DTEK Holdings B.V.

Unaudited Interim Condensed Consolidated Financial Statements

30 June 2012

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Report on Review of Unaudited Interim Condensed Consolidated Financial Statements

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Report on Review of Interim Condensed Consolidated Financial Statements

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

Introduction

We have reviewed the accompanying interim consolidated balance sheet of DTEK Holdings B.V. (the "Company") and its subsidiaries (the "Group"), as of 30 June 2012 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim financial reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standards 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 enquiries, 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 interim condensed consolidated financial statements as of and for the six months ended 30 June 2012 do not present fairly, in all material respects, the financial position of the Group as at 30 June 2012, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Accounting Standard 34, "Interim financial reporting".

LLC AF PricewaterhouseCoopers (Audit)

Kyiv, Ukraine

20 September 2012

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DTEK Holdings B.V.
Unaudited Interim Consolidated Balance Sheet

In millions of Ukrainian Hryvnia	Note	30 June 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	7	46,182	30,627
Intangible assets		2,022	183
Goodwill		4,751	1,116
Investments in associates	8	25	5,574
Financial investments	8	382	563
Deferred income tax asset		793	549
Other non-current assets		69	137
Total non-current assets		**54,224**	**38,749**
Current assets			
Inventories		4,578	2,214
Trade and other receivables	9	10,082	4,608
Financial investments	8	147	328
Current income tax		73	23
Cash and cash equivalents		4,663	10,426
Total current assets		**19,543**	**17,599**
TOTAL ASSETS		**73,767**	**56,348**
EQUITY			
Share capital	10	-	-
Share premium	10	9,909	9,909
Other reserves		4,064	5,731
Retained earnings		10,898	8,785
Equity attributable to the owners of the company		**24,871**	**24,425**
Non-controlling interests		**3,768**	**401**
TOTAL EQUITY		**28,639**	**24,826**
LIABILITIES			
Non-current liabilities			
Liability to non-controlling participants		12	4
Borrowings	11	13,287	12,405
Other financial liabilities	12	4,564	1,961
Restructured obligations	13	336	651
Government grants		2	3
Retirement benefit obligations		4,105	3,519
Provisions for other liabilities and charges		643	600
Deferred income tax liability		1,957	937
Total non-current liabilities		**24,906**	**20,080**
Current liabilities			
Borrowings	11	3,996	2,677
Other financial liabilities	12	118	604
Restructured obligations	13	767	152
Prepayments received		2,863	899
Trade and other payables		10,865	5,814
Current income tax payable		352	356
Other taxes payable		1,261	940
Total current liabilities		**20,222**	**11,442**
TOTAL LIABILITIES		**45,128**	**31,522**
TOTAL LIABILITIES AND EQUITY		**73,767**	**56,348**

Approved for issue and signed on behalf of the Management Board on 20 September 2012.

Maksym Timchenko
Director

Vistra (Amsterdam) B.V.
Director

DTEK Holdings B.V.
Unaudited Interim Consolidated Income Statement

In millions of Ukrainian Hryvnia	Note	Six months ended 30 June 2012	2011
Revenue	14	38,315	18,453
Cost of sales	15	(32,003)	(13,664)
Gross profit		**6,312**	**4,789**
General and administrative expenses		(1,006)	(411)
Other operating expenses		(615)	(302)
Distribution costs		(366)	(118)
Other operating income	16	785	225
Net foreign exchange gain/(loss) other than on borrowings		442	6
Operating profit		**5,552**	**4,189**
Foreign exchange gain/(loss) on borrowings		298	(54)
Finance income		457	60
Finance costs	17	(2,384)	(542)
Recognition of loss from fair valuation of associate on transfer to subsidiary	8	(293)	-
Recognition of AFS reserve on transfer to subsidiary	20	(63)	-
Share of after tax results of associates	8	(204)	(4)
Profit before income tax		**3,363**	**3,649**
Income tax expense	18	(916)	(1,448)
Profit for the period		**2,447**	**2,201**
Profit is attributable to:			
Owners of the Company		1,933	2,208
Non-controlling interests		514	(7)
Profit for the period		**2,447**	**2,201**

Unaudited Interim Consolidated Statement of Comprehensive Income

In millions of Ukrainian Hryvnia		Six months ended 30 June 2012	2011
Profit for the period		2,447	2,201
Other comprehensive income			
Financial investments:			
-Changes in the fair value of available-for sale financial assets		60	(395)
-Result of associates	8	-	(2)
-Recognition of AFS reserve on transfer to subsidiary	20	63	-
Property, plant and equipment:			
-Change in estimate for asset retirement obligation		(5)	(5)
-Release of income tax recorded in the revaluation reserve due to change in the tax legislation in Ukraine		-	1,232
Income tax relating to components of other comprehensive income		(4)	54
Total comprehensive income for the period		**2,561**	**3,085**
Total comprehensive income attributable to:			
Owners of the Company		2,047	3,078
Non-controlling interests		514	7
		2,561	**3,085**

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 2012	**-**	**9,909**	**5,731**	**8,785**	**24,425**	**401**	**24,826**
Profit for the Six months ended 30 June 2012	-	-	-	1,933	1,933	514	2,447
Other comprehensive income	-	-	114	-	114	-	114
Total comprehensive income for the period	**-**	**-**	**114**	**1,933**	**2,047**	**514**	**2,561**
Property, plant and equipment:							
-Realised revaluation reserve	-	-	(620)	620	-	-	-
-Income tax related to realised revaluation reserve	-	-	91	(91)	-	-	-
-Recycling of previously recognised share in revaluation of property, plant and equipment in associate on transfer to subsidiary	-	-	(1,252)	1,252	-	-	-
Acquisition of subsidiary (Note 20)	-	-	-	-	-	2,919	**2,919**
Acquired non-controlling interest	-	-	-	(4)	**(4)**	(13)	**(17)**
Dividends declared	-	-	-	(1,597)	**(1,597)**	(53)	**(1,650)**
Balance at 30 June 2012	**-**	**9,909**	**4,064**	**10,898**	**24,871**	**3,768**	**28,639**

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 2011	**-**	**9,909**	**(865)**	**4,166**	**13,210**	**70**	**13,280**
Profit for the Six months ended 30 June 2011	-	-	-	2,208	2,208	(7)	2,201
Other comprehensive income	-	-	870	-	870	14	884
Total comprehensive income for the period	**-**	**-**	**870**	**2,208**	**3,078**	**7**	**3,085**
Property, plant and equipment:							
-Realised revaluation reserve	-	-	(250)	250	-	-	-
-Income tax related to realised revaluation reserve	-	-	32	(32)	-	-	-
Dividends declared	-	-	-	(269)	**(269)**	-	**(269)**
Balance at 30 June 2011	**-**	**9,909**	**(213)**	**6,323**	**16,019**	**77**	**16,096**

DTEK Holdings B.V.
Unaudited Interim Consolidated Statement of Cash Flows

In millions of Ukrainian Hryvnia	Note	Six months ended 30 June 2012	2011
Cash flows from operating activities			
Profit before income tax		**3,363**	**3,649**
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangibles, net of amortisation of government grants		2,767	825
Losses less gains on disposals of property, plant and equipment		25	6
Assets received free of charge	16	(87)	(39)
Net change in provision for trade and other receivables	16	(545)	20
Change in other provisions for liabilities and charges		(40)	35
Non-cash operating charge to retirement benefit obligation		126	81
Share of result of associates		204	4
Unrealised result on associate		(8)	6
Unrealised and realised foreign exchange gain/(loss) on borrowings		(298)	54
Loss from fair valuation of associate on transfer to subsidiary	20	293	-
Recognition of AFS reserve on transfer to subsidiary	20	63	-
Finance costs, net		1,927	482
Other operating non-cash transactions		(21)	(26)
Operating cash flows before working capital changes		**7,769**	**5,097**
Changes in:			
Inventories		(1,008)	40
Trade and other receivables		(4,177)	(601)
Prepayments received		409	22
Trade and other payables		1,347	(75)
Other financial liabilities		459	-
Taxes payable, other than income tax		(229)	53
Cash generated from operations		**4,570**	**4,536**
Income taxes paid		(1,043)	(1,242)
Defined employee benefits paid		(266)	(100)
Interest paid		(797)	(231)
Interest received		138	30
Net cash generated from operating activities		**2,602**	**2,993**
Cash flows from investing activities			
Purchase of property, plant and equipment		(3,825)	(1,064)
Proceeds from sale of property, plant and equipment		1	4
Acquisition of subsidiaries (Note 20)	20	(4,653)	-
(Placement) withdrawal of restricted cash		(139)	1
Acquisition of deposit certificates		-	(2)
Deposits placed and financial aid or loan provided		(223)	(128)
Deferred consideration related to acquisition of Dobropolyeugol paid		(54)	(45)
Cash acquired in business combinations (Note 20)		261	-
Acquisition of non-controlling interest		(17)	-
Repayment of deposits and loans provided		251	57
Net cash used in investing activities		**(8,398)**	**(1,177)**
Cash flows from financing activities			
Proceeds from borrowings	11	6,902	711
Repayment of borrowings	11	(6,611)	(1,614)
Repayment of debts under amicable agreement		-	(85)
Repayment of restructured taxes payable		(184)	(12)
Dividends paid		-	(522)
Dividends paid to non-controlling participants		(71)	-
Net cash generated from/(used in) financing activities		**36**	**(1,522)**
Net (decrease)/ increase in cash and cash equivalents		**(5,760)**	**294**
Cash and cash equivalents at the beginning of the period		**10,426**	**1,693**
Exchange (loss)/ gain on cash and cash equivalents		(3)	1
Cash and cash equivalents at the end of the period		**4,663**	**1,988**

1 Corporate Information

DTEK Holdings B.V. (the "Company") is a private limited liability company incorporated in the Netherlands on 16 April 2009. The Company was formed through the contribution by the System Capital Management Limited and InvestCom Services Limited of their 100% equity interest in DTEK Holdings Limited, a Cyprus registered entity and predecessor of 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 6.

DTEK 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 and power generation plants are located in the Donetsk, Kyiv, Dnipropetrovsk, Zaporizhzhya, Lugansk, Lvov regions and Autonomous Republic Crimea of Ukraine and Rostov region of Russian Federation. The Group sells all electricity generated to SE Energorynok, the state-owned electricity metering and distribution pool, at prices determined based on the competitive pool model adopted by the National Electricity Regulatory Committee of Ukraine. The Group's distribution subsidiaries then repurchase electricity for sale to final customers.

2 Operating Environment

Ukraine displays certain characteristics of an emerging market including, but not limited to, a currency that is not freely convertible outside of Ukraine, restrictive currency controls, relatively high inflation and high interest rates.

With exports comprising a large share of domestic GDP, Ukraine's economy is vulnerable to market downturns and slowdowns elsewhere in the world. The Ukrainian government continues to implement economic reforms and develop its legal, tax and regulatory frameworks. The future stability of the economy is largely dependent on the success of these reforms and the effectiveness of implemented economic, financial and monetary measures.

The tax, currency and customs legislation within Ukraine is subject to varying interpretations and frequent changes.

Management is unable to predict all developments which could have an impact on the Ukrainian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

3 Basis of Preparation and Summary of Significant Accounting Policies

These interim condensed consolidated financial statements for the six months ended 30 June 2012 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 special purpose financial statements for the year ended 31 December 2011, which have been prepared in accordance with IFRS.

The accounting policies applied are consistent with those of the Group's annual consolidated financial statements for the year ended 31 December 2011. 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 27%.

Exchange rate fluctuations. As at 30 June 2012, the exchange rate used for translating foreign currency balances was USD 1 = UAH 7.99 (31 December 2011: USD 1 = UAH 7.99); EUR 1 = 9.97 UAH (31 December 2011: EUR 1 = 10.30 UAH).

4 Adoption of New or Revised Standards and Interpretations

There are no new IFRSs or IFRICs that are effective for the first time for the six months period ended 30 June 2012 that would be expected to have a material impact on these interim condensed consolidated financial statements.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

- IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in November 2009, further amended in October 2010 and effective for annual periods beginning on or after 1 January 2013).
- IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- Amended IAS 28, Investments in Associates and Joint Ventures (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- IFRS 12, Disclosure of Interest in Other Entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- IFRS 13, Fair Value Measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- Amendments to IAS 1, Presentation of Financial Statements (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012).
- Amended IAS 19, Employee Benefits (issued in June 2011 and effective for annual periods beginning on or after 1 January 2013).

5 Segment Information

The Group is organised on the basis of four main business segments:

- Coal mining and enrichment
- Power generation
- Electricity distribution
- Heat generation

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. Segment results, assets and liabilities 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, corporate assets, revenue and expenses. Segment revenue includes transfer between business segments. Those transfers are eliminated on consolidation.

The energy business is cyclical in that demand is higher in the colder winter period versus the warmer summer period.

Segment information for the main reportable segments of the Group as of and for the six months ended 30 June 2012 is as follows:

In millions of Ukrainian Hryvnia	Coal mining	Power generation	Electricity distribution	Heat generation	Other	Elimination	Total
Six months ended 30 June 2012							
Sales – external	4,493	14,262	15,302	4,125	133		38,315
Sales to other segments	8,177	-	400	-	1,109	(9,686)	-
Total revenue	**12,670**	**14,262**	**15,702**	**4,125**	**1,242**	**(9,686)**	**38,315**
Segment results	2,266	1,662	796	946	92	(398)	5,364
Unallocated income							188
Operating profit							**5,552**
Finance costs, net							(1,927)
Foreign exchange gain							298
Loss on fair valuation on transfer from associate to subsidiary (Note 20)							(293)
Recognition of AFS reserve on transfer to subsidiary (Note 20)							(63)
Share of result of associates							(204)
Profit before income tax							**3,363**
As at 30 June 2012							
Segment assets	29,139	29,537	10,928	4,503	2,676	(6,705)	70,078
Investments in associates	-	-	-	-	25	-	25
Available for sale investments	-	-	51	-	-	-	51
Current / deferred tax assets	-	-	-	-	-	-	866
Other unallocated assets	-	-	-	-	-	-	2,747
Total assets	-	-	-	-	-	-	**73,767**
Capital expenditure	1,951	1,011	320	105	799	-	4,186
Depreciation and amortisation	1,449	864	352	49	53	-	2,767

5 Segment Information (Continued)

Segment information for the main reportable segments of the Group as of and for the six months ended 30 June 2011 is as follows:

In millions of Ukrainian Hryvnia	Coal mining	Power generation	Electricity distribution	Heat generation	Other	Elimination	Total
Six months ended 30 June 2011							
Sales – external	8,304	4,901	5,232	-	16	-	18,453
Sales to other segments	2,233	-	267	-	372	(2,872)	-
Total revenue	**10,537**	**4,901**	**5,499**	**-**	**388**	**(2,872)**	**18,453**
Segment results	2,347	1,773	271	-	89	(121)	4,359
Unallocated expenses							(170)
Operating profit							**4,189**
Finance costs, net							(482)
Foreign exchange loss							(54)
Share of result of associates							(4)
Profit before income tax							**3,649**
As at 31 December 2011							
Segment assets	24,111	10,743	4,410	2,632	645	(2,022)	40,519
Investments in associates	-	5,045	502	-	27	-	5,574
Available-for sale investments	-	-	56	-	15	-	71
Current / deferred tax assets	-	-	-	-	-	-	572
Other unallocated assets	-	-	-	-	-	-	9,612
Total assets	-	-	-	-	-	-	**56,348**
Capital expenditure	908	341	67	-	28	-	1,344
Depreciation and amortisation	649	144	62	-	13	-	848

6 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 2012				31 December 2011			
In millions of Ukrainian Hryvnia	Entities under common control of SCM	Associates of SCM	Associates	Other related parties	Entities under common control of SCM	Associates of SCM	Associates	Other related parties
Prepayments for fixed assets	-	-	-	569	-	-	-	-
Gross amount of trade and other receivables	204	-	-	-	127	-	451	-
Financial aid provided	-	-	-	-	8	-	-	-
Loans granted and interest accrued	-	-	-	-	-	-	135	-
Cash and cash equivalents – current account	1,588	-	-	-	2,788	-	-	-
Investment obligation relating to Dniproenergo:				-				-
- Non-current	-	-	-	-	-	-	-	-
- Current	-	-	-	-	-	-	(519)	-
Trade and other payables	(259)	-	-	(56)	(183)	-	(3)	-
Prepayments received	(27)	-	-	(211)	(3)	-	(1)	-
Bank borrowings - current	(164)	-	-	-	-	-	-	-
Dividends payable	(1,597)	-	-	-	-	-	-	-

6 Balances and Transactions with Related Parties (Continued)

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

	Six months ended 30 June 2012				Six months ended 30 June 2011			
In millions of Ukrainian Hryvnia	Entities under common control of SCM	Associates of SCM	Associa-tes	Other related parties	Entities under common control of SCM	Associates of SCM	Associa-tes	Other related parties
Sales of electricity	3,530	42	-	-	2,636	7	-	-
Sales of coking coal	396	-	-	-	538	-	-	-
Sales of steam coal	52	-	1,316	-	19	1,064	2,581	-
Sales of inventory	-	-	-	-	2	-	-	-
Purchase of raw materials and equipment	(42)	-	-	-	(85)	-	-	-
Purchase of services	(16)	-	-	-	(30)	-	-	-
Interest expenses on Investment obligation relating to Dniproenergo OJSC	-	-	-	-	-	-	(10)	-
Interest income	16	-	-	-	1	-	3	-
Interest expense on bonds issued		-	-	-	(2)	-	-	-
Interest expense of long-term payables	(3)	-	-	-	(11)	-	-	-

7 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 2012	7,997	7,083	10,250	767	4,530	**30,627**
Acquisition of a subsidiary (Note 20)	869	5,752	5,441	303	1,929	**14,294**
Additions	31	158	959	256	2,782	**4,186**
Disposals	(71)	(24)	(34)	(1)	(54)	**(184)**
Depreciation charge	(126)	(627)	(1,755)	(233)	-	**(2,741)**
Transfer	28	305	742	-	(1,075)	**-**
Carrying amount as at 30 June 2012	**8,728**	**12,647**	**15,603**	**1,092**	**8,112**	**46,182**

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 2011	2,048	3,113	4,796	257	1,361	**11,575**
Acquisition of a subsidiary (Note 20)	724	253	378	21	129	**1,505**
Additions	1	15	321	38	969	**1,344**
Disposals	-	(1)	(7)	(1)	(5)	**(14)**
Depreciation charge	(88)	(180)	(528)	(52)	-	**(848)**
Transfer	15	25	168	8	(216)	**-**
Carrying amount as at 30 June 2011	**2,700**	**3,225**	**5,128**	**271**	**2,238**	**13,562**

As at 30 June 2012, buildings, plant and machinery carried at UAH 1,648 million (31 December 2011: UAH 1,127 million) have been pledged to third parties as collateral for loans and borrowings (Note 19).

8 Investments in Associates and Financial Investments

Investments in Associates

The table below summarises the movements in the carrying amount of the Group's investments in associates.

In millions of Ukrainian Hryvnia	2012	2011
Carrying amount at 1 January	**5,574**	**4,099**
Share of after tax results of associates	(204)	(4)
Additional investments in associates	480	-
Share in other reserves movements of associates	-	(7)
Unrealised profit on operations with associates	8	-
Revaluation of previously held interest to fair value (Note 20)	(293)	-
Reclassification to subsidiary	(5,540)	-
Carrying amount at 30 June	**25**	**4,088**

The Group's interests in its principal associates are presented below:

In millions of Ukrainian Hryvnia	Country of incorporation	% of ownership as at 30 June 2012	% of ownership as at 31 December 2011	30 June 2012	31 December 2011
Dniproenergo PJSC	Ukraine	73.31%	47.55%	-	3,886
Donetskoblenergo PJSC	Ukraine	71.35%	30.59%	-	502
Zakhidenergo PJSC	Ukraine	71.01%	25.83%	-	1,159
Other	Ukraine	various	various	25	27
Total				**25**	**5,574**

On 10 January 2012 the Group acquired 45.1% shares of Zakhidenergo PJSC for a cash consideration of UAH 1,932 million thus taking its total share to 70.94% (Note 20). The investment in Zakhidenergo PJSC held prior to the acquisition was accounted for as investment in associate. Share in net loss of Zakhidenergo PJSC included in the consolidated income statement till the date of acquisition totalled UAH 10 million loss.

On 11 January 2012 the Group acquired 40.06% shares of Donetskoblenergo PJSC for a cash consideration of UAH 467 million thus taking its total share to 71.34% (Note 20). The investment in Donetskoblenergo PJSC held prior to the acquisition was accounted for as investment in associate. Share in net loss of Donetskoblenergo PJSC included in the consolidated income statement till the date of acquisition totalled UAH 1 million loss.

On 13 March 2012 the Group acquired 25% of Dniproenergo PJSC for a cash consideration of UAH 1,180 million thus taking its total share to 72.93% (Note 20). The investment in Dniproenergo PJSC held prior to the acquisition was accounted for as investment in associate. Share in net loss of Dniproenergo PJSC included in the consolidated income statement till the date of acquisition totalled UAH 193 million loss.

Financial Investments

Non-current financial investments were as follows:

In millions of Ukrainian Hryvnia	30 June 2012	31 December 2011
Deposits placed	208	-
Restricted cash	121	-
Equity securities	51	71
Prepayments for securities	-	355
Loans receivable	2	137
Total	**382**	**563**

Current financial investments were as follows:

In millions of Ukrainian Hryvnia	30 June 2012	31 December 2011
Bank deposits placed with a maturity more than three months	83	275
Loans receivable (net of provision for impairment of UAH 17 million)	46	53
Restricted cash	18	-
Total	**147**	**328**

8 Investments in Associates and Financial Investments (Continued)

As at 30 June 2012, deposits amounting to UAH 215 million (31 December 2011: UAH 211 million) were pledged as collateral for borrowings or bank guarantees received (Note 19).

As at 30 June 2012, restricted cash amounting to UAH 139 million (31 December 2011: nil) was pledged as collateral for borrowings (Note 19).

9 Trade and Other Receivables

In millions of Ukrainian Hryvnia	30 June 2012	31 December 2011
Trade receivables	16,577	5,156
Less impairment provision	(8,391)	(2,086)
Trade receivables – net	**8,186**	**3,070**
Other financial receivables	687	591
Less impairment provision	(481)	(364)
Receivables under commission agreement		
- with third parties	18	-
- with SCM entities	45	45
Total financial assets	***8,455***	***3,342***
Prepayments to suppliers	1,127	858
Less impairment provision	(82)	(4)
VAT recoverable	326	221
Other non-financial receivables	295	199
Less impairment provision	(39)	(8)
Total non-financial assets	***1,627***	***1,266***
Total trade and other receivables	**10,082**	**4,608**

10 Equity and Other Reserves

The authorised share capital of DTEK Holdings B.V. comprises 15,000 ordinary shares with a nominal value of Euro 10 per share. All shares carry one vote. At 30 June 2012 and 31 December 2011, the issued and fully paid share capital comprises 3,000 ordinary shares.

There were no changes in share capital or share premium during the six months ended 30 June 2012.

On 20 April 2012 DTEK Holdings B.V. declared a dividend of USD 200 million (UAH 1,597 million), that are included in trade and other payables as at 30 June 2012.

11 Borrowings

In millions of Ukrainian Hryvnia	30 June 2012	31 December 2011
Non-current		
Eurobonds	3,931	3,920
Bank borrowings	9,356	8,485
	13,287	**12,405**
Current		
Bank borrowings	3,752	2,453
Interest accrual	244	224
	3,996	**2,677**
Total borrowings	**17,283**	**15,082**

11 Borrowings (Continued)

Movements in borrowings during the period are as follows:

In millions of Ukrainian Hryvnia	Six months ended 30 June 2012	2011
Opening balance as at 1 January	**15,082**	**5,502**
Repayment of borrowings	(6,611)	(1,614)
New borrowings	6,902	711
Acquisition of subsidiary (Note 20)	2,166	160
Interest accrued during the period	817	221
Interest paid during the period	(797)	(226)
Foreign exchange (gain)/loss	(298)	45
Amortisation of discount	30	17
Recognition of discount	(8)	-
Closing balance as at 30 June	**17,283**	**4,816**

In April 2010, DTEK Finance B.V., a finance vehicle of the Company, issued USD 500 million 5 year Eurobonds bearing 9.5% coupon. The Eurobonds are unsecured. The bond 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-default to other DTEK debt. The majority of the Eurobonds proceeds were used to repay existing indebtedness.

In October 2011, the Group entered into 5-year loan agreements with Russian Commercial Bank (Cyprus) for RUB 10,000 million (UAH 2,495 million) and Sberbank (Russia) for RUB 15,714 million (UAH 3,986 million). The Group used the proceeds from both loans to finance the Group's participation in the privatisation of energy sector entities in Ukraine and to finance investment programme. The loans are unsecured. The loan agreements contain specific covenants, including restrictions on permissible business activities, financial disclosure requirements and maximum permissible level of leverage. Events of default are comprehensive and include cross-default to other DTEK debt.

During 2011 and 2012 DTEK concluded agreements with Sberbank of Russia and Barclays for a swap of RUB loans with floating rates for a USD loan with fixed rates. Fair value loss on the derivative amounting to UAH 733 million is recognised in financial costs in profit and loss, and included in the value of non-current other financial liabilities (Note 12).

As at 30 June 2012, borrowings totalling UAH 345 million (31 December 2011: UAH 465 million) were secured with property, plant and equipment, financial investments and cash and cash equivalents (Note 19).

12 Other Financial Liabilities

Non-current other financial liabilities comprise:

In millions of Ukrainian Hryvnia	30 June 2012	31 December 2011
Deferred consideration for acquisitions of Dobropolyeugol, Rovenkiantracyte and Sverdlovantracyte	1,861	1,777
Consideration payable for lease of integrated property complex of Belozerskaya mine	229	-
Restructured trade payables	1,725	170
Gross-settled derivative financial instruments (Note 11)	733	-
Other	16	14
Total other financial liabilities	**4,564**	**1,961**

Current other financial liabilities comprise:

In millions of Ukrainian Hryvnia	30 June 2012	31 December 2011
Investment obligation relating to Dniproenergo	-	519
Deferred consideration for acquisitions of Dobropolyeugol, Rovenkiantracyte and Sverdlovantracyte	64	85
Consideration payable for lease of integrated property complex of Belozerskaya mine	23	-
Other	31	-
Total other financial liabilities	**118**	**604**

13 Restructured obligations

A summary of non-current restructured obligations is presented below:

In millions of Ukrainian Hryvnia	30 June 2012 Nominal value	30 June 2012 Carrying value	31 December 2011 Nominal value	31 December 2011 Carrying value
Promissory notes issued by Pavlogradugol	12	10	12	9
Restructured taxes payable	883	326	1,222	642
Total restructured obligations	**895**	**336**	**1,234**	**651**

Current restructured obligations comprise:

In millions of Ukrainian Hryvnia	30 June 2012	31 December 2011
Restructured taxes payable	767	152
Total restructured obligations	**767**	**152**

14 Revenue

In millions of Ukrainian Hryvnia	Six months ended 30 June 2012	2011
Sale of electricity to electricity pool	14,262	4,880
Sale of electricity to final customers	13,082	4,049
Sale of steaming and coking coal	4,493	8,302
Export sale of electricity	2,220	1,181
Heat generation	4,125	-
Other sales	133	41
Total revenue	**38,315**	**18,453**

Heat tariff compensation received by Kyivenergo JSC. In December 2011, DTEK acquired 25% interest in Kyivenergo in a State organised privatisation, increasing its share to 71.82% and thereby gaining control over the company (Note 20). In accordance with existing legislation, Kyivenergo is entitled to claim heat tariff compensation which is computed as the difference between the "economically grounded" heat tariff and that imposed by the National Electricity Regulatory Committee of Ukraine. Such claims are subject to additional Governmental, Budget and City approvals, the timing of which is uncertain. Kyivenergo accounts for such heat tariff compensation as revenue and due to the uncertainty of when the compensation becomes receivable records this revenue in amount of cash received before financial statements are authorized for issue. During 6 months 2012, Kyivenergo recognised UAH 2,006 million of heat tariff compensation: UAH 31 million related to 2009 and UAH 1,975 million related to 2011 and 1 quarter 2012 (2011: UAH 715 million related to 2010). Due to the significance of the heat tariff compensation and the sporadic timing of receipt, Kyivenergo's income/loss for any period will fluctuate significantly based on when this compensation is received.

15 Cost of Sales

In millions of Ukrainian Hryvnia	Six months ended 30 June 2012	2011
Cost of electricity purchased	13,776	4,739
Raw materials	7,526	1,899
Staff cost, including payroll taxes	5,058	1,738
Depreciation of property, plant and equipment net of amortisation of government grants	2,714	809
Transportation services and utilities	1,919	449
Cost of coal purchased for resale	628	3,304
Taxes, other than income tax	408	157
Equipment maintenance and repairs	174	48
Production overheads	116	122
Cost of extraction services related to Dobropolyeugol	8	446
Change in finished goods and work in progress	(387)	(62)
Other costs	63	15
Total cost of sales	**32,003**	**13,664**

16 Other operating income

In millions of Ukrainian Hryvnia	Six months ended 30 June 2012	2011
Net change in provision for trade and other receivables	545	-
Assets received for free	87	39
Fines and penalties received	43	7
Income from sale of certified emission rights	-	150
Other income	110	29
Total other operating income	**785**	**225**

In June 2012 Ukrainian government introduced a resolution aiming to settle old debts among entities of generation, distribution and coal segments in Ukraine. The Group has signed agreements on settlements among all participants to the resolution on 27 June, recognizing the UAH 994 million gain on reversal on provision for trade receivables, included in other operating income note, and UAH 211 million of loss on early repayment of restructured obligations and restructured trade payables, included in finance costs note.

17 Finance Costs

In millions of Ukrainian Hryvnia	Six months ended 30 June 2012	2011
Interest expense		
- bonds issued	190	193
- borrowings	627	21
Change in fair value of derivative financial instruments (Note 11)	733	-
Loss on early repayment of long-term payables	211	-
Investment obligation relating to Dniproenergo	12	10
Unwinding of discounts on pension obligations	282	170
Unwinding of discounts on financial instruments	97	41
Unwinding of discounts on deferred consideration related to acquisition	123	90
Unwinding of discounts on long term accounts payable	82	-
Unwinding of discounts on assets retirement provision	27	14
Other finance costs	-	3
Total finance costs	**2,384**	**542**

18 Income Taxes

In millions of Ukrainian Hryvnia	Six months ended 30 June 2012	2011
Current tax	972	1,109
Deferred tax	(56)	339
Income tax expense	**916**	**1,448**

On 2 December 2010, a new Tax Code was adopted in Ukraine with most of the changes introduced being effective from 1 January 2011. Among the main changes are a change in the rates for corporate income tax from 25% to 16%, which is to be introduced in several stages between 2011-2014, and a change in the methodology for determining the base for corporate income tax application.

The tax base of the property, plant and equipment was also changed from 1 April 2011 with the aim to remove existing differences between tax and accounting bases. The Group recognised the change in tax legislation regarding the tax base of the property, plant and equipment as at 1 April 2011, impact of which resulted in the recognition of deferred tax charge of UAH 482 million in the income statement.

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 proceeding 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.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these interim condensed consolidated financial statements.

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

	As at 30 June 2012		As at 31 December 2011	
In millions of Ukrainian Hryvnia	**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Financial investments (Note 8)	215	354	211	19
Property, plant and equipment (Note 7)	1,648	225	1,127	446
Inventory	240	120	-	-
Restricted cash	139	-	-	-
Total	**2,242**	**699**	**1,338**	**465**

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 borrowings. Non-compliance with such covenants may result in negative consequences for the Group including additional cost of borrowings and declaration of default. The Group is in compliance with the covenants as at 30 June 2012 and 31 December 2011.

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. The Group does not have full coverage for their plant facilities, business interruption, or 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.

20 Business Combinations

Dniproenergo

On 13 March 2012 the Group acquired 25% of Dniproenergo PJSC ('Dniproenergo') in a State organised privatisation auction, for a cash consideration of UAH 1,180 million thus taking its total share to 72.93%.

Dniproenergo is a power generation company located in Zaporizhzhya, and was acquired via a) a series of transactions resulting in total interest acquired of 47.55% at a total cost of UAH 2,238 million, and b) via privatisation tender on 13 March 2012 resulting in additional 25% interest for a cash consideration of UAH 1,180 million.

The investment in Dniproenergo held prior to the acquisition was accounted for as investment in associate. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 114 million loss was recognised in the income statement.

The following table summarises the preliminary fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	4,633
Intangible assets	9
Other non-current assets	48
Inventories	622
Trade and other receivables (gross UAH 2,723 million)	1,780
Current income tax	29
Cash and cash equivalents	29
Borrowings (Note 11)	(1,045)
Other financial liabilities – non-current	(95)
Retirement benefit obligations	(197)
Deferred income tax liabilities	(258)
Trade and other payables	(998)
Other taxes payable	(231)
Fair value of 100% of net assets acquired	**4,326**
27.07% non-controlling interest	**(1,171)**
Share of net assets acquired	**3,155**
Purchase consideration:	**5,246**
Fair value of consideration paid	1,180
Fair value of previously held interest	4,066
Goodwill	**2,091**
Cash inflow on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	29
Consideration paid for acquisition of subsidiary	(1,180)
Net outflow of cash on acquisition of subsidiary	(1,151)

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the consideration payable and represents the expected future economic benefits from access to the Dniproenergo generation capacities.

Revenue and net profit of Dniproenergo included in the consolidated income statement from the date of acquisition totaled UAH 2,479 million and UAH 17 million, respectively. If the acquisition had been completed on 1 January 2012, the revenues of the Group would be approximately UAH 1,685 million higher and net profit of the Group would be approximately UAH 400 million lower (unaudited).

20 Business combinations (Continued)

Zakhidenergo

On 11 January 2012 the Group acquired 45.1% shares of Zakhidenergo PJSC ('Zakhidenergo') in a State organised privatisation auction, for a cash consideration of UAH 1,932 million thus taking its total share to 70.94%.

Zakhidenergo PJSC is an electricity generation company located in Lviv.

The investment in Zakhidenergo held prior to the acquisition was accounted for as investment in associate. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 42 million loss was recognised in the income statement.

The following table summarises the preliminary fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment and intangible assets were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	3,031
Intangible assets	1,825
Other non-current assets	4
Inventories	528
Trade and other receivables (gross UAH 531 million)	393
Financial investments - current	30
Borrowings (Note 11)	(781)
Other financial liabilities – non-current	(26)
Retirement benefit obligations	(167)
Deferred income tax liabilities	(361)
Provisions for other liabilities and charges	(37)
Trade and other payables	(1,101)
Prepayments received	(640)
Other financial liabilities – current	(93)
Other taxes payable	(105)
Fair value of 100% of net assets acquired	**2,500**
29.06% non-controlling interest	**(727)**
Share of net assets acquired	**1,773**
Purchase consideration:	**3,039**
Fair value of consideration paid	1,932
Fair value of previously held interest	1,107
Goodwill	**1,266**

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the consideration payable and represents the expected future economic benefits from access to the Zakhidenergo generation capacities.

As a part of net assets acquired there is an intangible asset of UAH 1,823 million recognised representing the unique capability of Burshtyn thermal power plant to supply the Central European market with electricity ("Burshtyn electricity island"). This intangible asset has a definite useful life of 13 years and is depreciated on a straight line basis over this period. Respective deferred tax liability of UAH 302 million was recognised as a part of net assets acquired.

Revenue and net profit of Zakhidenergo included in the consolidated income statement from the date of acquisition totaled UAH 4,532 million and UAH 148 million, respectively. If the acquisition had been completed on 1 January 2012, the revenues of the Group would be approximately UAH 242 million higher and net profit of the Group would be approximately UAH 40 million lower (unaudited).

In 1999 and 2003, Zakhidenergo used coal and gas from the State Committee for Material Reserve ("SCMR") and signed agreements to replace such quantities used. As at 30 June 2012, such unsettled obligations total UAH 130,945 thousand for obligations restructured with SCMR ("restructured obligations") and UAH 53,884 thousand for non restructured balances (measured at historic prices). Based on past settlement history for the restructured obligations, management believes this entire obligation will be settled at historic prices and accordingly has booked this obligation, however there is a risk that the SCMR may request settlement of the non restructured balance at current prices, which would result in additional liabilities for the Company.

20 Business combinations (Continued)

Donetskoblenergo

On 11 January 2012 the Group acquired 40.06% shares of Donetskoblenergo PJSC ('Donetskoblenergo') in a State organised privatisation auction, for a cash consideration of UAH 467 million thus taking its total share to 71.34%.

Donetskoblenergo PJSC is an electricity distribution company located in the Donetsk region of Ukraine.

The investment in Donetskoblenergo held prior to the acquisition was accounted for as investment in associate. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 137 million loss was recognised in the income statement.

The following table summarises the preliminary fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	1,957
Intangible assets	1
Other non-current assets	10
Inventories	46
Trade and other receivables (gross UAH 3,215 million)	367
Cash and cash equivalents	149
Borrowings (Note 11)	(30)
Other financial liabilities – non-current	(291)
Deferred income tax liabilities	(242)
Trade and other payables	(555)
Prepayments received	(260)
Income tax payable	(21)
Other taxes payable	(78)
Fair value of 100% of net assets acquired	**1,053**
28.66% non-controlling interest	**(302)**
Share of net assets acquired	**751**
Purchase consideration:	**832**
Fair value of consideration paid	468
Fair value of previously held interest	364
Goodwill	**81**
Cash inflow on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	149
Consideration paid for acquisition of subsidiary	(468)
Net outflow of cash on acquisition of subsidiary	(319)

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the consideration payable and represents the expected future economic benefits from access to the Donetskoblenergo distribution network and the customer base.

Revenue and net loss of Donetskoblenergo included in the consolidated income statement from the date of acquisition totaled UAH 2,695 million and UAH 90 million, respectively. If the acquisition had been completed on 1 January 2012, the revenues of the Group would be approximately UAH 169 million higher and net profit of the Group would be approximately UAH 4 million lower (unaudited).

20 Business combinations (Continued)

Dniprooblenergo

On 17 April 2012 the Group acquired 50% shares of Dniprooblenergo PJSC ('Dniprooblenergo') in a State organised privatisation auction, for a cash consideration of UAH 660 million thus taking its total share to 51.50%.

Dniprooblenergo PJSC is an electricity distribution company located in Dnipropetrovsk.

The investment in Dniprooblenergo held prior to the acquisition was accounted for as available for sale investment. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 59 million loss was recognised in the income statement.

The following table summarises the preliminary fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	2,486
Intangible assets	16
Inventories	71
Trade and other receivables (gross UAH 1,807 million)	387
Cash and cash equivalents	41
Other financial liabilities – non-current	(687)
Deferred income tax liability	(124)
Trade and other payables	(586)
Prepayments received	(388)
Current income tax payable	(12)
Other taxes payable	(46)
Fair value of 100% of net assets acquired	**1,158**
48.50% non-controlling interest	**(561)**
Share of net assets acquired	**597**
Purchase consideration:	**680**
Fair value of consideration paid	660
Fair value of previously held interest	20
Goodwill	**83**
Cash inflow on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	41
Consideration paid for acquisition of subsidiary	(660)
Net outflow of cash on acquisition of subsidiary	(619)

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the consideration payable and represents the expected future economic benefits from access to the Dniprooblenergo distribution network and the customer base.

Revenue and net profit of Dniprooblenergo included in the consolidated income statement from the date of acquisition totaled UAH 3,133 million and UAH 7 million, respectively. Since Dniprooblenergo has not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

20 Business combinations (Continued)

Krymenergo

On 5 May 2012 the Group acquired 45% shares of Krymenergo PJSC ('Krymenergo') in a State organised privatisation auction, for a cash consideration of UAH 256 million thus taking its total share to 57.49%.

Krymenergo PJSC is an electricity distribution company located in the Crimea, Ukraine.

The investment in Krymenergo held prior to the acquisition was accounted for as available for sale investment. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 4 million loss was recognised in the income statement.The following table summarises the preliminary fair values of the net assets acquired at the date of acquisition. Management is still in process of determining the fair values of all assets and liabilities.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	834
Intangible assets	3
Financial investments – non-current	5
Deferred income tax asset	83
Other non-current assets	20
Inventories	16
Trade and other receivables (gross UAH 1,001 million)	104
Cash and cash equivalents	28
Borrowings (Note 11)	(21)
Other financial liabilities – non-current	(444)
Trade and other payables	(83)
Prepayments received	(125)
Current income tax payable	(13)
Other taxes payable	(35)
Fair value of 100% of net assets acquired	**372**
42.51% non-controlling interest	**(158)**
Share of net assets acquired	**214**
Purchase consideration:	**327**
Fair value of consideration paid	256
Fair value of previously held interest	71
Goodwill	**113**
Cash inflow on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	28
Consideration paid for acquisition of subsidiary	(256)
Net outflow of cash on acquisition of subsidiary	(228)

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the consideration payable and represents the expected future economic benefits from access to the Krymenergo distribution network and the customer base.

Revenue and net profit of Krymenergo included in the consolidated income statement from the date of acquisition totaled UAH 384 million and UAH 61 million, respectively. Since Krymenergo has not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

20 Business combinations (Continued)

Belozerskaya Mine

On 17 and 24 February 2012 the Group entered into agreement to acquire 74.7% and 20.7% shares of JSC Belozerskaya mine respectively for a total cash consideration of UAH 202 million. Belozerskaya operates one coal mine located in the Donetsk region of Ukraine producing 0.6 million tons of coal per annum.

The following table summarises the preliminary fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment, including mineral reserves	1,100
Intangible assets	1
Inventories	24
Trade and other receivables (gross UAH 20 million)	20
Borrowings (Note 11)	(289)
Retirement benefit obligations	(94)
Other financial liabilities – non-current	(267)
Deferred income tax liability	(32)
Trade and other payables	(64)
Prepayments received	(142)
Other taxes payable	(45)
Fair value of 100% of net assets acquired	**212**
4.60% liability to non-controlling participants	**(10)**
Share of net assets acquired	**202**
Fair value of consideration paid	**202**

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Revenue and net loss of Belozerskaya included in the consolidated income statement from the date of acquisition totaled UAH 103 million and UAH 42 million, respectively. Since Belozerskaya mine has not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

20 Business combinations (Continued)

Rostov Mines

During June 2012 the Group entered into agreement to acquire 100% of Donskoi Antracyte JSC, Obukhovskaya Mine JSC, and Sulynatracyte LLC, for a total cash consideration UAH 310 million. Those companies represent three mines located in Rostov region, Russian Federation.

The following table summarises the preliminary fair values of the net assets acquired at the date of acquisition. Management is still in process of determining the fair values of all assets and liabilities.

In millions of Ukrainian Hryvnia	
Property, plant and equipment, including mineral reserves	253
Intangible assets	21
Deferred income tax asset	102
Other non-current assets	4
Inventories	27
Trade and other receivables (gross UAH 32 million)	32
Financial investments – current	15
Cash and cash equivalents	14
Provisions for other liabilities and charges	(13)
Trade and other payables	(42)
Other financial liabilities – current	(95)
Other taxes payable	(8)
Fair value of 100% of net assets acquired	**310**
Share of net assets acquired	**310**
Fair value of consideration paid	**310**
Cash inflow on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	14
Consideration for aquiree's debt to previous owner	(307)
Consideration paid for acquisition of subsidiary	(3)
Net outflow of cash on acquisition of subsidiary	(296)

In case the subsoil exploration licences acquired in this business combination are not renewed by the Group in 2013, DTEK will have the right to claim the associated losses and expenses incurred against the previous owner of the Rostov mines. The latter will have the right to exercise a call option to buy the shares of the mines back. Until this call option agreement is terminated DTEK may not sell any of the shares or debt acquired from the previous owner or make any changes to the common shares of the entities acquired.

Since Rostov Mines have not produced IFRS financial information before acquisition, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2012.

20 Business combinations (Continued)

Acquisitions during 2011

Acquisitions during 2011- Dobropolyeugol

On 4 January 2011 the Group entered an agreement with the State Property Fund of Ukraine to lease the integrated property complex of the State Enterprise Dobropolyeugol ('Dobropolyeugol').

Dobropolyeugol comprises five coal mines in the Donetsk region. The lease term is 49 years which substantially covers most of the economic life of the coal reserves and, accordingly, the Group assumed all the risks and rewards of the coal produced by Dobropolyeugol. In addition, the Group assumed all current and non-current assets and liabilities of Dobropolyeugol. Accordingly, the Group assumed all rights and risks associated with the coal produced by Dobropolyeugol after the entering to the lease agreement. This transaction has been recorded as a business combination following purchase accounting principles.

The lease agreement requires the Group to pay a monthly rental fee of UAH 7 million for the first month with all subsequent monthly payments being adjusted for the consumer price index ("CPI") in Ukraine. DTEK recognised the net present value of future rental payments as a deferred consideration totalling UAH 909 million using CPI assumption of 7% per annum for the next five years and 5% per annum there after and a discount rate of 16.56%

As at 30 June 2012, the Group is committed to fund an investment program of the property complex totalling UAH 1,360 million till 2015.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. Fair values of defined benefit obligations were determined by independent actuary. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia

Property, plant and equipment, including mineral reserves	2,134
Intangible assets	32
Deferred income tax asset	168
Inventories	43
Trade and other receivables	38
Other non-current liabilities – restructured taxes payable	(153)
Borrowings	(160)
Retirement benefit obligations	(511)
Asset retirement provision	(8)
Trade and other payables	(598)
Other provisions for liabilities and charges	(76)
Fair value of 100% of net assets acquired	**909**
Fair value of deferred consideration payable	**909**

Revenue and net loss of Dobropolyeugol included in the consolidated income statement for the year ended 31 December 2011 from the date of acquisition totalled UAH 580 million and UAH 183 million, respectively. If the acquisition had been completed on 1 January 2011, the revenues and net profit of the Group would not have changed significantly.

20 Business combinations (Continued)

Acquisitions during 2011 - Rovenkiantracyte and Sverdlovantracyte

On 1 December 2011, the Group entered two agreements with the State Property Fund of Ukraine for concession of the integrated property complex of the State Enterprise Rovenkiantracyte ('Rovenkiantracyte') and State Enterprise Sverdlovantracyte ('Sverdlovantracyte').

Rovenkiantracyte comprises six coal mines and Sverdlovantracyte comprises five coal mines located in the Lugansk region of Ukraine. The concession term is 49 years which substantially covers most of the economic life of the coal reserves. In addition, the Group assumed current and non-current assets and liabilities of Rovenkiantracyte and Sverdlovantracyte. The Group assumed all risks and rewards associated with the coal produced by Rovenkiantracyte and Sverdlovantracyte and accordingly this transaction has been recorded as a business combination following acquisition method of accounting.

The agreement requires the Group to pay a quarterly rental fee of UAH 19 million in respect of Rovenkiantracyte and UAH 14 million in respect of Sverdlovantracyte, for the first quarter with all subsequent quarterly payments being adjusted for CPI in Ukraine and decreasing by quarterly depreciation charge that should be reinvested to capital expenditures during the next 5 years. DTEK recognised the net present value of future rental payments as a deferred consideration totalling UAH 557 million and UAH 359 million, respectively using CPI assumption of 7% per annum for the next five years and 5% per annum thereafter and a discount rate of 16.85%. Further, the agreement required the Group to commit to funding Rovenkiantracyte's and Sverdlovantracyte's investment program totalling UAH 2,998 million and UAH 2,729 million, respectively during the period 2012 through 2016. As at 30 June 2012 the commitment totals UAH 2,519 million and UAH 2,426 million respectively. In accordance with the agreements for concession, all movable and immovable properties and property rights of the above companies are encumbered with a tax lien.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. Fair values of defined benefit obligations were determined by an independent actuary. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	**Rovenkiantracyte**	**Sverdlovantracyte**
Property, plant and equipment, including mineral reserves	3,699	2,183
Intangible assets	31	15
Trade and other receivables	146	127
Inventory	113	145
Other non-current liabilities – restructured taxes payable	(456)	(79)
Borrowings	(606)	(437)
Retirement benefit obligations	(860)	(589)
Asset retirement provision	(83)	(153)
Trade and other payables	(732)	(508)
Other current liabilities	(407)	(214)
Deferred income tax liability	(286)	(131)
Fair value of 100% of net assets acquired	**559**	**359**
Fair value of deferred consideration payable	**559**	**359**

Revenue and net loss of Rovenkiantracyte included in the consolidated income statement for the year ended 31 December 2011 from the date of acquisition totalled UAH 200 million and UAH 98 million, respectively. Revenue and net loss of Sverdlovantracyte included in the consolidated income statement for the year ended 31 December 2011 from the date of acquisition totalled UAH 136 million and UAH 63 million, respectively. Since Rovenkiantracyte and Sverdlovantracyte have not produced IFRS financial information for the year ended 31 December 2011, no IFRS values are available for disclosure of impact on the revenues and net profit of the Group, if the acquisition had been completed on 1 January 2011.

20 Business combinations (Continued)

Acquisitions during 2011 - Kyivenergo

On 13 December 2011, the Group acquired 25% of Kyivenergo PJSC ('Kyivenergo') in a State organised privatisation auction for a cash consideration of UAH 451 million taking its cumulative interest to 71.82%.

Kyivenergo is an integrated complex, which generates, transmits and distributes all electricity for Kyiv. It has a monopoly in the Kyiv electricity market. In addition, Kyivenergo also supplies the majority of heat consumed in Kyiv.

The investment in Kyivenergo held prior to the acquisition was accounted for as investment in associate. As a result of the revaluation of the previously held interest to fair value at the date of acquisition, a UAH 334 million loss was recognised in the income statement.

The following table summarises the fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

In millions of Ukrainian Hryvnia	
Property, plant and equipment	3,130
Intangible assets	3
Deferred income tax asset	132
Available for sale investments	15
Inventories	173
Trade and other receivables (gross UAH 3,632 million)	1,897
Cash and cash equivalents	497
Borrowings	(680)
Retirement benefit obligations	(97)
Long-term accounts payable	(170)
Trade and other payables	(3,122)
Prepayments received	(497)
Provisions for other liabilities and charges	(163)
Fair value of 100% of net assets acquired	**1,118**
28.18% non-controlling interest	**(315)**
Share of net assets acquired	**803**
Purchase consideration:	**1,286**
Fair value of consideration paid	451
Fair value of previously held interest	835
Goodwill	**483**
Cash inflow on acquisition of subsidiary	
Cash and cash equivalents of the subsidiary	497
Consideration paid for acquisition of subsidiary	(451)
Net inflow of cash on acquisition of subsidiary	46

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

Goodwill has been computed as the difference between the net assets acquired and the consideration payable and is due to the expected synergies from the benefits as a result of increased revenues, and business growth by receiving more competitive position when combining Kyivenergo network with the existing distribution business of the Group.

Revenue and net loss of Kyivenergo included in the consolidated income statement for the year ended 31 December 2011 from the date of acquisition totaled UAH 868 million and UAH 142 million, respectively. If the acquisition had been completed on 1 January 2011, the revenues of the Group for the year ended 31 December 2011 would be approximately UAH 9,982 million higher and net profit of the Group would be approximately UAH 1,054 million lower.

21 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 interim condensed consolidated 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 special purpose financial statements as at 31 December 2011.

There have been no changes in the risk management department 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.

22 Fair Value of Financial Instruments

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2012:

In millions of Ukrainian Hryvnia	Fair value by measurement method: Quoted price in active market	Fair value by measurement method: Valuation technique with observable market inputs	Total fair value	Carrying value
FINANCIAL ASSETS				
Cash and cash equivalents				
- Bank balances payable on demand	-	3,824	3,824	3,824
- Term deposits	-	839	839	839
Trade and other receivables (Note 9)				
- Trade receivables	-	8,186	8,186	8,186
- Receivables under commission agreements	-	63	63	63
- Other financial receivables	-	206	206	206
Other non-current assets				
- Trade and other receivables - non-current	-	69	69	69
Financial investments (Note 8)				
- Securities quoted on Ukrainian stock market	51	-	51	51
- Restricted cash	-	139	139	139
- Deposits placed with the maturity more than three months	-	291	291	291
- Loans receivable	-	48	48	48
TOTAL FINANCIAL ASSETS	**51**	**13,665**	**13,716**	**13,716**
FINANCIAL LIABILITIES				
Liability to non-controlling participants	-	12	12	12
Borrowings (Note 11)	-	13,525	13,525	13,352
Eurobonds (Note 11)	3,890	-	3,890	3,931
Other financial liabilities (Note 12)	-	4,517	4,517	4,682
Restructured obligations	-	1,103	1,103	1,103
Trade and other payables	-	9,211	9,211	9,211
TOTAL FINANCIAL LIABILITIES	**3,890**	**28,368**	**32,258**	**32,291**

22 Fair Value of Financial Instruments (Continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2011:

In millions of Ukrainian Hryvnia	Fair value by measurement method: Quoted price in active market	Fair value by measurement method: Valuation technique with observable market inputs	Total fair value	Carrying value
FINANCIAL ASSETS				
Cash and cash equivalents				
- Bank balances payable on demand	-	4,922	4,922	4,922
- Term deposits	-	5,504	5,504	5,504
Trade and other receivables (Note 9)				
- Trade receivables	-	3,070	3,070	3,070
- Receivables under commission agreements	-	45	45	45
- Other financial receivables	-	227	227	227
Other non-current assets				
- Trade and other receivables - non-current	-	137	137	137
Financial investments (Note 8)				
- Securities quoted on Ukrainian stock market	71	-	71	71
- Prepayment for shares	-	355	355	355
- Deposits placed with the maturity more than three months	-	275	275	275
- Loans receivable	-	190	190	190
TOTAL FINANCIAL ASSETS	**71**	**14,725**	**14,796**	**14,796**
FINANCIAL LIABILITIES				
Liability to non-controlling participants	-	4	4	4
Borrowings (Note 11)	-	10,977	10,977	11,162
Eurobonds (Note 11)	3,670	-	3,670	3,920
Other financial liabilities (Note 12)	-	2,565	2,565	2,565
Restructured obligations	-	803	803	803
Trade and other payables	-	4,700	4,700	4,700
TOTAL FINANCIAL LIABILITIES	**3,670**	**19,049**	**22,719**	**23,154**

In 2012 there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities.