

# BRIEF ON KEY BUSINESS ISSUES

№22 31.07.2015 Kyiv

## Coal stocks at DTEK and other power plants, k/mts

	01.01.2014	30.07.2015	%, 2015/2014	min. essential level of stocks*	%, 2015/min stocks
<b>DTEK TPPs</b>	<b>2 378</b>	<b>1 127</b>	<b>-53%</b>	<b>1741</b>	<b>-35%</b>
G+DG grade including:	1 680	653	-61%	1518	-57%
Zaporiz`ka	260	121	-53%	287	-58%
Ladyzhins`ka	278	53	-81%	324	-84%
Burshtyns`ka	375	326	-13%	437	-25%
Dobrotvirs`ka	115	91	-20%	88	4%
Zuyivs`ka	255	26	-90%	60	-56%
Kurahivs`ka	399	35	-91%	322	-89%
A+T grade including:	697	474	-32%	223	113%
Krivoriz`ka	318	5	-99%	81	-94%
Prydniprovs`ka	232	3	-99%	74	-96%
Luhans`ka	147	467	217%	68	587%
<b>Other Ukrainian TPPs</b>	<b>1 749</b>	<b>302</b>	<b>-83%</b>	<b>736</b>	<b>-59%</b>
G+DG grade	178	165	-8%	165	0%
A+T grade	1 571	137	-91%	571	-76%
<b>All Ukrainian TPPs</b>	<b>4 126</b>	<b>1 429</b>	<b>-65%</b>	<b>2477</b>	<b>-42%</b>
G+DG grade	1 858	818	-56%	1683	-51%
A+T grade	2 268	611	-73%	794	-23%

\* - on the basis of coal reserves for 1 month of work in the mode of the ministerial forecast balance for December 2015

## Coal delivery out of temporarily occupied territories of Donbas

From 1<sup>st</sup> January to 15<sup>th</sup> July 1394 k/mts of coal were supplied to our TPPs; this amount consists of 429 k/mts delivered via Russia (to Luhanska TPP) and 965 k/mts delivered directly to our TPPs through the temporarily occupied territories of Donbas (Luhanska, Prydniprovska and Kryvorizka TPPs). In total, coal stocks on the occupied territories reach 2100 k/mts; this potentially is a 6-months' coal supply for the Luhanska and Prydniprovska TPPs.

## DTEK's thermal power plants are getting ready for the heating season (as per press-release on July 27<sup>th</sup>)

DTEK is making every effort to make its TPPs ready for the coming heating season. The **key factors influencing the preparation for the autumn-winter season** by DTEK's TPPs are the following:

1. Coal stocks at anthracite-fired DTEK's TPPs have reached critical minimum. Currently, DTEK Prydniprovska TPP has 10 k/mts of coal (vs. 276 k/mts in 2014), Kryvorizka TPP—6 k/mts (355 ths in 2014). Luganska TPP has accumulated about 460 k/mts of coal, but the plant's capacity to deliver generated electricity to grid is limited due to the damaged overhead transmission lines owned by the national energy company Ukrenergo. No repair activities are taking place. To go through the autumn-winter period, Prydniprovska, Kryvorizka and Luganska TPPs need 160, 280 and 160 thousand tonnes, respectively. Anthracite supplies

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from the anti-terrorist operation (ATO) zone are still limited. It is impossible to import coal as its price is too high and is not covered by the TPP's tariff.

2. The issue of coal transportation from the territory non-controlled by Ukraine has not been resolved. For more than a year the state has been failing to propose a comprehensive solution to the problem with transportation of coal needed by Ukrainian TPPs. The railway infrastructure in the ATO zone has been heavily damaged; the lack of locomotive haulage and empty railway cars remains an issue. That is why since 1 July 2015, only 32 cars of coal were shipped from DTEK Rovenkyanthracite and DTEK Sverdlovanthracite, the key producers of the hard-to-find anthracite coal, to Prydniprovaska TPP and Kryvorizka TPP while the potential shipment is 38 to 114 cars per day; and the actual shipment of coal from DTEK Mine Komsomolets Donbassa is 50 cars per day with the potential of 100-120 cars per day.
3. The electricity tariff set for TPPs does not cover even 85% of its production cost. In January–June 2015, the average tariff for thermal power generators was 81 kop./kWh, while the production cost for the period was 96 kop./kWh. In 1H2015 TPPs generated loss of UAH 3.3 mln; profitability reached -15%.
4. Debts of state enterprise Energorynok to DTEK's generating plants have been growing. As of 22 July 2015, underpayment by Energorynok to DTEK's TPPs amounted to UAH 6.4 bln, which provisionally equals 2.5 months of unpaid running of the company's units in 2015.
5. We have to scale down the overhauls campaign due to the loss-making tariff and Energorynok's debts. In 2015, DTEK has had to downsize its investments in the overhauls of 22 TPP units by UAH 670 mln. In total, in 2015 DTEK will invest UAH 2.4 bln in the overhauls of its TPPs. For reference, in the overhauls of the generating units of all its ten TPPs, DTEK invested UAH 3.9 bln in 2013 and UAH 3.1 bln in 2014.

**Necessary steps to overcome the crisis** in the thermal energy sector of Ukraine and be prepared for the coming winter:

1. Ensure that Energorynok's debt to thermal generation is reduced and an economically justified tariff is set for the TPPs of the generating companies, which takes into account the market price of fuel;
2. Exercise a consistent approach to the issue of coal transportation from the non-controlled territory (NCT): restore the railway infrastructure along the line of contact with the area of hostilities, redirect additional locomotives and empty cars from other sections of the Ukrainian Railways to the Donetsk Railway;
3. Ensure that Ukrenergo NEC restores the damaged main electric networks to enable the full-fledged operations of Luganska TPP, Zuvivska TPP, Kurakhivska TPP, Myronivska TPP, Starobeshivska TPP and Vuglegirska TPP in the unified energy system of Ukraine.

**DTEK is taking the following measures to be prepared for the autumn-winter period:**

1. DTEK is doing its best to regularly restore the ruined railway infrastructure to ship coal from the temporarily occupied territories.
2. DTEK is making every effort to accumulate coal at its TPPs. As of 27 July 2015, DTEK Burshtynska TPP had 340 k/mts of coal, Dobrotvirska TPP — 98 k/mts, Ladyzhynska TPP — 67 tns, Kurakhivska TPP — 50 k/mts, Zaporizka TPP — 114 k/mts, Luganska TPP — 460 k/mts. As of 27 July 2015, total stocks of DTEK's TPPs amounted to 1.2 mln tonnes of coal.
3. In 2015, DTEK has already repaired 23 generating units and 2 boilers out of planned repairs of 53 units, 3 turbines, and 7 boilers. Currently, one power unit and one turbine are undergoing major overhaul and 5 units and one boiler — routine repairs. We have already invested about UAH 516 mln out of UAH 2.4 bln planned for 2015 in the repair campaign. Yet, if debts to the thermal generation sector neither reduce, nor the electricity supply tariff is balanced, it will be impossible to perform the rest of the overhauls at the power plants. In order to compensate the missing capacity of anthracite-fired TPPs, DTEK is doing its best to ensure stable running of its G-grade coal TPPs (despite the increased and non-standard workload).

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4. DTEK Zakhidenergo submitted all required information on changes in the configuration of Burshtynska TPP units operation to NEC Ukrenergo. If the set-up of the networks of the Burshtyn Energy Island does not change, only 2 out of 12 Burshtynska TPP units will be able to supply electricity to the United Energy System of Ukraine. In 2014, the Company made units 8 and 9 of Burshtynska TPP work within the Ukrainian grid. In November 2014, the Company also informed NEC Ukrenergo on the possibility of switching additional unit No. 11 to the United Energy System of Ukraine. At the same time it should be noted that such operation of unit No.11 will reduce the reliability of the 330 kV network of DTEK Burshtynska TPP. Furthermore, Ukrenergo should get approval of the project on changing the configuration of the Burshtyn Island with European system operators: Bayernwerk AG (Munich), Magyar Villamos Művek Rt. (Budapest), Slovenské Elektrarne a.s. (Bratislava), Polskie Sieci Elektroenergetyczne S.A. (Warsaw), and Österreichische Elektrizitätswirtschaft-AG (Vienna).

## Unlawful court decision on the re-privatization of Dniproenergo (cont., see Briefs #18&20)

DTEK intends to file an appeal against the decision of the Kyiv Commercial Court on the claim filed by the General Prosecutor's Office of Ukraine (GPO) against the Cabinet of Ministers of Ukraine (CMU), the State Property Fund of Ukraine (SPF) and DTEK Holdings Limited (Cyprus) on acknowledging the privatization of 25% of shares in Dniproenergo illegal.

“We believe today's decision of the Kyiv Commercial Court to be ungrounded and illegal,” said Serhiy V. Piontkovsky, Partner of Baker & McKenzie, which represents DTEK's interests in court. “The GPO is groundlessly trying to contest the actions and decisions made by the Government and the SPF on privatization of 25% of shares in Dniproenergo, which had been bought in full compliance with the legislation at a public tender at the price requested by the SPF on the basis of an independent evaluation. Furthermore, the GPO failed to provide any proof of the damage to the state or violation of the state interests caused by the privatization of shares in Dniproenergo PJSC. The private investor who had paid almost UAH 1.8 bln for Dniproenergo shares is now being held liable for everything. The Kyiv Commercial Court decision jeopardizes security of investments and property rights in Ukraine. We do not agree with the court decision and will file a statement of appeal and continue to assert the lawful rights of our client.”

“Significant violations were committed during the court proceedings. The court chose to ignore and not to examine the evidence and motions provided and filed by the representatives of the CMU, SPFU and DTEK. Unfortunately, the court satisfied the claim that is blatantly far-fetched,” said Oleksiy Zakharchuk, DTEK Chief Legal and Regulatory Officer.

Assets were sold at privatization auctions, and auction starting price was higher than the market price. In summer 2011 Ernst & Young conducted price evaluations of 100% equity of Dniproenergo. Dniproenergo's market price was estimated at UAH 4.666 bln, or USD 585 mln. The evaluation suggested that market price of the 25% of shares proposed for auction be UAH 1.167 bln. The starting price set at the privatization auction was UAH 1.174 bln. Selling price was UAH 1.179,7 bln.

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## Court rulings on feed-in tariffs compensation are ignored (cont., see Briefs#6&11)

The National Energy and Utilities Regulatory Commission (the Regulator) fails to satisfy the court rulings on the compensation of undercharged feed-in tariffs. Though more than six months have passed since the first court ruling, WIND POWER LLC. hasn't yet received a penny from over UAH 100 mln of the compensation due.

On 23<sup>rd</sup> July, the Regulator approved the list of 84 companies which would receive compensation for undercharged feed-in tariffs this July. However WIND POWER LLC. is not on the list - the funds are distributed on a selective basis, non-transparently, and court rulings are ignored. If Ukrainian authorities fail to satisfy court rulings and continue infringement of investors' rights, the company will be ready to assert its rights in the international arbitration and respective European institutions.

## Electricity wholesale market price

DTEK supports transparent market mechanisms for setting prices and tariffs in the electricity market. However, the forecast electricity wholesale market price is set by the National Energy and Utilities Regulatory Commission (the Regulator) without any approved methodology or rules. This non-transparent determination of the forecast WMP is destabilising operation of the energy system and jeopardizing preparation for the heating season.

Market players are entitled to know how the Regulator sets a forecast WMP each month, as WMP is the key indicator for the forecast balance of the Ukrainian energy system. Without the balance, market participants cannot plan their activities properly and ensure the sustainable operation of the energy system.

DTEK has appealed to the Antimonopoly Committee of Ukraine with a statement on violation of the law on protection of economic competition in the process of determining the electricity wholesale market price (WMP). A country that is a party to the Association Agreement should ensure that its basic principles – transparency and non-discrimination - are respected. Thus, if the electricity market price is regulated, the authorities should arrange for publication of a methodology on the basis of which this price is calculated.