DTEK Energy B.V. (formerly DTEK Holdings B.V.)

Unaudited Condensed Consolidated Interim Financial Statements

30 June 2015

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Report on Review of Unaudited Condensed Consolidated Interim Financial Statements

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Report on Review of Condensed Consolidated Interim Financial Statements

To the Shareholders and Board of Directors of DTEK Energy B.V.

Introduction

We have reviewed the accompanying condensed consolidated interim balance sheet of DTEK Energy B.V. and its subsidiaries (the "Group") as of 30 June 2015 and the related condensed consolidated interim income statement, condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union.

Emphasis of an uncertainty in the condensed consolidated interim financial statements with respect to the political and economic uncertainties in Ukraine

We draw your attention to Note 2 and Note 4 of the condensed consolidated interim financial statements. As disclosed in Note 2, the operations of the Group have been affected, and may continue to be affected for the foreseeable future, by the continuing political and economic uncertainties in Ukraine. The events in Ukraine increase uncertainties regarding the Group's assessment of the revaluation of property, plant and equipment and the recoverable amounts of property, plant and equipment, inventory, loans provided, trade and other receivables and goodwill under impairment testing, as disclosed in Note 4. Our conclusion is not qualified in respect of this matter.

Emphasis of a going concern uncertainty in the condensed consolidated interim financial statements

We draw your attention to Note 3 to the condensed consolidated interim financial statements, which states that DTEK Energy B.V. was negatively affected by the devaluation of the national currency of Ukraine. This resulted in a breach of certain bank covenants and consequently gave a number of the Group's lenders the ability to legally require repayment of the respective debt on demand. As at 30 June 2015 the Group's current liabilities exceed its current assets by UAH 37,299 million. This, along with other matters as described in Note 3, indicates the existence of a material uncertainty which may cast significant doubt about the ability of DTEK Energy B.V. to continue as a going concern. Our conclusion is not qualified in respect of this matter.

LLC AF "PricewaterhouseCoopers (Audit)"

28 September 2015
Kyiv, Ukraine

DTEK Energy B.V.
Unaudited Condensed Consolidated Interim Balance Sheet

In millions of Ukrainian Hryvnia	Note	30 June 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	8	61,860	60,862
Intangible assets		1,789	1,873
Goodwill	9	4,384	4,520
Financial investments	10	7,484	5,943
Income tax prepaid		543	603
Deferred income tax asset		1,126	1,057
Other non-current assets		1,026	1,225
Total non-current assets		78,212	76,083
Current assets			
Inventories		6,345	5,025
Trade and other receivables	11	15,810	13,113
Current income tax		749	697
Financial investments	10	2,358	3,727
Cash and cash equivalents	12	1,162	8,088
Total current assets		26,424	30,650
TOTAL ASSETS		104,636	106,733
EQUITY			
Share capital	14	0	0
Share premium		9,909	9,909
Other reserves		11,280	6,517
Accumulated deficit		(17,742)	(2,519)
Equity attributable to owners of the parent		3,447	13,907
Non-controlling interest in equity		4,276	5,685
TOTAL EQUITY		7,723	19,592
LIABILITIES			
Non-current liabilities			
Liability to non-controlling participants		3	7
Borrowings	15	18,609	15,379
Other financial liabilities	16	6,729	6,723
Retirement benefit obligations		4,993	4,969
Provisions for other liabilities and charges		1,166	695
Deferred income tax liability		1,690	1,276
Total non-current liabilities		33,190	29,049
Current liabilities			
Borrowings	15	34,862	32,586
Other financial liabilities	16	5,794	7,168
Prepayments received		3,457	3,292
Trade and other payables		16,177	13,137
Current income tax payable		1,034	406
Other taxes payable and tax provision		2,399	1,503
Total current liabilities		63,723	58,092
TOTAL LIABILITIES		96,913	87,141
TOTAL LIABILITIES AND EQUITY		104,636	106,733

Approved for issue and signed on behalf of the Management Board on 28 September 2015.

DTEK Management B.V.
Director

SCM Management B.V.
Director

In millions of Ukrainian Hryvnia	Note	Six months ended 30 June 2015	2014
Revenue	17	45,505	42,880
Heat tariff compensation	17	223	835
Cost of sales	18	(43,706)	(39,733)
Gross profit		**2,022**	**3,982**
General and administrative expenses		(1,067)	(1,071)
Other operating expenses	19	(4,585)	(666)
Distribution costs		(702)	(782)
Other operating income		365	376
Impairment of property, plant and equipment and goodwill	8, 9	(466)	-
Net operating foreign exchange gain		811	1,846
Loss of control over subsidiary	2	(1,470)	-
Operating (loss)/profit		**(5,092)**	**3,685**
Foreign exchange losses less gains on financing and investing activities		(9,825)	(6,603)
Finance income		1,371	1,462
Finance costs	20	(7,901)	(4,467)
Loss before income tax		**(21,447)**	**(5,923)**
Income tax benefit		653	998
Loss for the period from continued operations		**(20,794)**	**(4,925)**
Discontinued operations			
Loss for the period from discontinued operations	13	(1,665)	(2,657)
Loss for the period		**(22,459)**	**(7,582)**
Loss is attributable to:			
Owners of the Company		(20,250)	(7,890)
Non-controlling interests		(2,209)	308
Loss for the period		**(22,459)**	**(7,582)**

Unaudited Condensed Consolidated Interim Statement of Comprehensive Income

In millions of Ukrainian Hryvnia	Six months ended 30 June 2015	2014
Loss for the period	(22,459)	(7,582)
Items that may be reclassified to profit or loss:		
Cash flow hedges	-	(471)
Reclassification adjustment in relation to cash flow hedges	1,012	(3,069)
Reclassification adjustment in relation to currency translation reserve of subsidiary where control was lost	(135)	-
Currency translation reserve	(11)	(250)
Items that will not be reclassified to profit or loss:		
Property, plant and equipment:		
- Change in estimate for asset retirement obligation net of tax	(137)	(19)
- Revaluation of property plant and equipment (Note 8)	9,542	-
- Income tax recorded on revaluation of property plant and equipment	(1,717)	-
Re-measurements of post-employment benefit obligations	-	423
Income tax recorded on re-measurements of post-employment benefit obligations	-	(75)
Other comprehensive profit/(loss) for the period	**8,554**	**(3,461)**
Total comprehensive loss for the period	**(13,905)**	**(11,043)**
Total comprehensive (loss)/profit attributable to:		
Owners of the Company	(12,411)	(11,398)
Non-controlling interests	(1,494)	355
Total comprehensive loss for the period	**(13,905)**	**(11,043)**

In millions of Ukrainian Hryvnia	Attributable to owners of the Company					Non-controlling interest	Total Equity
	Share capital	Share premium	Other reserves	Accumulated deficit	Total		
Balance at 1 January 2015	**0**	**9,909**	**6,517**	**(2,519)**	**13,907**	**5,685**	**19,592**
Loss for the Six months ended 30 June 2015	-	-	-	(20,250)	**(20,250)**	(2,209)	**(22,459)**
Other comprehensive income			7,839	-	**7,839**	715	**8,554**
Total comprehensive income for the period	**-**	**-**	**7,839**	**(20,250)**	**(12,411)**	**(1,494)**	**(13,905)**
Property, plant and equipment:							
-Realised revaluation reserve	-	-	(1,662)	1,662	-	-	-
-Income tax related to realised revaluation reserve	-	-	231	(231)	-	-	-
Demerger of subsidiaries (Note 13)	-	-	(1,645)	3,695	**2,050**	-	**2,050**
Loss of control over subsidiary (Note 2)	-	-	-	(99)	**(99)**	99	-
Dividends declared	-	-	-	-	-	(14)	**(14)**
Balance at 30 June 2015	**0**	**9,909**	**11,280**	**(17,742)**	**3,447**	**4,276**	**7,723**

In millions of Ukrainian Hryvnia	Attributable to owners of the Company					Non-controlling interest	Total Equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2014	**0**	**9,909**	**1,118**	**14,146**	**25,173**	**8,979**	**34,152**
Loss for the Six months ended 30 June 2014	-	-	-	(7,890)	**(7,890)**	308	**(7,582)**
Other comprehensive income	-	-	(3,839)	331	**(3,508)**	47	**(3,461)**
Total comprehensive income for the period	**-**	**-**	**(3,839)**	**(7,559)**	**(11,398)**	**355**	**(11,043)**
Property, plant and equipment:							
-Realised revaluation reserve	-	-	(682)	682	-	-	-
-Income tax related to realised revaluation reserve	-	-	93	(93)	-	-	-
Dividends declared	-	-	-	-	-	(273)	**(273)**
Balance at 30 June 2014	**0**	**9,909**	**(3,310)**	**7,176**	**13,775**	**9,061**	**22,836**

In millions of Ukrainian Hryvnia	Note	Six months ended 30 June 2015	2014
Cash flows from operating activities			
Loss before income tax		**(23,477)**	**(8,238)**
Adjustments for:			
Depreciation and impairment of property, plant and equipment and amortisation of intangibles, net of amortisation of government grants		4,315	3,700
Losses less gains on disposals of property, plant and equipment		(6)	11
Assets received free of charge		(46)	(84)
Net change in provision for trade and other receivables	19	2,931	(180)
Non-cash operating charge to retirement benefit obligation		(90)	109
Unrealised and realised foreign exchange loss on financing activity and investing activity		12,626	10,512
Unrealised foreign exchange gain on operating activity		(517)	(945)
Finance costs, net		6,563	2,582
Loss of control over subsidiary	2	1,470	-
Impairment of goodwill	9	136	-
Change in provisions for other liabilities and charges		69	-
Other operating non-cash transactions		(2)	21
Operating cash flows before working capital changes		**3,972**	**7,488**
Changes in:			
Inventories		(1,274)	16
Trade and other receivables		(5,646)	(1,139)
Prepayments received		196	(830)
Trade and other payables		3,423	179
Other financial liabilities		451	177
Repayment of restructured obligations		(146)	(55)
Other taxes payable and tax provision, other than income tax		661	(158)
Cash generated from operations		**1,637**	**5,678**
Income taxes paid		(313)	(1,044)
Defined employee benefits paid		(273)	(326)
Interest and tender costs paid		(3,040)	(1,433)
Interest received		266	213
Cash disposed as a result of loss of control		(246)	-
Provisions utilised		(8)	(6)
Net cash (used in)/generated from operating activities		**(1,977)**	**3,082**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,537)	(3,478)
Withdrawal/(placement) of restricted cash		(118)	218
Capitalised borrowings cost paid		(9)	(72)
Deposits placed		(23)	(560)
Deferred consideration related to acquisition paid		(73)	(7)
Finance lease related to acquisition paid		(18)	(11)
Demerger of subsidiary, net of cash demerged		424	-
Repayment of deposits		457	694
Net cash used in investing activities		**(897)**	**(3,216)**
Cash flows from financing activities			
Proceeds from borrowings net of discount and cash pooling		4,800	12,925
Repayment of borrowings net of cash pooling		(5,536)	(13,211)
Loans repaid to related party		(1,146)	-
Dividends paid to non-controlling participants		(11)	(141)
Net cash used in from financing activities		**(1,893)**	**(427)**
Net decrease in cash and cash equivalents		**(4,767)**	**(561)**
Cash and cash equivalents at the beginning of the period		**5,371**	**4,870**
Exchange (loss)/ gain on cash and cash equivalents		106	100
Cash and cash equivalents at the end of the period		**710**	**4,409**

1 Corporate Information

DTEK Energy B.V. (the "Company") is a private limited liability company incorporated in the Netherlands on 16 April 2009. The Company was renamed on 19 September 2014 and its former name was DTEK Holdings B.V. The Company was formed through the contribution by System Capital Management Limited and InvestCom Services Limited of their 100% equity interest in DTEK Holding Limited, a Cyprus registered entity and predecessor to the Company.

The Company and its subsidiaries (together referred to as "the Group" or "DTEK") are beneficially owned by Mr. Rinat Akhmetov, through various entities commonly referred to as System Capital Management ("SCM"). Mr. Akhmetov has a number of other business interests outside of the Group. Related party transactions are detailed in Note 7.

DTEK Energy B.V. is a vertically integrated power generating and distribution group. Its principal activities are coal mining for further supply to its power generating facilities and finally distribution of electricity to end customers primarily in Ukraine. The Group's coal mines, power generation plants and distribution facilities are located in the Donetsk, Dnipropetrovsk, Lugansk, Lviv, Ivano-Frankivsk, Vinnitsya, Zaporizhzhya, Kyiv regions and the City of Kyiv in Ukraine, and Rostov region of Russian Federation. The Group sells major part of electricity generated to Energorynok SE, the state-owned electricity metering and distribution pool, at prices determined based on the competitive pool model adopted by the National Commission for State Regulation of Energy and Public Utilities in Ukraine. The Group's distribution entities then repurchase electricity for supply to final customers at regulated price.

2 Operating Environment

Starting in late 2013 the political situation in Ukraine experienced instability with numerous protests and continued political uncertainty that has led to a deterioration of the State's finances, volatility of financial markets and sharp depreciation of the national currency against major foreign currencies (since early 2014). The ratings of Ukrainian sovereign debt were downgraded by international rating agencies with negative outlooks for the future. The National Bank of Ukraine, among other measures, imposed certain restrictions on processing of client payments by banks and on the purchase of foreign currency on the inter-bank market. The political situation in 2014 was also volatile, with changes in the Ukrainian Parliament and the Presidency. In March 2014, various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation. The Group had an electricity distribution business in Crimea which was expropriated by the local authorities in January 2015, resulting in a loss of UAH 1,470 million recorded in the Income Statement as "Loss of control over subsidiary".

The political situation in the East of Ukraine deteriorated from mid-2014 and continued in 2015, including armed conflict and military activity in some parts of the Donetsk and Lugansk regions. The armed conflict in the region has put further pressure on relations between Ukraine and the Russian Federation. Escalating political tensions have had an adverse effect on the Ukrainian financial markets throughout the period, resulting in a hampering of ability of Ukrainian companies and banks to obtain funding from the international and capital and loan markets. This has contributed to a significant devaluation of the Hryvnia against major currencies from mid-2014 to the date of preparation of these condensed consolidated interim financial statements.

As of the date of this report the official NBU exchange rate of Hryvnya against US dollar was UAH 21.62 per USD 1, compared to 21.01 per USD 1 as at 30 June 2015 (31 December 2014: UAH 15.77 per USD 1). The further devaluation of the Ukrainian Hryvnya ("UAH") during 2015 has significantly increased the Group's debt in Hryvnya terms and resulted in a substantial charge to the Group's income statement (see Note 3).

In March 2015 the National Bank of Ukraine issued a regulation which temporarily prohibits the payment of dividends by Ukrainian companies to legal entities abroad. The restriction is effective until 4 December 2015. As of 30 June 2015, the amount of undistributed retained earnings of the Group's Ukrainian subsidiaries was UAH 8,676 million.

The Group has a number of mines, generation plants and electricity distribution companies located in, or near to, the parts of the Donetsk and Lugansk regions where there has been armed conflict. These represent twelve out of thirty one mines (representing 13% of total property, plant and equipment), four out of twelve generation plants (representing 13% of total property, plant and equipment, 9% of revenue and 20% of trade receivables) and three of the six electricity distribution companies (representing 5% of total property, plant and equipment, 15% of revenue and 16% of trade receivables). While there has been no significant damage to the Group's assets as a result of military action, from the second half of 2014 volumes and activity at these assets has been negatively impacted by the situation which continues to date. Despite the challenges management still have control over these assets and oversee their operations.

The negative impact on volumes and activity has been caused primarily by disruptions in infrastructure (rail transportation inhibiting the movement of coal) and to a lesser extent the direct impact of military action. This has resulted in a reduction of electricity production of the four power plants located in, or near to, the conflict regions, by 41% compared with the respective six months ended 30 June 2014 and by 12% compared with the six months ended 31 December 2014. Further, the situation has impacted the ability of some customers to pay and also the general demand for electricity in these regions. Management have sought to actively manage and limit the impact of these events on the Group's operations by utilising alternative transportation routes for coal to its generation stations and helping the state railway company of Ukraine repair damaged tracks.

2 Operating Environment (Continued)

The government of Ukraine issued a resolution whereby starting from 1 May 2015 the Energy market of Ukraine was divided into the controlled and non-controlled territory. From this date, the government takes no responsibility for the supply of electricity and settlement of debts between generation and distribution entities in the non-controlled territory. Such relationships are to be regulated by multilateral contracts.

The government during 2015 have been more assertive in their attempts to regulate the energy sector through the setting of tariffs, increased use of nuclear, and regulating gas deliveries. In November 2014 the government issued a resolution that initiated licencing requirements for the export of anthracite coal.

As of 30 June 2015, the Group had significant balances receivable from and prepayments made to the State and entities dependant on the government financing, including prepaid income taxes of UAH 1,292 million, net VAT recoverable of UAH 1,536 million and receivables from Energorynok and various water and heat supply companies of UAH 6,667 million and UAH 3,248 million, respectively. The timing of settlement of these balances is uncertain and is dependent upon the availability of State funds and, as regards the entities located in the non-controlled territory, the ability and willingness of the Ukraine government to provide financing to these regions.

These events in Ukraine increase uncertainties, including the Group's assessment of the revaluation of property, plant and equipment and the recoverable amount of property, plant and equipment and goodwill under impairment testing for assets located in Ukraine.

The final resolution of the political and economic situation in Ukraine and the final effects of this are difficult to predict, but it may have further severe effects on the Ukrainian economy and the Group's business.

3 Basis of Preparation and Summary of Significant Accounting Policies

These condensed consolidated interim financial statements for the six months ended 30 June 2015 have been prepared in accordance with IAS 34, 'Interim financial reporting'. They do not include all the information and disclosures required for complete set of annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with IFRS as adopted by adopted by European Union.

The accounting policies adopted are consistent with those of the Group's annual consolidated financial statements for the year ended 31 December 2014, except as described below.

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax expected for the full financial year, which is estimated at 3.04%.

Exchange rate fluctuations. As at 30 June 2015, the exchange rate used for translating foreign currency balances was USD 1 = UAH 21.02 (31 December 2014: USD 1 = UAH 15.77); EUR 1 = 23.54 UAH (31 December 2014: EUR 1 = 19.23 UAH).

Going concern.

As of 30 June 2015 the Group had UAH 53,471 million of borrowings denominated primarily in foreign currencies, these being: US Dollars (UAH 29,840 million, or 55.81%); Euros (UAH 9,596 million, or 17.95%); Russian Roubles (UAH 11,167 million, or 20.88%); and Ukrainian Hryvnia (UAH 2,868 million, or 5.36%). As discussed in Note 2, the UAH has further devalued during January to June 2015, resulting in devaluations of 33.27% against the US Dollar, 22.40% against the Euro and 26.52% against the Russian Rouble.

The Group's business is concentrated in Ukraine, the majority of its revenue is generated in Ukraine and denominated in UAH (6 months ended 30 June 2015 and 2014: 93% and 89%, respectively), although the Group also receives foreign currencies from its export of electricity and coal. The vast majority of the Group's borrowings have financial and non-financial covenants. Further, the majority of these borrowings have cross default clauses allowing lenders to demand repayment when covenants have been breached with respect to other loans above de-minimum amounts.

As of 31 December 2014 a number of covenants were breached and as a result of this and the resulting impacts borrowings of UAH 16,144 million were reclassified from non-current to current liabilities. As of 30 June 2015, these breaches have not been remedied and hence borrowings of UAH 13,006 million were classified to current liabilities.

During 2015, management has continued its discussions on re-profiling of the loan portfolio with the lenders. Certain steps have been taken to date, in particular, a working group coordinating the process have been formed and the respective initial override agreement designed as a binding standstill agreement for the lenders until the end of 2015 is being finalized and expected to be executed shortly. Throughout January to June 2015 the Group paid due interest and repaid 10% of principal payments while deferring substantial portions of principal amounts. Further, starting form 1 July 2015, after respective discussions with the lenders and in line with the basis of repayment reflected in the initial override agreement, the Group has not paid the principal installments but has continued to pay interest in full.

At the date hereof none of the Group's facilities have been accelerated and the Group has received no indication that the lenders intend to exercise its right to accelerate the facilities. Further, the Group is currently working on and expect to receive respective waivers in the near future.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

Management has prepared monthly cash flow projections for periods through to the end of 2015 and the first nine months of 2016. No liquidity gaps have been identified in the cash flow projections. The absence of liquidity gaps are crucially dependent on: the willingness of the Group's lenders not to demand principal repayment; some increase in electricity tariffs; a sizeable advance from Ukraine government for the purchase of coal by generation entities; settlement of a portion of past due receivables from the state company Energorynok; reduced tensions in the East of Ukraine leading to improved movement of coal from the non-controlled territory of Ukraine; the granting of licenses to export coal and increase in export volumes of coal and electricity.

Despite sufficient liquidity to maintain operations, the Group is nevertheless unable to wholly or partially repay during 2015 or 2016 the amount of borrowings and other obligations classified as current liabilities. Management remains in discussions with its lenders, however acknowledges that, prior to the successful restructuring of debt obligations, there is a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Despite these material uncertainties with respect to the repayment of the current loans and the debt restructuring and based on cash flow projections performed, management considers that the application of the going concern assumption for the preparation of these condensed consolidated interim financial statements is appropriate.

4 Critical Accounting Estimates and Judgements

Provision for trade and other receivables. Management estimates the likelihood of the collection of trade and other receivable balances based on an analysis of individual accounts. Factors taken into consideration include an ageing analysis of trade and other accounts receivable in comparison with the credit terms allowed to customers, and the financial position of and collection history with the customer. The events in Eastern Ukraine (see Note 2) have impacted collections and management has specifically analysed receivables from this area. Should actual collections be less than management's estimates, the Group would be required to record an additional impairment expense.

Heat tariff compensation received by Kyivenergo JSC. In accordance with existing legislation, Kyivenergo is entitled to claim heat tariff compensation which is computed as the difference between the heat tariff required to cover all production costs plus reasonable margin and that imposed by the National Electricity Regulatory Committee of Ukraine. Such claims are subject to additional Governmental, Budget and City approvals, prescribed by the state regulations. In October 2012 the Cabinet of Ministers of Ukraine approved Resolution #968 stating that the compensations of the difference between the "economically grounded" tariffs and that imposed by the State should be calculated by the companies entitled to such compensations and approved by the state regularly. Kyivenergo accounts for such heat tariff compensation as government grants and has recorded amounts of compensation receivable on an accrual basis starting from November 2012.

Revaluation of property, plant and equipment. The Group's property, plant and equipment is carried at revalued amounts. Management engaged an independent appraiser to update valuation of the Group's property, plant and equipment as at 30 June 2015. The events in Eastern Ukraine (see Note 2) have been considered when updating the valuation. The results of this assessment are disclosed further in Note 8.

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

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

The recoverable amount of goodwill and cash-generating units were estimated based on a fair value less cost of disposal calculations.

Changes in the estimates and judgments used could have a material effect on the recording or amount of impairment. The estimates used to assess impairments are for some Group entities impacted by the uncertainty caused by events in Eastern Ukraine, including importantly future planned production / distribution (see discussion of operating environment in Note 2).

As disclosed in Note 2 the Group has been impacted by ongoing armed conflict and military activity in some parts of the Donetsk and Lugansk regions. The Group operates coal mines, electricity generation facilities and electricity distribution network in area of the conflict or immediately in the neighbourhood. While each entity was affected differently, management was in control of these entities at the period end and continues to exercise control as of the date of these financial statements. In their estimate of the future cash flows used to measure recoverable amount of the assets management assumed de-escalation of the armed conflict and related impacts on the Group entities in the second half of 2015 following which it is anticipated that impacted subsidiaries will gradually resume normal business operations. The impairment assessments assume a reduction and ultimately an end of the armed conflict by 2017 year.

4 Critical Accounting Estimates and Judgements (Continued)

Prepayments for current income tax. In accordance with the existing Tax Code in Ukraine, the current income tax is paid during the year based on the level of taxable profit received in the prior fiscal year, and subsequently corrected at the end of the current fiscal year when the annual income tax return is submitted to the tax authorities. As a result of this, the Group has significant current income tax prepaid. Management believes that it will be able to settle these prepayments in foreseeable future.

Recovery of loans provided and prepayment receivable. As discussed in Note 10 and Note 11, the Group has a loan receivable and prepayment receivable with a related party who in turn has a present restriction on the use of assets of its main production subsidiary. If this restriction is not lifted then the recovery of this non-current loan and prepayment will be in doubt. Management believes that the restriction is ungrounded, but the timing of its lifting is uncertain.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and amendments to the standards which are relevant to the Group's condensed consolidated interim financial statements and have been adopted by European Union are effective for the first time for the six months period ended 30 June 2015, but do not have a material impact on these condensed consolidated interim financial statements:

- ***Amendments to IAS 19 - Defined Benefit Plans: Employee Contributions*** (issued on 21 November 2013 and effective from 1 February 2015);
- ***IFRIC 21 - Levies*** (issued on 20 May 2013 and effective from 17 June 2015);
- ***Annual Improvements to IFRSs 2010–2012 Cycle*** (issued on 12 December 2013 and effective from 1 January 2015).

The following new standard which is relevant to the Group's condensed consolidated interim financial statements, has been issued, but has not been adopted by European Union:

- ***IFRS 15 - Revenue from Contracts with Customers*** (issued on 28 May 2014 and effective for annual periods beginning on or after 1 January 2018);
- ***IFRS 9, Financial Instruments*** (issued on 24 July 2014 and effective for annual periods beginning on or after 1 January 2018).

The Group is currently assessing the impact of the new standards on its financial statements.

6 Segment Information

Management Board is the Group's chief operating decision-maker.

The management has determined the operating segments used for disclosure by the Group based on reports reviewed by the Management Board for the purposes of assessing performance. The Management Board considers the business from a product perspective taking into account the vertical integration of the Group. The information given to the Management Board has recently changed in light of the challenges faced by the Group, resulting in a change in the Group's segment reporting.

The Management Board assesses the performance of the operating segments based on a measure of operating profit / loss. This measurement basis represents profit for the year after excluding the following income statement items: foreign exchange losses less gains from borrowings, certain finance costs, income tax expense, operating expenses/(income) in relation to cash flow hedges, gain on a bargain purchase, impairment of property, plant and equipment, charities to related parties and certain foreign exchange differences.

The main differences in the basis of measurement of segment profit or loss from the last annual financial statements are related to using a more extensive range of income and expense items in the calculation of the segment profit/loss (i.e. including depreciation, certain finance costs determined to be directly attributable to the reportable segments and other changes).

Operating profit/loss by segment is a supplemental measure of our performance that is not required by or presented in accordance with IFRS. The following reportable segments are analysed by the Management Board:

- Coal mining and power generation on thermal power plants, heat generation, coal and gas resale, electricity export;
- Electricity distribution;
- Kyivenergo; and
- Other.

Previously, Kyivenergo was allocated to power generation, electricity distribution and heat generation. Further, previously heat generation was a reportable segment and is now (excluding that which related to Kyivenergo) included within Coal mining and power generation.

6 Segment information (Continued)

As result of the demerger (Note 13), the operations of Oil&Gas and Renewables segments are presented as discontinued in the income statement and not included into reportable segments. Comparatives for first half 2014 were adjusted accordingly.

Revenues included in 'Other' segment mainly include revenues from sales of services. These activities are excluded from the reportable operating segments, as they are not reviewed by the Management Board on an on-going basis.

The Group's mining and power generation operations are vertically integrated and while the operating businesses are organised and managed separately, with each segment offering different products and serving different markets, there remains significant inter-dependence between the segments. The primary reporting format, business segments, is based on the Group's management and internal reporting structure. Prices between the segments were set based on references the market prices. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses. Segment revenue includes transfer between business segments. Those transfers are eliminated on consolidation.

Segment information for the reportable business segments of the Group for the six months ended 30 June 2015 is as follows:

In millions of Ukrainian Hryvnia	Coal and power generation	Electricity distribution	Kyivenergo	Other	Elimination	Total
Six months ended 30 June 2015						
Segment operating profit / (loss)	**(2,525)**	**(2,442)**	**(585)**	**1,224**	**30**	**(4,298)**
Foreign exchange loss on borrowings						(9,825)
Effect of cash flow hedging non included in Segment operating profit / (loss)						(1,354)
Unallocated expenses						(163)
Loss of control over subsidiary						(1,470)
Finance costs not included in Segment operating profit / (loss)						(3,871)
Impairment of Property, plant and equipment and Goodwill						(466)
Loss before income tax						**(21,447)**
Revenue and Heat tariff compensation included in segment operating profit/(loss):						
Sales – external	19,089	17,520	8,834	62	-	45,505
Sales to other segments	281	566	25	441	(1,313)	-
Total revenue	**19,370**	**18,086**	**8,859**	**503**	**(1,313)**	**45,505**
Heat tariff compensation	-	-	223	-	-	223
Total revenue and Heat tariff compensation	**19,370**	**18,086**	**9,082**	**503**	**(1,313)**	**45,728**
Capital expenditure	1,529	81	217	48	-	1,875

Segment information for the main reportable segments of the Group as of and for the six months ended 30 June 2014 is as follows:

In millions of Ukrainian Hryvnia	Coal and power generation	Electricity distribution	Kyivenergo	Other	Elimination	Total
Six months ended 30 June 2014						
Segment operating profit/(loss)	**1,037**	**374**	**(574)**	**857**	**9**	**1,703**
Foreign exchange loss on borrowings						(6,603)
Unallocated expense						(29)
Finance costs not included in Segment operating profit/(loss)						(994)
Loss before income tax						**(5,923)**
Revenue and Heat tariff compensation included in segment operating profit/(loss):						
Sales – external	21,005	16,030	5,801	44	-	42,880
Sales to other segments	494	449	-	244	(1,187)	-
Total revenue	**21,499**	**16,479**	**5,801**	**288**	**(1,187)**	**42,880**
Heat tariff compensation	12	-	823	-	-	835
Total revenue and Heat tariff compensation	**21,511**	**16,479**	**6,624**	**288**	**(1,187)**	**43,715**
Capital expenditure	2,295	210	290	5	-	2,800

Capital expenditure does not include Renewable power generation and Oil and Gas segment in the amount UAH 421 million for the six months ended 30 June 2014.

7 Balances and Transactions with Related Parties

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding is detailed below.

	30 June 2015				31 December 2014			
In millions of Ukrainian Hryvnia	Entities under common control of SCM	DTEK BV Group subsidiaries	Associates of SCM	Other	Entities under common control of SCM	DTEK BV Group subsidiaries	Associates of SCM	Other
Prepayments for property, plant and equipment	2	-	-	-	156	-	-	3
Loans receivable (Note 10)	-	7,991	-	-	-	6,095	-	-
Trade and other receivables	1,201	977	27	-	783	4	10	26
Deposits placed	146	-	-	-	-	-	-	-
Cash and cash equivalents – current account	809	-	-	-	3,417	-	-	-
Other financial liabilities and interest accrual (Note 16)	-	(1,107)	-	-	-	(2,348)	-	-
Trade and other payables	(543)	(197)	-	-	(1,239)	(1,101)	-	(3)
Prepayments received	(300)	-	(6)	-	(22)	-	(8)	-

The income and expense items with related parties were as follows:

	Six months ended 30 June 2015				Six months ended 30 June 2014			
In millions of Ukrainian Hryvnia	Entities under common control of SCM	DTEK BV Group subsidiaries	Associates of SCM	Other	Entities under common control of SCM	DTEK BV Group subsidiaries	Associates of SCM	Other
Sales of electricity	4,841	-	1,023	-	4,134	-	183	-
Sales of gas	1,203	-	407	-	855	-	219	-
Sales of coking coal	-	-	-	-	120	-	8	-
Sales of steam coal	2	-	-	-	233	-	4	-
Sales of scrap metal and services	33	39	3	-	-	-	-	-
Purchase of raw materials and equipment	(584)	-	-	-	(377)	-	-	-
Purchase of gas	-	(2,249)	-	-	-	-	-	-
Purchase of non-current assets	(222)	-	-	-	(401)	-	-	-
Purchase of services	(1,861)	(12)	-	-	(1,371)	-	-	-
Charitable donations and sponsorship	(187)	-	-	-	-	-	-	-
Interest income on bank deposits	93	-	-	-	121	-	-	-
Interest expense on bank loans	(20)	-	-	-	16	-	-	-
Interest income on loans provided	-	285	-	-	-	-	-	-
Interest expense on loans received	-	(62)	-	-	-	-	-	-
Unwinding of discount on loans provided to related parties	-	43	-	-	-	-	-	-
Unwinding of discount on loans received from related parties	-	(227)	-	-	-	-	-	-
Loss on early repayment of long-term payables	-	(733)	-	-	-	-	-	-
Unwinding of discounts on long term accounts payable	-	(30)	-	-	-	-	-	-

8 Property, Plant and Equipment

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

In millions of Ukrainian Hryvnia	Mining assets	Oil and gas assets	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
Opening net book amount as at 1 January 2015	**10,588**	**-**	**14,746**	**27,412**	**1,246**	**6,870**	**60,862**
Additions	206	-	44	558	53	1,014	1,875
Disposals	-	-	(1)	(16)	(2)	(4)	(23)
Depreciation charge	(341)	-	(781)	(2,643)	(205)	-	(3,970)
Revaluation	2,137	-	1,574	5,669	162	-	9,542
Impairment of property, plant and equipment	-	-	(48)	(72)	(3)	(207)	(330)
Demerger of subsidiary (Note 13)	-	-	(249)	(4,392)	(11)	(305)	(4,957)
Loss of control over subsidiary	-	-	(723)	(519)	(28)	(117)	(1,387)
Foreign exchange differences	97	-	33	104	6	8	248
Transfers	73	-	157	1,312	35	(1,577)	-
Carrying amount as at 30 June 2015	**12,760**	**-**	**14,752**	**27,413**	**1,253**	**5,682**	**61,860**

In millions of Ukrainian Hryvnia	Mining assets	Oil and gas assets	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
Opening net book amount as at 1 January 2014	**9,676**	**6,815**	**14,421**	**20,097**	**1,262**	**9,439**	**61,710**
Additions	135	-	97	973	100	1,916	3,221
Disposals	-	-	(3)	(25)	(5)	-	(33)
Depreciation charge	(266)	(188)	(674)	(2,306)	(219)	-	(3,653)
Foreign exchange differences	111	-	76	160	6	27	380
Transfers	70	-	507	1,948	67	(2,592)	-
Carrying amount as at 30 June 2014	**9,726**	**6,627**	**14,424**	**20,847**	**1,211**	**8,790**	**61,625**

As at 30 June 2015, the Group decided to revalue its property, plant and equipment mainly due to significant inflation in Ukraine and further devaluation of UAH against USD and EUR during the six months ended 30 June 2015.

Fair values of items of property, plant and equipment located in Ukraine were estimated as follows: carrying amounts were adjusted to account for relevant cumulative price indices (for construction works and materials, different types of equipment, etc.) in Ukraine since the date of the latest revaluation of such items; and the resulting fair values were validated using discounted cash flow forecasts (income approach), and were adjusted if the values obtained using income approach are lower than those obtained using indexation of carrying amounts.

The Group intends to perform revaluation of its property, plant and equipment with involvement of independent professional valuers for the purpose of preparation of its consolidated financial statements for the year ending 31 December 2015.

Changes in the techniques, estimates and judgments involved in fair valuation could have had a material effect on the fair value of property, plant and equipment as at 30 June 2015, which, however, is impracticable to quantify due to wide variety of assumptions and assets being valued. The described valuation approach represents Level 3 in the fair value hierarchy.

As at 30 June 2015 the Group's property, plant and equipment carried at UAH 537 million have been pledged to third parties as collateral for borrowings (31 December 2014 – UAH 506 million).

As at 30 June 2015 there was no property, plant and equipment that may not be sold, pledged or disposed without prior consent of the bank (31 December 2014 – UAH 4,414 million related to borrowings in amount of UAH 4,402 million) of demerged subsidiary.

9 Goodwill

As discussed in Note 2, Ukraine government issued a resolution whereby the energy generation and supply in the non-controlled territory was separated from the Energy Market of Ukraine and this new regional market became subject to a different combination of risks. Hence, management decided to perform impairment testing of goodwill as at 30 June 2015 at DTEK Donetskoblenergo PJSC, as approximately half of its electricity grid and customers are located in the non-controlled territory. Following the test, full amount of goodwill of UAH 136 million at Donetskoblenergo was impaired.

10 Financial Investments

Non-current financial investments were as follows:

In millions of Ukrainian Hryvnia	30 June 2015	31 December 2014
Loans provided to related parties (Note 7)	7,445	5,897
Equity securities	39	46
Total	**7,484**	**5,943**

Current financial investments were as follows:

In millions of Ukrainian Hryvnia	30 June 2015	31 December 2014
Restricted deposits	1,810	3,529
Loans provided to related parties (Note 7)	546	198
Deposits placed	2	-
Total	**2,358**	**3,727**

As at 30 June 2015 restricted deposits amounting to UAH 1,500 million (31 December 2014: UAH 537 million correspondingly) were pledged as collateral for borrowings.

As at 30 June 2015 UAH 310 million of restricted deposits (31 December 2014: UAH 2,992 million) were pledged as collateral for gross-settled derivative financial instrument (Note 21).

Non-current loans receivable include a loan provided to a related party in the carrying amount of UAH 5,509 million that has a present restriction on the use of their major production assets. Recoverability of the loan is dependent on the lifting of this restriction. Management believes that the restriction is ungrounded, however, the timing of resolution of this issue is uncertain.

11 Trade and Other Receivables

In millions of Ukrainian Hryvnia	30 June 2015	31 December 2014
Trade receivables (less provision of UAH 5,985 million) (31 December 2014: UAH 4,416 million)	10,464	9,081
Other financial receivables (less provision of UAH 877million (31 December 2014: UAH 833 million)	1,034	566
Current part of long-term restructured trade receivables (less discount of UAH 78 million) (31 December 2014: UAH 91 million)	983	1,278
Total financial assets	***12,481***	***10,925***
Heat tariff compensation receivable	223	-
VAT recoverable (less provision of UAH 84 million) (31 December 2014: UAH 85 million)	1,536	1,147
Prepayments to suppliers (less provision of UAH 1,051 million) (31 December 2014: UAH 240 million)	1,488	965
Other (less provision of UAH 43 million) (31 December 2014: UAH 43 million)	82	76
Total non-financial assets	***3,329***	***2,188***
Total trade and other receivables	**15,810**	**13,113**

As at 30 June 2015 prepayments to suppliers include a prepayment receivable from a related party that has a present restriction on the use of their major production assets. As at 30 June 2015 amount of such prepayments comprised UAH 912 million, and as of the date of these financial statements the amount of such prepayments outstanding decreased to UAH 480 million. Recoverability of the outstanding amount of prepayment receivable is dependent on the lifting of the restriction. Management believes that the restriction is ungrounded, however, the timing of resolution of this issue is uncertain.

12 Cash and Cash Equivalents

As at 30 June 2015 restricted cash in the amount of UAH 420 million were pledged as collateral for bank borrowings (31 December 2014: UAH 2,717 million), UAH 32 million of restricted cash was used to cover letter of credit for purchase of property, plant and equipment (31 December 2014: nil).

13 Discontinued Operations

Following a restructuring plan, the Group has separated DTEK Oil&Gas BV, Naftogazvydobuvania PrJSC and DTEK Neftegaz LLC – into a separate Oil and gas sub-holding, and DTEK Renewables BV, Wind Power LLC, Orlovskaya WEP LLC and Primorskaya WEP LLC - into a separate Renewable energy sub-holding. All are under the control of the new Parent – DTEK BV. The completion date for the transfer of Oil and gas sub-holding was on 19 September 2014 and the completion date for the transfer of Wind Power LLC being part of Renewable energy sub-holding was 9 March 2015. In 2015 the Group obtained a cash consideration of UAH 434 million resulting from this demerger. The demerger was accounted for as a transaction with the entities under common control. As all entities were part of a single restructuring plan to separate these lines of business, the result of all such operations is separated in the income statement and presented as discontinued operations.

In millions of Ukrainian Hryvnia	Note	March 2015
Property, plant and equipment	8	4,957
Intangible assets		10
Deferred income tax assets		627
Trade and other receivables		131
Loans provided to related parties		1,146
Inventories		1
Cash and cash equivalents		10
Non-current borrowings	15	(4,905)
Non-current loans from related parties		(2,724)
Current borrowings	15	(644)
Current loans from related parties		(121)
Trade and other payables		(134)
Other taxes payable		(22)
Total carrying amount of net assets demerged		**(1,668)**
Non-controlling interest		-
Total carrying amount of net assets demerged attributable to Equity holders of the Company		**(1,668)**

At the date of the demerger the Group recognised fair value of the guarantee previously provided to Wind Power LLC in amount of UAH 52 million.

The Group has recorded the gain on demerger of the subsidiary directly in equity.

Analysis of the result of discontinued operations is as follows:

In millions of Ukrainian Hryvnia	Six months ended 30 June 2015	2014
Revenue	271	1,793
Cost of sales	(114)	(598)
Other income and expenses, including foreign exchange loss, net	(2,187)	(3,510)
(Loss)/profit before tax from discontinued operations	**(2,030)**	**(2,315)**
Income tax	365	(342)
(Loss)/profit after tax from discontinued operations	**(1,665)**	**(2,657)**
(Loss)/profit is attributable to:		
Equity holders of the Company	(1,665)	(3,002)
Non-controlling interest	-	345

Revenue of discontinued operations in 2015 does not include inter-company revenue (2014: UAH 1,233 million).

14 Equity and Other Reserves

The authorised share capital of DTEK Energy B.V. equals to fully paid share capital and comprises 3,000 ordinary shares with a par value of Euro 10.0 per share in total amount of Euro 30,000. All shares carry one vote.

15 Borrowings

In millions of Ukrainian Hryvnia	30 June 2015	31 December 2014
Non-current		
Eurobonds	18,600	11,713
Bank borrowings	9	3,666
	18,609	**15,379**
Current		
Eurobonds	-	2,842
Bank borrowings	33,791	28,952
Interest accrual	1,071	792
	34,862	**32,586**
Total borrowings	**53,471**	**47,965**

Movements in borrowings during the period are as follows:

	Six months ended 30 June	
In millions of Ukrainian Hryvnia	2015	2014
Opening balance as at 1 January	**47,965**	**27,010**
Eurobonds issued	3,344	-
Redemption of bonds	(4,127)	-
Repayment of borrowings	(4,326)	(13,211)
New borrowings	3,035	12,925
Interest and tender costs accrued during the period	3,148	1,577
Interest and tender costs paid during the period	(3,040)	(1,500)
Foreign exchange (gain)/loss	12,783	12,265
Currency translation difference	229	-
Amortisation of discount	88	89
Recognition of discount	(79)	(3)
Disposal of subsidiary (Note 13)	(5,549)	-
Closing balance as at 30 June	**53,471**	**39,152**

As of 30 June 2015, the Group's bonds issued in 2013 and 2015 were traded on open markets with discount in a range of 49-55% to their nominal value. However, as trading volumes are low, these trades may not represent the fair value of bonds. Further, given the current default status on loans and borrowings and the uncertainties on the timing of cash flows on their repayment, management considers it is impracticable to estimate a fair value of the borrowings and other financial liabilities as at 30 June 2015.

In March 2015 the Group announced the Exchange Offer and Consent Solicitation for cash and new notes up to an aggregate outstanding principal amount of USD 200 million (UAH 4,127 million) in respect of the USD 500 million 9.50% guaranteed senior notes due 2015 issued by DTEK Finance B.V. The purpose of the Exchange Offer and the Consent Solicitation (including the Scheme of Arrangement) was to refinance a portion of the Group's indebtedness under the Indenture and proactively manage and extend the financial indebtedness maturity profile of the Group.

In April 2015, DTEK Finance PLC, a finance vehicle of the Company, following receipt of the sanction order of the High Court of Justice in relation to the Scheme of Arrangement issued USD 160 million (UAH 3,344 million) Eurobonds bearing 10.375% coupon and maturing in September 2017 and March 2018. The Eurobonds are unsecured. The new Eurobond indenture contains specific covenants, including limitations on payments to shareholders, restrictions on permissible business activities, requirements for arm's length affiliate transactions, financial disclosure requirements and a maximum permissible level of leverage. Events of default are comprehensive and include cross-acceleration provision related to acceleration of payments for other debt. Proceeds from the Eurobonds issue were used to finance Exchange Offer in line with the provisions of the Scheme of Arrangement.

As at 30 June 2015, borrowings totalling UAH 150 million (31 December 2014: UAH 150 million) were secured with property, plant and equipment (Note 21).

16 Other Financial Liabilities

Non-current other financial liabilities comprise:

In millions of Ukrainian Hryvnia	30 June 2015	31 December 2014
Deferred consideration for acquisition	3,916	2,698
Restructured trade payables	1,166	1,245
Loans payable to related parties (Note 7)	1,085	2,331
Payable for finance lease	397	287
Guarantee provided to related party	52	-
Restructured taxes payable	9	11
Other long-term financial liabilities	104	151
Total non-current other financial liabilities	**6,729**	**6,723**

Current other financial liabilities comprise:

In millions of Ukrainian Hryvnia	30 June 2015	31 December 2014
Gross-settled derivative financial instruments	4,568	6,479
Current portion of restructured trade payable	1,006	551
Current portion of deferred consideration	116	79
Restructured taxes payable	82	42
Loans payable to related parties (Note 7)	22	17
Total other financial liabilities	**5,794**	**7,168**

Initial contractual repayments of Deferred consideration for acquisition should be adjusted for actual inflation rate. For purposes of measurement of Deferred consideration management has previously assessed CPI rate at the level of 7% for the period up to 5 years and at the level of 5% for the period over 5 years. Actual inflation for 6 months ended 30 June 2015 was 41% that lead to significant increase in the Deferred consideration balance.

In March 2015 an Early Termination agreement for a swap derivative financial instrument with Barclays Bank was signed. As a consequence, the Group derecognised the derivative financial instrument in the amount of UAH 2,579 million. Liability at the amount of UAH 3,459 million as at the Termination date was offset with related deposit pledged as a Credit Support in amount of UAH 2,903 million.

Given the current situation of liquidity deficit and uncertainties on the timing of cash flows on liabilities repayment, management considers it is impracticable to estimate a fair value of other financial liabilities as at 30 June 2015.

17 Revenue and Heat Tariff Compensation

In millions of Ukrainian Hryvnia	Six months ended 30 June 2015	2014
Sale of electricity to final customers	21,316	19,002
Sale of electricity to electricity pool	16,058	14,922
Heat generation	2,976	1,723
Sale of steaming and coking coal	1,954	3,274
Sale of gas	1,623	1,191
Sale of electricity abroad	1,447	2,678
Other sales	131	90
Total revenue	**45,505**	**42,880**

Heat tariff compensation

Heat tariff compensation is a government grant and represents the difference between heat tariff required to cover all production costs plus reasonable margin and that imposed by the State, compensated to the Group regularly. The amount of the difference receivable by the Group from the State for six months ended 30 June 2015 was UAH 223 million (six months ended 30 June 2014: UAH 835 million).

18 Cost of Sales

In millions of Ukrainian Hryvnia	Six months ended 30 June 2015	2014
Cost of electricity purchased	21,790	19,093
Raw materials	7,120	5,992
Staff cost, including payroll taxes	5,127	6,294
Depreciation of property, plant and equipment net of amortisation of government grants	3,760	3,315
Transportation services and utilities	3,232	2,447
Cost of gas purchased for resale	1,533	1,084
Taxes, other than income tax	721	817
Production overheads	533	651
Equipment maintenance and repairs	181	238
Change in finished goods and work in progress	(342)	(252)
Other costs	51	54
Total cost of sales	**43,706**	**39,733**

19 Other Operating Expenses

In millions of Ukrainian Hryvnia	Six months ended 30 June 2015	2014
Net movement in provision for impairment of trade and other receivables and prepayments made	2,931	-
Expenses on idle capacity	452	82
Social payments	240	240
Charitable donations and sponsorship	213	39
Non-recoverable VAT	183	66
Loss from sales of services	71	7
Increase in provision for other liabilities and charges	69	-
Maintenance of social infrastructure	54	84
Penalties	51	25
Loss from sales of inventory	47	17
Other	274	106
Total other operating expenses	**4,585**	**666**

For six months ended 30 June 2014, net release in provision for trade and other receivables in amount of UAH 180 million was included in Other operating income.

20 Finance Costs

In millions of Ukrainian Hryvnia	Six months ended 30 June 2015	2014
Interest expense		
- borrowings	2,007	1,132
- bonds issued	831	409
Loss on initial recognition of loans provided to related parties	-	1,674
Change in fair value of derivative financial instruments	1,568	-
Loss on change in estimates on deferred consideration related to acquisition	1,122	-
Loss on early repayment of loans received from related parties	733	-
Unwinding of discounts on pension obligations	387	334
Unwinding of discounts on deferred consideration related to acquisition	333	309
Loss on initial recognition of long-term restructured accounts receivable	258	310
Interest expense on tax payable	224	-
Unwinding of discounts on long term accounts payable	166	145
Amortised cost expenses on borrowings	121	78
Tender costs	113	-
Unwinding of discounts on assets retirement obligation	35	43
Other finance costs	3	33
Total finance costs	**7,901**	**4,467**

21 Contingencies and Commitments

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

The Group conducts intercompany transactions. It is possible with evolution of the interpretation of tax law in Ukraine and changes in the approach of tax authorities under the new Tax Code, that such transactions could be challenged in the future. The impact of any such challenge cannot be estimated; however, management believes that it should not be significant.

The group has income tax liabilities in various countries. The ultimate tax consequences of many transactions and calculations are uncertain, partly because of uncertainty concerning their timing. The Group continually assesses such matters and where final tax sums differ from the estimates such differences are recognised as income tax provisions in the period in which the differences become apparent.

Legal proceedings and tax litigations. From time to time and in the normal course of business, claims against the Group are received. Management believes that it has provided for all material losses in these financial statements. As at 30 June 2015 the Group's contingent liabilities in relation to legal claims on the Group's contractual obligations are equal to UAH 1,956 million (31 December 2014: UAH 232 million) and contingent liabilities in relation to tax litigations equal to UAH 393 million (31 December 2014: UAH 411 million).

Capital expenditure commitments. The Group is committed to fund investment programs of mining assets acquired In 2011-2012 totalling UAH 7,727 million during the period 2011 through 2016. As at 30 June 2015 the outstanding commitment equals UAH 2,805 million (31 December 2014: UAH 2,918 million).

Purchase commitments. As at 30 June 2015 the Group has no purchase commitments for property, plant and equipment (31 December 2014: UAH 196 million).

Assets pledged and restricted. The Group has the following assets pledged as collateral:

	As at 30 June 2015		As at 31 December 2014	
In millions of Ukrainian Hryvnia	Asset pledged	Related liability	Asset pledged	Related liability
Financial investments (Note 10)	1,810	2,202	3,529	3,671
Property, plant and equipment (Note 8)	537	150	506	150
Cash and cash equivalents (Note 12)	452	452	2,717	2,776
Total	**2,799**	**2,804**	**6,752**	**6,597**

The Group has pledged proceeds from future sales of electricity and part of future volume of electricity production as security for borrowings. Total amount of the pledge is set in the pledge agreements, and the maximum exposure of the Group is limited to the outstanding loan balance and related liabilities as at the reporting date. As at 30 June 2015 future sales proceeds and the volume of electricity production in amount of UAH 960 million were pledged as security for the overdraft credit lines. As at 30 June 2015 the balance of such credit lines amounts to UAH 800 million (31 December 2014: future sales proceeds and production of electricity totalling UAH 960 million were pledged as security for the overdraft credit lines of UAH 761 million).

The Group has pledged proceeds from future export sales of coal as security for its borrowings. As at 30 June 2015 future sales proceeds of coal in amount of UAH 16,436 million were pledged as security for borrowings amounting UAH 7,881 million. (31 December 2014: proceeds of coal in amount of UAH 13,798 million were pledged as security for borrowings amounting UAH 5,673 million).

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

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

As at 30 June 2015 the Group has breached certain covenants under a number of facility agreements. The Company has approached in advance its creditors with waiver and consent requests covering the issues related to breach of financial ratios (Note 15).

21 Contingencies and Commitments (Continued)

Insurance. The insurance industry in Ukraine is developing and many forms of insurance protection common in other parts of the world are not yet generally available. At present, Group's insurance policy incorporates "All Risks" Property Damage and Business Interruption coverage for generation and several mining companies as well as Marine Cargo, Construction "All Risks", Delay in Start-Up/Advances Loss of Profits and Third Party Liability coverage for wind power generation companies. In particular, the policy covers losses resulting from loss or damage of property, plant and equipment and loss of profit resulting from business interruption. The Group does not have full coverage for third party liability in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have an adverse effect on the Group's operations.

22 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and cash flow and fair value interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2014.

There have been no changes in the risk management function since year end or in any risk management policies.

Liquidity risk. Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities except that disclosed in Note 3.

23 Fair Value of Financial Instruments

Given the current default on loans and borrowings, and liquidity deficit and uncertainties on the timing of cash flows on the repayment of financial liabilities, management considers it is impracticable to estimate a fair value of the other financial assets and liabilities as at 30 June 2015. There were no transfers between Level 1 and Level 2 and no changes in valuation techniques during the period.

24 Subsequent Events

Early termination of derivative financial instrument. As at 30 June 2015 the Group had a derivative financial liability with VTB in the amount of UAH 702 million collateralised by a deposit in the amount of UAH 310 million. The derivative is subject to change in value mainly due to currency exchange rate fluctuations. In July 2015 an agreement to early terminate swap derivative was signed. As a consequence, the derivative financial instrument of UAH 738 million was offset with related deposit in amount of UAH 415 million. Remaining portion of liability amounting UAH 323 million is expected to be repaid by 7 August 2018.

Cancellation of Dniproenergo privatisation. On 30 July 2015 the court of first instance ruled in favour of the claim by the office of the general prosecutor against the 2012 privatisation of a 25% interest in Dniproenergo. The basis for the claim being that the privatisation was approved by the Cabinet of Ministers of Ukraine in excess of its power, and, as a consequence, the privatisation by the State Property Fund was in contradiction with applicable laws. The Group filed an appeal. In accordance with Ukrainian law the 25% interest in question remains the property of the Group as of the date of preparation of these condensed consolidated interim financial statements. The Group believes that it has complied with applicable legislation, regulations with respect to share purchases and the acquisition of the relevant assets. The Group is of the view that there are strong legal grounds to support its case. Management intends to take all necessary legal actions to retain its ownership rights over this 25% interest in Dniproenergo. The net assets of Dniproenergo are approximately UAH 7,132 million and external revenues of UAH 3,185 million were generated by Dniproenergo during the six months ended 30 June 2015.