinding of discounts on long term accounts payable	260	359
Loss on early repayment of long-term payables	203	977
Tender costs	188	-
Amortised cost expenses on borrowings	128	58
Unwinding of discounts on assets retirement provision (Note 21)	56	57
Loss on initial recognition of long-term restructured accounts receivable	13	2
Change in fair value of derivative financial instruments (Note 19)	1	284
Other finance costs	83	71
Total finance costs	**3,754**	**4,183**

Tender costs comprise costs related to the Tender Offer for cash up to an aggregate principal amount of USD 300 million of the outstanding USD 500 million 5 year Eurobonds due in 2015 (Note 18).

31. Income Taxes

Income tax expense comprises the following:

In millions of Ukrainian Hryvnia	2013	2012 (as restated)
Current tax	1,495	2,517
Deferred tax	361	(1,011)
Income tax expense	**1,856**	**1,506**

Deferred income tax related to items recognised in other comprehensive income:

In millions of Ukrainian Hryvnia	2013	2012 (as restated)
Change in asset retirement obligation	7	1
Unrealised gain on available-for-sale financial assets	-	(4)
Re-measurement of post-employment benefit obligations	92	(23)
Income tax reported in equity	**99**	**(26)**

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine). In 2013 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 19% (2012: 21%). In 2013, the tax rate for Cyprus operations was 12.5% (2012: 10%).

On 1 September 2013 the Law "On Changes to the Tax Code of Ukraine in respect of transfer pricing rules" came into effect. The new transfer pricing rules are much more detailed than previous legislation and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), if the transaction price is not arm's length and not supported by relevant documentation. The threshold for the reporting of controlled transactions is UAH 50 million (net of VAT, for all transactions with one counterparty cumulatively for the year). According to the tax changes, the Company is required to submit a report with details on controlled transactions by 1 May 2014, and relevant transfer pricing documentation not later than 1 month (2 months - select as appropriate) following the request of the tax office (if any).

Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

Given that the practice of implementation of the new transfer pricing rules in Ukraine has not yet developed, the impact of any challenge of the Company's transfer prices cannot be reliably estimated; however, it may eventually be significant to the financial position and/or the overall operations of the Group depending on how the local tax authorities implement the final rules.

On 2 December 2010, a new Tax Code was adopted in Ukraine effective from 1 January 2011. According to the new Tax Code the rates for corporate income tax are due to decrease from 25% to 16% in several stages during 2011-2016. Deferred tax assets and liabilities are measured at the income tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates prescribed by the new Tax Code.

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

In millions of Ukrainian Hryvnia	2013	2012 (as restated)
Profit before income tax, including	5,188	7,460
Profit before income tax of Ukrainian companies	5,530	7,282
(Loss)/profit before income tax of non-Ukrainian companies	(342)	178
Income tax at statutory rates of 19-21% (Ukrainian operations)	1,050	1,527
Profit taxed at different rates 25% (Dutch operations)	195	(11)
Profit taxed at different rates 10-12,5% (Cyprus operations)	(77)	60
Profit taxed at different rates 20% (Russian operations)	(93)	(73)
Profit taxed at different rates 23% (UK operations)	(4)	-
Effect of changes in income tax rates in Ukraine	4	(74)
Effect of changes in Tax legislation in Ukraine	40	-
Tax effect of items not deductible or assessable for taxation purposes:		
- non-deductible expenses	1,019	683
- non-taxable income	(334)	(697)
Share of result and impairment of associates	-	26
Share of result of associate on transfer to subsidiary and AFS transfer to subsidiary	-	94
Unrecognised deferred tax on tax losses carried forward	304	32
Tax effect of gain from a bargain purchase	(248)	(61)
Income tax expense	**1,856**	**1,506**

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

In millions of Ukrainian Hryvnia	2013	2012 (as restated)
Deferred tax asset	934	930
Deferred tax liability	(3,173)	(1,499)
Net deferred tax liability	**(2,239)**	**(569)**

	1 January 2013	Acquisition of subsidiaries (Note 33)	Credited/ (charged) to income	Charged to equity	31 December 2013
Tax effect of deductible temporary differences					
Trade and other payables	378	-	(19)	-	359
Provisions for other liabilities and charges	106	-	45	-	151
Retirement benefit obligations	719	-	16	92	827
Trade and other receivables	1,009	-	(425)	-	584
Prepayments received	57	-	(54)	-	3
Inventories	268	-	(138)	-	130
Deferred consideration	315	-	59	-	374
Tax losses	53	-	181	-	234
Financial investments	234	-	(75)	-	159
Gross deferred tax asset	**3,139**	**-**	**(410)**	**92**	**2,821**
Tax effect of taxable temporary differences					
Property, plant and equipment	(2,693)	(1,410)	363	7	(3,733)
Other financial liabilities	(997)	-	118	-	(879)
Prepayments made	(18)	2	(10)	-	(26)
Trade and other receivables	-	-	(422)	-	(422)
Gross deferred tax liability	**(3,708)**	**(1,408)**	**49**	**7**	**(5,060)**
Recognised deferred tax asset/(liability)	**(569)**	**(1,408)**	**(361)**	**99**	**(2,239)**

In millions of Ukrainian Hryvnia	1 January 2012	Acquisition of subsidiaries (Note 33)	Credited/ (charged) to income	Charged to equity	31 December 2012 (as restated)
Tax effect of deductible temporary differences					
Trade and other payables	142	76	160	–	378
Provisions for other liabilities and charges	99	15	(8)	–	106
Retirement benefit obligations	612	90	40	(23)	719
Trade and other receivables	237	801	(29)	–	1 009
Prepayments received	44	(7)	20	–	57
Inventories	30	29	209	–	268
Deferred consideration	281	–	34	–	315
Tax losses	103	–	(50)	–	53
Financial investments	51	(3)	190	(4)	234
Gross deferred tax asset	**1 599**	**1 001**	**566**	**(27)**	**3 139**
Tax effect of taxable temporary differences					
Property, plant and equipment	(1 856)	(1 461)	623	1	(2 693)
Other financial liabilities	(61)	(766)	(170)	–	(997)
Prepayments made	(10)	–	(8)	–	(18)
Gross deferred tax liability	**(1 927)**	**(2 227)**	**445**	**1**	**(3 708)**
Recognised deferred tax asset/(liability)	**(328)**	**(1 226)**	**1 011**	**(26)**	**(569)**

Financial investments and other financial liabilities include deferred tax recognised on amortisation of intercompany bonds.

As at 31 December 2013, the Group has not recorded a deferred tax liability in respect of taxable temporary differences of UAH 288 million (31 December 2012: UAH 537 million) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

As at 31 December 2013, net recognised deferred tax liability of UAH 312 million is expected to be recovered or settled within twelve months after the reporting period.

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

32. Contingencies, Commitments and Operating Risks

Tax legislation.

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

The Group conducts intercompany transactions. It is possible with evolution of the interpretation of tax law in Ukraine and changes in the approach of tax authorities under the new Tax Code, that such transactions could be challenged in the future. The impact of any such challenge cannot be estimated; however, management believes that it should not be significant.

The group has income tax liabilities in various countries. The ultimate tax consequences of many transactions and calculations are uncertain, partly because of uncertainty concerning their timing. The Group continually assesses such matters and where final tax sums differ from the estimates such differences are recognised as income tax provisions in the period in which the differences become apparent.

The Company is required to submit a report with details on controlled transactions by 1 May 2014 according to the tax changes, and relevant transfer pricing documentation not later than 1 month (2 months - select as appropriate) following the request of the tax office (if any).

Legal proceedings.

From time to time and in the normal course of business, claims against the Group are received. Management believes that it has provided for all material losses in these financial statements.

Capital expenditure commitments.

As at 31 December 2013 and 2012, the Group does not have contractual capital expenditure commitments in respect of property, plant and equipment.

In December 2012 Dniproenergo issued bonds at nominal value of UAH 1,010 million following the requirements of the amicable agreement to bring the entity out of bankruptcy. The bonds bear nominal interest of 0.01% and mature in 30 years. The bonds are aimed to finance Dniproenergo investment programme. All bonds were purchased by Pavlogradugol and Komsomolets Donbassa Mine.

Following the acquisition of mining assets in 2011, the Group is committed to fund their investment programmes totalling UAH 7,727 million during the period 2011 through 2016. As at 31 December 2013 the outstanding commitment equals UAH 3,926 million (31 December 2012: UAH 5,538 million).

Purchase commitments.

Future commitments for the purchase of the additional shares in Vanco is disclosed in financial investments (Note 12).

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

	2013		2012	
In millions of Ukrainian Hryvnia	Asset pledged	Related liability	Asset pledged	Related liability
Financial investments (Note 12)	962	1,045	84	128
Property, plant and equipment (Note 8)	433	1	555	265
Cash and cash equivalents (Note 12 and 15)	45	45	371	200
Total	**1,440**	**1,091**	**1,010**	**593**

The Group has pledged proceeds from future sales of electricity and part of future volume of electricity as security for certain borrowings. Total amount of the pledge is set in the pledge agreements, and the maximum exposure of the group is limited to the outstanding loan balance and related liabilities. As at 31 December 2013 future sales proceeds and the volume of electricity production in amount of UAH 1,910 million were pledged as security for borrowings amounting UAH 4 million (31 December 2012: future sales proceeds and production of electricity totalling UAH 9,606 million were pledged as security for the borrowings of UAH 514 million). Nominal limits for those borrowings comprised UAH 386 million as at 31 December 2013 (2012: UAH 3,121 million).

The Group has pledged proceeds from future export sales of coal as security for its borrowings. As at 31 December 2013 future sales proceeds of coal in amount of UAH 4,644 million were pledged as security for borrowings amounting UAH 2,960 million. (31 December 2012: no proceeds from future export sales of coal were pledged).

Environmental matters.

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

Compliance with covenants.

The Group is subject to certain covenants related primarily to its Eurobonds and bank borrowings. Non-compliance with such covenants may result in negative consequences for the Group, including increase in the cost of borrowings, declaration of default and demand for immediate repayment of borrowings. The Group is in compliance with covenants as at 31 December 2013 and 2012.

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. At present, Group's insurance policy incorporates "All Risks" Property Damage and Business Interruption coverage for generation and several mining companies as well as Marine Cargo, Construction «All Risks», Delay in Start-Up/ Advances Loss of Profits and Third Party Liability coverage for wind power generation companies. In particular, the policy covers losses resulting from loss or damage of property, plant and equipment and loss of profit resulting from business interruption. The Group does not have full coverage for third party liability in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have an adverse effect on the Group's operations.

Operating lease commitments.

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

In millions of Ukrainian Hryvnia	2013	2012
Not later than 1 year	115	236
Later than 1 year and not later than 5 years	9	6
Total operating lease commitments	**124**	**242**

Lease of land.

The Group leases the land on which its assets are located. The annual lease payment in 2013 amounted to UAH 126 million (2012: UAH 103 million). Those payments are cancellable lease commitments

33. Business Combinations

Naftogazvydobuvania

On 1 November 2013 the Group acquired 45.00% shares of Naftogazvydobuvania PrJSC ('Naftogazvydobuvania'), for a cash consideration of USD 225 million (UAH 1,798 million). The purchase and sale agreement includes certain provisions which may require the Group to pay additional consideration to the sellers, the fair value of which is included in the purchase accounting.

Naftogazvydobuvania is an oil and gas production company operating two gas fields located in Poltava, Ukraine.

The following table summarises the preliminary fair values of the net assets acquired and purchase consideration at the date of acquisition. Fair value of mining reserves was determined by independent appraisers. Management is still in process of determining the fair values of all assets and liabilities and purchase consideration.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	9 317
Intangible assets	11
Other non-current assets	5
Inventories	125
Trade and other receivables (gross UAH 1,334 million)	967
Cash and cash equivalents	60
Other current assets	3
Provisions for other liabilities and charges	(969)
Other financial liabilities – non-current	(3)
Deferred income tax liability	(1 410)
Trade and other payables	(219)
Income tax payable	(158)
Other taxes payable	(157)
Fair value of 100% of net assets acquired	**7 572**
55.00% non-controlling interest	**(4 165)**
Share of net assets acquired	**3 407**
Purchase consideration:	2 471
Fair value of consideration payable and paid	2 471
Gain from a bargain purchase	**(936)**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	60
Consideration paid for acquisition of subsidiary	(1 798)
Net outflow of cash on acquisition of subsidiary	(1 738)

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest. Gain from a bargain purchase of UAH 936 million is recognised in the income statement.

Revenue and net profit of Naftogazvydobuvania included in the consolidated income statement from the date of acquisition totaled UAH 665 million and UAH 277 million, respectively. Since Naftogazvydobuvania has not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2013.

On 9 December 2013 the Group acquired additional 5.00% shares of Naftogazvydobuvania for a cash consideration of UAH 2 million, thus taking its total share to 50.00%. The purchase and sale agreement includes certain provisions which may require the Group to pay additional consideration to the sellers, the fair value of which is included in the purchase accounting. This transaction is accounted for as acquisition of non-controlling interest.

Elektronaladka LLC

On 1 November 2013 the Group entered into agreements to acquire 99.00% of Elektronaladka LLC for a total cash consideration of UAH 1 million. Elektronaladka LLC is an engineering company which performs large-scale energy equipment modernization and new TPP power units' construction projects.

The following table summarises the preliminary fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined insignificant. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	6
Deferred income tax asset	2
Inventories	81
Trade and other receivables current	384
Cash and cash equivalents	1,290
Other current assets	327
Trade and other payables	(76)
Prepayments received	(1,957)
Fair value of 100% of net assets acquired	**57**
1.00% liability to non-controlling participants	**(1)**
Share of net assets acquired	**56**
Purchase consideration:	**1**
Fair value of consideration paid	1
Gain from a bargain purchase	**(55)**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	1 290
Consideration paid for acquisition of subsidiary	(1)
Net inflow of cash on acquisition of subsidiary	1 289

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Revenue and net loss of Elektronaladka LLC included in the consolidated income statement from the date of acquisition totaled UAH 42 million and UAH 5 million, respectively. Since Elektronaladka LLC has not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2013.

Acquisitions during 2012 – Dniproenergo

On 13 March 2012 the Group acquired 25.00% of Dniproenergo PJSC ('Dniproenergo') in a State organised privatisation auction, for a cash consideration of UAH 1,180 million, thus taking its total share to 72.93%.

Dniproenergo is a power generation company located in Zaporizhzhya, and was acquired via a) a series of transactions resulting in total interest acquired of 47.55% at a total cost of UAH 2,238 million, and b) via privatisation tender on 13 March 2012 resulting in additional 25% interest for a cash consideration of UAH 1,180 million.

The investment in Dniproenergo held prior to the acquisition was accounted for as investment in associate. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 206 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	4,633
Intangible assets	7
Other non-current assets	48
Inventories	623
Trade and other receivables (gross UAH 3,649 million)	1,780
Current income tax	29
Cash and cash equivalents	29
Borrowings	(1,045)
Other financial liabilities – non-current	(93)
Provisions for other liabilities and charges	(2)
Retirement benefit obligations	(198)
Deferred income tax liabilities	(261)
Trade and other payables	(998)
Other taxes payable	(227)
Fair value of 100% of net assets acquired	**4,325**
27.07% non-controlling interest	**(1,170)**
Share of net assets acquired	**3,155**
Purchase consideration:	**5,154**
Fair value of consideration paid	1,180
Fair value of previously held interest	3,974
Goodwill	**1,999**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	29
Consideration paid for acquisition of subsidiary	(1,180)
Net outflow of cash on acquisition of subsidiary	(1,151)

The non-controlling interest represents the share of the net assets of the acquiree attributable to the owners of the non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the purchase consideration and represents the expected future economic benefits from access to the Dniproenergo generation capacities due to synergies.

Revenue and net profit of Dniproenergo included in the consolidated income statement from the date of acquisition totaled UAH 7,546 million and UAH 1,355 million, respectively. If the acquisition had been completed on 1 January 2012, the revenues of the Group would be approximately UAH 1,685 million higher and net profit of the Group would be approximately UAH 400 million lower (unaudited).

Acquisitions during 2012 – Zakhidenergo

On 10 January 2012 the Group acquired 45.10% of Zakhidenergo PJSC ('Zakhidenergo') in a State organised privatisation auction, for a cash consideration of UAH 1,932 million, thus taking its total share to 70.94%.

Zakhidenergo PJSC is an electricity generation company located in Lviv.

The investment in Zakhidenergo held prior to the acquisition was accounted for as investment in associate. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 42 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment and intangible assets were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	3,031
Intangible assets	1,825
Other non-current assets	4
Inventories	528
Trade and other receivables (gross UAH 531 million)	393
Financial investments - current	30
Borrowings	(781)
Other financial liabilities – non-current	(26)
Retirement benefit obligations	(167)
Deferred income tax liabilities	(361)
Provisions for other liabilities and charges	(37)
Trade and other payables	(1,101)
Prepayments received	(640)
Other financial liabilities – current	(93)
Other taxes payable	(104)
Fair value of 100% of net assets acquired	**2,501**
29.06% non-controlling interest	**(727)**
Share of net assets acquired	**1,774**
Purchase consideration:	**3,039**
Fair value of consideration paid	1,932
Fair value of previously held interest	1,107
Goodwill	**1,265**

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the purchase consideration and represents the expected future economic benefits from access to the Zakhidenergo generation capacities due to synergies.

As a part of net assets acquired there is an intangible asset of UAH 1,823 million recognised representing the unique capability of Burshtyn thermal power plant to supply the Central European market with electricity ("Burshtyn electricity island"). This intangible asset has a definite useful life of 13 years and is depreciated on a straight line basis over this period. Respective deferred tax liability of UAH 302 million was recognised as a part of net assets acquired.

Revenue and net profit of Zakhidenergo included in the consolidated income statement from the date of acquisition totaled UAH 9,626 million and UAH 174 million, respectively. If the acquisition had been completed on 1 January 2012, the revenues of the Group would be approximately UAH 242 million higher and net profit of the Group would be approximately UAH 40 million lower (unaudited).

Acquisitions during 2012 – Donetskoblenergo

On 11 January 2012 the Group acquired 40.06% of Donetskoblenergo PJSC ('Donetskoblenergo') in a State organised privatisation auction, for a cash consideration of UAH 468 million, thus taking its total share to 71.34%.

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

The investment in Donetskoblenergo held prior to the acquisition was accounted for as investment in associate. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 137 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	1,957
Intangible assets	1
Other non-current assets	10
Inventories	46
Trade and other receivables (gross UAH 3,215 million)	367
Cash and cash equivalents	149
Borrowings	(30)
Other financial liabilities – non-current	(291)
Deferred income tax liabilities	(320)
Trade and other payables	(555)
Prepayments received	(260)
Income tax payable	(21)
Other taxes payable	(78)
Fair value of 100% of net assets acquired	**975**
28.66% non-controlling interest	**(279)**
Share of net assets acquired	**696**
Purchase consideration:	**832**
Fair value of consideration paid	468
Fair value of previously held interest	364
Goodwill	**136**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	149
Consideration paid for acquisition of subsidiary	(468)
Net outflow of cash on acquisition of subsidiary	(319)

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the purchase consideration and represents the expected future economic benefits from access to the Donetskoblenergo distribution network and the customer base due to synergies.

Revenue and net loss of Donetskoblenergo included in the consolidated income statement from the date of acquisition totaled UAH 5,355 million and UAH 168 million, respectively. If the acquisition had been completed on 1 January 2012, the revenues of the Group would be approximately UAH 169 million higher and net profit of the Group would be approximately UAH 4 million lower (unaudited).

Acquisitions during 2012 – Dniprooblenergo

On 17 April 2012 the Group acquired 50.00% shares of Dniprooblenergo PJSC ('Dniprooblenergo') in a State organised privatisation auction, for a cash consideration of UAH 660 million thus taking its total share to 51.50%.

Dniprooblenergo PJSC is an electricity distribution company located in Dnipropetrovsk.

The investment in Dniprooblenergo held prior to the acquisition was accounted for as available for sale investment. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 59 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	2,486
Intangible assets	12
Inventories	75
Trade and other receivables (gross UAH 1,813 million)	379
Cash and cash equivalents	41
Other financial liabilities – non-current	(687)
Deferred income tax liability	(83)
Trade and other payables	(586)
Prepayments received	(341)
Current income tax payable	(12)
Other taxes payable	(55)
Fair value of 100% of net assets acquired	**1,229**
48.50% non-controlling interest	**(596)**
Share of net assets acquired	**633**
Purchase consideration:	**680**
Fair value of consideration paid	660
Fair value of previously held interest	20
Goodwill	**47**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	41
Consideration paid for acquisition of subsidiary	(660)
Net outflow of cash on acquisition of subsidiary	(619)

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the purchase consideration and represents the expected future economic benefits from access to the Dniprooblenergo distribution network and the customer base due to synergies.

Revenue and net profit of Dniprooblenergo included in the consolidated income statement from the date of acquisition totaled UAH 11,230 million and UAH 268 million, respectively. Since Dniprooblenergo has not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

Acquisitions during 2012 – Krymenergo

On 5 May 2012 the Group acquired 45.00% shares of Krymenergo PJSC ('Krymenergo') in a State organised privatisation auction, for a cash consideration of UAH 256 million thus taking its total share to 57.49%.

Krymenergo PJSC is an electricity distribution company located in Simferopol, Ukraine.

The investment in Krymenergo held prior to the acquisition was accounted for as available for sale investment. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 4 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	2,322
Intangible assets	3
Financial investments – non-current	5
Other non-current assets	19
Inventories	14
Trade and other receivables (gross UAH 1,001 million)	103
Cash and cash equivalents	28
Borrowings	(21)
Other financial liabilities – non-current	(444)
Deferred income tax liability	(155)
Trade and other payables	(88)
Prepayments received	(125)
Current income tax payable	(13)
Other taxes payable	(28)
Fair value of 100% of net assets acquired	**1,620**
42.51% non-controlling interest	**(689)**
Share of net assets acquired	**931**
Purchase consideration:	**327**
Fair value of consideration paid	256
Fair value of previously held interest	71
Gain from a bargain purchase	**(604)**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	28
Consideration paid for acquisition of subsidiary	(256)
Net outflow of cash on acquisition of subsidiary	(228)

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Gain from a bargain purchase has been computed as the difference between the net assets acquired and the purchase consideration and occurred as a result of the term and conditions set out in the privatisation process used by the State Property Fund in establishing the starting price calculation. Gain from a bargain purchase is recognised in the income statement.

Revenue and net profit of Krymenergo included in the consolidated income statement from the date of acquisition totaled UAH 1,640 million and UAH 30 million, respectively. Since Krymenergo has not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

Acquisitions during 2012 – Bilozerska Mine

On 17 and 24 February 2012 the Group entered into agreements to acquire 95.44% of Bilozerska Mine ALC for a total cash consideration of UAH 202 million. Bilozerska Mine operates one coal mine located in the Donetsk region of Ukraine producing 0.60 million tons of coal per annum.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management in the year of acquisition and no subsequent adjustments were made.

In millions of Ukrainian Hryvnia	
Property, plant and equipment, including mineral reserves	1,100
Intangible assets	1
Inventories	24
Trade and other receivables (gross UAH 20 million)	20
Borrowings	(289)
Retirement benefit obligations	(94)
Other financial liabilities – non-current	(267)
Deferred income tax liability	(32)
Trade and other payables	(64)
Prepayments received	(142)
Other taxes payable	(45)
Fair value of 100% of net assets acquired	**212**
4.60% liability to non-controlling participants	**(10)**
Share of net assets acquired	**202**
Fair value of consideration paid	**202**

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Revenue and net loss of Bilozerska Mine included in the consolidated income statement from the date of acquisition totaled UAH 271 million and UAH 131 million, respectively. Since Bilozerska Mine has not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

Acquisitions during 2012 – Rostov Mines

During June 2012 the Group entered into agreement to acquire 100% of Public company Don-Anthracite, Public Mining Corporation Obukhovskaya, and Sulinathracite LLC, for a total cash consideration UAH 310 million. Those companies represent three mines located in Rostov region, Russian Federation.

The following table summarises the fair values of the net assets acquired at the date of acquisition. The fair values of all other assets and liabilities were determined by management in the year of acquisition and no subsequent adjustments were made.

In case the subsoil exploration licences acquired in this business combination are not renewed by the Group in 2013, DTEK will have the right to claim the associated losses and expenses incurred against the previous owner of the Rostov mines. The latter will have the right to exercise a call option to buy the shares of the mines back. Until this call option agreement is terminated DTEK may not sell any of the shares or debt acquired from the previous owner or make any changes to the common shares of the entities acquired.

Revenue and net loss of Rostov Mines included in the consolidated income statement from the date of acquisition totaled UAH 102 million and UAH 387 million, respectively. Since Rostov Mines have not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

In millions of Ukrainian Hryvnia	
Property, plant and equipment, including mineral reserves	420
Intangible assets	16
Inventories	32
Trade and other receivables (gross UAH 46 million)	46
Cash and cash equivalents	14
Borrowings	(89)
Provisions for other liabilities and charges	(13)
Retirement benefit obligations	(45)
Deferred income tax liability	(14)
Trade and other payables	(57)
Fair value of 100% of net assets acquired	**310**
Share of net assets acquired	**310**
Fair value of consideration paid	**310**
Cash flows on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	14
Consideration for acquiree's debt to previous owner	(307)
Consideration paid for acquisition of subsidiary	(3)
Net outflow of cash on acquisition of subsidiary	**(296)**

34. Financial Risk Management

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

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

Credit risk.

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

Credit risk is managed on an entity by entity basis with oversight by the Group. Credit risk arises from cash and cash equivalents, financial instruments and deposits with banks, as well as credit exposure to wholesale and retail customers, including outstanding receivables and committed transactions. For Banks only SCM related banks or upper tier Ukrainian banks are accepted, which are considered at time of deposit to have minimal risk of default. Customers can be analysed between Energorynok SE, which buys 100% of electricity generated, industrial consumers and other. Due to the monopolistic nature of electricity supply by region, the Group cannot choose its customers, and instead must supply all customers within its distribution network. Sales are metered and management monitors ageing of receivables for industrial customers on a regular basis and ultimately may cut off supply for delinquent customers. For supply to municipal and the general populous, due to the low tariff structure and the political nature of disrupting supply management will continue to supply in the event non-payment and will use non-payment as justification for higher tariff increases for industrial customers. The exposure to credit risk for other customers is approved and monitored on an ongoing basis individually for all significant customers. The Group does not require collateral in respect of trade and other receivables.

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

The maximum exposure to credit risk at the reporting date is UAH 15,875 million (2012: UAH 10,477 million) being carrying value of financial investments, trade and other receivables and cash. The Group does not hold any collateral as security.

Credit risks concentration.

The Group is exposed to concentrations of credit risk.

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

Counterparty	Classification in balance sheet	31 December 2013	31 December 2012
First Ukrainian International Bank (FUIB)**	Cash and cash equivalents	2,437	1,292
Ukrsotsbank PJSC*	Cash and cash equivalents	1,484	983
State Savings Bank of Ukraine PJSC*	Cash and cash equivalents	492	1,274
Deutsche Bank AG Amsterdam	Cash and cash equivalents	366	-
VTB Bank PJSC*	Cash and cash equivalents	142	279
Sberbank of Russia	Cash and cash equivalents	133	111
Russian Commercial Bank	Cash and cash equivalents	66	75
Ukrsibbank PJSC*	Cash and cash equivalents	62	158
Subsidiary Bank Sberbank of Russia PJSC*	Cash and cash equivalents	11	224
Marfin Popular Bank	Cash and cash equivalents	-	208
Ukreximbank PJSC*	Cash and cash equivalents	-	196
Prominvestbank PJSC*	Cash and cash equivalents	-	285
OTP Bank CJSC*	Cash and cash equivalents	-	109
Ukrsotsbank PJSC*	Financial investment	696	-
First Ukrainian International Bank (FUIB)**	Financial investment	205	-
State Savings Bank of Ukraine PJSC*	Financial investment	93	17
State Company Energorynok	Trade and other receivables	3,177	1,824
State Company Vugillya Ukrainy	Trade and other receivables	690	-
State Company Voda Donbassu	Trade and other receivables	584	-
Kievvodokanal OJSC	Trade and other receivables	236	-
Komenergoservis	Trade and other receivables	150	-
AZTECREACH TRADING LIMITED	Trade and other receivables	127	-
EDF Trading Limited	Trade and other receivables	105	-
Metinvest Holding LLC**	Trade and other receivables	-	220

** These banks rank in the top 35 Ukrainian banks by size of total assets and capital (per National Bank of Ukraine).*

*** FUIB and Metinvest Holding are subsidiaries of SCM.*

Market risk.

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

Currency risk.

The Group primarily operates within Ukraine and accordingly its exposure to foreign currency risk is determined mainly by borrowings, gross settled derivative financial instruments, cash balances and deposits, which are denominated in or linked to USD, EUR and RUB., Increasing domestic uncertainty, led to volatility in the currency exchange market and resulted in significant downward pressure on the Ukrainian Hryvnia relative to major foreign currencies. While management monitors this exchange exposure, the Group hedges its USD, RUB and EUR currency positions.

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

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

	At 31 December 2013		At 31 December 2012	
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% (2012: 25%)	(4,459)	(4,459)	(2,931)	(2,931)
USD weakening by 25% (2012: 25%)	4,459	4,459	2,931	2,931
Euro strengthening by 25% (2012: 25%)	(2,015)	(2,015)	(1,499)	(1,499)
Euro weakening by 25% (2012: 25%)	2,015	2,015	1,499	1,499

Interest rate risk.

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

At 31 December 2013 and 2012, the majority of the Group's variable interest debt is USD, RUB and EUR denominated. As at 31 December 2013, 70% of the total borrowings was provided to the Group at floating rates (31 December 2012: 69 %).

The Group's exposure to fixed or variable rates is determined at the time of issuing new debt. Management uses its judgment to decide whether fixed or variable rate would be more favourable to the Group over the expected period until maturity. The risk of increase in market interest rates is monitored by the Corporate Finance Department of the Company together with the Treasury Department. The Corporate Finance Department is responsible for planning the financing structure (levels of leverage) and borrowing activities. The key objectives to financing is reduction of borrowing costs, matching currency of borrowings with currency of proceeds from operating activities, and agreeing maturity profile of borrowings with liquidity needs.

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

The maturity dates and effective interest rates of financial instruments are disclosed in Note18. Re-pricing for fixed rate financial instruments occurs at maturity of fixed rate financial instruments. Re-pricing of floating rate financial instruments occurs continually.

At 31 December 2013, if interest rates on USD, EUR and RUB denominated borrowings had been 200 basis points higher with all other variables held constant, post-tax profit for the year would have been UAH 184 million lower (2012: UAH 136 million lower).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months and subsequently until the repayment of borrowings. Gains and losses recognised in the hedging reserve in equity (Note 17) on cross-currency interest rate swap arrangements as of 31 December 2013 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement.

At 31 December 2013, the fixed interest rates vary from 6.4% to 18% (2012: 7.75% to 19%). As described in Note 18, borrowings of the Group are at different floating rates, but hedged borrowings are at MOSPRIME. Gains and losses recognised in the hedging reserve in equity (Note 17) on cross-currency interest rate swap arrangements as of 31 December 2013 will be continuously released to the income statement within finance cost until the repayment of the bank borrowings (Note 18).

Other price risk.

The Group has limited exposure to commodity price risk on electricity supply as pricing is determined based on the competitive pool model adopted by the National Electricity Regulatory Committee of Ukraine. The Group produces the majority of the coal needed to power the Group's generators and manages coal production to meet demand, however the Group is exposed to some commodity price risk on coal as the Group exports coal. To manage this risk, the Group enters into sales contracts for coal at fixed prices.

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

If the equity quotations of the Group's investments had increased by 10% as at 31 December 2013 and 2012, with all other factors being equal, the Group's equity at 31 December 2013 would have increased by UAH 5 million (31 December 2012: UAH 4 million).

Liquidity risk.

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

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are undiscounted cash flows. The maturity analysis of financial liabilities at 31 December 2013 is as follows:

In millions of Ukrainian Hryvnia	Up to 6 months	6 -12 months	1 - 2 years	2 - 5 years	Over 5 years	Total
Liabilities						
Borrowings (Note 18)	2,179	3,503	6,966	8,667	1,313	22,628
Eurobonds (Note 18)	314	312	2,147	7,175	-	9,948
Gross settled derivative financial instruments – outflows	244	1,577	3,674	3,183	-	8,678
Gross settled derivative financial instruments – inflows	(378)	(1,621)	(3,624)	(3,140)	-	(8,763)
Other financial liabilities - external (Note 19)	109	233	566	3,087	61,737	65,732
Trade and other payables (Note 22)	7,636	223	-	-	-	7,859
Total future payments, including future principal and interest payments	**10,104**	**4,227**	**9,729**	**18,972**	**63,050**	**106,082**

The maturity analysis of financial liabilities at 31 December 2012 is as follows:

In millions of Ukrainian Hryvnia	Up to 6 months	6 -12 months	1 - 2 years	2 - 5 years	Over 5 years	Total
Liabilities						
Borrowings (Note 18)	2,749	1,910	4,312	10,802	557	20,330
Eurobonds (Note 18)	256	194	385	4,123	-	4,958
Gross settled derivative financial instruments – outflows	214	220	1,760	5,691	-	7,885
Gross settled derivative financial instruments – inflows	(375)	(376)	(2,093)	(5,980)	-	(8,824)
Other financial liabilities - external (Note 19)	131	99	315	1,885	61,957	64,387
Trade and other payables (Note 22)	6,156	118	-	-	-	6,274
Total future payments, including future principal and interest payments	**9,131**	**2,165**	**4,679**	**16,521**	**62,514**	**95,010**

Other financial liability external represents undiscounted future cash flows for deferred consideration payable related to acquisition of Dobropolyeugol, Rovenkiatrantracyte and Sverdlovantracyte, finance lease liability related to acquisition of Bilozerska Mine ALC and other balances.

35. Management of Capital

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

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

The Group has yet to determine its optimum gearing ratio. Presently, the majority of debt is due within 2 – 5 years and the Group is actively pursuing mechanisms to extend the credit terms to match its long-term investment strategy. The Group has obtained a credit rating that matches the Sovereign rating of Ukraine.

In millions of Ukrainian Hryvnia	31 December 2013	31 December 2012 (as restated)
Total net debt	21 767	15 302
Total equity	34 718	32 526
Debt to equity ratio	62,70 %	47,05 %

36. Fair Value of Assets and Liabilities

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

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

Financial instruments carried at fair value.

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

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

Financial assets carried at amortised cost.

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

Liabilities carried at amortised cost.

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

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three

measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period:

Financial instruments carried at fair value.

Trading and available-for-sale investments and financial derivatives are carried in the statement of financial position at their fair value.

The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

In millions of Ukrainian Hryvnia	31 December 2013 Level 1	31 December 2013 Level 2	31 December 2012 Level 1	31 December 2012 Level 2
FINANCIAL ASSETS Financial investments				
Securities quoted on Ukrainian stock market (Note 12)	46	–	45	–
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**46**	**–**	**45**	**–**
FINANCIAL LIABILITIES Other financial liabilities				
Gross-settled derivative financial instruments (Note 19)	–	801	–	284
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	**–**	**801**	**–**	**284**

(b) Non-recurring fair value measurements

The Group uses the revaluation model to measure property, plant and equipment. The frequency of valuation depends on movements in fair values of the assets being revalued. Management performs an annual assessment to ensure that the carrying amount of property, plant and equipment is not materially different from its fair value. In case of substantial differences the Group engages external, independent and qualified valuers to determine the fair value of the Group's property, plant and equipment.

The external valuations of the level 3 property, plant and equipment are performed using depreciated replacement cost approach. The external valuers, in discussion with the Group's internal valuation team, determine the inputs based on comparative prices for similar groups of property, plant and equipment or in case of unique specific assets determine cost of construction of similar assets. Then results are adjusted for size, location, depreciation and other conditions specific for the assets.

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy of assets and liabilities not measured at fair value are as follows:

In millions of Ukrainian Hryvnia	31 December 2013 Level 1	31 December 2013 Level 2	31 December 2013 Balance value	31 December 2012 Level 1	31 December 2012 Level 2	31 December 2012 Balance value
FINANCIAL ASSETS						
Cash and cash equivalents (Note 15)						
- Bank balances payable on demand	-	4,735	4,735	-	4,759	4,759
- Term deposits	-	135	135	-	310	310
- Restricted cash	-	373	373	-	291	291
Trade and other receivables (Note 14)						
- Trade receivables	-	8,738	8,738	-	4,702	4,702
- Other financial receivables	-	226	226	-	132	132
Other non-current assets						
Trade and other receivables - non-current	-	64	64	-	46	50
Financial investments (Note 12)						
- Prepayment for shares	-	280	280	-	160	160
- Deposits placed with the maturity more than three months	-	1,262	1,262	-	102	102
- Restricted cash	-	53	53	-	80	80
- Loans receivable	-	9	9	-	1	1
TOTAL ASSETS	**-**	**15,875**	**15,875**	**-**	**10,583**	**10,587**
FINANCIAL LIABILITIES						
Liability to non-controlling participants	-	11	11	-	5	5
Borrowings (Note 18)	-	19,532	19,532	-	16,715	16,721
Eurobonds (Note 18)	7,358	-	7,478	4,113	-	3,941
Other financial liabilities – non-current (Note 19)	-	6,817	6,702	-	3,816	3,576
Deferred consideration (Note 19)	-	290	290	-	300	300
Trade and other payables (Note 22)	-	7,859	7,859	-	6,274	6,274
TOTAL LIABILITIES	**7,358**	**34,509**	**41,872**	**4,113**	**27,110**	**30,817**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements:

In millions of Ukrainian Hryvnia	Fair value 2013	2012	Valuation technique	Inputs used
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
Trading securities				
Cash and cash equivalents (Note 15)				
- Bank balances payable on demand	4,735	4,759	Current cost accounting	
- Term deposits	135	310	Current cost accounting	
- Restricted cash	373	291	Current cost accounting	
Trade and other receivables (Note 14)				
- Trade receivables	8,738	4,702	Current cost accounting	
- Other financial receivables	226	132	Current cost accounting	
Other non-current assets				
Trade and other receivables - non-current	64	46	Discounted cash flows	Cost of term deposits pursuant to reporting statistical data of Ukrainian banks
Financial investments (Note 12)				
- Prepayment for shares	280	160	Current cost accounting	
- Deposits placed with the maturity more than three months	1,262	102	Current cost accounting	
- Restricted cash	53	80	Current cost accounting	
- Loans receivable	9	1	Current cost accounting	
LIABILITIES CARRIED AT FAIR VALUE				
Liability to non-controlling participants	11	5	Current cost accounting	
Borrowings (Note 18)	19,532	16,715	Current cost accounting	
Other financial liabilities – non-current (Note 19)	6,817	3,816	Discounted cash flows	Cost of loans pursuant to statistical data reporting of Ukrainian banks
Gross-settled derivative financial instruments (Note 19)	801	284	Futures pricing models - MTM	
Deferred consideration (Note 19)	290	300	Current cost accounting	
Trade and other payables (Note 22)	7,859	6,274	Current cost accounting	

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2013 (2012: none).

37. Reconciliation of Classes of Financial Instruments with Measurement Categories

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2013:

In millions of Ukrainian Hryvnia	Cash, financial investments and receivables	Available for sale assets	Total
ASSETS			
Cash and cash equivalents (Note 15)			
- Bank balances payable on demand	4,735	-	4,735
- Term deposits	135	-	135
- Restricted cash	373	-	373
Trade and other receivables (Note 14)			
- Trade receivables	8,738	-	8,738
- Other financial receivables	226	-	226
Other non-current assets			
- Trade and other receivables - non-current	64	-	64
Financial investments (Note 12)			
- Equity securities	-	46	46
- Prepayment for shares	280	-	280
- Deposits placed with the maturity more than three months	1,262	-	1,262
- Loans receivable	9	-	9
- Restricted cash	53	-	53
TOTAL FINANCIAL ASSETS	**15,875**	**46**	**15,921**
NON-FINANCIAL ASSETS	-	-	**79,223**
TOTAL ASSETS			**95,144**

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2012:

In millions of Ukrainian Hryvnia	Cash, financial investments and receivables	Available for sale assets	Total
ASSETS			
Cash and cash equivalents (Note 15)			
- Bank balances payable on demand	4,759	-	4,759
- Term deposits	310	-	310
- Restricted cash	291	-	291
Trade and other receivables (Note 14)			
- Trade receivables	4,702	-	4,702
- Other financial receivables	132	-	132
Other non-current assets			
- Trade and other receivables - non-current	50	-	50
Financial investments (Note 12)			
- Equity securities	-	45	45
- Prepayment for shares	160	-	160
- Deposits placed with the maturity more than three months	102	-	102
- Loans receivable	1	-	1
- Restricted cash	80	-	80
TOTAL FINANCIAL ASSETS	**10,587**	**45**	**10,632**
NON-FINANCIAL ASSETS	-	-	**66,253**
TOTAL ASSETS			**76,885**

The following table provides a reconciliation of classes of financial liabilities with these measurement categories as at 31 December 2013:

In millions of Ukrainian Hryvnia	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
LIABILITIES				
Borrowings and Eurobonds (Note 18)	-	-	27,010	27,010
Restructured financial liabilities (Note 19)	-	-	1,704	1,704
Trade and other payables excluding non-financial liabilities (Note 22)	-	-	7,859	7,859
Derivative financial instruments (Note 19)	-	801	-	801
Other financial liabilities	-	-	5,299	5,299
TOTAL FINANCIAL LIABILITIES	**–**	**801**	**41,872**	**42,673**
NON-FINANCIAL LIABILITIES				**17,753**
TOTAL LIABILITIES				**60,426**

The following table provides a reconciliation of classes of financial liabilities with these measurement categories as at 31 December 2012:

In millions of Ukrainian Hryvnia	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
LIABILITIES				
Borrowings and Eurobonds	-	-	20,662	20,662
Restructured financial liabilities	-	-	1,566	1,566
Trade and other payables excluding non-financial liabilities	-	-	6,274	6,274
Derivative financial instruments	284	-	-	284
Other financial liabilities	-	-	2,315	2,315
TOTAL FINANCIAL LIABILITIES	**284**	**–**	**30,817**	**31,101**
NON-FINANCIAL LIABILITIES				**13,258**
TOTAL LIABILITIES				**44,359**

38. Subsequent events

There were no significant events subsequent to the year end.