

Donbasenergo

D

ANNUAL
REPORT
16

GENERATION OF THE FUTURE



Donbasenergo is a single economic block combining electricity generating and heat producing enterprises. The Company's key assets are represented by power generation units of Starobeshivska and Slov'yanska TPPs with the total installed capacity of 2,890 MW.

The main product of Donbasenergo is electricity. Its share in the total output of the marketable product is 99.8%. In addition, the Company's power plants produce and supply heat to all categories of consumers of Mykolayivka town and Novyi Svit settlement of Donetsk region.

We are pleased to present the Annual Report of Donbasenergo Public Joint Stock Company for 2016.

The purpose of this document is to describe the Company in detail, to communicate its performance results and development prospects. The report pays special attention to significant operational, financial and economic information, issues of social responsibility of the Company.

KEY MILESTONES

January

- Company's proposals to the draft law on the new electricity market model are approved by the Wholesale Electricity Market's Board.

April

- The repair campaign is launched. Turbine generator of the non-unit part of Slovyanska TPP is shut down for the largest repair in the last few years.
- Slovyanska TPP hosts a field meeting of the All-Ukrainian Energy Assembly: industry experts express their readiness to support the modernization project for power unit no. 6.
- Donbasenergo's shareholders approve the Company's 2015 performance results at the annual General Shareholder Meeting.

July

- B2B Portal is launched – own electronic tendering platform of Donbasenergo integrated with the largest platforms of PROZORRO system.
- The Company's employees join the working group on the elaboration of the national low-carbon development strategy aimed at combating greenhouse gases.

October

- Major overhaul of power unit no.6 of Starobeshivska TPP is completed successfully.
- The Company is among the first power generators to receive the act of readiness for 2016/2017 autumn-winter heating season, the first to accomplish the program of the Ministry of Energy and Coal Industry on accumulation of fuel in the storehouses of its TPPs.

February

- Kharkiv Turboatom plant performs check assembly of the turbine for power unit no. 6B of Slovyanska TPP.

May

- The Company acts as the general partner and active participant of the international congress EnergoVesna-2016, where Igor Nasalik, the Minister of Energy and Coal Industry of Ukraine, presents the draft Action Plan of the Ministry, and Donbasenergo's speakers initiate a discussion on the issue of repaying the debts in the energy sector and creating a solid financial basis for reforming and development of the industry.

August

- The first repair of power unit no.12 of Starobeshivska TPP, since the time of its major retrofit, is carried out. Maintenance of the attained high technical and economic performance indicators of the equipment is ensured during the inter-repair period.

November

- Donbasenergo presents capacity retrofit projects at the International Forum "Fuel and Energy Sector of Ukraine: the Present and the Future". The project for the construction of new power units at Slovyanska TPP becomes the centre of the exposition.
- The book "Donbasenergo: the Present Past" wins the Grand Prix of the contest "The Best Corporate Media of Ukraine 2016".

March

- The Company acts as one of the key partners of the Ukrainian Energy Forum, a prestigious international discussion platform that brings together more than 300 participants from 20 countries.

June

- Restoration of 330 kV open switchgear of Slovyanska TPP is accomplished. System connections of Ukraine along "Donbasskaya", "Mayskaya", "Zmievska TPP" and "Kupyansk" power transmission lines are restored through this switchgear.
- The Company trains its personnel in the framework of starting implementation of the quality management system in accordance with ISO 9001:2015.

September

- Specialists of TeploElektroProekt Institute present the projects of small CHP plants on biofuel and dry ash storages at the International Scientific and Practical Conference "Coal-Fired Heat and Power Engineering: Ways of Reconstruction and Development".

December

- The government discharges its obligations to Donbasenergo by repaying debts for electricity supplied from Starobeshivska TPP in February-April 2015.
- The second supervisory audit of the OHS management system for its compliance with OHSAS 18001:2007 is carried out at Slovyanska TPP. The auditors gave a general positive estimation to the existing OHS management system.

2,890
MW

installed
CAPACITY



8,055
million kWh

electricity
GENERATION



31.7
%

Installed
CAPACITY
utilization rate



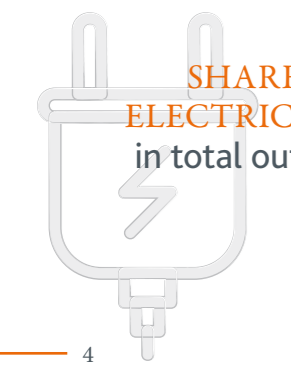
1,434
UAH/MWh

Electricity supply
TARIFF



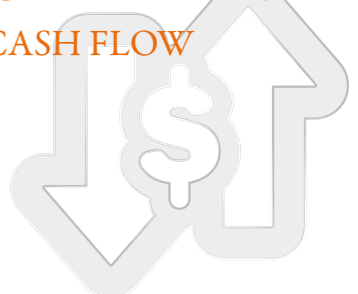
99.8
%

SHARE OF
ELECTRICITY
in total output



489.7
UAH million

CASH FLOW



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Dear Shareholders,

Summing up the performance results of 2016, I can confidently call it a turning year for Donbasenergo: we were able to convert our production recovery efforts into a positive trend in all the key indicators.

According to the results of the year, the Company increased its electricity output by more than 1 billion kWh. That being said, the output growth was seen not only at Slovyanska TPP, but also at Starobeshivska TPP. The fact that the power plant, which operated in the Regional Market under the conditions of critically low payment collections for the supplied electricity, under the conditions of disrupted logistics, was able to give a 12% increase in the electricity generation, serves the evidence of high professionalism of the team and competent management.

In 2016, Slovyanska TPP not only increased its share in the thermal electricity generation market, but also, operating in the manoeuvring mode, was supplying electricity at one of the highest tariffs among thermal power plants. This secured the Company's leading positions in its segment in terms of profitability of electricity generation.

Improvement of the financial situation made it possible to prepare, in good time, and to fully implement the 2016 repair program. We also managed to increase our investments in production by one third - up to UAH 233 million. In 2016, manufacture of the turbine for future power unit no. 6B of Slovyanska TPP was completed. We have the task to recommence the investment mark-up/component as a partial source of financing for this unique project, and to search for a reliable investor. In the reporting year, Donbasenergo was one of the first among thermal generators to fulfil the Program of the Ministry of Energy and Coal Industry on accumulation of coal stocks and received the Act of readiness for 2016/2017 autumn-winter season.

The Company successfully resolved the issue of debt repayment by Energorynok state enterprise for electricity supplied in February-April 2015 by Starobeshivska TPP. The government recognized this debt, and we reached a compromise on the way of its repayment. Until the end of November 2016, the Company's accounts received the major part of it - more than UAH 635 million, and the remaining UAH 104 million, as the final settlement, are expected in the first half of 2017.

In 2016, Donbasenergo reached a completely new level of participation in the reform of the domestic energy sector and in the establishment of the new market model: the WEM Board approved the Company's proposals to the draft law on the electricity market; Donbasenergo's experts were included in the expert group on the elaboration of the national low-carbon development strategy. The Company acts as a partner in organizing large-scale international discussion platforms, successfully performs as an electricity exporter. In order to raise its competitiveness in the free market, Donbasenergo is working to improve its production and management processes: in accordance with the requirements of the group of international standards (ISO), the system of environmental management is being prepared for certification, the quality management system is being implemented, and an information security management system is being established.

Some of the problematic issues that we were not able to solve during 2016 include non-payments for electricity supplied to the Regional Market by Starobeshivska TPP. According to the results of the past year, the average level of payment collections did not reach 3%. In money terms, the TPP short-received almost UAH 5 billion, which is a colossal amount of money exceeding the cost of Starobeshivska TPP's investment programs many-fold.

The results of 2016 demonstrate that the Company is able not only to survive in difficult conditions, but also to quickly recover and strengthen its position in the market. This gives us reason to expect that today's unprecedented challenges will not be fatal for the Company. The year 2017 has set very difficult tasks to us: Slovyanska TPP has not been generating and supplying electricity to the United Power Grid of Ukraine for quite a long time as a result of the blockade. We have lost control over the administration/management of Starobeshivska TPP and part of the structural units located in the temporarily uncontrolled territory. Yet, the Company's reputation and experience of the last three years convincingly prove Donbasenergo's ability to defend its rights and legitimate interests.

Eduard Bondarenko,
CEO of Donbasenergo



COMPANY IN THE ENERGY
MARKET OF UKRAINE

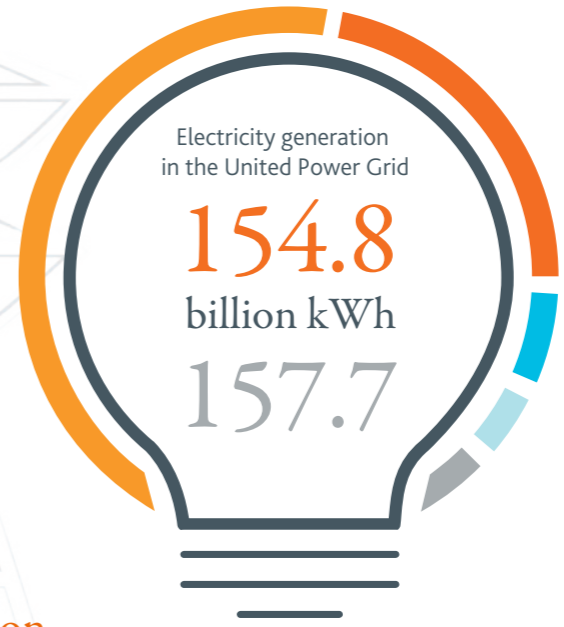
Company in the energy market of Ukraine

**6th place
IN EUROPE**

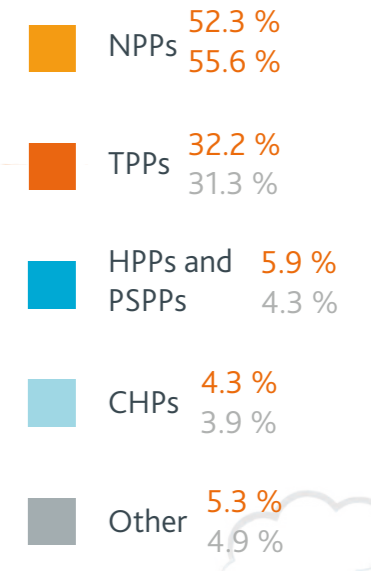
The energy system is a unified/interconnected one and occupies the 6th place in Europe in terms of its installed capacity

In 2016, gross electricity consumption decreased by 1,140 million kWh and electricity consumption by end-users reduced by 469 million kWh due to the decline in industrial production and difficult social and economic situation of the Ukrainian population.

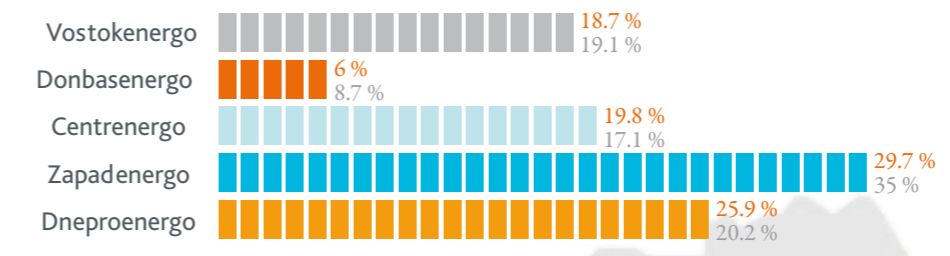
The goal of Donbasenergo's activity on the market is to satisfy the needs of the state for electricity by ensuring efficient operation of the Company's production facilities.



49.9
billion kWh
electricity production
by the Ukrainian generating companies' TPPs



The thermal power generation is represented by five companies:



1.9 %
THE COMPANY'S
share in the overall electricity
generation structure

1,434.02
UAH/MWh
the tariff for
THE COMPANY'S
electricity supply is the highest one among
the generating companies' TPPs

For reference:

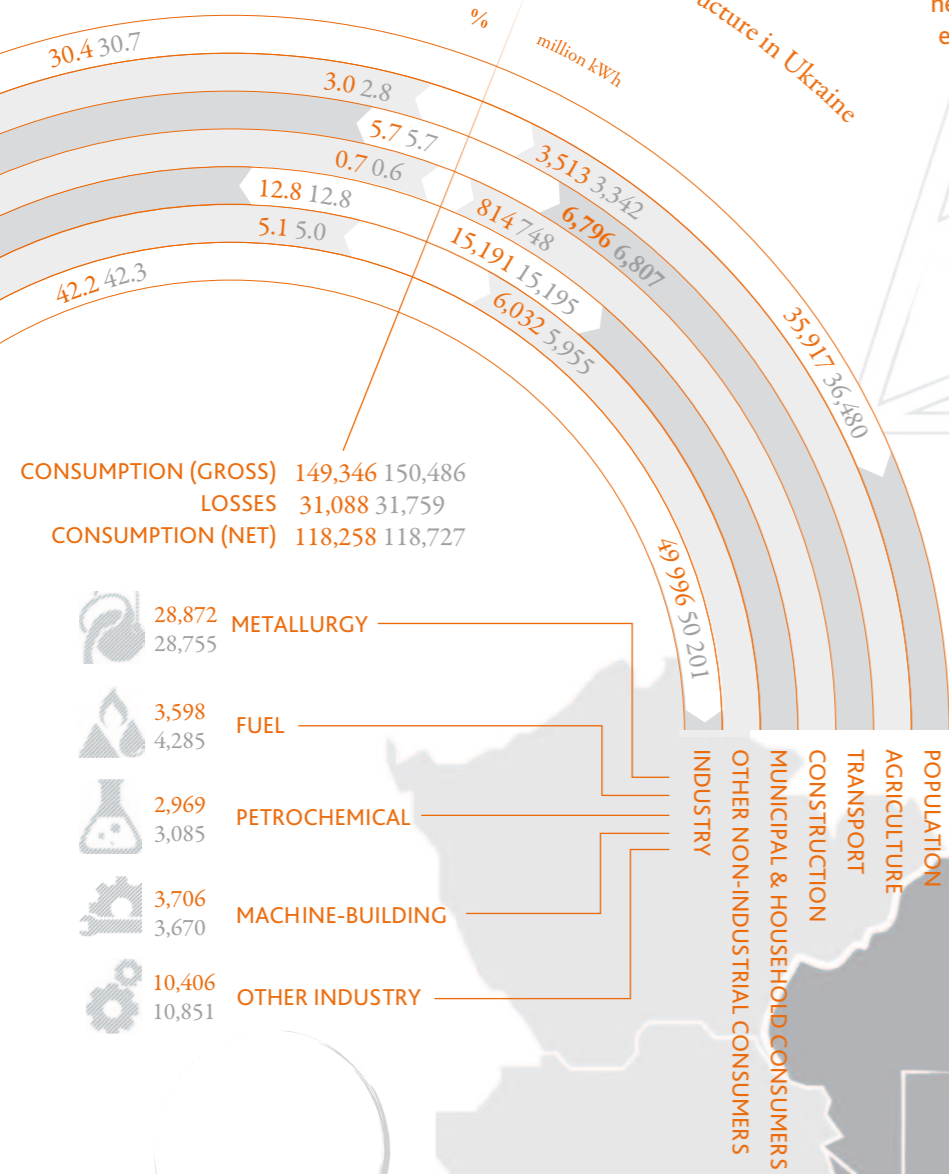
In 2016, electricity output in the Regional Electricity Market amounted to 8.76 billion kWh, including generation by: TPPs - 8.62 billion kWh (98%); renewable energy sources (RES) - 0.14 billion kWh (2%). The output of Starobeshivska TPP (Donbasenergo) is 5.06 billion kWh (59% of the regional thermal power generation market); the output of Zuevskaya TPP (DTEK, Vostokenergo) is 3.55 billion kWh (41% of the regional thermal power generation market).

In accordance with the Law of Ukraine "On Electric Power Industry", electricity produced by generating companies shall be sold to the Wholesale Electricity Market of the country, the operator of which is the state-owned Energorynok enterprise.

In 2016, the power output of the United Power Grid decreased by 2%, and the share of generating companies' TPPs in the overall structure of electricity generation in the UPG of Ukraine amounted to 32.2%.

Today, only one of the Company's TPPs, Slovyanska TPP, operates in the Wholesale Electricity Market of Ukraine and sells all of its generated electricity to the WEM operator, Energorynok state enterprise. Starobeshivska TPP was singled out to a separate electricity market in accordance with resolution of the Cabinet of Ministers of Ukraine no. 263 "On peculiarities of regulating relations in the electric power industry on the territory where the state authorities temporarily do not exercise or do not fully exercise their powers."

Electricity consumption structure in Ukraine
2016 2015

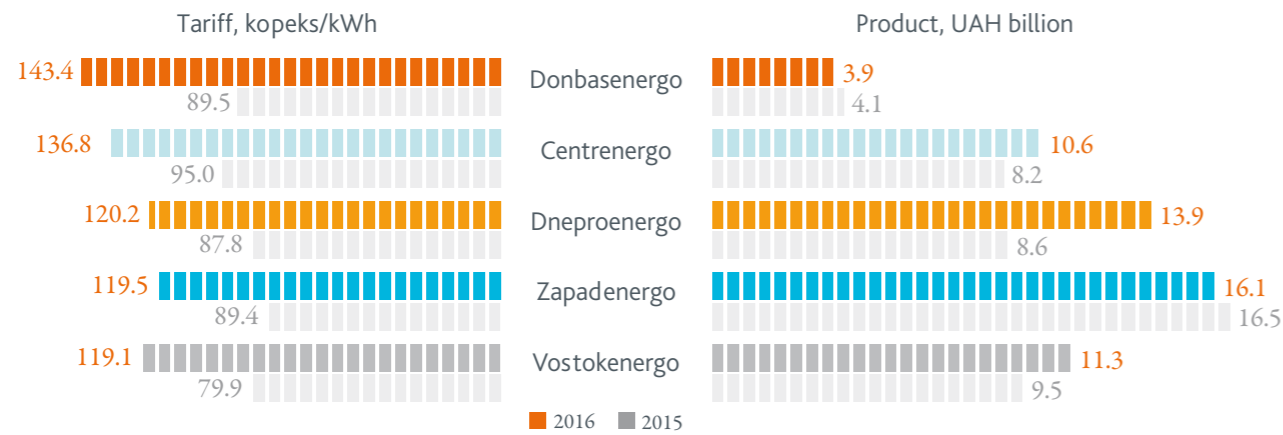


11.8
million kWh
volume of the
COMPANY'S
electricity export

Tariff for the supplied electricity and commercial output by TPPs of the generating companies

Generating companies of thermal power plants operate on the Wholesale Electricity Market on a competitive basis: within the set schedule for day ahead, selection is made from among a range of power generating units with the lowest to the highest unit cost to cover the maximum electricity consumption. The most expensive manoeuvrable power

unit determines the hourly prices for electricity. The prices for working capacity and manoeuvrability are determined on the basis of the ratios calculated by Energorynok state enterprise. For all other producers, NCSEPUR (NERC) establishes sales tariffs for a planned month.

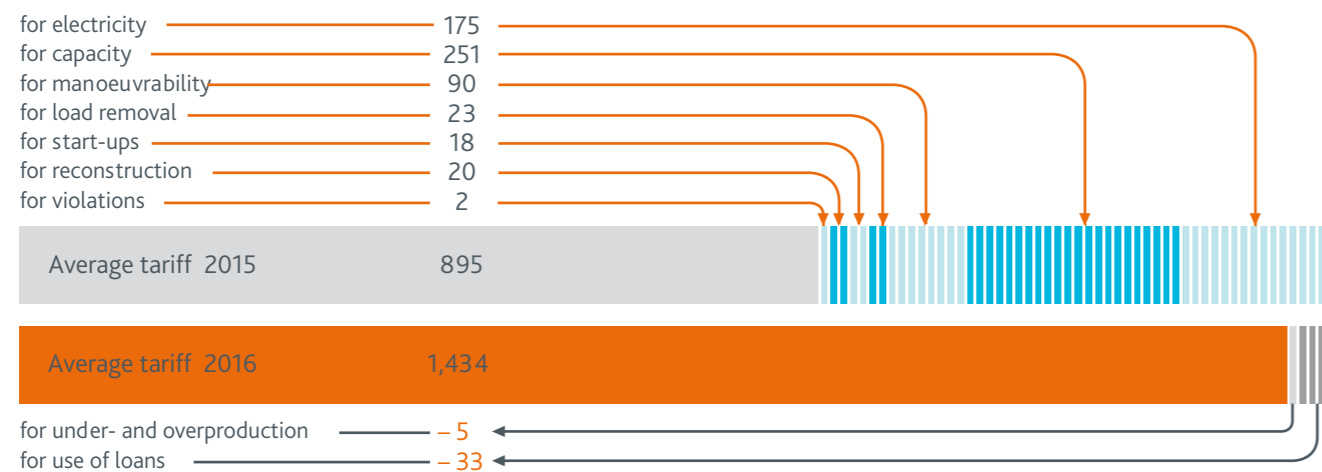


Throughout 2016, a positive trend towards the growth of tariffs of generating companies' TPPs was observed in the WEM of Ukraine - due to the increase in the wholesale market price (WMP), prices for supplied electricity, working capacity and manoeuvrability. In 2016, the tariff for the supplied electricity of generating companies' TPPs was 1,242.29 UAH/MWh, which is 362.21 UAH/MWh more than in the previous year. The tariff of Donbasenergo amounted to 1,434.02 UAH/MWh (+538.73 UAH/MWh), which is 60.2% more than in the previous year. The growth in tariffs

of thermal power generation companies averaged 41.2%. At the same time, in 2016, settlements of SE Energorynok with generating companies' TPPs for the supplied electricity stood at 98% of the commercial output of generating companies' TPPs.

The increase in Donbasenergo's tariff was mainly due to the growth in the cost of electricity itself (+175 UAH/MWh), growth in payments for working capacity (+251 UAH/MWh) and payments for manoeuvrability (+90 UAH/MWh).

Increase in the Company's tariff UAH/MWh



For reference:

According to resolution of the Cabinet of Ministers of Ukraine no. 263, tariff setting on the market of the uncontrolled territory, created in May 2015, is made by a collegial approval at the meeting of the Coordination Centre, where representatives of generation, energy supply companies and consumers participate.

In 2016, the average tariff for thermal power genera-

tion in the Regional Electricity Market was 958.94 UAH/MWh, including the tariff of Starobeshivska TPP (Donbasenergo) - 901.40 UAH/MWh; the tariff of Zuevskaya TPP (DTEK) - 1,038.90 UAH/MWh.

At the same time, in 2016, during the twelve months of operation of the Regional Electricity Market, settlements with generators for the supplied electricity did not exceed 2.2%.

New model of the energy market, the Company's participation in the law-making activities

On 22 September 2016, the Verkhovna Rada of Ukraine adopted, in the first reading, draft law no. 4493 "On the Electricity Market of Ukraine", which was developed by the Cabinet of Ministers of Ukraine to implement the provisions of the third energy package of the EU (Directive no. 72 and Regulation 714 of 13 July 2009).

As part of preparing the draft law for the second reading, in 2016 a lot of discussions, round tables, meetings of the working groups were held. All the stakeholders had the opportunity to present their proposals. In its comments on the draft law, Donbasenergo defended the position of keeping in the new market the mechanism for accrual of the investment component in the electricity supply tariff for those projects that have already been launched. In the end, the MPs of the relevant committee supported the amendment, which obliges producers to complete the projects approved by resolution of the Cabinet of Ministers of Ukraine no. 648-r of 8 September 2004 in due time that is to be determined by the Ministry of Energy and Coal Industry. In addition, the MPs gave their preliminary consent to the Company's proposal to shorten the time foreseen for the development of the draft law "On peculiarities of repaying electricity debt that arose on the Wholesale Electricity Market" from 12 to 3 months.

In accordance with the latest edition, a full-scale model of the electricity market will begin to operate in Ukraine from 1 July 2019. The development of the regulatory/legal framework should be completed no later than in 2018. Possibility for participation of licensees in this process is stipulated by the Law. The Company's task is to ensure the comprehensive implementation of transparent and competitive business conditions.

On 22 March 2017, the Committee of the Fuel and Energy Complex recommended adoption of the draft law in the second reading. In April, it will be included in the agenda for voting.

The new market includes, among other things, the work under bilateral contracts. Donbasenergo is actively working in this direction by carrying out export of electricity. In 2016, the Company made a contract with

CEZ (Czech Republic), which is the largest company in South-Eastern Europe in terms of capitalization*. This made it possible to begin supplies to Romania since 1 January 2017 (electricity supplies to Hungary have been carried out since 1 January 2015). In addition, the Company switched to standard EFET contracts, which, with the assistance of CMS Cameron Mckenna, were adapted to the Ukrainian legislation. Currently, the Commercial Division of the Company is cooperating with leading traders from six European countries, and the volume of exports for 2016 amounted to 11.8 million kWh. Taking into account the cancellation of regulatory restrictions related to submission of an effective supply schedule, the Company expects a significant increase in the volume of electricity to be sold in the EU in 2017. Expertise in this area will make the transition to the new model smoother and more efficient.

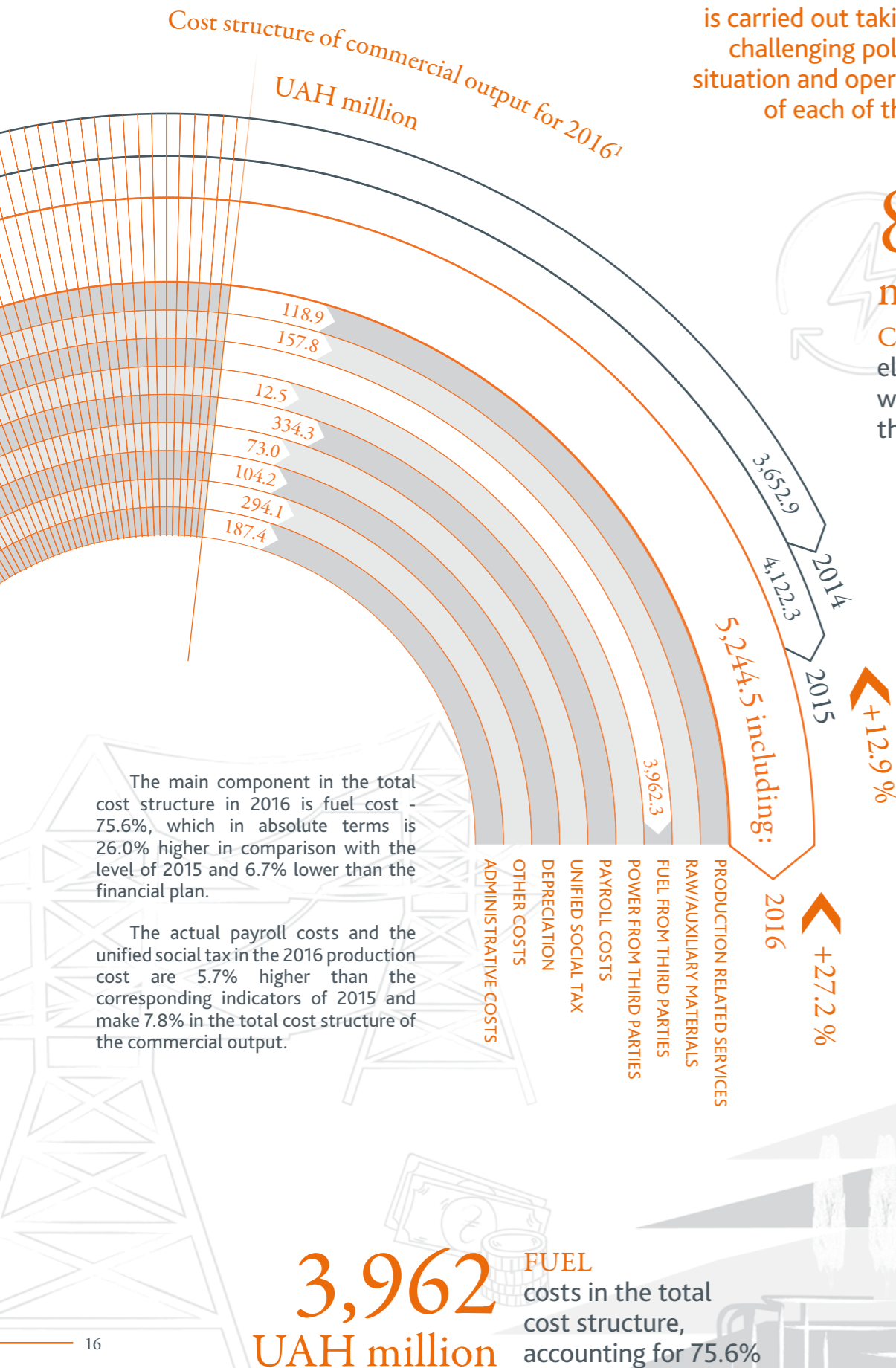
In 2016, introductory meetings were held with vendors that specialize in IT solutions for energy companies, because the automation of business processes, the introduction of advanced European practices and increased efficiency are the necessary conditions for working in the competitive electricity market. In 2017, the Company expects to continue the work in this area, including the purchase, testing and implementation of the relevant software products, followed by comprehensive training of the Company's employees.

*According to 2016 Deloitte Central Europe Top 500 Rating



OVERVIEW OF
OPERATIONAL
RESULTS

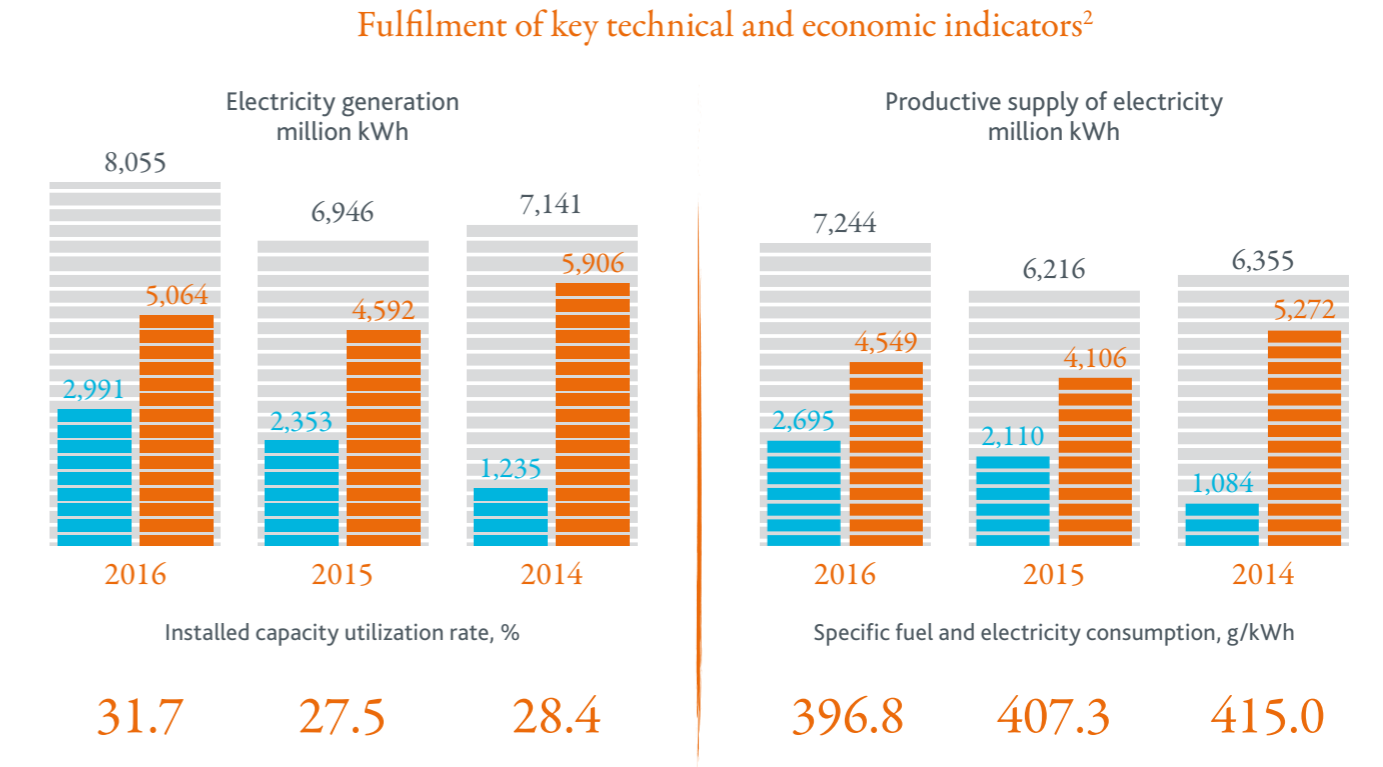
Overview of operational results



The work in the UPG of Ukraine is carried out taking into account the challenging political and economic situation and operational peculiarities of each of the Company's TPPs.

8,055 million kWh

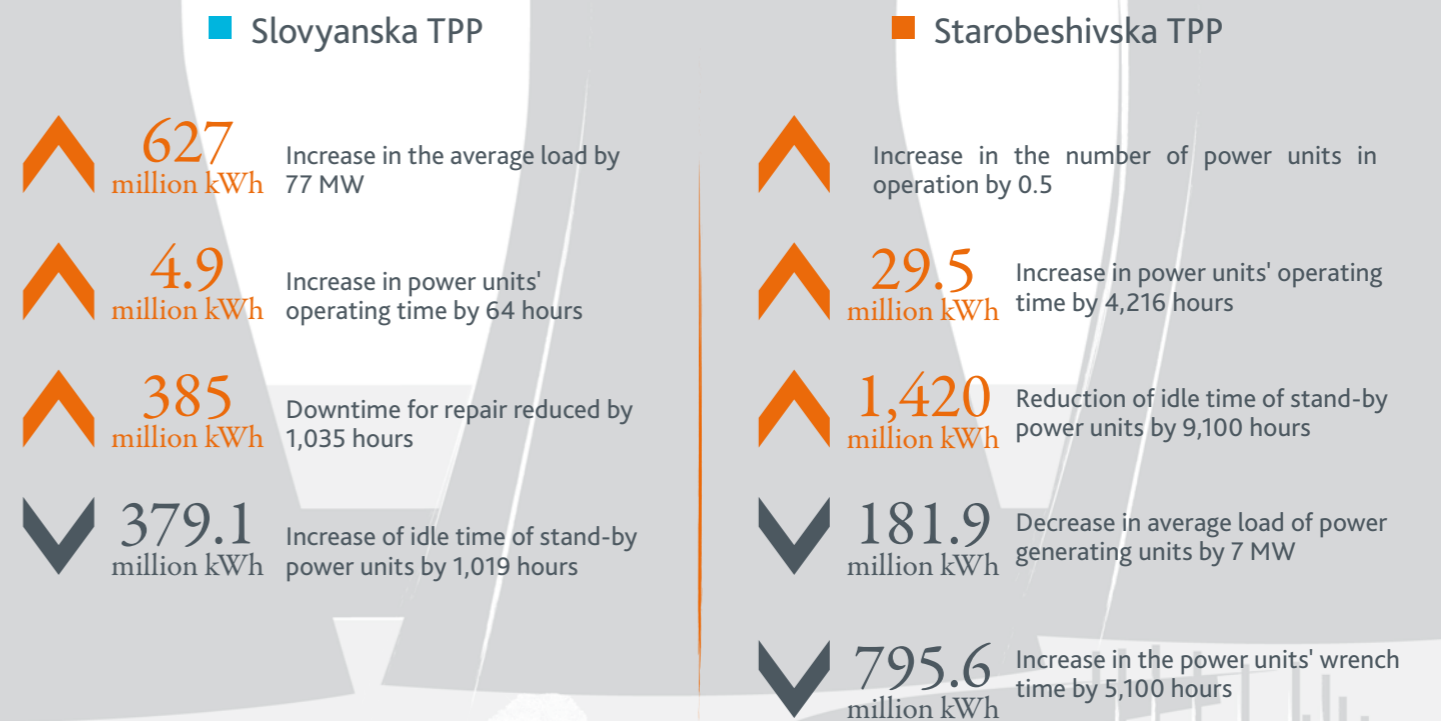
COMPANY'S electricity output, which is 8.4% higher than the financial plan



The increase in electricity generation in 2016 influenced the growth in the Company's installed capacity utilization rate to 31.7%, which is 4.2% higher than in 2015 and 2.4% higher than the financial plan.

Specific consumption of reference fuel for electricity supply for 2016 decreased by 10.5 g/kWh. At the same time, decrease by 19.5 g/kWh at Starobeshivska TPP mainly resulted from reduction in the number of power generation units' start-ups, from improvements in the technological parameters of the power units' operation and from increase in the supply of heat to consumers. At Slovyanska TPP, increase in the specific consumption of reference fuel by 4.2 g/kWh mainly resulted from increase in the number of boiler start-ups and commissioning of equipment within the first phase.

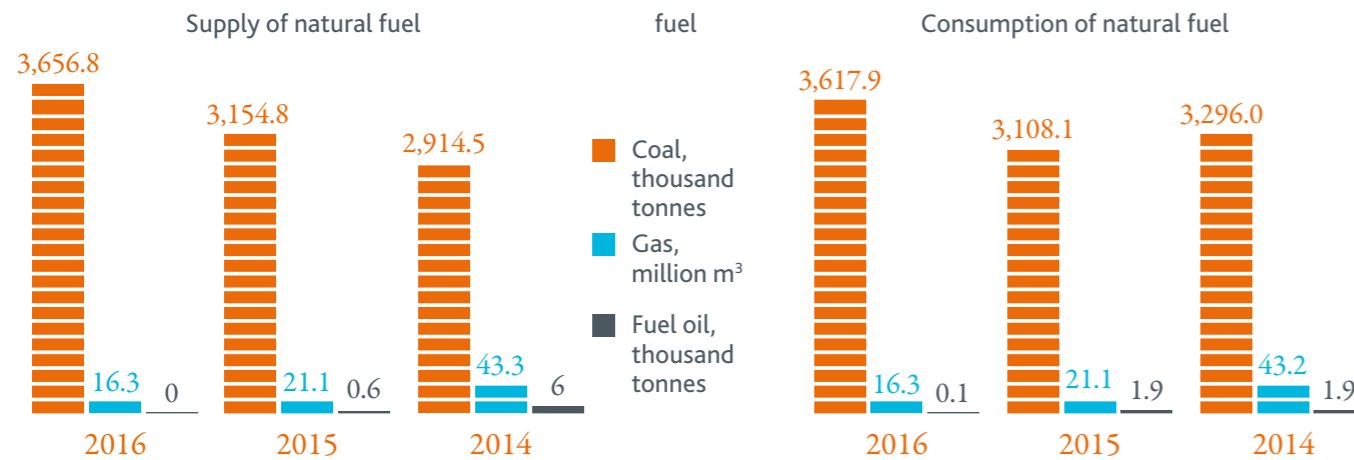
Factors that influenced the change in production indicators relative to 2015:



Fuel supplies

The supply of fuel to the Company's power plants in 2016 was based on the Annual Projected Electricity Balance of the Ukrainian UPG and the Projected (indicative) set of power units, both approved by the Ministry of Energy and Coal Industry to ensure generation of the planned amount of electricity and creation of the necessary stocks of coal.

Coal was supplied under contracts stipulating compliance with uniform requirements to coal quality, in accordance with the terms of reference established by state standard DSTU 4083-2012 "Hard coal and anthracite for pulverized combustion at thermal power plants. Technical conditions."

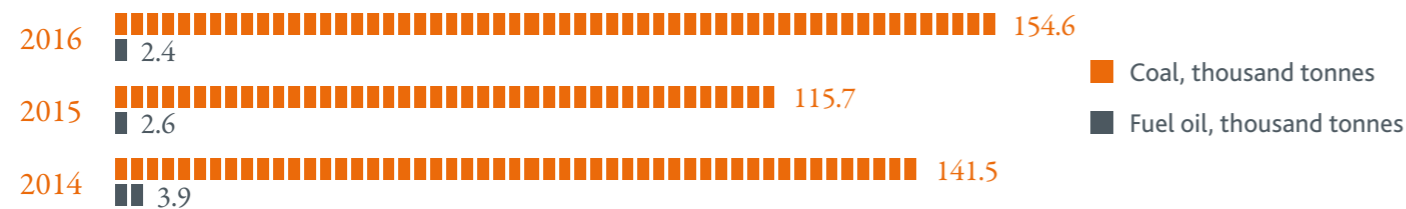


In 2016, payment for the supplied coal amounted to UAH 2,292.0 million, which is 67.8% of the total cost of coal supplied.

In 2016, Donbasenergo purchased 1.0 million m³ of natural gas to UAH 7.2 million from Naftogaz of Ukraine and 10.8 million m³ of natural gas to UAH 88.8 million from Gazinvest-Trading LLC for Slovyanska TPP, which ensured uninterrupted production process.

Natural gas in 2016 was supplied to the Company's structural units centrally, from suppliers Naftogaz of Ukraine and Gazinvest-Trading LLC.

Fuel stocks at the Company's power plants as of the end of the year



Settlements with Naftogaz of Ukraine in 2016 totalled UAH 5.4 million, which is 90.3%, taking into account prepayment in the amount of UAH 1.1 million for January 2016 made in December 2015. As of 1 January 2017, the debt that arose due to Naftogaz of Ukraine's failure to recognize natural gas consumption by Starobeshivska TPP was UAH 63.4 million.

Fuel oil was consumed only for starting-up and lighting of the thermal power plants' boilers in case of natural gas shortage. The consumption volume was 0.1 thousand tonnes.

Settlement with Gazinvest-Trading LLC amounted to UAH 79.7 million, including arrears in the amount of UAH 12.6 million as of 1 January 2016, which is 89.8% of the cost of natural gas purchased in 2016. The debt as of 1 January 2017 is UAH 24.4 million.

In 2016, the Company's power plants wrote off losses of solid fuel within the limits of natural loss rates: 774 tonnes lost en route and 43.0 tonnes of rock in coal. The losses were written off in accordance with the Rules for Accounting of Fuel at Power Plants, 1995. The fuel used for the operation of the Company's power plants in 2016 corresponds to the boiler equipment and to the standards.

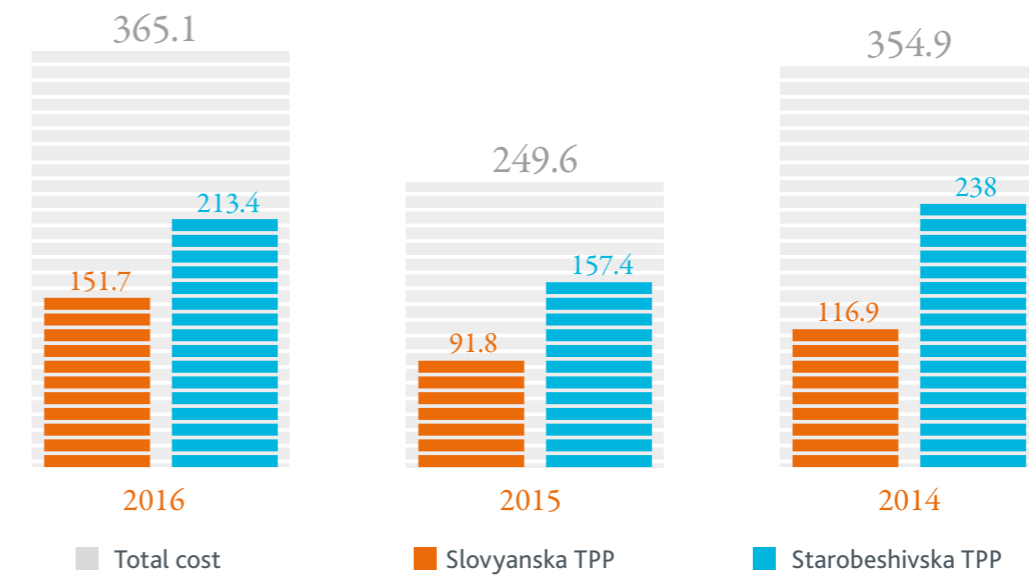
Repair campaign

According to order of the Ministry of Energy and Coal Industry of Ukraine no. 834 of 22 December 2015 "On preparation of power plants and heating networks' equipment for their reliable and efficient operation in 2016 and 2016-2017 autumn-winter period", the repair campaign of 2016 was supposed to include repair of 15 units of the Company's equipment:

- retrofitting of 4 units (power unit no. 8 of Starobeshivska TPP, turbine generator no. 7, shells of boilers 7A and B of Slovyanska TPP)

- major overhaul of 2 units (power unit no. 6 of Starobeshivska TPP, turbine generator no. 3 of Slovyanska TPP)
- current repair of 9 units (power units no. 4, 5, 9, 10, 11, 12, 13 of Starobeshivska TPP, boilers no. 6 and no. 7 (1st phase of Slovyanska TPP))
- repair of heat supply networks: 1.87 km, including 1.44 km for Starobeshivska TPP and 0.43 km for Slovyanska TPP.

Expenses for the repair campaign, UAH million (without VAT)⁴



The following was completed as of 1 January 2017:

- major overhaul - 2 units:
 - Starobeshivska TPP:
 - power unit no. 6 (01.10.2015 - 25.10.2016)
 - Slovyanska TPP:
 - turbine generator no. 3 (15.04.2016 - 09.10.2016)
- current repair of 13 units, including:
 - Starobeshivska TPP:
 - power unit no. 4 (01.09 - 06.11.2016)
 - power unit no. 5 (07.10 - 04.11.2016)
 - power unit no. 8 (20.09 - 02.10.2016)
 - power unit no. 9 (24.03 - 13.04.2016)
 - power unit no. 10 (04.06 - 08.07.2016)
 - power unit no. 11 (29.08 - 18.09.2016)
 - power unit no. 12 (10.07 - 22.08.2016)
 - power unit no. 13 (15.04 - 17.05.2016)
 - Slovyanska TPP:
 - power unit no. 7 (TG-7, k7A, k7B) (03 - 28.09.2016)
 - boiler no. 6 (15.04 - 01.06.2016)
 - boiler no. 7 (29.05 - 15.07.2016)
- repair of heat supply networks - 1.27 km, including:
 - Starobeshivska TPP - 0.84 km (underfulfillment was 0.6 km - according to the technical inspection certificates,

0.6 km of heat supply networks are in a satisfactory condition). Slovyanska TPP - 0.43 km.

Retrofitting:

According to minutes of meeting no.3 of the Commission for updating of the repair schedules dated 23.03.2016, the retrofitting of power unit no. 8 of Starobeshivska TPP was postponed and will be made from 01.04.2017 to 30.04.2018. In 2016, the current repair of power unit no. 8 was carried out.

According to order no. 77 of the Ministry of Energy and Coal Industry of Ukraine of 15.02.2016 "On Amendments to Order no. 298 of the Ministry of Energy and Coal Industry of 20.05.2015", the retrofitting of turbine generator no. 7, shells no. 7A and 7B of power unit no. 7 of Slovyanska TPP was postponed to 2017/2018:

- phase I - 01.03.2017 - 01.12.2017 (turbine generator no. 7, shell no. 7B);
- phase II - 01.03.2018 - 30.06.2018 (shells 7A, 7B).

In 2016, the current repair of turbine generator no. 7, shells no. 7A and 7B of power unit no. 7 of Slovyanska TPP was made.

Overview of operational results

Capital investments of the Company

The amount of the Company's capital investments spent in 2016 totalled UAH 153.8 million, including VAT, where UAH 22.5 million was spent on the social sphere.

Retrofitting of power unit no. 7 of Slovyanska TPP is envisaged in the IV construction phase. I and II reconstruction phases were carried out in 2013-2015.

In 2016, preparations were made for the III phase of the reconstruction, which is planned for 2018. A number of contracts have been concluded and advance payments have been made for equipment that is to be manufactured for physical implementation of the III construction phase. Part of the equipment was manufactured and delivered to Slovyanska TPP.

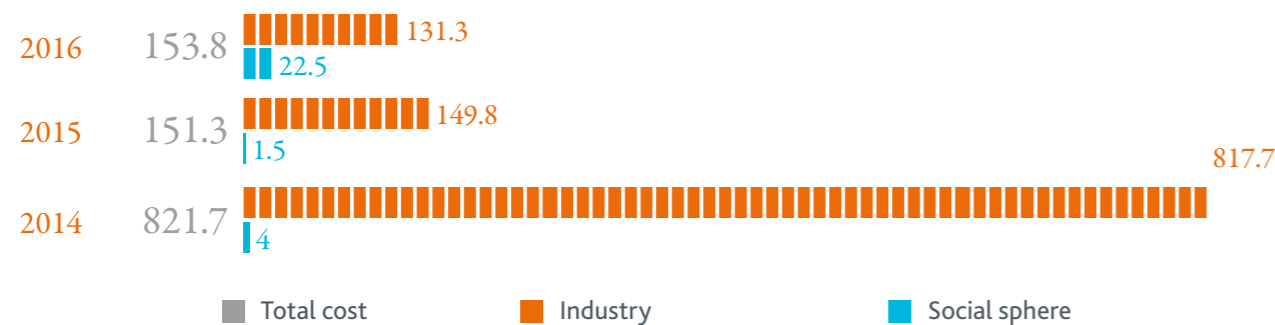
Under the project of retrofitting power unit no. 6 of Slovyanska TPP, a construction site was prepared and all the necessary utility lines were laid. In 2016, the Retrofitting Project's development was accomplished, but at the moment revision of the design documentation is in progress,

including the changing of the design fuel from anthracite coal to gaseous coal. 6B turbine (HPC, IPC, LPC, condenser and control system) was fully manufactured; a condenser for power unit 6A was manufactured. This equipment was accepted and is ready for installation. Investors are being actively searched for in order to implement this large-scale project.

In 2016, the Company allocated a significant amount of investments, UAH 22.5 million, for implementation of social projects in Mykolayivka town, particularly: construction of a sports and recreational facility within the framework of reconstructing Energetik health and recreation centre; major overhaul of highways.

In 2017-2018, jointly with Mykolayivka town's community, a large amount of investments is planned for reconstruction of social facilities: reconstruction and construction of new sports facilities, including the construction of new football fields and an arena; reconstruction of kindergartens and schools; restoration of unfit/failing buildings, etc.

Disbursement of the Company's capital investments, UAH million



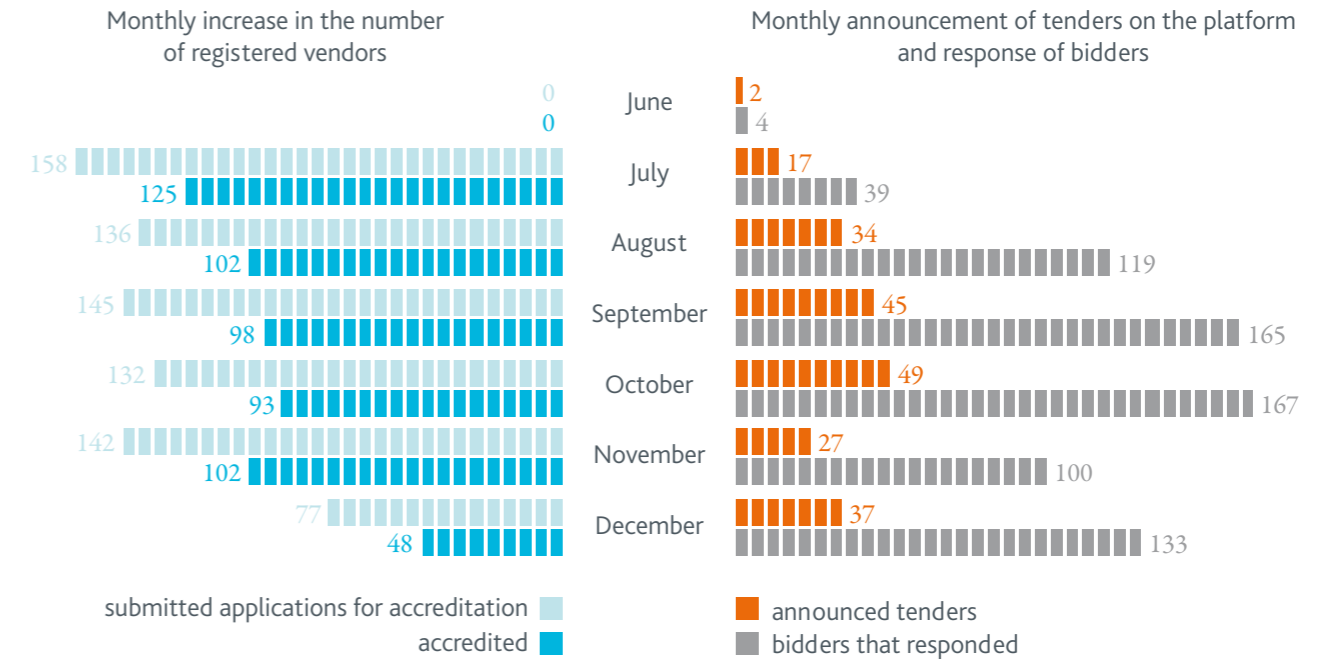
Procurement and logistics

Organization of procurement and logistics in the Company is based on the principles of economic efficiency, transparency at all stages of procurement, fair competition and non-discrimination of bidders, as well as prevention of corruption and abuse.

In its activities, the Company's Procurement and Logistics Department adheres to the latest trends - in 2015, development of the Company's own electronic trading platform was started. In-house e-procurement service makes it possible to optimize internal business processes, to reduce costs and timing of procurement, to expand the range of suppliers, and has a positive effect for the Company's image. In addition, the advantages of creating an electronic platform are: minimizing paper documentation, saving material resources of the Company, reducing labour

costs in procurement, reducing the number of documents stored in archives.

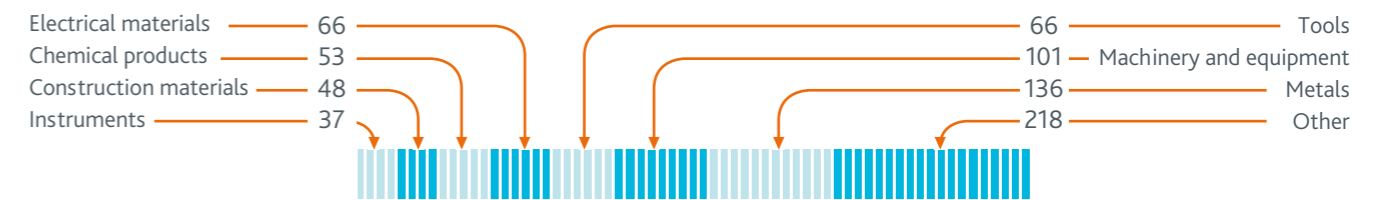
In March 2016, Donbasenergo and IT-Enterprise signed an agreement for the use of the Electronic Trading Platform software product. In June 2016, the staff of the Procurement and Logistics Department was granted access to the system. In the same month, staff training was carried out, the system was customized to the requirements of the Company and the first official bidding was made. In August 2016, IT-Enterprise made some further work to display Donbasenergo's tenders on the electronic trading platform Smarttender.biz, a participant in the all-Ukrainian electronic procurement system ProZorro. At the moment, any company worldwide can see the Company's procurements and can take part in them.



The difference between the number of applications submitted for accreditation and the accredited bidders is the result of the ongoing work of the procurement department's staff who review the registration data of the vendors and identify unscrupulous/disreputable suppliers.

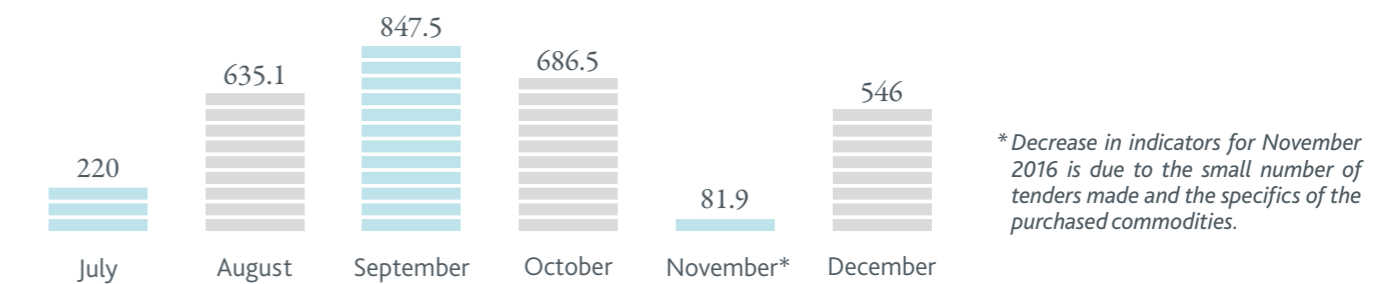
High activity of bidders is due to the mass mailing of invitations within the existing bank of suppliers, integration with the ProZorro participant - Smarttender.biz trading platform and continuous search and the invitation of potential bidders.

Categories of commodities with the largest number of bidders



This statistics takes into account the activity of bidders with a breakdown by groups of commodities (number of bidders who submitted their price bids to the announced tenders under the relevant categories of goods, works and services for the entire period of using the service).

Decrease in prices on the electronic trading platform, UAH thousand

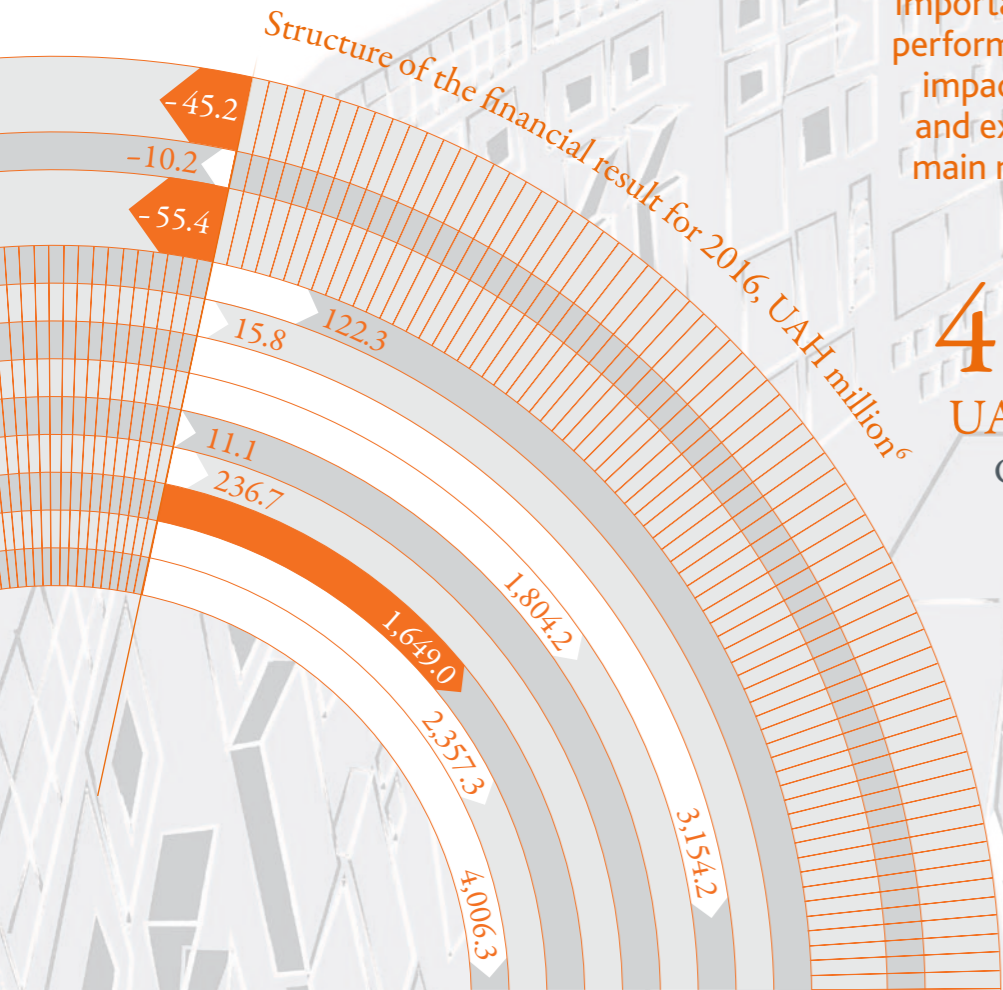


According to the 6-monthly results of the electronic trading platform's operation and as of 31 December 2016, 213 tenders have been made and 568 companies have been accredited. The price reduction by the bidders amounted to UAH 3,035 million.



ANALYSIS OF
FINANCIAL
RESULTS

Financial results are one of the most important indicators of the Company's performance. Their analysis reveals the impact of internal production factors and external economic factors on the main metrics of the power generating Company's financial position.



489.7
UAH million
CASH FLOW

602.7
UAH million
of transferred tax liabilities and other mandatory payments to the budget

151.2
UAH million
EBITDA

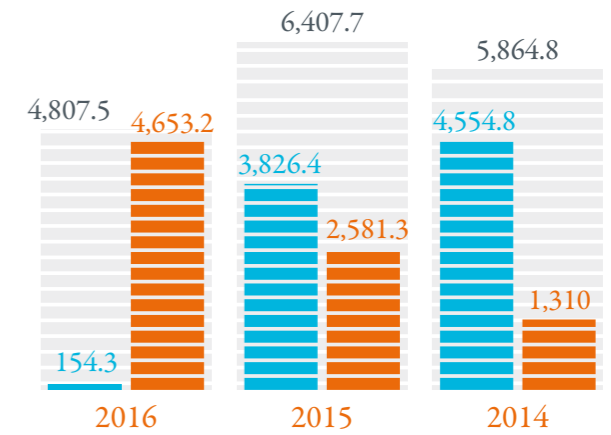
The cost price of electricity and heat sold in 2016 amounted to UAH 2,357.3 million and decreased compared to 2015-2014 due to application of accounting estimates and re-classification of costs for electricity generation at Starobeshivska TPP.

EBT
-55.4 UAH million

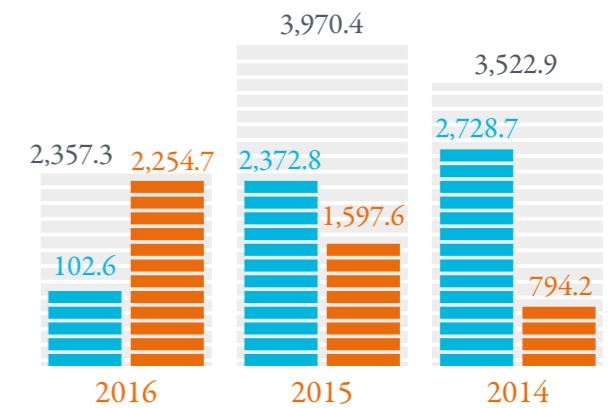
Operating profit from the sale of electricity and heat in 2016 amounted to UAH 1,649.0 million and was mainly made by electricity supplied to Energorynok SE by Slovyanska TPP. The main criteria for improving the performance results at Slovyanska TPP are:

- growth in production volumes by 16.0%
- 28.6% growth rates of electricity tariffs, excluding the investment component, outstripping 9.7% growth rate of the cost of electricity generation.

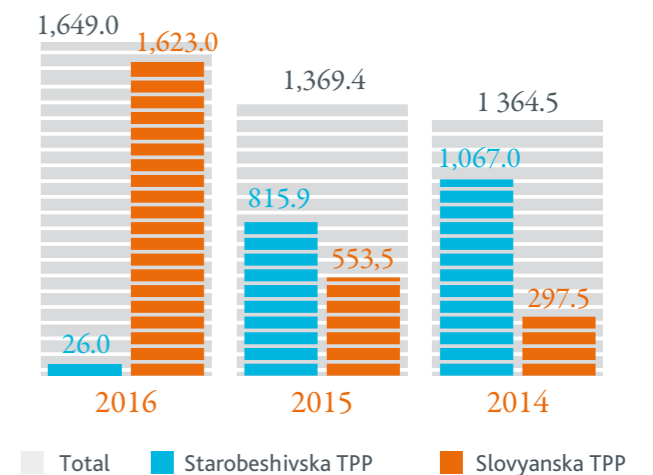
Proceeds from the sale of electricity and heat, UAH million



Cost of sold electricity and heat, UAH million



Operating profit from sales of electricity and heat, UAH million

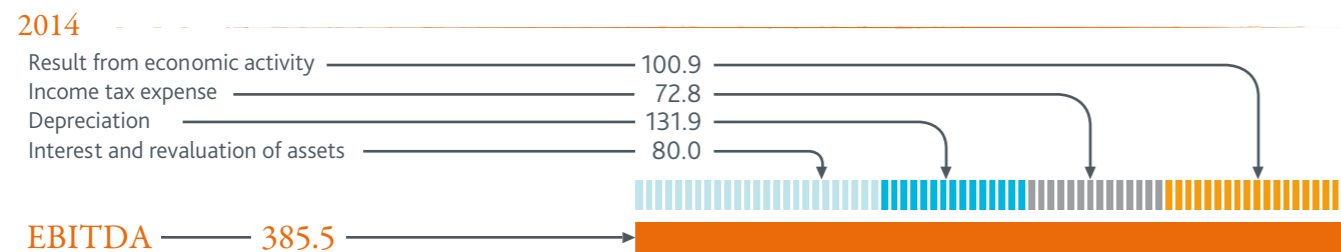
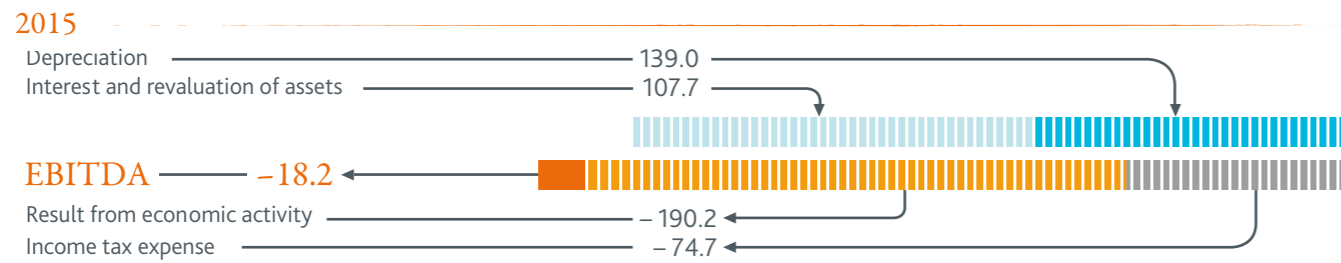
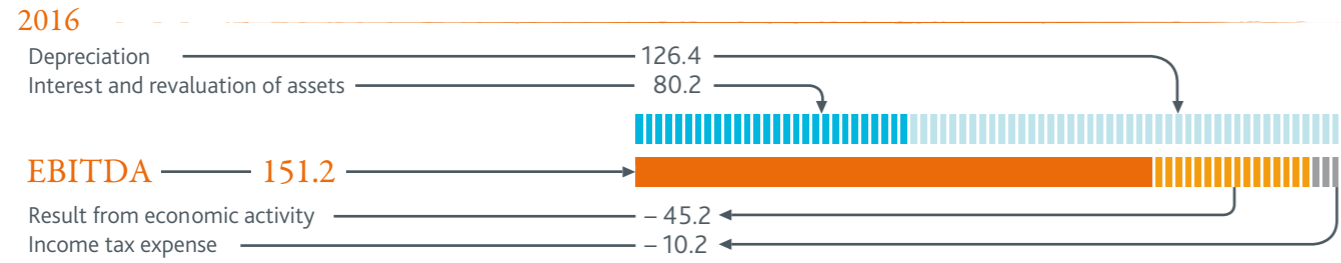


Taking into account the income recognized in accounting in the amount of deferred tax liabilities for income tax in the amount of UAH 10.1 million, the result of financial and economic activities for 2016 is a net loss of UAH 45.2 million.

- (+) FINANCIAL AND ECONOMIC ACTIVITY RESULT
- (-) PROFIT TAX ACCRUED ACCORDING TO FORM 2
- (+) RESULT BEFORE TAX
- (-) FINANCIAL COSTS
- (+) FINANCIAL INCOME
- (-) OTHER OPERATING EXPENSES, OTHER EXPENSES
- (+) OTHER OPERATING INCOME, OTHER INCOME
- (-) SELLING EXPENSES
- (-) ADMINISTRATIVE EXPENSES
- (-) OPERATING PROFIT
- (-) COST OF SOLD ELECTRICITY, HEAT
- (+) NET INCOME (REVENUE) FROM SALE OF ELECTRICITY, HEAT

Increase in EBT* for 2016 compared to 2015 was mainly due to the increase in profitability of core activities (production of electricity and heat) by UAH 279.1 million and indicates a positive trend of the increase in the market value of the enterprise.

EBITDA structure, UAH million



EBITDA for 2016 – UAH 151.2 million. Improvement of the indicator compared with 2015 is due to decrease in losses from economic activities by UAH 145.0 million and absence of income tax expenses.

Cash flow

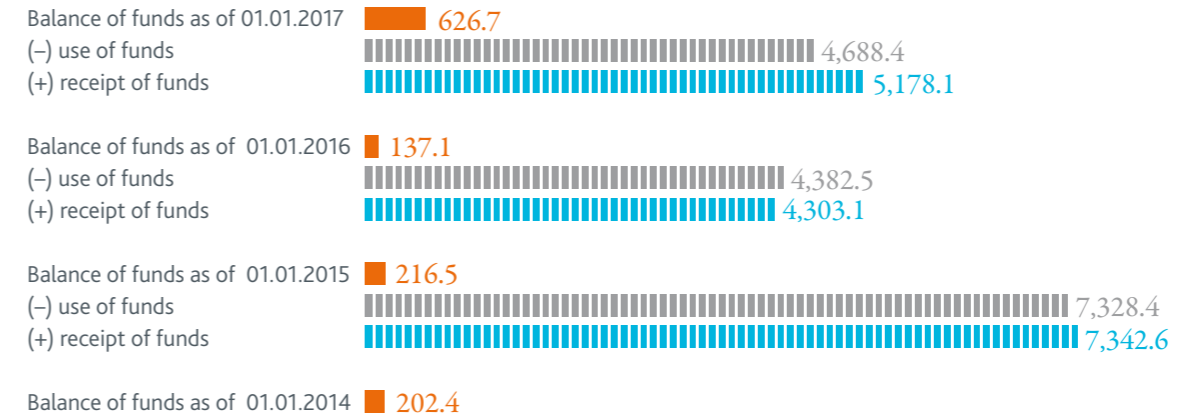
The total increase in cash inflows in 2016 compared to 2015 by UAH 875.0 million was due to an increase in electricity consumption in the country in general and, as a result, an increase in electricity generation by Slovyanska TPP by 637.8 million kWh, as well as due to the impact of the following factors:

[+] UAH 889.8 million – increase in payment for electricity as a result of the improvement in the price-setting mechanism for generators that work on the basis of price bids in accordance with resolution of NCSEPUR (NERC) of Ukraine no. 1766 dated 30.09.2016. As a result, the tariff of Slovyanska TPP without taking into account the investment component has grown by 43.79 kopeks/kWh.

[+] UAH 638.9 million – debt repayment for electricity of past periods generated and supplied by Starobeshivska TPP in February-April 2015, in accordance with resolution of the Cabinet of Ministers of Ukraine no. 263 dated 07.05.2015, NCSEPUR of Ukraine no. 1273 dated 15.07.2016, no. 1669 dated 28.09.2016.

The above factors made it possible in 2016 to reduce the use of advance payments for electricity by UAH 194.3 million.

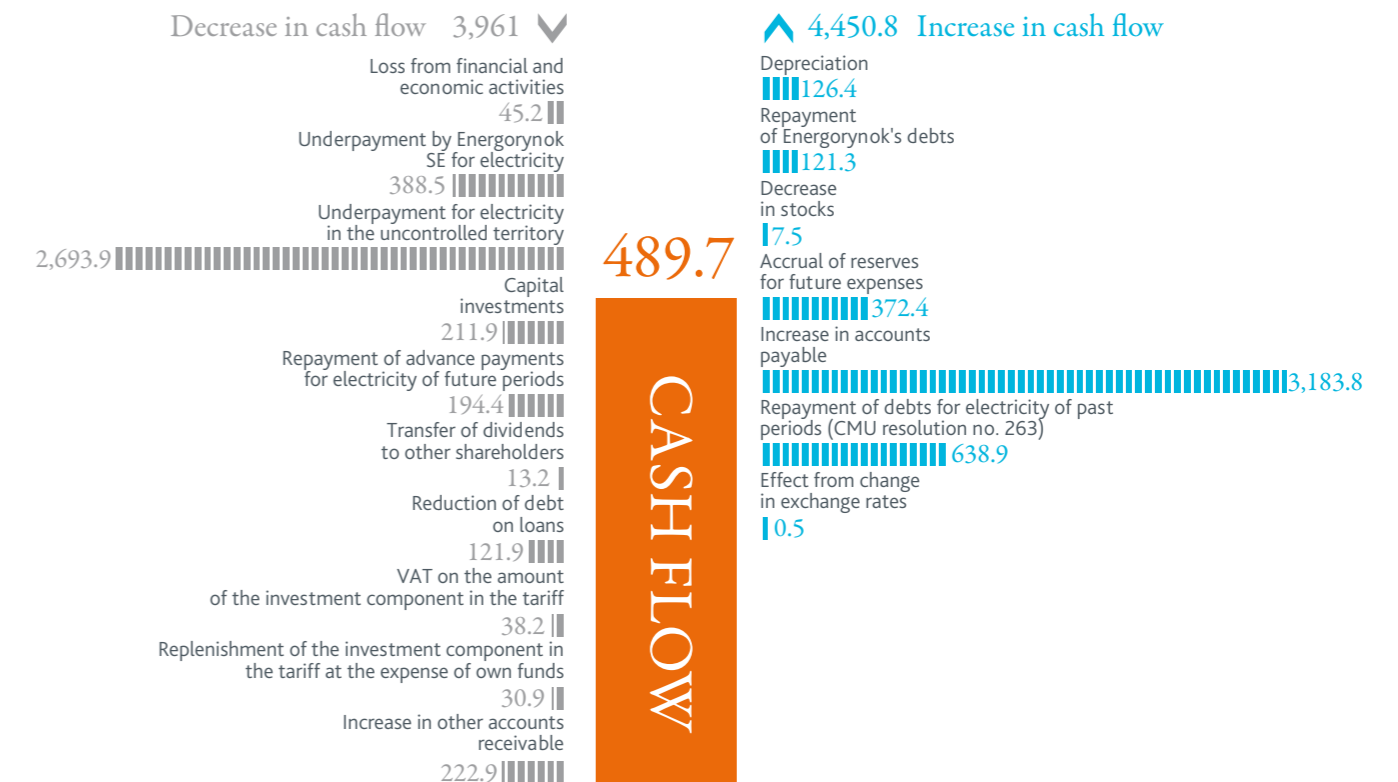
Cash flow structure, UAH million



Analysis of the structure of cash flow items showed that the main reasons for the change in the cash flow are: million); with the State budget for restructured tax and other mandatory payments (+ UAH 544.9 million);

[+] UAH 3,183.8 million – increase in accounts payable under mutual settlements with suppliers of technological fuel in temporarily uncontrolled territory (UAH 1,172.7 million); [-] UAH 3,082.5 million – underpayment for supplied electricity (including for temporarily uncontrolled territory UAH 2,693.9 million).

Structure of the main items of the cash flow change, UAH million



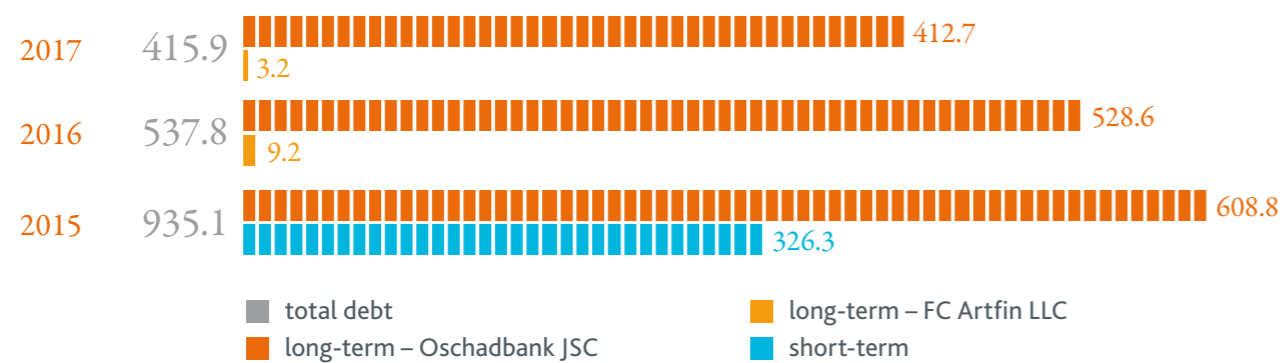
Credit portfolio

The Company attracts credit resources for timely settlements for fuel and the necessary reconstruction of equipment. The current credit portfolio of Donbasenergo is denominated in Ukrainian hryvnias (UAH), with a fixed interest rate for the use of funds.

Loan debt was reducing during the reporting year due to repayment of debts in accordance with the following schedules: for short-term credit lines of Oschadbank JSC to an amount of UAH 115.9 million; for long-term credit lines of FC Artfin LLC to UAH 6.0 million.

Debt on borrowed funds as of 31 December 2016 amounted to UAH 415.9 million and decreased by UAH 121.9 million compared with 2015.

Loan debt trends as of 01.01, UAH million



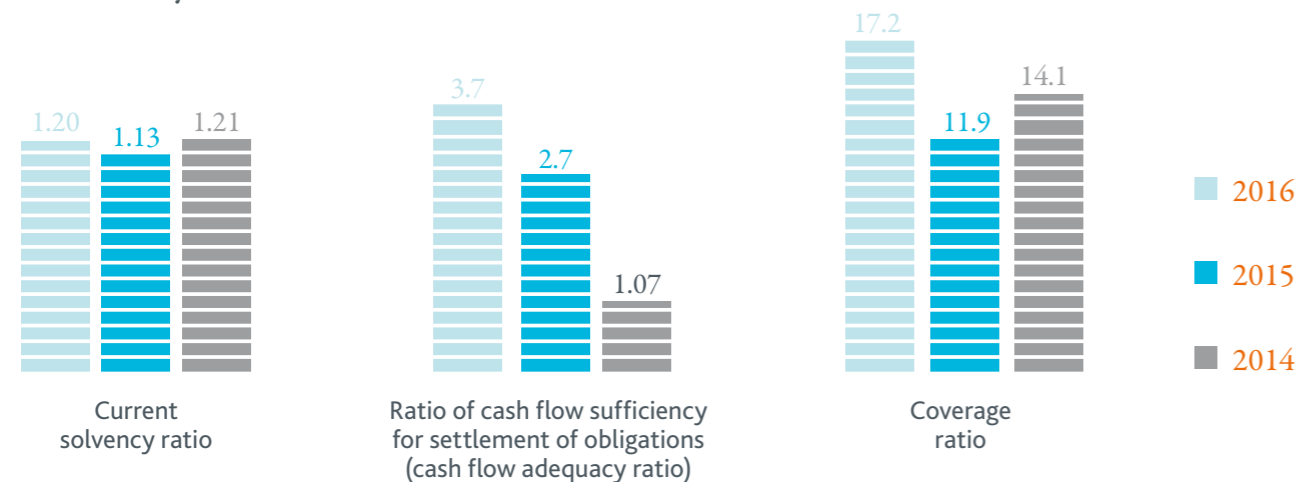
In 2016, the current solvency ratio grew up by 6.2% compared with 2015 and went down by 0.8% compared with the 2014 figure.

For 2016, an increase in the calculated value of the liabilities repayment ratio to 3.7 is observed, which corresponds to the normative value (N> 1) and is a consequence of the reduction in raising and repaying loans and borrowings, as compared with 2015.

The actual calculated value of the ratio corresponds to the normative one (N> 1) and was mainly achieved due to increase in the accounts receivable for the supplied electricity in the temporarily uncontrolled territory, on the one hand, and increase in the accounts payable under settlements for technological fuel delivered to the temporarily uncontrolled territory, on the other hand.

The analysis of the level of credits' protection against non-payment of interest, in accordance with the interest coverage ratio, for 2016 showed that the Company fully covered the interest obligations to creditors.

Solvency ratios



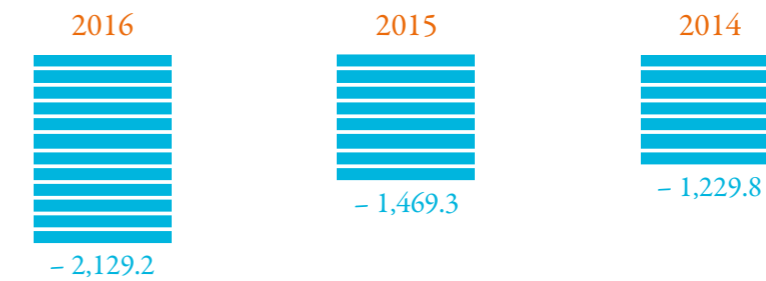
Liquidity management

In order to assess the liquidity of the Company for 2016, calculations of the ratios that characterize the ability of Donbasenergo to make timely and complete settlements on short-term debt obligations were carried out.

2,129.2 million, due to a decrease in the level of settlements by wholesale buyers in the temporarily uncontrolled territory to a critically low level of 3.2% and, as a result, an increase in accounts payable on mutual settlements with suppliers of technological fuel in the temporarily uncontrolled territory (+ UAH 1,172.7 million), as well as with the State budget on tax and other mandatory payments (+ UAH 544.9 million).

According to the 2016 performance results, the net working capital (NWC) decreased and amounted to UAH

Trends of NWC indicator, UAH million

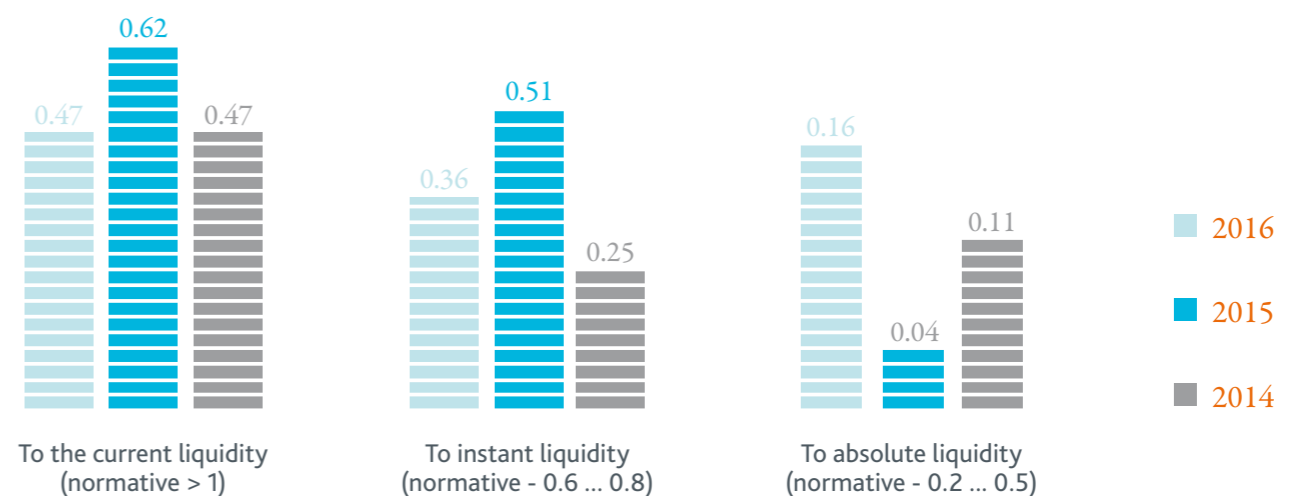


As the provided calculations show, the indicators of the current (N> 1) and instant liquidity (N from 0.6 to 0.8) for 2016 are lower than the normative value, and also decreased compared with the previous reporting periods, which resulted from a significant increase in accounts payable (+ UAH 2,061.4 million) on mutual settlements with counterparts and the State Budget of Ukraine, with an increase in the share of readily obtainable (highly liquid) assets by + UAH 609.8 million.

The value of the absolute liquidity ratio shows a positive trend and is close to the normative one (N from 0.2 to 0.5) due to an increase in free funds balance on accounts by UAH 490.5 million compared with 2015-2014.

Thus, the change in the liquidity indicators in the reporting period is associated with a decrease in the level of settlements by wholesale buyers for electricity supplied to them, as well as with an increase of the Company's dependence on borrowed funds.

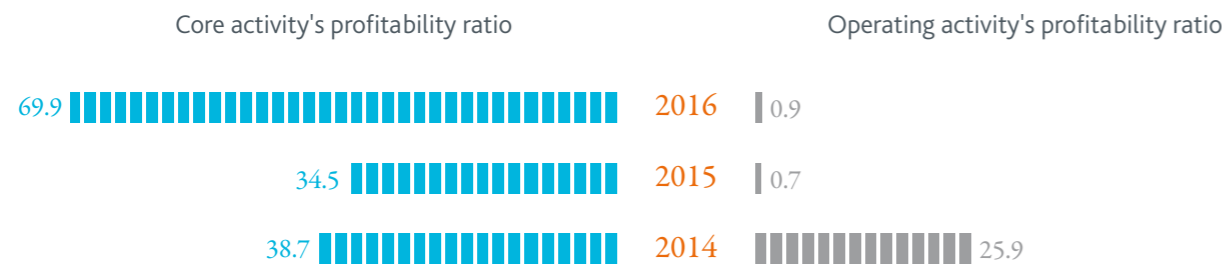
Liquidity ratios



Analytical ratios reflecting the financial condition

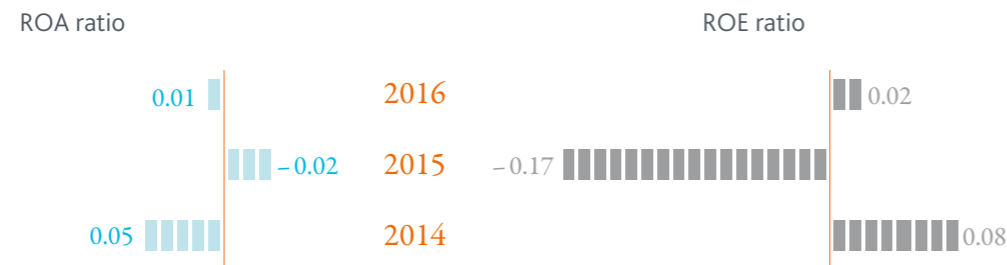
The economic efficiency of using the Company's assets is expressed by the profitability ratios that characterize the possibility of obtaining economic benefits from the use of production resources, capital, assets, investment funds.

Profitability ratios' trends



The core activity's profitability ratio (sales of electricity and heat) for 2016 increased more than two-fold as compared with 2015 due to an increase in the volume of marketable products from Slovyanska TPP by UAH 1,721.7 million with a reduction in electricity generation costs by UAH 671.4 million.

The decrease in the operating activity's profitability ratio for 2016, as compared with 2014, resulted from a decrease in the profitability of other operating activities by UAH 1,426.3 million due to the recording of the amounts of provisions and impairment in the accounting under the IFRS, as well as due to the change in the Accounting Policy of the Company and reclassification of the amounts of costs for electricity generation by Starobeshivska TPP.



According to the 2016 results, the return on assets (ROA) ratio improved compared with 2015 due to the increase in the value of capital investments in progress resulting from the continued reconstruction and technical re-equipment of the main production assets of Slovyanska TPP.

The value of the return on equity (ROE) ratio for 2016 demonstrates a positive trend compared with 2015 due to a decrease in net losses with almost unchanged equity.

Solvency ratios

The value of the solvency ratio for 2016 remains below the normative level due to a reduction in the level of settlements for the supplied electricity by UAH 3,082.5 million (including UAH 2,693.9 million in the temporarily uncontrolled territory) and, as a result, an increase in the accounts payable for goods, works, services by UAH 3,183.8 million, with the improvement in the overall financial result by UAH 145.0 million.

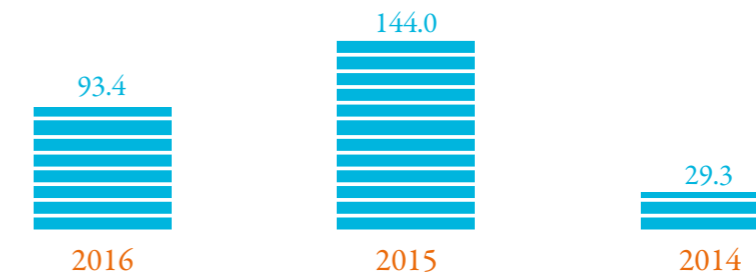
Solvency ratios' trends



Accounts receivable turnover ratio

The calculated value of the receivable turnover ratio has a positive trend compared to 2015, which is mainly due to the change in the Company's Accounting Policy in the part of recognition of revenues from the sale of electricity in the temporarily uncontrolled territory in proportion to the amount of cash received.

Trend of the receivables turnover ratio



In view of the negative financial result of financial and economic activities for 2016, the earning per share ratio is not calculated.

Thus, despite the improvement of certain financial ratios for 2016, the financial position of the Company remains complicated and depends on the adoption of external, governmental decisions.



CORPORATE
GOVERNANCE

STRUCTURE OF EQUITY CAPITAL



70.7 %
Legal entities, including Energoinvest Holding PJSC

25 % + 1
State represented by the State Property Fund of Ukraine

4.3 %
Individuals

23,644,301 number of the COMPANY'S issued shares

10 UAH par value of one SHARE

On 21 August 2013, the State Property Fund of Ukraine sold, at an open auction, 60.77% stake in Donbasenergo PJSC to Energoinvest Holding Private Joint Stock Company, which, as of 31 December 2016, owned 60.86% stake in Donbasenergo.

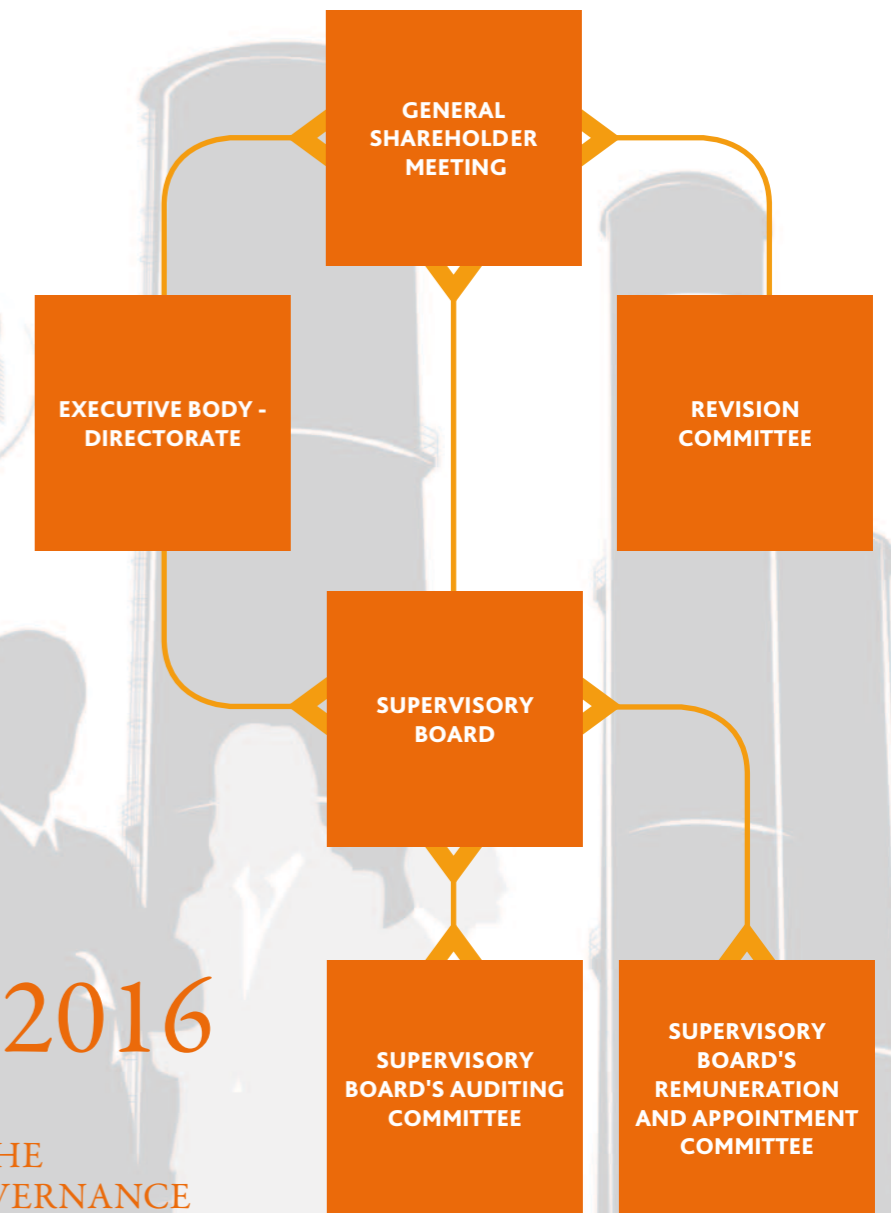
As of the end of 2016, the State owned 25% + 1 share in the Company.

Pursuant to order no. 71 of the State Property Fund of Ukraine dated 20 January 2017 and Decree no. 271 of

the Cabinet of Ministers of Ukraine dated 12 May 2015, Donbasenergo was included in the list of enterprises, which shares are subject to sale in 2017. According to order no. 132 of the State Property Fund of Ukraine dated 30 January 2017, Donbasenergo is included in the list of assets, which state-owned stake is subject to sale on the stock exchange in July 2017.

Since 8 July 2013, shares of Donbasenergo have been in the second listing level of the Exchange Register of the Ukrainian Exchange PJSC.

The corporate governance of Donbasenergo PJSC is regulated by the Economic and Civil Codes of Ukraine, the Laws "On Joint Stock Companies", "On Securities and Stock Market" and other regulatory and legal acts of the National Securities and Stock Market Commission, the Articles of Association of the Company and its internal Regulations, resolutions of the General Meeting, the Supervisory Board and the Directorate.



6 September 2016

On 6 September 2016, THE PRINCIPLES (CODE) OF THE COMPANY'S CORPORATE GOVERNANCE were approved:

- due attention to interests of shareholders
- balance of influence and balance of interests for participants in corporate relations
- financial transparency
- introduction of rules for effective management and proper control.

The corporate governance structure of the Company corresponds to up-to-date progressive requirements to public joint-stock companies contained in the Ukrainian legislation.

13.8 UAH million as dividends in 2016 based on the 2013 and 2014 performance results.

Corporate governance structure

The Company's highest governing body is the General Shareholder Meeting.

Protection of the shareholders' rights, control and regulation of the Company's activities are exercised by the Supervisory Board. To ensure more efficient work of the Supervisory Board, its members established two committees: auditing committee and remuneration and appointment committee, which are headed by independent members of the Supervisory Board (Independent Directors). The Supervisory Board's committees are advisory bodies.

In 2016, first in the history of Donbasenergo, independent members were elected to the Supervisory Board. In compliance with the requirements of the current legislation, a representative of the State, the State Property Fund of Ukraine,

General Shareholder Meeting

In 2016, two General Meetings of Donbasenergo Shareholders were held:

The annual General Shareholder Meeting was held on **26 and 27 April**.

Key decisions:

- reports of the Directorate, the Supervisory Board and the Revision Committee for 2015 approved
- results of Donbasenergo's financial and economic activities for 2015 approved
- key activity areas for 2016 determined
- method/form of dividend payment to shareholders determined
- material transactions that may be concluded within one year from the date of the shareholder meeting preliminarily approved
- members of Donbasenergo Supervisory Board re-elected, terms and conditions of contracts with them approved and

Supervisory Board

The current members of the Supervisory Board were elected by the annual General Shareholder Meeting on 27 April 2016:

- chairman of the Supervisory Board - Aleksandr Kheilo (shareholder of the Company)
- deputy chairman of the Supervisory Board - Lyudmila Esipenko (representative of the State Property Fund of Ukraine)
- member of the Supervisory Board - Yevgeniy Opikhaylenko (shareholder of the Company)
- member of the Supervisory Board (independent director) - Yuriy Vlasenko
- member of the Supervisory Board (independent director) - Yuriy Sakva.

In 2016, 19 meetings of the Supervisory Board were held.

in particular, was elected to the Supervisory Board, who in turn was unanimously elected as the Deputy Chair of the Supervisory Board.

Resolution of all issues related to the Company's day-to-day activities is put on the collegial executive body, the Directorate of the Company, which reports to the General Shareholder Meeting and the Supervisory Board and ensures implementation of their decisions. In Donbasenergo, members of the Directorate are appointed by the Supervisory Board.

The audit of the Company's financial and economic activities is carried out by the Revision Committee on a quarterly basis. One of the members of the Revision Committee is the State Property Fund of Ukraine.

their remuneration levels established.

The annual General Shareholder Meeting considered issues about approval of the new edition of the Articles of Association, the internal regulations of the Company, but these decisions were not taken.

The extraordinary General Shareholder Meeting was held on 6 September.

Key decisions:

- the General Shareholder Meeting approved the Company's Articles of Association, the Regulations on the General Shareholder Meeting, on the Supervisory Board, on the Executive Body, on the Revision Committee and regulations on the Company's structural units; in addition, the principles (code) of the corporate governance were also approved
- terms and conditions of contracts with members of the Supervisory Board changed.

Key decisions:

- plans for the Company's financial and economic activities approved, their performance reports reviewed
- the auditing committee and the remuneration and appointment committee of Donbasenergo Supervisory Board established
- the organizational structure of Donbasenergo agreed upon and approved
- a decision to amend the terms of loan agreements with Oschadbank made
- the Regulation on the procedure for paying off debt on Donbasenergo dividends approved
- the Regulations on the Supervisory Board committees approved: on the auditing committee and on the remuneration and appointment committee of the Company approved, members of these committees elected
- an auditor for auditing of the Company's financial statements determined

- a decision on Donbasenergo's participation (membership) in the European Business Association and the All-Ukrainian *Energy Association of Ukraine* taken, which was of great importance for expanding Donbasenergo's business cooperation
- a decision of the Directorate on the allocation of financing for the development of the Energy Strategy of Ukraine taken
- major transactions and related party transactions considered and agreed.

The Supervisory Board supports the initiatives of the executive body that are related to the Company's participation in social programs and development activities in Mykolayivka town, Donetsk region, where the production capacities of Slovyanska TPP are located.

In December 2016, at the initiative of the Supervisory Board and with a view to ensure continuous operation of the

The Revision Committee

The current members of the Revision Committee were elected by the annual General Meeting of Shareholders on 26 April 2014 (their term of office is 5 years):

- chair of the Revision Committee - Alla Bogatyriova
- member of the Revision Committee - State Property Fund of Ukraine
- member of the Revision Committee - Oleg Naumenko.

Directorate

- General Director/CEO - Eduard Bondarenko
- Secretary of the Directorate - Valentina Marchenko (Economy, Finance and Corporate Governance Director)
- member of the Directorate - Aleksandr Boyenko (Legal Support Director)
- member of the Directorate - Oleg Larionov (Commercial Director)
- member of the Directorate - Aleksandr Maksimenko (Director of Starobeshivska TPP)
- member of the Directorate - Viktor Ruppa (Technical Director)
- member of the Directorate - Valeriy Cherepiy (Director of Slovyanska TPP).

In 2016, 31 meetings of the Directorate were held.

Key decisions on production activities:

- technical and economic performance indicators, financial and investment plans of the Company developed and agreed, progress of their implementation considered
- decisions on the terms of labour remuneration taken
- changes to the organizational structures of Donbasenergo's Structural Units made
- the Regulation on the procedure for paying off debt on Donbasenergo dividends agreed upon
- a decision to finance the development of the Updated Energy Strategy of Ukraine made
- a field meeting of the All-Ukrainian Energy Assembly held
- a decision to allocate funds for restoring railway traffic and

Company, it was decided to convene the Shareholder Meeting, which was held in January 2017. Thus, in 2016, the Supervisory Board made three decisions to convene General Shareholder Meetings (one annual meeting and two extraordinary meetings).

Members of the Supervisory Board actively participated in the preparation of the draft Articles of Association, internal regulations of the Company and its structural units, which were approved by the Shareholder Meeting on 6 September 2016.

The new Articles of Association were brought into compliance with the current legislation and provide for two independent directors in the Supervisory Board, as well as for the extension of the term of the Revision Committee to 5 years.

In 2016, four meetings of the Revision Committee were held.

At the meetings, reports on the implementation of the financial plan and capital investment plan were considered. The information on settlements with the budget and dedicated funds was considered; information on the receipt, use and return of loan funds in 2015 and in I-III quarters of 2016 was heard.

repairing diesel locomotives made. The decision on this issue was of strategic importance for ensuring the operation of Slovyanska TPP

- decisions on crediting and disposal of the Company's property made.

Key decisions related to social activities:

- measures to organize children's summer recreation in 2016 taken
- a decision made to provide hot meals to employees of Donbasenergo's structural units: Elektromont, DESER, Starobeshivska TPP, whose personnel works at the facilities located in the uncontrolled territories;
- a decision to provide charitable assistance to pensioners of Novyi Svet village made
- a decision to allocate financial aid, loans to employees of Donbasenergo made.

Despite the difficult financial situation, the Directorate ensured the fulfilment of Donbasenergo's 2016 collective agreement and took efforts to conclude the collective agreement for 2017-2018.

SUSTAINABLE
DEVELOPMENT



One of the Company's priorities is sustainable development based on efficient human resource management, on ensuring safe working conditions, observance of social guarantees and fulfilment of the Company's obligations as a development driver in the regions of presence.

Human resource management is a key function of the Company's leadership. It is aimed at improving the efficiency of operations by optimizing the headcount and improving the quality of staff.

The average number of Donbasenergo's registered personnel for 2016 is 5,299 people, which is 0.99% or 53 persons less than in 2015.

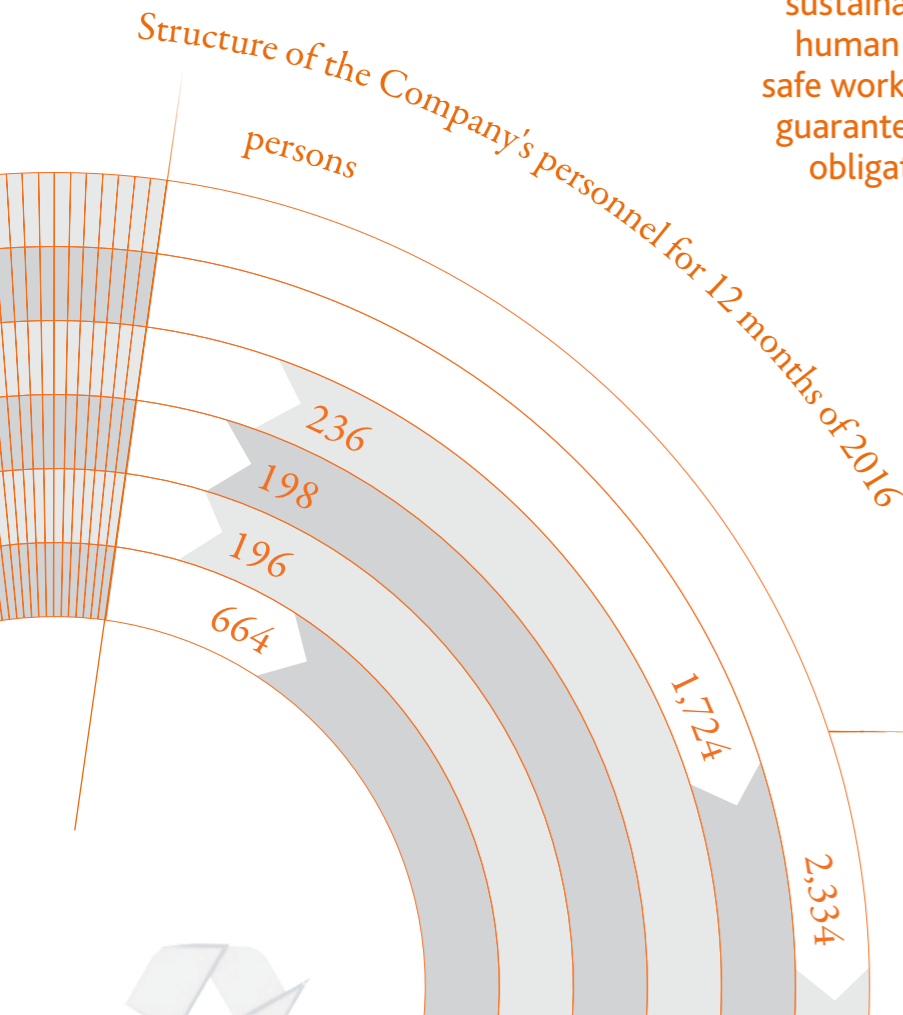
Including by categories:

3,771
workers

846
professionals and specialists

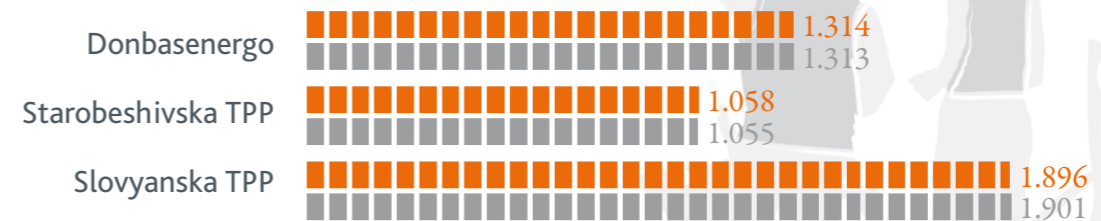
686
managers

49
technical employees



STAROBESHIVSKA TPP
SLOVYANSKA TPP
POWER ENGINEERING/REPAIR ENTERPRISES
DONTPEP
MANAGEMENT OFFICE
OTHER STRUCTURAL UNITS

Specific number of production/operation staff of TPPs per 1 MW of installed capacity (ratio of production/operation staff), people/MW



Staff reduction has led to a decrease in the staff ratio of production/operation personnel in 2016 compared to 2015 from 1.314 to 1.313 persons/ MW of installed capacity

(-0.1%). At the same time, Starobeshivska TPP saw a decrease in the staff ratio (-0.2%), and Slovyanska TPP had a 0.3% increase.

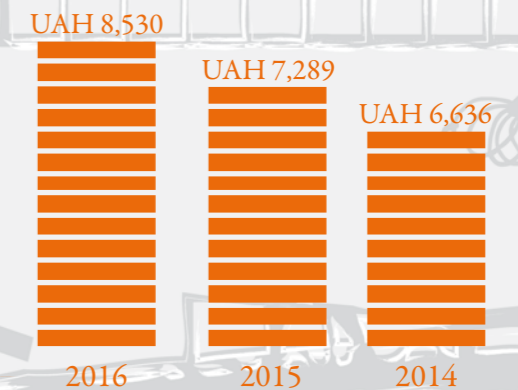
548.8
UAH million

the pay-roll fund increased by 16.3% compared to 2015

Remuneration

An increase in the pay-roll fund is associated with an increase in the rates of official salaries since 1 July 2016 and 1 December 2016.

In 2016, the average monthly salary was UAH 8,530, which is UAH 1,241 or 17% higher than in 2015.



Social benefits and guarantees

Social guarantees were provided in accordance with the effective Collective Agreement of Donbasenergo, and in 2016, they amounted to UAH 76.2 million, which is 9.5% more than in the previous year.

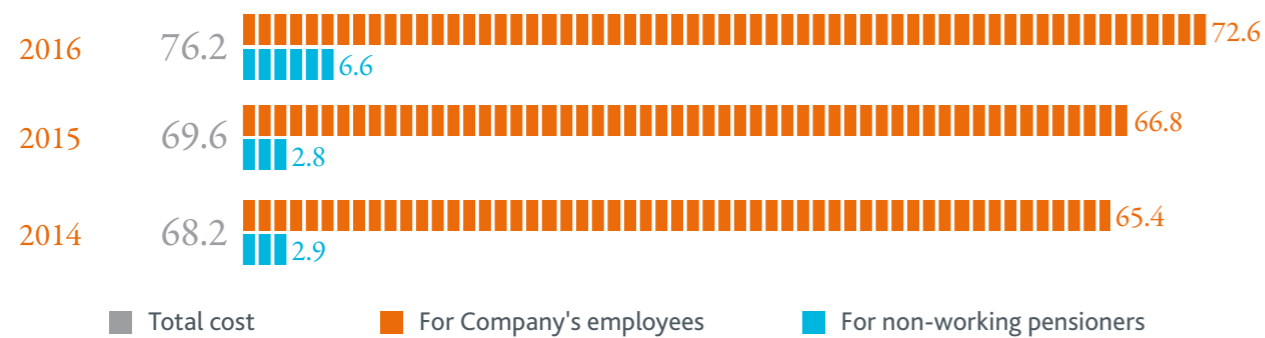
In 2016, the amount of financial aid to the Company's employees totalled UAH 59.6 million, including:

- bonus for health recovery leave - UAH 34.8 million
- rental of housing - UAH 16.3 million
- payments to non-working pensioners - UAH 3.0 million
- one-time bonus payments for commemorative and memorable dates - UAH 3.3 million
- transfers to the trade union committee - UAH 2.2 million, which is 0.4% of the pay-roll fund.

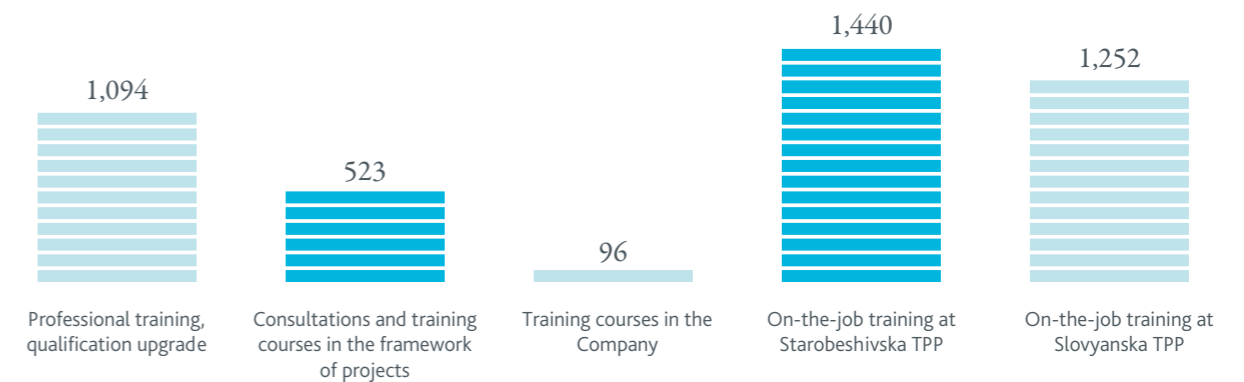
Continuous professional training remains one of the priorities in Donbasenergo's human resource policy. In 2016, training of teaching staff and introduction of new formats of training delivery, such as interactive lecture, video analysis, imitation and others made it possible to bring the system of production training to a new quality level.

In the course of 2016, the Company's personnel were trained within the framework of projects for implementation and certification of the environmental management system - in accordance with the ISO 14001:2015, the quality management system - in accordance with the ISO 9001:2015.

Social benefits and guarantees of the Company, UAH million



Human resource training and development in 2016, persons



Personnel training and development

High level of staff's knowledge, skills and practices is one of the most important factors of the Company's successful performance. Individual and professional development of personnel is one of the priorities in Donbasenergo's human resource policy, which includes such programs as training, development of professional skills, managerial competencies, establishment of the talent pool and a number of other elements. Within the framework of organizing the training, retraining and qualification upgrade processes for its staff, Donbasenergo cooperates with the leading educational institutions, including the Paton Electric Welding Institute of the National Academy of Sciences of Ukraine, the International Institute of Management (MIM-Kiev), the Institute of Environmental Management and Balanced Natural Resource Management, the Main Training and Methodological Centre of the State Service of Mining Supervision and Industrial Safety of Ukraine, Ernst & Young Company, the Ukrainian Association for Quality.

In 2016, 1,094 employees of the Company received training and qualification upgrade. The cost of staff training and development amounted to more than UAH 1.5 million. As of 1 January 2017, 136 employees are studying in educational institutions of III-IV levels.

Within the framework of internal training program, Donbasenergo developed and is delivering various training courses, including training on increasing individual

efficiency, teamwork skills, resource planning, adaptation to changes. Well-structured consecutive training programs make it possible to identify and actively develop the capacity of the Company's employees, forming a single space for a common corporate culture.

The Company pays special attention to the search and employment of young professionals, as well as to the increase in the efficiency of their training. In 2016, more than 40 contracts were made with 21 educational institutions, which enabled 120 trainees and students to pass through the on-the-job training at the structural units (subsidiaries) of Donbasenergo. The Company's leading specialists take part in the examination committees of specialized educational institutions where various diploma theses and projects are defended. Within the framework of the career guidance for youth, excursion programs to the Company's subsidiaries were developed and are being implemented.

The Youth Union of the Company is broadening opportunities for realization of creative and scientific potential of young specialists. In 2016, a new format of the professional skill competitions was developed and tested, which is designed to enhance the prestige of power engineers' highly qualified job and to provide an opportunity for professional realization for both experienced and young employees. The first such contest was held at Slovyanska TPP among the plant's chemists.

Retention and enhancement of Donbasenergo's talent pool is also a priority task. Its solution lies in the following:

- identification and updating of the list of workers and specialists whose retention is extremely important for the Company and whose outflow cannot be replenished

in the short term

- development of measures to ensure professional self-fulfilment of such specialists and increase of their loyalty to the Company.

Corporate culture

The corporate culture of Donbasenergo guarantees preservation of traditions and ensures propagation of corporate values in all structural units of the Company. Social responsibility, as one of the key elements of the corporate culture, is built on the following principles:

- preserving the traditions of comprehensive support to teams of structural units' employees and administrative/management staff, local communities in the territories of presence
- establishing and supporting production culture and business culture that stimulate professional development of personnel and equality of opportunity
- protection of the environment and preservation of natural potential in the areas of presence
- fulfilment of obligations to the state, local communities, partners and customers.

The Company remains a reliable partner of Mykolayivka town's amalgamated territorial community

with population of more than 18 thousand people: the Company declared its obligations in the framework of a joint action program with the local self-government for the development of the territory.

The driving force behind Donbasenergo's socially oriented activity is the Company's employees; their direct and motivated involvement ensures the implementation of initiatives aimed at:

- implementation of Donbasenergo's strategy to introduce international standards in production and management practices: the Company develops motivated involvement and loyalty of personnel to changes in accordance with the world's best practices
- support for the least protected representatives of communities - orphans and children without parental care: in 2016, the Company was providing systematic assistance to boarding school no. 7 in Mykolayivka town for children with special needs.
- promotion of sports and healthy lifestyles: an open mini-

football tournament is held annually, where teams of major domestic companies take part

- development of the creative potential of employees' children and other children living in the territories of the Company's presence: a unique cultural and educational project was implemented. Within its framework, a collection of children's works about human values and job of power engineers was published (colouring book for children "Magic light is streaming...").

The Company pays special attention to supporting the corporate spirit. Consolidation of efforts, common goals, support and mutual assistance, pride in the achievements of individual employees and teams are the core principles of teamwork at the Company's enterprises. Their implementation is achieved through corporate events, team-building activities of various formats, social actions, effective tools of corporate communication.

High quality of corporate and image products remains one of the conditions for the efficiency of the communication system. The Company has shown the following results at the All-Ukrainian competition "The Best Corporate Media of Ukraine 2016":

- the Company's project "Donbasenergo: the Present Past" received the Grand Prix in the "Corporate Book" category - for high-quality content, for a noble mission

Health and safety responsibility

Maintaining modern standards in the field of occupational safety is an indispensable condition for operation of a successful contemporary company. The Company continues to improve processes related to the management of occupational and industrial safety. It is planning to introduce new modern tools making it possible to simplify control over safety and to change the attitude

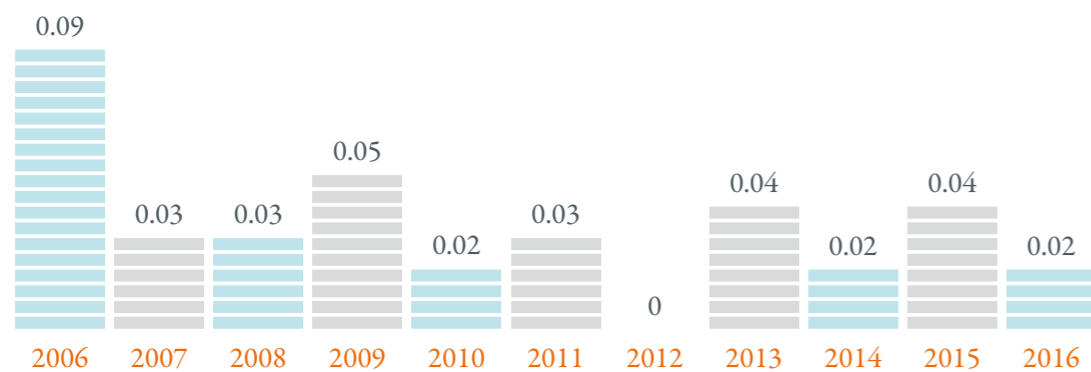
of preserving the historical heritage and establishment of new standards for corporate projects in Ukraine.

- II place in the "Corporate calendar" category: "Give the world a chance!" project - for deep and interesting project idea, real feelings, spirituality and establishment of the image of a socially responsible company.
- II place in the "Annual Report" category - for impeccable professional level and a significant contribution to the development of industry standards for corporate communications in Ukraine.
- III place in the "Corporate book" category received Donbasenergo's cultural and educational project "Magic light is streaming..." - for innovative idea, professional implementation and compliance with preferences of the new generation of readers.

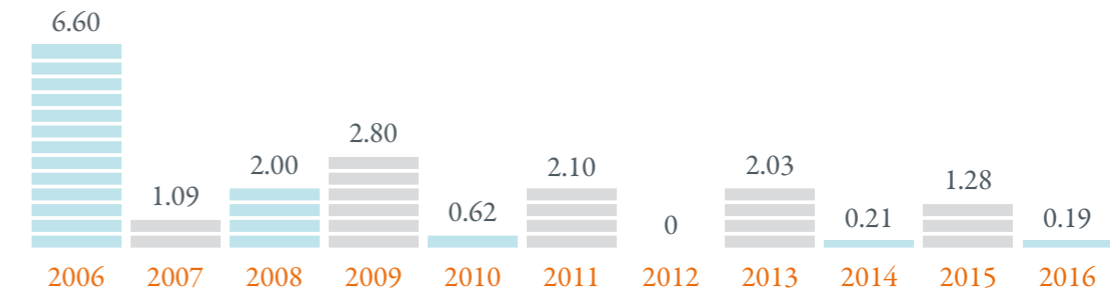
As part of the development of the corporate youth movement, the team of the Youth Union implements the employees' initiatives, helps them to apply their leadership skills irrespective of their positions, unites young specialists around common goals, provides the necessary assistance and support in professional and personal development. During 2016, the Youth Union implemented a number of both corporate and socially oriented programs, including donor assistance, work with children's institutions, sports, cultural and educational activities.

of middle managers to safety issues in the workplace. One of the main tasks for the nearest years is the introduction of a risk-oriented approach to safety, inculcation into the minds of every Company's manager and employee of the idea that safety is not a supporting service, but an integral part of a modern production process.⁸

Trends of the lost time accident frequency rate



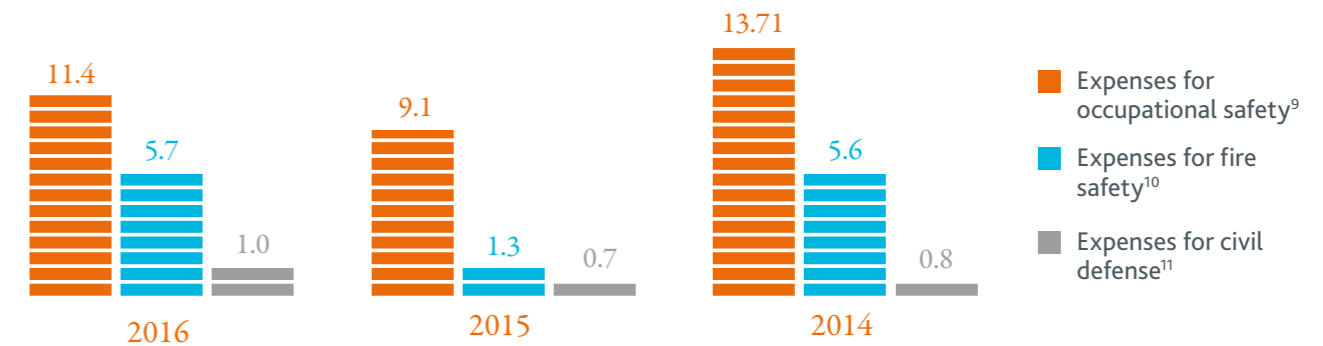
Trends of accident severity rate



The certificate about the establishment and implementation of the safety management system in Donbasenergo that complies with OHSAS 18001:2007 requires annual confirmation through an independent audit by representatives of the certification authority. In the period from 29 November to 1 December 2016, the second supervisory audit of the safety management system for compliance with

OHSAS 18001:2007 was made at Slovyanska TPP by representatives of the international certification authority Sototec Certification United Kingdom Limited. Absence of any identified non-conformities, as well as the improved level of personnel training acknowledged by the auditors confirmed the compliance of Donbasenergo's safety management system with the requirements of OHSAS 18001:2007.

Expenses for health and occupational safety, UAH million



Key results in 2016

Succeeded:

- to achieve zero cases of fatal occupational injuries
- to achieve the planned indicators for reducing the level and severity of occupational injuries
- to maintain at an acceptable level the provision of workers with special footwear and personal protective equipment
- to successfully pass through the second supervisory audit of the safety management system for compliance with OHSAS 18001:2007.

Failed:

- to provide financing and full fulfilment of occupational health and safety measures.

Major reasons for failure to fully meet the objectives set for 2016

- Significant decrease in the amount of financing for HSE activities.
- No possibility to make contracts for the provision of services with organizations in the territories not controlled by Ukraine, problems with logistics.

Plans for 2017

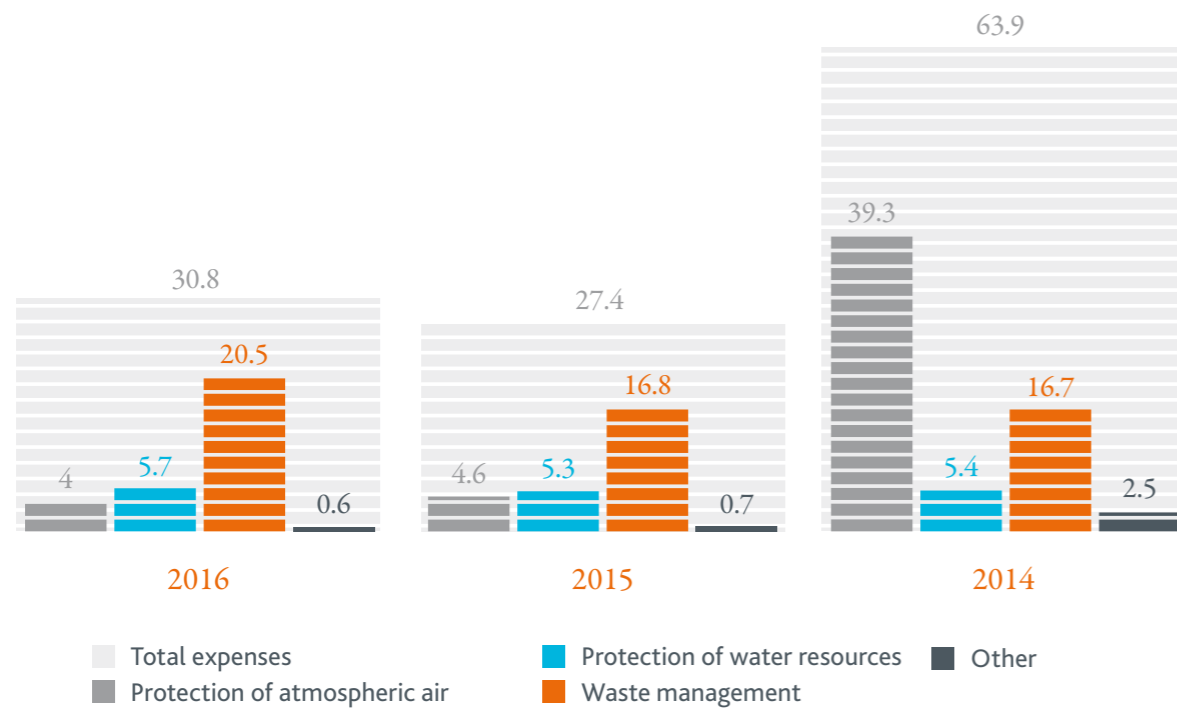
- Implementation of the PPE accounting program based on 1C in order to increase efficiency and effectiveness in planning, purchasing and issuing of PPE, to avoid unjustified procurement of PPE.
- Implementation of the Occupational Safety self-testing program for automated training of employees and their knowledge testing.
- Implementation and maintenance of the software package "Unified system for monitoring and management of safety in the organization" for the Company's structural units to automate and consolidate processes related to risk management, audits, internal investigation of incidents, reporting.
- Integration of the safety management system meeting the requirements of OHSAS 18001:2007 and the quality management system compliant with ISO 9001.
- Preparation for the re-certification audit of Donbasenergo's current safety management system for compliance with the requirements of OHSAS 18001:2007.

Environmental responsibility

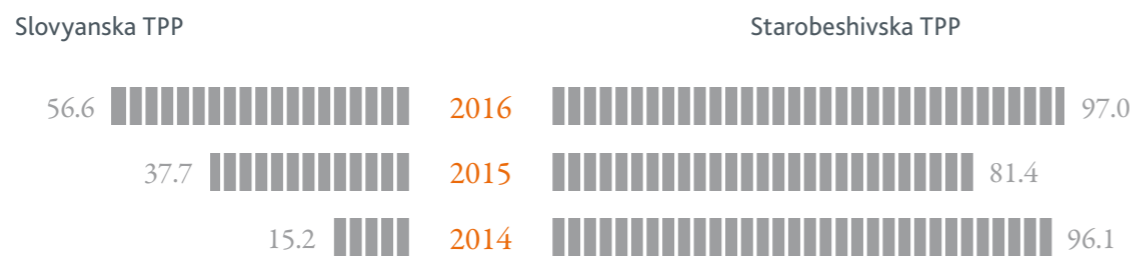
Socially responsible activities of the Company include efforts to reduce the impact of negative trends and establishment of new sustainable trends in the development of cities of presence through increased profitability and safety of production. One of the most important areas for power generation is preservation

of the natural resource potential of the territories where Donbasenergo's production facilities are located. Continuous reduction of the production activities' impact on the environment, ensuring environmental safety at the level of European standards are at the centre of the Company's responsible environmental approach.

Expenses for environmental protection and compliance with environmental legislation, UAH million



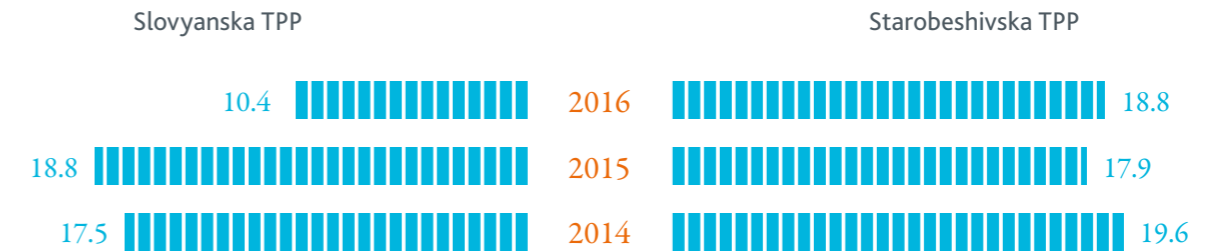
Emission of pollutants, thousand tonnes



Increase in gross emissions of pollutants in 2016 as compared with 2015 by 15.6 thousand tonnes was due to the increased power generation, as well as changes in the structure of fuel consumption and fuel quality.

Increase in gross emissions of pollutants in 2016 as compared with 2015 by 18.9 thousand tonnes was due to the increased electricity generation, as well as changes in the structure of fuel consumption and fuel quality.

Use of water resources, million cubic meters



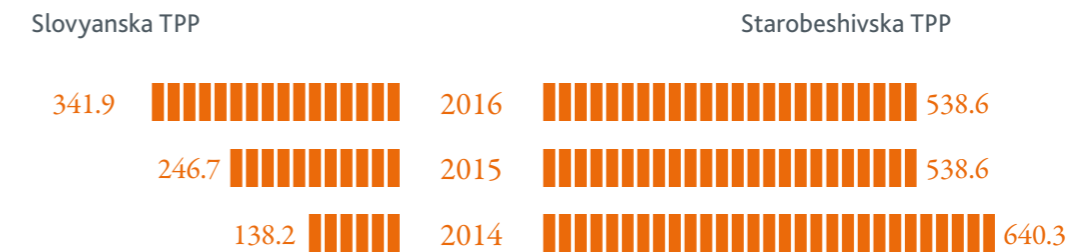
Increase in water use in 2016 compared with 2015 was due to the increased electricity generation.

Decrease in the volume of discharged sewage by 0.9 million cubic meters was due to the implementation of measures for reduction of water losses in water consumption, as well as timely and quality repair of water supply systems.

Decrease in the volume of water use in 2016 compared with 2015 by 8.5 million cubic meters was due to the implementation of measures for reduction of water losses in water consumption, timely and quality repair of water supply systems and optimization of the water consumption process.

Decrease in the volume of discharged sewage by 9.2 million cubic meters was due to a change in the water consumption model necessary for the generation of electricity under the reverse/circulating scheme.

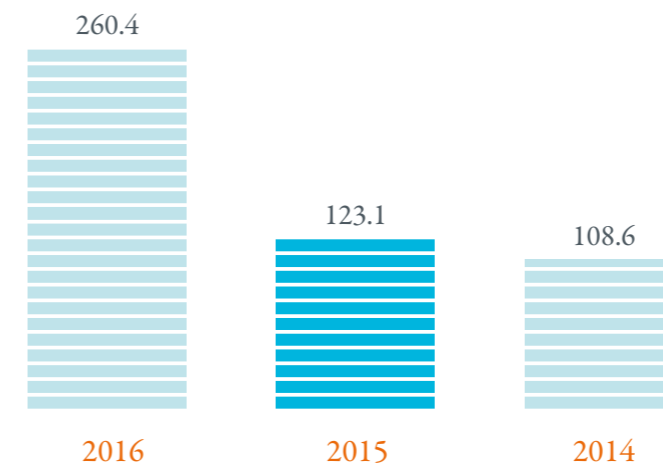
Waste generation, thousand tonnes



Increase in the volume of waste generation in 2016 compared with 2015 by 95.2 thousand tonnes was due to the increase in electricity generation and carrying out of repair work.

Decrease in the volume of waste generation in 2016 compared with 2015 by 2.6 thousand tonnes was due to the decrease in electricity generation.

Environmental tax of the Company, UAH million



Increase in the amount of environmental tax in 2016 compared with 2015 by UAH 137.3 million was due to the increase in the Company's electricity generation.

Implementation of the environmental management system ISO 14001:2015

According to the approved Program for Donbasenergo environmental management system's development, implementation and operation, the following has been carried out at this stage:

- the Environmental Department has developed, approved and put into effect, by Donbasenergo's internal order, basic procedures making it possible to establish common approaches and management principles of the environmental management system that facilitate compliance of mandatory requirements of the Ukrainian environmental legislation with international requirements, continuous improvement of environmental performance of the Company's activity aimed at achievement of environmental objectives and implementation of environmental protection programs in accordance with requirements of ISO 14001:2004
- all the structural units of the Company have implemented and are operating all the developed procedures, as evidenced by the reports of the chief auditors on the introduction and operation of the EMS
- internal audits have been made to ensure compliance with the requirements of the environmental legislation and the work of the environmental protection equipment. According to the results of the internal audits, the structural units received the Audit Reports, in which bottlenecks and non-conformities in terms of non-compliance with the environmental legislation in the structural units were identified. On the basis of these Reports, the structural units developed programs to rectify non-conformities, which are executed according to the due timelines.

The Company's 2016 Environmental Goals and Objectives Program, approved by Donbasenergo's internal order no. 51 of 24 May 2016, was completed in full scope. This in turn was the result of achieving the set goals and objectives

Participation of the Company in the EU integrational environmental energy processes

2016 became the starting point for the development of the sustainable economic development model for Ukraine, which is based on energy efficiency and low-carbon development. These issues are at the centre of attention of the government, experts, scientists and the country's international partners.

The Company was an active participant in scientific and expert discussions aimed at the establishment of the country's low-carbon development strategy and provision of Ukraine's transition to the sustainable economic development.

I. Platform: Conference on the topic "World practice of introducing CCS technology".

Organizer: international environmental association Bellona (central office - Oslo, Norway).

for the environmental management system in 2016. Implementation of the planned activities made it possible to:

- reduce water losses in water consumption
- improve technical condition of process water bodies
- provide capacity for storing ash wastes without allocation of additional space
- reduce the level of air pollution by carrying out repairs of dust collection equipment.

In September 2015, a new version of the environmental standard ISO 14001:2015 was published. To build the management system, three years are given for transition to the new management system in accordance with the requirements of the standard. In 2018, the ISO 14001:2004 standard will be invalid. In view of the changes in external requirements, the Company's management decided to move to a new level of environmental management in accordance with ISO 14001:2015, pursuant to Donbasenergo's internal order no. 97 of 29 August 2016.

For this purpose, specialists of MS Consulting LLC carried out a diagnostic audit of the Company with respect to compliance of the existing procedures (implemented in accordance with the 2004 standard) with the requirements of the 2015 standard. The results of the audit are presented in the compliance matrix¹² of the existing Donbasenergo environmental management system to the requirements of ISO 14001:2015.

Based on the received non-conformance matrix, a transition program was developed for implementation of the EMS conforming to the requirements of ISO 14001:2015 international standard, which implementation is planned to be completed in July 2017.

Participants: representatives of the Ukrainian businesses.

Goal: to introduce the issues of climate change to the conference participants, to present the CO₂ capture and storage technology (CCS) and technology of biomass conversion to energy (the product of the so-called Bio-CCS).

II. Platform: International Forum "Green Mind".

Organizers: the Ministry of Ecology and Natural Resources of Ukraine, the Ministry of Economic Development and Trade of Ukraine, the Ministry of Agrarian Policy and Food of Ukraine, the Chamber of Commerce and Industry of Ukraine, supported by the UN and the EU development programs.

Participants: representatives of 27 countries, relevant ministries, Ukrainian businesses, experts.

Goal: to highlight the need to review the existing economic development model and to move from "business as usual" to an economic growth model that ensures social partnership, safe environment and prospects for healthy future for generations to come.

Outcomes: the forum became a platform for solving practical issues, such as advantages and risks for business from the Association Agreement between Ukraine and the EU, energy efficient and resource-saving technologies for environmentally friendly production, responsibility in marketing and communications, innovations in construction industry and building materials, transparency of public procurement and reform of the taxation system.

III. Platform: the Working Group on the elaboration of the Low-Carbon Development Strategy of Ukraine.

Organizer: United States Agency for International Development (USAID).

Participants: representatives of the Ukrainian executive power bodies, businesses, scientific experts.

Goal: development of a catalogue of climate measures within the framework of the Low-Carbon Development Strategy of Ukraine in the following areas:

- renewable energy
- energy efficiency
- market transformation and transformation of institutions
- modernization of traditional power industry and innovations
- recycling and resource conservation
- absorption of CO₂.

Outcomes: based on the developed catalogue of activities, an interactive model is being built that will make it possible to clearly demonstrate the qualitative and quantitative contribution to the reduction of the carbon load on the environment in Ukraine, as well as to determine the directions for further efforts.

IV. Platform: the Working Group on the elaboration of a system for monitoring, reporting and verification (MRV) of greenhouse gases in Ukraine.

Organizer: international project PMR (Partnership for market readiness), the Ministry of Ecology and Natural Resources of Ukraine.

Participants: representatives of the Ministry of Ecology and Natural Resources of Ukraine, representatives of Ukrainian power generation companies, experts.

Goal: to develop a MRV system in Ukraine in accordance with the basic requirements of Commission Regulation (EU) no. 601/2012 on monitoring and reporting of greenhouse gas emissions, applicable to the Ukrainian economy.

Outcomes: the main directions in the development of the MRV system for greenhouse gases were presented, a preliminary road map was agreed upon.

V. Platform: meeting the requirements of Directive 2001/80/EU.

Organizers: the Ministry of Energy and Coal Industry of Ukraine, the Ministry of Ecology and Natural Resources of Ukraine, the Institute of Coal Energy Technologies, Ukrainian power generation companies.

Participants: the Ministry of Energy and Coal Industry of Ukraine, the Ministry of Ecology and Natural Resources of Ukraine, the Institute of Coal Energy Technologies, Ukrainian power generation companies.

Goal: to develop a program for implementation of the international agreement.

Outcomes: according to the Memorandum on Ukraine's accession to the Energy Community Agreement signed by Ukraine (on connection to the European electrical grid ENTSO-E), pollutant emission levels of domestic TPPs shall conform to the requirements of Directive 2001/80/EU (hereinafter referred to as Directive 80) by 31 December 2017. The Ministry of Ecology adopted some documents governing the development of emission standards and issue of approvals taking into account the signed Memorandum. In particular, Order no. 541 of the Ministry of Ecology of 22 October 2008 "On Approval of Technological Norms for Permissible Emissions of Pollutants from Thermal Installations with a Rated Thermal Capacity of More than 50 MW" defines the time frame for achieving maximum permissible emissions for new and existing installations - 1 January 2018. Failure by Ukraine to fulfil the requirements of Directive 80 by the set time is due to a number of reasons: the current condition of the equipment at large combustion plants existing in Ukraine, the number of which is more than 200, a large scope of necessary work in the conditions of limited financial resources of operators servicing these facilities. Thus, due to the failure to comply with the requirements of the environmental legislation, the vast majority of large combustion plants should be closed down, which will lead to a capacity decrease in the country's energy system and a decrease in the generation of electricity and heat.

At the same time, the Energy Community has tightened the requirements to limiting the emission of certain atmospheric pollutants from large combustion plants. Directive 2010/75/EU "On Industrial Emissions"

(hereinafter referred to as Directive 75), replacing Directive 80, provides for another reduction in the permissible limiting concentrations of emitted sulphur dioxide, nitrogen oxides and dust. These requirements came into effect, for the EU member states, from 1 January 2016. At the same time, countries are allowed to apply the National Transitional Plan (Article 32) from 30 June 2020, while the deadline for achieving the requirements of Directive 75 by combustion plants is moved to the period after 31 December 2027.

Ukraine used a similar mechanism: at the initiative of the Ministry of Energy and Coal Industry, a draft Concept of the government target program for reduction of atmospheric emissions of certain pollutants from large combustion installations of electricity generation sector (TPPs, CHPPs) of Ukraine was developed. On its basis, the National Emission Reduction Plan (hereinafter referred to as the NERP) was developed. One of the initiators of this plan was Donbasenergo. The Company and other enterprises operating power units with a nominal thermal capacity above 50 MW applied to the relevant Institute of Coal Energy Technologies of the National Academy of Sciences of Ukraine for the development, harmonization and implementation of the National Emission Reduction Plan. Its implementation will allow to gradually and steadily reduce the emissions of sulphur dioxide (SO₂), nitrogen

oxides (NO_x) and substances in the form of suspended solids undifferentiated in composition (dust) by large combustion plants.

The latest version of the National Emission Reduction Plan was agreed upon by the Secretary and the working group of the Energy Community on 13 October 2016. The NERP of Ukraine comes into force on 1 January 2018 and is valid until 31 December 2033. During this period, the installations included in the NERP are supposed to annually ensure a linear reduction in gross emissions of pollutants in order to reach the limiting emission values by the end of 2033 under Directive 2010/75/EU. At the same time, the plants should be able to operate, during the term of the NERP, taking into account the limiting pollutant emission values under Directive 2010/75/EU in accordance with the permits valid as of 31 December 2015. Thus, this eliminates the inconsistency between the terms and conditions of the emission permits and the effective legislation of Ukraine.

The National Emission Reduction Plan is a lawful and efficient mechanism for implementation of Directive 2010/75/EU "On Industrial Emissions" tested in the EU member states and including the transfer of the deadline for achieving the final results without possible threats to the country's energy security.

Implementation of the quality management system

All modern successful companies are gradually moving to more advanced and efficient methods of business management, are guided by methodologies of strategic management, which include a variety of different tools. One of the key universally recognized tools for improving management is the introduction of the quality management system (QMS).

In 2016, the top management of the Company decided to build a quality management system that would comply with ISO 9001:2015.

The introduction and maintenance of this system at a high level will enable Donbasenergo to obtain significant competitive advantages: economic, reputational, strategic and organizational ones.

In the structure of the Company's Health and Safety Directorate, the quality management department was established and staffed by the relevant specialists. Specialists of this department developed and the CEO of the Company approved the Road Map for implementation of the QMS supposed to be completed in 2017. To provide methodological support, a contract was made with MS Consulting company, which has experience in the implementation of such systems.

The newly established quality management

department was tasked to build, by the planned date and in line with the key principles of ISO 9001:2015 - process-based approach and risk-oriented thinking, the respective system in the Company, allowing to comprehend and constantly improve the existing business processes in order to raise satisfaction of both internal and external customers. In June 2017, the established system should be ready for certification under the international standard ISO 9001:2015 and the respective certificate is supposed to be issued.

Within the framework of the Road Map, the following work was carried out in the reporting period:

- a representative of the Company's top management responsible for implementing the QMS was determined
- responsible persons at Slovyanska and Starobeshivska TPPs were appointed
- all major, auxiliary and management processes were identified
- owners of all processes were determined
- working groups on development of process maps were established
- specialists of MS Consulting and management department of the Company delivered training sessions to the staff of the administrative office, to employees of Slovyanska and Starobeshivska TPPs on the main provisions of the ISO 9001:2015 standard, process-based approach, risk-oriented thinking and internal audits

- development of the main provisions of the quality management system was started
- maps of all processes were developed
- the Company's Quality Policy was developed.

IT services

In 2016, projects were implemented to introduce the Unified Electronic Trading Platform and to create the Company's corporate web site.

Connection to cloud resources using high-speed communication channel was made.

The project "Enterprise-level wireless network (WiFi) in the administrative office building" was implemented.

A project to implement a Data Network for secure, scalable and fault-tolerant communication channels between the structural units was started.

A project to introduce automated system Service Desk BPM Online was launched.

Prototyping of the Company's single treasury in the structural units was made, including a centralized payment mechanism at the level of Donbasenergo administrative/management office.

In 2017, it is planned to complete the project on introduction of the automated Service Desk BPM Online system and establishment of the Service Desk based on Slovyanska

In 2017, it is planned to accomplish all the activities planned in the Road Map, to carry out a full cycle of internal audits of all described processes, to make pre-certification and certification audit.

TPP's information system.

Work on the prototyping of the comprehensive enterprise management system based on 1C will continue.

Creation of a corporate portal is planned.

Building of a single system of unified communications on the basis of deployed LYNC services, IP-telephony and video-conferencing system CISCO TELEPRESENCE.

Transition to the pay-per-use model for the use of the printing equipment in the structural units.

Participation in the following projects is planned:

- introduction of software for accounting of PPE on the basis of 1C to optimize the cost of providing staff with modern corporate overalls
- introduction of software (based on 1C) for building of a system of budgeting and management reporting on key areas of activity
- introduction of software (based on 1C) for accounting of settlements related to the delivery, sale and payment for centralized hot and cold water supply services.

ANNEXES



Annex 1

Cost structure of commercial output for 2016

Description of costs	Fact 2015		FP 2016		Fact 2016		Deviation from fact 2015		Deviation from FP 2016	
	UAH million	%	UAH million	%	UAH million	%	UAH million	%	UAH million	%
1. Production cost, total	3,971.7	96.3	5,518.6	96.6	5,057.1	96.4	1,085.4	27.3	-461.5	-8.4
Production services, including:	70.5	1.7	192.5	3.4	118.9	2.3	48.4	68.7	-73.6	-38.2
services related to operation	20.0	0.5	27.9	0.5	25.1	0.5	5.1	25.5	-2.8	-10.0
repair services	50.5	1.2	164.6	2.9	93.8	1.8	43.3	85.7	-70.8	-43.0
Raw materials and auxiliary materials, including:	98.4	2.4	251.5	4.4	157.8	3.0	59.4	60.4	-93.7	-37.3
payment for water	20.3	0.5	25.1	0.4	27.3	0.5	7.0	34.5	2.2	8.8
services related to operation	31.6	0.8	52.4	0.9	43.6	0.8	12.0	38.0	-8.8	-16.8
repair services	46.5	1.1	174.0	3.1	86.9	1.7	40.4	86.9	-87.1	-50.1
Fuel from third parties	3,144.5	76.3	4,244.8	74.3	3,962.3	75.5	817.8	26.0	-282.5	-6.7
Power from third parties	11.1	0.2	11.9	0.2	12.5	0.2	1.4	12.6	0.6	5.0
Labour costs	282.8	6.8	332.7	5.8	334.3	6.4	51.5	18.2	1.6	0.5
Unified social tax	102.5	2.5	96.9	1.7	73.0	1.4	-29.5	-28.8	-23.9	-24.7
Depreciation	123.2	3.0	118.4	2.1	104.2	2.0	-19.0	-15.4	-14.2	-12.0
Other costs, including:	138.7	3.4	269.9	4.7	294.1	5.6	155.4	112.0	24.2	9.0
environmental fee	122.9	3.0	237.2	4.1	260.2	5.0	137.3	111.7	23.0	9.7
payment for land	2.5	0.1	3.0	0.1	1.9	0.0	-0.6	-24.0	-1.1	-36.7
other needs	13.3	0.3	29.7	0.5	32.0	0.6	18.7	140.6	2.3	7.7
2. Administrative costs	150.6	3.7	194.1	3.4	187.4	3.6	36.8	24.4	-6.7	-3.5
Total costs	4,122.3	100.0	5,712.7	100.0	5,244.5	100.0	1,122.2	27.2	-468.2	-8.2

Annex 2

Fulfilment of key technical and economic indicators

Indicator	meas. unit	fact 2015	FP 2016	fact 2016	Deviations of F16/F15		Deviations of F16/FP16	
					+ / -	%	+ / -	%
Electricity generation	mln. kWh	6,946	7,428	8,055	1,109	16.0	627	8.4
Starobeshivska TPP		4,592	4,241	5,064	472	10.3	823	19.4
Slovyanska TPP		2,353	3,187	2,991	638	27.1	-196	-6.1
Productive supply of electricity	mln. kWh	6,216	6,660	7,244	1,028	16.5	584	8.8
Starobeshivska TPP		4,106	3,786	4,549	443	10.8	763	20.2
Slovyanska TPP		2,110	2,874	2,695	585	27.7	-179	-6.2
Electricity supply structure of the structural unit	%	100.0	100.0	100.0	0	0.0	0.0	0
Starobeshivska TPP		66.1	56.8	62.8	-3	-4.9	5.9	10.5
Slovyanska TPP		33.9	43.2	37.2	3	9.6	-6.0	-13.8
Specific fuel consumption for electricity supply	g/kWh	407.3	413.0	396.8	-10.5	-2.6	-16.2	-3.9
Starobeshivska TPP		405.2	407.6	385.7	-19.5	-4.8	-21.9	-5.4
Slovyanska TPP		411.3	420.0	415.5	4.2	1.0	-4.5	-1.1
ICUR*	%	27.5	29.3	31.7	4.2	15.3	2.4	8.2
Starobeshivska TPP		26.1	24.0	28.7	2.6	10.0	4.7	19.6
Slovyanska TPP		30.5	41.2	38.7	8.2	26.9	-2.5	-6.1

* ICUR - installed capacity utilization rate

Annex 3

Fuel for energy generation

Type of fuel	meas. unit	fact 2015	FP 2016	fact 2016
Coal				
Calorific value	kcal/kg	5,562	5,427	5,565
Share in the structure	%	98.9	98.9	99.3
Gas				
Calorific value	kcal/kg	8,053	7,966	8,138
Share in the structure	%	1.0	1.0	0.7
Fuel oil				
Calorific value	kcal/kg	9,577	9,081	9,553
Share in the structure	%	0.1	0.1	0.0

Annex 4

Actual fulfilment of the repair campaign for 2016

Power unit no.	Power, MW, productivity, t/h	Type of repair	Costs, UAH million w/o VAT	Main scope of work
4	215	current	2.9	Typical scope of work.
5	200	current	10.9	Replacement of armour of ball-tube mill ShBM 5 "A, B".
6	200	major	93.3	<ul style="list-style-type: none"> Replacement of cold convective superheater (464 pcs.) (dismantling/installation). Replacement of platen superheater with collectors, suspension system and desuperheaters (48 pcs.). Replacement of the primary section of reheater with collectors (464 pcs.) (disassembly/installation). Replacement of the output section of reheater with collectors (180 pcs.) (dismantling/installation). Replacement of PPP pipes (15 tonnes) (dismantling/installation). Replacement of defective tubes of screens (40 tonnes). Replacement of drive gear 6 "A" with bearings and shaft. Replacement of the end wall of mill 6 "B". Repair of steam path part of HPC, IPC, LPC with replacement of low-pressure rotor with the stand-by one. Replacement of blades at stages 24, 25 of the backup low-pressure rotor. Repair of the support-suspension system. Control of metal of steam pipelines for hot superheat, hot reheat, cold reheat, bypass pipes of HPC, IPC. Repair of the flowing part of PEN (electric pump) 6 "B", PEN 6 "C" in the factory. Major overhaul of condensate electric pump 6 "B" with replacement of the rotor assembly.
8	200	current	1.7	Typical scope of work.
9	200	current	8.6	<ul style="list-style-type: none"> Repair of mill fans MV 9 "A, B". Restoration of thermal insulation of emergency discharge pipelines. Replacement of armour of mill 9 "A". Replacement of crown gear 9 "A" (second-hand). Replacement of drive gear 9 "A" with bearings and shaft. Major overhaul of the condensate pump KEN 9 "A".
10	200	current	7.4	<ul style="list-style-type: none"> Replacement of the drive gear of mill ShBM 10 "B" with bearings and shaft. Replacement of the input end cover of mill ShBM 10 "B". Repair of condensate pumps KEN 10 "A, B, C" and feeding pump ZhEN 10 "B".
11	200	current	4.9	Typical scope of work. Replacement of pipe sections of the main ejectors.
12	210	current	9.3	Replacement of armour of ball-tube mill ShBM 12 "A, B".
13	210	current	12.1	<ul style="list-style-type: none"> Replacement of the end face cover of mill ShBM 13 "A". Replacement of bushing of the hollow spigot (output) of mill ShBM 13 "A". Replacement of armour of mill ShBM 13 "B". Repair of air pipes of primary air (ø377 - 1.5 t).
Stationary equipment			46.5	Repair of equipment in chemical shop, electrical shop, fuel-transport shop, as well as equipment of the shore pumping station.
Buildings and structures			15.8	Typical scope of work.
Total for Starobeshivska TPP			213.4	

K-7A	1 250	current	26.5	Repair of power fittings, repair of steam desuperheaters of start-up injection of flow AB and CD - 2 pcs. Replacement of drainage pipelines of lower and medium radiant sections.
K-7B	1 250	current	26.7	Replacement of power fittings, replacement of throttling valves D-1, 2, 3, repair of main steam valve, repair of drainage pipelines of high-pressure heater.
TG-7	800	current	14.8	Replacement of power fittings, diagnostics of internal and external casing of IPC, diagnostics of IPR. Repair of bearings no. 1-12.
Pulverized fuel shop		major	15.5	Repair of PPS-1, 2, 3; ShM-2, EVK 1-6.
General plant equipment, including:			59.7	Repair of equipment in chemical shop, electrical shop, fuel-transport shop.
TG 3	80	major		<ul style="list-style-type: none"> Repair of HPR with grooving of rotor journals. Replacement of blades at 18, 20 stages of LPR Repair of the flowing part of HPC, LPC
Buildings and structures			8.5	Typical scope of work.
Total for Slovyanska TPP			151.7	

Annex 5

Finished product/work (services) sales volumes of the Company's structural units for 2016, UAH thousand

#	Name of structural unit	Finished product/work (services) sales volumes, including					
		Sales to third parties			Sales to own structural units		
		Fact 2015	FP 2016	Fact 2016	Fact 2015	FP 2016	Fact 2016
1	Elektroremont structural unit, total including:	29,693	35,995	16,218	34,845	37,238	36,489
1.1	Finished products	24,172	29,479	11,807	20,624	22,615	20,181
1.2	Repair of electromechanical equipment	180	470	95	1,446	740	1,360
1.3	Repair of electrotechnical equipment	4,994	5,665	4,015	12,775	13,883	14,948
1.4	Other activities	347	381	301			
2	DESR structural unit, total including:	564	276	406	35,318	48,473	42,996
2.1	Finished products	2			212	934	982
2.2	Bricking and isolation of equipment	239			16,933	21,073	20,614
2.3	Transport services	123	15	10	1,106	804	810
2.4	Construction and repair work			2	15,899	25,135	19,923
2.5	Other activities	200	261	394	1,168	527	667
3	DEN structural unit, total including:	1,102	1,076	1,191	6,424	7,841	6,288
3.1	Finished products					3	3
3.2	Adjustment work	836	794	913	6,392	7,802	6,255
3.3	Other activities	266	282	278	32	36	30
4	DonTEP, total including:	2,862	387	1,033	17,503	33,267	41,877
4.1	Design work	2,796	337	992	16,130	31,943	40,653
4.2	Operating lease of assets	65	48	39			
4.3	Other activities	1	2	2	1,373	1,324	1,224
5	PAT structural unit, total including:	44	102	161	7,788	10,540	9,900
5.1	Transport services				7,788	10,540	9,900
5.2	Other activities	44	102	161			
6	Energotorg, total including:	48,988	39,473	36,569	18,195	21,143	22,293
6.1	Sales of goods	45,955	37,420	34,480	16,563	20,410	21,541
6.2	Market fee	31					
6.3	Trading service			9	1,567	689	680
6.4	Operating lease of assets	1,344	1,567	1,564			
6.5	Other activities	1,658	486	516	65	44	72

Annex 6

Structure of the financial result for 2016, UAH million

Indicator	Fact	Fact	Fact	Deviation of 2016 fact/2015 fact		Deviation of 2016 fact/2014 fact	
	2014	2015	2016	+/-	%	+/-	%
(+) Net income (revenue) from sale of electricity, heat, including:	4,887.3	5,339.8	4,006.3	-1,333.5	-25.0 %	-881.0	-18.0 %
investment component in the electricity tariff	669.9	190.9	190.9	0.0	0.0 %	-479.0	-71.5 %
(-) Cost of electricity and heat sold	3,522.9	3,970.4	2,357.3	-1,613.2	-40.6 %	-1,165.6	-33.1 %
(=) Operating profit	1,364.5	1,369.4	1,649.0	279.7	20.4 %	284.6	20.9 %
(-) Administrative expenses	171.4	196.7	236.7	40.0	20.3 %	65.3	38.1 %
(-) Distribution costs	8.0	11.6	11.1	-0.5	-4.0 %	3.1	38.6 %
(+) Other operating income, other income	395.7	374.3	1,804.2	1,430.0	382.1 %	1,408.5	356.0 %
(-) Other operating expenses, other expenses	1,296.0	1,668.8	3,154.2	1,485.5	89.0 %	1,858.3	143.4 %
(+) Financial income	17.0	7.3	15.8	8.5	115.8 %	-1.3	-7.4 %
(-) Financial costs	128.2	138.8	122.3	-16.5	-11.9 %	-5.8	-4.6 %
(=) Result before tax	173.7	-264.9	-55.4	209.6	-79.1 %	-229.0	-131.9 %
(-) Profit tax accrued according to form 2	72.8	-74.7	-10.2	64.6	-86.4 %	-82.9	-114.0 %
(=) Financial and economic activity result	100.9	-190.2	-45.2	145.0	-76.2 %	-146.1	-144.8 %

Annex 7

Fulfilment of financial plan indicators for 2016, UAH million

Indicators	Line code	Plan	Fact	(+/-)	%
I. Formation of the Company's profit					
Revenue					
Product sales income (revenue)	001	6,604.2	4,807.5	-1,796.6	72.8 %
Value added tax	002	1,100.7	801.3	-299.4	72.8 %
Net product sales income (revenue):	003	5,503.5	4,006.3	-1,497.2	72.8 %
Electricity generation by thermal power plants	003/1	5,485.1	3,987.6	-1,497.6	72.7 %
Production and distribution of heat	003/2	18.4	18.7	0.4	101.9 %
Other operating income	004	178.6	1,675.3	1,496.7	938.1 %
Financial income	005	5.8	15.8	10.0	274.3 %
Other income	006	13.3	12.0	-1.2	90.7 %
Total income	012	5,701.1	5,709.4	8.3	100.1 %
Cost of goods sold	013	4,388.3	2,357.3	-2,031.0	53.7 %
Electricity generation by thermal power plants	013/1	4,336.5	2,314.3	-2,022.2	53.4 %
Production and distribution of heat	013/2	51.8	43.0	-8.9	82.9 %
Administrative costs (total), including:	014	244.8	236.7	-8.1	96.7 %
labour remuneration cost	014/1	122.3	125.7	3.5	102.8 %
social insurance cost	014/2	35.6	25.3	-10.3	71.0 %
material costs	014/3	3.3	2.2	-1.1	67.6 %
stationery	014/4	1.4	1.8	0.5	133.7 %
business travel costs	014/5	8.9	9.9	1.1	112.2 %
settlement and cash service cost	014/6	4.4	4.0	-0.4	91.3 %
building maintenance costs	014/7	1.4	1.3	0.0	98.9 %
other administrative costs	014/8	67.7	66.4	-1.3	98.1 %
Distribution costs	015	12.5	11.1	-1.4	88.9 %
Other operating costs	016	1,308.1	3,025.2	1,717.2	231.3 %
Financial costs	017	115.7	122.3	6.7	105.8 %
Other costs	018	14.5	12.2	-2.4	83.7 %
Tax on profit from ordinary activities (acknowledged profit)	019	19.1	(10.151)	-29.3	-53.1 %
Total expenses	022	6,103.0	5,754.6	-348.3	94.3 %
Gross profit (loss)	023	1,115.2	1,649.0	533.8	147.9 %
Electricity generation by thermal power plants	023/1	1,148.7	1,673.3	524.6	145.7 %
Production and distribution of heat	023/4	(33.479)	(24.261)	9.2	72.5 %
Financial result from operating activities	024	(271.5)	51.290	322.8	-18.9 %
Financial result from ordinary activities before taxation	025	(382.7)	(55.4)	327.3	14.5 %
Net profit (loss)	027	(401.9)	(45.2)	356.7	11.2 %

II. Net profit distribution					
Fund for payment of dividends to economic entities according to the standard set in the current year based on the results of financial and economic activity for the last year, including (30%):	28	0.0	0.0	0.0	0.0 %
on the state-owned part of shares	028/1			0.0	0.0 %
Balance of undistributed earnings at the beginning of reporting period	031	323.1	(113.0)	-436.1	-35.0 %
Development of production:	032	0.0	0.0	0.0	0.0 %
production development fund	032/1	0.0	0.0	0.0	0.0 %
Reserve fund	033	0.0	0.0	0.0	0.0 %
Adjustment of balance sheet items by recognized actuarial profit/loss	034	0.0	69.7	69.7	-
Balance of undistributed earnings at the end of reporting period	036	(78.7)	(227.9)	-149.2	289.6 %
III. Mandatory payments to the budget and state target funds					
Payment of current taxes and mandatory payments to the budget, including:	037	300.4	-276.9	-23.5	92.2 %
tax on profit	037/1	17.5	11.1	-6.4	63 %
excise tax	037/2	-	0.4	-	-
VAT	037/3	130.5	145.3	14.8	111 %
resource payments	037/4	15.1	10.4	-4.7	69 %
payment for environmental pollution	037/5	122.7	84.9	-37.8	69 %
dividends on the state-owned part of shares	037/6	0.0	0.0	0.0	0.0 %
other tax and mandatory payments to the budget	037/7	14.6	15.2	0.6	104 %
Payments to the state target funds, including:	038	157.3	137.5	-19.8	87.4 %
settlements on Unified Social Tax	038/1	143.7	121.1	-22.6	84 %
Other mandatory payments to the budget, including:	040	145.5	188.3	42.8	129.4 %
tax on physical persons' income	040/1	75.1	103.0	27.9	137 %

Annex 8

Injury rate (general production-related and non-related injuries)

#	Company name	Number of production injury cases (H-1, H-5)				Number of injury cases not related to production (H-5)				Number of non-production injury cases HT				Number of professional disease cases				Number of cases of injuries to external persons caused by company's electrical equipment							
		Total		Fatal		Total		Fatal		Total		Fatal		Total		Identified		Number of persons with 2 or more professional diseases		Total		Fatal			
		2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
1	Starobeshivska TPP of Donbasenergo	1	1	1	0	0	0	0	0	75	126	0	0	0	0	0	0	0	0	0	0	0	0	0	
2	Slovyanska TPP of Donbasenergo	2	1	0	0	1	0	0	0	121	113	0	0	0	0	0	0	0	0	0	0	0	0	0	
3	Elektroremont of Donbasenergo	0	0	0	0	0	1	0	1	13	14	0	0	0	0	0	0	0	0	0	0	0	0	0	
4	Donbasenergo-Spetsremont of Donbasenergo	0	0	0	0	0	0	0	0	11	8	0	0	0	0	0	0	0	0	0	0	0	0	0	
5	Donbasenergo-Naladka of Donbasenergo	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
6	Donbasenergo	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
7	Teploelektroproekt of Donbasenergo	0	0	0	0	0	0	0	0	5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
8	Energotorg of Donbasenergo	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
9	Management Office	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
	Total	3	2	1	0	1	1	0	1	221	267	0	0	0	0	0	0	0	0	0	0	0	0	0	

Annex 9

Health and safety costs in 2016

#	Company name	Pay-roll fund		Health and safety costs (w/o VAT)			Percentage of health and safety cost against the pay-roll fund	
		2015	2016	plan 2016	fact 2016	2016 performance	2015	2016
		UAH million	UAH million	UAH million	UAH million	%	%	%
1	Donbasenergo	471.9	548.7	20.6	11.4	55	2.0	2.4

#	Cost items on health and safety (actual)	Amount, UAH million (VAT exclusive)	Share of total amount of health and safety cost (%)
1	Bringing of key assets to compliance with requirements of health and safety regulatory documents.	0.9	7.9
2	Elimination of hazardous and harmful production factors' impact on employees or bringing their levels in the workplace to requirements of health and safety regulations.	0.6	5.3
3	Certification of work places.	0.1	0.9
4	Safety audit.	0.2	1.8
5	Purchase of the necessary regulatory and legal acts, visual aids, literature, posters, video films, mock-ups, software products etc. dedicated to safety issues.	0.3	2.6
6	Training of employees and testing their knowledge on safety issues in the course of work, delivering lectures, seminars and consultations on safety issues.	0.3	2.6
7	Provision of employees with special outfit, footwear and other individual protection equipment, cleaning agents and agents neutralizing negative impact of harmful substances on human organism or skin.	7.4	64.9
8	Provision of workers engaged in work with hazardous working conditions, with milk or equivalent foods, carbonated salted water.	0.9	7.9
9	Carrying out mandatory preliminary, periodic and unscheduled medical examination of workers engaged in heavy work, work with hazardous or harmful working conditions or those where professional selection is needed.	0.7	6.1
	TOTAL	11.4	100.0

Annex 10
Fire safety costs

Number of fires in 2016	Amount of total losses from fires (UAH million)	Total amount of costs on fire safety measures (UAH million)		Costs on modernization of fire and technical equipment (UAH million)		Costs on research and development (UAH million)		Costs on maintenance of fire detection and extinguishing system (UAH million)		Costs on implementation of fire prescriptions (UAH million)		Costs on maintenance of the State Rescue and Fire Station and the Emergency and Rescue Station (UAH million)		Other costs (including insurance of voluntary fire brigades) (UAH million)	
		2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
		0	0	1.3	5.7	0.04	3.2	0.04	0.1	0.4	0.4	0	0.4	0.8	0.8

Annex 11
Civilian security costs

Name of civilian security measures according to Article 20 of the Ukrainian Civilian Security Code	Gross revenue amount (UAH million)		Allocated for civilian security measures according to financial plan for 2017 (UAH million) as of 1 January 2017	Costs on civilian security measures (actual) (UAH million)		Percentage of costs on civilian security measures out of the gross revenue amount	
	2015	2016		2015	2016	2015	2016
	Package of measures for improvement of standards and increase of the existing civilian security level	5,339.8		3,980.5	0.8	0.7	1.0

Annex 12
Matrix of Donbasenergo existing environmental management system's compliance with ISO 1400:2015 requirements

Section / requirement of the standard	Estimation		
	In progress	Partially fulfilled	Not fulfilled
1. Context of the organization			
To identify internal and external factors that influence the system.			✓
To identify stakeholders that influence the system.			✓
To identify the needs and expectations of stakeholders.			✓
To determine the scope of the system.			✓
To document the scope of the system.			✓
2. Leadership			
To determine the role and responsibilities of senior management in the system.			✓
To integrate system requirements into the organization's business processes.			✓
To guarantee access to resources for implementation and continued functioning of the system.			✓
Senior management shall determine the Company's environmental policy.	✓		
The system policy should correspond to the goals and context of the organization, nature, scale and environmental influences of the Company's activities, products or services.			✓
The policy should include an obligation to continuously improve the environmental management and protection system.	✓		
The policy should include an obligation to ensure compliance with respective environmental legislation and procedures, as well as other mandatory requirements that the Company agreed to and that relate to environmental aspects and risks (opportunities).			✓
The policy should provide the basis for setting environmental goals and objectives and their analysis.	✓		
The policy should be documented, implemented, maintained, brought to the attention of all persons working in the Company or on its behalf.	✓		
The policy should be made available to stakeholders.			✓
Duties, responsibilities and powers should be defined, documented and communicated to all those concerned in order to facilitate the fulfilment of the system requirements, effective system management and environmental protection, as well as reporting to senior management.			✓
3. Planning			
To identify the environmental risks (opportunities) that influence the system, taking into account external and internal factors, as well as the needs and expectations of stakeholders.			✓
To identify possible emergencies that may have an environmental impact.			✓
To establish and follow the procedure for identifying the environmental aspects of its activities, products or services that it can control and influence, taking into account the planned or new developments, or modified activities, products and services.	✓		
To document and continuously update information on the identification of significant environmental aspects and environmental risks (opportunities) for own activities.			✓
The Company must ensure that significant aspects and environmental risks (opportunities) are taken into account when determining the Company's environmental goals and objectives.			✓

To establish and follow the procedure for identifying mandatory requirements adopted by the Company, which relate to its environmental aspects and risks (opportunities).	✓
To establish and follow the procedure for getting access to mandatory requirements that the Company complies with and that apply to the environmental aspects of its activities, products or services and environmental risks (opportunities).	✓
To establish and maintain in proper working order documented environmental goals and objectives for the relevant sub-divisions and levels.	✓
When establishing and analysing its environmental goals and objectives, the Company should take into account mandatory requirements and environmental aspects and risks (opportunities).	✓
The Company must develop and plan activities to achieve environmental objectives in proper working order.	✓
Measures to achieve environmental objectives should include distribution of activities, resources and responsibility for achieving environmental goals and objectives.	✓
Measures to achieve environmental goals should be built into the Company's business processes.	✓
4. Provision	
To determine and provide resources needed to establish, implement, operate and improve the system. Resources shall include human resources, special knowledge and expertise, technology and financial resources.	✓
To determine the necessary competence of personnel (education, training and experience) that influences the Company's environmental performance.	✓
To identify the needs for training staff.	✓
Personnel carrying out activities that may have a significant impact on the environment must have competence supported by appropriate education, training and/or practical experience.	✓
To establish and follow procedures that allow persons who work in the Company or on its behalf, in all relevant sub-divisions/units, to understand the importance of compliance with the environmental policy, procedures and requirements of the system.	✓
To establish and follow the procedures that allow persons working in the Company or on its behalf, in all relevant departments, to know the actual or potential environmental impacts of their activities.	✓
To establish and follow the procedures that allow persons working in the Company or on its behalf to know the potential consequences of diversion from the established requirements.	✓
To ensure that the staff has the necessary competence and to assess the effectiveness of measures taken to improve the staff competence.	✓
In respect to its environmental aspects, risks (opportunities) and system requirements, it should establish and follow the procedures for internal communication between the various levels and units of the Company.	✓
To establish and follow the procedures for obtaining relevant messages from external stakeholders, for documenting them and responding to them.	✓
To determine the procedure for managing the documented information.	✓
To determine the amount of the documented information necessary for the operation of the system.	✓
To determine the procedure for identification of the documented information.	✓
To determine the format and carrier of the documented information (language, software version, diagrams, hard copies, electronic form).	✓
To determine the procedure for approving and reviewing the documented information.	✓
To determine the procedure for getting access to the documented information.	✓
To determine the procedure for protecting the documented information (protection against loss of confidentiality, misuse or loss of integrity).	✓
To determine the procedure for accessing /communicating the documented information.	✓
To determine the procedure/period of storage of the documented information, introduction of changes to it.	✓
To determine the procedure for managing external documented information.	✓

5. Operation	
The Company should identify, plan and execute those operations and activities that are associated with the identified environmental aspects, risks (opportunities) and mandatory requirements that are consistent with its policy, environmental goals and objectives.	✓
Operational and workable criteria must be determined and implemented in the processes.	✓
The organization must manage the planned changes and analyse the consequences of unintended changes, taking steps to reduce any negative effect, if necessary.	✓
The organization must ensure that the outsourced processes are performed under controlled conditions or can be influenced by it.	✓
The type and scope of control or influence of the outsourced processes shall be defined within the system.	✓
To determine the controls, as far as applicable, in order to ensure that the Company's environmental requirements are taken into account in the design and development of the process for production of a product or service for every stage of the life cycle.	✓
To determine own environmental requirements to the purchased products and services, as far as applicable.	✓
To communicate its significant environmental requirements to external suppliers, including contractors.	✓
To establish and follow the procedure for identifying the probability of disasters and emergencies and responding to them, as well as for preventing and mitigating environmental impacts that may be associated with these situations.	✓
To analyse and periodically review, if necessary, the procedures related to its preparedness for emergency situations and response to them, especially after occurrence of an accident or emergency. The Company should also periodically test such procedures where practicable.	✓
6. Performance assessment	
To establish and follow the procedure for regular monitoring and measurement of the Company's environmental performance, the key environmental indicators of its operations and activities that may affect the environment, as well as the system's effectiveness.	✓
Measuring tools and monitoring equipment shall be checked, calibrated and maintained in proper working order; records relating to these processes shall be kept in accordance with the procedures established by the Company.	✓
To establish and follow the procedure for periodic verification of compliance with the environmental legislation, procedures and other mandatory requirements.	✓
Procedure regulating the fulfilment of internal audits is determined.	✓
Procedure for planning internal audits is defined.	✓
The program and plans for carrying out internal audits require to verify the system's compliance with the requirements of the international standard, as well as the internal requirements of the organization.	✓
The procedure for making internal audits provides a report/opinion that the system is effectively implemented and operational.	✓
The procedure for making internal audits establishes requirements: to plan, adopt, execute and manage the audit program and audit plans, including the frequency of their performance, methods, responsibilities, requirements to planning and reporting that must take into account the significance of the audited processes, changes affecting the organization, and the results of previous audits.	✓
The procedure for making internal audits establishes the criteria and scope for each audit.	✓
The procedure for making internal audits guarantees objectivity and impartiality.	✓
Information on the results of audits is communicated to the relevant managers.	✓
Is the procedure for analysis of the system by senior management determined?	✓

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