

**DTEK Energy B.V.**

Abbreviated IFRS Consolidated Financial Statements

**31 December 2015**

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Independent auditor's report

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## ***Independent auditor's report***

To: the management board of DTEK Energy B.V.

The accompanying summary financial statements, which comprise the summary consolidated balance sheet, the summary consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of DTEK Energy B.V. for the year 2015. We expressed an unqualified audit opinion on those financial statements in our report dated 14 March 2016. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of DTEK Energy B.V.

### ***Management board's responsibility***

The management board is responsible for the preparation of a summary of the audited financial statements.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the condensed financial statements and the related explanatory notes based on our procedures, which we conducted in accordance with Dutch Law, including the Dutch Standard 810 'Engagements to report on summary financial statements'.

### ***Opinion***

In our opinion, the summary financial statements derived from the audited financial statements of DTEK Energy B.V. for the year 2015 are consistent, in all material respects, with those financial statements.

### ***Material uncertainty related to going-concern***

We draw your attention to the paragraph 'going concern' as included in Note 3 to the consolidated 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 Company's lenders the ability to legally require repayment of the respective debt on demand, also refer to Note 19 to the consolidated financial statements. As a consequence, in order for the Company to achieve its positive cash flow estimates for periods throughout 2016 and the first six months of 2017, the Company 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 opinion is not modified in respect of this matter.

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*Emphasis of matter – Uncertainties in the financial statements with respect to the political and economic uncertainties in Ukraine*

We draw your attention to Note 2 and Note 4 of the consolidated 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, trade and other receivables and goodwill under impairment testing, as disclosed in Note 4. Our opinion is not modified in respect of this matter.

Amsterdam, 14 March 2016  
PricewaterhouseCoopers Accountants N.V.

P.C. Dams RA

**DTEK Energy B.V.**  
**Abbreviated Consolidated Balance Sheet**

	Note	31 December 2015	31 December 2014
<i>In millions of Ukrainian Hryvnia</i>			
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	68,191	60,862
Intangible assets	10	1,704	1,873
Goodwill	11	4,384	4,520
Financial investments	12	8,899	5,943
Income tax prepaid		49	603
Deferred income tax asset	32	608	1,057
Trade and other receivables	14	246	1,225
<b>Total non-current assets</b>		<b>84,081</b>	<b>76,083</b>
<b>Current assets</b>			
Inventories	13	6,364	5,025
Trade and other receivables	14	16,017	13,113
Current income tax		454	697
Financial investments	12	2,404	3,727
Cash and cash equivalents	15	706	8,088
<b>Total current assets</b>		<b>25,945</b>	<b>30,650</b>
<b>TOTAL ASSETS</b>		<b>110,026</b>	<b>106,733</b>
<b>EQUITY</b>			
Share capital	17	0	0
Share premium		9,909	9,909
Other reserves	18	20,900	6,517
Accumulated deficit		(29,237)	(2,519)
<b>Equity attributable to owners of the parent</b>		<b>1,572</b>	<b>13,907</b>
<b>Non-controlling interest in equity</b>	6	<b>3,959</b>	<b>5,685</b>
<b>TOTAL EQUITY</b>		<b>5,531</b>	<b>19,592</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Liability to non-controlling participants		-	7
Borrowings	19	21,221	15,379
Other financial liabilities	20	5,358	6,723
Retirement benefit obligations	21	5,389	4,969
Provisions for other liabilities and charges	22	1,375	695
Deferred income tax liability	32	3,747	1,276
<b>Total non-current liabilities</b>		<b>37,090</b>	<b>29,049</b>
<b>Current liabilities</b>			
Borrowings	19	36,727	32,586
Other financial liabilities	20	6,319	7,168
Prepayments received		5,345	3,292
Trade and other payables	23	15,414	13,137
Current income tax payable		1,159	406
Other taxes payable	24	2,441	1,503
<b>Total current liabilities</b>		<b>67,405</b>	<b>58,092</b>
<b>TOTAL LIABILITIES</b>		<b>104,495</b>	<b>87,141</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>110,026</b>	<b>106,733</b>
Signed by entire Management Board on 14 March 2016		Approved for issue and signed by entire Supervisory Board on 14 March 2016	
DTEK Management B.V. Director		Oleg Popov	
SCM Management B.V. Director		Sergey Korovin	
		Irina Mykh	
		Robert Sheppard	
		Damir Akhmetov	
		Catherine Stalker	
		Johan Bastin	

**DTEK Energy B.V.**  
**Abbreviated Consolidated Income Statement**

<i>In millions of Ukrainian Hryvnia</i>	<b>Note</b>	<b>2015</b>	<b>2014</b>
Revenue	25	92,714	90,716
Heat tariff compensation	25	908	1,230
Cost of sales	26	(88,332)	(81,147)
<b>Gross profit</b>		<b>5,290</b>	<b>10,799</b>
Other operating income	27	461	383
Distribution costs	28	(1,256)	(1,384)
General and administrative expenses	29	(2,343)	(2,196)
Other operating expenses	30	(7,925)	(2,751)
Net operating foreign exchange (loss)/gain		(130)	2,050
Loss of control over subsidiary	2	(1,470)	-
Impairment of property, plant and equipment and goodwill	9,11	(5,336)	(883)
Impairment of investments		-	(291)
<b>Operating (loss)/profit</b>		<b>(12,709)</b>	<b>5,727</b>
Foreign exchange losses less gains on financing and investing activities		(13,146)	(12,225)
Finance income	31	3,543	2,204
Finance costs	31	(13,571)	(12,862)
<b>Loss before income tax</b>		<b>(35,883)</b>	<b>(17,156)</b>
Income tax benefit	32	149	754
<b>Loss for the year from continuing operations</b>		<b>(35,734)</b>	<b>(16,402)</b>
<b>Discontinued operations</b>			
Loss for the year from discontinued operations	16	(1,665)	(3,246)
<b>Loss for the year</b>		<b>(37,399)</b>	<b>(19,648)</b>
<b>(Loss)/profit is attributable to:</b>			
Equity holders of the Company		(33,214)	(20,010)
Non-controlling interest		(4,185)	362

**Consolidated Statement of Comprehensive Income**

<i>In millions of Ukrainian Hryvnia</i>	<b>Note</b>	<b>2015</b>	<b>2014</b>
Loss for the period		(37,399)	(19,648)
<b>Items that may be reclassified to profit or loss:</b>			
Effective portion of change in the fair value of cash flow hedges	18	-	(471)
Recycling of cash flow hedge reserve to income statement		1,787	(2,451)
Currency translation reserve	18	836	515
Reclassification adjustment in relation to currency translation reserve of subsidiary where control was lost		135	-
<b>Items that will not be reclassified to profit or loss:</b>			
Property, plant and equipment:			
- Change in estimate for asset retirement obligation	18	(443)	21
- Income tax recorded on change in estimate for asset retirement obligation	32	80	(3)
- Increase in valuation of property, plant and equipment	9	34,279	9,873
- Decrease in valuation of property, plant and equipment	9	(10,936)	-
- Income tax recorded on revaluation of property, plant and equipment	32	(4,202)	(1,780)
Re-measurements of post-employment benefit obligations	18, 21	(289)	359
Income tax recorded on re-measurements of post-employment benefit obligations	32	55	(65)
<b>Other comprehensive income for the year</b>	18	<b>21,302</b>	<b>5,998</b>
<b>Total comprehensive loss for the period</b>		<b>(16,097)</b>	<b>(13,650)</b>
<b>Total comprehensive loss attributable to:</b>			
Equity holders of the Company		(14,286)	(14,579)
Non-controlling interest		(1,811)	929
<b>Total comprehensive loss for the period</b>		<b>(16,097)</b>	<b>(13,650)</b>
<b>Total comprehensive loss attributable to Equity holders of the Company from:</b>			
- Continuing operations		(12,621)	(12,464)
- Discontinued operations	16	(1,665)	(2,115)
<b>Total comprehensive loss attributable to Equity holders of the Company</b>		<b>(14,286)</b>	<b>(14,579)</b>

**DTEK Energy B.V.**  
**Abbreviated Consolidated Statement of Changes in Equity**

	Attributable to equity holders of the Company					Non-controlling interest	Total Equity
	Share capital	Share premium	Other reserves	Retained earnings/ (Accumulated Deficit)	Total		
<i>In millions of Ukrainian Hryvnia</i>							
<b>Balance at 31 December 2013</b>	<b>0</b>	<b>9,909</b>	<b>1,118</b>	<b>14,146</b>	<b>25,173</b>	<b>8,979</b>	<b>34,152</b>
(Loss)/profit for 2014	-	-	-	(20,010)	(20,010)	362	(19,648)
Other comprehensive income for 2014 (Note 18)	-	-	5,141	290	5,431	567	5,998
<b>Total comprehensive income/(loss) for 2014</b>	<b>-</b>	<b>-</b>	<b>5,141</b>	<b>(19,720)</b>	<b>(14,579)</b>	<b>929</b>	<b>(13,650)</b>
Property, plant and equipment:							
- Realised revaluation reserve (Note 18)	-	-	(1,562)	1,562	-	-	-
- Deferred tax related to realised revaluation reserve	-	-	234	(234)	-	-	-
Demerger of subsidiaries (Note 16)	-	-	1,586	1,727	3,313	(3,950)	(637)
Dividends declared	-	-	-	-	-	(273)	(273)
<b>Balance at 31 December 2014</b>	<b>0</b>	<b>9,909</b>	<b>6,517</b>	<b>(2,519)</b>	<b>13,907</b>	<b>5,685</b>	<b>19,592</b>
Loss for 2015	-	-	-	(33,214)	(33,214)	(4,185)	(37,399)
Other comprehensive income for 2015 (Note 18)	-	-	19,146	(218)	18,928	2,374	21,302
<b>Total comprehensive income/(loss) for 2015</b>	<b>-</b>	<b>-</b>	<b>19,146</b>	<b>(33,432)</b>	<b>(14,286)</b>	<b>(1,811)</b>	<b>(16,097)</b>
Property, plant and equipment:							
- Realised revaluation reserve (Note 18)	-	-	(3,718)	3,718	-	-	-
- Deferred tax related to realised revaluation reserve	-	-	600	(600)	-	-	-
Demerger of subsidiaries (Note 16)	-	-	(1,645)	3,695	2,050	-	2,050
Loss of control over subsidiary	-	-	-	(99)	(99)	99	-
Dividends declared	-	-	-	-	-	(14)	(14)
<b>Balance at 31 December 2015</b>	<b>0</b>	<b>9,909</b>	<b>20,900</b>	<b>(29,237)</b>	<b>1,572</b>	<b>3,959</b>	<b>5,531</b>

**DTEK Energy B.V.**  
**Abbreviated Consolidated Statement of Cash Flows**

<i>In millions of Ukrainian Hryvnia</i>	<b>Note</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>			
Loss before income tax from continuing and discontinued operations		<b>(37,913)</b>	<b>(20,553)</b>
Adjustments for:			
Depreciation and impairment of property, plant and equipment and amortisation of intangible assets	10,11	13,794	8,267
Losses less gains on disposals of property, plant and equipment		80	1
Assets received free of charge	27	(23)	(121)
Net change in provision for trade and other receivables and prepayments made	30	3,385	527
Change in provisions for other liabilities and charges		79	-
Non-cash operating charge to retirement benefit obligation	21	(65)	149
Extinguishment of accounts payable	27	(31)	(45)
Impairment of goodwill	11	136	43
Impairment of advances for investments		-	291
Unrealised foreign exchange (gain)/loss on operating activity		625	(739)
Foreign exchange losses less gains on financing and investing activities		15,274	15,824
Finance costs, net	31	10,062	10,841
Loss of control over subsidiary	2	1,470	-
<b>Operating cash flows before working capital changes</b>		<b>6,873</b>	<b>14,485</b>
<b>Changes in:</b>			
Trade and other receivables		(3,165)	(2,148)
Inventories		(1,344)	(743)
Prepayments received		2,096	(726)
Trade and other payables		2,481	3,225
Repayment of restructured obligations		(1,120)	(149)
Other financial liabilities		(1,413)	748
Other taxes payable and tax provision, other than income tax		572	(496)
<b>Cash generated from operations</b>		<b>4,980</b>	<b>14,196</b>
Income taxes paid		286	(1,339)
Defined employee benefits paid	21	(517)	(617)
Interest paid		(4,799)	(3,409)
Interest received		532	555
Provisions utilised	22	(17)	(15)
<b>Net cash generated from operating activities</b>		<b>465</b>	<b>9,371</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(3,730)	(6,610)
Withdrawal of restricted cash, net of cash pooling		315	49
Capitalised borrowings cost paid	9	(70)	(53)
Finance lease payments		(40)	(27)
Deposits placed, net of cash pooling		(2)	(2,926)
Repayment of deposits, net of cash pooling		-	95
Repayment of loans granted to related party		1,600	-
Demerger of subsidiary, net of cash demerged	16	424	270
Loans provided to related party		-	467
Cash disposed as a result of loss of control		(246)	-
Deferred consideration related to acquisitions paid		(154)	(104)
<b>Net cash used in investing activities</b>		<b>(1,903)</b>	<b>(8,839)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings, net of cash pooling		2,355	33,484
Repayment of borrowings, net of cash pooling		(4,120)	(33,906)
Loans obtained from related party		-	580
Repayment of loan from related party		(1,466)	-
Dividends paid to non-controlling participants		(18)	(273)
<b>Net cash used in financing activities</b>		<b>(3,249)</b>	<b>(115)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(4,687)</b>	<b>417</b>
<b>Cash and cash equivalents at the beginning of the year</b>	15	5,371	4,870
Exchange gains on cash and cash equivalents		6	84
<b>Cash and cash equivalents at the end of the year</b>	<b>15</b>	<b>690</b>	<b>5,371</b>



## 1 The Organisation and its Operations

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 8. At 19 of September 2014 the Company’s immediate parent has changed; the new parent is DTEK B.V.

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 and Kyiv regions, and the City of Kyiv in Ukraine, and Rostov region of Russian Federation. The Group sells all, with the exception of the non-controlled territory (see Note 2), 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. The principal subsidiaries are presented below:

Name/Segment	% interest held as at 31 December		Country of incorporation
	2015	2014	
<b>Coal mining and power generation</b>			
DTEK Pavlogradugol PJSC	99.92	99.92	Ukraine
DTEK Mine Komsomolets Donbassa PJSC	95.31	95.31	Ukraine
DTEK Dobropolskaya CEP PJSC	60.06	60.06	Ukraine
DTEK Oktyabrskaya CEP PJSC	60.85	60.85	Ukraine
Bilozerska Mine ALC	95.44	95.44	Ukraine
Mospino CPE LLC	99.00	99.00	Ukraine
Pershotravensky RMZ LLC	99.00	99.00	Ukraine
Tehrempostavka LLC	100.00	100.00	Ukraine
CCM Kurahovskaya LLC	99.00	99.00	Ukraine
CCM Pavlogradskaya LLC	99.00	99.00	Ukraine
DTEK Dobropolyeugol LLC	100.00	100.00	Ukraine
DTEK Rovenkiantracyte LLC	100.00	100.00	Ukraine
DTEK Sverdlovantracyte LLC	100.00	100.00	Ukraine
Public company Don-Anthracite	100.00	100.00	Russian Federation
Public Mining Corporation Obukhovskaya	100.00	100.00	Russian Federation
Sulinathracite LLC	100.00	100.00	Russian Federation
DTEK Dniproenergo PJSC	73.54	73.54	Ukraine
DTEK Zakhidenergo PJSC	72.24	72.24	Ukraine
DTEK Skhidenergo LLC	100.00	100.00	Ukraine
DTEK Hungary Power Trade LLC	100.00	100.00	Hungary
DTEK Trading Limited	100.00	100.00	Cyprus
DTEK Trading SA	100.00	100.00	Switzerland
Power Trade LLC	100.00	100.00	Ukraine
Interenergoservis LLC	99.00	99.00	Ukraine
DTEK Scientific and Project Centre LLC	100.00	100.00	Ukraine
DTEK Trading LLC	100.00	100.00	Ukraine
<b>Electricity distribution</b>			
DTEK Energougol ENE PJSC	95.19	95.19	Ukraine
DTEK Donetskoblenergo PJSC	71.35	71.35	Ukraine
DTEK Power Grid LLC	100.00	100.00	Ukraine
DTEK Dniprooblenergo PJSC	51.66	51.66	Ukraine
DTEK Krymenergo PJSC	57.70	57.70	Ukraine
<b>Kyivenergo PJSC</b>	72.39	72.39	Ukraine
<b>Renewable power generation</b>			
Wind Power LLC	-	100.00	Ukraine
<b>Other</b>			
DTEK Finance B.V.	100.00	100.00	Netherlands
DTEK Finance PLC	100.00	100.00	United Kingdom
DTEK Investments Ltd	100.00	100.00	United Kingdom
DTEK Holdings Limited	100.00	100.00	Cyprus
DTEK Servis LLC	99.00	99.00	Ukraine
DTEK LLC	100.00	100.00	Ukraine
Sotsis LLC	99.00	99.00	Ukraine
Elektronaladka LLC	99.00	99.00	Ukraine

## **1 The Organisation and its Operations (Continued)**

The Company is registered at Schiphol Boulevard 231 Tower B, 5<sup>th</sup> floor, 1118BH, Luchthaven Schiphol, the Netherlands. The address of Ukrainian's head office is 57 Lva Tolstogo str, 01032 Kyiv Ukraine.

As at 31 December 2015, the Group employed approximately 117 thousand people (31 December 2014: 128 thousand people).

In 2013 the Group initiated a reorganisation project aimed to separate the strategic functions (such as development of new businesses) from operational functions. According to the project, strategic functions should be concentrated on the level of strategic holding (DTEK BV) and the operational functions – on the level of three subholdings: DTEK Energy, DTEK Oil&Gas and DTEK Renewables. On 18 December 2013 the Supervisory board of DTEK Holdings B.V., approved the reorganisation plan. As at 31 December 2014, the Group has separated following companies: DTEK Oil&Gas BV, Naftogazvydobuvania PrJSC and DTEK Neftegaz LLC - into the Oil and gas holding, and DTEK Renewables BV, Orlovskaya WEP LLC and Primorskaya WEP LLC - into the Renewable energy holding, under control of the new Parent – DTEK BV. On 9 March 2015 the Group has finalised transfer of Wind Power LLC to DTEK Renewables BV.

## **2 Operating Environment of the Group**

The recent political and economic instability in Ukraine has continued in 2015 and 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.

In March 2014 various events in Crimea led to the annexation of Crimea to the Russian Federation. The Group had an electricity distribution business in Crimea and this was expropriated by the local authorities in January 2015, resulting in a loss of UAH 1,470 million recorded in the consolidated income statement as "Loss of control over subsidiary". Gross amount of assets and liabilities derecognised was UAH 1,888 million and UAH 546 million, respectively (Note 9, Note 14, Note 15, Note 20 and Note 23). Management analysed legal obligations of the Crimea branch and continued to carry in its balance sheet only the liabilities that they have legal obligation for. Cumulative amount of the exchange differences relating to DTEK Krymenergo PJSC, which was previously recognised in other comprehensive income in the amount of UAH 135 million was reclassified from equity to profit or loss.

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 18% of total property, plant and equipment, 9% of revenue and 10% of trade receivables) and three of the six electricity distribution companies (representing 3% of total property, plant and equipment, 14% of revenue and 15% of trade receivables). While there has been no significant damage to the Group's assets as a result of military action, from mid 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 oversees 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 (in particular, for the year ended 2015, electricity production of four power plants located in, or near to, the conflict regions, has decreased by 23% compared with the respective twelve months period ended 31 December 2014). Further, the situation has impacted the ability of some customers to pay resulting in increased allowance for impairment 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.

The political and economic instability have had an adverse effect on the Ukrainian financial markets, resulting in a hampering of ability of Ukrainian companies and banks to obtain funding from the international capital and loan markets. This has contributed to a significant devaluation of the Hryvnya against major currencies.

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

The government during 2015 have been more assertive in their attempts to regulate the energy sector through the setting of tariffs, increased use of nuclear, and regulating gas deliveries. During 2015, a government regulation was introduced restricting the export of anthracite coal. Such restriction was partially lifted as of 1 January 2016, allowing the export of steel grade anthracite coal.

## **2 Operating Environment of the Group (Continued)**

As at the date of this report the official exchange rate of Hryvnia against US dollar was UAH 26.02 per USD 1, compared to UAH 24.00 per USD 1 as at 31 December 2015 (31 December 2014: UAH 15.77 per USD 1). To constrain further devaluation of Hryvnia the National Bank of Ukraine has imposed a number of restrictions on operations with foreign currency including: a temporary ban on payment of dividends in foreign currency; a temporary ban on early repayment of debts to non-residents; mandatory sale of 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 2016 and the current restrictions are effective until 8 June 2016. As of 31 December 2015, the amount of undistributable retained earnings of the Group's Ukrainian subsidiaries was UAH 10,230 million.

Devaluation of the national currency created pressure on consumer price index. The official inflation rate in Ukraine for 2015 reached 43.3%.

On 11 March 2015 the IMF Executive Board approved a four-year Extended Fund Facility ("EFF") programme for Ukraine exceeding USD 17 billion. During 2015 Ukraine obtained first and second tranches in accordance with the programme in the amount of USD 5 billion and USD 1.7 billion, respectively. In October 2015, Ukraine reached an agreement with the majority of its creditors for restructuring of part of the national external debt in the amount of USD 15 billion. The restructuring pushes out maturities of restructured debt to 2019-2027, fixing annual interest rate at the level of 7.75% and includes exchange of 20% of the debt into GDP warrants at par value of USD 2.9 billion. There remains a significant portion of debt for which a restructuring has not been agreed to.

After reaching the above restructuring agreement on external debt with the majority of its creditors, the credit rating of Ukraine has improved.

Further disbursements of IMF tranches depend on the implementation of Ukrainian government reforms, and other economic, legal and political factors.

As of 31 December 2015, the Group had significant balances receivable from and prepayments made to the State and entities dependant on the government financing, including prepaid income taxes of UAH 503 million, net VAT recoverable of UAH 903 million and receivables from Energorynok SE and various water and heat supply companies of UAH 5,111 million and UAH 1,912 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 area not controlled by Ukraine government, the ability and willingness of the Ukraine government to provide financing to these regions and amounts of future taxable profits of Group's subsidiaries. After the balance sheet date UAH 1,419 million from Energorynok SE amounts were settled.

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.

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 Group's business.

## **3 Summary of Significant Accounting Policies**

**Basis of preparation.** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union using the historical cost convention, as modified by the revaluation of property, plant and equipment (revaluation model under IAS 16 *Property, plant and equipment*), and certain financial instruments measured in accordance with the requirements of IAS 39 *Financial instruments: recognition and measurement*. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

**Going concern.** As of 31 December 2014 the Group had Ukrainian Hryvnia (UAH) 47,965 million of borrowings denominated primarily in foreign currencies, these being: US Dollars (UAH 22,695 million, or 47%); Euros (UAH 12,111 million, or 25%); Russian Roubles (UAH 8,920 million, or 19%); and UAH (UAH 4,239 million, or 9%). As discussed in Note 2, the UAH has devalued significantly during 2015, resulting in devaluations of 52% against the US Dollar, 36% against the Euro and 9% against the Russian Rouble. After the year end the UAH has continued to decline against these currencies.

The Group's business is concentrated in Ukraine, the majority of its revenue is generated in Ukraine and denominated in UAH (2015: 94%, 2014: 90%), although the Group receives foreign currencies from its export of electricity and coal. The vast majority of the Group's borrowings have financial and non-financial covenants. Further, the majority of these borrowings have cross default clauses allowing lenders to demand repayment when covenants have been breached with respect to other loans above de-minimus amounts.

Due to significant UAH devaluation during 2015 management commenced discussions with lenders on both a bi-lateral and an all-party basis. However, the Group did not finalise its discussions and did not obtain a binding agreement to extend the terms from all impacted lenders. See further discussion of this in Note 19.

### **3 Summary of Significant Accounting Policies (Continued)**

As of 31 December 2015 a number of financial covenants were breached. During January to June 2015 the Group paid due interest and repaid 10% of principal payments while deferring substantial portions of principal amounts. Further, starting from 1 July 2015, after respective discussions with the lenders, the Group has not paid the principal installments but continued to pay interest until October. After October 2015 the Group did not pay any interest or principal, with some minor exceptions.

Management has prepared monthly cash flow projections for periods throughout 2016 and the first six months of 2017. Judgments with regard to future electricity prices, coal volumes, willingness of lenders not to require early repayments and the timing of settlements with various counterparties were required for the preparation of the cash flow projections. Positive overall cash flows (indicating that there is no liquidity gap in any month) are 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. Consequently, no significant repayments of debts are included in the cash flow projections. Additionally, the following matters are of importance: electricity tariffs increasing to offset the impact of cost inflation; payment discipline of Energorynok SE; stabilisation of the UAH; the ability of the Group to export coal and electricity; and continuation of ceasefire and reduced tensions in the East of Ukraine to allow the movement of coal from mines located in the region.

Despite the results of the forecasted cash flows the Group is nevertheless unable to wholly repay during 2016 or 2017 the amount of borrowing classified as current liabilities. Management remains in discussions with its lenders but, 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 interest, the debt restructuring, other factors outlined above and based on cash flow projections performed and an expected positive outcome from the discussions with its lenders, management considers that the application of the going concern assumption for the preparation of these consolidated financial statements is appropriate.

**Use of estimates.** The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas, involving a high degree of judgement, complexity, or areas where assumptions and estimations are significant to the financial statements are disclosed in Note 4.

**Functional and presentation currency.** Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The consolidated financial statements are presented in Ukrainian Hryvnia ("UAH"), which is the Company's functional and the Group's presentation currency.

Transactions denominated in currencies other than the relevant functional currency are translated into the functional currency, using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses, resulting from settlement of such transactions and from the translation of foreign currency denominated monetary assets and liabilities at year end, are recognised in the income statement. Translation at year end does not apply to non-monetary items including equity investments. The effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

**Foreign exchange differences classification.** Foreign exchange transaction differences on accounts receivable, accounts payable, cash and cash equivalents and deposits placed are classified in consolidated income statement as "Net operating foreign exchange gains and losses". In addition, a cumulative gain or loss on hedges which relate to operating activity is reclassified in the same line item when a forecast transaction occurs. Transaction differences recognised on other monetary assets and liabilities are classified in consolidated income statement as "Foreign exchange losses less gains on financing and investing activities".

As at 31 December 2015, the exchange rates used for translating foreign currency balances were USD 1 = UAH 24.00 (31 December 2014: USD 1 = UAH 15.77); EUR 1 = UAH 26.22 (31 December 2014: EUR 1 = UAH 19.23); RUB 10 = UAH 3.29 (31 December 2014: RUB 10 = UAH 3.03). Exchange restrictions in Ukraine are limited to compulsory receipt of foreign receivables within 90 days of sales and to the compulsory conversion of 75% of proceeds in foreign currency to Ukrainian Hryvnia. In 2014 the National Bank of Ukraine implemented regulations that required foreign currency receipts to be converted to UAH and prohibited dividend payments for certain legal entities to foreign entities. The restriction was prolonged till 8 June 2016.

### **3 Summary of Significant Accounting Policies (Continued)**

The results and financial position of each consolidated entity are translated into the presentation currency as follows: (i) assets and liabilities for each balance sheet are translated at the closing rate at the date of that balance sheet; (ii) income and expenses for each income statement are translated at monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and (iii) all resulting exchange differences are recognised as a separate component of equity. All the components of consolidated equity are translated at the closing rate of that balance sheet date, except for retained earnings, which is stated at historical rates. The balancing figure goes to cumulative currency translation reserve in other reserves in equity.

**Consolidated financial statements.** Subsidiaries are those companies and other entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

If a subsidiary is acquired in stages it is measured as the sum of the fair value of the interest previously held plus the fair value of any additional consideration transferred as of the date when the investment became an associate. Relative gain or loss from valuation of previously held interest is recognised in the income statement.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**Transactions with non-controlling interests.** The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

**Common control business combinations.** Purchases of subsidiaries from parties under common control are recorded using the predecessor values, in a manner similar to the pooling of interests method. Under this method the financial statements of the entity are presented as if the businesses had been consolidated from the beginning of the earliest period presented (or the date that the entities were first under common control, if later). The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying values. The difference between the consideration given and the aggregate carrying value of the assets and liabilities (as of the date of the transaction) of the acquired entity is recorded as an adjustment to equity. No additional goodwill is created by such purchases.

**Reorganisation.** The Group reorganisation whereby the entities or segments of the Group are demerged as separate legal entities, but remain under common control, are accounted for as follows: assets and liabilities are transferred at the carrying amount along with related fair value adjustments which were recognised on acquisition of such assets. Difference between any consideration received in exchange and the net assets transferred, inclusive of any fair value adjustments is recorded directly in equity. If entities transferred meet the criteria of discontinued operations, the results to the date of transfer and respective comparatives are presented accordingly as a single line in the income statement.

### **3 Summary of Significant Accounting Policies (Continued)**

**Investments in associates.** Associates are entities over which the Group has significant influence but not control, generally presumed for shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognised in the income statement.

**Segment reporting.** Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. Reportable segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. Segments falling below this threshold can be reported separately at management decision.

**Property, plant and equipment.** The Group uses the revaluation model to measure property, plant and equipment. Fair value was based on valuations by external independent valuers. The frequency of revaluation will depend upon the movements in the fair values of the assets being revalued. Subsequent additions to property plant and equipment are recorded at cost. Cost includes expenditure directly attributable to acquisition of the items. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost of acquired and self-constructed qualifying assets includes borrowing costs.

Any increase in the carrying amounts resulting from revaluation are credited to other reserves in equity through other comprehensive income. Decreases that offset previously recognised increases of the same asset are charged against other reserves in equity through other comprehensive income; all other decreases are charged to the income statement. However, to the extent that an impairment loss on the same revalued asset was previously recognised in the income statement, a reversal of that impairment loss is also recognised in the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from other reserves to retained earnings. When an item of property, plant and equipment is revalued the accumulated depreciation is eliminated against the gross carrying amount of the asset.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the replaced component being written off. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from the continued use of the asset. Gains and losses on disposals determined by comparing proceeds with carrying amount of property, plant and equipment are recognised in the consolidated income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

**Depreciation.** Depreciation is charged to the consolidated income statement on a straight-line basis to allocate costs of individual assets to their residual value over their estimated useful lives. Depreciation commences on the date of acquisition or, in respect of self-constructed assets, from the time an asset is completed and ready for use.

Mining assets include mineral licences and mineral reserves, which were acquired by the Group and which have finite useful lives. Mineral licenses and mineral reserves are stated at cost less accumulated amortisation and accumulated impairment losses. Mining assets are amortised on a straight-line basis over the estimated useful life.

Other property, plant and equipment are depreciated on a straight line basis over its expected useful life. The typical useful lives of the group's other property, plant and equipment are as follows:

	<u>Useful lives in years</u>
Mining assets	from 20 to 60
Buildings and structures	from 10 to 50
Plant and machinery	from 2 to 30
Furniture, fittings and equipment	from 2 to 15

### **3 Summary of Significant Accounting Policies (Continued)**

Construction in progress represents the cost of property, plant and equipment, including advances to suppliers, which has not yet been completed. No depreciation is charged on such assets until they are available for use.

**Leases.** Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

**Asset retirement obligations.** According to the Code on Mineral Resources, Land Code of Ukraine, Mining Law, Law on Protection of Land and other legislative documents, the Group is responsible for site restoration and soil rehabilitation upon abandoning of its mines. Estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of an item of property, plant and equipment when the item is acquired, and corresponding obligation is recognised. Changes in the measurement of an existing asset retirement obligation, that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate used for measurement, are recognised in the income statement or, to the extent of any revaluation balance existence in respect of the related asset, other reserves.

Provisions in respect of abandonment and site restoration are evaluated and re-estimated annually, and are included in the consolidated financial statements at each balance sheet date at their expected net present value, using discount rates which reflect the economic environment in which the Group operates.

**Goodwill.** Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is included in intangible assets in the balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business to which the goodwill arose.

**Other intangible assets.** All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software and licenses. Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring them to use. Other intangible assets are carried at cost less accumulated amortisation and impairment losses, if any. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs of disposal. "Burshtyn electricity island" intangible asset has a definite useful life of 13 years and is depreciated on a straight line basis over this period.

**Impairment of non-financial assets.** Intangible assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events and changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost of disposal and value in use. For purposes of assessing impairment, assets are grouped to the lowest levels for which there are separately identifiable cash flows (cash generating unit). Non-financial assets, other than goodwill, that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**Non-current assets (or disposal groups) held for distribution.** Non-current assets (or disposal groups) are classified as assets held for distribution when their carrying amount is to be recovered principally through a sale transaction/contribution of assets to owners and a sale/contribution is considered highly probable. They are stated at the lower of carrying amount and fair value less costs of disposal. The Group grossed up both continuing and discontinued operations, and add a supplementary presentation of intercompany transactions for discontinued operations is made in the notes.

**Discontinued operations.** A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, represents a separate major line of business, and is part of a single coordinated overall plan to dispose of a separate major line of business. The Group records intercompany operations on a gross basis in both continued and discontinued operations. Elimination entries against the discontinued operation is disclosed separately in the Note 16. When an operation is classified as discontinued, the comparative statements of income and cash flows are re-presented as if the operation had been discontinued from the start of the comparative period.

### **3 Summary of Significant Accounting Policies (Continued)**

**Classification of financial assets.** The Group classifies its financial assets into the following measurement categories: (a) loans and receivables; (b) available-for-sale financial assets.

Loans and receivables include financial receivables created by the Group by providing money, goods or services directly to a debtor, other than those receivables which are created with the intention to be sold immediately or in the short term, or which are quoted in an active market. Loans and receivables comprise primarily loans, trade and other accounts receivable including purchased loans and promissory notes. All other financial assets are included in the available-for-sale category.

**Initial recognition of financial instruments.** The Group's principal financial instruments comprise available-for-sale investments, loans and borrowings, cash and cash equivalents and short-term deposits. The Group has various other financial instruments, such as trade debtors and trade creditors, which arise directly from its operations.

Where available-for-sale investments are acquired from parties under the common control of the ultimate shareholder, and the difference between the amount paid to acquire the instrument and its fair value in substance represents a capital contribution or distribution, such difference is recorded as a debit or credit in other reserves in equity.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost, and recognised in equity for assets classified as available-for-sale.

**Subsequent measurement of financial instruments.** Subsequent to initial recognition, the Group's financial liabilities, loans and receivables are measured at amortised cost. Amortised cost is calculated using the effective interest rate method and, for financial assets, it is determined net of any impairment losses. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

The face values of financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, are assumed to be their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity. In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions existing at the balance sheet date.

When available-for-sale assets are sold or otherwise disposed of, the cumulative gain or loss recognised in equity is included in the determination of net profit. When a decline in fair value of available-for-sale assets has been recognised in equity and there is objective evidence that the assets are impaired, the loss recognised in equity is removed and included in the determination of net profit, even though the assets have not been derecognised.

Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement when the Group's right to receive payment is established and the inflow of economic benefits is probable. Impairment losses are recognised in the income statement when incurred as a result of one or more events that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an instrument below its cost is an indicator that it is impaired. The cumulative impairment loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in the income statement, is removed from equity and recognised in the income statement.

Impairment losses on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through current period's income statement.

A provision for impairment of loans and accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered to be indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.



### **3 Summary of Significant Accounting Policies (Continued)**

**Derecognition of financial assets.** The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all the risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

**Gains and losses on loans provided to related parties.** Gains and losses on initial recognition and early repayment as well as unwinding of discount and foreign exchange differences on loans provided to related parties are recognised in consolidated income statements in the period when incurred.

**Derivative financial instruments, including hedge accounting.** The Group enters, from time to time, into various derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk. Starting from 1 January 2013 until 1 July 2014 the Group applied hedge accounting to such transactions.

Derivatives were initially recognised at fair value on the date a derivative contract was entered into and were subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designated certain derivatives as cash flow hedge – hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

The Group documented at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group made an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments were expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge were within a range of 80% - 125%.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 37. Movements on the hedging reserve in other comprehensive income are shown in Note 18. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The effective portion of changes in the fair value of derivatives that were designated and qualify as cash flow hedges was recognised in other comprehensive income. The gain or loss relating to the ineffective portion were recognised immediately in the income statement within "Finance income/costs". Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

Starting from 1 July 2014 management decided to discontinue the hedge accounting application since does not expect the hedge will be highly effective in the future. The cumulative loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective (from 1 January 2013 to 30 June 2014) will remain separately in equity and will be reclassified to profit or loss in the periods when the forecast transaction occurs. Cash flow hedge was discontinued prospectively.

**Income taxes.** Income taxes have been provided for in the financial statements in accordance with Ukrainian, Russian, Hungarian, Dutch, Cypriot, Swiss or UK legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

### **3 Summary of Significant Accounting Policies (Continued)**

Deferred income tax is provided on post acquisition retained earnings and other post-acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

**Inventories.** Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the first in first out basis for raw materials and spare parts, weighted average cost for coal and specific identification principle for goods for resale. The cost of work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

**Trade and other receivables.** Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

**Prepayments.** Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group.

Other prepayments are charged to the income statement when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the income statement.

**Promissory notes.** Some purchases may be settled by promissory notes or bills of exchange, which are negotiable debt instruments. Purchases settled by promissory notes are recognised based on management's estimate of the fair value to be given up in such settlements. The fair value is determined with reference to observable market information.

Long-term promissory notes are issued by Group entities as payment instruments, which carry a fixed date of repayment and which the supplier can sell in the over-the-counter secondary market. Promissory notes issued by the Group are carried at amortised cost using the effective interest method.

Group entities also accept promissory notes from customers (both those issued by customers and third parties) as settlement of accounts receivable. Promissory notes issued by customers or issued by third parties are carried at amortised cost using the effective interest method. A provision for impairment of promissory notes is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

**Cash and cash equivalents.** Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with maturities of three months or less with insignificant change in fair value. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets.

The Group enters into cash pooling arrangements whereby the Group's subsidiary places a deposit and another subsidiary takes a loan in the same bank for the same amount. For the purposes of consolidated cash flow statement movement of such balances is excluded from financing and investing activities.

Amount of cash pledged under cash pooling arrangements is included in restricted cash balance in cash and cash equivalents or in restricted deposits in financial investments depending on maturity. Related loan balance is included in Borrowings in the consolidated balance sheet.

**Share capital.** Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as share premium.

**Dividends.** Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the consolidated financial statements are authorised for issue.

### **3 Summary of Significant Accounting Policies (Continued)**

**Value added tax (“VAT”).** In Ukraine VAT is levied at two rates: 20% on sales and imports of goods within the country, works and services and 0% on the export of goods and provision of works or services to be used outside Ukraine. A taxpayer’s VAT liability equals the total amount of VAT collected within a reporting period, and arises on the earlier of the date of shipping goods to a customer or the date of receiving payment from the customer. A VAT credit is the amount that a taxpayer is entitled to offset against his VAT liability in a reporting period. Rights to VAT credit arise when a VAT invoice is received, which is issued on the earlier of the date of payment to the supplier or the date goods are received. VAT related to sales and purchases is recognised in the consolidated balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

**Borrowings and other financial liabilities.** Borrowings and other financial liabilities are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Bank overdrafts are included into borrowings line item in the consolidated balance sheet.

**Government grants.** Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and that the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets. Government grants relating to an expense item are recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

**Trade and other payables.** Trade and other payables are recognised and initially measured under the policy for financial instruments mentioned above. Subsequently, instruments with a fixed maturity are re-measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any transaction costs and any discount or premium on settlement.

**Prepayments received.** Prepayments received are carried at amounts originally received. Amounts of prepayments received are expected to be realised through the revenue received from usual activity of the Group.

**Provisions for liabilities and charges.** Provisions for liabilities and charges are provisions for environmental restoration, restructuring costs and legal claims which are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

**Contingent assets and liabilities.** A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

**Revenue recognition.** The Group’s generating companies sells all electricity produced by its electricity generation plants to Energorynok SE, a state-owned electricity distribution monopoly, at prices determined based on the competitive pool model adopted by the National Electricity Regulatory Committee of Ukraine (“NERC”). The Group’s distribution companies buy electricity from Energorynok SE and sell it to the end-customers, at prices determined by NERC. Revenue from the sale of electricity is the value of units supplied during the year and includes an estimate of the value of units supplied to customers between the date of their last meter reading and the year end. Revenue from sale of electricity to end customers is recognised on a gross basis.

Revenues from sales of goods are recognised at the point of transfer of risks and rewards associated with ownership of goods. If the goods are transported to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. Revenues are measured at the fair value of consideration received or receivable, and are shown net of value added tax and discounts.

**Recognition of expenses.** Expenses are recorded on an accrual basis. The cost of goods sold comprises the purchase price, transportation costs, commissions relating to supply agreements and other related expenses.

**Finance income and costs.** Finance income and costs comprise interest expense on borrowings, losses on early repayment of loans, interest income on funds invested, income on origination of financial instruments, unwinding of interest of the pension obligation and asset retirement provision, and foreign exchange gains and losses.

Borrowing costs that relate to assets that take a substantial period of time to construct are capitalised as part of the cost of the asset. All other interest and other costs incurred in connection with borrowings are expensed using the effective interest rate method.

Interest income is recognised as it accrues, taking into account the effective yield on the asset.

### **3 Summary of Significant Accounting Policies (Continued)**

**Employee benefits: Defined Contributions Plan.** The Group makes statutory unified social contributions to the Pension Fund of Ukraine in respect of its employees. The contributions are calculated as a percentage of current gross salary, and are expensed when incurred. Discretionary pensions and other post-employment benefits are included in labour costs in the consolidated income statement.

**Employee benefits: Defined Benefit Plan.** Certain entities within the Group participate in a mandatory State defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. The Group also provides lump sum benefits upon retirement subject to certain conditions. The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually by actuaries using the Projected Unit Credit Method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Remeasurement of liability resulting from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Current and past service costs are recognised immediately in the income statement.

### **4 Critical Accounting Estimates and Judgements**

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Impairment of property, plant and equipment and goodwill.** The Group is required to perform impairment tests for its cash-generating units. 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. For detailed analysis of impairment and related sensitivities refer to Notes 9 and 11.

**Revaluation of property, plant and equipment.** On an annual basis management of the Group carries out an analysis to assess whether carrying amounts of items of property, plant and equipment differ materially from that which would be determined using fair value at the end of the reporting period. The analysis is based on price indices, developments in technology, movements in exchange rates since the date of latest revaluation, profitability of underlying businesses and other relevant factors. Where the analysis indicates that the fair values of items of property plant and equipment differ materially from the carrying amounts, further revaluation is performed involving independent valuers.

As most of the Group's property, plant and equipment is of specialised nature, its fair value is determined using depreciated replacement cost (Level 3). As at 1 July 2015, the Group's management decided to carry out the revaluation of property, plant and equipment based on changes in economic conditions of business environment and an increase of the inflation rate. Fair value of property, plant and equipment and remaining useful lives as at 1 July 2015 were determined by an independent appraiser. The carrying value and depreciation of property, plant and equipment are affected by the estimates of depreciated replacement cost and remaining useful life. Changes in these assumptions could have a material impact to the fair value of property, plant and equipment (Note 9).

When performing valuation using these methods, the key estimates and judgments applied by the independent valuers, in discussion with the Group's internal valuation team and technicians, are as follows:

- choice of information sources for construction costs analysis (actual costs recently incurred by the Group, specialised reference materials and handbooks, estimates for cost of construction of various equipment etc.);
- determination of comparatives for replacement cost of certain equipment, as well as corresponding adjustments required to take into account differences in technical characteristics and condition of new and existing equipment;
- selection of market data when determining market value where it is available; and
- determination of applicable cumulative price indices or changes in foreign exchange rates which would most reliably reflect the change in fair value of assets revalued using indexation of carrying amounts.

#### **4 Critical Accounting Estimates and Judgements (Continued)**

The fair values obtained using depreciated replacement cost are validated using discounted cash flow models (income approach, Level 3), and are adjusted if the values obtained using income approach are lower than those obtained using depreciated replacement cost or indexation of carrying amounts (i.e. there is economic obsolescence). Key inputs into discounted cash flow models are consistent with the assumptions used for goodwill impairment testing (Note 11).

The results of this revaluation of property, plant and equipment are disclosed further in Note 9.

Changes in the above estimates and judgments could have a material effect on the fair value of property, plant and equipment, which, however, is impracticable to quantify due to wide variety of assumptions and assets being valued. The estimates used to assess the fair value of property, plant and equipment are impacted by the uncertainty caused by events in Eastern Ukraine, including importantly future planned production (see discussion of operating environment in Note 2).

**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 Donetskoblenenergo 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.

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 1,815 million for the year ended 31 December 2015 (2014: nil).

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 enforceable 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 challenged. The difference between the nominal value and fair value is UAH 821 million.

**Impairment of trade and other accounts receivable.** Management estimates the likelihood of the collection of trade and other accounts receivable 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. Should actual collections be less than management's estimates, the Group would be required to record an additional impairment expense. The estimates used to assessment the impairment (if any) of trade and other accounts receivable for those entities located in Eastern Ukraine are impacted by greater uncertainty than in other areas (see discussion of operating environment in Note 2).

**Post-employment and other employee benefit obligations.** Management assesses post-employment and other employee benefit obligations using the Projected Unit Credit Method based on actuarial assumptions which represent management's best estimates of the variables that will determine the ultimate cost of providing post-employment and other employee benefits. Since the plan is administered by the State, the Group may not have full access to information and therefore assumptions regarding when, or if, an employee takes early retirement, whether the Group would need to fund pensions for ex-employees depending on whether that ex-employee continues working in hazardous conditions, the likelihood of employees transferring from State funded pension employment to Group funded pension employment could all have a significant impact on the pension obligation. The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions.

The major assumptions used in determining the net cost (income) for pensions include the discount rate and expected salary increases. Any changes in these assumptions will impact the carrying amount of pension obligations. Since there are no long-term, high quality corporate bonds issued in Ukrainian Hryvnias, significant judgement is needed in assessing an appropriate discount rate. Key assumptions and sensitivities are presented in Note 21. **Deferred tax asset recognition.** The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the balance sheet. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on historic taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

#### **4 Critical Accounting Estimates and Judgements (Continued)**

**Tax legislation.** Ukrainian tax, currency and customs legislation continues to evolve. Conflicting regulations are subject to varying interpretations. Management believes its interpretations are appropriate and sustainable, but no guarantee can be provided against a challenge from the tax authorities.

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

**Related party transactions.** In the normal course of business the Group enters into transactions with related parties. Judgement is applied in determining if transactions are priced at market or non-market rates, where there is no active market for such transactions.

**Heat tariff compensation received by Kyivenergo JSC.** In accordance with existing legislation, Kyivenergo is entitled to claim heat tariff compensation which is computed as the difference between the heat tariff required to cover all production costs plus reasonable margin and that imposed by the National Electricity Regulatory Committee of Ukraine. Such claims are subject to additional Governmental, Budget and City approvals, prescribed by the state regulations. In October 2012 the Cabinet of Ministers of Ukraine approved Resolution #968 stating that the compensation of the difference between the “economically grounded” tariffs and that imposed by the State should be calculated by the companies entitled to such compensation and approved by the state regularly. Kyivenergo accounts for such heat tariff compensation as government grants and has recorded amounts of compensation receivable on an accrual basis starting from November 2012. The amount of compensation receivable as at 31 December 2015 is UAH 485 million (31 December 2014: nil).

#### **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 consolidated financial statements and have been adopted by European Union are effective for the first time for financial year beginning on or after 1 January 2015 but do not have a material impact on these consolidated financial statements:

- **IFRIC Interpretation 21 Levies** (issued on 20 May 2013 and effective for annual periods beginning on or after 17 June 2014)
- **Annual Improvements to IFRSs 2011–2013 Cycle** (issued on 12 December 2013 and effective for annual periods beginning on or after 1 January 2015)

The following new standards which are relevant to the Group’s consolidated financial statements, have been issued, but have not been adopted by European Union or have not been effective for financial year beginning on or after 1 January 2015:

- **IFRS 15 – Revenue from Contracts with Customers** (issued on 28 May 2014 and effective for annual periods beginning on or after 1 January 2018);
- **IFRS 9, Financial Instruments** (issued on 24 July 2014 and effective for annual periods beginning on or after 1 January 2018).
- **IFRS 16 Leases** (Issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019)
- **Amendments to IAS 27: Equity Method in Separate Financial Statements** (issued on 12 August 2014 and effective for annual periods beginning on or after 1 January 2016)
- **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 IFRSs 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)
- **Amendments to IAS 19: Defined Benefit Plans: Employee Contributions** (issued on 21 November 2013 and effective for annual periods beginning on or after 1 February 2015)
- **Annual Improvements to IFRSs 2010–2012 Cycle** (issued on 12 December 2013 and effective for annual periods beginning on or after 1 February 2015)

The Group is currently assessing the impact of the new standards on its financial statements, however, does not expect them to have significant impact to the consolidated financial statements.

## 6 Subsidiaries with material non-controlling interest

The following table provides information about each subsidiary that has non-controlling interest that is material to the Group:

<i>In millions of Ukrainian Hryvnia</i>	Place of business (and country of incorporation if different)	Proportion of non-controlling interest	Proportion of non-controlling interest's voting rights held	Profit or loss attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year	
<b>Year ended 31 December 2015</b>							
	DTEK Krymenergo PJSC	Ukraine	42,30%	42,30%	(671)	(169)	0
	DTEK Dniprooblenergo PJSC	Ukraine	48,34%	48,34%	(272)	935	9
	DTEK Donetskoblenenergo PJSC	Ukraine	28,50%	28,50%	(1,031)	(770)	1
	Kyivenergo JSC	Ukraine	27,61%	27,61%	(370)	859	7
	DTEK Dniproenergo PJSC	Ukraine	26,46%	26,46%	(1,104)	2,096	1
	DTEK Zakhidenergo PJSC	Ukraine	27,76%	27,76%	(748)	640	0
	<b>Total</b>				<b>(4,196)</b>	<b>3,591</b>	<b>18</b>
<b>Year ended 31 December 2014</b>							
	DTEK Krymenergo PJSC	Ukraine	42,30%	42,30%	(73)	445	0
	DTEK Dniprooblenergo PJSC	Ukraine	48,34%	48,34%	31	754	20
	DTEK Donetskoblenenergo PJSC	Ukraine	28,50%	28,50%	(90)	261	16
	Kyivenergo JSC	Ukraine	27,61%	27,61%	50	1,027	82
	DTEK Dniproenergo PJSC	Ukraine	26,46%	26,46%	(17)	2,009	108
	DTEK Zakhidenergo PJSC	Ukraine	27,76%	27,76%	(55)	1,016	47
	<b>Total</b>				<b>(154)</b>	<b>5,512</b>	<b>273</b>

As disclosed in Note 2, the Group lost control over the Crimea branch of DTEK Krymenergo PJSC in January 2015. Consequently, the company has been derecognised starting from 21 January 2015 and 2015 numbers for DTEK Krymenergo PJSC represent its headoffice's figures. Loss of control over subsidiary in amount of UAH 1,470 million was allocated to DTEK Energy Group and non-controlling interest.

The summarised financial information of these subsidiaries was as follows at 31 December 2015:

<i>In millions of Ukrainian Hryvnia</i>	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit / Loss	Total comprehensive income	Cash flows
<b>Year ended 31 December 2015</b>								
	DTEK Krymenergo PJSC	143	5	548	0	(1,586)	(1,586)	(246)
	DTEK Dniprooblenergo PJSC	1,751	2,797	2,250	364	22,305	395	21
	DTEK Donetskoblenenergo PJSC	902	911	4,130	384	(3,617)	(3,617)	4
	Kyivenergo JSC	4,321	4,600	5,691	118	(1,341)	(270)	(134)
	DTEK Dniproenergo PJSC	3,181	11,163	4,977	1,445	(4,172)	330	(897)
	DTEK Zakhidenergo PJSC	2,518	7,287	5,423	2,076	(2,693)	(1,349)	(260)
	<b>Total</b>	<b>12,816</b>	<b>26,763</b>	<b>23,019</b>	<b>4,387</b>	<b>(13,972)</b>	<b>(6,097)</b>	<b>(1,512)</b>
<b>Year ended 31 December 2014</b>								
	DTEK Krymenergo PJSC	797	1,423	744	425	(172)	(405)	(6)
	DTEK Dniprooblenergo PJSC	1,206	2,678	1,939	386	64	64	(68)
	DTEK Donetskoblenenergo PJSC	1,188	2,009	1,794	486	(316)	(316)	(19)
	Kyivenergo JSC	3,549	4,732	4,164	399	179	174	(76)
	DTEK Dniproenergo PJSC	4,760	7,349	3,875	641	(63)	1,360	93
	DTEK Zakhidenergo PJSC	3,017	6,621	4,394	1,584	(198)	807	129
	<b>Total</b>	<b>14,517</b>	<b>24,812</b>	<b>16,910</b>	<b>3,921</b>	<b>(506)</b>	<b>1,684</b>	<b>53</b>

## **7 Segment Information**

The 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 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 year ended 31 December was adjusted respectively.

The following reportable segments are analysed by the Management Board:

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

In addition, Kyivenergo was previously allocated to power generation, electricity distribution, heat generation and other and now management analyses the entity's total results separately from other segments. Kyivenergo is operating in the Kyiv city and management reviews it separately because of the region. The main revenue streams of Kyivenergo are electricity and heat generation, electricity distribution and connection of customers to the electricity grids. Further, previously heat generation was a reportable segment and is now (excluding that which related to Kyivenergo) included within Coal mining and power generation being a by-product of electricity production at power plants.

As result of demerger in 2015 and 2014 (Note 16) operations of 'Renewable' and 'Oil&Gas' segments are presented as discontinued in the income statement and not included into reportable segments. Comparatives for 2014 were adjusted accordingly. Revenues included in 'Other' segment mainly include revenues from sales of services to Group companies. 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 to 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.



## 7 Segment Information (Continued)

Segment information for the reportable business segments of the Group for the year ended 31 December 2015 is as follows:

<i>In millions of Ukrainian Hryvnia</i>	Coal and power generation	Electricity distribution	Kyivenergo	Other	Elimination	Total
Sales – external	39,950	35,323	17,272	169	-	<b>92,714</b>
Sales to other segments	1,449	1,226	-	950	(3,625)	-
<b>Total revenue</b>	<b>41,399</b>	<b>36,549</b>	<b>17,272</b>	<b>1,119</b>	<b>(3,625)</b>	<b>92,714</b>
Heat tariff compensation	61	-	847	-	-	<b>908</b>
<b>Total revenue and heat tariff compensation</b>	<b>41,460</b>	<b>36,549</b>	<b>18,119</b>	<b>1,119</b>	<b>(3,625)</b>	<b>93,622</b>
<b>Segment result</b>	<b>(376)</b>	<b>(3,487)</b>	<b>(40)</b>	<b>(645)</b>	<b>41</b>	<b>(4,507)</b>
Net operating foreign exchange loss	-	-	-	-	-	<b>(130)</b>
Foreign exchange losses less gains on financing and investing activities	-	-	-	-	-	<b>(13,146)</b>
Impairment of property, plant and equipment and goodwill (Note 9 and 11)	(2,491)	(1,679)	(1,119)	(47)	-	<b>(5,336)</b>
Loss of control over subsidiary (Note 2)	-	(1,470)	-	-	-	<b>(1,470)</b>
Unallocated expenses	-	-	-	-	-	<b>(406)</b>
Finance costs not included in Segment result	-	-	-	-	-	<b>(10,888)</b>
<b>Loss before income tax</b>						<b>(35,883)</b>
<b>Material non cash item including in segment result:</b>						
Net movement in provision for impairment of trade and other receivables and prepayments made (Note 14)	(1,275)	(1,739)	(363)	(8)	-	(3,385)
Depreciation and amortisation	(7,225)	(686)	(649)	(66)	32	(8,594)
Non-recoverable VAT (Note 30)	(519)	(466)	(3)	(10)	-	(998)
Finance income and finance costs included in segment results	33	318	42	-	14	407
Capital expenditure	2,926	418	644	73	-	<b>4,061</b>
Decrease in valuation of property plant and equipment	(10,771)	(125)	(40)	-	-	<b>(10,936)</b>

Capital expenditure of Renewable power generation segment in the amount UAH 3 million is not included in the table above for the year ended 31 December 2015.

Segment information for the reportable business segments of the Group for the year ended 31 December 2014 is as follows:

<i>In millions of Ukrainian Hryvnia</i>	Coal and power generation	Electricity distribution	Kyivenergo	Other	Elimination	Total
Sales – external	45,962	32,218	12,438	98	-	<b>90,716</b>
Sales to other segments	8	920	2	572	(1,502)	-
<b>Total revenue</b>	<b>45,970</b>	<b>33,138</b>	<b>12,440</b>	<b>670</b>	<b>(1,502)</b>	<b>90,716</b>
Heat tariff compensation	28	-	1,202	-	-	<b>1,230</b>
<b>Total revenue and Heat tariff compensation</b>	<b>45,998</b>	<b>33,138</b>	<b>13,642</b>	<b>670</b>	<b>(1,502)</b>	<b>91,946</b>
<b>Segment result</b>	<b>5,441</b>	<b>(366)</b>	<b>468</b>	<b>(462)</b>	<b>37</b>	<b>5,118</b>
Net operating foreign exchange gain	-	-	-	-	-	<b>2,050</b>
Foreign exchange losses less gains on financing activities	-	-	-	-	-	<b>(12,225)</b>
Impairment of property, plant and equipment and goodwill (Note 9)	(419)	(445)	-	(19)	-	<b>(883)</b>
Impairment of prepayments for shares	-	-	-	-	-	<b>(291)</b>
Unallocated expenses	-	-	-	-	-	<b>(208)</b>
Finance costs not included in Segment result	-	-	-	-	-	<b>(10,717)</b>
<b>Loss before income tax</b>						<b>(17,156)</b>
<b>Material non cash item including in segment result:</b>						
Depreciation and amortisation	(5,555)	(956)	(321)	(85)	16	(6,901)
Net movement in provision for impairment of trade and other receivables and prepayments made (Note 14)	(376)	(118)	(19)	(14)	-	(527)
Finance income and finance costs included in segment results	(142)	(492)	-	(3)	-	(637)
Capital expenditure	4,047	481	813	26	-	<b>5,367</b>

## 7 Segment Information (Continued)

Capital expenditure with respect to the Renewable power generation segment in the amount UAH 153 million for the year ended 31 December 2014 is not included in the above table.

The total of non-current assets other than financial instruments and deferred tax assets (there are no employment benefit assets and rights arising under insurance contracts) located in Ukraine is UAH 73,143 million (2014: UAH 61,586 million) and the total of such non-current assets located in other countries is UAH 1,433 million (2014: UAH 1,884 million). Customers concentration, exceeding 10% of total revenues is presented below:

<i>In millions of Ukrainian Hryvnia</i>	<b>Coal and power generation</b>	<b>Electricity distribution</b>	<b>Kyivenergo</b>	<b>Other</b>	<b>Total</b>
<b>2015</b>					
Energorynok SE	29,187	-	3,461	-	<b>32,648</b>
Entities under common control of SCM	2,454	10,136	-	80	<b>12,670</b>
<b>Total</b>	<b>31,641</b>	<b>10,136</b>	<b>3,461</b>	<b>80</b>	<b>45,318</b>
<b>2014</b>					
Energorynok SE	31,804	-	2,448	-	<b>34,252</b>
Entities under common control of SCM	3,450	8,269	-	20	<b>11,739</b>
<b>Total</b>	<b>35,254</b>	<b>8,269</b>	<b>2,448</b>	<b>20</b>	<b>45,991</b>

### Geographical information

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Ukraine	87,716	82,845
Other European countries	5,493	7,884
Other	413	1,217
<b>Total revenues and heat tariff compensation</b>	<b>93,622</b>	<b>91,946</b>

The Company's revenues are presented by legal address of the customer under direct sales contracts.

## 8 Balances and Transactions with Related Parties

Related parties are defined in IAS 24, *Related Party Disclosures*. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Other related parties represent entities with significant concentration of transactions, but which are not under common control.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2015 are detailed below.

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>				<b>2014</b>			
	<b>Entities under common control of SCM</b>	<b>DTEK BV Group subsidiaries</b>	<b>Associates of SCM</b>	<b>Other</b>	<b>Entities under common control of SCM</b>	<b>DTEK BV Group subsidiaries</b>	<b>Associates of SCM</b>	<b>Other</b>
Prepayments for property, plant and equipment	95	-	-	-	156	-	-	3
Loans receivable *	-	9,761	-	-	-	6,095	-	-
Trade and other receivables	1,441	1,329	52	-	783	4	10	26
Cash and cash equivalents – current account	499	-	-	-	3,417	-	-	-
Guarantee provided	-	49	-	-	-	-	-	-
Other financial liabilities and interest accrual	-	(11)	-	-	-	(2,348)	-	-
Trade and other payables	(477)	(1,207)	-	-	(1,239)	(1,101)	-	(3)
Prepayments received	(777)	(1)	(9)	-	(22)	-	(8)	-

\* The increase in the loan receivable balance over the year is explained primarily by foreign exchange gain as a result of devaluation of Ukrainian Hryvnia.

**8 Balances and Transactions with Related Parties (Continued)**

The income and expense items with related parties for the years ended 31 December were as follows:

	2015			2014		
	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
<i>In millions of Ukrainian Hryvnia</i>						
Sales of electricity	10,136	-	2,129	8,269	-	1,051
Sales of gas	2,136	-	626	2,876	-	633
Sales of coking coal	80	-	-	174	-	24
Sales of steam coal	144	-	-	400	-	16
Sales of scrap metal and services	94	80	5	2	18	-
Purchase of raw materials and equipment	(1,116)	(78)	-	(913)	-	-
Purchase of gas	-	(3,695)	-	-	(1,096)	-
Purchase of non-current assets	(602)	-	-	(595)	-	-
Purchase of services	(3,016)	(108)	-	(2,687)	-	-
Charitable donations and sponsorship	(394)	-	-	(195)	-	-
Interest income on bank deposits	159	-	-	332	-	-
Interest expense on bank loans	(20)	-	-	(68)	-	-
Interest income on loans issued (Note 31)	-	561	-	-	88	-
Gain on initial recognition on loans received (Note 31)	-	-	-	-	968	-
Loss on initial recognition of loans provided (Note 31)	-	-	-	-	(1,633)	-
Gain from modification of terms of a loan (Note 31)	-	1,347	-	-	-	-
Unwinding of discount on loans provided (Note 31)	-	202	-	-	-	-
Interest expense on loans provided (Note 31)	-	(29)	-	-	-	-
Gain on early repayment of loans provided (Note 31)	-	398	-	-	-	-
Loss on early repayment of loans received (Note 31)	-	(1,081)	-	-	-	-

After the transfer of the oil and gas business from DTEK Energy B.V. to a new sub-holding under the same parent DTEK B.V. at 19 September 2014 and Wind Power LLC on 9 March 2015 all balances and transactions with the transferred companies are presented as transaction with DTEK BV subsidiaries.

*Revenue, trade and other receivable*

The trade receivable balances as at 31 December 2015 due from entities under common control and associates are non-interest bearing. The balances outstanding from related parties as at 31 December 2015 and 2014 are unsecured and settlements are made either in cash, in the form of debt set-off or by means of exchanging promissory notes issued by the settling counterparties or third parties to the transaction. The Group created no provision for impairment of accounts receivable due from related parties as at 31 December 2015 and 2014.

*Purchases, trade and other payables*

Purchases and outstanding trade and other payables as at 31 December 2015 and 2014 comprised mainly balances due to related parties for provision of railway services, supplies of gas, iron shoring for mines, raw materials and steaming coal. Balances payable are non-interest bearing and are repayable in the normal course of business.

*Key management personnel compensation*

Key management personnel consist of seven top executives (2014: ten top executives). In 2015 total compensation to key management personnel included in administrative expenses amounted to UAH 116 million (2014: UAH 49 million). Compensation to the key management personnel consists of salary and bonus payments.

## 9 Property, Plant and Equipment

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

<i>In millions of Ukrainian Hryvnia</i>	<b>Mining assets</b>	<b>Oil and gas assets</b>	<b>Buildings and structures</b>	<b>Plant and machinery</b>	<b>Furniture, fittings and equipment</b>	<b>Construction in progress</b>	<b>Total</b>
<b>At 31 December 2013</b>							
Cost or valuation	10,841	6,868	18,223	30,537	2,573	9,439	<b>78,481</b>
Accumulated depreciation	(1,165)	(53)	(3,802)	(10,440)	(1,311)	-	<b>(16,771)</b>
<b>NBV at 31 December 2013</b>	<b>9,676</b>	<b>6,815</b>	<b>14,421</b>	<b>20,097</b>	<b>1,262</b>	<b>9,439</b>	<b>61,710</b>
Additions	209	-	538	2,395	295	2,715	<b>6,152</b>
Disposals	-	-	(12)	(55)	(14)	(11)	<b>(92)</b>
Depreciation charge	(470)	(298)	(1,459)	(4,673)	(421)	-	<b>(7,321)</b>
Increase/(decrease) of valuation	1,233	-	1,446	7,024	130	40	<b>9,873</b>
Impairment of property, plant and equipment	(197)	-	(521)	(68)	(39)	(15)	<b>(840)</b>
Demerger of subsidiaries (Note 16)	-	(6,517)	(820)	(73)	(47)	(1,137)	<b>(8,594)</b>
Foreign exchange differences	61	-	(107)	11	(2)	11	<b>(26)</b>
Transfer	76	-	1,260	2,754	82	(4,172)	-
<b>NBV at 31 December 2014</b>	<b>10,588</b>	-	<b>14,746</b>	<b>27,412</b>	<b>1,246</b>	<b>6,870</b>	<b>60,862</b>
<b>At 31 December 2014</b>							
Cost or valuation	11,420	-	17,672	33,232	2,346	6,870	<b>71,540</b>
Accumulated depreciation	(832)	-	(2,926)	(5,820)	(1,100)	-	<b>(10,678)</b>
<b>NBV at 31 December 2014</b>	<b>10,588</b>	-	<b>14,746</b>	<b>27,412</b>	<b>1,246</b>	<b>6,870</b>	<b>60,862</b>
Additions	393	-	965	716	88	1,902	<b>4,064</b>
Disposals	-	-	(6)	(61)	(7)	(6)	<b>(80)</b>
Depreciation charge	(829)	-	(1,703)	(5,480)	(450)	-	<b>(8,462)</b>
Increase/(decrease) of valuation	4,364	-	7,570	10,298	838	273	<b>23,343</b>
Impairment of property, plant and equipment	(422)	-	(1,756)	(2,010)	(94)	(918)	<b>(5,200)</b>
Loss of control over subsidiary	-	-	(723)	(519)	(28)	(117)	<b>(1,387)</b>
Demerger of subsidiaries (Note 16)	-	-	(248)	(4,392)	(10)	(307)	<b>(4,957)</b>
Foreign exchange differences	30	-	(22)	6	(1)	(5)	<b>8</b>
Transfer	348	-	(72)	1,973	67	(2,316)	-
<b>NBV at 31 December 2015</b>	<b>14,472</b>	-	<b>18,751</b>	<b>27,943</b>	<b>1,649</b>	<b>5,376</b>	<b>68,191</b>
<b>At 31 December 2015</b>							
Cost or valuation	15,072	-	21,539	32,012	2,533	5,376	<b>76,532</b>
Accumulated depreciation	(600)	-	(2,788)	(4,069)	(884)	-	<b>(8,341)</b>
<b>NBV at 31 December 2015</b>	<b>14,472</b>	-	<b>18,751</b>	<b>27,943</b>	<b>1,649</b>	<b>5,376</b>	<b>68,191</b>
<b>NBV without revaluation at 31 December 2014</b>	<b>7,965</b>	-	<b>10,015</b>	<b>19,182</b>	<b>1,176</b>	<b>6,753</b>	<b>45,091</b>
<b>NBV without revaluation at 31 December 2015</b>	<b>7,476</b>	-	<b>7,099</b>	<b>14,883</b>	<b>1,067</b>	<b>4,276</b>	<b>34,801</b>

In July 2015, the Group engaged independent appraisers to determine the fair value of its property, plant and equipment. Fair value was determined with reference to depreciated replacement cost or market-based evidence, in accordance with International Valuation Standards. As a result of revaluation performed management reassessed the useful lives of the Group's property, plant and equipment. This change affected depreciation charge for the second half of 2015 and will impact depreciation onwards. The Group makes use of the exemption as allowed by IAS 8 for not disclosing the estimated effect due to impracticability.

The majority of the structures, plant and machinery are specialised in nature and are rarely sold in the open market in Ukraine other than as part of a continuing business. The market for similar property, plant and equipment is not active in Ukraine and does not provide a sufficient number of sales of comparable assets to allow for using a market-based approach for determining fair value. Consequently, the fair value of structures, plant and machinery was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economic depreciation, and obsolescence.

The depreciated replacement cost was estimated based on internal sources and analysis of Ukrainian and international markets for similar property, plant and equipment. Specifically, the depreciated replacement cost was based on the actual physical characteristics of assets (volume, length, etc) multiplied by the cost to replace (as based on price indices), this was then further adjusted by the remaining useful life and the economic ceiling as determined on a cash generating unit. Various market data was collected from published information, catalogues, statistical data etc, and industry experts and suppliers.

## **9 Property, Plant and Equipment (Continued)**

As at 31 December 2015 total net book value of property, plant and equipment under finance lease is UAH 398 million (31 December 2014: UAH 380 million).

As at 31 December 2015, buildings, plant and machinery carried at UAH 636 million (31 December 2014: UAH 506 million) have been pledged to third parties as collateral for borrowings (Note 33).

In 2015, the depreciation expense of UAH 7,874 million (2014: UAH 6,307 million), was included in cost of sales, UAH 44 million was included in discontinued operations (2014: UAH 546 million), UAH 335 million (2014: UAH 221 million) in other operating expenses, UAH 115 million (2014: UAH 117 million) in general and administrative expenses, UAH 25 million (2014: UAH 10 million) in distribution expenses and UAH 69 million was capitalised (2014: UAH 120 million).

During 2015 the Group continued the construction of qualifying assets. This construction is financed through special-purpose and other borrowings. Borrowing costs capitalised during 2015 were UAH 70 million (2014: UAH 53 million). The rate in the range between 11.16% and 13.67% was used to estimate borrowing costs subject to capitalisation (2014: between 10.46% and 10.86%).

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

The impairment loss recognised by the Group during 2015 was mainly driven by unfavourable dynamics of generation tariff, deterioration in the cash collection from the energy market and selected groups of end customers in the non-controlled territory, and decrease in the projected volumes of electricity output, distribution and coal extraction. Impairment was recognised based on fair value less cost of disposal.

Management have identified that there were indicators of impairment within the non-controlled territory in the east of Ukraine. Specifically, management noted that following the separation of the energy market in May 2015 the payment discipline from certain categories of end customers has deteriorated. Consequently, management performed impairment tests using the fair value less cost of disposal model (Level 3) for its generation and distribution assets in that area. In performing its impairment tests management used post-tax cash flow projections based on financial budgets approved by management covering a five-year period, these were discounted using a post-tax weighted average cost of capital of 21.2 – 24%. Cash flows beyond the five-year period are extrapolated using an estimated growth rate of 3%.

As a result of the impairment assessment management fully impaired goodwill and the property, plant and equipment of DTEK Donetskoblenenergo PJSC and property, plant and equipment of DTEK Energougol ENE PJSC electricity distribution companies, located in the non-controlled territory that belong to the Electricity distribution segment. Property, plant and equipment of these entities located in the area under the control of the Ukrainian government were not impaired. In prior periods, each of these entities was considered as one cash generating unit (CGU). After 1 May 2015, when the energy market of the non-controlled territory was separated from the energy market of Ukraine management separated the assets and cash flows attributable to operations in the controlled and non-controlled areas as separate CGUs. The impairment assessment for distribution assets located in the non-controlled territory resulted in an impairment charge to the consolidated statement of income of UAH 727 million. The primary cause of the impairment is the low collection rates from end customers in the non-controlled territory (see the disclosures about impairment tests in Note 11).

Management in 2015 have determined under current operating circumstances that it operates as a single cash generating unit with the coal mining entity DTEK Mine Komsomolets Donbassa PJSC and ZuTES power station being a part of DTEK Skhidenergo LLC (both located in the non-controlled territory), this is due to the inter-dependancy on the movement of coal and a normal operating production level of electricity. These companies belong to coal and power generation segment. As a result of the impairment assessment management has reflected an impairment charge of UAH 1,362 million with respect to the cash generating unit. The impairment assessment resulted in a reduction of revaluation reserve by UAH 1,329 million and an impairment charge to the consolidated statement of income of UAH 33 million. The primary cause of the impairment is the low collection rates in the non-controlled territory. As at 31 December 2015, the resulting carrying amount of property, plant and equipment attributable to this CGU was UAH 7,272 million.

The impairment was based on the assumption that the collection rates would on average be equal to 57% in 2016 and increasing onwards following better cash collections through improvements to the economic situation and the Group's customer base. If this plan is not successful and the collection rates were to be equal to 50% then the impairment charge would increase by UAH 2,029 million. Also, the volumes of electricity generation and tariffs have a significant impact on the carrying amount of this CGU. Management projected increase in generation volumes and tariffs over the period of 5 years. If actual volumes of electricity generation at ZuTES in 2016 were to be kept flat at 2015 levels, then the carrying amount of this CGU would reduce by UAH 274 million. If actual tariff for electricity at ZuTES were to be 5% lower than projected by management, then the carrying amount of this CGU would reduce by UAH 810 million.

## 9 Property, Plant and Equipment (Continued)

Another significant assumption used in the calculation was the production and ability to despatch coal from DTEK Mine Komsomolets Donbassa PJSC. This was set at production level of 4 million tons for 2016 with future development in following years. If actual production of coal were to be 25% lower than projected by management for the year 2016 then the carrying amount of property, plant and equipment of this CGU would reduce by UAH 820 million. If ZuTES and DTEK Mine Komsomolets Donbassa PJSC were to have been considered to be two separate cash generating units then the carrying value of ZuTES with a current carrying value of UAH 4,271 million would have been fully impaired while the carrying amount of DTEK Mine Komsomolets Donbassa PJSC would have been left without impairment.

Further, impairment of UAH 1,421 million was noted in DTEK Skhidenergo LLC and Tehrempostavka LLC, for the assets located in the area controlled by the Ukrainian government. The impairment assessment resulted in a reduction of revaluation reserve by UAH 1,287 million and an impairment charge to the consolidated statement of income of UAH 134 million. The key underlying reason for the impairment of property, plant and equipment is the estimated limited increase of output for DTEK Skhidenergo LLC and Tehrempostavka LLC's power stations. Management projected variability in generation volumes with an overall declining trend and increase tariffs over the period to 2030. If actual volumes of electricity generation at DTEK Skhidenergo LLC and Tehrempostavka LLC (controlled territory) in 2016 were to be kept flat at 2015 levels, then the carrying amount of this CGU would increase by UAH 158 million. If actual tariff for electricity at DTEK Skhidenergo LLC and Tehrempostavka LLC (controlled territory) were to be 5% lower than projected by management, then the carrying amount of this CGU would reduce by UAH 2,664 million.

Additionally, impairment tests were performed for two mine complexes in the non-controlled territory, DTEK Rovenkiantracyte LLC and DTEK Sverdlovantracyte LLC. These impairment tests resulted in an impairment of UAH 207 million for DTEK Sverdlovantracyte LLC. The impairment assessment resulted in a reduction of revaluation reserve by UAH 196 million and an impairment charge to the consolidated statement of income of UAH 11 million. The main assumption used in the calculation was the production and ability to despatch coal. For 2016 this was set at 4 million tons for DTEK Rovenkiantracyte LLC and 4.7 million tons for DTEK Sverdlovantracyte LLC with future development in following years. If actual production were to be 25% lower than projected by management for the year 2016 then the carrying amount of property, plant and equipment for DTEK Sverdlovantracyte LLC would be UAH 711 million lower while the carrying amount of DTEK Rovenkiantracyte LLC would have been left without impairment.

Also, impairment assessment for all other entities resulted in a reduction of revaluation reserve by UAH 803 million and an impairment charge to the consolidated statement of income of UAH 592 million.

The remaining impairment charge to the consolidated statement of income of UAH 3,703 million is a consequence of the impact of the revaluation exercise. Specifically, sundry reductions in the fair value of individual assets were as a result of the comprehensive assessment of the depreciated replacement cost of the assets. These assets relate to a number of the Group's subsidiaries all located in the territory controlled by the Ukrainian government.

## 10 Intangible Assets

As at 31 December, intangible assets comprise:

<i>In millions of Ukrainian Hryvnia</i>	2015	2014
Burshtyn electricity island	1,265	1,406
Other intangible assets	439	467
<b>Total</b>	<b>1,704</b>	<b>1,873</b>

Intangible asset "Burshtyn electricity island" is a unique technological capability of DTEK Zakhidenergo PJSC related to supply of electricity to the European Union.

The movements of other intangible assets were as follows:

<i>In millions of Ukrainian Hryvnia</i>	Cost	Accumulated amortisation and impairment	Net book value
<b>As at 31 December 2013</b>	<b>2,432</b>	<b>(454)</b>	<b>1,978</b>
Additions / (Charge) for the year	440	(181)	259
Demerger of subsidiaries (Note 16)	(373)	9	(364)
<b>As at 31 December 2014</b>	<b>2,499</b>	<b>(626)</b>	<b>1,873</b>
Additions / (Charge) for the year	37	(196)	(159)
Demerger of subsidiaries (Note 16)	(12)	2	(10)
<b>As at 31 December 2015</b>	<b>2,524</b>	<b>(820)</b>	<b>1,704</b>

## 10 Intangible Assets (Continued)

In 2015, the amortisation expense of UAH 185 million (2014: UAH 192 million), was included in cost of sales, and UAH 16 million (2014: UAH 34 million) in general and administrative expenses.

As at 31 December 2015 the remaining useful life of “Burshtyn electricity island” intangible asset was 9 years (31 December 2014: 10 years).

## 11 Goodwill

The movements of goodwill were as follows:

<i>In millions of Ukrainian Hryvnia</i>	2015	2014
<b>Book amount as at 1 January</b>	<b>4,520</b>	<b>4,563</b>
Impairment of DTEK Donetskoblenergo PJSC Goodwill	(136)	-
Impairment of DTEK Energougol ENE PJSC Goodwill	-	(43)
<b>Book amount as at 31 December</b>	<b>4,384</b>	<b>4,520</b>

### Goodwill Impairment Test

Goodwill is allocated to cash-generating units (“CGUs”) which represent the lowest level within the Group at which goodwill is monitored by management.

Management allocated goodwill to six main CGUs:

<i>In millions of Ukrainian Hryvnia</i>	2015	2014
Coal and power generation:		
- DTEK Dniproenergo PJSC	1,999	1,999
- DTEK Zakhidenergo PJSC	1,265	1,265
- DTEK Pavlogradugol PJSC	590	590
Energy distribution:		
- Kyivenergo JSC	483	483
- DTEK Dniprooblenergo PJSC	47	47
- DTEK Donetskoblenergo PJSC	-	136
<b>Total</b>	<b>4,384</b>	<b>4,520</b>

The recoverable amount has been determined based on fair value less cost of disposal calculations. Cash flow projections, based on strategic model approved by senior management covering a 15 year projection period until 2030 for all entities, except for DTEK Donetskoblenergo PJSC, were the projection period was limited to five years. and market prices were used to determine projected sales. Management believes that the assumptions used reflect market participant’s expectations. Management prepares cash flow projection until 2030 according to approved long-term strategic model which described planned step by step changes in Group business process.

The following table summarises key assumptions for major components on the management has based its cash flow projections to undertake the impairment testing of goodwill.

	2015	2014
<b>Coal and power generation – DTEK Dniproenergo PJSC</b>		
Post-tax discount rate per annum, %	19,1%	19,3%
Volumes growth rate per annum, %	(3)%-17%	(7)%-16%
Gross margin per annum, %	From 11% to 21% in 2016 - 2030	From 15% to 28% in 2015 - 2030
<b>Coal and power generation – DTEK Zakhidenergo PJSC</b>		
Post-tax discount rate per annum, %	19,1%	19,3%
Volumes growth rate per annum, %	(6)%-24%	(1)%-10%
Gross margin per annum, %	From (1)% to 20% in 2016 – 2030	From 10% to 20% in 2015 - 2030
<b>Coal and power generation - DTEK Pavlogradugol PJSC</b>		
Post-tax discount rate per annum, %	19,1%	19,3%
Volumes growth rate per annum, %	(9)%-2%	(9)%-13%
Gross margin per annum, %	From 49% to 51% in 2016 – 2030	From 38% to 47% in 2015 – 2030

**11 Goodwill (Continued)**

	<b>2015</b>	<b>2014</b>
<b>Electricity distribution – DTEK Kyivenergo PJSC</b>		
Post-tax discount rate per annum, %	19,1%	19,3%
Volumes growth rate per annum, %	1%-2%	7%-10%
Gross margin per annum, %	From 5% to 8% in 2016 - 2030	From 4% to 12% in 2015 - 2030
Period of transition to RAB	2017	2016
<b>Electricity distribution – DTEK Dniproblenergo PJSC</b>		
Post-tax discount rate per annum, %	19,1%	19,3%
Volumes growth rate per annum, %	0%-7%	2%-5%
Gross margin per annum, %	From 6% to 23% in 2016 – 2030	From 3% to 26% in 2015 - 2030
Period of transition to RAB	2Q 2016	2016
<b>Electricity distribution – DTEK Donetskoblenergo PJSC</b>		
Post-tax discount rate per annum, %	19,1%	19,3%
Volumes growth rate per annum, %	2%-10%	(21)%-7%
Gross margin per annum, %	From 8% to 14% in 2016 – 2030	From 5% to 25% in 2015 - 2030
Period of transition to RAB	2018	2016

The approach used in the impairment testing models for the long term forecast of electricity generation tariff was based on the assumption that tariff correlates with the general consumer price index in Ukraine.

The assumptions used in the impairment testing models for external coal sales prices in the period from 2016 to 2017 are based on the most recent API2 index forecasts adjusted for freight costs. For the period from 2018 to 2030 the price trend was based on forecast USD inflation based on the data from IHS global insight.

The assumptions used in the impairment testing models for electricity distribution entities were based on the assumption of switching to the model of “return on asset base” in respective periods which implies gradual growth in the margin.

Projected volumes of electricity distribution ranged from 8,717 million kWh for Kyivenergo, 6,090 million kWh for Donetskoblenergo and 21,490 million kWh for Dniproblenergo in 2016 to 10,389 million kWh for Kyivenergo, 9,559 million kWh for Donetskoblenergo and 26,435 million kWh for Dniproblenergo in 2030 (31 December 2014: 8,775 million kWh for Kyivenergo, 5,972 million kWh for Donetskoblenergo and 22,700 million kWh for Dniproblenergo in 2015 to 15,296 million kWh for Kyivenergo, 9,502 million kWh for Donetskoblenergo and 26,435 million kWh for Dniproblenergo in 2030).

Forecast volumes of electricity generation for Dniproenergo and Zakhidenergo (being volumes of Ladyzhyn and Dobrotvor power generation stations) ranged from 9,935 million kWh and 5,088 million kWh in 2016 to 15,656 million kWh and 7,788 million kWh in 2030 respectively (31 December 2014: 15,714 million kWh and 6,181 million kWh in 2015 to 20,228 million kWh and 8,062 million kWh in 2030 for respectively). Forecasts from industry experts and other external reputable sources, as well as internal analysis were used by management to determine price levels used in the impairment test. Actual electricity generation volumes in 2015 amounted to 9,202 million kWh for Dniproenergo and 4,276 million kWh for Zakhidenergo (2014: 15,029 million kWh for Dniproenergo and 10,592 million kWh for Zakhidenergo).

In June 2012, changes were implemented into the Law of Ukraine on Natural Monopolies (#4998-VI dated 21 June 2012). Such changes introduced new provisions concerning implementation of the incentive regulation for tariffs of natural monopolists, such as the definition of the incentive regulation, regulatory assets base (“RAB”) and rate of return and the major tariff elements to be included by the state authorities when setting tariffs. Also a one-time assets revaluation is envisaged for the determination of the regulatory asset base. The State Property Fund developed methodology for the valuation of assets of the natural monopolists in October 2012, which was subsequently approved. Management expects transition to regulatory assets base tariff in the second quarter of 2016 – for Dniproblenergo, in 2017 – for Kyivenergo (distribution segment) and in 2018 – for Donetskoblenergo. The estimated recoverable amount will be equal to its carrying value if the periods of transition to the incentive regulation will not be as suggested above.

Management expects that the following rates of returns will be introduced after implementation of incentive regulation: 14.8% for new regulatory assets base and 5% for old assets. If the expected RAB rates will be lower, this will result in certain impairment of PPE and related goodwill on distribution companies.

In assessing goodwill impairment management applied a post-tax discount rate of 19.1% for post-tax cash flows. The discount rate was calculated based on weighted average cost of capital for the Company.

The values assigned to the key assumptions represent management's best assessment of future trends in the business and are based on both external and internal sources. The Management believes that the assumptions used reflect market participant's expectations.



## 11 Goodwill (Continued)

For the purposes of impairment testing, goodwill on Kyivenergo acquisition is allocated to electricity distribution activity. This unit represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The following tables illustrate the headroom derived from the impairment test using the assumptions disclosed above, and, for reasonably possible changes, the amount by which each key assumption must change in isolation in order for the estimated recoverable amount to equal its carrying value:

CGU	2015				
	Headroom	Increase of discount rate by	Decrease in selling tariff / coal prices growth by	Decrease in volume growth by	Decrease in gross margin by
DTEK Pavlogradugol PJSC	9,043	9.0%	8.5%	8.5%	17.9%
DTEK Dniproenergo PJSC	856	0.8%	0.8%	0.8%	4.1%
DTEK Zakhidenergo PJSC	458	1.1%	0.9%	0.9%	5.7%
Kyivenergo JSC	80	0.3%	0.1%	0.1%	1.5%
DTEK Dniprooblenergo PJSC	71	0.4%	0.1%	0.1%	0.8%

GGU	2014				
	Headroom	Increase of discount rate by	Decrease in selling tariff / coal prices growth by	Decrease in volume growth by	Decrease in gross margin by
DTEK Pavlogradugol PJSC	2,779	4.0%	4.0%	4.0%	9.1%
DTEK Dniproenergo PJSC	4,029	8.0%	4.3%	4.3%	20.4%
DTEK Zakhidenergo PJSC	2,596	5.2%	2.9%	2.9%	17.7%
Kyivenergo JSC	131	0.7%	0.3%	0.3%	2.8%
DTEK Dniprooblenergo PJSC	58	0.4%	0.1%	0.1%	1.2%
DTEK Donetskoblenergo PJSC	41	0.3%	0.2%	0.2%	2.3%

Based on the above assumptions, management determined that the fair value less cost of disposal exceeds the carrying value of goodwill as at 31 December 2015. No impairment of goodwill was recognised as at 31 December 2015, except for DTEK Donetskoblenergo PJSC as disclosed below.

Impairment of goodwill at DTEK Donetskoblenergo PJSC was largely driven by decreases in the underlying collection rate from end users located in the non-controlled territory.

## 12 Financial Investments

As at 31 December, non-current financial investments comprised:

<i>In millions of Ukrainian Hryvnia</i>	2015	2014
Loans provided to related parties (Note 8)	8,859	5,897
Equity securities:		
- quoted	40	46
<b>Total</b>	<b>8,899</b>	<b>5,943</b>

As at 31 December, current financial investments were as follows:

<i>In millions of Ukrainian Hryvnia</i>	2015	2014
Restricted deposits	1,500	3,529
Loans provided to related parties (Note 8)	902	198
Deposits placed	2	-
<b>Total</b>	<b>2,404</b>	<b>3,727</b>

Non-current financial investments are neither past due nor impaired. The carrying amounts of deposits and loans approximate their fair values.

## 12 Financial Investments (Continued)

The loans are provided to a subsidiary of DTEK B.V. in the Netherlands that has the majority of its assets in Ukraine outside of non-controlled territory and are due in 2023 and 2024. The loans were initially recognised at fair value and accounted for under an effective interest rate of 8%. As at 31 December 2015 UAH 6,949 million were denominated in US dollars (31 December 2014: UAH 3,901 million) and UAH 1,910 million were denominated in Euro (31 December 2014: UAH 1,996 million).

As a result of negotiations, future contractual cash flow under loans provided to related parties were increased due to increase of nominal interest rate from 4% to 7%. This change was not treated as a substantial modification to the term of original loan and a gain of UAH 1,347 million was recognised in the consolidated income statement (Note 31).

During the year, the Group terminated derivative instruments which were collateralised by bank deposits. See Note 20 for detailed discussion of these transactions.

As at 31 December 2015, no restricted deposits were denominated in US dollars (31 December 2014: UAH 3,276 million).

As at 31 December 2015 restricted deposits in amount of UAH 1,500 million were pledged under cash pooling arrangements as a collateral for borrowings (31 December 2014: UAH 537 million). For the purposes of cash flow statement movement of deposits under cash pooling arrangements in amount of UAH 962 million is not included in investing activity and is offset with increase of related borrowings.

Current financial investments are neither past due nor impaired. The carrying amounts of deposits and loans approximate their fair values.

<i>In millions of Ukrainian Hryvnia</i>	<b>Deposits</b>	<b>2015 Loans provided to related parties</b>	<b>Deposits</b>	<b>2014 Loans provided to related parties</b>
<i>Rating by Moody's Investors Service</i>				
- A2 rated	-	-	2,402	-
- Ba1 rated	-	-	590	-
- Ba2 rated	2	-	-	-
- Ca rated	1,500	-	-	-
- Caa3.ua rated	-	-	537	-
<i>Non-rated</i>	-	902	-	198
<b>Total</b>	<b>1,502</b>	<b>902</b>	<b>3,529</b>	<b>198</b>

## 13 Inventories

As at 31 December, inventories were as follows:

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Coal	2,731	2,113
Gas	1,251	282
Raw materials	1,054	870
Work in progress	720	986
Spare parts	490	524
Goods for resale	118	250
<b>Total inventories</b>	<b>6,364</b>	<b>5,025</b>

As at 31 December 2015 a balance of coal in the amount of UAH 715 million is located in the conflict zone in the East of Ukraine (31 December 2014: UAH 956 million). The ability to move this coal to end customers is subject to events in the conflict zone as discussed in Note 2 and some export restrictions.

#### 14 Trade and Other Receivables

As at 31 December, non-current trade and other receivables were as follows:

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Restructured trade receivables (less discounting effect of UAH 52 million) (2014: UAH 463 million)	182	1,217
Other financial receivables (less nil discounting effect) (2014: UAH 2 million)	64	8
<b>Total non-current trade and other receivables</b>	<b>246</b>	<b>1,225</b>

As at 31 December 2015, restructured accounts receivable of UAH 182 million (31 December 2014: UAH 1,217 million) were represented by balances renegotiated with State owned and other customers, these balances were neither past due nor impaired.

As at 31 December, current trade and other receivables were as follows:

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Trade receivables (less provision of UAH 6,657 million) (2014: UAH 4,416 million)	10,844	9,081
Restructured trade receivables (less discounting effect of UAH 28 million) (2014: UAH 91 million)	299	1,278
Other financial receivables (less provision of UAH 913 million) (2014: UAH 833 million)	1,144	566
<b>Total financial receivables</b>	<b>12,287</b>	<b>10,925</b>
Prepayments to suppliers (less provision of UAH 1,034 million) (2014: UAH 240 million)	2,099	965
VAT recoverable (less provision of UAH 85 million) (2014: UAH 85 million)	903	1,147
Heat tariff compensation receivable	485	-
Other (less provision of UAH 37 million) (2014: UAH 43 million)	243	76
<b>Total non-financial receivables</b>	<b>3,730</b>	<b>2,188</b>
<b>Total current trade and other receivables</b>	<b>16,017</b>	<b>13,113</b>

As at 31 December 2015 trade and other receivables in amount of UAH 15,328 million are due from customers located in the controlled territory and UAH 935 million are due from those located in the non-controlled territory of Ukraine.

As at 31 December 2015, 11% of trade and other receivables are denominated in currency, other than UAH (31 December 2014: 5%).

As at 31 December 2015, prepayments included UAH 53 million of prepayments for coal (31 December 2014: UAH 579 million). Due to non-shipment of goods the prepayments balance was impaired. The remaining prepayments include prepayments for electricity, gas, transportation and other services, and inventories.

As result of loss of control over subsidiary the Group derecognised UAH 255 million of trade and other receivables.

During 2014 and 2015 the Group entered into restructuring agreements with water supply companies and formally deferred repayment from immediately to an agreed repayment schedule from 2014 to 2018. The terms of this restructuring did not include any interest. A loss of UAH 113 million was reflected in finance costs (Note 31) as a result of this restructuring (31 December 2014: UAH 663 million).

## 14 Trade and Other Receivables (Continued)

Movements in the impairment provision for trade and other receivables were as follows:

<i>In millions of Ukrainian Hryvnia</i>	2015	2014
<b>Provision for impairment at 1 January</b>	<b>5,617</b>	<b>5,530</b>
Provision for impairment during the year	3,833	1,807
Reversal of provision	(448)	(1,280)
Exchange rate difference	97	(52)
Write-offs of prepayments	-	(366)
Demerger of subsidiaries (Note 16)	-	(2)
Amounts written off during the year as uncollectible	(373)	(20)
<b>Provision for impairment at 31 December</b>	<b>8,726</b>	<b>5,617</b>

Provision for impairment during the year was recognised due to financial difficulties of the customers.

Analysis by credit quality of current financial trade and other receivables is as follows:

<i>In millions of Ukrainian Hryvnia</i>	2015		2014	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
<i>Current and not impaired – exposure to</i>				
- Energorynok SE	1,644	-	3,223	-
- Large Ukrainian corporates	557	5	574	8
- Medium sized companies	1,566	398	1,729	379
- Households	827	5	345	-
- Restructured balances of State owned and other customers	299	-	1,278	-
<b>Total current and not impaired</b>	<b>4,893</b>	<b>408</b>	<b>7,149</b>	<b>387</b>
<i>Past due and individually impaired (gross)</i>				
- less than 30 days overdue	447	35	835	91
- 30 to 90 days overdue	793	48	1,428	13
- 90 to 180 days overdue	1,623	628	562	41
- 180 to 360 days overdue	5,066	53	1,120	58
- over 360 days overdue	4,978	885	3,681	808
<b>Total past due and individually impaired</b>	<b>12,907</b>	<b>1,649</b>	<b>7,626</b>	<b>1,011</b>
<b>Less impairment provision</b>	<b>(6,657)</b>	<b>(913)</b>	<b>(4,416)</b>	<b>(832)</b>
<b>Total</b>	<b>11,143</b>	<b>1,144</b>	<b>10,359</b>	<b>566</b>

Increase in impairment allowance for trade accounts receivables is mainly driven by decreased cash collection in the non-controlled territory and impairment of receivables prior to introducing the new legislation in that area in May 2015.

Majority of accounts receivable past due for 180 – 360 days relate to the state entity and are expected to be settled in 2016, however, with some delay. Impairment loss amounting UAH 435 million was recognised for these receivables based on time value of money assessment.

## 15 Cash and Cash Equivalents

As at 31 December, cash and cash equivalents were as follows:

<i>In millions of Ukrainian Hryvnia</i>	2015	2014
Bank balances payable on demand	681	4,296
Restricted cash	16	2,717
Term deposits with maturity of less than three months	9	1,075
<b>Total cash and cash equivalents</b>	<b>706</b>	<b>8,088</b>

## 15 Cash and Cash Equivalents (Continued)

As at 31 December 2015, cash and cash equivalents of UAH 108 million were denominated in US dollars (31 December 2014: UAH 1,955 million), UAH 3 million were denominated in EUR (31 December 2014: UAH 465 million), UAH 9 million were denominated in RUB (31 December 2014: UAH 394 million).

As at 31 December 2015 and 2014, no term deposits with original maturity of less than three months were pledged as collateral for borrowings or bank guarantees received.

As result of loss of control over subsidiary the Group derecognised UAH 246 million of cash and cash equivalents.

As at 31 December 2015 there were no restricted cash pledged under cash pooling arrangements as a collateral for borrowings (31 December 2014: UAH 2,386 million). For the purposes of cash flow statement movement of restricted cash under cash pooling arrangements in amount of UAH 2,386 million is not included in investing activity and is offset with increase of related borrowings.

As at 31 December 2015, restricted cash in the amount of UAH 16 million used to cover letter of credit for purchase of equipment (31 December 2014: UAH 315 million were pledged as collateral for bank borrowings). For the purposes of the cash-flow statements this amount is not included in cash and cash equivalents balance.

The bank balances and term deposits are neither past due nor impaired. Analysis by credit quality of bank balances and term deposits is as follows:

<i>In millions of Ukrainian Hryvnia</i>	2015			2014		
	Bank balances payable on demand	Term deposits	Restricted cash	Bank balances payable on demand	Term deposits	Restricted cash
<i>Rating by Moody's Investors Service</i>						
- A2 rated	-	-	-	1	-	-
- A3 rated	63	-	-	776	-	315
- Ba2 rated	1	8	-	-	-	-
- Baa2 rated	-	-	-	20	7	-
- Ba3.ua rated	-	-	-	2	-	9
- Ca rated	125	1	5	-	-	-
- CCC	1	-	-	-	-	-
- CAA1	-	-	-	120	-	-
- Caa3 rated	-	-	-	2,825	1,068	1,993
<i>Rated by Fitch Ratings</i>						
- AAA(UKR)	-	-	-	303	-	400
- Non-rated*	491	-	11	249	-	-
<b>Total</b>	<b>681</b>	<b>9</b>	<b>16</b>	<b>4,296</b>	<b>1,075</b>	<b>2,717</b>

\* Non-rated banks rank in the top 10 Ukrainian banks by size of total assets and capital (per National Bank of Ukraine).

## 16 Discontinued operations

In March 2015, following a reorganisation plan, the Group has separated DTEK Oil&Gas BV, Naftogazvydobuvania PrJSC and DTEK Neftegaz LLC – into a separate Oil and gas sub-holding, and DTEK Renewables BV, Wind Power LLC, Orlovskaya WEP LLC and Primorskaya WEP LLC - into a separate Renewable energy sub-holding. All are under the control of the new Parent – DTEK BV. The completion date for the transfer of Oil and gas sub-holding was on 19 September 2014 and the completion date for the transfer of Wind Power LLC being part of Renewable energy sub-holding was 9 March 2015. Separation of Wind Power LLC was part of mandatory approval and the plan was formalised in March 2015. In 2015 the Group obtained a cash consideration of UAH 434 million resulting from demerger of Wind Power LLC. Both demergers were accounted for as a reorganisation of entities under common control. The differences between carrying amounts of the assets transferred and consideration received from the demerger of subsidiaries were accounted for directly in equity. As all entities mentioned above were part of a single reorganisation plan to separate these lines of business, the result of all such operations is separated in the income statement and presented as discontinued operations. Comparative information for 2014 was adjusted to present Wind Power LLC operations as a discontinued operations in addition to DTEK Oil&Gas BV operations which were already presented as discontinued in 2014.

**16 Discontinued Operations (Continued)**

<i>In millions of Ukrainian Hryvnia</i>	Note	Wind Power LLC March 2015	DTEK Oil and gas and DTEK Renewables September 2014
Property, plant and equipment	9	4,957	8,594
Intangible assets	10	10	364
Deferred income tax assets		627	-
Trade and other receivables		131	1,585
Loans provided to related parties		1,146	2,140
Financial investment – current		-	261
Inventories		1	37
Cash and cash equivalents		10	2
Non-current borrowings	19	(4,905)	-
Non-current loans from related parties		(2,724)	(4,326)
Deferred consideration		-	(4,450)
Provisions for other liabilities and charges	22	(2)	(1,102)
Deferred income tax liability		-	(1,456)
Other financial liabilities-current		-	(368)
Current borrowings	19	(644)	-
Current loans from related parties		(121)	-
Trade and other payables		(132)	(130)
Current income tax payable		-	(77)
Other taxes payable		(22)	(165)
<b>Total carrying amount of net assets demerged</b>		<b>(1,668)</b>	<b>909</b>
Non-controlling interest		-	3,950
<b>Total carrying amount of net assets demerged attributable to Equity holders of the Company</b>		<b>(1,668)</b>	<b>(3,041)</b>

There was an intragroup guarantee provided by a subsidiary of DTEK Energy Group to the Wind Power LLC which was eliminated at consolidation in previous periods. Upon Wind Power LLC demerger the Group recognised a liability for a party outside of the Group being the fair value of this guarantee in amount of UAH 49 million.

As discussed in Note 3, the Group has recorded the loss on demerger of the subsidiaries being the difference between the net assets derecognised fair value of recognised guarantee and consideration received directly in equity.

Analysis of the result of discontinued operations is as follows:

<i>In millions of Ukrainian Hryvnia</i>	2015	2014
Revenue	271	3,279
Cost of sales	(114)	(1,170)
Other income and expenses, including foreign exchange loss, net	(2,187)	(5,506)
<b>Loss before tax from discontinued operations</b>	<b>(2,030)</b>	<b>(3,397)</b>
Income tax	365	151
<b>Loss after tax from discontinued operations</b>	<b>(1,665)</b>	<b>(3,246)</b>
<b>Loss is attributable to:</b>		
Equity holders of the Company	(1,665)	(3,760)
Non-controlling interest	-	514

Revenue of discontinued operations in 2015 does not include inter-company revenue (2014: UAH 2,038 million).

Analysis of the cash flows of discontinued operations is as follows:

<i>In millions of Ukrainian Hryvnia</i>	2015	2014
Net cash generated from operating activities	285	1,699
Net cash used in investing activities	(1,020)	(2,097)
Net cash generated from financing activities	734	393
<b>Net decrease in cash and cash equivalents</b>	<b>(1)</b>	<b>(5)</b>

**17 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.

**18 Other Reserves**

<i>In millions of Ukrainian Hryvnia</i>	Additional paid in capital	Hedge reserve	Financial liabilities remeasurement reserve	Revaluation reserve	AFS reserve	Currency translation reserve	Total
<b>Balance at 1 January 2014</b>	<b>(4,199)</b>	<b>250</b>	<b>(1,586)</b>	<b>6,662</b>	<b>(25)</b>	<b>16</b>	<b>1,118</b>
Property, plant and equipment:							
- Increase in valuation of property plant and equipment	-	-	-	9,065	-	-	<b>9,065</b>
- Income tax recorded on revaluation of property plant and equipment	-	-	-	(1,632)	-	-	<b>(1,632)</b>
- Change in estimate relating to asset retirement provision recorded in equity	-	-	-	21	-	-	<b>21</b>
- Income tax recorded on change in estimate for asset retirement obligation	-	-	-	(3)	-	-	<b>(3)</b>
- Realised revaluation reserve	-	-	-	(1,562)	-	-	<b>(1,562)</b>
- Realised income tax recorded in equity	-	-	-	234	-	-	<b>234</b>
Effective portion of change in the fair value of cash flow hedges	-	(471)	-	-	-	-	<b>(471)</b>
Reclassification adjustment in relation to cash flow hedges	-	(2,451)	-	-	-	-	<b>(2,451)</b>
Demerger of subsidiaries	-	-	1,586	-	-	-	<b>1,586</b>
Currency translation reserve	-	-	-	-	-	612	<b>612</b>
<b>Balance at 31 December 2014</b>	<b>(4,199)</b>	<b>(2,672)</b>	<b>-</b>	<b>12,785</b>	<b>(25)</b>	<b>628</b>	<b>6,517</b>
Property, plant and equipment:							
- Increase in valuation of property plant and equipment	-	-	-	30,379	-	-	<b>30,379</b>
- Decrease in valuation of property plant and equipment	-	-	-	(9,950)	-	-	<b>(9,950)</b>
- Income tax recorded on revaluation of property plant and equipment	-	-	-	(3,678)	-	-	<b>(3,678)</b>
- Change in estimate relating to asset retirement provision recorded in equity	-	-	-	(443)	-	-	<b>(443)</b>
- Income tax recorded on change in estimate for asset retirement obligation	-	-	-	80	-	-	<b>80</b>
- Realised revaluation reserve	-	-	-	(3,718)	-	-	<b>(3,718)</b>
- Realised income tax recorded in equity	-	-	-	600	-	-	<b>600</b>
Reclassification adjustment in relation to cash flow hedges	-	1,787	-	-	-	-	<b>1,787</b>
Demerger of subsidiaries	-	-	-	(1,645)	-	-	<b>(1,645)</b>
Loss of control over subsidiary	-	-	-	-	-	135	<b>135</b>
Currency translation reserve	-	-	-	-	-	836	<b>836</b>
<b>Balance at 31 December 2015</b>	<b>(4,199)</b>	<b>(885)</b>	<b>-</b>	<b>24,410</b>	<b>(25)</b>	<b>1,599</b>	<b>20,900</b>

**18 Other Reserves (Continued)**

The revaluation reserve, hedge reserve, financial liabilities remeasurement reserve, AFS reserve and currency translation reserve are not distributable to the shareholders until they are transferred to retained earnings.

Retained earnings of the Group represent the earnings of the Group entities from the date they have been established or acquired by the entities under common control. Group subsidiaries distribute profits as dividends or transfer them to reserves on the basis of their statutory financial statements prepared in accordance with local GAAP as appropriate. Ukrainian legislation identifies the basis of distribution as retained earnings only, however this legislation and other statutory laws and regulations are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose the amount of distributable reserves in these consolidated financial statements.

Other comprehensive income, net of tax, is as follows:

<i>In millions of Ukrainian Hryvnia</i>	<b>Revaluation reserves</b>	<b>Hedge reserve</b>	<b>Currency translation reserve</b>	<b>Retained earnings</b>	<b>Total other comprehensive income</b>
<b>2014</b>					
Effective portion of change in the fair value of cash flow hedges	-	(471)	-	-	<b>(471)</b>
Transfer to income statement related to cash flow hedges	-	(2,451)	-	-	<b>(2,451)</b>
Re-measurements of post-employment benefit obligations	-	-	-	359	<b>359</b>
Income tax recorded on re-measurements of post-employment benefit obligations	-	-	-	(65)	<b>(65)</b>
Increase in valuation of property plant and equipment, net of tax	8,093	-	-	-	<b>8,093</b>
Change in estimate for asset retirement obligation	18	-	-	-	<b>18</b>
Currency translation reserve	-	-	515	-	<b>515</b>
<b>Total</b>	<b>8,111</b>	<b>(2,922)</b>	<b>515</b>	<b>294</b>	<b>5,998</b>
<b>2015</b>					
Effective portion of change in the fair value of cash flow hedges	-	-	-	-	-
Transfer to income statement related to cash flow hedges	-	1,787	-	-	<b>1,787</b>
Re-measurements of post-employment benefit obligations	-	-	-	(289)	<b>(289)</b>
Income tax recorded on re-measurements of post-employment benefit obligations	-	-	-	55	<b>55</b>
Increase in valuation of property plant and equipment, net of tax	28,110	-	-	-	<b>28,110</b>
Decrease in valuation of property plant and equipment, net of tax	(8,969)	-	-	-	<b>(8,969)</b>
Change in estimate for asset retirement obligation	(363)	-	-	-	<b>(363)</b>
Loss of control over subsidiary	-	-	135	-	<b>135</b>
Currency translation reserve	-	-	836	-	<b>836</b>
<b>Total</b>	<b>18,778</b>	<b>1,787</b>	<b>971</b>	<b>(234)</b>	<b>21,302</b>



## 19 Borrowings

As at 31 December, borrowings were as follows:

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
<b>Non-current</b>		
Eurobonds	21,221	11,713
Bank borrowings	-	3,666
	<b>21,221</b>	<b>15,379</b>
<b>Current</b>		
Eurobonds	-	2,842
Bank borrowings	34,724	28,952
Interest accrual	2,003	792
	<b>36,727</b>	<b>32,586</b>
<b>Total borrowings</b>	<b>57,948</b>	<b>47,965</b>

Movements in borrowings during the period are as follows:

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
<b>Opening balance as at 1 January</b>	<b>47,965</b>	<b>27,010</b>
Extinguishment of Eurobonds	(3,316)	-
Redemption of Eurobonds	(811)	(250)
New Eurobonds recognised	3,316	-
Repayment of borrowings	(3,309)	(33,656)
New borrowings	2,355	33,484
(Decrease)/increase in borrowings due to cash pooling arrangements	(1,423)	2,182
Loans recognised at termination of gross-settled derivatives	923	-
Interest and renegotiation costs accrued during the period (Note 31)	6,163	3,753
Interest and renegotiation costs paid during the period	(4,870)	(3,409)
Foreign exchange loss including currency translation difference	16,584	18,854
Recognition of discount	(80)	(3)
Disposal of subsidiary (Note 16)	(5,549)	-
<b>Closing balance as at 31 December</b>	<b>57,948</b>	<b>47,965</b>

As at 31 December, the Group's borrowings were denominated in the following currencies:

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Borrowings denominated in:		
- UAH	2,907	4,239
- US Dollars	33,732	22,695
- Euros	11,108	12,111
- Roubles	10,201	8,920
<b>Total borrowings</b>	<b>57,948</b>	<b>47,965</b>

As at 31 December, the maturity of the Group's loans and borrowings were as follows:

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Loans and borrowings due:		
- within 1 year	36,727	32,586
- between 1 and 5 years	21,221	13,332
- after 5 years	-	2,047
<b>Total borrowings</b>	<b>57,948</b>	<b>47,965</b>

## 19 Borrowings (Continued)

The effective interest rates and currency denomination of loans and borrowings as at the balance sheet date were as follows:

In % per annum	2015				2014			
	UAH	USD	EUR	RUB	UAH	USD	EUR	RUB
	15% - 25%	Libor 3m + 3.25% - 10.38%	Euribor 6m + 1.45% - Euribor 3m +8%	Mosprime 3m + 4.45% - Mosprime 3m + 5.2%	15% - 22%	Libor 3m + 3.25% - 9.5%	Euribor 6m + 1.4% - Euribor 3m +7%	Mosprim e 3m + 4.6% - Mosprim e 3m + 5.2%
<b>Total borrowings</b>	<b>2,907</b>	<b>33,732</b>	<b>11,108</b>	<b>10,201</b>	<b>4,239</b>	<b>22,695</b>	<b>12,111</b>	<b>8,920</b>

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

In April 2015, DTEK Finance PLC, a finance vehicle of the Company, following receipt of the sanction order of the High Court of Justice in relation to the Scheme of Arrangement issued USD 160 million (UAH 3,664 million) Eurobonds bearing 10.375% coupon and maturing in September 2017 and March 2018 (hereinafter 2017 Eurobonds). The new Eurobonds were exchanged with the issue maturing in 2015. Under the Scheme of Arrangement DTEK paid in cash to third parties USD 36 million (UAH 811 million), being 20 percent of the nominal value of the outstanding principle of USD 181 million (UAH 4,127 million). For the remainder of bonds with nominal value of USD 19 million (UAH 435 million) that were previously re-purchased by the Group on the open market, DTEK followed the same conversion principle, being 20% reduction in the nominal amount. These re-purchased bonds are in custody of DTEK and are eliminated on consolidation. As at 31 December 2015, the liability under the new Eurobonds to the third parties amounted to USD 145 million (UAH 3,475 million). The Eurobonds are unsecured. The new Eurobond indenture contains specific covenants, including limitations on payments to shareholders, restrictions on permissible business activities, requirements for arm's length affiliate transactions, financial disclosure requirements and a maximum permissible level of leverage. Events of default are comprehensive and include cross-acceleration provision related to acceleration of payments for other debt. Proceeds from the Eurobonds issue were used to finance Exchange Offer in line with the provisions of the Scheme of Arrangement.

**Bank borrowings.** During January to June 2015 the Group paid due interest and repaid 10% of principal payments while deferring substantial portions of principal amounts. Further, starting from 1 July 2015, after respective discussions with the lenders, the Group has not paid the principal instalments but has continued to pay interest until October. After October 2015 the Group did not pay interest and principal with some minor exceptions.

Discussions with banks are conducted with a view to agree on rescheduling plans, including repayment extension and adjustment to other terms.

As at 31 December 2015, borrowings totalling UAH 150 million (31 December 2014: UAH 150 million) were secured with property, plant and equipment (Note 33).

**Covenants and fair value.** The loan agreements with respect to bank borrowings 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 debt of the Group.

As at 31 December 2014, the Group was in breach (as a result of the remeasurement of borrowings using the year end exchange rate) of certain financial covenants on a number of loans related to the ratio of indebtedness to EBITDA. Additionally, covenants in relation to tangible net worth for some loans were also breached. Furthermore, as a consequence of these loan covenant breaches, some other loans covenants were also breached. Throughout 2015, the Group continued to be in breach of bank financial covenants and therefore all bank borrowings are classified as current.

The indentures for the Group's 2017 and 2018 Eurobonds also contain a debt incurrence covenant where a breach of consolidated leverage ratio due to currency exchange rate fluctuations does not lead to event of default. This, however, restricts the Company's ability to incur additional debt, except for certain types of permitted indebtedness. Additionally, the bonds indenture include a cross-acceleration clause provision which is applicable only to the extent that an acceleration of other financial indebtedness (subject to certain thresholds) takes place. As at 31 December 2015 there were no events of acceleration.

As of 31 December 2015, the Group's bonds maturing in 2017 and 2018 were traded on open markets with discount in a range of 43-46% to their nominal value. However, as trading volumes are low, these trades may not represent the fair value of bonds. Further, given the current default status on loans and borrowings and the uncertainties on the timing of cash flows on their repayment, management considers it is impracticable to estimate a fair value of the borrowings and other financial liabilities as at 31 December 2015.

## 20 Other Financial Liabilities

As at 31 December, non-current financial liabilities comprised:

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Deferred consideration for acquisition	4,112	2,698
Restructured trade payables	666	1,245
Payable for finance lease	424	287
Guarantee provided to related party	49	-
Restructured taxes payable	8	11
Loans payable to related parties (Note 8)	-	2,331
Other long-term financial liabilities	99	151
<b>Total non-current other financial liabilities</b>	<b>5,358</b>	<b>6,723</b>

Deferred consideration for acquisition relates primarily to acquisition of coal mines. It is carried at amortised cost at an effective discount rate of 16.8% per annum and matures in 2060. In 2015 estimated cash flows for the deferred consideration were remeasured in accordance with inflation in Ukraine.

Restructured trade payables include UAH 1,298 million (31 December 2014: UAH 1,728 million) of restructured long-term payable to the energy seller monopolist Energorynok SE which sells the energy to distribution companies of the Group, and UAH 188 million of restructured trade payable for state-owned Vugillya Ukrayiny (31 December 2014: 124 UAH million). Restructured trade payables are recognised at fair value and subsequently accounted for at amortised cost and are discounted rate at a rate ranging between 14.8% and 19.30%.

The loans payable to related parties were recognised at fair value and accounted for under amortised cost at effective interest of 8%. The loans were obtained from DTEK B.V. subsidiary in the Netherlands having majority of its assets in Ukraine outside of non-controlled territory are due in 2023 and 2025, however were repaid in 2015 before the final maturity date. Respective loss on early repayment was recognised in the income statement (Note 31).

Upon demerger of Wind Power LLC the Group recognised a loan receivable which was previously eliminated in the consolidated financial statements. Subsequently after the transfer date, this loan receivable in the amount of UAH 2,521 million was offset with loan payable to related party denominated in Euro and being an equivalent of UAH 2,895 million at the date of transaction (31 December 2014: UAH 1,723 million). The remaining portion of loan payable, being UAH 374 million, was extinguished with no effect on the Group's cash liquidity position as a result of instantaneous repayment of the related party loan receivable by the Group in the same amount of UAH 374 million. Increase in loan payable balance at the date of transaction compared to the outstanding balance as at 31 December 2014 was caused by devaluation of local currency in relation to Euro and amortisation of discount.

As part of acquisition of the mining assets in 2011, the Group assumed certain restructured tax obligations that are due between 2013 and 2030. The obligations have been discounted at implied rates in a range from 16.6% to 18.6%.

As at 31 December, current financial liabilities of the Group comprised:

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Gross-settled derivative financial instruments	5,458	6,479
Current portion of restructured trade payable	732	551
Current portion of deferred consideration	98	79
Restructured taxes payable	20	42
Loans payable	11	17
<b>Total current other financial liabilities</b>	<b>6,319</b>	<b>7,168</b>

During 2011 - 2013 DTEK concluded agreements for a swap of RUB denominated loans with floating rate for a USD and EUR denominated loans with fixed rate. As described in Note 3, the Group adopted hedge accounting for these transactions starting from 1 January 2013. Starting from 1 July 2014 management decided to discontinue the hedge accounting application since they do not expect the hedge will be highly effective in the future. Cash flow hedge was discontinued prospectively. The cumulative loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective (from 1 January 2013 to 30 June 2014) will remain separately in equity and reclassified to profit or loss in the periods when the forecast transaction occurs. The hedged highly probable forecast transactions denominated in foreign currency are expected to occur in subsequent periods until the repayment of borrowings/

## 20 Other Financial Liabilities (Continued)

A portion of accumulated result in hedge reserve in equity for the period when the hedge was effective was reclassified during the year 2015 to profit and loss as follows: an operating foreign exchange loss on USD/EUR denominated future outflows in the amount of UAH 2,200 million was offset with net operating foreign exchange gains (2014: UAH 856 million of operating foreign exchange loss on USD/EUR denominated future outflows was offset with operating foreign exchange gains and UAH 3,098 of financing foreign exchange gain on RUB denominated future inflows was offset with foreign exchange losses on financing activities); and finance income related to a portion of the difference in forward interest rates in the amount of UAH 403 million (2014: UAH 210 million) was netted with finance costs on borrowings.

Starting from 1 July 2014 management decided to discontinue the hedge accounting application since they do not expect the hedge will be highly effective in the future. Cash flow hedge was discontinued prospectively. The cumulative loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective (from 1 January 2013 to 30 June 2014) will remain separately in equity and reclassified to profit or loss in the periods when the forecast transaction occurs.

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months and subsequently until the repayment of borrowings.

In March and July 2015 an 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 years.

As result of loss of control over subsidiary the Group derecognised UAH 531 million of restructured trade payables.

## 21 Retirement Benefit Obligations

The Group's production companies have a legal obligation to compensate the Ukrainian state pension fund for additional pensions paid to certain categories of former employees of the Group. There are also lump sum benefits payable upon retirement and post-retirement benefit programs.

In 2015 the defined benefit plan covers 119,784 people, including 20,350 ex-employees (2014: 125,556 and 23,260 respectively).

None of the employee benefits plans stated below are funded.

The defined employee benefit liability as at 31 December originated as follows:

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Retirement benefits	3,843	3,682
Retirement benefits - coal support	1,019	880
Lump sum payments	527	407
<b>Present value of Retirement benefit obligation</b>	<b>5,389</b>	<b>4,969</b>

The amounts recognised in the income statement were as follows:

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Current service cost	162	203
Interest cost (Note 31)	707	654
Past service gain/ Sequester	(227)	(54)
<b>Total</b>	<b>642</b>	<b>803</b>

## 21 Retirement Benefit Obligations (Continued)

Changes in the present value of the defined benefit obligation were as follows:

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
<b>Defined benefit obligation as at 1 January</b>	<b>4,969</b>	<b>5,131</b>
Current service cost	162	203
Interest cost (Note 31)	707	654
Past service gain/ Sequester	(227)	(54)
Foreign exchange losses	6	11
Benefits paid	(517)	(617)
Re-measurements of the defined benefit liability resulting from:		
- changes in financial assumptions	144	(516)
- changes in demographic assumptions	15	57
- experience adjustments	130	100
<b>Defined benefit obligation as at 31 December</b>	<b>5,389</b>	<b>4,969</b>

The estimate of pension obligations requires significant judgement (see Note 4). The principal actuarial assumptions used were as follows:

	<b>2015</b>	<b>2014</b>
Nominal discount rate	16.04%	16.04%
Nominal salary increase	5.00%-10.00%	5.00%-10.00%
Pension indexation rate	3.60%	3.60%

Since there are no long-term high quality corporate bonds in Ukraine, the Group applies market rates on Ukrainian government bonds of appropriate maturity to discount post-employment benefit obligations.

The sensitivity of the defined benefit obligation to changes in the principal assumptions is as follows:

	<b>2015</b>	<b>2014</b>
Nominal discount rate increase/decrease by 1%	(5.74%)/6.41%	(5.86%)/6.55%
Nominal salary increase/decrease by 1%	2.35%/(2.18%)	2.45%/(2.28%)
Pension indexation rate increase/decrease by 1%	2.00%/(1.97%)	2.29%/(2.14%)

As at 31 December 2015, the weighted average maturity of the Group's defined benefit obligations is 7.1 years and it varies across different Group's subsidiaries from 6 to 11.66 years (31 December 2014: 7.42 years, varying from 6.3 to 10.8 years). Payments in respect of defined benefit obligations expected to be made during the year ending 31 December 2016 are UAH 894 million (2015: UAH 728 million).

As a result of several changes into the pensions legislation the early retirement was increased for the additional 5 years. Consequently, due to pension age postponed the Group recognised past service gain in amount of UAH 227 million for the year ended 31 December 2015.

## 22 Provisions for Other Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

<i>In millions of Ukrainian Hryvnia</i>	<b>Asset retirement provision</b>	<b>Provision for legal claims</b>	<b>Total</b>
<b>At 1 January 2014</b>	<b>691</b>	<b>1,112</b>	<b>1,803</b>
Change in estimates	(59)	-	(59)
Arising during the year	4	3	7
Unwinding of discount (Note 31)	65	-	65
Reversal of provision	-	(4)	(4)
Utilised	(13)	(2)	(15)
Demerger of subsidiaries (Note 16)	(18)	(1,084)	(1,102)
<b>At 31 December 2014</b>	<b>670</b>	<b>25</b>	<b>695</b>
Change in estimates	544	-	544
Arising during the year	-	92	92
Unwinding of discount (Note 31)	76	-	76
Reversal of provision	-	(13)	(13)
Utilised	(13)	(4)	(17)
Demerger of subsidiaries (Note 16)	-	(2)	(2)
<b>At 31 December 2015</b>	<b>1,277</b>	<b>98</b>	<b>1,375</b>

The asset retirement provision is attributable to the mining and energy generating activities of the Group resulting from the obligation to dismantle and remove the mines and remediate soils disturbed by the underground works and ash dumps to the extent of existing revaluation reserve. The increase of the asset retirement obligation was recorded in other reserves as the Group uses the fair value model to measure property, plant and equipment (Note 18).

Key assumptions used to calculate asset retirement provision were as follows:

	<b>2015</b>	<b>2014</b>
Pre-tax nominal discount rate	16.04%	17.94%
Inflation long-term	5.00%	5.00%
Inflation middle-term	7.00%	7.27%

## 23 Trade and Other Payables

As at 31 December trade and other payables were as follows:

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Trade payables	11,931	10,303
Liabilities for purchased property, plant and equipment	1,073	885
Dividends payable	58	62
Liabilities for purchased securities	12	13
Other creditors	778	453
<b>Total financial payables</b>	<b>13,852</b>	<b>11,716</b>
Accruals for employees' unused vacations	696	753
Wages and salaries payable	866	668
<b>Total non-financial payables</b>	<b>1,562</b>	<b>1,421</b>
<b>Total</b>	<b>15,414</b>	<b>13,137</b>

As result of loss of control over subsidiary the Group derecognised UAH 15 million of trade and other payables.

## 23 Trade and Other Payables (Continued)

Analysis by currency and future undiscounted cash flows of financial trade and other payables is as follows:

### 31 December 2015

<i>In millions of Ukrainian Hryvnia</i>	Trade payables	Liabilities for purchased securities	Liabilities for purchased property, plant and equipment	Dividends payable	Other creditors
<i>Currency analysis:</i>					
UAH denominated	11,658	12	900	58	767
USD denominated	21	-	-	-	6
EUR denominated	42	-	139	-	5
RUB denominated	209	-	34	-	-
GBP denominated	1	-	-	-	-
<b>Total</b>	<b>11,931</b>	<b>12</b>	<b>1,073</b>	<b>58</b>	<b>778</b>
<i>Future undiscounted cash flow analysis:</i>					
Up to 3 months	11,693	12	1,009	58	758
From 3 to 6 months	97	-	23	-	-
From 6 to 12 months	141	-	41	-	20
<b>Total</b>	<b>11,931</b>	<b>12</b>	<b>1,073</b>	<b>58</b>	<b>778</b>

### 31 December 2014

<i>In millions of Ukrainian Hryvnia</i>	Trade payables	Liabilities for purchased securities	Liabilities for purchased property, plant and equipment	Dividends payable	Other creditors
<i>Currency analysis:</i>					
UAH denominated	10,054	13	776	62	437
USD denominated	9	-	27	-	13
EUR denominated	21	-	49	-	2
RUB denominated	217	-	33	-	1
GBP denominated	2	-	-	-	-
<b>Total</b>	<b>10,303</b>	<b>13</b>	<b>885</b>	<b>62</b>	<b>453</b>
<i>Future undiscounted cash flow analysis:</i>					
Up to 3 months	10,136	13	776	62	425
From 3 to 6 months	137	-	66	-	14
From 6 to 12 months	30	-	43	-	14
<b>Total</b>	<b>10,303</b>	<b>13</b>	<b>885</b>	<b>62</b>	<b>453</b>

## 24 Other Taxes Payable

As at 31 December other taxes payable were as follows:

<i>In millions of Ukrainian Hryvnia</i>	2015	2014
Payroll taxes	608	337
Value-added tax	397	593
Other taxes	1,436	573
<b>Total other taxes payable</b>	<b>2,441</b>	<b>1,503</b>

## 25 Revenue and Heat Tariff Compensation

Analysis of revenue by category is as follows:

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Sale of electricity to final customers	43,600	38,583
Sale of electricity to electricity pool	32,648	34,252
Heat generation	5,611	3,536
Sale of steaming and coking coal	4,149	5,300
Sale of electricity abroad	3,230	5,077
Sale of gas	3,160	3,655
Other sales	316	313
<b>Total</b>	<b>92,714</b>	<b>90,716</b>

Geographical analysis of revenue is presented in Note 7.

### **Heat tariff compensation**

Heat tariff compensation is a government grant and represents the difference between heat tariff required to cover all production costs plus reasonable margin and that imposed by the State, compensated to the Group regularly. The amount of the difference to be compensated to the Group by the State for 2015 was UAH 908 million (2014: UAH 1,230 million). After the changes in legislation starting from 1 June 2014 heat tariff was revised and increased to economically grounded. After these changes direct revenue of the Company from heat supply is increased simultaneously with decrease of heat tariff compensation. However, due to dynamic changes in operating environment the costs of the Company are still higher than heat tariffs which lead to recognition of receivables for heat tariff compensation as at 31 December 2015 which was proved by State authorities.

Following this change, the Group anticipates that settlement for accounts receivable for supplied heat will be faster as cash will be received directly from the customers but it also expects higher level of bad debts due to higher tariffs.

## 26 Cost of Sales

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Cost of electricity purchased for resale	43,161	39,091
Raw materials	13,369	13,261
Staff cost, including payroll taxes	10,476	11,740
Depreciation of property, plant and equipment and amortisation of intangible assets	8,059	6,499
Transportation services and utilities	7,031	4,954
Cost of gas purchased for resale	3,267	3,409
Taxes, other than income tax	1,434	1,619
Production overheads	1,047	1,058
Equipment maintenance and repairs	444	564
Rent of infrastructure	8	100
Cost of coal purchased for resale	6	343
Change in finished goods and work in progress	(54)	(1,526)
Other costs	84	35
<b>Total</b>	<b>88,332</b>	<b>81,147</b>



**27 Other Operating Income**

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Insurance compensation	203	14
Penalties	100	100
Gain on sales of inventory	34	-
Income from extinguishment of accounts payable	31	45
Assets received free of charge	23	121
Income from recovery on previously written off trade receivables	5	6
Other	65	97
<b>Total</b>	<b>461</b>	<b>383</b>

**28 Distribution Costs**

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Transportation	1,063	1,235
Staff cost, including payroll taxes	45	36
Depreciation	25	10
Other costs	123	103
<b>Total</b>	<b>1,256</b>	<b>1,384</b>

**29 General and Administrative Expenses**

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Staff cost, including payroll taxes	1,522	1,484
Professional fees	338	184
Office costs	208	195
Depreciation of property, plant and equipment and amortisation of intangible assets	131	151
Transportation	28	29
Taxes, other than income tax	18	61
Other costs	98	92
<b>Total</b>	<b>2,343</b>	<b>2,196</b>

**30 Other Operating Expenses**

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Net movement in provision for impairment of trade and other receivables and prepayments made (Note 14)	3,385	527
Expenses on idle capacity	1,770	575
Non-recoverable VAT	998	69
Charitable donations and sponsorship	445	292
Social payments	273	532
Taxes, other than VAT	240	29
Maintenance of social infrastructure	153	177
Loss from sales of services	122	89
Penalties	87	54
Loss from sales of inventory	-	3
Other	452	404
<b>Total</b>	<b>7,925</b>	<b>2,751</b>

Expenses on idle capacity represents payroll, depreciation and other costs incurred at mines being not operating at full capacity due to inability to transport produced coal, and maintenance of mines with suspended extraction. These mines are mainly located at non-controlled territory.

### 31 Finance Income and Finance Costs

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Gain from modification of terms of a loan with related party (Note 8,12)	1,347	-
Interest income on loans issued to related parties (Note 8)	561	88
Interest income on bank deposits	452	541
Gain on early repayment of loans provided to related parties (Note 8)	398	-
Unwinding of discount on loans provided to related parties (Note 8)	202	-
Unwinding of discount on long-term restructured accounts receivable	201	325
Gain on early repayment of long-term accounts receivable	190	-
Gain on initial recognition of long term accounts payable	165	17
Gain on initial recognition on loans received from related parties	-	968
Other finance income	27	265
<b>Total finance income</b>	<b>3,543</b>	<b>2,204</b>
Interest expense		
- bank borrowings	3,976	2,459
- Eurobonds issued	1,750	977
- loans provided to related parties	29	-
Change in fair value of derivative financial instruments (Note 20)	3,176	5,063
Loss on change in estimates on deferred consideration related to acquisition	1,183	374
Loss on early repayment of loans received from related parties (Note 8, 20)	1,081	-
Unwinding of discounts on pension obligations (Note 21)	707	654
Unwinding of discounts on deferred consideration related to acquisition	581	331
Interest on restructured taxes	366	-
Unwinding of discounts on long term accounts payable	344	620
Loss on initial recognition of long-term restructured accounts receivable	113	663
Loss on extinguishment of Eurobonds	113	-
Unwinding of discounts on assets retirement provision (Note 22)	76	65
Loss on early repayment of long-term payables	58	-
Loss on initial recognition of loans provided to related parties	-	1,633
Other finance costs	18	23
<b>Total finance costs</b>	<b>13,571</b>	<b>12,862</b>

### 32 Income Taxes

Income tax expense comprises the following:

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Current tax	1,264	1,090
Deferred tax	(1,413)	(1,844)
<b>Income tax benefit</b>	<b>(149)</b>	<b>(754)</b>

Deferred income tax related to items recognised in other comprehensive income:

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Revaluation of property, plant and equipment	(4,202)	(1,780)
Change in estimate relating to asset retirement provision recorded in equity	80	(3)
Re-measurement of post-employment benefit obligations	55	(65)
<b>Income tax reported in equity</b>	<b>(4,067)</b>	<b>(1,848)</b>

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine).

**32 Income Taxes (Continued)**

Reconciliation between the expected and the actual taxation charge is provided below.

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
<b>Loss before income tax, including</b>	<b>(35,883)</b>	<b>(17,156)</b>
Loss before income tax of Ukrainian companies	(30,572)	(15,688)
(Loss)/profit before income tax of non-Ukrainian companies	(5,311)	(1,468)
Income tax at statutory rates of 18% (Ukrainian operations)	(5,503)	(2,824)
Profit taxed at different rates 25% (Dutch operations)	845	1,470
Profit taxed at different rates 12,5% (Cyprus operations)	(452)	(416)
Profit taxed at different rates 20% (Russian operations)	(131)	(304)
Profit taxed at different rates 12% (Switzerland operations)	(445)	(345)
Profit taxed at different rates 20% (UK operations)	(146)	58
Profit taxed at different rates 19% (Hungary operations)	4	-
Effect of changes in income tax rates in Ukraine	-	158
Effect of changes in Tax legislation in Ukraine	-	(371)
Tax effect of items not deductible or assessable for taxation purposes:		
- non-deductible expenses	2,305	1,106
- non-taxable income	(130)	(21)
Unrecognised deferred tax on tax losses carried forward	3,306	2,071
Indexation of property, plant and equipment in tax accounting	-	(805)
Tax effect of non-taxable forex losses/(gains) on foreign subsidiaries, net	(267)	(531)
Loss of control over subsidiary	288	-
Write-down of deferred tax assets	177	-
<b>Income tax benefit</b>	<b>(149)</b>	<b>(754)</b>

The parent and its subsidiaries are separate tax payers and therefore the deferred tax assets and liabilities are presented on an individual basis. The deferred tax liabilities and assets reflected in the consolidated balance sheets as at 31 December are as follows:

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Deferred tax asset	608	1,057
Deferred tax liability	(3,747)	(1,276)
<b>Net deferred tax liability</b>	<b>(3,139)</b>	<b>(219)</b>

<i>In millions of Ukrainian Hryvnia</i>	<b>1 January 2015</b>	<b>Transfer related to demerge</b>	<b>Credited/ (charged) to income</b>	<b>Charged to OCI</b>	<b>31 December 2015</b>
<b>Tax effect of deductible temporary differences</b>					
Retirement benefit obligations	878	-	33	55	966
Deferred consideration	403	-	173	-	576
Provisions for other liabilities and charges	139	(8)	28	80	239
Tax losses	529	(465)	160	-	224
Financial investments	340	-	(151)	-	189
Trade and other receivables	-	-	87	-	87
Trade and other payables	294	(2)	(226)	-	66
Inventories	120	-	(79)	-	41
Prepayments received	20	-	(16)	-	4
<b>Gross deferred tax asset</b>	<b>2,723</b>	<b>(475)</b>	<b>9</b>	<b>135</b>	<b>2,392</b>
Less offsetting with deferred tax liabilities	(1,666)	-	(118)	-	(1,784)
<b>Recognised deferred tax asset</b>	<b>1,057</b>	<b>(475)</b>	<b>(109)</b>	<b>135</b>	<b>608</b>
Property, plant and equipment	(2,671)	209	1,226	(4,202)	(5,438)
Prepayments made	(23)	-	(1)	-	(24)
Other financial liabilities	(157)	-	88	-	(69)
Trade and other receivables	(91)	-	91	-	-
<b>Gross deferred tax liability</b>	<b>(2,942)</b>	<b>209</b>	<b>1,404</b>	<b>(4,202)</b>	<b>(5,531)</b>
Less offsetting with deferred tax assets	1,666	-	118	-	1,784
<b>Recognised deferred tax liability</b>	<b>(1,276)</b>	<b>209</b>	<b>1,522</b>	<b>(4,202)</b>	<b>(3,747)</b>
<b>Recognised net deferred tax liability</b>	<b>(219)</b>	<b>(266)</b>	<b>1,413</b>	<b>(4,067)</b>	<b>(3,139)</b>

**32 Income Taxes (Continued)**

<i>In millions of Ukrainian Hryvnia</i>	1 January 2014	Transfer related to demerge	Credited/ (charged) to income	Charged to OCI	31 December 2014
<b>Tax effect of deductible temporary differences</b>					
Retirement benefit obligations	827	-	116	(65)	878
Tax losses	234	455	(160)	-	529
Deferred consideration	374	-	29	-	403
Trade and other payables	359	11	(76)	-	294
Provisions for other liabilities and charges	151	-	(9)	(3)	139
Inventories	130	-	(10)	-	120
Prepayments received	3	-	17	-	20
Financial investments	159	-	181	-	340
Trade and other receivables	584	-	(584)	-	-
<b>Gross deferred tax asset</b>	<b>2,821</b>	<b>466</b>	<b>(496)</b>	<b>(68)</b>	<b>2,723</b>
Less offsetting with deferred tax liabilities	(1,887)	157	64	-	(1,666)
<b>Recognised deferred tax asset</b>	<b>934</b>	<b>623</b>	<b>(432)</b>	<b>(68)</b>	<b>1,057</b>
<b>Tax effect of taxable temporary differences</b>					
Property, plant and equipment	(3,575)	1,400	1,284	(1,780)	(2,671)
Trade and other receivables	(422)	-	331	-	(91)
Prepayments made	(26)	-	3	-	(23)
Other financial liabilities	(879)	-	722	-	(157)
<b>Gross deferred tax liability</b>	<b>(4,902)</b>	<b>1,400</b>	<b>2,340</b>	<b>(1,780)</b>	<b>(2,942)</b>
Less offsetting with deferred tax assets	1,887	(157)	(64)	-	1,666
<b>Recognised deferred tax liability</b>	<b>(3,015)</b>	<b>1,243</b>	<b>2,276</b>	<b>(1,780)</b>	<b>(1,276)</b>
<b>Recognised net deferred tax liability</b>	<b>(2,081)</b>	<b>1,866</b>	<b>1,844</b>	<b>(1,848)</b>	<b>(219)</b>

Revisions were introduced to the Tax Code of Ukraine from 1 January 2015. Further revisions were introduced to the Tax Code from 1 January 2016 (Note 38). These changes were considered to be substantially enacted with respect of calculation of deferred taxes as at 31 December 2014 and 31 December 2015, respectively.

Financial investments and other financial liabilities include deferred tax recognised on amortisation of intercompany bonds.

As at 31 December 2015, the Group has not recorded a deferred tax liability in respect of taxable temporary differences of UAH 1,101 million (31 December 2014: UAH 642 million) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

As at 31 December 2015, net recognised deferred tax liability of UAH 789 million is expected to be recovered or settled within twelve months after the reporting period (31 December 2014: UAH 457 million).

The deferred tax asset on unused tax losses not recognised as at 31 December 2015 comprised UAH 5,775 million (31 December 2014: UAH 2,469 million).

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

**33 Contingencies, Commitments and Operating Risks**

**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.

### 33 Contingencies, Commitments and Operating Risks (Continued)

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.

On 1 September 2013 the Law “On Changes to the Tax Code of Ukraine in respect of transfer pricing rules” came into effect. The new transfer pricing rules are much more detailed than previous legislation and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), if the transaction price is not arm's length and not supported by relevant documentation. Since 1 January 2015, the transfer pricing rules were amended so that transactions between Ukrainian companies (irrespective whether they are related parties or not) ceased to be treated as controlled transactions.

Management believes it is taking appropriate measures to ensure compliance with the new transfer pricing legislation.

**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 31 December 2015 the Group's contingent liabilities in relation to legal claims on the Group's contractual obligations are equal to UAH 2,824 million (31 December 2014: UAH 232 million) and contingent liabilities in relation to tax litigations equal to UAH 467 million (31 December 2014: UAH 411 million).

**Capital expenditure commitments.** Following the acquisition of mining assets in 2011, the Group is committed to fund their investment programmes totalling UAH 7,727 million during the period 2011 through 2016. As at 31 December 2015 the outstanding commitment equals UAH 2,719 million (31 December 2014: UAH 2,918 million).

**Purchase commitments.** As at 31 December 2015 the Group has purchase commitments for the property, plant and equipment purchase in the amount of UAH 102 million (31 December 2014: UAH 196 million).

**Assets pledged and restricted.** At 31 December the Group has the following assets pledged as collateral:

<i>In millions of Ukrainian Hryvnia</i>	<b>Asset pledged</b>	<b>2015 Related liability</b>	<b>Asset pledged</b>	<b>2014 Related liability</b>
Financial investments (Note 12)	1,500	1,500	3,529	3,671
Property, plant and equipment (Note 9)	636	150	506	150
Cash and cash equivalents (Note 12 and 15)	16	16	2,717	2,776
<b>Total</b>	<b>2,152</b>	<b>1,666</b>	<b>6,752</b>	<b>6,597</b>

The Group has pledged proceeds from future sales of electricity and part of future volume of electricity as security for certain 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 31 December 2015 future sales proceeds and the volume of electricity production in amount of UAH 960 million were pledged as security for borrowings amounting UAH 800 million (31 December 2014: future sales proceeds and production of electricity totalling UAH 960 million were pledged as security for the borrowings of UAH 761 million).

The Group has pledged proceeds from future export sales of coal as security for its borrowings. As at 31 December 2015 future sales proceeds of coal in amount of UAH 18,771 million were pledged as security for borrowings amounting UAH 8,197 million. (31 December 2014: UAH 13,798 million for UAH 5,673 million borrowings).

As at 31 December 2015 the movable and immovable property of the Group having value of UAH 85 million is encumbered with a tax lien (2014: UAH 133 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 31 December 2015 the Group has breached certain covenants under a number of facility agreements. The Company has approached in advance its creditors with waiver and consent requests covering the issues related to breach of financial ratios (Note 19).

### 33 Contingencies, Commitments and Operating Risks (Continued)

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

**Cancellation of DTEK Dniproenergo PJSC and DTEK Dniprooblenergo PJSC privatisation.** On 30 July 2015 the court of first instance ruled in favour of the claim by the office of the general prosecutor against the 2012 privatisation of a 25% interest in Dniproenergo. The basis for the claim being that the privatisation was approved by the Cabinet of Ministers of Ukraine in excess of its power, and, as a consequence, the privatisation by the State Property Fund was in contradiction with applicable laws. The Appeal Court and the Supreme Court of Ukraine ruled in favour of DTEK. In addition, the claims from several legal entities against privatisation of 25% of interest in DTEK Dniproenergo PJSC (Coal and power generation segment) and 50% of interest in DTEK Dniprooblenergo PJSC (Electricity distribution segment) were registered. The first level court has ruled in favour of DTEK. The Group believes that it has complied with applicable legislation, regulations with respect to share purchases and the acquisition of the relevant assets. The Group is of the view that there are strong legal grounds to support these cases. Management intends to take all necessary legal actions to retain its ownership rights over the interests in DTEK Dniproenergo PJSC and DTEK Dniprooblenergo PJSC. The assets and revenues of these entities are disclosed in Note 6.

**Operating lease commitments.** Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

<i>In millions of Ukrainian Hryvnia</i>	<b>2015</b>	<b>2014</b>
Not later than 1 year	4	30
Later than 1 year and not later than 5 years	34	45
<b>Total operating lease commitments</b>	<b>38</b>	<b>75</b>

**Lease of land.** The Group leases the land on which its assets are located. The annual lease payment in 2015 amounted to UAH 194 million (2014: UAH 168 million). Those payments are cancellable lease commitments.

### 34 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 Group's overall risk management policies seek to minimise the potential adverse effects on the Group's financial performance for those risks that are manageable or noncore to the power generating business.

Risk management is carried out by a centralised treasury department working closely with the operating units, under policies approved by the supervisory board. The Group treasury identifies, evaluates and proposes risk management techniques to minimise these exposures.

**Credit risk.** The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

Credit risk is managed on an entity by entity basis with oversight by the Group. Credit risk arises from cash and cash equivalents, financial instruments and deposits with banks, as well as credit exposure to wholesale and retail customers, including outstanding receivables and committed transactions. For Banks only upper tier Ukrainian or international banks are accepted, which are considered at time of deposit to have minimal risk of default. Customers can be analysed between Energorynok SE, which buys 100% of electricity generated, industrial consumers and other. Due to the monopolistic nature of electricity supply by region, the Group cannot choose its customers, and instead must supply all customers within its distribution network. Sales are metered and management monitors ageing of receivables for industrial customers on a regular basis and ultimately may cut off supply for delinquent customers. For supply to municipal and the general populous, due to the low tariff structure and the political nature of disrupting supply management will continue to supply in the event non-payment and will use non-payment as justification for higher tariff increases for industrial customers. The exposure to credit risk for other customers is approved and monitored on an ongoing basis individually for all significant customers. The Group does not require collateral in respect of trade and other receivables.

### 34 Financial Risk Management (Continued)

The Group establishes a provision for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this provision are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss provision is determined based on historical data of payment statistics for similar financial assets. The Group does not create provision for receivables from related parties.

The maximum exposure to credit risk at the reporting date is UAH 30,696 million (2014: UAH 29,908 million) being carrying value of financial investments, trade and other receivables, guarantee provided to related parties and cash. The Group does not hold any collateral as security.

**Credit risks concentration.** The Group is exposed to concentrations of credit risk.

The table below shows the balance of the major counterparties at the balance sheet date.

Counterparty	Classification in balance sheet	31 December 2015	31 December 2014
First Ukrainian International Bank (FUIB)**	Cash and cash equivalents	499	2,364
State Savings Bank of Ukraine PJSC*	Cash and cash equivalents	126	2,141
Deutsche Bank AG Amsterdam	Cash and cash equivalents	63	1,092
Sberbank of Russia JSC	Cash and cash equivalents	14	18
Renaissance capital bank	Cash and cash equivalents	-	936
Ukrsotsbank PJSC*	Cash and cash equivalents	-	400
VTB Bank PJSC*	Cash and cash equivalents	-	300
Black Sea bank for reconstruction and development	Cash and cash equivalents	-	229
Russian Commercial Bank	Cash and cash equivalents	-	138
DTEK Oil and Gas Group	Financial investments	9,701	4,028
Sberbank of Russia JSC	Financial investments	1,500	-
State Savings Bank of Ukraine PJSC*	Financial investments	-	861
First Ukrainian International Bank (FUIB)**	Financial investments	-	239
Energorynok SE	Trade and other receivables	5,111	4,754
DTEK Oil and Gas Group	Trade and other receivables	1,178	3
State Company Voda Donbassu	Trade and other receivables	677	1,389
Enakievo Metallurgical Plant	Trade and other receivables	530	139
Kievvodokanal OJSC	Trade and other receivables	211	281
Komenergoserwis	Trade and other receivables	195	153
State Coal Company	Trade and other receivables	179	-

\* These banks rank in the top 12 Ukrainian banks by size of total assets and capital (per National Bank of Ukraine).

In March 2015 the Group recognised a guarantee provided to related party in the amount of UAH 49 million (Note 20). In case the related party fails to meet its obligation, the Group's exposure to the credit risk would be UAH 6,154 million.

**Market risk.** The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity investments, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

**Currency risk.** The Group primarily operates within Ukraine and accordingly its exposure to foreign currency risk is determined mainly by borrowings, gross settled derivative financial instruments, cash balances and deposits, which are denominated in or linked to USD, EUR and RUB. Increasing domestic uncertainty, led to volatility in the currency exchange market and resulted in significant downward pressure on the Ukrainian Hryvnia relative to major foreign currencies. While management monitors this exchange exposure, the Group hedges some of its RUB currency positions. Substantial changes in currency rates crucially impact the Group's earning to debt ratio used for covenants.

### 34 Financial Risk Management (Continued)

The following table presents sensitivities of profit or loss and equity before tax to reasonably possible changes in exchange rates applied at the balance sheet date relative to the functional currency of the respective Group entities, with all other variables held constant:

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

<i>In millions of Ukrainian Hryvnia</i>	At 31 December 2015		At 31 December 2014	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 50% (2014: 50%)	(15,006)	(15,006)	(9,636)	(9,636)
USD weakening by 50% (2014: 50%)	15,006	15,006	9,636	9,636
Euro strengthening by 50% (2014: 50%)	(4,609)	(4,609)	(6,059)	(6,059)
Euro weakening by 50% (2014: 50%)	4,609	4,609	6,059	6,059
RUB strengthening by 50% (2014: 50%)	(5,204)	(5,204)	(4,387)	(4,387)
RUB weakening by 50% (2014: 50%)	5,204	5,204	4,387	4,387

**Interest rate risk.** As the Group has substantially more interest bearing liabilities than assets, the Group's income and operating cash flows are substantially dependent of changes in market interest rate. The Group's interest rate risk arises from long-term and short-term borrowings and loans provided to related parties. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings at fixed rate expose the Group to fair value interest rate risk.

At 31 December 2015 and 2014, the majority of the Group's variable interest debt is USD, RUB and EUR denominated. As at 31 December 2015, 58% of the total borrowings was provided to the Group at floating rates (31 December 2014: 61 %).

The Group's exposure to fixed or variable rates is determined at the time of issuing new debt. Management uses its judgment to decide whether fixed or variable rate would be more favourable to the Group over the expected period until maturity. The risk of increase in market interest rates is monitored by the Corporate Finance Department of the Company together with the Treasury Department. The Corporate Finance Department is responsible for planning the financing structure (levels of leverage) and borrowing activities. The key objectives to financing is reduction of borrowing costs, matching currency of borrowings with currency of proceeds from operating activities, and agreeing maturity profile of borrowings with liquidity needs.

The borrowing activities are reviewed on a 12-month budget. Long-term investing activities and associated funding are considered separately.

The maturity dates and effective interest rates of financial borrowings are disclosed in Note 19. Re-pricing for fixed rate financial instruments occurs at maturity. Re-pricing of floating rate financial instruments occurs continually.

At 31 December 2015, if interest rates on USD, EUR and RUB denominated borrowings had been 200 basis points higher (2014: 200 basis points higher) with all other variables held constant, post-tax loss for the year would have been UAH 600 million higher (2014: UAH 340 million higher).

At 31 December 2015, the fixed interest rates vary from 15% to 25% (2014: 15% to 22%). As described in Note 19, borrowings of the Group are at different floating rates, but hedged borrowings are at MOSPRIME.

**Other price risk.** The Group has no exposure to price risk related to financial instruments.

**Liquidity risk.** Prudent liquidity management implies maintaining sufficient cash and marketable securities and the availability of funding to meet existing obligations as they fall due. Management monitors liquidity on a daily basis, management incentive programs use key performance indicators such as EBITDA, free cash flow and cash collections to ensure liquidity targets are actively monitored. Prepayments are commonly used to manage both liquidity and credit risks. The Group has capital construction programs which can be funded through existing business cash flows. To this end, the Group is in discussions with financial institutions with respect to long-term financing. Also refer to Note 3 for further details on this matter.



### 34 Financial Risk Management (Continued)

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are undiscounted cash flows. The maturity analysis of financial liabilities at 31 December 2015 is as follows:

<i>In millions of Ukrainian Hryvnia</i>	<b>Up to 6 months</b>	<b>6 -12 months</b>	<b>1 - 2 years</b>	<b>2 - 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Liabilities</b>						
Borrowings (Note 19)	36,363	10	-	-	-	36,373
Eurobonds (Note 19)	890	860	3,451	20,512	-	25,713
Gross settled derivative financial instruments – outflows	7,927	-	-	-	-	7,927
Gross settled derivative financial instruments – inflows	(3,711)	-	-	-	-	(3,711)
Contractual payments under guarantee to related party	6,154	-	-	-	-	6,154
Other financial liabilities (Note 20)	384	699	825	2,209	86,305	90,422
Trade and other payables (Note 23)	13,390	462	-	-	-	13,852
<b>Total future payments, including future principal and interest payments</b>	<b>61,397</b>	<b>2,031</b>	<b>4,276</b>	<b>22,721</b>	<b>86,305</b>	<b>176,730</b>

The maturity analysis of financial liabilities at 31 December 2014 is as follows:

<i>In millions of Ukrainian Hryvnia</i>	<b>Up to 6 months</b>	<b>6 -12 months</b>	<b>1 - 2 years</b>	<b>2 - 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Liabilities</b>						
Borrowings (Note 19)	30,624	293	575	1,549	2,168	35,209
Eurobonds (Note 19)	3,507	397	916	13,196	-	18,016
Gross settled derivative financial instruments – outflows	16,517	-	-	-	-	16,517
Gross settled derivative financial instruments – inflows	(10,038)	-	-	-	-	(10,038)
Other financial liabilities (Note 20)	234	391	829	2,249	68,111	71,814
Trade and other payables (Note 23)	11,629	87	-	-	-	11,716
<b>Total future payments, including future principal and interest payments</b>	<b>52,473</b>	<b>1,168</b>	<b>2,320</b>	<b>16,994</b>	<b>70,279</b>	<b>143,234</b>

Other financial liability external represents undiscounted future cash flows for deferred consideration payable related to acquisition, finance lease liability and other balances.

### 35 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return on capital to shareholders, issue new shares or sell assets to reduce debt. Currently there is a restriction imposed a dividends payments in the foreign currencies (Note 2). Additionally, management may defer certain capital spending to enhance its debt position.

Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio. This ratio is calculated as net liabilities divided by total capital under management. Net debt is calculated as total borrowing (current and long-term as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital under management equals equity as shown in the consolidated balance sheet.

The Group has yet to determine its optimum gearing ratio. Presently, the majority of debt is classified as current due to covenant breaches and the Group is actively pursuing mechanisms to extend the credit terms to match its long-term investment strategy.

	<b>31 December 2015</b>	<b>31 December 2014</b>
Total net debt	57,242	39,877
Total equity	5,531	19,592
Debt to equity ratio	1,035%	204%

### 36 Fair Value of Assets and Liabilities

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Ukraine continues to display some characteristics of an emerging market, and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

**Financial instruments carried at fair value.** Trading, available-for-sale investments and financial derivatives are carried in the balance sheet at their fair value. Fair values were determined based on quoted market prices or third party valuations using discounted cash flows techniques.

**Financial assets carried at amortised cost.** The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows, expected to be received, discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

**Liabilities carried at amortised cost.** Fair values of other liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. The estimated fair values of the financial liabilities are summarised in the table below. Carrying amounts of trade and other payables approximate fair values.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

#### 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.

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*

	<u>31 December 2015</u>		<u>31 December 2014</u>	
	Level 1	Level 2	Level 1	Level 2
<b>FINANCIAL ASSETS</b>				
<b>Financial investments</b>				
- Securities quoted on Ukrainian stock market (Note 12)	40	-	46	-
<b>TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS</b>	<b>40</b>	<b>-</b>	<b>46</b>	<b>-</b>
<b>FINANCIAL LIABILITIES</b>				
<b>Other financial liabilities</b>				
Gross-settled derivative financial instruments (Note 20)	-	5,458	-	6,479
<b>TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS</b>	<b>-</b>	<b>5,458</b>	<b>-</b>	<b>6,479</b>

## 36 Fair Value of Assets and Liabilities (Continued)

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

The valuers use different approaches for valuing different asset groups. Where the fair value of an asset is able to be determined by reference to market based evidence, such as sales of comparable assets, the fair value is determined using this information. Where fair value of the asset is not able to be reliably determined using market based evidence, discounted cash flows or optimised depreciated replacement cost is used to determine fair value.

The Group's property, plant and equipment are all categorised as Level 3 in the fair value hierarchy. During the year there were no transfers between the levels of the fair value hierarchy.

Current market prices as adjusted for usage were used to assess the fair value. For coal assets the following major assumptions were used. Prices for underground excavations were based on a per kilometre measure with reference to recent actual cost of extending the mine. Buildings were assessed using a cost per cubic metre ranging from UAH 460 per cubic metre to UAH 1,980 per cubic metre. For power generation assets the following major assumptions were used. Turbines equipment were assessed using a cost per 100 MVt, with a range from UAH 114 million to UAH 151 million. Boilers equipment were assessed using a cost per ton of steam per hour with a range from UAH 314 thousands to UAH 659 thousands. Buildings were assessed using a cost per cubic metre ranging from UAH 410 per cubic metre to UAH 2,920 per cubic metre. For electricity distribution assets the following major assumptions were used. Overhead power lines were assessed on a per kilometer basis ranging from UAH 248 thousand to UAH 2,172 thousand per kilometer. Land high-voltage lines and low-voltage lines were also assessed on a per kilometer basis ranging from UAH 9,530 thousand to UAH 18,595 thousand and UAH 200 thousand to UAH 2,992 thousand respectively. Transformer sub stations were assessed based on their capacity with a price range from UAH 4 million to UAH 16 million.

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

In millions of Ukrainian Hryvnia

	31 December 2015				31 December 2014			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
<b>FINANCIAL ASSETS</b>								
<b>Cash and cash equivalents (Note 15)</b>								
- Bank balances payable on demand	-	681	-	681	-	4,296	-	4,296
- Term deposits	-	9	-	9	-	1,075	-	1,075
- Restricted cash	-	16	-	16	-	2,717	-	2,717
<b>Trade and other receivables (Note 14)</b>								
- Trade receivables	-	10,844	-	10,844	-	9,081	-	9,081
- Restructured trade receivables	-	299	-	299	-	1,278	-	1,278
- Other financial receivables	-	1,144	-	1,144	-	566	-	566
<b>Other non-current assets</b>								
Trade and other receivables - non-current	-	223	-	246	-	1,224	-	1,225
<b>Financial investments (Note 12)</b>								
- Deposits placed with the maturity more than three months	-	2	-	2	-	-	-	-
- Restricted deposits	-	1,500	-	1,500	-	3,529	-	3,529
- Loans receivable	-	9,761	-	9,761	-	6,095	-	6,095
<b>TOTAL ASSETS</b>	<b>-</b>	<b>24,479</b>	<b>-</b>	<b>24,502</b>	<b>29,861</b>	<b>29,862</b>	<b>-</b>	<b>29,862</b>
<b>FINANCIAL LIABILITIES</b>								
Liability to non-controlling participants	-	-	-	-	-	7	-	7
Eurobonds (Note 19)	9,507	-	-	21,221	8,181	-	-	14,555
Interest accrual on Eurobonds	-	454	-	454	-	276	-	276
Other financial liabilities (Note 20)	-	1,755	-	2,009	-	4,626	-	4,635
Deferred consideration (Note 20)	-	2,857	-	4,210	-	2,487	-	2,777
Trade and other payables (Note 23)	-	13,852	-	13,852	-	11,716	-	11,716
<b>TOTAL LIABILITIES</b>	<b>9,507</b>	<b>18,918</b>	<b>-</b>	<b>41,746</b>	<b>8,181</b>	<b>19,112</b>	<b>-</b>	<b>33,966</b>

**36 Fair Value of Assets and Liabilities (Continued)**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements:

<i>In millions of Ukrainian Hryvnia</i>	Fair value		Valuation technique	Inputs used
	2015	2014		
<b>FAIR VALUE OF FINANCIAL ASSETS</b>				
<b>FINANCIAL ASSETS</b>				
<i>Trading securities</i>				
<i>Cash and cash equivalents (Note 15)</i>				
- Bank balances payable on demand	681	4,296	Current cost accounting	
- Term deposits	9	1,075	Current cost accounting	
- Restricted cash	16	2,717	Current cost accounting	
<i>Trade and other receivables (Note 14)</i>				
- Trade receivables	10,844	9,081	Current cost accounting	
- Restructured trade receivables	299	1,278	Current cost accounting	
- Other financial receivables	1,144	566	Current cost accounting	
<i>Other non-current assets</i>				
Trade and other receivables - non-current	223	1,224	Discounted cash flows	Interest on loans pursuant to statistical data of Ukrainian banks
<i>Financial investments (Note 12)</i>				
- Deposits placed with the maturity more than three months	2	-	Current cost accounting	
- Restricted deposits	1,500	3,529	Current cost accounting	
- Loans receivable	9,761	6,095	Current cost accounting	
<b>FAIR VALUE OF FINANCIAL LIABILITIES</b>				
Liability to non-controlling participants	-	7	Current cost accounting	
Other financial liabilities (Note 20)	1,755	4,626	Discounted cash flows	Interest on loans pursuant to statistical data of Ukrainian banks
Gross-settled derivative financial instruments (Note 20)	5,458	6,479	Futures pricing models - MTM	Forward exchange and interest rates
Deferred consideration (Note 20)	2,857	2,487	Current cost accounting	
Trade and other payables (Note 23)	13,852	11,716	Current cost accounting	

In 2015 and 2014 there were no changes in valuation technique for level 2 recurring fair value measurements.

### 37 Reconciliation of Classes of Financial Instruments with Measurement Categories

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2015:

	Loans and receivables	Available- for-sale assets	Total
<i>In millions of Ukrainian Hryvnia</i>			
<b>ASSETS</b>			
<b>Cash and cash equivalents (Note 15)</b>			
- Bank balances payable on demand	681	-	681
- Term deposits	9	-	9
- Restricted cash	16	-	16
<b>Trade and other receivables (Note 14)</b>			
- Trade receivables	11,143	-	11,143
- Other financial receivables	1,144	-	1,144
<b>Other non-current assets (Note 14)</b>			
- Trade and other receivables - non-current	246	-	246
<b>Financial investments (Note 12)</b>			
- Equity securities	-	40	40
- Deposits placed with the maturity more than three months	2	-	2
- Loans receivable	9,761	-	9,761
- Restricted deposits	1,500	-	1,500
<b>TOTAL FINANCIAL ASSETS</b>	<b>24,502</b>	<b>40</b>	<b>24,542</b>
<b>NON-FINANCIAL ASSETS</b>			<b>85,484</b>
<b>TOTAL ASSETS</b>			<b>110,026</b>

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2014:

	Loans and receivables	Available- for-sale assets	Total
<i>In millions of Ukrainian Hryvnia</i>			
<b>ASSETS</b>			
<b>Cash and cash equivalents (Note 15)</b>			
- Bank balances payable on demand	4,296	-	4,296
- Term deposits	1,075	-	1,075
- Restricted cash	2,717	-	2,717
<b>Trade and other receivables (Note 14)</b>			
- Trade receivables	10,359	-	10,359
- Other financial receivables	566	-	566
<b>Other non-current assets (Note 14)</b>			
- Trade and other receivables - non-current	1,225	-	1,225
<b>Financial investments (Note 12)</b>			
- Equity securities	-	46	46
- Loans receivable	6,095	-	6,095
- Restricted cash	3,529	-	3,529
<b>TOTAL FINANCIAL ASSETS</b>	<b>29,862</b>	<b>46</b>	<b>29,908</b>
<b>NON-FINANCIAL ASSETS</b>			<b>76,825</b>
<b>TOTAL ASSETS</b>			<b>106,733</b>

**37 Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)**

The following table provides a reconciliation of classes of financial liabilities with these measurement categories as at 31 December 2015:

<i>In millions of Ukrainian Hryvnia</i>	<b>Liabilities at fair value through profit and loss</b>	<b>Other financial liabilities at amortised cost</b>	<b>Total</b>
<b>LIABILITIES</b>			
Borrowings and Eurobonds (Note 19)	-	57,948	57,948
Restructured financial liabilities (Note 20)	-	1,426	1,426
Trade and other payables excluding non-financial liabilities (Note 23)	-	13,852	13,852
Derivative financial instruments (Note 20)	5,458	-	5,458
Other financial liabilities		4,793	4,793
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>5,458</b>	<b>78,019</b>	<b>83,477</b>
<b>NON-FINANCIAL LIABILITIES</b>			<b>21,018</b>
<b>TOTAL LIABILITIES</b>			<b>104,495</b>

The following table provides a reconciliation of classes of financial liabilities with these measurement categories as at 31 December 2014:

<i>In millions of Ukrainian Hryvnia</i>	<b>Liabilities at fair value through profit and loss</b>	<b>Other financial liabilities at amortised cost</b>	<b>Total</b>
<b>LIABILITIES</b>			
Borrowings and Eurobonds (Note 19)	-	47,965	47,965
Restructured financial liabilities (Note 20)	-	1,849	1,849
Trade and other payables excluding non-financial liabilities (Note 23)	-	11,716	11,716
Derivative financial instruments (Note 20)	6,479	-	6,479
Other financial liabilities	-	5,563	5,563
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>6,479</b>	<b>67,093</b>	<b>73,572</b>
<b>NON-FINANCIAL LIABILITIES</b>			<b>13,569</b>
<b>TOTAL LIABILITIES</b>			<b>87,141</b>

**38 Subsequent events**

**Revision to Tax Code.** In late December 2015 the Parliament of Ukraine passed a law that introduced certain changes to the Tax Code effective 1 January 2016. The most significant changes that are expected to impact the Group are:

- Corporate income tax: Quarterly reporting and corporate income tax payments have been introduced. In addition, monthly advance corporate income tax payments have been cancelled, however, advance corporate income tax payments will remain in force for dividend distributions; and
- Social contributions: decrease of social security contribution from the range of 36.76%-49.72% to 22%. This change would lead to decrease of the Group's staff cost.