DTEK Energy B.V.

Unaudited Condensed Consolidated Interim Financial Statements

30 June 2016

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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 2016 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 the paragraph 'going concern' as included in 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 thus gave a number of the Group's lenders the ability to legally require repayment of the respective debt on demand, also refer to Note 13 to the condensed consolidated interim financial statements. As a consequence, in order for the Group to achieve its positive cash flow estimates for periods throughout 2016 and 2017, the Group is crucially dependent on the willingness of the Group's lenders not to demand repayment, and to continue their support to the Group by postponing the payment of due interest or a substantial portion thereof and restructuring a significant portion of payments due in 2016 to future periods. This, along with other matters as described in the paragraph 'going concern' as included 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 these matters.

12 September 2016
Kyiv, Ukraine

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

In millions of Ukrainian Hryvnia	Note	30 June 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	8	64,303	68,191
Intangible assets		1,662	1,704
Goodwill		4,384	4,384
Financial investments	9	10,516	8,899
Income tax prepaid		156	49
Deferred income tax asset		628	608
Other non-current assets		93	246
Total non-current assets		**81,742**	**84,081**
Current assets			
Inventories		4,625	6,364
Trade and other receivables	10	18,165	16,017
Current income tax		77	454
Financial investments	9	69	2,404
Cash and cash equivalents		1,297	706
		24,233	**25,945**
Assets classified as held for sale	11	1,863	-
Total current assets		**26,096**	**25,945**
TOTAL ASSETS		**107,838**	**110,026**
EQUITY			
Share capital	12	0	0
Share premium		9,909	9,909
Other reserves		18,541	20,900
Accumulated deficit		(34,825)	(29,237)
Equity attributable to owners of the parent		**(6,375)**	**1,572**
Non-controlling interest in equity		**3,161**	**3,959**
TOTAL EQUITY		**(3,214)**	**5,531**
LIABILITIES			
Non-current liabilities			
Borrowings	13	-	21,221
Other financial liabilities	14	5,677	5,358
Retirement benefit obligations		5,480	5,389
Provisions for other liabilities and charges		1,809	1,375
Deferred income tax liability		2,893	3,747
Total non-current liabilities		**15,859**	**37,090**
Current liabilities			
Borrowings	13	61,737	36,727
Other financial liabilities	14	5,818	6,319
Prepayments received		7,144	5,345
Trade and other payables		14,381	15,414
Current income tax payable		921	1,159
Other taxes payable and tax provision		3,756	2,441
		93,757	**67,405**
Liabilities associated with assets classified as held for sale	11	1,436	-
Total current liabilities		**95,193**	**-**
TOTAL LIABILITIES		**111,052**	**104,495**
TOTAL LIABILITIES AND EQUITY		**107,838**	**110,026**

Approved for issue and signed on behalf of the Management Board on 12 September 2016.

DTEK Management B.V.
Director

SCM Management B.V.
Director

In millions of Ukrainian Hryvnia	Note	Six months ended 30 June 2016	2015
Revenue	15	56,986	45,505
Heat tariff compensation		-	223
Cost of sales	16	(54,099)	(43,706)
Gross profit		**2,887**	**2,022**
General and administrative expenses		(1,173)	(1,067)
Other operating expenses	17	(4,029)	(4,585)
Distribution costs		(705)	(702)
Other operating income		243	365
Impairment of property, plant and equipment and goodwill		-	(466)
Net operating foreign exchange (loss)/gain		(225)	811
Loss of control over subsidiary	2	-	(1,470)
Operating loss		**(3,002)**	**(5,092)**
Foreign exchange losses less gains on financing and investing activities		(2,467)	(9,825)
Finance income		1,225	1,371
Finance costs	18	(4,446)	(7,901)
Loss before income tax		**(8,690)**	**(21,447)**
Income tax benefit		555	653
Loss for the period from continued operations		**(8,135)**	**(20,794)**
Discontinued operations			
Loss for the period from discontinued operations	11	-	(1,665)
Loss for the period		**(8,135)**	**(22,459)**
Loss is attributable to:			
Owners of the Company		(7,337)	(20,250)
Non-controlling interests		(798)	(2,209)
Loss for the period		**(8,135)**	**(22,459)**

Unaudited Condensed Consolidated Interim Statement of Comprehensive Income

In millions of Ukrainian Hryvnia	Six months ended 30 June 2016	2015
Loss for the period	(8,135)	(22,459)
Items that may be reclassified to profit or loss:		
Recycling of cash flow hedge reserve to income statement	284	1,012
Reclassification adjustment in relation to currency translation reserve of subsidiary where control was lost	-	(135)
Amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets held for sale	(717)	-
Currency translation reserve	37	(11)
Items that will not be reclassified to profit or loss:		
Property, plant and equipment:		
- Change in estimate for asset retirement obligation	(80)	(168)
- Income tax recorded on change in estimate for asset retirement obligation	15	31
- Revaluation of property plant and equipment (Note 8)	-	9,542
- Income tax recorded on revaluation of property plant and equipment	-	(1,717)
Other comprehensive profit/(loss) for the period	**(461)**	**8,554**
Total comprehensive loss for the period	**(8,596)**	**(13,905)**
Total comprehensive loss attributable to:		
Owners of the Company	(7,798)	(12,411)
Non-controlling interests	(798)	(1,494)
Total comprehensive loss for the period	**(8,596)**	**(13,905)**

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 2016	**0**	**9,909**	**20,900**	**(29,237)**	**1,572**	**3,959**	**5,531**
Loss for the Six months ended 30 June 2016	-	-	-	(7,337)	**(7,337)**	(798)	**(8,135)**
Other comprehensive income	-	-	(461)	-	**(461)**	-	**(461)**
Total comprehensive income for the period	**-**	**-**	**(461)**	**(7,337)**	**(7,798)**	**(798)**	**(8,596)**
Property, plant and equipment:							
-Realised revaluation reserve	-	-	(2,333)	2,333	**-**	-	**-**
-Income tax related to realised revaluation reserve			435	(435)	**-**	-	**-**
Demerger of subsidiaries	**-**	-	-	(149)	**(149)**	-	**(149)**
Balance at 30 June 2016	**0**	**9,909**	**18,541**	**(34,825)**	**(6,375)**	**3,161**	**(3,214)**

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	Note	Six months ended 30 June 2016	2015
Cash flows from operating activities			
Loss before income tax		**(8,690)**	**(23,477)**
Adjustments for:			
Depreciation and impairment of property, plant and equipment and amortisation of intangibles		4,848	4,315
Losses less gains on disposals of property, plant and equipment		16	(6)
Assets received free of charge		(24)	(46)
Net change in provision for trade and other receivables	17	1,179	2,931
Non-cash operating charge/(reversal) to retirement benefit obligation		101	(90)
Extinguishment of accounts payable		(39)	-
Unrealised and realised foreign exchange loss on financing activity and investing activity		2,467	12,626
Unrealised foreign exchange gain on operating activity		179	(517)
Finance costs, net		3,221	6,563
Loss of control over subsidiary	2	-	1,470
Impairment of goodwill		-	136
Change in provisions for other liabilities and charges		863	69
Other operating non-cash transactions		26	(2)
Operating cash flows before working capital changes		**4,147**	**3,972**
Changes in:			
Inventories		1,697	(1,274)
Trade and other receivables		(3,211)	(5,646)
Prepayments received		1,823	196
Trade and other payables		(1,402)	3,423
Other financial liabilities		(49)	451
Repayment of restructured obligations		(174)	(146)
Other taxes payable and tax provision, other than income tax		1,138	661
Cash generated from operations		**3,969**	**1,637**
Income taxes paid		(246)	(313)
Defined employee benefits paid		(330)	(273)
Interest and tender costs paid		(322)	(3,040)
Interest received		149	266
Cash disposed as a result of loss of control		-	(246)
Provisions utilised		(25)	(8)
Net cash generated from/ (used in) operating activities		**3,195**	**(1,977)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,313)	(1,537)
Placement of restricted cash		(73)	(118)
Capitalised borrowings cost paid		(27)	(9)
Deposits placed		(7)	(23)
Deferred consideration related to acquisition paid		-	(73)
Finance lease related to acquisition paid		(14)	(18)
Demerger of subsidiary, net of cash demerged		-	424
Repayment of deposits		62	457
Net cash used in investing activities		**(2,372)**	**(897)**
Cash flows from financing activities			
Proceeds from borrowings net of discount and cash pooling		-	4,800
Repayment of borrowings net of cash pooling	13	(61)	(5,536)
Loans repaid to related party		-	(1,146)
Dividends paid to non-controlling participants		-	(11)
Net cash used in financing activities		**(61)**	**(1,893)**
Net increase/(decrease) in cash and cash equivalents		**762**	**(4,767)**
Cash and cash equivalents at the beginning of the period		**690**	**5,371**
Exchange (loss)/ gain on cash and cash equivalents		(12)	106
Cash and cash equivalents at the end of the period		**1,440**	**710**

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 the Rostov region of the 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 a regulated price.

2 Operating Environment

The ongoing political and economic instability in Ukraine has led to a deterioration of State finances, volatility of financial markets, illiquidity on capital markets, higher inflation and a depreciation of the national currency against major foreign currencies and this has continued in the first half of 2016.

In March 2014, various events in Crimea led to the annexation of Crimea by 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". Further, in 2014 armed forces obtained control over parts of the Donetsk and Lugansk regions in eastern Ukraine. The relationships between Ukraine and the Russian Federation worsened and remained strained. On 1 January 2016, the agreement on the free trade area between Ukraine and the EU came into force. The Russian government reacted to this event by implementing a trading embargo on many key Ukrainian export products. In response, the Ukrainian government implemented similar measures against Russian products.

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 12% of total property, plant and equipment, 7% of revenue and 12% of trade receivables) and three of the six electricity distribution companies (representing 4% of total property, plant and equipment, 14% of revenue and 11% 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 34% compared with the respective six months ended 30 June 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.

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.

As at the date of this report the official exchange rate of Hryvnia against US dollar was UAH 26.67 per USD 1, compared to UAH 24.85 per USD 1 as at 30 June 2016 (31 December 2015: UAH 24.00 per USD 1).

To constrain further devaluation of the Hryvnia, the National Bank of Ukraine has imposed a number of restrictions on operations with foreign currency including: a temporary limitation on payment of dividends in foreign currency; a temporary ban on early repayment of debts to non-residents; mandatory sale of 65% (reduced during the period from 75%) of revenue in foreign currency and other restrictions on cash and non-cash operations. The central bank of Ukraine prolonged these restrictions several times during 2015 and the current restrictions are effective until 14 September 2016.

Devaluation of the national currency created pressure on consumer price index. The official inflation rate in Ukraine has eased during the first six months of 2016 reaching approximately 5 % (annual inflation for 2015 reached 43%).

2 Operating Environment (Continued)

As of 30 June 2016, 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 233 million, net VAT recoverable of UAH 1,260 million, heat tariff compensation of UAH 485 mln and receivables from Energorynok and various water and heat supply companies of UAH 6,222 million and UAH 1,652 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, especially for assets located in the above mentioned eastern regions of Ukraine.

The final resolution and the ongoing effects of the political and economic situation are difficult to predict but they may have further severe effects on the Ukrainian economy and the Company'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 2016 have been prepared in accordance with IAS 34, 'Interim financial reporting' as adopted by European Union. They do not include all the information and disclosures required for a complete set of annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2015, 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 2015, except as described below.

Income taxes. 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 6.39%.

Exchange rate fluctuations. As at 30 June 2016, the exchange rate used for translating foreign currency balances was USD 1 = UAH 24.85 (31 December 2015: USD 1 = UAH 24.00); EUR 1 = 27.56 UAH (31 December 2015: EUR 1 = 26.22 UAH).

Going concern.

As of 30 June 2016 the Group had UAH 61,737 million of borrowings denominated primarily in foreign currencies, these being: US Dollars (UAH 35,262 million, or 57%); Russian Roubles (UAH 12,893 million, or 21%); Euros (UAH 12,160 million, or 20%); and Ukrainian Hryvnia (UAH 1,422 million, or 2%). As discussed in Note 2, the UAH has further devalued during January to June 2016, resulting in devaluations of 3.56% against the US Dollar, 5.11% against the Euro and 17.45% 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 (six months ended 30 June 2016 and 2015: 93% and 93%, 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 specific thresholds.

As of 31 December 2014 a number of covenants were breached and as a result of this and the resulting impacts a substantial portion of borrowings were reclassified from non-current to current liabilities. As of 30 June 2016, these breaches have not been remedied and hence borrowings of UAH 28,966 million were classified to current liabilities.

During 2015 and 2016, management has continued its discussions and efforts on re-profiling of the loan portfolio with the lenders (both banking and Eurobond holders). Certain steps have been taken to date, in particular, coordinating committee of the banking lenders and the ad-hoc committee of the Eurobond holders have been formed to co-ordinate the restructuring process together with the respective financial and legal advisers. As discussed in Note 13, a Scheme of Arrangement in relation to Eurobonds with a total nominal value of USD 910 million is in place creating a standstill to permit further negotiations on the restructuring. This standstill is effective until 28 October 2016.

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, the Group has not paid principal instalments but has initially continued to pay interest in full until October 2015, then ceasing majority of such payments. From April 2016 the Group has started to pay 10% of the interest due on its Eurobonds.

At the date of preparation of these interim financial statements none of the Group's credit facilities have been accelerated and the Group is negotiating a standstill agreement with its bank creditors.

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 2016 and the first nine months of 2017. No liquidity gaps have been identified in the cash flow projections. The absence of liquidity gaps are crucially dependent on (among other): the willingness of the Group's lenders not to demand principal repayment; increase in electricity tariffs in line with a formula established by the government and based on the price of coal quoted on the internationally recognised markets; 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 increase in export volumes of coal and the ability to successfully manage capital expenditure and continually manage settlement of accounts payable.

Despite sufficient liquidity to maintain operations, the Group is nevertheless unable to wholly or partially repay during the remainder of 2016 or 2017 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.

Revaluation of property, plant and equipment. The Group's property, plant and equipment is carried at revalued amounts. While management engages an independent appraiser to carry periodic revaluation of the Group's property, plant and equipment items, judgement shall be exercised as to the frequency of such revaluations and which groups of property, plant and equipment are most impacted by the changes in fair value. Management believe (due to relatively low inflation, exchange rate and other movements since the last revaluation) that any deviation between the carrying amount of the Group's property, plant and equipment and its fair value is not significant to understanding of these condensed consolidated interim financial statements, consequently no revaluation has been performed for the six months ended 30 June 2016.

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 as at 31 December 2015.

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 by the end of 2016 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 2018.

Recognition of revenue and fair value of liabilities in the non-controlled territory. As discussed in Note 2 the area of the non-controlled territory was separated from the Ukrainian energy market in May 2015. A series of multilateral contracts were set up between the two power generators in the area (one of which, ZuTES, is a subsidiary) and the power distributors (the largest of which is DTEK Donetskoblenergo PJSC, also a subsidiary). These contracts state that the distributors need to pay to the generators for electricity purchased in the same proportion as that paid by end consumers of electricity. Management have assessed the requirements of IAS 18 for the recognition of revenue and IFRS 13 for the assessment of fair value of liabilities incurred.

4 Critical Accounting Estimates and Judgements (Continued)

With respect to revenue recognition management has recognised revenue for certain large and regular payers. Revenue is recognised with respect to other customers on a cash basis. Unrecognised revenue amounts to UAH 994 million for the six months ended 30 June 2016 (six months ended 30 June 2015: UAH 140 mln).

In accordance with IFRS liabilities are initially recognised at their fair value. Management have determined that the fair value (contractually enforceable amount of payables) of liabilities with respect of purchases of electricity of the power distributors is substantially less than their nominal amount. In accordance with the existing contract the contractually enforceabale amount is tied to the collections from the end customers being less than 50% of the nominal amount of the payable. Management have assessed the fair value of liabilities with respect to power purchases by the power distributors based on anticipated and factual collections from end customers.

Any increase or decrease in collections would have a similar impact on revenues, expenses, assets and liabilities. The basis for this accounting is with respect to the ability of the Group to enforce the multilateral contracts signed. Management are confident that these multilateral contracts are legally enforceable and they will be upheld if challanged. The difference between the nominal value and fair value is UAH 1,825 million.

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 financial periods beginning on or after 1 January 2016, but do not have a material impact on these condensed consolidated interim financial statements:

- ***Amendments to IAS 1: Disclosure Initiative*** (issued on 18 December 2014 and effective for annual periods beginning on or after 1 January 2016);
- ***Annual Improvements to IFRS 2012–2014 Cycle*** (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016);
- ***Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*** (issued on 12 May 2014 and effective for annual periods beginning on or after 1 January 2016).

The following new standards which are relevant to the Group's condensed consolidated interim financial statements, have been issued, but have not been adopted by European Union or have not been effective for financial periods beginning on or after 1 January 2016:

- ***Amendments to IAS 7: Disclosure Initiative*** *(*issued on 29 January 2016 and effective for annual periods on or after 1 January 2017);
- ***Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses*** *(*issued on 19 January 2016 and effective for annual periods on or after 1 January 2017);
- ***IFRS 16 Leases*** *(Issued on 13 January 2016* and effective for annual periods beginning on or after 1 January 2019*);*
- ***IFRS 9, Financial Instruments*** (issued on 24 July 2014 and effective for annual periods beginning on or after 1 January 2018);
- ***IFRS 15 - Revenue from Contracts with Customers*** (issued on 28 May 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 Management Board assesses the performance of the operating segments based on a measure of Adjusted EBIT. This measurement basis represents profit for the year after excluding the following income statement items: foreign exchange losses less gains, income tax expense, impairment of property, plant and equipment, charities to related parties, finance income and expenses except for gains/losses on initial recognition and early repayment of financial instruments from non-related parties, interest on bank deposits, unwinding of discount on the long-term restructured accounts receivable.

The main differences in the basis of measurement of segment profit or loss from the last semi-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) that are believed to be more relevant to the utility industry. Comparative information for the six months ended 30 June 2015 has been adjusted accordingly.

The following reportable segments are analysed by the Management Board:

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

The 'Coal mining and power generation' segment includes also operations of Rostov mines which assets and liabilities were reclassified as held for sale as at 30 June 2016.

As result of the demerger (Note 11), the operations of Renewables segments are presented as discontinued in the income statement for the six months ended 30 June 2015 and not included into reportable segments.

Revenues included in 'Other' segment mainly include revenues from gas resale and 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 2016 is as follows:

In millions of Ukrainian Hryvnia	**Coal and power generation**	**Electricity distribution**	**Kyivenergo**	**Other**	**Elimination**	**Total**
Sales – external	20,980	18,630	10,811	6,565	-	**56,986**
Sales to other segments	1,727	674	-	723	(3,124)	-
Total revenue	**22,707**	**19,304**	**10,811**	**7,288**	**(3,124)**	**56,986**
Total revenue and heat tariff compensation	**22,707**	**19,304**	**10,811**	**7,288**	**(3,124)**	**56,986**
Segment result	**(865)**	**(462)**	**(882)**	**86**	**99**	**(2,024)**
Net operating foreign exchange loss						**(225)**
Foreign exchange losses less gains on financing and investing activities						**(2,467)**
Finance costs not included in Segment result						**(3,383)**
Unallocated expenses						**(591)**
Loss before income tax						**(8,690)**
Capital expenditure	**1,559**	**214**	**335**	**68**	**-**	**2,176**

6 Segment information (Continued)

Segment information for the main reportable segments of the Group as of and 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**
Sales – external	17,466	17,520	8,834	1,685	-	**45,505**
Sales to other segments	281	566	25	441	(1,313)	-
Total revenue	**17,747**	**18,086**	**8,859**	**2,126**	**(1,313)**	**45,505**
Heat tariff compensation	-	**-**	223	**-**	**-**	**223**
Total revenue and heat tariff compensation	**17,747**	**18,086**	**9,082**	**2,126**	**(1,313)**	**45,728**
Segment result	**(676)**	**(2,156)**	**(302)**	**(99)**	**30**	**(3,203)**
Net operating foreign exchange loss						**811**
Foreign exchange losses less gains on financing and investing activities						**(9,825)**
Impairment of property, plant and equipment and goodwill	(201)	(220)	-	(45)	-	**(466)**
Loss of control over subsidiary	-	(1,470)	-	-	-	**(1,470)**
Finance costs not included in Segment result						**(7,131)**
Unallocated expenses						**(163)**
Loss before income tax						**(21,447)**
Capital expenditure	1,529	81	217	48	-	**1,875**

Capital expenditure does not include Renewable power generation in the amount UAH 3 million for the six months ended 30 June 2015.

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 2016			31 December 2015		
In millions of Ukrainian Hryvnia	Entities under common control of SCM	DTEK BV Group subsidiaries	Associates of SCM	Entities under common control of SCM	DTEK BV Group subsidiaries	Associates of SCM
Prepayments for property, plant and equipment	67	-	-	95	-	-
Loans receivable (Note 9)	-	10,531	-	-	9,761	-
Trade and other receivables	1,923	189	38	1,441	1,329	52
Restricted deposits	9	-	-	-	-	-
Cash and cash equivalents – current account	306	-	-	499	-	-
Guarantee provided	-	-	-	-	49	
Other financial liabilities and interest accrual	-	(15)	-	-	(11)	-
Trade and other payables	(291)	(299)	-	(477)	(1,207)	-
Prepayments received	(1,669)	(4)	(16)	(777)	(1)	(9)

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

	Six months ended 30 June 2016			Six months ended 30 June 2015		
In millions of Ukrainian Hryvnia	Entities under common control of SCM	DTEK BV Group subsidiaries	Associates of SCM	Entities under common control of SCM	DTEK BV Group subsidiaries	Associates of SCM
Sales of electricity	6,359	-	11	4,841	-	1,023
Sales of gas	2,598	-	56	1,203	-	407
Sales of coking coal	-	-	-	-	-	-
Sales of steam coal	493	-	-	2	-	-
Sales of scrap metal and services	4	39	-	33	39	3
Purchase of raw materials and equipment	(316)	-	-	(584)	-	-
Purchase of gas	-	(7,617)	-	-	(2,249)	-
Purchase of non-current assets	(507)	-	-	(222)	-	-
Purchase of services	(1,535)	(129)	-	(1,861)	(12)	-
Charitable donations and sponsorship	(588)	-	-	(187)	-	-
Interest income on bank deposits	33	-	-	93	-	-
Interest expense on bank loans	-	-	-	(20)	-	-
Interest income on loans provided	-	363	-	-	285	-
Interest expense on loans received	-	-	-	-	(62)	-
Unwinding of discount on loans provided to related parties	-	47	-	-	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	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
Opening net book amount as at 1 January 2016	**14,472**	**18,751**	**27,943**	**1,649**	**5,376**	**68,191**
Additions	8	74	736	76	1,282	**2,176**
Disposals and other movements	-	-	(6)	(2)	(9)	**(17)**
Depreciation charge	(539)	(1,011)	(3,063)	(247)	-	**(4,860)**
Foreign exchange differences	73	29	71	3	-	**176**
Assets classified as held for sale (Note 11)	(416)	(351)	(511)	(19)	(66)	**(1,363)**
Transfers	57	277	532	585	(1,451)	**-**
Net book amount as at 30 June 2016	**13,655**	**17,769**	**25,702**	**2,045**	**5,132**	**64,303**

In millions of Ukrainian Hryvnia	Mining 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	-	(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)	**-**
Net book amount as at 30 June 2015	**12,760**	**14,752**	**27,413**	**1,253**	**5,682**	**61,860**

As at 30 June 2016 none of the Group's property, plant and equipment carried has been pledged to third parties as collateral for borrowings (31 December 2015: UAH 636 million).

9 Financial Investments

Non-current financial investments were as follows:

In millions of Ukrainian Hryvnia	30 June 2016	31 December 2015
Loans provided to related parties (Note 7)	10,471	8,859
Equity securities	45	40
Total	**10,516**	**8,899**

Current financial investments were as follows:

In millions of Ukrainian Hryvnia	30 June 2016	31 December 2015
Restricted deposits	9	1,500
Loans provided to related parties (Note 7)	60	902
Deposits placed	-	2
Total	**69**	**2,404**

As at 30 June 2016 there were no restricted deposits (31 December 2015: UAH 1,500 million) pledged as collateral for borrowings.

10 Trade and Other Receivables

In millions of Ukrainian Hryvnia	30 June 2016	31 December 2015
Trade receivables (less provision of UAH 7,924 million) (31 December 2015: UAH 6,657 million)	13,444	10,844
Restructured trade receivables (less discount of UAH 17 million) (31 December 2015: UAH 28 million)	255	299
Other financial receivables (less provision of UAH 883 million and discount of UAH 5 million) (31 December 2015: UAH 913 million)	1,692	1,144
Total financial assets	***15,391***	***12,287***
VAT recoverable (less provision of UAH 85 million) (31 December 2015: UAH 85 million)	1,260	903
Prepayments to suppliers (less provision of UAH 974 million) (31 December 2015: UAH 1,034 million)	862	2,099
Heat tariff compensation receivable	485	485
Other (less provision of UAH 65 million) (31 December 2015: UAH 37 million)	167	243
Total non-financial assets	***2,774***	***3,730***
Total trade and other receivables	**18,165**	**16,017**

11 Discontinued Operations and Assets and Liabilities classified as held for sale

Assets and Liabilities classified as held for sale. The Group has entered into a deleveraging plan with Sberbank of Russia, one of the Group's lenders, pursuant to which it intends to transfer the entire share capital of JSC Mine Office Obukhovskaya, JSC Donskoy Anthracite and LLC Sulinanthracite (together, the "Rostov Mines") and certain receivables owed to the Group by the Rostov Mines to a new non-Group holding company owned by its immediate parent DTEK B.V. In consideration for such transfer UAH 9,886 million (as expressed at exchange rate as of 30 June 2016) of the Group's indebtedness will be transferred to this new non-Group holding company or otherwise released and discharged.

As at the balance sheet date, the deleveraging, including transfer of the Rostov Mines, was conditional on the satisfaction or waiver of certain conditions precedent, but management believes that this process will be completed within twelve months and, consequently, the assets and liabilities of the Rostov Mines should be classified as held for sale as at 30 June 2016.

The completion of the deleveraging is expected to occur on 22 September 2016 (or on such later date as the parties to the deleveraging may agree), provided that, if the deleveraging does not occur by the completion date, to the extent transfer of the Rostov Mine has already occurred by such date, the Rostov Mines will be promptly transferred back to the Group and all other steps and transactions effected under and in accordance with the deleveraging to that date shall also be unwound.

The following assets and liabilities were reclassified as held for sale as at 30 June 2016:

In millions of Ukrainian Hryvnia	Note	30 June 2016
Assets classified as held for sale		
Property, plant and equipment	8	1,363
Intangible assets		25
Inventories		67
Trade and other receivables		238
Cash and cash equivalents		170
Total assets classified as held for sale		**1,863**
Liabilities classified as held for sale		
Retirement benefit obligations		97
Provisions for other liabilities and charges		103
Deferred income tax liability		26
Borrowings	13	948
Prepayments received		33
Trade and other payables		174
Other taxes payable and tax provision		55
Total liabilities classified as held for sale		**1,436**

Property, plant and equipment classified as held for sale during the reporting period was measured at the carrying value being lower of its carrying amount and fair value less costs of disposal at the time of the reclassification.

11 Discontinued Operations and Assets and Liabilities classified as held for sale (Continued)

Discontinued operations. Following a restructuring plan, the Group has separated DTEK Renewables BV, Wind Power LLC, Orlovskaya WEP LLC and Primorskaya WEP LLC into a separate Renewable energy sub-holding under the control of the new Parent – DTEK BV. The completion date for the transfer of Wind Power LLC, Orlovskaya WEP LLC and Primorskaya WEP 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 this line of business, the result of such operation is separated in the income statement and presented as discontinued operations.

Analysis of the result of discontinued operations is as follows:

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

Revenue of discontinued operations in 2015 does not include inter-company revenue.

12 Share Capital

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.

13 Borrowings

In millions of Ukrainian Hryvnia	**30 June 2016**	**31 December 2015**
Non-current		
Eurobonds	-	21,221
	-	**21,221**
Current		
Eurobonds	23,266	-
Bank borrowings	34,889	34,724
Interest accrual	3,582	2,003
	61,737	**36,727**
Total borrowings	**61,737**	**57,948**

Movements in borrowings during the period are as follows:

	Six months ended 30 June	
In millions of Ukrainian Hryvnia	**2016**	**2015**
Opening balance as at 1 January	**57,948**	**47,965**
New Eurobonds recognised	-	3,316
Interest capitalised on Eurobonds	818	-
Redemption of Eurobonds	-	(4,127)
Repayment of borrowings	(61)	(3,229)
New borrowings	-	3,035
Decrease in borrowings due to cash pooling arrangements	(1,489)	(1,097)
Interest and tender costs accrued during the period	2,161	3,148
Interest and tender costs paid during the period	(322)	(3,040)
Foreign exchange loss including currency translation difference	3,485	13,040
Amortisation of discount	145	88
Recognition of discount	-	(79)
Borrowings classified as held for sale (Note 11)	(948)	-
Demerger of subsidiary	-	(5,549)
Closing balance as at 30 June	**61,737**	**53,471**

13 Borrowings (Continued)

As of 30 June 2016, the Group's Eurobonds issued in 2013 and 2015 were traded on open markets with discount in a range of 38-41% to their nominal value. However, as trading volumes are low, these trades may not represent the fair value of Eurobonds. 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 2016.

In April 2016 the Group announced the Scheme of Arrangement in relation to the USD 750 million 7.875% senior Eurobonds due 4 April 2018 (Regulation S Eurobonds ISIN: USG2941DAA03 and Rule 144A Eurobonds ISIN: US23339BAA70) issued by DTEK Finance PLC pursuant to an indenture dated 4 April 2013 and supplemental indenture dated 30 April 2013, and the USD 160 million 10.375% senior Eurobonds due 28 March 2018 (Regulation S Eurobonds ISIN: USG2941DAB85) issued by DTEK Finance PLC pursuant to an indenture dated 28 April 2015. The purpose of the Scheme of Arrangement was to manage the liquidity of the Group and achieve a standstill with the Eurobond holders in order to create a stable platform during the period in which it seeks to negotiate with its creditors and finalise a full-scale restructuring of its capital structure.

The Scheme of Arrangement became effective on 26 April 2016 by the respective sanction order of the High Court of Justice of England and Wales. The Scheme provides for a moratorium which will prevent the Eurobond holders from taking enforcement action in accordance with the terms of the Eurobonds during the standstill period. The standstill with the Eurobond holders expires on 28 October 2016.

As at 30 June 2016, borrowings totalling UAH nil million (31 December 2015: UAH 150 million) were secured with property, plant and equipment (Note 19).

14 Other Financial Liabilities

Non-current other financial liabilities comprise:

In millions of Ukrainian Hryvnia	**30 June 2016**	**31 December 2015**
Deferred consideration for acquisition	4,402	4,112
Restructured trade payables and penalties	787	666
Payable for finance lease	439	424
Guarantee provided to related party	-	49
Other long-term financial liabilities	49	107
Total non-current other financial liabilities	**5,677**	**5,358**

Current other financial liabilities comprise:

In millions of Ukrainian Hryvnia	**30 June 2016**	**31 December 2015**
Gross-settled derivative financial instruments	4,953	5,458
Current portion of restructured trade payables and penalties	688	732
Current portion of deferred consideration	94	98
Restructured taxes payable	56	20
Other short-term financial liabilities	27	11
Total other financial liabilities	**5,818**	**6,319**

In March and July 2015 agreements with Barclays and VTB on early termination of swap derivatives were signed. As a consequence, the derivative financial instrument in the amount of UAH 4,196 million was terminated and settled with related deposits in the amount of UAH 3,317 million. Remaining portion of liability bearing interest in amount of UAH 923 million denominated in US dollars and EUR was reclassified to borrowing and is due to be paid in 2017 and 2018.

15 Revenue and Heat Tariff Compensation

In millions of Ukrainian Hryvnia	Six months ended 30 June 2016	2015
Sale of electricity to final customers	24,083	21,316
Sale of electricity to electricity pool	16,930	16,058
Sale of gas	6,503	1,623
Heat generation	4,084	2,976
Sale of steaming and coking coal	3,121	1,954
Sale of electricity abroad	2,132	1,447
Other sales	133	131
Total revenue	**56,986**	**45,505**

16 Cost of Sales

In millions of Ukrainian Hryvnia	Six months ended 30 June 2016	2015
Cost of electricity purchased	24,096	21,790
Raw materials	7,724	7,120
Cost of gas purchased for resale	6,425	1,533
Staff cost, including payroll taxes	4,787	5,127
Depreciation of property, plant and equipment net of amortisation of government grants	4,634	3,760
Transportation services and utilities	3,128	3,232
Taxes, other than income tax	1,162	721
Change in finished goods and work in progress	1,112	(342)
Production overheads	748	533
Equipment maintenance and repairs	235	181
Other costs	48	51
Total cost of sales	**54,099**	**43,706**

17 Other Operating Expenses

In millions of Ukrainian Hryvnia	Six months ended 30 June 2016	2015
Net movement in provision for impairment of trade and other receivables and prepayments made	1,179	2,931
Penalties	828	51
Expenses on idle capacity	739	452
Charitable donations and sponsorship	619	213
Social payments	230	240
Non-recoverable VAT	144	183
Maintenance of social infrastructure	69	54
Loss from sales of services	53	71
Increase in provision for other liabilities and charges	35	69
Loss from sales of inventory	3	47
Other	130	274
Total other operating expenses	**4,029**	**4,585**

18 Finance Costs

In millions of Ukrainian Hryvnia	Six months ended 30 June 2016	2015
Interest expense		
- borrowings	2,011	2,007
- Eurobonds issued	909	831
Unwinding of discounts on pension obligations	418	387
Unwinding of discounts on deferred consideration related to acquisition	355	333
Interest expense on tax payable	211	224
Professional fees	145	-
Amortised cost expenses on borrowings	142	121
Unwinding of discounts on long term accounts payable	122	166
Unwinding of discounts on assets retirement provision	58	35
Loss on change in estimates on deferred consideration related to acquisition	49	1,122
Change in fair value of derivative financial instruments	-	1,568
Loss on early repayment of loans received from related parties	-	733
Tender costs	-	113
Loss on initial recognition of long-term restructured accounts receivable	3	258
Other finance costs	23	3
Total finance costs	**4,446**	**7,901**

19 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 2016 the Group's contingent liabilities in relation to legal claims on the Group's contractual obligations are equal to UAH 3,395 million (31 December 2015: UAH 2,824 million) and contingent liabilities in relation to tax litigations equal to UAH 435 million (31 December 2015: UAH 467 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 2016 the outstanding commitment equals UAH 2,503 million (31 December 2015: UAH 2,719 million).

Purchase commitments. As at 30 June 2016 the Group has commitments for the property, plant and equipment purchase in the amount of UAH 116 million (31 December 2015: UAH 102 million).

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

	As at 30 June 2016		As at 31 December 2015	
In millions of Ukrainian Hryvnia	Asset Pledged	Related liability	Asset pledged	Related liability
Cash and cash equivalents	27	27	16	16
Financial investments (Note 9)	-	-	1,500	1,500
Property, plant and equipment (Note 8)	-	-	636	150
Total	**27**	**27**	**2,152**	**1,666**

19 Contingencies and Commitments (Continued)

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 2016 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 2016 the balance of such credit lines amounts to UAH 781 million (31 December 2015: future sales proceeds and production of electricity totalling UAH 960 million were pledged as security for the overdraft credit lines of UAH 800 million).

The Group has pledged proceeds from future export sales of coal as security for its borrowings. As at 30 June 2016 future sales proceeds of coal in amount of UAH 19,422 million were pledged as security for borrowings amounting UAH 8,381 million. (31 December 2015: proceeds of coal in amount of UAH 18,771 million were pledged as security for borrowings amounting UAH 8,197 million).

As at 30 June 2016 the movable and immovable property of the Group having value of UAH 140 million is encumbered with a tax lien (2015: UAH 85 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 2016 the Group has breached certain covenants under a number of facility agreements. In order to cover the issues related to breach of financial ratios and payment defaults the Group started the process of restructuring its credit facilities (Notes 3 and 13).

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. 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.

Privatisation disputes. In 2015 there were various claims against privatisation of DTEK Zakhidenergo PJSC, DTEK Dniproenergo PJSC and DTEK Dniprooblenergo PJSC filed. The Higher Commercial Court and the Supreme Court of Ukraine rejected claims against privatisation of DTEK Zakyhidenergo PJSC and DTEK Dniproenergo PJSC. The courts of the first instance and appeal instance rejected the claim against privatisation of DTEK Dniprooblenergo PJSC and additional claim against privatization of DTEK Dniproenegro PJSC. The Group believes that it has complied with applicable legislation and 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 these cases.

20 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 2015.

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.

21 Fair Value of Assets and Liabilities

This note provides an update on the judgements and estimates made by management in determining the fair values since the last annual consolidated financial statements.

a) Recurring fair value measurements

Financial instruments carried at fair value

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

21 Fair value of Assets and Liabilities (Continued)

Trading and available-for-sale investments and financial derivatives are carried in the statement of financial position at their fair value.

The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

In millions of Ukrainian Hryvnia	30 June 2016		31 December 2015	
	Level 1	Level 2	Level 1	Level 2
FINANCIAL ASSETS				
Financial investments				
- Securities quoted on Ukrainian stock market	45	-	40	-
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**45**	**-**	**40**	**-**
FINANCIAL LIABILITIES				
Other financial liabilities				
- Gross-settled derivative financial instruments	-	4,953	-	5,458
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	**-**	**4,953**	**-**	**5,458**

Securities quoted on the Ukrainian stock value are valued through the use of quoted market prices. The fair value of gross-settled derivative financial instruments is determined through futures pricing models - MTM.

Property, plant and equipment at fair value. Property, plant and equipment are carried in the statement of financial position at their fair value.

The Group's property, plant and equipment are all categorised as Level 3 in the fair value hierarchy. For a description of the valuation inputs in this Level 3 fair value refer to the Group's 2015 annual consolidated financial statements. During the period there were no transfers between the levels of the fair value hierarchy.

As discussed in Note 4, the Group has not updated its assessment of fair value of property, plant and equipment during the six months ended 30 June 2016. Note 8 shows the movement in property, plant and equipment balances for the six months ended 30 June 2016.

b) Fair value of financial assets and liabilities carried at amortised cost.

In millions of Ukrainian Hryvnia	30 June 2016				31 December 2015			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
FINANCIAL ASSETS								
Cash and cash equivalents								
- Bank balances payable on demand	-	866	-	866	-	681	-	681
- Term deposits	-	404	-	404	-	9	-	9
- Restricted cash	-	27	-	27	-	16	-	16
Trade and other receivables (Note 10)								
- Trade receivables	-	13,444	-	13,444	-	10,844	-	10,844
- Restructured trade receivables	-	255	-	255	-	299	-	299
- Other financial receivables	-	1,692	-	1,692	-	1,144	-	1,144
Other non-current assets								
Trade and other receivables - non-current	-	87	-	93	-	223	-	246
Financial investments (Note 9)								
- Deposits placed with the maturity more than three months	-	-	-	-	-	2	-	2
- Restricted deposits	-	9	-	9	-	1,500	-	1,500
- Loans receivable	-	10,531	-	10,531	-	9,761	-	9,761
TOTAL ASSETS	**-**	**27,315**	**-**	**27,321**	**-**	**24,479**	**-**	**24,502**
FINANCIAL LIABILITIES								
Eurobonds	13,585	-	-	23,266	9,507	-	-	21,221
Interest accrual on Eurobonds	-	-	-	-	-	454	-	454
Other financial liabilities	-	1,770	-	2,046	-	1,755	-	2,009
Deferred consideration	-	3,172	-	4,496	-	2,857	-	4,210
Trade and other payables	-	11,430	-	11,430	-	13,852	-	13,852
TOTAL LIABILITIES	**13,585**	**16,372**	**-**	**41,238**	**9,507**	**18,918**	**-**	**41,746**

21 Fair value of Assets and Liabilities (Continued)

The valuation techniques used to determine the above fair values have not changed as compared to the techniques used and disclosed in the 2015 annual consolidated financial statements.

There were no transfers between Level 1 and Level 2 and no changes in valuation techniques during the period.

22 Subsequent Events

Retirement pension obligation. As at 9 August 2016 the Decree of Cabinet of Ministers of Ukraine No 461, regulating pension entitlement on preferential terms, came into force. Under the Decree, the list of positions and professions eligible to the early retirement pension was reduced. The change is expected to reduce the defined benefit obligation of the Group. Management is currently assessing impact of these changes on its financial statements.

Demerger of subsidiaries. As discussed in Note 11, as at 30 June 2016, the Group had a plan to transfer the Rostov Mines to a new non-Group holding company owned by its immediate parent DTEK B.V. Transfer of the Rostov Mines was completed on 1 September 2016, but, as at the date of preparation of these condensed consolidated interim financial statements, certain conditions remain outstanding and, therefore, the deleveraging has not been completed. If the completion of the deleveraging does not occur by the completion date the Rostov Mines will be promptly transferred back to the Group.