

IMEPOWER View

There has been finally a progress related to approval by the Government and the Regulator of the secondary legislation needed for practical implementation of the local content requirement. NERC's Procedure for calculation of the local content was registered by the Ministry of Justice and came in force in October, while the Cabinet of Ministers confirmed in September that certificates of origin should be issued by the Chamber of Commerce of Ukraine and its regional branches and that expert organizations accredited with the Ministry of Regional Development and Construction will play a key role in confirming the local share in the value of renewable projects.

Despite this positive development, there is still no clarity regarding pending amendments to the Electricity Law related to the green tariff support system. While the Draft Law 10183 approved by the Parliament in July 2012 was positively accepted by the industry participants, there have been a number of changes proposed by MPs for the second reading that can have important impact on the sector, in particular, with regard to the local content requirement. As we understand, this Draft Law will be reviewed by the Parliament in the second reading at the beginning of November and sincerely hope that after that legal and regulatory framework related to the green tariff will stabilize and allow developers and suppliers of equipment to plan normally their operations for next several years.

Opening of the wind turbine assembly facility in Kramatorsk by Fuhrlander Wind Technology is a positive development in the direction of establishing local production of the elements that can be used in renewable projects, while this news was clouded by insolvency application filed by Fuhrlander AG in Germany several days after. In the absence of official comments from Fuhrlander, it is currently difficult to expect that wind turbines produced in Kramatorsk will be recognized bankable by international financial institutions in the absence of proper guarantees from German mother company.

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**Legal and
Regulatory
Developments****CABINET OF MINISTERS APPROVED THE RESOLUTION ON ISSUANCE OF THE CERTIFICATES OF ORIGIN**

On 24 September 2012, the Cabinet of Ministers has adopted the Resolution No.878 on issuance of the certificates of origin of goods for confirmation of their Ukrainian origin and defining the local content requirement in the value of construction of renewable energy facilities.

The Resolution states that the certificates of origin are issued by the Chamber of Commerce of Ukraine or regional chambers of commerce according to the established procedure.

Defining local content in the value of construction of renewable energy facilities shall be performed by expert organizations, which comply with the criteria set by the Ministry of Regional Development, Construction and Communal Industry. Information about such organizations is subject to publication at the official website of the Ministry.

MINISTRY OF JUSTICE REGISTERED THE NERC'S LOCAL CONTENT CALCULATION PROCEDURE

On 2 October 2012, the Ministry of Justice has registered the NERC's Resolution "On Approval of Procedure for Determination of the Share of Raw Materials, Fixed Assets, Works and Services of the Ukrainian Origin in the Cost of Construction of Power Facilities Generating Electricity From Renewable Energy Sources" (hereinafter – the "NERC's Local Content Requirement Procedure").

Following the Ministry of Justice's recommendations, the NERC has deleted section on primary calculation of local content requirement, leaving only provisions on actual calculation of the local content by expert organizations after the facility's commissioning.

The NERC's Local Content Requirement Procedure has already entered into force after official publication during the second half of October.

NERC APPROVED THE GREEN TARIFFS FOR RENEWABLE ENERGY PRODUCERS FOR NOVEMBER 2012

Tariffs for November 2012 for the electricity produced using renewable energy sources stayed at the same level as in December 2011 - October 2012, i.e. at their minimum fixed level: for wind plants with installed capacity of more than 2 MW – 1 227.7 UAH/MWh, for small hydro power plants – 841.8 UAH/MWh, for biomass plants – 1 344.6 UAH/MWh, for ground objects of solar power – 5 050.9 UAH/MWh and for solar power objects mounted (up to 100 kW) and on facades (regardless of capacity) – 4 630.0 UAH/MWh. The green tariffs are revised on a monthly basis based on the exchange rate of EUR against UAH.

NERC APPROVED THE FIRST GREEN TARIFF WITH ACCOUNT OF THE LOCAL CONTENT SHARE

On October 25, the NERC has approved the green tariff for Tuzlovskaya Wind Power Plant (WPP) being part of Ochakovsky Wind Park developed by the developer Wind Parks of Ukraine on the basis of the documents confirming that the local content share is 16.8%, e.g. in compliance with the provisions of the Electricity Law requiring minimum 15% local content for renewable power plants commissioned in the course of 2012 (with exception of the plants, the construction of which started before the end of 2011, which are exempted from such requirement).

Tuzlovskaya WPP comprises five 2.5 MW wind turbines produced by German Fuhrlander AG. The overall value of the project is UAH 213 million with the components of the Ukrainian origin accounting for UAH 34 million.

**Investment
News****EBRD FINANCES ITS FIRST SOLAR POWER PROJECT**

The EBRD arranged a financing package of EUR 5.7 million for the development, construction and operation of 4.5 MW solar power plant (SPP) in Vinnytsia oblast owned by Green Agro Service LLC being part of renewable developer Rengy Development. Financing will consist of 8-year EBRD loan of EUR 4.1 million and 15-year loan of EUR 1.6 million from the Clean Technology Fund (CTF).

Martifer Solar from Portugal acts as an EPC contractor. SPP construction shall be completed by the end of 2012.

This is the first solar project ever financed by the EBRD and the second renewable project financed in the framework of Ukraine Sustainable Energy Lending Facility (USELF) – investment facility of EUR 70 million established by the EBRD and the CTF.

EBRD CONSIDERS PROVIDING A LOAN TO NOVOAZOVSKY WIND PARK

The EBRD considers providing EUR 48.8 million loan to LLC Novoazovsky Wind Park for construction of the second stage of the wind power plant located in Donetsk region. EUR 33.3 million will come from the EBRD directly and EUR 15.5 million – from the Clean Technology Fund.

Installed capacity of the second stage will be 32.5 MW consisting of 13 wind turbines of 2.5 MW each produced by German Fuhrlander AG. 23 turbines with total capacity of 57.5 MW are currently under operation, while the total designed capacity of the wind park is 107.5 MW.

LLC Novoazovsky Wind Park is a project company that belongs to the developer Wind Parks of Ukraine. The Wind Parks of Ukraine has wind project portfolio exceeding 1,000 MW in several regions of Ukraine.

DTEK COMMISSIONED THE COUNTRY'S LARGEST WIND POWER PLANT

DTEK, the largest Ukrainian energy holding, has commissioned the first stage of Botievo Wind Power Plant (WPP) with the installed capacity of 60 MW (20 Vestas turbines with 3 MW capacity each). Another 10 turbines will be installed by the end of October, thus, the capacity under operation will reach 90 MW by the end of 2012.

Remaining 110 MW (second stage of the project) should be commissioned by the end of 2013 that will make Botievo WPP the largest Ukrainian wind farm with estimated annual electricity output of 686 GWh. Commissioning of Botievo WPP will result in annual reduction of emissions by 730 tons of CO₂-equivalent.

Cost of the project amounts to EUR 350 million. DTEK Wind Power received EUR 107 million as export financing from Landesbank Berlin AG for implementation of the first stage of the project (90 MW).

Botievo WPP is a part of 550 MW wind park DTEK Priazovskiy that also includes Primorsk WPP and Berdyansk WPP being currently under development.

UKRAINIAN FUHLANDER WIND TECHNOLOGY PLANS TO PRODUCE 20 WIND TURBINES IN 2012

Fuhrlander Wind Technology LLC, subsidiary of the developer Wind Parks of Ukraine, plans to manufacture around 20 wind turbines with capacity of 2.5 MW using technology of German Fuhrlander AG at OJSC Kramatorsk Heavy Machine Tool Building Plant (Donetsk oblast) in 2012 and at least 50 - in 2013.

Fuhrlander Wind Technology LLC has established its own facility for assembly and

welding of towers; the anchor basket is manufactured; shortly, the nacelle frame will be manufactured. The manufacturing of hub and various plastic details is actively developed; the main transformer, generator and blades of the wind turbine are next in turn.

Wind turbines of Fuhrlander AG have been actively used for the construction of WPPs by Wind Parks of Ukraine. In particular, in 2011-2012, in Donetsk and Mykolaiv oblasts 38 turbines FL 2500-100 of 2.5 MW each were installed for the construction of Novoazovsky and Ochakovsky Wind Parks.

It is worth that Fuhrlander AG, recently purchased by the Ukrainian investors headed by Maxim Efimov, Director General of Energomashspetsstal JSC (Kramatorsk, Donetsk oblast), filed for insolvency on 20/09/2012 at the local court of Montabaur, Rhineland, Germany.

These actions were explained by the delays in customers' payments, which Fuhrlander AG was not able to compensate. The company reports that it took a number of measures to improve its financial situation: in the beginning of the year it decreased the number of employees by 70, performed restructuring and attracted Ukrainian investors back in May.

ACTIV SOLAR COMPLETED THE FIRST STAGE OF DUNAYSKA SOLAR POWER PLANT

Activ Solar (Vienna, Austria) completed the construction of the first stage of 43.1 MW solar power plant Dunayska in Odessa oblast. The capacity of installed equipment is 21.52 MW.

The company expects to complete the second stage of Dunayska SPP (21.62 MW) by the end of October 2012. The SPP is being constructed with financial participation of Chinese companies.

Dunayska SPP will be comprised of 182.38 thousand of multicrystalline silicon PV modules and 40 inverter stations. The SPP expects to produce 54.4 GWh of electricity annually, which will prevent annual emissions of up to 44 thousand tons of carbon dioxide.

1.3 MW SOLAR POWER PLANT WAS CONSTRUCTED IN KIROVOGRAD OBLAST

Rentechno Group acting as general contractor completed the construction of SPP with the capacity of 1.331 MW in Kirovograd oblast.

Currently all technological equipment of ground-mounted SPP has been installed, including: polycrystalline solar modules of 250 watts each, 40 linear three-phase inverters with the system for monitoring of the SPP operation and 3 transformer substations 0.4/10 kW.

Completion of commissioning works and connection to 10 kV network is planned to be completed by the end of October. By the end of the year it is planned to pass all formal procedures required for obtaining the green tariff.

AVANGARD AND POLISH PGNiG AGREED TO COOPERATE IN THE RENEWABLE ENERGY FIELD

Avangard, the largest Ukrainian agricultural holding - producer of eggs and egg products, and Polish national oil and gas company PGNiG intend to cooperate in the field of renewable energy.

Corresponding agreement was signed by the companies during XI Economic Forum "Ukraine-Poland", which was held this September in Kiev. The details of planned cooperation were not specified.

Earlier, Avangard announced that in the course of implementation of projects on

poultry farms Avis (Khmelnitsky oblast) and Chernobayevske (Kherson oblast) it plans to commission 20 MW biogas plant.

WOG TO BUY EQUIPMENT FOR ROOF SOLAR POWER PLANTS

Zolotoy Equator LLC (a network of gas stations WOG) announced a tender for procurement of equipment for ten SPPs with total capacity of 160 kW.

The list of purchased equipment includes solar panels, network inverters, supporting structures, etc.

SPPs are planned to be mounted on the roofs of control rooms and fuel dispensers' sheds at petrol stations. WOG intends to sell electricity generated by SPPs in the electricity market at the green tariff.

The network of WOG is the second largest in the retail market in the country. It has more than 400 petrol stations in all regions of Ukraine. The network management is carried out by Continent Nafto Trade LLC (Lutsk), a member of Continuum Group.

VITROENERGOPROM WILL GET USD 12.3 MILLION LOAN FROM MEGABANK

Production and Energy Association (PEA) Vitroenergoprom that operates on a concession basis Novoazovsky wind power plant (WPP) attracted USD 12.3 million loan from Megabank (Kharkiv) for installation of two wind turbines with installed capacity of 2.5 MW each.

Currently, 204 USW 56-100 wind turbines with nominal capacity of 107.5 kW each and 5 T600-48 wind turbines with nominal capacity of 600 kW each are operating at Novoazovsky WPP. There is one more T600-48 wind turbine, which requires repair.

THE FIRST STAGE OF THE BIOMASS COMBINED HEAT AND POWER PLANT TO BE COMMISSIONED IN KYIV OBLAST

In November 2012, Eastern Investment Group plans to put into operation the first stage of combined heat and power plant (CHP) construction project operating on solid biomass (wood) of 6 MW in Ivankiv settlement, Kyiv oblast.

Over the last 8 months Hurst Boiler (USA) was mounted, foundations for the installation of Maxwatt turbines (India) and storages for wood chips processing were prepared, equipment for the processing of wood was purchased.

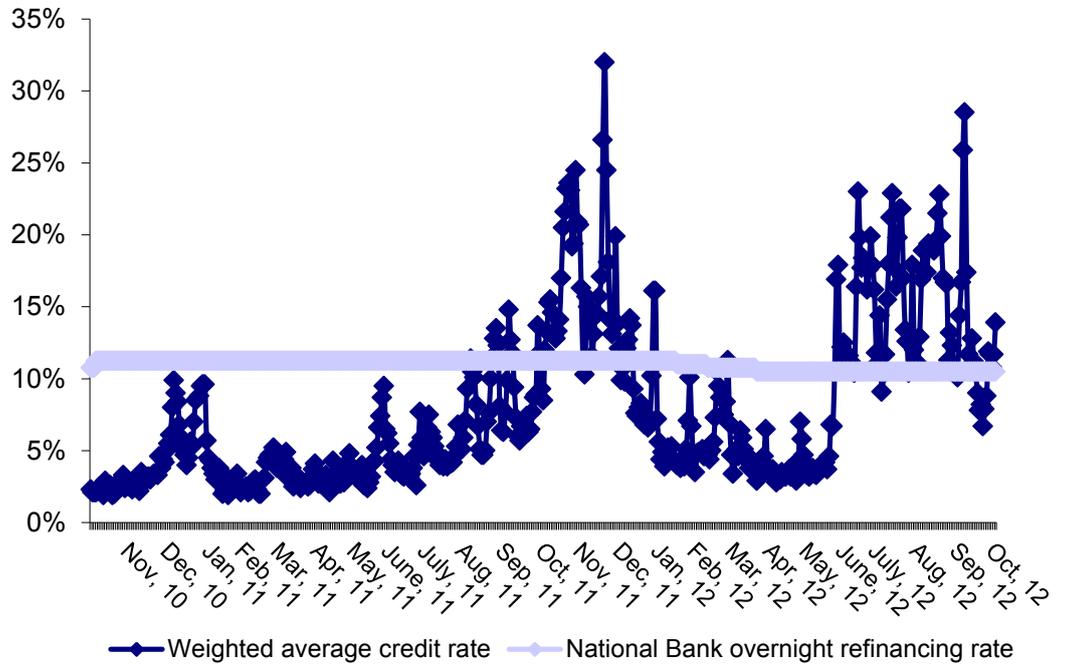
The second stage of the project, which is designed for 12 MW, will be equipped with the same boilers of 6 MW. The cost of one boiler is 4.5 million USD. At present investments into the CHP amounted to 14 million USD.

New CHP occupies 7 hectares. 70% of the area is allocated for the storage of raw materials - wood chips, straw, foliage, shell of corn and sunflower seeds. To ensure uninterrupted operation of the power plant, raw materials supply agreements were concluded with the neighboring forestry and agricultural farms.

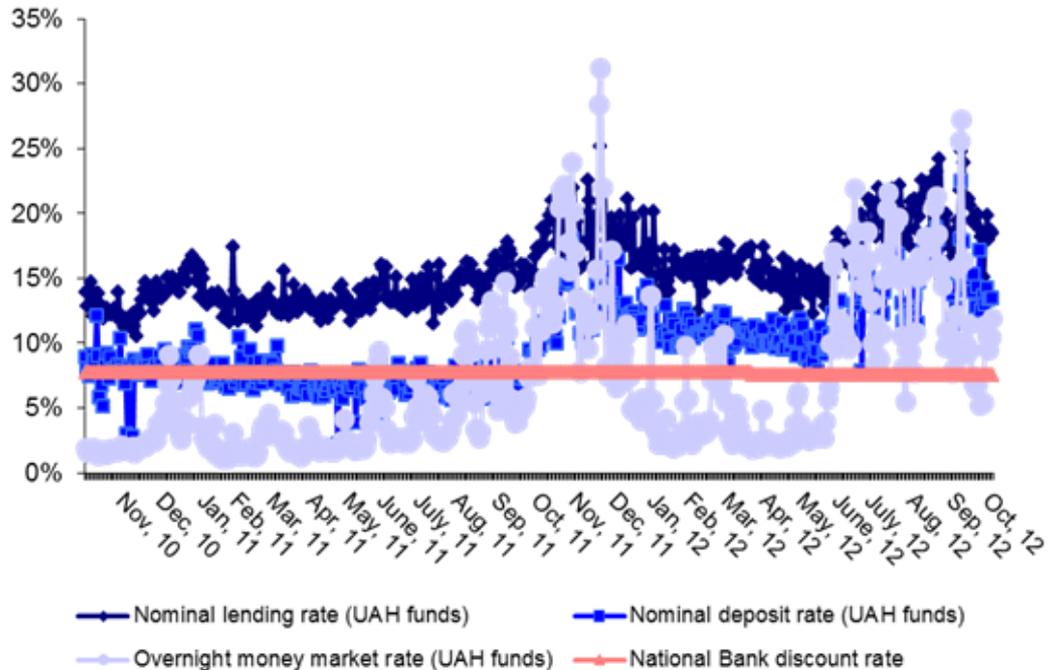
Overall the company plans to build 4 plants in Ukraine. Currently the company has 3 sites. The next site for development is in Rivne oblast.

Commercial and Economic Developments

Weighted average interbank rate (for last 2 years)

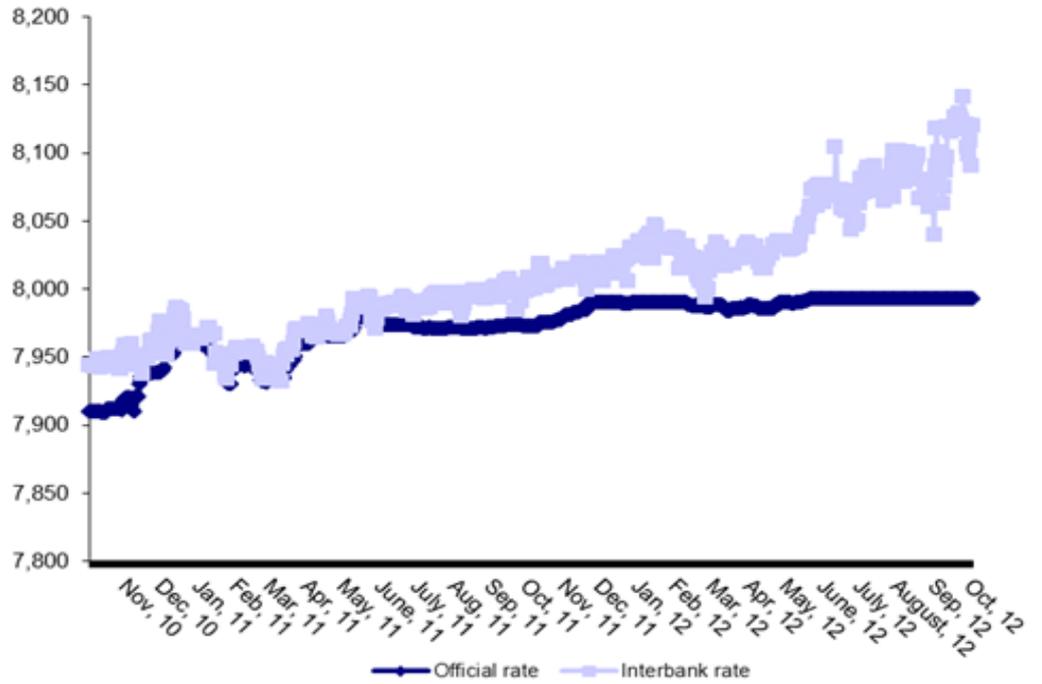


Nominal interest rates (for last 2 years)

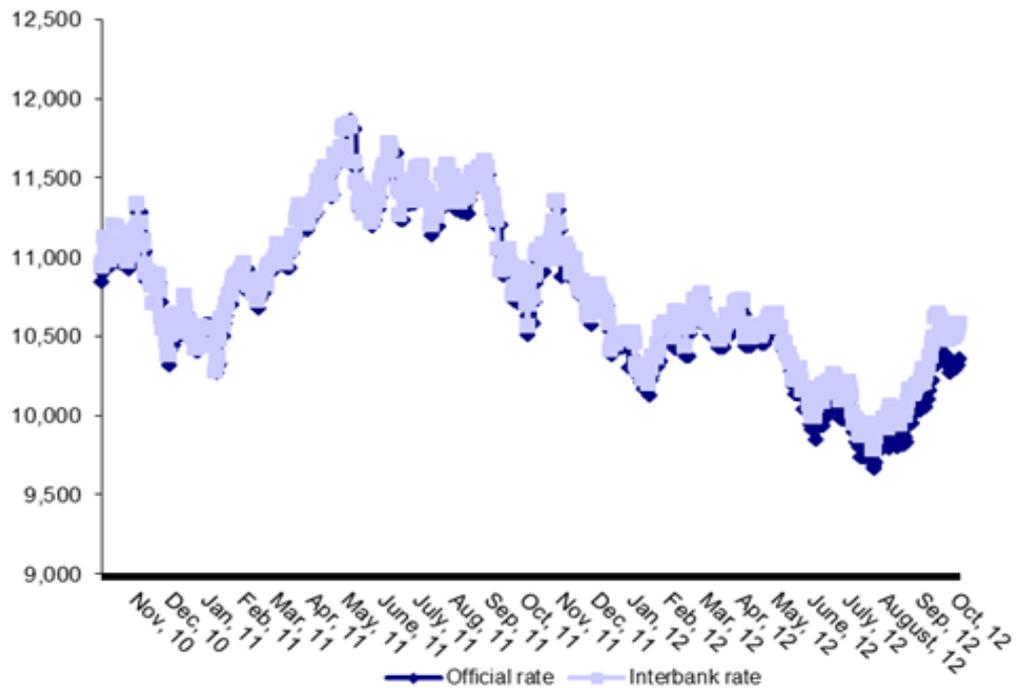


Source: National Bank of Ukraine

Daily UAH/USD exchange rates (for last 2 years)



Daily UAH/EUR exchange rates (for last 2 years)



Source: National Bank of Ukraine