

Extractive Industries
Transparency Initiative

THE 1ST NATIONAL
REPORT OF UKRAINE
2013

This document is a translation from the original in Ukrainian language.

Any part of this Report should not be changed while its publication and/or other usage. The source should be always mentioned if publishing any data from this Report.

CONTENTS

EXECUTIVE SUMMARY	4
Report of factual findings on collection and reconciliation of cash flows	9
List of abbreviations and glossary of terms	11
1. Extractive industries transparency initiative in the world and in Ukraine	13
2. The methodology and approach used to prepare the EITI Report	14
2.1. Scope of the EITI Report	14
2.2. Collection of information	15
2.3. Data reconciliation	16
3. Overview of Ukraine's oil and gas sector in 2013	18
3.1 General Information about the sector	18
3.2 Largest oil and gas deposits in Ukraine	21
3.3 Hydrocarbon production volumes: 2013 indicators and historical data	24
3.4 Details on reserves of major hydrocarbons in Ukraine.....	29
3.5 Substantial exploration activities carried out in 2013	32
3.6 Transmission of the oil and gas produced within the territory of Ukraine.....	34
3.7 Monitoring of subsurface blocks covered by the special permits issued	37
3.8 Role of the oil and gas sector in Ukraine's economy	39
3.9 Distribution of the state revenues from oil and gas sector	44
4. Regulatory and fiscal oversight of the oil and gas sector in 2013	47
4.1 Overview of laws and regulations governing production matters in the oil and gas sector	47
4.1.1. Subsoil Code of Ukraine.....	47
4.1.2. Law of Ukraine "On Oil and Gas"	48
4.1.3. Other Regulatory Instruments.....	50
4.1.4. Reforms in the oil and gas industry in 2013.....	51
4.2 Functions and powers of state authorities.....	52
4.3 Extractive industry fiscal regime	53
4.3.1. General overview of the legislation and powers of state authorities in the field of taxation	53
4.3.2. Overview of the taxation of extractive companies	54
4.4 Register of special subsurface subsoil permits.....	61
4.5 Special subsoil use permit obtaining procedure	62
4.6 Access to information about ultimate beneficial owners of legal entities	68
4.7 Contracts in the oil and gas sector	69
4.8 Joint Activity regarding the Use of Oil and Gas Fields	71
4.9 Use of the local content in extractive industries	72
4.10 Budget process in Ukraine.....	72
5. Reconciliation of tax and other fees data	75

5.1	Tax payment data reconciliation.....	78
5.1.1	Corporate income tax.....	79
5.1.2	Personal income tax.....	79
5.1.3	Tax on owners of transport facilities, mechanical vehicles and mechanisms	80
5.1.4	Fee for the use of subsurface resources.....	80
5.1.5	Land fee.....	80
5.1.6	Special water use duty	81
5.1.7	VAT	81
5.1.8	Customs duties	82
5.1.9	Rental fee, duties for fuel and energy resources	82
5.1.10	Environmental tax.....	82
5.2	Reconciliation of non-tax payments.....	83
5.2.1	Dividends	83
5.2.2	Fee for administrative services.....	83
5.2.3	State duty	84
5.2.4	Social contributions	84
5.2.5	Contributions to the Disabled People Social Protection Fund.....	85
5.2.6	Fines.....	85
6.	Recommendations on the improvement of the EITI reporting process.....	86
6.1	Enhancement of the sector transparency and simplification of access to the relevant information.....	86
6.2	Creating conditions conducive to the successful preparation of future EITI Reports.....	87
	Annex 1. List of State Authorities and Institutions Surveyed within the Scope of the Development of the 2013 EITI Report.....	91
	ANNEX 2. List of companies engaged in oil and gas production and transportation through the territory of ukraine	93
	ANNEX 3. Questionnaire for the companies of oil and gas sector.....	97
	ANNEX 4. Annual report on tax and other payments for enterprises belonging to extractive industry for 2013.....	106
	ANNEX 5. Powers of state authorities of ukraine in the field of the oil and gas production	117
	ANNEX 6. Reporting companies which disclosed information about their ultimate (beneficial) owners	127
	Annex 7. Essential terms and conditions of the PSA	130
	ANNEX 8. Consolidated database on tax and other payments by enterprises belonging to extractive industry for 2013.....	133

EXECUTIVE SUMMARY

This document is the first EITI Report of Ukraine, which was prepared for 2013 (the “EITI Report”). The main objective of this report is the disclosure of the activities of subsoil users of oil and gas mineral resources (further – “oil and gas companies”) and payments they made to the government in 2013.

EITI report for 2013 covers the companies, regardless of ownership, engaged in oil and / or gas, transportation of oil and/or gas through Ukraine; and central state agencies, local authorities, state-owned and budget-funded enterprises receiving regular and non-regular payments from oil and gas companies. The list of state bodies and public enterprises presented in Annex 1.

Production volumes and reserves of oil and gas

As at 1 January 2014, there were 410 oil and gas deposits in Ukraine, of which 252 deposits were under commercial development. Total initial¹ reserves of oil (with gas condensate) - 1,643 million tons, natural gas - 7,254.3 billion m³. More than 66% of balance reserves of oil and over 83% of balance reserves of natural gas are concentrated in the eastern oil and gas region (Dnieper-Donetsk region). More than 76% of balance reserves of oil and gas condensate and 87% of balance reserves of natural gas belonged to the state through National Joint-Stock Company Naftogaz of Ukraine and National Joint-Stock Company Nadra Ukrainy.

In 2013 the total hydrocarbon production in Ukraine amounted to:

- ▶ Oil and gas condensate: 3,072 thousand tonnes (including 2,172 thousand tonnes of oil)
- ▶ Natural gas (non-associated and dissolved): 21.45 bcm

According to State Statistics Service of Ukraine the natural gas, oil and gas condensate produced within the territory of Ukraine were not exported in 2013.

The majority of oil and gas condensate is produced in Sumy Oblast. At the national level, the production in Ivano-Frankivsk, Lviv, Poltava, Sumy, and Kharkiv Oblasts account for more than 80 percent of the total production of oil and gas condensate in Ukraine.

The majority of natural gas is produced in Kharkiv Oblast. The production in Poltava, Sumy, and Kharkiv Oblasts account for almost 85 percent of the total natural gas production in Ukraine.

Five new deposits were discovered in 2013 in the East oil and gas region. In addition, 33 promising oil and gas objects with the total area of 381.06 square kilometers were prepared for deep well drilling. Further, the construction of 73 exploration and stratigraphic wells was completed in Ukraine’s oil and gas regions. Most of them (57.5 percent) are owned by National

¹ Including forecast reserves, inferred reserves, commercial (production) reserves and the amounts, produced since the beginning of the development (more information - Figure 3.8)

Joint-Stock Company Naftogaz of Ukraine structures. In total, UAH 2,681.58 million was spent on geological prospecting activities in the oil and gas sector in 2013, including UAH 31.39 million directly from the state budget (1.17 percent of the total cost). The remaining funds were spent by companies using their own funds or funds of investors.

Transportation of oil and gas

The natural gas produced in Ukraine's territory is transmitted to consumers via high-pressure gas trunk lines operated by PJSC Ukrtransgaz, as well as medium-pressure and low-pressure gas lines operated by regional gas distribution "oblgaz" companies.

Ukraine's trunk gas transmission system comprises of 38.55 thousand km of gas lines, 72 main compressor stations, 1,455 gas distribution stations, 12 underground gas storage facilities with the nominal capacity of about 31 bcm. The system was mainly designed to transit natural gas produced outside Ukraine to European consumers. The input of the gas transmission system amounts to 287.7 bcm per year at the entry point to Ukraine and 178.5 bcm per year at the exit point from Ukraine.

The Ukrainian system of oil trunk lines is operated by PJSC Ukrtransnafta. Geographically, the oil trunk lines are concentrated in Ukraine's southeast (Prydniprovski Mahistralni Naftoprovody), northwest (Mahistralni Naftoprovody Druzhba), and south (Pivdenni Mahistralni Naftoprovody).

Ukraine's trunk oil line system comprises over 4,700 km of oil lines, 51 pumping stations (with 176 pumping units with the unit capacity up to 12,500 cubic meters per hour having electrical drives with the total capacity in excess of 357,500 kW), and 11 tank farms with the total capacity of 1,083,000 cubic meters. In addition, the system includes Pivdennyi maritime oil terminal (with the nominal annual capacity of 14.5 million tonnes per year) and the oil transshipment facility near Odesa (Pivdennyi seaport). The capacity of the oil line system amounts to 114 million tonnes per year (at the entry points) and 56.3 million tonnes per year (at the exit points).

Role of the oil and gas sector in Ukraine's economy

The contribution of the oil and gas sector (without transportation of oil and gas) into Ukraine's GDP is minor. According to the State Statistics Service of Ukraine, the direct GDP contribution of the oil and gas sector (without transportation of oil and gas) amounted to UAH 20.0 billion or about 1.3 percent of Ukraine's GDP. The output of oil and gas sector (without transportation of oil and gas) amounted to UAH 26.5² billion in 2013 or about 0.8 percent of the output of goods and services in Ukraine.

² Data of the State Statistics Service of Ukraine, statistics compendium "2013 Ukraine Costs and Output Table in Core Prices" of the State Statistics Service of Ukraine.

http://www.ukrstat.gov.ua/druk/publicat/kat_u/2015/zb/05/zb_tv_13pdf.zip

The sum of payments made by all oil and gas companies (total number is 120 incl. oil and gas transportation companies) in 2013 was UAH 26,837.0³ million according to State Fiscal Service, UAH 25,369.0⁴ million – for 38 companies provided information for the present Report which equivalent 6.06% and 5.73% of Ukraine Consolidated Budget revenues in 2013. The oil and gas industry (without transportation of oil and gas) of Ukraine in 2013 employs 55.6 thousand persons representing approximately 0.48% of employed workers in the economy of Ukraine.

The major share of payments made by oil and gas sector companies to the state are channeled to the state budget or local budgets, with the exception of the universal social contribution paid to the Pension Fund to finance pensions and social benefits.

Revenues of the State budget from fees for the use of subsurface resources, rent for the transit transportation of natural gas through Ukraine and duty in the form of special-purpose supplement to the applicable natural gas tariff for consumers of all forms of ownership in 2013 must be used for transfers from the state budget to local budgets for provision of benefits and subsidies for households (including for electricity, natural gas, heat, water and wastewater, etc.)⁵.

Reconciliation of payments

In 2013, the scope of the EITI Report covered 120 oil and gas companies, and each of them was sent questionnaires to be completed. Due to time constraints and delays with the development of the appropriate regulatory framework, merely 49 companies responded to the request of the Independent Administrator, of which 8 companies refused to provide any information, responses from 3 were partial and only 38 companies provided complete responses. 40 companies out of 120 totally ignored the need for the provision of the information within the scope of the EITI. We couldn't find 31 companies for their official and postal addresses.

Thus, the Independent Administrator has prepared a consolidated database with details of the payment of taxes and other fees on the basis of questionnaires completed by 38 companies (Annex 8). Based on this database and taking into account volumes of production of the oil and gas, the payments reconciliation was made for companies that are responsible for 87.9 percent of the oil produced within the territory of Ukraine and 85.6 percent of the produced natural gas were reconciled for the purposes of the development of the EITI Report.

This amount does not include the output from transportation of oil and gas, trade and transport margins and any taxes on products

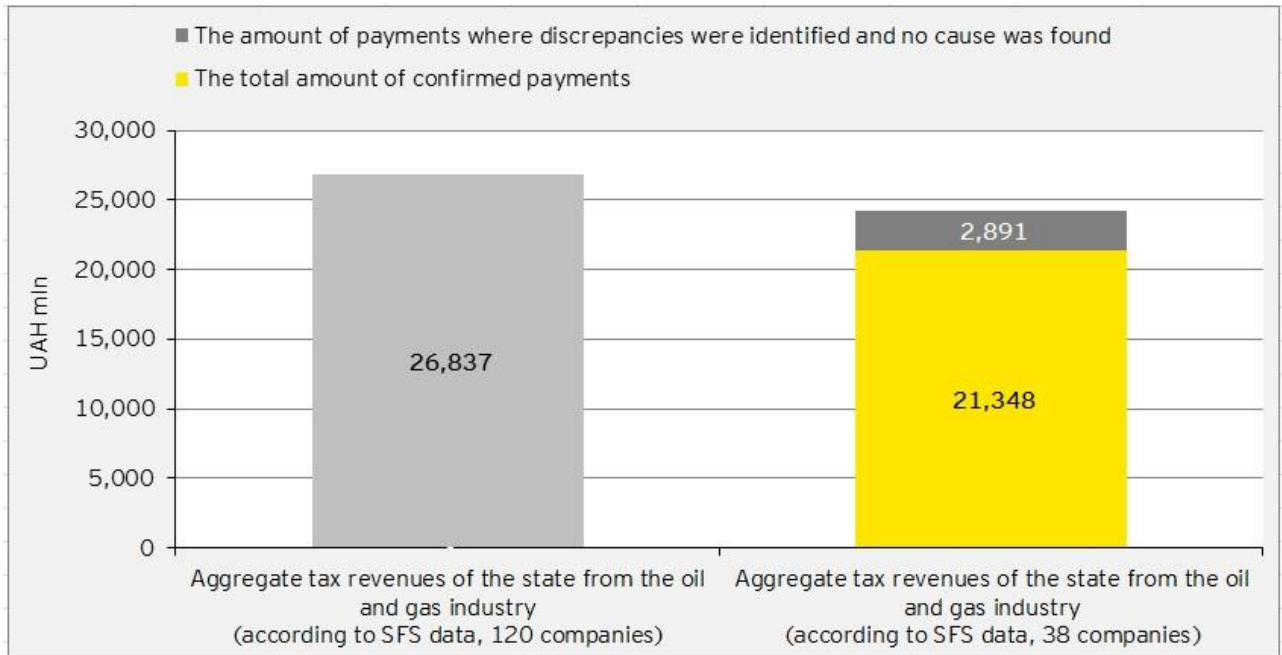
³ This payment includes the amount of VAT from NJSC Naftogaz of Ukraine UAH 7 742,4 million mainly not related to oil and gas extraction *in Ukraine*

⁴ This payment includes the amount of VAT from NJSC Naftogaz of Ukraine UAH 7 742,4 million mainly not related to oil and gas extraction *in Ukraine*

⁵ Resolution of the Cabinet of Ministers of Ukraine "On approval of the transfer of some subventions from the state budget to local budgets for provision of benefits, subsidies and compensation", №20 of 20.01.2005

The total amount of tax payments in 2013, confirmed after reconciliation (based on 38 companies) is UAH 21,347.6⁶ million or 79.5% of all payments of oil and gas companies in Ukraine according to SFS data.

UAH 2,890.5 million was the amount of tax payments for 2013, for which unexplained discrepancies were found (based on 38 companies) because of the lack of answers from respondents.



Total tax revenues from oil and gas companies in 2013

Among non-tax payments in 2013 due to lack of response from companies and government bodies only UAH 90.3 million was confirmed.

Key recommendations for improving the reporting process under EITI in Ukraine

During preparation of this report some recommendations for improving the reporting process under EITI was developed, key of which are as follows:

- ▶ Improvement of the EITI regulatory framework.
- ▶ Simplification of access to information about key aspects of the EITI (publication).
- ▶ Introduction of sanction against reporting organizations in case of the non-submission or the late submission of the information for the EITI Report.

⁶ This payment includes the amount of VAT from NJSC Naftogaz of Ukraine UAH 7 742,4 million mainly not related to oil and gas extraction *in Ukraine*



- ▶ The implementation of an efficient system for planning and managing the process of the development of subsequent EITI Reports.
- ▶ Setting a reasonable level of materiality for the EITI Report and simplification of data request.
- ▶ Encourage companies to reconcile payments with State Fiscal Service before submitting data for EITI Report.
- ▶ Moving toward the development of an EITI Report which is as up to date as possible (in the current year for the previous year).

More detailed recommendations are described in *Section 6* further.



Ernst & Young Audit Services LLC
Khreschatyk Street, 19A
Kyiv, 01001, Ukraine
Tel: +380 (44) 490 3000
Fax: +380 (44) 490 3030
www.ey.com/ua

ТОВ «Ернст енд Янг Аудиторські Послуги»
Україна, 01001, Київ
вул. Хрещатик, 19А
Тел.: +380 (44) 490 3000
Факс: +380 (44) 490 3030

Ministry of Energy and Coal Industry of Ukraine,
Demchyshyn V.V.
34, Khreschatyk St., Kyiv, 01601, Ukraine

Report of factual findings on collection and reconciliation of cash flows

EITI Report provides the results of reconciliation of data on cash flows related to taxes and other payments to the state by Ukrainian oil and gas industry companies for 2013 as part of the implementation of Extractive Industries Transparency Initiative (EITI) in Ukraine.

The EITI Report consists of the executive summary, six sections and seven annexes, including:

- ▶ EITI description and Ukraine's role therein (Section 1),
- ▶ methodology and approach used to prepare the EITI Report (Section 2),
- ▶ overview of Ukraine's oil and gas sector (Section 3),
- ▶ regulatory and fiscal oversight of the oil and gas sector of Ukraine (Section 4),
- ▶ report on reconciliation of data and discrepancies identified (Section 5),
- ▶ recommendations on the improvement of the EITI reporting process (Section 6).

Our assignment was performed in accordance with the International Standard on Related Services (ISRS 4400), Engagements to perform agreed-upon procedures. The procedures performed by us are described in Section 2 of EITI Report. The results of that procedures are provided in Section 5.

All the data provided in the EITI Report are based on public sources, as well as on the information received from Ukrainian oil and gas companies according to the questionnaires sent to them. We did not perform any procedures to verify the accuracy, completeness and reliability of the information received, unless otherwise expressly specified in the EITI Report.

Because the above agreed-upon procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on amounts of taxes and other payments of oil and gas companies. Had we performed additional procedures or had we performed an audit or review of financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.



Ernst & Young Audit Services LLC
Khreschatyk Street, 19A
Kyiv, 01001, Ukraine
Tel: +380 (44) 490 3000
Fax: +380 (44) 490 3030
www.ey.com/ua

ТОВ «Ернст енд Янг Аудиторські Послуги»
Україна, 01001, Київ
вул. Хрещатик, 19А
Тел.: +380 (44) 490 3000
Факс: +380 (44) 490 3030

The purpose of EITI report was the improvement of transparency in the oil and gas sector of Ukraine. Our procedures do not involve identification of fraud or error made by the companies or government authorities. The EITI Report relates only to the amounts of taxes and other payments described in Section 5 of EITI Report and does not apply to any financial statements of Ukrainian oil and gas companies as a whole.

A handwritten signature in blue ink, appearing to be 'Oleg Svetleuschi', written over a light blue circular stamp or watermark.

Oleg Svetleuschi

Partner

30 November 2015

LIST OF ABBREVIATIONS AND GLOSSARY OF TERMS

Term	Description
Accountable institutions	Companies and government authorities, which provide the reporting data for further processing and presentation in the EITI Report
CMU	Cabinet of Ministers of Ukraine
Customs Code	The Customs Code of Ukraine No. 4495-VI dated 13 March 2012
EITI	Extractive Industries Transparency Initiative
EITI International Secretariat	Independent body responsible for EITI implementation and management at the international level. It is based in Oslo (Norway)
EITI National Secretariat	National body, which coordinates and supports EITI at the level of a country
EITI Report	Report containing the major deliverables of the procedures performed as part of EITI implementation at the level of a country for a year (in this particular case - 2013)
EITI Standard	International standard of ensuring the transparency of a country's natural resources governance process within the EITI framework
Independent Administrator	External independent entity, which provides the services on preparation of EITI Report for 2013 and which has no conflict of interest in respect of provision of such services
JAA	Joint activity agreement
MECIU or Ministry	Ministry of Energy and Coal Industry of Ukraine
MSG	Multi-stakeholder group, which includes the representatives of government, companies and civil society and has been created to control the process and communication on EITI Report findings, as well as to integrate EITI for broader activities on ensuring the extractive industries transparency
NBU	National Bank of Ukraine
NERC	National Commission for State Regulation of Energy Sector
Law on Oil and Gas	The Law of Ukraine «On Oil and Gas» dated 12 July 2001 No. 2665-III
PIT	Personal income tax
PSA	Production Sharing Agreement
PSA Law	The Law of Ukraine "On Production Sharing Agreements" No. 1039-XIV dated 14 September 1999
SSGMRU	The State Service for Geology and Mineral Resources of Ukraine
SMSISSU	The State Mining Supervision and Industrial Safety Service
State budget	State budget of Ukraine
Tax code	The Tax Code of Ukraine No. 2755-VI dated 2 December 2010
Transportation rental fee	Rental fee for the transportation of oil and oil products with trunk pipelines and oil product pipelines via the territory of Ukraine, the transit of the natural gas and ammonia with pipelines across the territory of Ukraine



Term	Description
UAH	Ukrainian hryvnia
UCS	Unified contribution for mandatory state social insurance
VAT	Value added tax

1. EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE IN THE WORLD AND IN UKRAINE

The Extractive Industries Transparency Initiative (EITI) is an global Standard, the main purpose of which is promote the transparency of natural resources revenues. The countries implementing the EITI Standard should disclose the information on tax and other payments received by the state from natural resources extractive companies, the procedures of granting permits (licenses) for the natural resources use and other information related to the natural resources use.

In view of this, a country prepares a respective report, which demonstrates to all stakeholders how the country's natural resources are governed and what revenues are generated. To prepare such report and reconcile the data on payments to the state from natural resources extractive companies, the country selects an Independent Administrator, an independent entity with the relevant experience.

On 26 December 2012, a Multi-Stakeholder Group (MSG) was created, and on 17 October 2013, Ukraine was accepted as an EITI Candidate country.

On 16 June 2015, in order to implement the EITI standards the Verkhovna Rada passed the Law of Ukraine N 521-VIII "On amendments to certain legislative acts of Ukraine on ensuring the transparency in the extractive industries". Specifically, the Law requires the subsoil users to provide and publish the information on national and local taxes and duties, other payments, as well as production (economic) activity related to subsoil use for extraction, as per the procedure approved by the Cabinet of Ministers of Ukraine. Also, the authorities in charge of the state governance in the field of geological survey, rational use and protection of natural resources shall provide and publish the information on the geological survey status, use and protection of natural resources as per the procedure established by the Government. The purpose of the Law is to improve the transparency in the extractive industries in Ukraine and the natural resources governance, implement the EITI standards, including for the improvement of the investment climate in Ukraine.

For EITI promotion, the respective activities were undertaken through mass media to cover the process of the standard implementation in Ukraine and abroad; web portal <http://eiti.org.ua> has been created, where the information on events related to EITI in Ukraine and abroad is released. Also, it contains the EITI Standards in Ukrainian and Russian, legislation analysis reports and other useful information.

2. THE METHODOLOGY AND APPROACH USED TO PREPARE THE EITI REPORT

2.1. Scope of the EITI Report

The main assignment of the present Report was to disclosure of information on activity effected by the companies of oil and gas extraction and transportation industry and regarding regular payments to the benefit of the state in 2013.

The EITI Report for 2013 includes information on the business entities irrespective of the form of ownership, which were engaged in oil and/or natural gas production, oil and/or gas transportation through the territory of Ukraine, as well as central state authorities, local authorities, state-owned and state-funded enterprises, which received payments from oil and gas industry companies. The list of state authorities and state-owned enterprises is provided in *Annex 1*.

1. The list of companies engaged in oil and gas production and their transportation through the territory of Ukraine (ANNEX 2)

This list includes all companies, which during 2013 had a special subsoil resource use permit (oil and/or natural gas), as well as companies engaged in oil and gas transportation through the territory of Ukraine in 2013. The sources of information on holders of special permits were the on-line register of the State-owned Research and Production Enterprise "State Geological Information Fund of Ukraine" ("DNVP Geoinform"), websites of the companies engaged in oil and gas production and other open sources of information. In addition, to further clarify the information on special permit holders, a formal request was sent to DNVP Geoinform.

Insofar as at the moment of commencement of work on the first EITI Report of Ukraine the Independent Administrator had no reliable data on the volume of oil and gas production for every company, the scope of the EITI Report included all companies, which had special subsurface resource use permit (oil and/or natural gas) during 2013.

Having regard to the experience gained and information on the actual performance of the companies operating in the oil and gas sector of Ukraine in 2013, the Independent Administrator developed the proposals on optimizing the number of companies, which it would be reasonable to include in the scope of the next EITI Reports of Ukraine. For more information, refer to Section 6.

2. The list of taxes and other payments, which the oil and gas companies made to the benefit of the state

Insofar as at the moment of commencement of work on the first EITI Report of Ukraine the Independent Administrator had no reliable data on the absolute amount of the tax and other payments, the scope of the EITI Report for 2013 included all existed in 2013 tax payments, as

well as all other proceeds received by the central and local executive authorities and state-owned enterprises of Ukraine from the oil and gas companies.

Having regard to the experience gained and information on the actual performance of the companies operating in the oil and gas sector of Ukraine in 2013, the Independent Administrator developed the proposals on optimizing the list of material taxes, which it would be reasonable to include in the scope of the next EITI Reports (Section 6).

3. The list of contextual and other information not related to payments

This list was compiled following the EITI Standard requirements with regard to MSG's standpoint. If we had known that certain information was publicly available, it was excluded from this list.

The list of contextual and other information not related to the payments included data regarding overall volume of oil and gas extraction in Ukraine, data on explored reserves, number of special permissions and other information has to be disclosure according to the requirements of EITI Standard. The mentioned information was included from the questionnaires filled by the companies of sector (Annex 3) and from open sources (State statistical service of Ukraine, DNVP Geoinform Ukrayiny etc.).

2.2. Collection of information

The procedure for collection of information from Ukrainian oil and gas companies (oil and gas production and transportation), as well as from the state authorities, institutions, state-owned and state-funded enterprises, including the following:

- ▶ Consultations with MSG members and representatives of the Ministry of Energy and Coal Industry of Ukraine on the EITI Report scope, as well as the list of information to be included in the questionnaires;
- ▶ Preparation of questionnaires for oil and gas production and transportation companies in respect of the context information (*ANNEX 3*) and taxes, duties and other payments (*ANNEX 4*), as well as of the respective cover letter signed by the Minister of Energy and Coal Industry of Ukraine;
- ▶ Preparation of separate requests for each state authority, institution, state-owned and state-funded enterprise from the list represented in Annex 1 the respective cover letter signed by the Minister of Energy and Coal Industry of Ukraine;
- ▶ Incorporation of comments, observations and recommendations of MGS members and representatives of the Ministry of Energy and Coal industry of Ukraine in respect of the prepared questionnaires for an information request;
- ▶ Sending by the Independent Administrator of questionnaires and requests along with the cover letters from the Ministry.

- ▶ Filling in the questionnaires by the companies and state authorities, institutions, state-owned enterprises in a hard or soft copy (the soft copies of questionnaires for the oil and gas production companies and oil and gas transportation companies were placed by the EITI National Secretariat of Ukraine at the web-site eiti.org.ua);
- ▶ Sending by the companies of oil and gas sector and government institutions of the filled in questionnaires to the e-mail address eiti@mev.energy.gov.ua . The deadline for provision of information, as agreed with the Ministry of Energy and Coal Industry of Ukraine, was established on 10 August 2015, i.e. the companies and government authorities were to provide the information during one week from the moment of request. Only a few companies, government authorities, institutions and state-owned enterprises managed to provide the information on time. Others either refused to provide it at all or sent the completed forms much later than the deadline. The last form was received and processed by the Independent Administrator on 24 November 2015.
- ▶ Obtaining of the filled in questionnaires by the responsible person from the Ministry of Energy and Coal Industry of Ukraine, their processing and submission to the Independent Administrator through the protected communication channels;
- ▶ Processing of the questionnaires by the Independent Administrator and formation of the respective integrated indicators and conclusions of the EITI Report preparation.

2.3. *Data reconciliation*

The process of data reconciliation in respect of taxes and other payments included the following procedures:

- ▶ All the data received from the companies and state authorities were combined in a single electronic document and the figures on each type of payments for each company (data from companies and state authorities) were compared. Based on this comparison, some differences were identified;
- ▶ If there were no differences between the figures on payments obtained from the companies on the one hand and the state authorities on the other hand, it was deemed that the state authorities data were confirmed and could be published in the final EITI Report. To perform the data reconciliation, a materiality threshold of 5% of payment value was accepted, which generally corresponded to the accepted approaches and recommendations of the financial audit;
- ▶ If material differences on payments (the difference between the data of the company and the state authority exceeded 5% of the total amount of payment) were identified, the Independent Administrator addressed such company for explanations. The Independent Administrator provided the company with information on the reasons of difference;



- ▶ If based on the explanations received from the companies (or if the company refused to provide such explanations) it was not possible to determine the cause of differences, the Independent Administrator addressed the respective state authority with a request to provide the detailed information on cash flow related to that type of payment;
- ▶ Information on data reconciliation and identified differences is provided in Section 6.

The above procedures do not confirm that there were no other hidden payments to the state authorities other than those provided in the reports. Insofar as such payments or amounts could be not included in the reports of the companies or state authorities. The effective standards do not require Independent Administrator to perform detailed check of the initial documents in order to identify such omissions. Identifying such situations (potential fraud) is difficult even during the detailed audit of all companies.

3. OVERVIEW OF UKRAINE'S OIL AND GAS SECTOR IN 2013

3.1 General Information about the sector

As at 1 January 2014, 410 oil and gas deposits were included into state cadaster of deposits in Ukraine, including 77 oil deposits, 103 gas deposits, 13 oil/gas and gas/oil deposits, 115 gas condensate deposits, 102 oil/gas condensate and gas condensate/oil deposits.⁷ The deposits are located in three oil and gas regions (*Figure 3.1*):

- ▶ East (Dnipro and Donetsk oil and gas province);
- ▶ West (Volyn and Podillia, Precarpathian, Carpathian and Transcarpathian oil and gas provinces);
- ▶ South (Predobrudja, Black Sea and Crimean, Azov and Berezan, Indolo-Kuban, and Black Sea Prospective provinces).



Figure 3.1 – Geography of Ukraine's Oil and Gas Regions: East (1), West (2) and South (3)

⁷ According to the information from DNVP Geoinform Ukrayiny <http://geoinf.kiev.ua/mineralno-syrovynna-baza-ukrayiny/horyuchi-korynsni-kopalyny/hazopodibni-korynsni-kopalyny/>

The aggregate indicators of the natural gas, oil and gas condensate production within the territory of Ukraine in 2013 are provided in *Section 3.3*. Ukraine's demand meeting with natural gas was 42%, while crude oil and gas condensate (together) – 79% in 2013 (*Figure 3.2*). The natural gas, oil and gas condensate produced within the territory of Ukraine were not exported in 2013.⁸

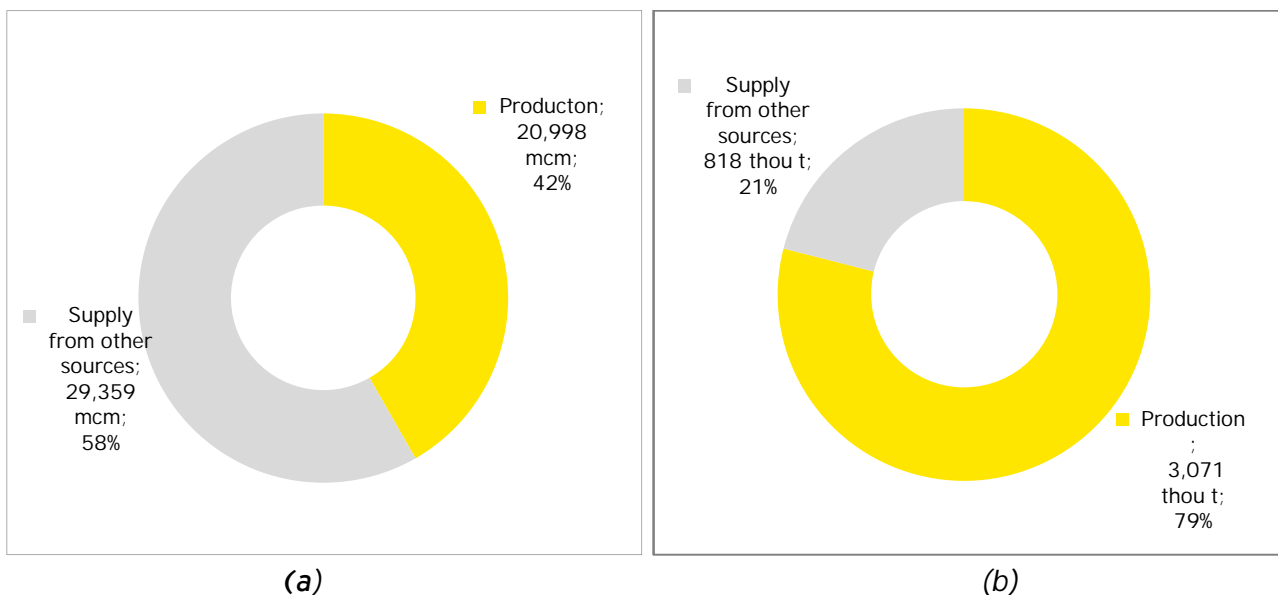


Figure 3.2 – Details of the Availability of Domestic Natural Gas⁹ (a) and oil and gas condensate¹⁰ (b) in year 2013

State-owned enterprises and companies, where the state is a beneficiary (*Figure 3.3*) were on the leading positions in the field of oil, gas condensate and natural gas production. The management of state-owned enterprises and state participation in corporate governance were exercised mainly via National Joint-Stock Company Naftogaz of Ukraine and National Joint-Stock Company Nadra Ukrainy, the largest vertically integrated companies in Ukraine's oil and gas sector. There were no changes in a structure of ownership of state-owned enterprises and enterprises with state participation in corporate governance during 2013. A list of the largest companies of the sector is provided below (*Table 3.1*).

⁸ Data from the 2013 Ukraine Energy (Product-based) Balance compiled by the State Statistics Service of Ukraine. http://www.ukrstat.gov.ua/operativ/operativ2014/energ/en_bal_prod/Bal_prod_2013_u.zip

⁹ According to the Ministry of Energy and Coal Industry http://mpe.kmu.gov.ua/minugol/control/uk/publish/article?art_id=244907076&cat_id=35081

¹⁰ Data from the 2013 Ukraine Energy (Product-based) Balance compiled by the State Statistics Service of Ukraine. http://www.ukrstat.gov.ua/operativ/operativ2014/energ/en_bal_prod/Bal_prod_2013_u.zip

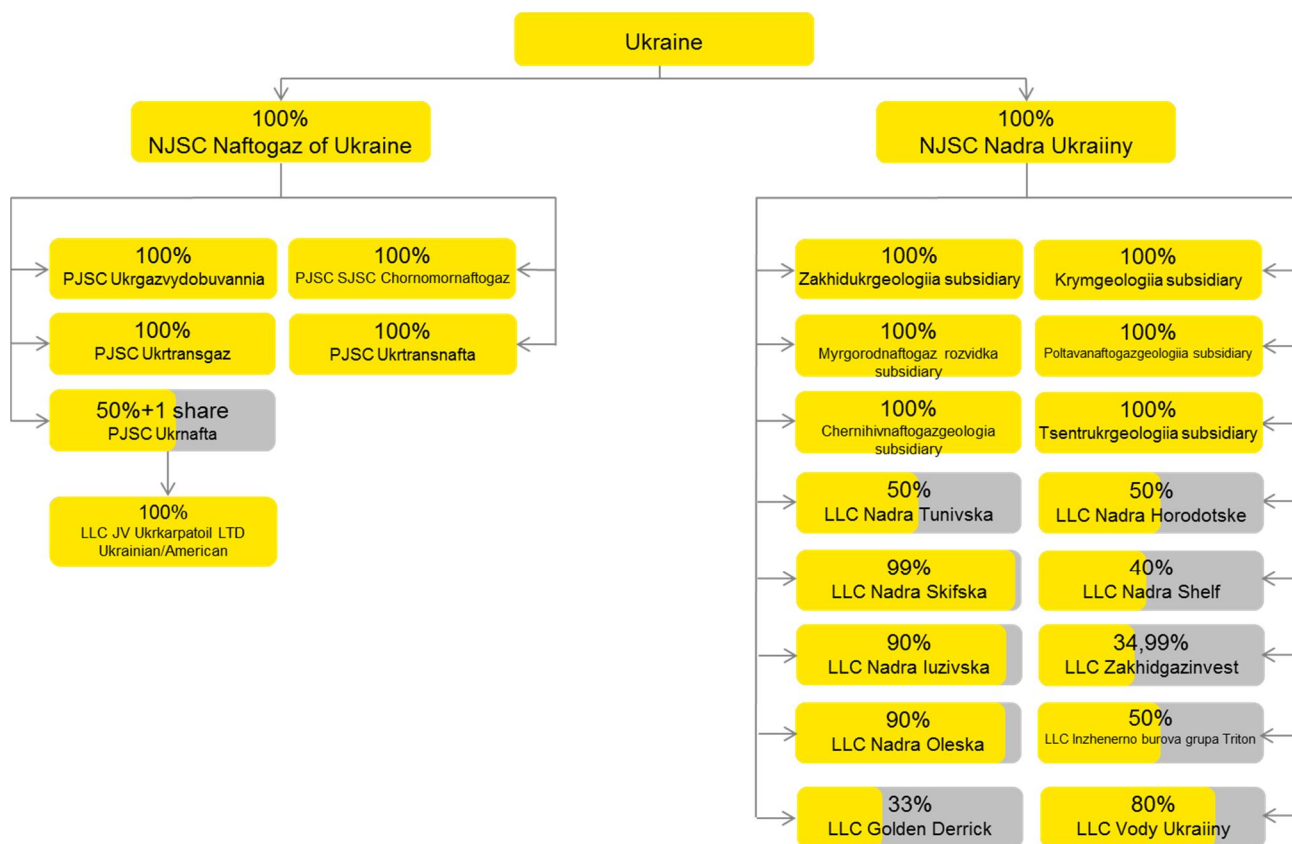


Figure 3.3 – Diagram of the beneficial interests held by the state in oil and gas companies¹¹

At least one state enterprise of oil and gas sector received the credit/credit guarantee in 2013 particularly:

- ▶ According to the Decree of Cabinet of Ministers of Ukraine from 04.12.2013 No.885 the state guarantee for securing of the obligations for bonds repayment of National Joint-Stock Company Naftogaz of Ukraine with nominal value of UAH 4 800 000 thousands and other obligations appeared from emission or bonds issuing for the term of their return.

¹¹ The Diagram is based on the public data from annual and financial reports of National Joint-Stock Company Naftogaz of Ukraine, National Joint-Stock Company Nadra Ukrainy and PAT Ukranafta.

Table 3.1

Ukraine's largest companies produced natural gas, oil and gas condensate in 2013¹²

State-owned Companies	Private Companies
<ul style="list-style-type: none"> ▶ NJSC Naftogaz of Ukraine PJSC Ukgazbydobuvannia ▶ PJSC Ukrnafta ▶ PJSC State Joint-Stock Company Chornomornaftogaz 	PrJSC Naftogazvydobuvannia LLC Enerhoservisna kompaniia ESCO Pivnich PrJSC Pryrodni Resursy LLC Kub-gaz LLC JV Poltavska Gazonaftova Kompaniia PrJSC Vydobuvna Kompaniia Ukrnaftoburinnia PrJSC Ukgazvydobutok LLC Regal Petroleum Corporation Limited LLC Plast LLC JV Ukrkarpatoil LTD Ukrainian/American LLC "Prom-Energoproduct" LLC Pari LLC Skhidnyi Geolohichniy Soiuz LLC JV Boryslavska Naftova Kompaniia LLC Nadragaz LLC Tysagaz Kolomyiska naftogazova kompaniia Delta / Ukrainian Canadian JV LLC Kashtan Petroleum LTD Ukrainian Canadian JV LLC Persha Ukrainiska gazonaftova kompaniia
NJSC Nadra Ukrainy	

3.2 Largest oil and gas deposits in Ukraine

As at 1 January 2014, 252 deposits were under commercial development.¹³ A list of the largest deposits in Ukraine is provided below (*Table 3.2*).

¹² The list of includes the companies with 2013 annual production volumes more than 2 mcm of natural gas and the companies with annual production volumes of oil and gas condensate more than 30 thousands ton.

¹³ Gaseous mineral resources. Information Statement from DNVP Geoinform Ukrainy. <http://geoinf.kiev.ua/mineralno-syrovynna-baza-ukrayiny/horyuchi-korysni-kopalyny/hazopodibni-korysni-kopalyny/>

Table 3.2

Largest oil and gas deposits in Ukraine used for production

Deposit (Company)	Name	Start of the Development	Deposit Type	Oil and Gas Region (Province)	Data on Discovered Reserves (initial reserves of categories A+B+C ₁)
Dolynske (Ukrnafta)		1950	Oil	West (Ivano-Frankivsk Oblast)	Oil - 38,320 thousand tonnes Dissolved gas - 12,963 mcm
Lopushnianske (Ukrnafta)		1984	Oil	West (Chernivtsi Oblast)	Oil - 6,401 thousand tonnes Dissolved gas - 1,162 mcm
Bytkiv-Babchenske (Ukrkarpatoil LTD)		1889	Oil/gas condensate	West (Ivano-Frankivsk Oblast)	Oil - 12,442 thousand tonnes Dissolved gas - 9,490 mcm Natural gas - 46,431 mcm Gas condensate - 1,829 thousand tonnes
Kachanivske (Ukrnafta)		1960	Oil/gas condensate	East (Sumy Oblast)	Oil - 16,839 thousand tonnes ; Dissolved gas - 4,337 mcm Gas condensate - 295 thousand tonnes
Boryslavske (Ukrnafta)		1853	Oil/gas condensate	West (Lviv Oblast)	Oil - 39,292 thousand tonnes Dissolved gas - 16,112 mcm Natural gas - 1,083 mcm Gas condensate - 88 thousand tonnes

Deposit (Company)	Name	Start of the Development	Deposit Type	Oil and Gas Region (Province)	Data on Discovered Reserves (initial reserves of categories A+B+C ₁)
Hnydyntsivske (Ukrnafta)		1962	Oil/gas condensate	East (Chernihiv Oblast)	Oil - 38,045 thousand tonnes; Dissolved gas - 1,469 mcm Natural gas - 8,306 mcm Gas condensate - 814 thousand tonnes
Leliakivske (Ukrnafta)		1964	Oil/gas condensate	East (Chernihiv Oblast)	Oil - 52,364 thousand tonnes; Dissolved gas - 4,360 mcm Natural gas - 963 mcm Gas condensate - 156 thousand tonnes
Hlynsko-Rozbyshivske (Ukrnafta)		1959	Oil/gas condensate	East (Poltava Oblast)	Oil - 25,275 thousand tonnes Dissolved gas - 2,267 mcm Natural gas - 11,241 mcm Gas condensate - 601 thousand tonnes
Dashavske (Ukrgezvydobuvannia)		1924	Gas	West (Lviv Oblast)	Natural gas - 12,320 mcm
Uherske (Ukrgezvydobuvannia)		1946	Gas	West (Lviv Oblast)	Natural gas - 42,269 mcm
Rudkivske (Ukrgezvydobuvannia)		1957	Gas	West (Lviv Oblast)	Natural gas - 32,824 mcm
Bilche-Volytske (Ukrgezvydobuvannia)		1950	Gas	West (Lviv Oblast)	Natural gas - 40,797 mcm
Yablunivske (Ukrgezvydobuvannia)		1980	Gas	West (Ivano-Frankivsk Oblast)	Natural gas - 2,640 mcm
Dzhankoiske (Chornomor-naftogaz)		1970	Gas	South (Autonomous Republic of Crimea)	Natural gas - 5,790 mcm
Shebelynske (Ukrgezvydobuvannia)		1956	Gas condensate	East (Kharkiv Oblast)	Natural gas - 650,000 mcm

Deposit (Company)	Name	Start of the Development	Deposit Type	Oil and Gas Region (Province)	Data on Discovered Reserves (initial reserves of categories A+B+C ₁)
					Gas condensate – 8,320 thousand tonnes
Yefremivske (Ukrgezvydobuvannia)		1967	Gas condensate	East (Kharkiv Oblast)	Natural gas – 109,970 mcm Gas condensate – 2,595 thousand tonnes
Zaluzhanske (Ukrgezvydobuvannia)		1975	Gas condensate	West (Lviv Oblast)	Natural gas – 27,938 mcm Gas condensate – 159 thousand tonnes
Shtormove (Chornomornaftogaz)		1993	Gas condensate	South (Autonomous Republic of Crimea)	Natural gas – 16,574 mcm Gas condensate – 1,272 thousand tonnes
Semyrenkivske (Naftogazvydobuvannia)		1990	Gas condensate	East (Poltava Oblast)	Natural gas – 7,620 mcm Gas condensate – 721 thousand tonnes

3.3 Hydrocarbon production volumes: 2013 indicators and historical data

In 2013 the total hydrocarbon production in Ukraine amounted to:¹⁴

- ▶ Oil and gas condensate: 3,072 thousand tonnes (including 2,172 thousand tonnes of oil)
- ▶ Natural gas (non-associated and dissolved): 21.45 bcm

The details of data regarding production of natural gas, oil and gas condensate received from DNVP Geoinform Ukrayiny is detailed below, disaggregated by regions of Ukraine (Figure 3.4).

The majority of oil and gas condensate is produced in Sumy Oblast. At the national level, the production in Ivano-Frankivsk, Lviv, Poltava, Sumy, and Kharkiv Oblasts account for more than 80 percent of the total production of oil and gas condensate in Ukraine (Table 3.3).

¹⁴ «Стан запасів родовищ корисних копалин України. Інформаційна довідка ДНВП «Геоінформ України» (Condition of Mineral Resource Deposit Reserves. Information Statement from DVNP Geoinform Ukrayiny). <http://geoinf.kiev.ua/mineralno-syrovynna-baza-ukrayiny/stan-zapasiv-rodovyshch-korysnykh-kopalyn-ukrayiny/>

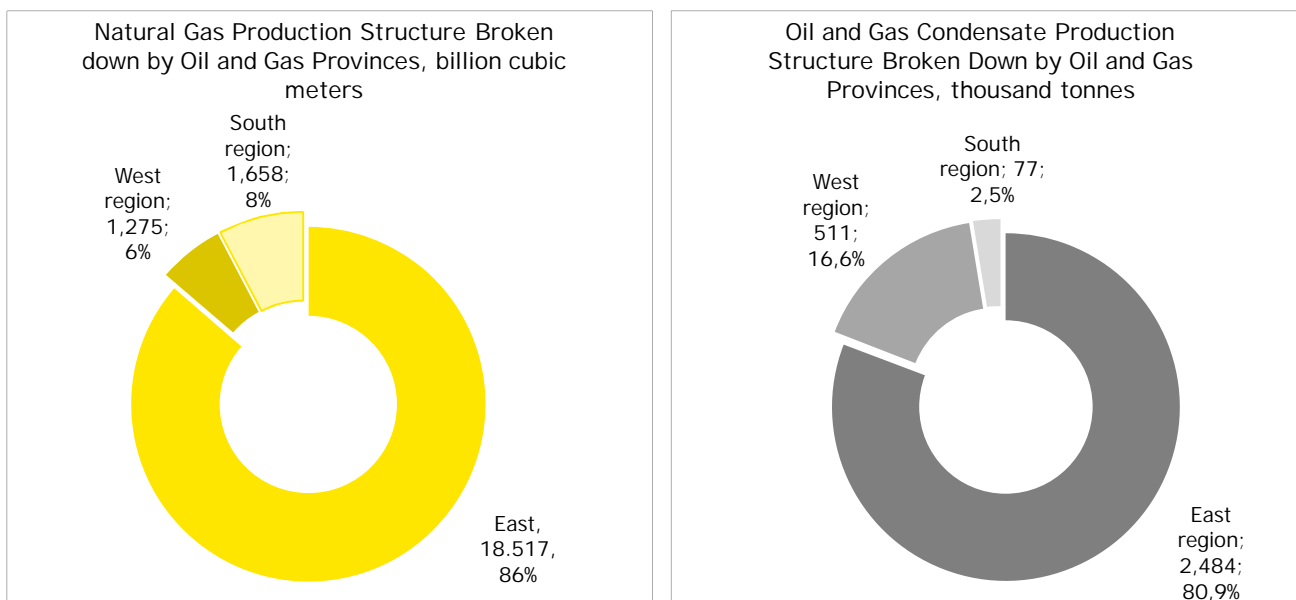


Figure 3.4 – Structure of Major Hydrocarbons Production by Oil and Gas Regions of Ukraine

The majority of natural gas is produced in Kharkiv Oblast. The production in Poltava, Sumy, and Kharkiv Oblasts account for almost 85 percent of the total natural gas production in Ukraine (Table 3.3).

Table 3.3

Hydrocarbon Production in 2011-2013 by Regions of Ukraine¹⁵

Region / Oblast	Oil and Gas Condensate Production, thousand tonnes			Natural Gas Production, mcm		
	2011	2012	2013	2011	2012	2013
Autonomous Republic of Crimea	12.1	*	*	*	*	*
Volyn Oblast				*	*	*
Dnipropetrovsk Oblast	*	*	*	338	304	283.8
Donetsk Oblast	*	*	*	64.4	97.2	85.4
Zakarpattia Oblast				3.7	*	*
Ivano-Frankivsk Oblast	401.6	403.5	390.7	488	475	466.5

¹⁵ The 2011 and 2012 data were taken from the official publication “Fuel and Energy Resources of Ukraine” published in 2013. The regional statistics of the hydrocarbon production in 2013 will be available in a similar publication to be published in December 2015.

Region / Oblast	Oil and Gas Condensate Production, thousand tonnes			Natural Gas Production, mcm		
	2011	2012	2013	2011	2012	2013
Luhansk Oblast	*	*		290	315	310.3
Lviv Oblast	115	116	117.6	773	771	762.3
Poltava Oblast	827	809	764.3	7685	7496	7529
Sumy Oblast	1105	1097	1013.9	945	808	692.3
Kharkiv Oblast	322	280	279.5	8829	8859	9337.6
Chernivtsi Oblast				3.3	*	*
Chernihiv Oblast.	*	*	*	*	*	*

(*) These data have not been disclosed by the State Statistics Service, because they are classified as confidential under the Law of Ukraine "On State Statistics".

The oil and gas condensate production in Ukraine peaked in 1972 at 14,500 thousand tonnes. After that, a sustained downward trend has been observed also in 2010s (Figure 3.5).

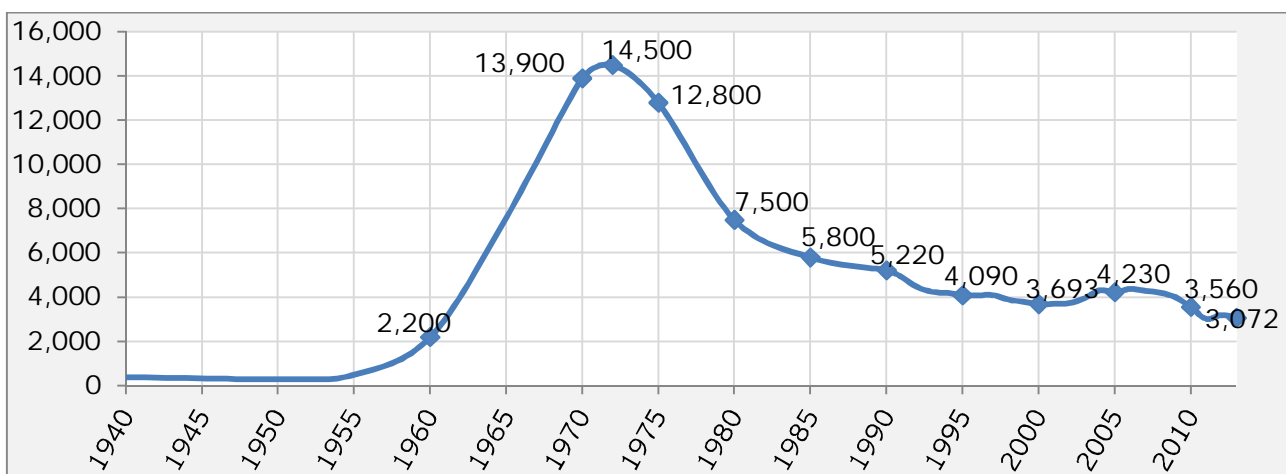


Figure 3.5 – Historical Oil and Gas Condensate Production Trend in Ukraine¹⁶, thousand tonnes

¹⁶ Data sources:

for the period of 1940 to 1991: – «Енергетика: історія, сучасність і майбутнє» / Автор ідеї Світлана Григорівна Плачкова; Вступ. сл. І. В. Плачков.– К. : Б.в., 2013. <http://energetika.in.ua/ua/books/book-1/part-2/section-8/8-6>
 for the period of 1992 to 2004: Україна – огляд енергетичної політики. Інформаційне видання Міжнародного Енергетичного Агентства, 2006. <https://www.iea.org/publications/freepublications/publication/Ukraine2006UKR.pdf>
 for the period of 2005 to 2013: «Стан запасів родовищ корисних копалин України. Інформаційна довідка ДНВП «Геоінформ України» (Condition of Mineral Resource Deposit Reserves. Information Statement from DVNP Geoinform Ukrayiny) <http://geoinf.kiev.ua/mineralno-syrovynna-baza-ukrayiny/stan-zapasiv-rodovyshch-korysnykh-kopalyn-ukrayiny/>

The following are cited as major reasons for decreasing of production:¹⁷

- ▶ The decrease in exploratory activities. Over the last 15 years, no large or medium deposits (over 10 million tonnes) have been discovered in Ukraine.
- ▶ The depletion of most deposits due to their prolonged exploitation (20 or 30 to 100 years), and the deteriorated structure of deposits (because the most easily accessible reserves were produced over the last years).
- ▶ The reduction in volumes and the efficiency of development drilling.
- ▶ The low reliability of the raw material base. The core commercial reserves consist of the lowest category C₁, for which the forecast reliability ranges from 30 to 50 percent.
- ▶ The write-offs together with increases of the reserves have not been confirmed in the course of longtime commercial development.

Natural gas production also peaked in 1972 at approximately 70 bcm (*Figure 3.6*). The continued downward production trend stopped in 1995, when national initiatives were implemented to increase the domestic natural gas production within Ukraine.

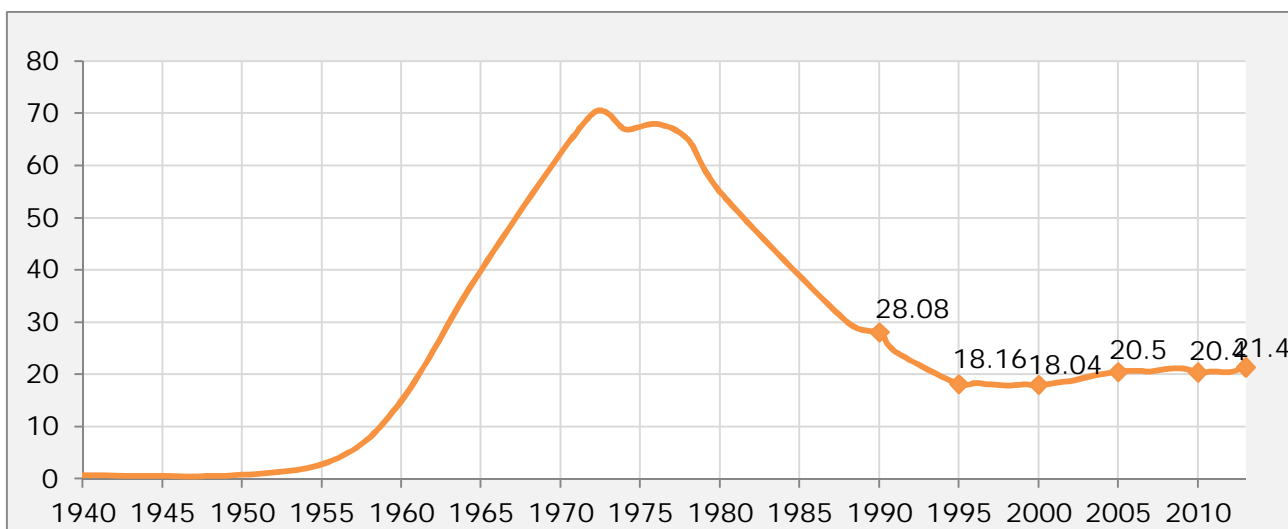


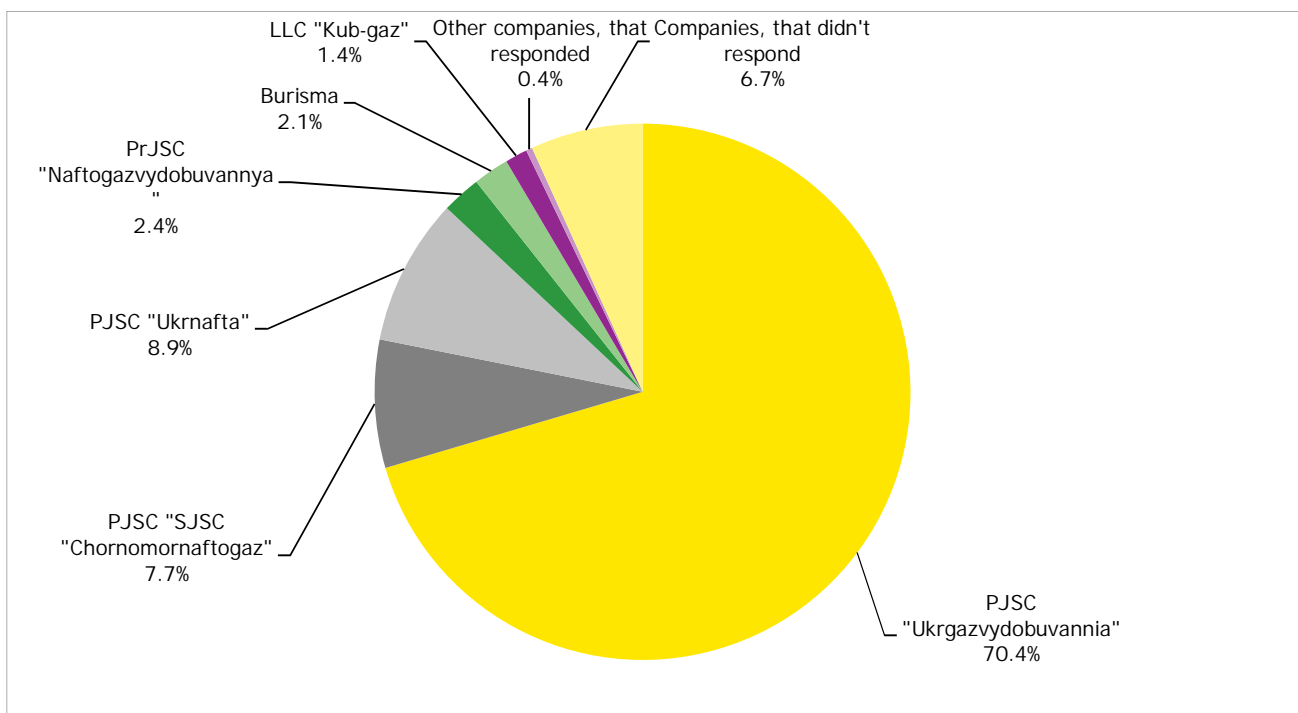
Figure 3.6 – Historical Natural Gas Production Trend in Ukraine¹⁸, bcm

¹⁷ «Енергетика: історія, сучасність і майбутнє» / Автор ідеї Світлана Григорівна Плачкова; Вступ. сл. І. В. Плачков.- К. : Б.в., 2013. <http://energetika.in.ua/ua/books/book-1/part-2/section-8/8-6>

¹⁸ Op. Cit. for the period of 1940 to 1988 (approximate values): – «Енергетика: історія, сучасність і майбутнє» / Автор ідеї Світлана Григорівна Плачкова; Вступ. сл. І. В. Плачков.- К. : Б.в., 2013. <http://energetika.in.ua/ua/books/book-1/part-2/section-8/8-6>

– for the period of 1990 to 2000 – Звіт про діяльність Національної комісії регулювання електроенергетики України у 2000 році (затверджений Постановою НКРЕКП №139 від 07.02.2001) – 2000 Performance Report of the National Electrical Energy Regulatory Commission of Ukraine (approved with Resolution of the NEURC # 139 of February 7, 2001)

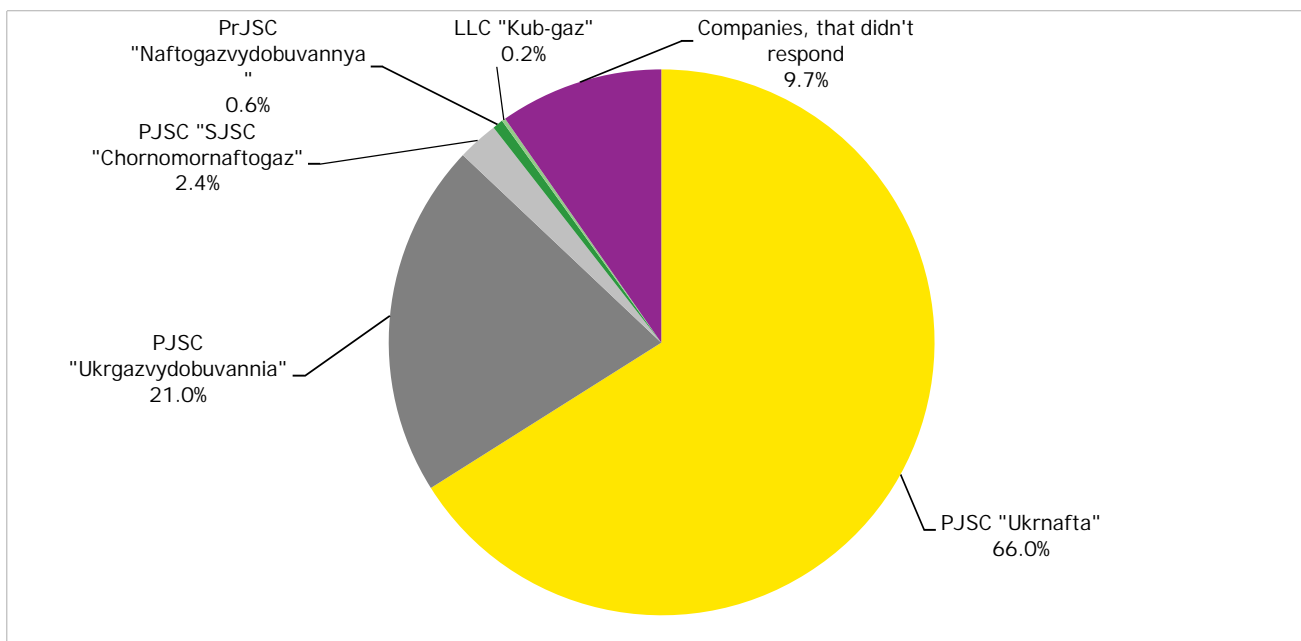
The balance of the natural gas production in 2013, disaggregated by companies, was compiled as a result of the distribution of questionnaires to companies producing natural gas (Figure 3.7). The balance includes only the volumes of production of companies which sent the response on the questionnaires. The indexes of annual volumes of natural gas extraction for the largest companies were disclosed by using the results of survey while the indexes of another companies ("Non-responded" category of companies) - calculated in result of allocation of the volumes of natural gas received from the biggest companies in the overall figure of natural gas extraction received from DNVP Geoinform Ukrayiny.



(a)

- for the period of 2001 to 2004 - Газова промисловість в Україні: сучасний стан та перспективи розвитку. М.А. Кордюкова, 2009. <http://dspace.nbu.gov.ua/bitstream/handle/123456789/39628/19-Kordyukova.pdf?sequence=1>

for the period of 2005 to 2013: «Стан запасів родовищ корисних копалин України. Інформаційна довідка ДНВП «Геоінформ України» (Condition of Mineral Resource Deposit Reserves. Information Statement from DVNP Geoinform Ukrayiny) <http://geoinf.kiev.ua/mineralno-syrovynna-baza-ukrayiny/stan-zapasiv-rodovyshch-korysnykh-kopalyn-ukrayiny/>



(b)

Figure 3.7 – Structure of the 2013 Natural Gas (a), Oil and Gas Condensate (b) production in Ukraine Based on Company Poll, %

3.4 Details on reserves of major hydrocarbons in Ukraine

As mentioned above, there were 410 oil and gas deposits in Ukraine. In terms of the degree of their commercial development as at 1 January 2014, these deposits can be categorized by level of completion as follows:¹⁹

- ▶ 251 deposits are under development;
- ▶ 30 deposits have been prepared for commercial development;
- ▶ 78 deposits are under exploration; and
- ▶ 51 deposits are mothballed.

¹⁹ Annual bulletin «Підсумки геологорозвідувальних робіт на нафту та газ в Україні» – Київ: Державна служба геології та надр України, Державне науково-виробниче підприємство «Державний інформаційний геологічний фонд України», 2014р. 17 іл., 34 табл. – 126 стор.

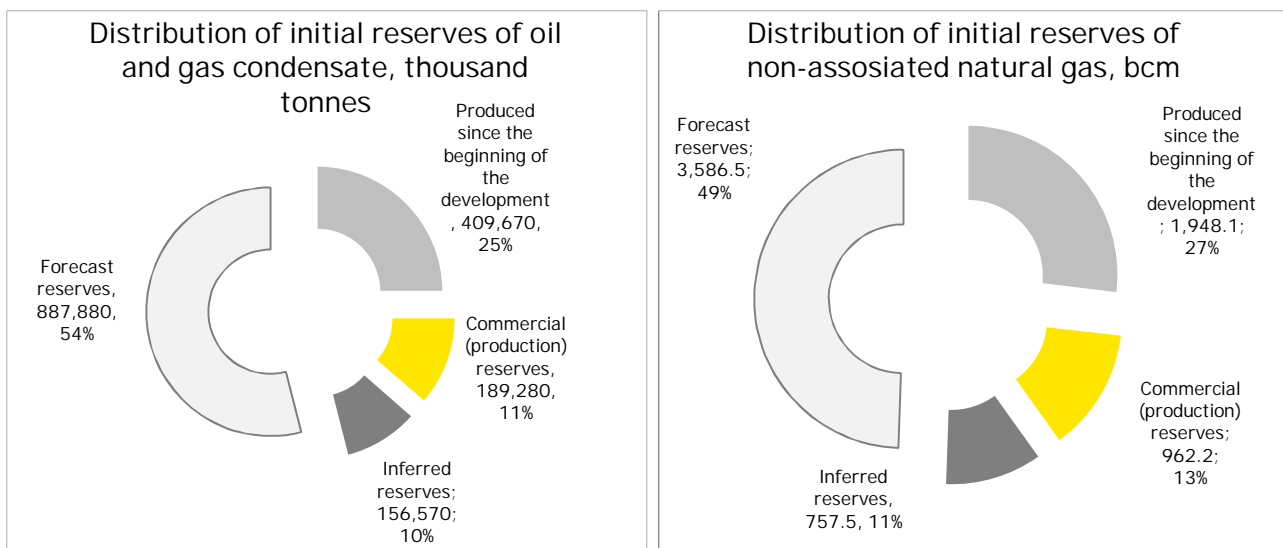


Figure 3.8 – Distribution of Initial Natural Gas, Oil and Gas Condensate Reserves in Ukraine and Their Distribution by Category as at 1 January 2014

The amounts of initial hydrocarbon reserves in Ukraine and their distribution by category as at 1 January 2014, are specified below (Table 3.3). The core distinguishing feature of hydrocarbon reserves in Ukraine is that the major bulk falls within low-grade commercial categories (forecast reserves of categories D1+D2, and prospective reserves of category C1), the forecasts for which are usually unreliable and rarely supported in the development of deposits. The degree of utilization of the existing natural gas resources amounts to 18.1 percent, while for the oil and gas condensate it amounts to 15.5 percent and 15 percent respectively.

The East Region with 802.36 bcm of natural gas reserves (83 percent of the total production natural gas reserves) and 125,210 thousand tonnes of oil and gas condensate (66 percent of the total production oil and gas condensate reserves) has the highest reserves among the oil and gas regions of Ukraine. The detailed distribution of production reserves disaggregated by oil and gas regions (Figure 3.9) and mineral resources user companies (Figure 3.10) is presented below.

The geological exploration work carried out during 2013 resulted in an increase in overall commercial reserves of hydrocarbons:

- ▶ the increase in reserves of the non-associated natural gas: 11.976 bcm (1.2 percent of the total production reserves as at 1 January 2014)
- ▶ the increase in oil and gas condensate reserves: 1,844 thousand tonnes (0.97 percent of the total production reserves as at 1 January 2014)

Major sources of the increase in commercial hydrocarbon reserves include the discovery of new deposits, the development of new deposits, the exploration and expansion of contours of known deposits, the accurate definition of reserve calculation parameters, and the actual development of reserves. Detailed information about the major geological exploration activities in the oil and gas sector in 2013 is provided in Section 3.5 below.

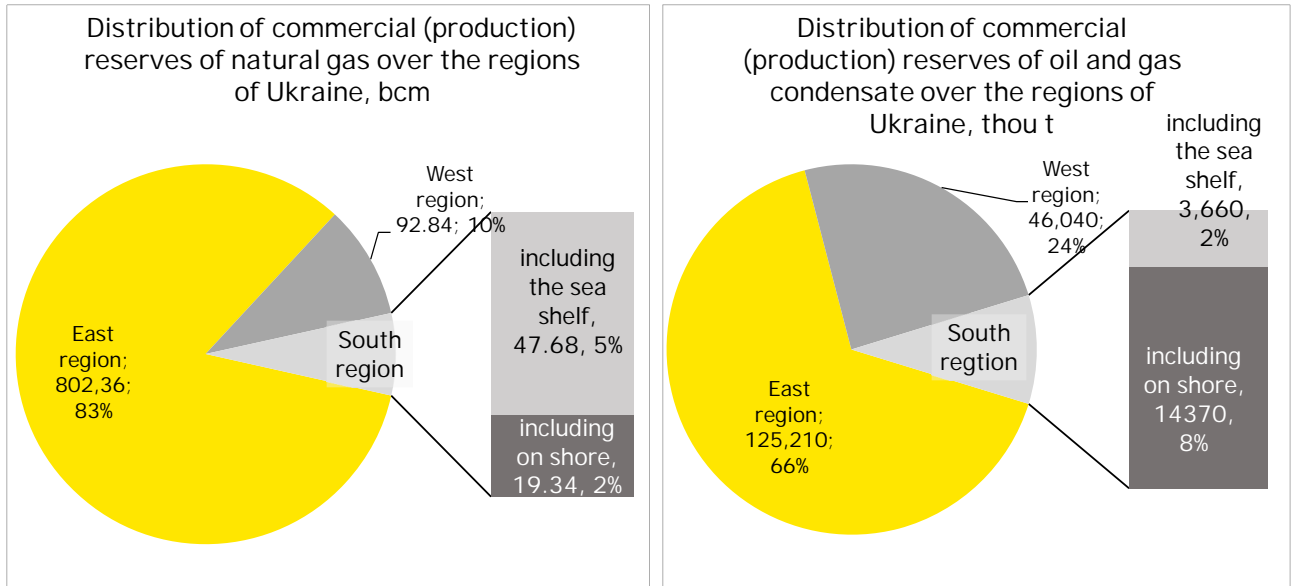


Figure 3.9 – Distribution of Commercial (Production) Reserves of Hydrocarbons over Oil and Gas Regions of Ukraine as at 1 January 2014

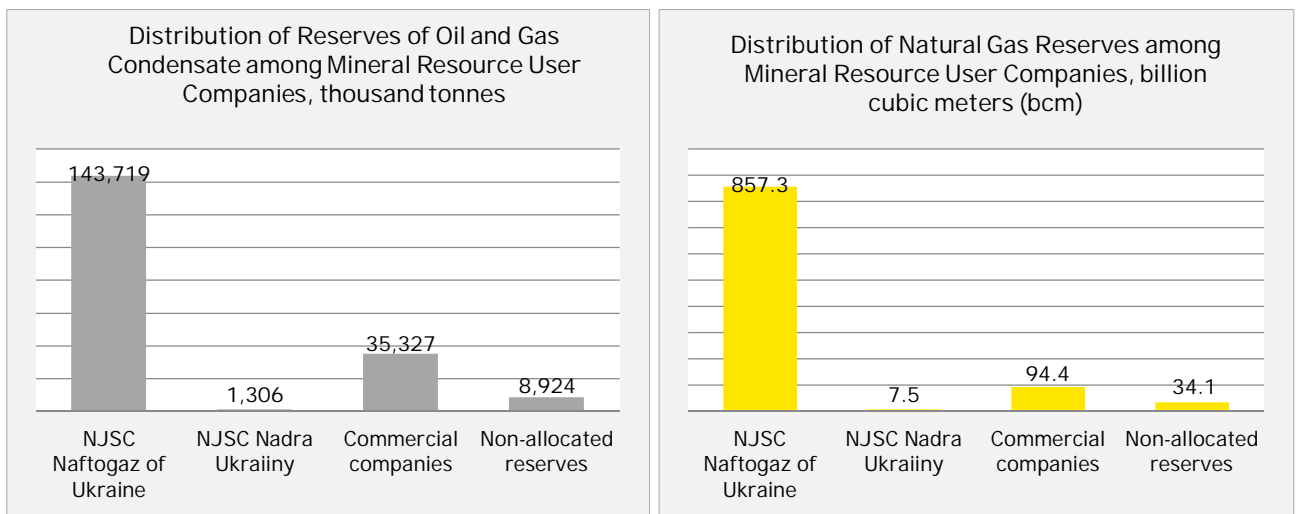


Figure 3.10 – Distribution of Commercial (Production) Reserves of the Natural Gas,²⁰ Oil and Gas Condensate over Mineral Resource Users of Ukraine as at 1 January 2014

²⁰ Including non-associated and dissolved natural gas.

3.5 Substantial exploration activities carried out in 2013

In 2013 major geological exploration activities were carried out in Ukraine by oil and gas companies (NJSC Naftogaz of Ukraine, NJSC Nadra Ukrainy, and private companies), as well as by the State Geology and Subsurface Resources Service of Ukraine. Ukrheofizyka State Geophysics Enterprise was involved in the detection and preparation of structures for deep well drilling.

Five new deposits were discovered in 2013 in the East oil and gas region: Zakhidno-Vidradnenske gas deposit (PJSC Ukrgezvydobuvannia), Skhidno-Runovshchynske gas deposit (NJSC Naftogaz of Ukraine), Academician Shpak oil deposit (NJSC Naftogaz of Ukraine), Bokhanivske Gas Condensate Deposit (LLC Skhidnyi Geolohichniy Soiuz), and Yelizavetivske Gas Condensate Deposit (LLC JV Poltavska Gazonaftova Kompaniia).²¹ Detailed information about three of the discovered initial production reserves of hydrocarbon deposits is provided below (*Table 3.4*).

Table 3.4

Details of Initial Production Reserves of Hydrocarbons Deposits Discovered in 2013

Deposit Name	Category of the Discovered Initial Reserves	Amount of the Discovered Initial Reserves			
		Oil, thousand tonnes	Gas condensate, thousand tonnes	Non-associated natural gas, mcm	Dissolved gas, mcm
Zakhidno-Vidradnenske gas deposit	C2, Class 121	-	-	61	-
Skhidno-Runivshchynske gas deposit	C2, Classes 122+222 / 122) 122			337 / 304	
Academician Shpak oil deposit	C2, Class 122	201	-	-	23

In addition, 33 promising oil and gas objects with the total area of 381.06 square kilometers were prepared for deep well drilling. Further, the construction of 73 exploration and stratigraphic wells was completed in Ukraine's oil and gas regions. Most of them (57.5 percent) are owned by NJSC Naftogaz of Ukraine structures. The detailed information about the completed wells (*Figure 3.11*) from 2009 to 2013 is presented below.

²¹ Annual bulletin «Підсумки геологорозвідувальних робіт на нафту та газ в Україні» – Kyiv: State State Service of Geology and Mineral Resources of Ukraine, State Scientific Production Enterprise "State Geological Information Fund of Ukraine", 2014. 17 pic., 34 table. – 126 page.

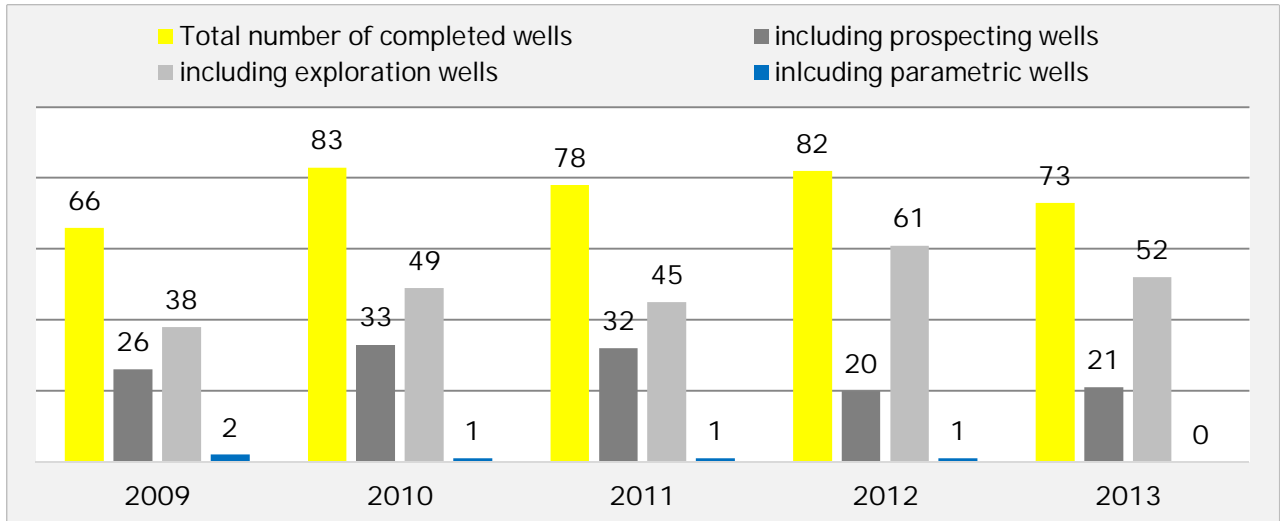


Figure 3.11 – Number of Wells Completed in 2009 to 2013 by Type (Prospecting, Exploration, and Parametric Wells)

In total, UAH 2,681.58 million was spent on geological prospecting activities in the oil and gas sector in 2013, including UAH 31.39 million directly from the state budget (1.17 percent of the total cost). The remaining funds were spent by companies using their own funds or funds of investors. The details of funding of the geological prospecting activities in Ukraine’s oil and gas sector, and historical details of spending between 2009 and 2013 are provided below (Figure 3.12).

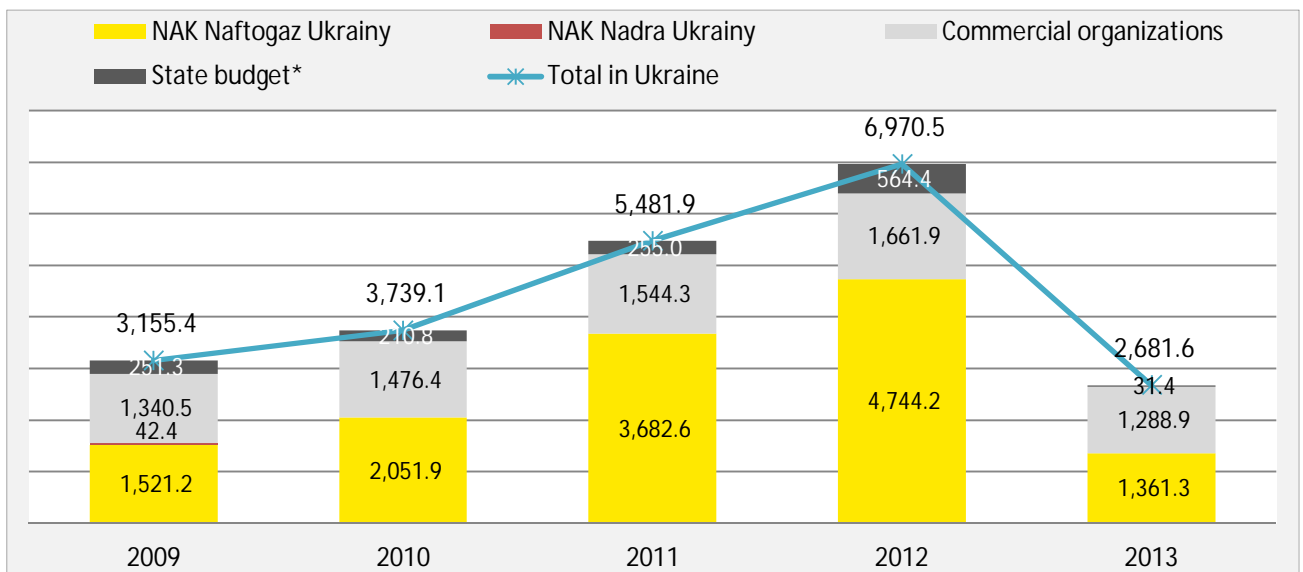


Figure 3.12 – Expenses on Geological Prospecting Activities in Ukraine’s Oil and Gas Sector in 2009 to 2013, UAH million

3.6 Transmission of the oil and gas produced within the territory of Ukraine

The natural gas produced in Ukraine’s territory is transmitted to consumers via high-pressure gas trunk lines operated by PJSC Ukrtransgaz, as well as medium-pressure and low-pressure gas lines operated by regional gas distribution “oblgaz” companies.

Ukraine’s trunk gas transmission system consists of 38.55 thousand km of gas lines²², 72 main compressor stations, 1,455 gas distribution stations, 12 underground gas storage facilities with the nominal capacity of about 31 bcm. The system was mainly designed to transit natural gas produced outside Ukraine to European consumers. The input of the gas transmission system amounts to 287.7 bcm per year at the entry point to Ukraine and 178.5 bcm per year at the exit point from Ukraine.

The natural gas for transit is delivered to Ukraine via 22 gas trunk lines, of which most important are Soiuz, Urengoy-Pomary-Uzhhorod (UPU), and Progress, and is transmitted via 15 output trunk lines. Routes of gas trunk lines also pass via the main gas deposits of Ukraine’s oil and gas provinces (Figure 3.13). The natural gas is injected into high-pressure gas trunk lines following gas compression at booster compressor stations.



Figure 3.13 – Routes of Major Gas Trunk Lines Operated by PJSC Ukrtransgaz Relative to Core Oil and Gas Regions of Ukraine

²² Information of PJSC Ukrtransgaz as per 2015 year <http://utg.ua/utg/gts/description.html>

The tariffs for the natural gas transmission are set by the regulator (in 2013, the National Commission in Charge of the State Regulation in the Energy Sector) separately for each related activity. The following transmission tariffs were in place as at 30 December 2013,²³ for each of the related activities (without the VAT):

- ▶ The overall natural gas transmission tariff rate amounted to UAH 287.00 per 1 tcm (thousand cubic meters).
- ▶ The calculated average tariff rate for the natural gas transmission with gas trunk lines for PJSC Ukrtransgaz amounted to UAH 93.90 per 1 tcm.
- ▶ The calculated average tariff rate for the natural gas transmission with gas trunk lines for PJSC State Joint-Stock Company Chornomornaftogaz amounted to UAH 69.60 per 1 tcm.
- ▶ The tariff rate for the natural gas transmission via distribution gas lines amounted to UAH 193.10 per 1 tcm (thousand cubic meters).
- ▶ The weighted average tariff rate for the natural gas supply amounted to UAH 43.70 per 1 tcm.
- ▶ The tariff rates for the natural gas transmission with gas trunk lines for PJSC Ukrtransgaz and PJSC State Joint-Stock Company Chornomornaftogaz are set directly; those for gas distribution (“oblgaz”) companies are differentiated (and range from UAH 0.00 to UAH 241.60 per 1 tcm).

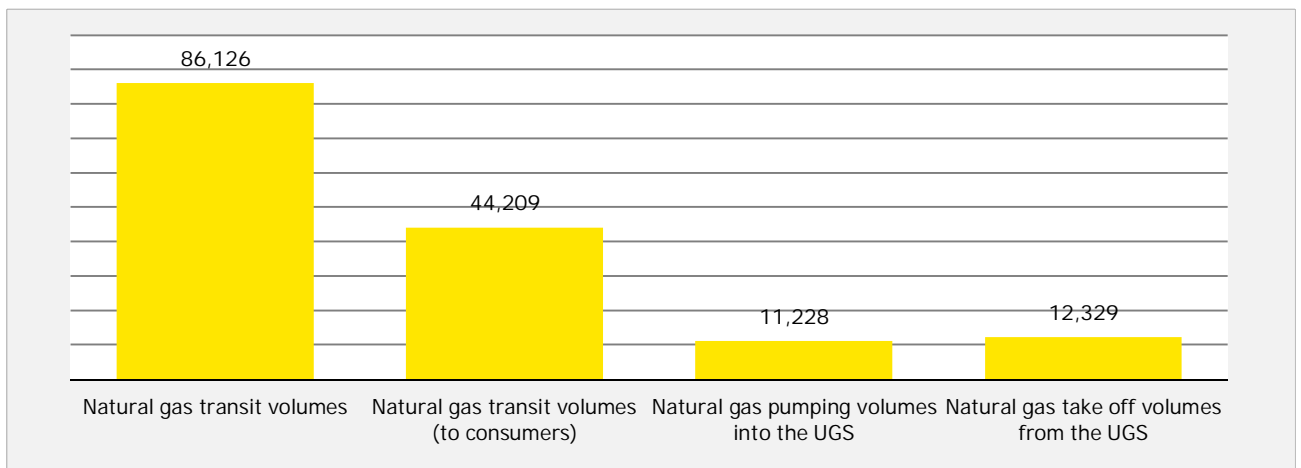


Figure 3.14 – Information on the volumes of transportation and storage of physical volumes of natural gas in 2011, mcm

²³ Resolution of the NERC # 1799 of 30 December 2013, “On Setting Natural Gas Transmission and Supply Tariffs”. <http://www3.nerc.gov.ua/?id=9067>

Information on the volumes of transportation and storage of physical volumes of natural gas of PJSC Ukrtransgaz in 2013 is provided below.

The oil produced within the territory of Ukraine is transported by road, rail, sea and oil trunk lines. The Ukrainian system of oil trunk lines is operated by PJSC Ukrtransnafta. Geographically, the oil trunk lines are concentrated in Ukraine's southeast (Prydniprovski Mahistralni Naftoprovody), northwest (Mahistralni Naftoprovody Druzhba), and south (Pivdenni Mahistralni Naftoprovody).

Ukraine's oil trunk lines are used to transit oil, to import oil, and to transmit domestically produced oil to the Ukrainian refineries (Table 3.5). Overall, more than 90 percent of the domestically produced oil is transmitted via the oil trunk line system. Routes of major trunk oil lines relative to oil deposits of Ukraine's core oil and gas regions is provided below (Figure 3.15).

Ukraine's trunk oil line system comprises over 4,700 km of oil lines, 51 pumping stations (with 176 pumping units with the unit capacity up to 12,500 cubic meters per hour having electrical drives with the total capacity in excess of 357,500 kW), and 11 tank farms with the total capacity of 1,083,000 cubic meters. In addition, the system includes Pivdennyi maritime oil terminal (with the nominal annual capacity of 14.5 million tonnes per year) and the oil transshipment facility near Odesa (Pivdennyi seaport). The capacity of the oil line system amounts to 114 million tonnes per year (at the entry points) and 56.3 million tonnes per year (at the exit points).



Figure 3.15 – Routes of Major Oil Trunk Lines Operated by PJSC Ukrtransnafta Relative to Core Oil and Gas Regions of Ukraine

Core oil transportation routes, gross amounts of transported petroleum products, and transportation tariff rates are specified below (Table 3.5).

Table 3.5

Domestically Produced Oil Transportation Routes, Amounts, and Tariff Rates of PJSC Ukrtransnafta Oil Trunk Lines, 2013

Oil Transportation Route	Amount Transported, thousand tonnes			Transportation Tariff Rate (UAH per tonne)		
	2011	2012	2013	2011	2012	2013
LVDS Hlynsko-Rozbyshivska to Kremenchuk NPZ refinery	170.6	180.1	208.3	9.00	9.00	9.00
NPS Hnidyntsi to Kremenchuk NPZ refinery	893.7	742.4	735.9	10.90	10.90	10.90
M. Pavlivka to Kremenzhuk NPZ refinery	582.2	625.5	647.0	11.10	11.10	11.10
Oriv to NPK Halychyna refinery (Oriv – Drohobych)	28.6	28.0	26.9	6.90	6.90	6.90
Boryslav to NPK Halychyna refinery (Boryslav-Drohobych)	79.8	84.5	89.3	5.20	5.20	5.20
NPS Dolyna to NPK Halychyna refinery	158.7	253.4	269.0	25.00	25.00	25.00
Oriv to NPK Naftokhimik Prykarpattia refinery	0.2	-	-	39.10	39.10	39.10
Boryslav to NPK Naftokhimik Prykarpattia refinery	2.2	-	-	37.40	37.40	37.40
NPS Dolyna to NPK Naftokhimik Prykarpattia refinery	108.5	12.8	-	7.20	7.20	7.20
TOTAL	2,024.5	1,926.7	1,976.5	-	-	-

3.7 Monitoring of subsurface blocks covered by the special permits issued

Information on the current distribution of special permits among oil and gas companies is available online as an interactive map of subsurface blocks, for which special mineral resource

use permits have been issued.²⁴ The map developed by DNVP Geoinform Ukrayiny provides graphic up-to-date data about areas covered by special permits. In addition, the following information can be obtained about each of the areas:

- ▶ the registration number of the special permit;
- ▶ the use type (geological prospecting, production, etc.);
- ▶ the mineral resource (resources), for which the special permit has been issued (oil, natural gas, gas condensate, etc.);
- ▶ the field of use of mineral resources;
- ▶ the special permit issue and expiry dates;
- ▶ the special permit holder organization.

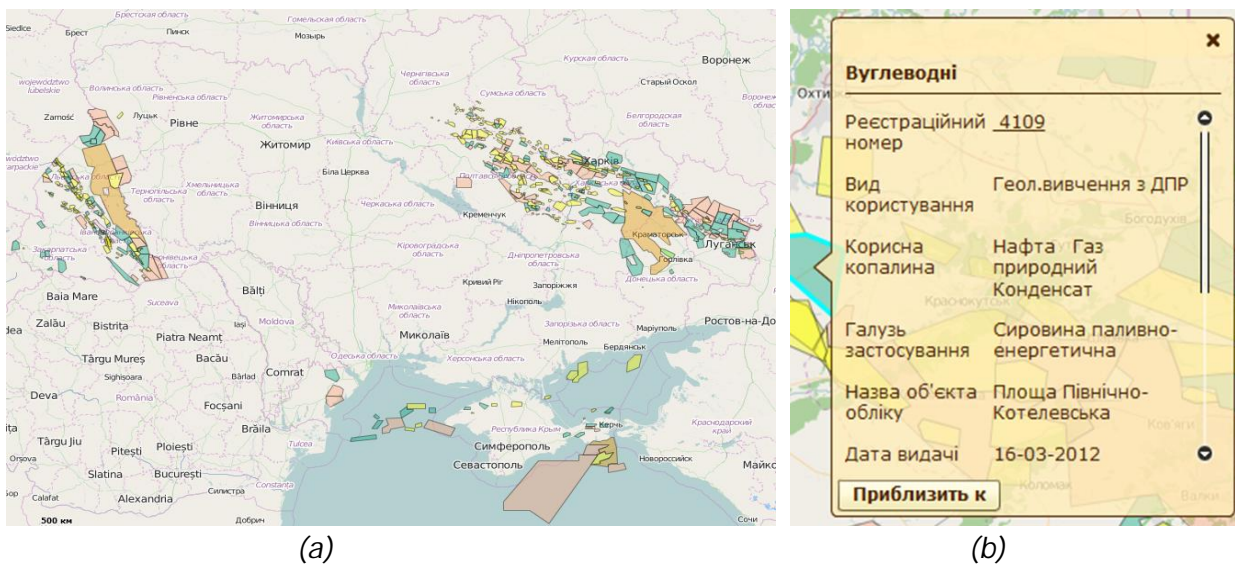


Figure 3.16 – Appearance of the Interactive Map of Subsurface Blocks Produced by DNVP Geoinform Ukrayiny (a) and Contextual Information about a Specific Subsurface Block (b)

In addition, DNVP Geoinform developed a specialized database of special permit data²⁵ providing detailed information about the location of the site, the type of funding source, special conditions, information about the owner, and other information available in the special permit.

²⁴Subsurface Blocks Covered by Special Permits Interactive Map produced by DNVP Geoinform Ukrayiny <http://geoinf.kiev.ua/wp/interaktyvni-karty-spetsdozvoliv.htm>

²⁵ Special Permit Database developed by DNVP Geoinform Ukrayiny <http://geoinf.kiev.ua/specdozvoli/>

Пошук спецдозволів

Вид користування надрами:	<input type="text"/>
Група об'єктів ліцензування:	Родовища нафти та газу
Корисна копалина:	<input type="text"/>
Місцезнаходження об'єкта ліцензування:	<input type="text"/>
Застосування:	<input type="text"/>
Регстраційний номер спецдозволу:	<input type="text"/>
Код ЄДРПОУ:	<input type="text"/>
Рік надання спецдозволу:	2013
Рік закінчення терміну дії спецдозволу:	<input type="text"/>
Стан дії:	<input checked="" type="checkbox"/> Дійсний <input type="checkbox"/> Недійсний <input type="checkbox"/> Дію тимчасово припинено
<input type="button" value="Пошук »"/>	

(a)

Спеціальний дозвіл

Регстраційний номер	4109															
Дата видачі	16-03-2012 (Дійсний) <small>(дата, коли видано, видається, продовжується або дублюється)</small>															
Підстава надання:	2. Наказ від 23-12-2011 № 201 п.8 пп.13 25% державних акцій (Постанова Кабінету Міністрів України від 30 травня 2011 року №615) <small>(дата, номер протоколу міжведомчої робочої групи з надкористування або Кабінету Міністрів України порядку, або протокол комісії міжведомчої угодами про розподіл продукції, або міжведомча комісія Міністерства з надкористування, або протокол спеціальної комісії, доповіді купівлі-продажу і Міністерство охорони України для того, наскільки середовище)</small>															
Вид користування надрами:	Геологічне вивчення надр, в тому числі дослідно-промислова розробка родовищ корисних копалин загальнодержавного значення <small>(відповідно до ст. 14 Кодексу України про надра та пар. 5 Порядку надання спеціальних дозволів на користування надрами, затвердженого постановою Кабінету Міністрів України від 30.05.2011 № 615)</small>															
Відомості про ділянку надр, що надається у користування:	Площа - Північно-Котелевська <small>(нове найменування родовища, площі, геологічної території, відповідно до Державним балансом запасів корисних копалин України)</small>															
Географічні координати:	Площа Північно-Котелевська <table border="1"> <tr> <td>T1</td> <td>T2</td> <td>T3</td> <td>T4</td> <td>T5</td> </tr> <tr> <td>50° 7' 12" 50° 2' 34"</td> <td>50° 7' 30"</td> <td>50° 8' 7"</td> <td>50° 8' 20"</td> <td></td> </tr> <tr> <td>34° 56' 3"</td> <td>34° 54' 50"</td> <td>34° 46' 0"</td> <td>34° 47' 16"</td> <td>34° 51' 48"</td> </tr> </table>	T1	T2	T3	T4	T5	50° 7' 12" 50° 2' 34"	50° 7' 30"	50° 8' 7"	50° 8' 20"		34° 56' 3"	34° 54' 50"	34° 46' 0"	34° 47' 16"	34° 51' 48"
T1	T2	T3	T4	T5												
50° 7' 12" 50° 2' 34"	50° 7' 30"	50° 8' 7"	50° 8' 20"													
34° 56' 3"	34° 54' 50"	34° 46' 0"	34° 47' 16"	34° 51' 48"												

(b)

Figure 3.17 – Design of the Data Request Form for Special Permits (a) and a Specific Special Permit (b)

3.8 Role of the oil and gas sector in Ukraine's economy

In 2013, the real GDP growth in Ukraine slowed down as it remained unchanged since the previous year. In spite of the relatively successful years 2010 and 2011, which saw a GDP growth of 4.7 percent on average, Ukraine's economy was unable to overcome the consequences of the 2008 and 2009 economic decline. The lack of the GDP growth in 2013 was caused mainly by the reduction in industrial production partly made up by a high yield in agriculture. Consequently, the industrial production dropped by 9.3 percent, while agriculture grew by 13.8 percent in 2013.

Ukraine's economy is deeply integrated into the global economy: Goods and service exports and imports account for more than 40 percent of the country's GDP making it susceptible to fluctuations in the relevant global markets. Ferrous metals dominated the Ukrainian exports in 2013 (18.7 percent²⁶), while mineral fuel dominated the imports (25.1 percent²⁷). Starting from 2006, Ukraine's economy has been characterized by the permanent deficit of its balance of trade and current account. For instance, imports exceeded exports by USD 8.1 billion or 4.5 percent of GDP in 2013.

²⁶ Data of the State Statistics Service of Ukraine, statistics compendium "Foreign Trade of Ukraine", 2014, https://ukrstat.org/uk/druk/publicat/kat_u/2015/zb/O6/zb_zt_pdf.zip

²⁷ Op. Cit.

Table 3.6

 2008 to 2013 Core Macroeconomic Indicators of Ukraine²⁸

Indicator	Unit of measurement	2008	2009	2010	2011	2012	2013
GDP in actual prices ²⁹	UAH billion	948.1	913.3	1,082.6	1,302.1	1,411.2	1,454.9
Real GDP ³⁰	% change	2.3	-14.8	4.1	5.2	0.3	0.0
Balance of Trade ³¹	UAH billion	-13.3	-1.3	-3.0	-6.7	-9.0	-8.1
Balance of Trade	Percentage of GDP	-7.4	-1.1	-2.2	-4.1	-5.1	-4.5
Annual Average Exchange Rate ³²	UAH/USD	5.3	7.8	7.9	8.0	8.0	8.0
CPI change (versus previous year) ³³	% change	25.2	15.9	9.4	8.0	0.6	-0.3
Fiscal Balance ³⁴	Percentage of GDP	-1.5	-4.1	-6.0	-1.8	-3.6	-4.4
Unemployment (under ILO methodology) ³⁵	%	6.4	8.8	8.1	7.9	7.5	7.2

The contribution of the oil and gas sector (without oil and gas transportation) into Ukraine's GDP is minor. According to the State Statistics Service of Ukraine, the direct GDP contribution of the oil and gas sector (without oil and gas transportation) amounted to UAH 20.0 billion or about 1.3 percent³⁶ of Ukraine's GDP. The output of oil and gas sector (without oil and gas transportation)

²⁸ All indicators are inclusive of the temporarily occupied territories of the Autonomous Republic of Crimea, the city of Sevastopol, and the anti-terror operation area

²⁹ Data from the State Statistics Service of Ukraine, Gross Domestic Product (in actual prices) https://ukrstat.org/uk/operativ/operativ2003/vvp/vvp_kv/vvp_kv_u/arh_vvp_kv.html

³⁰ Data of the State Statistics Service of Ukraine, change in the gross domestic product (in 2007 prices). https://ukrstat.org/uk/operativ/operativ2004/vvp/ind_vvp/ind_vvp_u/arh_indvvp.html

³¹ Data of the State Statistics Service of Ukraine, statistics compendium "Foreign Trade of Ukraine", 2014, https://ukrstat.org/uk/druk/publicat/kat_u/2015/zb/06/zb_zt_pdf.zip

³² Data of the National Bank of Ukraine, official UAH exchange rate versus foreign currencies (period average) http://www.bank.gov.ua/files/Exchange_r.xls

³³ Data of the State Statistics Service, goods and services consumer price indexes in 2002 to 2014, https://ukrstat.org/uk/operativ/operativ2008/ct/cn_rik/icsR/iscR_u/isc_tp_rik_u_.htm

³⁴ Data of the National Bank of Ukraine, Consolidated and State Budget, http://www.bank.gov.ua/files/BUD_u.xls

³⁵ Data of the State Statistics Service of Ukraine, core indicators of the labor market (annual data) https://ukrstat.org/uk/operativ/operativ2007/rp/ean/ean_u/osp_rik_07u.htm

³⁶ Data of the State Statistics Service of Ukraine, statistics compendium "2013 Ukraine Costs and Output Table in Core Prices" of the State Statistics Service of Ukraine.

http://www.ukrstat.gov.ua/druk/publicat/kat_u/2015/zb/05/zb_tv_13pdf.zip

amounted to UAH 26.5³⁷ billion in 2013 or about 0.8 percent³⁸ of the output of goods and services in Ukraine (*Figure 3.18*).

The oil and gas sector procures a lot of goods, services and work, partly from domestic manufacturers. As a result, the sector makes an additional indirect contribution into the national economy. Within the scope of the EITI Report development, no requirement was made for modeling this indirect contribution, because it constitutes a large volume of work. As a result, it is not possible to indicate accurately the importance of the contribution of the domestic procurement by companies of the sector to the national economy. However, it can be assumed that the said indirect contribution is much larger than the direct contribution mentioned above on the basis of the Independent Administrator’s experience of the implementation of similar projects. A similar assessment carried out for the oil and gas sector of the Republic of Kazakhstan for years 2012 and 2013 can be quoted as an example.

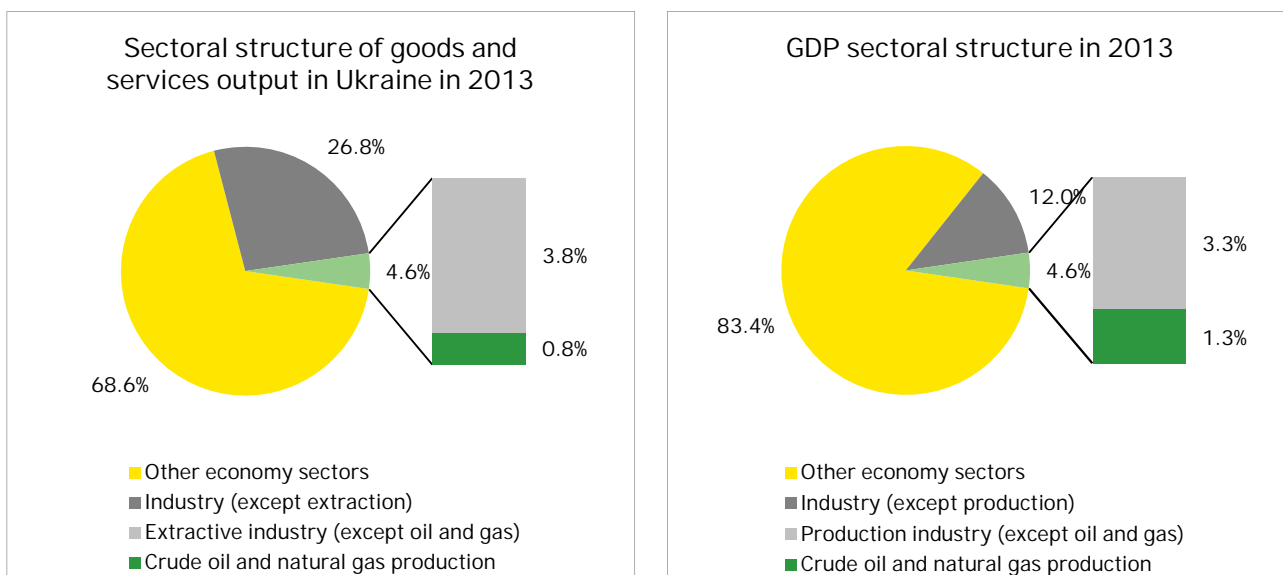


Figure 3.18 – Direct Contribution of Ukraine’s Oil and Gas Sector into the Output of Products and Services and the GDP in 2013

For instance, the 2012-2013 Overview³⁹ of the Social Responsibility of the Oil and Gas Sector of the Republic of Kazakhstan provides indicators for the indirect and related contributions made by oil and gas sector to the national economy as a result of domestic procurement and consumer

³⁷ Data of the State Statistics Service of Ukraine, statistics compendium “2013 Ukraine Costs and Output Table in Core Prices” of the State Statistics Service of Ukraine.

http://www.ukrstat.gov.ua/druk/publicat/kat_u/2015/zb/05/zb_tv_13pdf.zip

This amount does not include the output from transportation of oil and gas, trade and transport margins and any taxes on products

³⁸ Op. Cit.

³⁹ <http://kazenergy.com/ru/2012-06-20-08-42-46/13492--2012-2013-.html>

demand generated by the personnel of oil and gas companies of Kazakhstan. It is mentioned, for instance, that the indirect and related contributions of the sector to the country's GDP in 2012 and 2013 amounted to KZT 4,916.6 billion, while the direct contribution amounted to about KZT 6,066.8 billion. This is equivalent to about USD 32.3 billion and 39.3 billion respectively (at the average KZT/USD rate of 152.14 in year 2013). The employment contribution of the sector amounted to 458,120 and 128,909 jobs respectively (direct and indirect plus related respectively).

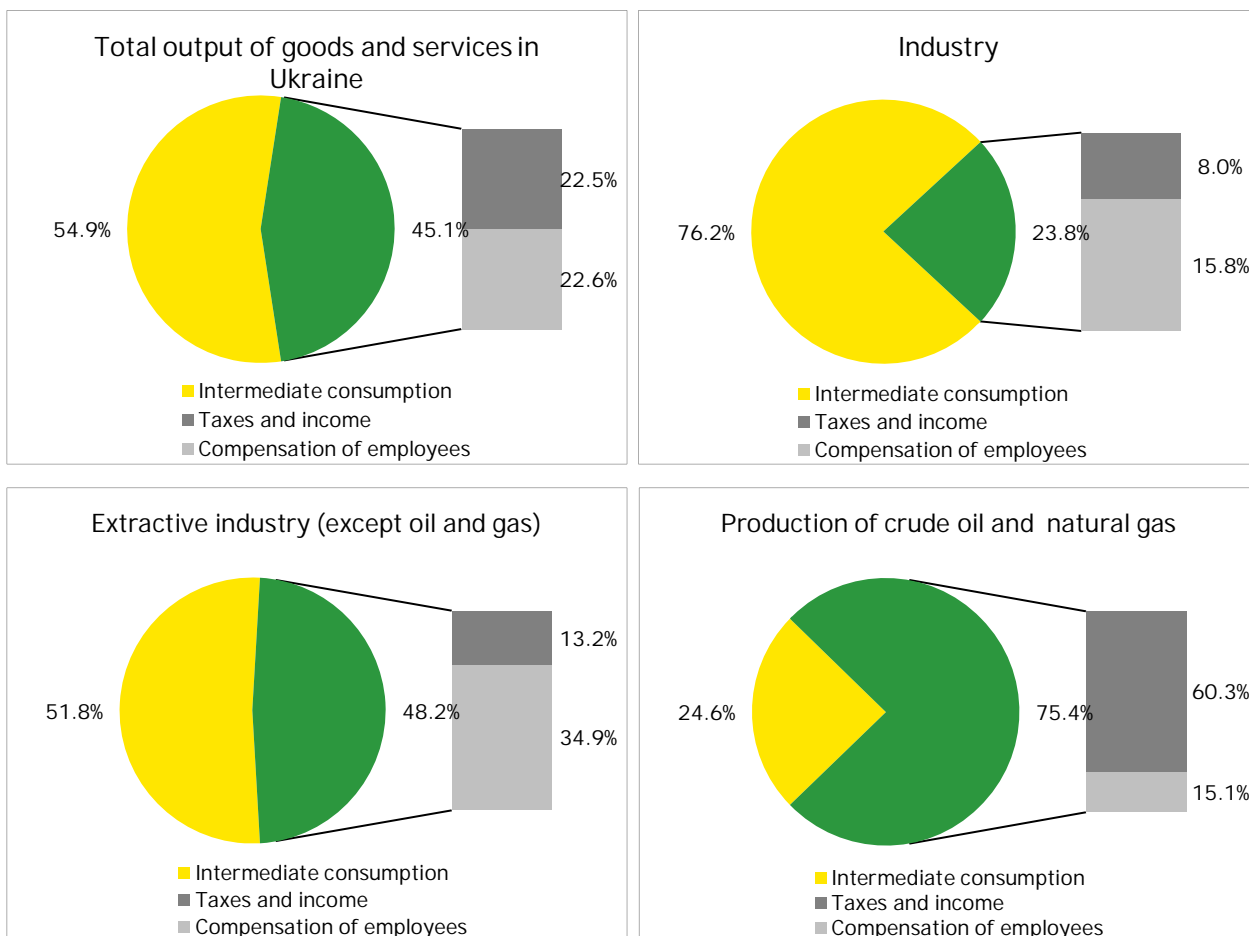


Figure 3.19 - 2013 Value Structure of the Output of Goods and Services

Ukraine's oil and gas sector (without oil and gas transportation) is characterized by a very high percentage of value added (about 74.5 percent⁴⁰) in the product output value structure (Figure 3.19). For comparison, the relevant indicator amounts to 45.1 percent⁴¹ for the entire economy

⁴⁰ Op. Cit.

⁴¹ Op. Cit.

of Ukraine, to merely 23.8 percent⁴² for the manufacturing sector, and to 48.2 percent⁴³ for the extractive industries (other than oil and gas). In addition, it is worth mentioning that the percentage of taxes and profit in the end product value structure amounts to 60.3 percent⁴⁴ or is three times as large as the Ukrainian economy's average (22.5 percent⁴⁵), 7.5 times as large as the average indicator in the manufacturing sector (8.0 percent⁴⁶) and 4.6 times as large as the indicator of Ukraine's extractive industries (13.2 percent⁴⁷).

Table 3.7

Certain economic indicators of the oil and gas industry in 2013

<i>Indicator</i>	<i>Measurement unit</i>	<i>Indicator value in 2013</i>
Aggregate revenues of the state from the oil and gas industry (according to SFS data)	UAH billion	26.837 ⁴⁸
	in % of the aggregate revenues of the Consolidated Budget	6.06 ⁴⁹
Aggregate revenues of the state from the oil and gas industry (according to companies data)	UAH billion	25.369 ⁵⁰
	in % of the aggregate revenues of the Consolidated Budget	5.73 ⁵¹
Oil and gas export	UAH billion	-
	in % of the aggregate export	-
Number of employed workers in the oil and gas industry	thousand persons	55.6 ⁵²
	in % of the employed workers of companies in Ukraine	0.48 ⁵³

The sum of payments made by all oil and gas companies (total number is 120 including oil and gas transportation companies) in 2013 was UAH 26,837.0 million according to State Fiscal

⁴² Op. Cit.

⁴³ Op. Cit.

⁴⁴ Op. Cit.

⁴⁵ Op. Cit.

⁴⁶ Op. Cit.

⁴⁷ Op. Cit.

⁴⁸ This payment includes the amount of VAT from NJSC Naftogaz of Ukraine UAH 7 742,4 million mainly not related to oil and gas extraction in

⁴⁹ Calculated on the basis of data on tax payments received from the DFS, as well as information on the implementation of the Consolidated Budget of the Ministry of Finance of Ukraine

⁵⁰ This payment includes the amount of VAT from NJSC Naftogaz of Ukraine UAH 7 742,4 million mainly not related to oil and gas extraction in Ukraine This payment includes the amount of VAT from NJSC Naftogaz of Ukraine UAH 7 742,4 million mainly not related to oil and gas extraction in Ukraine

⁵¹ Calculated on the basis of data on tax payments received from the oil and gas companies, as well as information on the implementation of the Consolidated Budget of the Ministry of Finance of Ukraine

⁵² Data of the State Statistics Service of Ukraine

⁵³ Calculated on the basis of data of the State Statistics Service of Ukraine

Service, UAH 25,369.0 million – for 38 companies provided information for the present Report which equivalent 6.06% and 5.73% of Ukraine Consolidated Budget revenues in 2013. The oil and gas industry (without transportation of oil and gas) of Ukraine in 2013 employs 55.6 thousand persons representing approximately 0.48% of employed workers in the economy of Ukraine (

Ukraine's oil and gas sector (without oil and gas transportation) is characterized by a very high percentage of value added (about 74.5 percent) in the product output value structure (*Figure 3.19*). For comparison, the relevant indicator amounts to 45.1 percent for the entire economy of Ukraine, to merely 23.8 percent for the manufacturing sector, and to 48.2 percent for the extractive industries (other than oil and gas). In addition, it is worth mentioning that the percentage of taxes and profit in the end product value structure amounts to 60.3 percent or is three times as large as the Ukrainian economy's average (22.5 percent), 7.5 times as large as the average indicator in the manufacturing sector (8.0 percent) and 4.6 times as large as the indicator of Ukraine's extractive industries (13.2 percent).

Table 3.7).

3.9 Distribution of the state revenues from oil and gas sector

The major share of payments made by oil and gas sector companies to the state are channeled to the state budget or local budgets, with the exception of the universal social contribution paid to the Pension Fund to finance pensions and social benefits. Detailed information on the direction of taxes to the state or local budgets shown in *Table 4.1*.

Revenues of the State budget from fees for the use of subsurface resources, rent for the transit transportation of natural gas through Ukraine and duty in the form of special-purpose supplement to the applicable natural gas tariff for consumers of all forms of ownership in 2013 must be used for transfers from the state budget to local budgets for provision of benefits and subsidies for households (including for electricity, natural gas, heat, water and wastewater, etc.)⁵⁴.

Only a minor portion (less than 1%) of payments (mainly, fees for the provision of certain administrative services) that are covered by the 2013 EITI Report was used to fund activities of state-owned enterprises that provide relevant administrative services. As not all of the oil and gas companies have come up with full replies, it is not possible to evaluate the absolute value of such payments. However, the available information (obtained from sector companies directly and as a result of the provided analysis of the budget and fiscal legislation) that the portion of payments to state-owned enterprises not going to the 2013 Consolidated Budget was minor and does not exceed 1 percent of aggregate revenues from oil and gas companies.

⁵⁴ Resolution of the Cabinet of Ministers of Ukraine "On approval of the transfer of some subventions from the state budget to local budgets for provision of benefits, subsidies and compensation", №20 of 20.01.2005

Taxes and other fees paid to the state or local budgets may be used to fund any budget items. For this reason, it is not possible to track the exact areas of the use thereof. Thus, it can be only assumed that the revenue received by the state from the oil and gas sector is utilized in the same proportion as other revenues in the country on average. If such assumption will be done on the basis of the expenditure structure of the 2013 Ukraine Consolidated Budget that more than 50 percent of the revenues from oil and gas sector were spent on social assistance (29 percent) and education (21 percent) in functional terms (*Figure 3.20*) or for the labor remuneration (33 percent) and the public procurement of goods and services (20 percent) in economic terms (*Figure 3.21*).

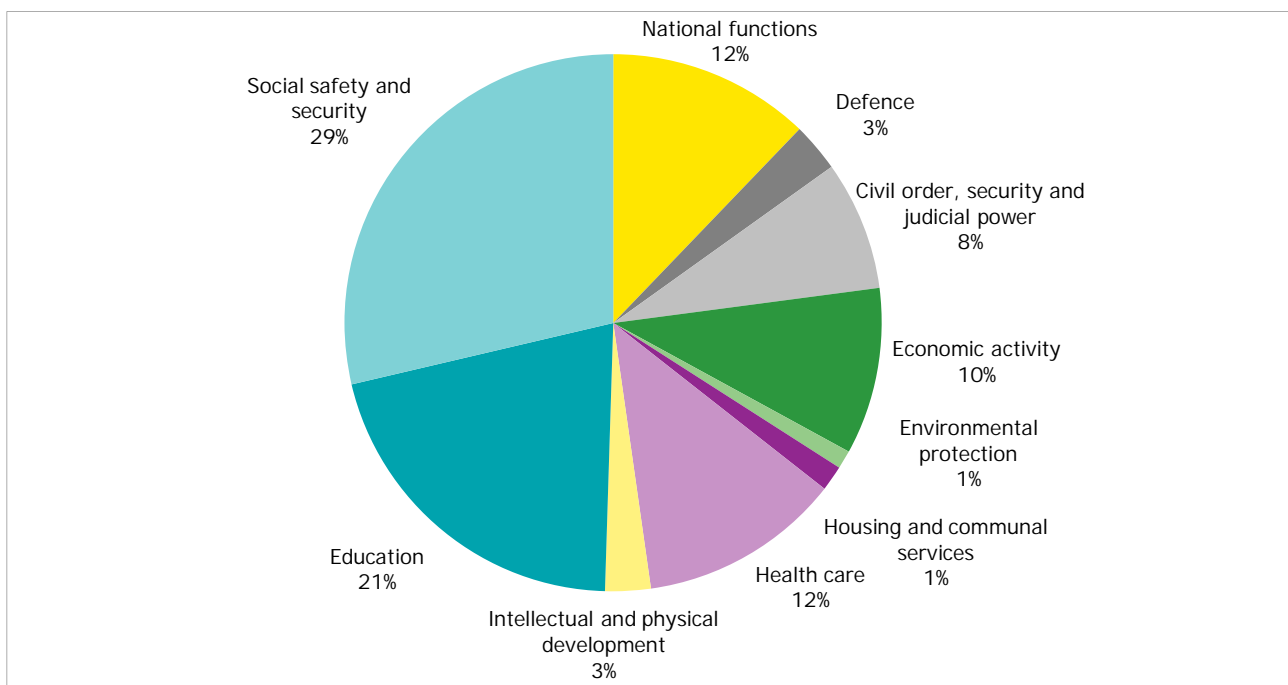


Figure 3.20 – 2013 Ukraine Consolidated Budget Expenditures in Accordance with Functional Classification

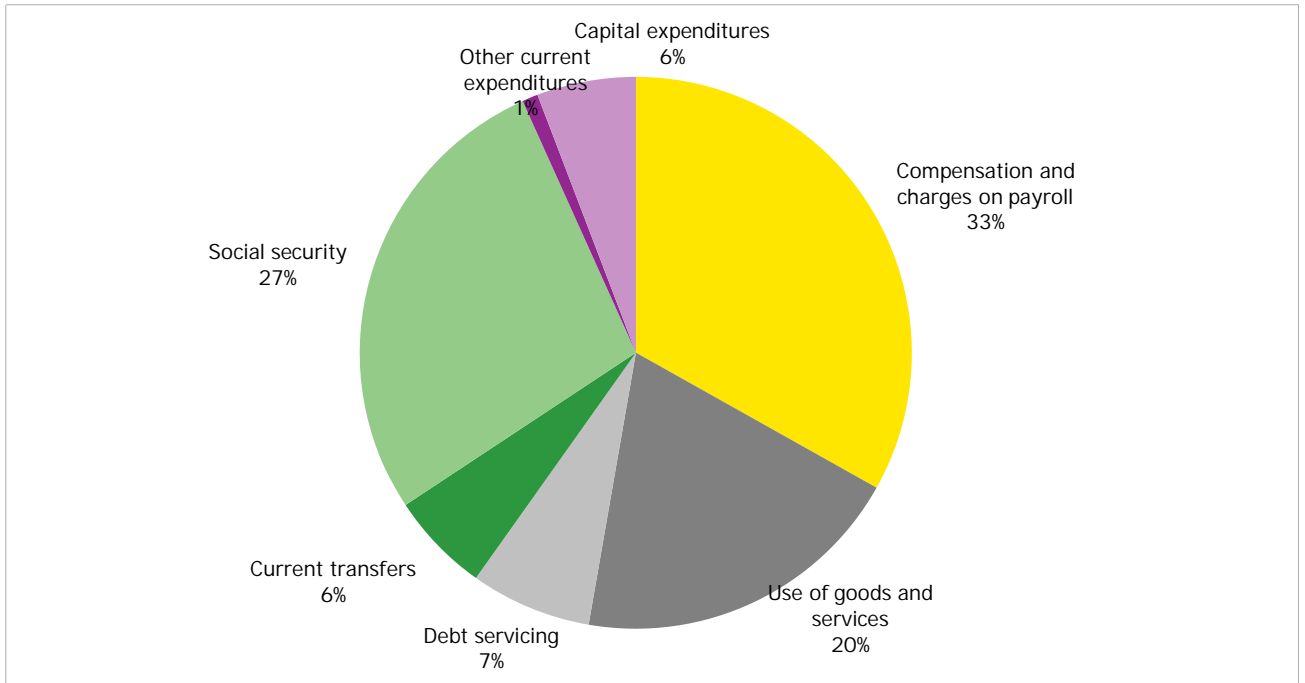


Figure 3.21 – Ukraine Consolidated Budget Expenditures in Accordance with Economic Classification

4. REGULATORY AND FISCAL OVERSIGHT OF THE OIL AND GAS SECTOR IN 2013

4.1 Overview of laws and regulations governing production matters in the oil and gas sector

According to Article 13 of the Constitution of Ukraine, subsoil and other natural resources located within the territory of Ukraine, natural resources of Ukraine's continental shelf and the exclusive (maritime) economic zone are property of the people of Ukraine. State authorities and local self-government bodies exercise the ownership rights on behalf of the people within the limits specified by the Constitution.

The Ukrainian legislative framework that governs the oil and gas production is complicated. Certain matters may be governed by several regulatory instruments which contain provisions that are not always compatible. In addition to laws, the sector is regulated by a number of secondary regulatory instruments. Texts of laws and secondary regulations are available in Ukrainian on the website of the Verkhovna Rada (Parliament) of Ukraine at <http://rada.gov.ua/>.

4.1.1. Subsoil Code of Ukraine

The Subsoil Code of Ukraine (No. 132/94-VR, dated 27 July 1994) is the major piece of legislation that governs the rational use and preservation of subsurface resources. The Code defines the legal status of subsoil, the types of mineral resources, the competence of state authorities and local self-government bodies with respect to regulation of mining relations (i.e., relations associated with the rational use and preservation of subsurface resources), specifies the rules of granting rights to use subsoil, and regulates the actual subsoil use.

A special subsoil use permit must be obtained in order to use subsoil. The Subsoil Code of Ukraine directly prohibits disposing of rights under such permit in any form, including contribution to share capital of legal entities or into joint activity.⁵⁵ *Section 4.5* of this EITI Report provides more detailed information on the procedure for issuing the special subsoil use permits.

A subsoil user also has to obtain a mining allotment for the commercial development of mineral resource deposits. Mining allotments for development of oil and gas deposits are issued by the State Mining Supervision and Industrial Safety Service of Ukraine,⁵⁶ and the document granting the right to subsoil use is named "mining allotment certificate". The geological exploration of subsoil does not require a mining allotment.

⁵⁵ Paragraph 6 of Article 16 of the Subsoil Code of Ukraine.

⁵⁶ Resolution of the Cabinet of Ministers of Ukraine "On Approval of the Mining Allotment Issuing Procedure", No. 59 of 27 January 1995.

The Code also defines rights and duties of subsoil users. The core rights include geological exploration of the allotted subsoil plot, comprehensive development of mineral resource deposits and performance of other works, as well as disposal of produced mineral resources. The core duties of subsoil users include using subsoil for designated purposes, ensuring that the geological exploration is complete, ensuring the sustainable and comprehensive use and preservation of subsoil, and ensuring safety of people, property and environment.

In addition, the Code contains provisions governing a number of other issues, such as geological exploration of subsoil, the state recording of mineral resource deposits, design and construction of mining facilities, preservation of subsurface resources, etc.

4.1.2. Law of Ukraine “On Oil and Gas”

The Law of Ukraine “On Oil and Gas” is the principal law governing the use of oil and gas bearing subsoil, production, transmission, storage and the use of oil, gas and their derivatives.

The terms of the use of oil and gas bearing subsoil in a specific area are stipulated in the agreement on conditions of the use of oil and gas bearing subsoil, being an annex to the special oil and gas bearing subsoil use permit. As a general rule, oil and gas produced by a user of oil and gas bearing subsoil belong to said user.

Similarly to the Subsoil Code of Ukraine, the Law of Ukraine “On Oil and Gas” directly prohibits disposing of rights under such permit in any form, including contribution to share capital of legal entities or into joint activity.⁵⁷

If activities related to the use of oil and gas bearing subsoil are based on a joint investment activity agreement, a joint production agreement, or a production cooperation agreement, one of the parties to such agreement must have the special oil and gas bearing subsoil use permit.⁵⁸

Special rules governing the sale of produced hydrocarbons apply to companies and parties to joint activity agreements in which the state holds at least 50 percent of participatory interest, directly or indirectly:

- ▶ Crude oil, gas condensate of own production, and liquefied gas must be sold on a monthly basis at exchange auctions only. The auction procedure is determined by the Cabinet of Ministers of Ukraine. The starting price for oil and gas condensate at such auctions is determined based on the customs value of oil.
- ▶ Natural gas must be sold in full on a monthly basis to the NJSC Naftogaz of Ukraine - an entity authorized to form the natural gas resource for Ukrainian households and

⁵⁷ Paragraph 2 of Article 14 of the Law of Ukraine “On Oil and Gas”.

⁵⁸ Article 49 of the Law of Ukraine “On Oil and Gas”.

consumers, at prices set annually by the NERC for each company operating in the area in accordance with the price setting procedure approved by the NERC.⁵⁹

Geological information must be registered with and recorded by the State Geological Information Fund. The contents and scope of information to be submitted to the Fund, as well as procedure for keeping and use thereof, are determined by the State Service for Geology and Mineral Resources of Ukraine.

The geological information obtained at the expense of the State Budget of Ukraine belongs to the state. The procedure and conditions of the use of geological information by various categories of subsoil users and of sale thereof are determined by the Regulation on the Procedure for Geological Information Administration.⁶⁰

The fee to be charged for the use of the geological information is determined by SGE "Geolekspertyza"⁶¹ in accordance with the Methodology of Determining the Value of Geological Information Obtained at the Expense of the State Budget.⁶² The geological information obtained by subsoil users at their own expense is owned by the said users and may be sold upon consultation with the State Service for Geology and Mineral Resources of Ukraine.

On expiration of a special subsoil use permit, the state-owned assets granted for use by the permit holder should be returned to the state, whereas the assets (constructions, equipment) created by the permit holder in the course of production process remain in the holder's ownership.

The public control over compliance with rules and standards of the use of oil and gas bearing subsoil is exercised by the State Service for Geology and Mineral Resources of Ukraine and local self-government bodies. The public supervision of activities related to the geological exploration of oil and gas bearing subsoil is exercised by the State Mining Supervision and Industrial Safety Service of Ukraine in accordance with the Regulation on Procedure for State Mining Supervision approved by Resolution of the Cabinet of Ministers of Ukraine No. 134 on 21 February 1995.

The Law "On Oil and Gas" also regulates a number of other issues, including commencement of commercial development of oil and gas fields, principal requirements for commercial development, environmental protection, special working environment conditions, and liability for violations in oil and gas sector.

⁵⁹ Article 10 of Law of Ukraine "On Principles of Functioning of the Natural Gas Market", No. 2467-VI of 8 July 2010.

⁶⁰ Regulation on the Procedure for Geological Information Administration, approved by Resolution of the Cabinet of Ministers of Ukraine No. 423 of 13 June 1995.

⁶¹ State Geophysical Enterprise "State Commission for Examination of Geological Projects and Estimates "Geolekspertyza".

⁶² Resolution of the Cabinet of Ministers of Ukraine "On Approval of Methodology of Determining the Value of Geological Information Obtained at the Expense of the State Budget", No. 1075 of 10 December 2008.

4.1.3. Other Regulatory Instruments

The Mining Law of Ukraine (No. 1127-XIV) of 6 October 1999 governs legal and organizational principles of carrying out mining operations and preventing accidents while carrying them out.

The Law of Ukraine "On Environmental Protection" (No. 1264-XII) of 25 June 1991 specifies principal requirements for protection of natural resources, including protection in the course of oil and gas production. The Law defines powers of state authorities and local self-government bodies, as well as control and oversight procedures related to environmental protection.

The Law also specifies general environmental requirements to be met in the course of the use of natural resources (e.g., sustainable and prudent use of natural resources, measures to prevent damage, contamination or depletion of natural resources, carrying out business and other activities without interfering with environmental rights of other persons), and measures to ensure environmental safety in the course of various business activities.

The Law of Ukraine "On Pipeline Transport" (No. 192/96-VR) of 15 May 1996 governs the principles of pipeline transport activities, particularly as regards oil and gas production. For instance, it governs the use of upstream pipelines (connected networks), i.e., lines within fields, tank farms, as well as oil and gas lines within field facilities. This Law applies, *inter alia*, to the pipeline transportation of hydrocarbons and other products and substances from places of their discovery, extraction, production or storage to places of their processing or consumption, handling, and further transportation.

The Law of Ukraine "On Production Sharing Agreements" governs the procedure for production sharing agreements (PSAs) tenders, the procedure of entry into PSAs, and performance thereunder.

The provision of land plots for oil and gas production is governed mainly by Land Code of Ukraine No. 2768-III of 25 October 2001 and Law of Ukraine "On Land Lease" No. 161-XIV of 6 October 1998. Carrying out geological exploration requires an agreement with the land owner or and approval from the land user.

The areas for which special subsoil use permits are granted are subject to certain area and depth limits. The dimensions and boundaries granted for use are determined by the State Service for Geology and Mineral Resources of Ukraine. The maximum area of land plots granted for geological exploration of oil and gas bearing subsoil may not exceed 500 square kilometers or, in the Black Sea, 1,000 square kilometers.

Water Code of Ukraine No. 213/95-VR of 6 June 1995 governs the use of water resources in oil and gas production. For instance, the Code requires to obtain special water use permits (for water intake from water objects with the use of constructions or technical devices, the use of water and the discharge of pollutants into water objects, including water intake and pollutant discharge with the return water using canals).

A number of aspects of oil and gas production are governed by numerous secondary regulations.

The Law of Ukraine “On the Principles of Natural Gas Market Functioning” No. 2467-VI of 8 July 2010 sets out the main principles of the functioning of the natural gas market.

4.1.4. Reforms in the oil and gas industry in 2013

The main tasks of reforming the oil and gas industry in 2013 were set out in the National Action Plan for 2013 to implement the Program of Economic Reforms for 2010 – 2014⁶³ approved by the President of Ukraine on 12 March 2013. The main actions taken to implement the National Action Plan in the oil and gas sector included, in particular:

- ▶ Commencement of the NJSC Naftogaz of Ukraine reform. In 2013, the development of the program of reforming NJSC Naftogaz of Ukraine aimed at performance of Ukraine’s obligations under the Energy Community Treaty commenced. Ukraine’s obligations under this Treaty implied ensuring the compliance with the EU legislation regulating the oil and gas market, including compliance with the requirements of Directive 2003/55/EC of the European Parliament and of the Council concerning common rules for the internal market in natural gas and unbundling the activities of oil and gas companies; the latter includes separation of gas transmission, distribution, and storage activities from gas production and supply. Several bills were also developed within the project on reforming the NJSC Naftogaz of Ukraine.
- ▶ Update of the Energy Strategy of Ukraine for the Period until 2030. Energy strategy is a complex program document setting out main tasks of development of Ukraine’s energy industries according to objectives and assignments of the fuel and energy sector for a specific period. The Cabinet of Ministers of Ukraine approved the updated Energy Strategy of Ukraine for the Period until 2030 on 24 July 2013⁶⁴. The updated Energy Strategy set out main tasks of oil and gas sector development. For example, the key aims of the state in the hydrocarbons extraction sector were defined as follows: (i) facilitation of transparent and sustainable conditions for hydrocarbons development and extraction, (ii) promoting the unconventional hydrocarbons extraction and extraction in complicated environments, and (iii) ensuring ecological safety of extraction. The Energy Strategy also sets out specific action plan for achieving each of the aims. For instance, achieving the aim of facilitation of transparent and sustainable conditions for hydrocarbons development and extraction requires due compliance with the state EITI Implementation Work Plan, elaboration and constant updating of the long-term natural resources development program of Ukraine, mitigation of the fields use risks, simplification of the

⁶³ Decree of the President of Ukraine “On the National Action Plan for 2013 to implement the Program of Economic Reforms for 2010 – 2014 “Wealthy Society, Competitive Economy, Efficient State” No. 128/2013 of 12 March 2013.

⁶⁴ Directive of the Cabinet of Ministers of Ukraine “On Approving the Energy Strategy of Ukraine for the Period until 2030” No. 1071-p of 24 July 2013. The previous version of the Energy Strategy of Ukraine for the Period until 2030 was approved by Directive of the Cabinet of Ministers of Ukraine No. 145-p of 15 March 2006.

licenses issuing process (special geological surveying and mineral resources extraction permits), conclusion of the PSAs, etc.⁶⁵

- ▶ The law-making activities of the National Commission for State Regulation of Energy Sector. The National Commission adopted a number of regulations related to the oil and gas sector, for example Resolution “On Improvement of Service Quality for Gas Consumers” No. 709 of 20 June 2013, aiming to ensure protection of gas consumers’ rights and improvement of the gas supply service level.

Notably, a significant number of tasks of the National Action Plan for 2013 to implement the Program of Economic Reforms for 2010 – 2014 was not completed⁶⁶. The insufficient reforming progress of the Ukrainian oil and gas sector in 2013 was also highlighted within the monitoring of performance of Ukraine’s Energy Community obligations⁶⁷.

4.2 Functions and powers of state authorities

The Verkhovna Rada (Parliament) of Ukraine sets out main lines of state policy in oil and gas sector and provides the legislative regulation of relations in this sector by adopting laws.

The President of Ukraine takes part in the legislative process (with the power to initiate laws and the veto power); the President also takes part in setting up, liquidating and reorganizing ministries and other central state authorities.

The Cabinet of Ministers of Ukraine implements the state policy in oil and gas sector and governs the sector. The Cabinet of Ministers of Ukraine issues resolutions implementing laws and detailing rules, procedures and requirements. The Cabinet also coordinates activities of ministries and other central state authorities. The Cabinet of Ministers of Ukraine is accountable to the President of Ukraine; it is controlled by, and reports to, the Verkhovna Rada of Ukraine.

Various core functions connected to oil and gas production are allocated to central state authorities as follows:

- ▶ The State Service for Geology and Mineral Resources of Ukraine (Derzhgeonadra) keeps state recording of fields, reserves, and occurrences of mineral resources, and issues special subsoil use permits.

⁶⁵ Subparagraph 6.9.2 of paragraph 6.9 of Chapter 6 of the Energy Strategy of Ukraine for the Period until 2030.

⁶⁶ In particular, performance of assignments related to certain tasks of the oil and gas sector reforming, such as improvement of regulatory framework and simplification of permit system within the scope of conventional hydrocarbons extraction scheme, and setting forth favorable conditions for extraction of hydrocarbons in poor fields, fields with complicated development conditions, and extraction of hydrocarbons deposited in unconventional reservoirs (paragraphs 140-141 of the National Action Plan for 2013 to implement the Program of Economic Reforms for 2010 – 2014 “Wealthy Society, Competitive Economics, Efficient State”).

⁶⁷ Energy Community Secretariat *Annual Implementation Report* (1 September 2013), pp. 122-127.

- ▶ The Ministry of Ecology and Natural Resources of Ukraine is responsible for regulating a number of matters, particularly related to keeping record of subsoil geological exploitation works, keeping record of the amount of recovered and extracted mineral resources and of their losses, and keeping record of oil and gas wells.
- ▶ The Ministry of Energy and Coal Industry of Ukraine takes decisions on commencement of development of oil and gas fields, monitors the oil and gas market, and approves the technical planning documentation for development of oil and gas fields.
- ▶ The State Mining Supervision and Industrial Safety Service of Ukraine (Derzhgirpromnagliad) exercises state mining supervision and issues mining allotments.
- ▶ The National Commission for State Regulation of Energy Sector (NERC) develops and implements pricing and tariff policy on the oil and gas market (in particular, it sets prices for domestically produced commercial natural gas).
- ▶ The Ministry of Revenues and Duties of Ukraine carries out collection, recording, and control over payments of taxes, duties and customs fees (in particular, fees for the use of subsoil for production of mineral resources).

Local executive authorities and municipal authorities also have a number of powers connected to oil and gas production.

More detailed information about powers of state and municipal authorities in respect of oil and gas production is provided in 5 to this EITI Report.

4.3 Extractive industry fiscal regime

4.3.1. General overview of the legislation and powers of state authorities in the field of taxation

Extractive companies in the oil and gas industry are taxed under the general procedure according to the following core laws:

- ▶ The Tax Code of Ukraine No. 2755-VI of 2 December 2010 specifies a list of taxes and duties, and the procedure of their administration, the rights and obligations of taxpayers, the competence and powers of controlling authorities, and the liability for the violation of the tax laws.
- ▶ The Customs Code of Ukraine No. 4495-VI of 13 March 2012 specifies the procedure of collection of customs payments during movement of goods across the customs border of Ukraine.
- ▶ The Law of Ukraine "On Customs Tariff of Ukraine" No. 2371-III of 5 April 2001 specifies rates of the import duty on goods imported into the customs territory of Ukraine.

- ▶ The Law of Ukraine “On Collection of, and Accounting for, the Unified Contribution for Mandatory State Social Security” No. 2464-VI of 8 July 2010 governs the collection of, and the accounting for, the mandatory state social security contribution.
- ▶ The Budget Code of Ukraine No. 2456-VI of 8 July 2010, specifies the procedure of the budget approval and execution, including the procedure for the allocation of taxes to the state and local budgets.

Some tax-related issues are also governed by the regulations of the CMU, the Ministry of Finance of Ukraine, and the Ministry of Revenue and Duties of Ukraine. All regulatory instruments are available at the website of the Verkhovna Rada of Ukraine at <http://rada.gov.ua/>

In 2013, the Ministry of Revenue and Duties of Ukraine was the main state authorities responsible for administration and control over the collection of taxes, duties, customs fees, and the USC. Before 18 March 2013, the payment of the USC was also administered and controlled by the Pension Fund of Ukraine.

4.3.2. Overview of the taxation of extractive companies

In 2013, corporate profit tax and the subsoil use fee were the main taxes for extractive industries. In addition, companies in the oil and gas sector are also obliged to pay other taxes and statutory fees, which are not specific to this particular sector. Companies that operate trunk pipeline facilities and provide (organize) transportation by oil pipelines also pay the transportation rental fee.

JAAAs and PSAs should be registered as separate taxpayers. A party to a JAA or a PSA tasked with calculating and paying taxes in the course of the agreement implementation should be additionally registered as a taxpayer, and maintain ring-fenced accounting for the operations under the JAA or the PSA separately from other operations of the entity that is a party to such simple partnership agreement or PSA. The legislation provides for special taxation rules with a number of incentives for the PSAs. The taxation of JAAs also has some special aspects, but no preferential treatment of the parties to the JAAs.

The Ukrainian legislation does not provide for bonuses as a mandatory payment. A fee is charged for obtaining of a special subsoil use permit (see Section 4.5 for more detail).

The PSAs may contain provisions requiring an investor to pay a bonus, for instance, for signing a PSA or for the discovery of a deposit, but these provisions are treated as commercial terms and conditions, and the legislation does not require any disclosure thereof.

Table 4.1

Allocation of major taxes charged from companies in extractive industries

Tax Name	Allocated to
Corporate profit tax	State budget ⁶⁸
Subsoil use fee for the mineral resource production	State budget
Non-production subsoil use fee	Local budgets
Transportation rental fee	State budget
Levy in the form of a special-purpose surcharge to the applicable natural gas tariff for consumers of all ownership forms	State budget
VAT	State budget
Excise tax	State budget
Import duty	State budget
Export duty	State budget
Environmental tax	53% to the state budget / 47% to local budgets
Land fee	Local budgets
Special water use levy	50% to the state budget / 50% to local budgets ⁶⁹
Special forest resource use levy	50% to the state budget / 50% to local budgets ⁷⁰
Fee for the use of other natural resources	Local budgets
First vehicle registration levy	Local budgets
Personal income tax	Local budgets ⁷¹
Unified social contribution	Pension Fund of Ukraine

The general information about taxes, fees, and duties, significant for the extractive industries for the purposes of this Report, is provided below. Unless explicitly stated otherwise, this section describes taxation regime applicable as of 31 December 2013.

⁶⁸ The tax charged on the profits of municipally owned companies and financial institutions is channelled into local budgets.

⁶⁹ The fee for the special use of water resources of local significance is allocated to local budgets in full.

⁷⁰ For the principal felling. The rest of the levy is allocated to local budgets.

⁷¹ 50 percent of the PIT transferred to the budget of the city of Kyiv is credited to the state budget revenues.

Corporate profit tax

In 2013, the corporate profit tax was levied at the rate of 19 percent charged on the taxable profits the company earned in the reporting year.

The taxable profit is determined as the difference between the income and the expenses of a taxpayer, as defined under the rules set forth by the Tax Code. The Tax Code specifies special rules for the accounting for activities related to the exploration and production of mineral resources.⁷² The duty to keep ring-fenced accounting for the income and expenses related to contract performance is only required in the case of JAAs and PSAs.

For PSAs, corporate profit tax is calculated under special rules. For instance, the taxable object under PSAs is calculated on the basis of the value of the profit production minus unified social contribution and expenses not compensated (not subject to being compensated) by the cost recovery production. Other income of the investor is not subject to corporate profit tax.⁷³

Subsoil use fee for mineral resource production⁷⁴

The taxable base for the subsoil use fee is the value of mineral resources produced in a reporting period (subject to certain exceptions) calculated in accordance with special rules:

- ▶ In the case of natural gas: the average customs value of the imported natural gas during its customs clearance upon importation into the territory of Ukraine in the reporting period.
- ▶ In the case of natural gas sold to NJSC Naftogaz of Ukraine as a part of the natural gas resource aimed for the supply to households (hereinafter referred to as the “gas sold for households’ needs”): the procurement price set by NERC.
- ▶ In the case of oil and condensate: the average price of a barrel of Urals oil prevailing at the close of the London Stock Exchange during the reporting period converted into UAH per tonne (at the NBU exchange rate as of the first day of the month following the reporting month).

The rates of the subsoil use fee under PSAs are specified in the PSAs, but may not be lower than 1.25 percent for natural gas and 2 percent for oil and gas condensate (in case of agreements concluded in 2013). Parties to the PSAs specify in the agreement the conditions and the procedure for the calculation and payment of the subsoil use fee that can be different from the generally applicable procedure.

Adjustment factors (0.01 to 0.98) are applied for the calculation of the subsoil use fee depending on the extracted production type and production conditions.

⁷² Section III of the Tax Code.

⁷³ Section XVIII of the Tax Code.

⁷⁴ Section XI of the Tax Code.

Table 4.2

Rates of the Subsoil Use Fee

Object of Taxation	Rate
Oil, condensate	
• extracted from deposits located at depths of under 5,000 m	39%
• extracted from deposits located at depths of over 5,000 m	17%
<i>Natural gas (including the natural gas dissolved in oil (associated gas), coalbed methane, shale gas, etc.)</i>	
• extracted from deposits located at depths of under 5,000 m	25%
• extracted from deposits located at depths of over 5,000 m	14%
• extracted from deposits in subsoil fields located within the continental shelf and/or the exclusive (maritime) economic zone of Ukraine	11%
• extracted from deposits located at depths of under 5,000 m, if sold for households' needs	20%
• extracted from deposits located at depths of over 5,000 m, if sold for households' needs	14%

*Subsoil use fee for the purposes other than mineral resources production*⁷⁵

Companies that use subsoil resources for the storage of oil, gas, liquid or gaseous petroleum products are required to pay the subsoil use fee for the purposes other than mineral resources production charged for the underground volumes of subsoil sections at the following rates:

- ▶ for natural gas storage – UAH 0.28 per tcm of active volume;
- ▶ for the storage of oil and other liquid petroleum products – UAH 0.28 per cubic meter.

Rental fee for the transportation of oil and oil products in trunk pipelines and oil product pipelines through the territory of Ukraine, the transit of the natural gas and ammonia in pipelines across the territory of Ukraine⁷⁶

Operators of trunk pipeline facilities that provide (organize for) cargo transportation (transmission) services using such pipelines, as well as the companies authorized by the CMU to provide (organize for) services related to pipeline transit of natural gas across the territory of Ukraine, pay a transportation rental fee at the following rates:

- ▶ UAH 4.5 for the transportation of 1 tonne of oil and petroleum products;
- ▶ UAH 1.67 for the transit of 1000 tcm of natural gas per 100 km;

⁷⁵ Section XI of the Tax Code.

⁷⁶ Section IX of the Tax Code.

- ▶ UAH 5.1 for the transit of 1 tcm of ammonia per 100 km.

Rental fee for the oil, natural gas and gas condensate, produced in Ukraine⁷⁷

Before 2013, the rental fee for the oil, natural gas and gas condensate produced in Ukraine was charged in addition to the subsoil use fee. Although the rental fee was abolished in 2013, the extractive companies still had to pay the fee accrued for the volume of hydrocarbons, extracted during IV quarter 2012, the deadline for the payment of which was in February 2013.

The rental fee was charged on the amount of produced hydrocarbons (in case of gas, excluding recycled gas volumes) at absolute rates depending on the type of the production and the production depth. The following rates applied as at the end of 2012:

Table 4.3

Rates of the rental fee for the oil, natural gas and gas condensate, produced in Ukraine

Object of taxation	Rate
<i>Oil, condensate</i>	
▶ extracted from deposits located at depths of under 5,000 m	UAH 2,141.86 per tonne
▶ extracted from deposits located at depths of over 5,000 m	UAH 792.54 per tonne
<i>Natural gas</i>	
▶ extracted from deposits located at depths of under 5,000 m	UAH 237 per 1 tcm;
▶ extracted from deposits located at depths of over 5,000 m	UAH 118.5 per 1 tcm;
▶ extracted from deposits in subsoil fields located within the continental shelf and/or the exclusive (maritime) economic zone of Ukraine, if sold for households' needs	UAH 11.85 per 1 tcm;
▶ extracted from deposits located at depths of under 5,000 m, if sold for households' needs	UAH 59.25 per 1 tcm;
▶ extracted from deposits located at depths of over 5,000 m, if sold for households' needs	UAH 47.4 per 1 tcm.

There were also adjustment coefficients applicable to rental fee rates.

⁷⁷ Section X of the Tax Code

Other taxes

- ▶ **VAT.**⁷⁸ Transactions of supply, import and export of goods, as well as the supply of services within the customs territory of Ukraine are subject to VAT. VAT is charged at base rates of 20% and 0%, although some transactions are exempt from VAT.

Natural gas imports into the customs territory of Ukraine are exempt from VAT. Oil and condensate imports are subject to VAT at the rate of 20% on a generally applicable basis. Exports of oil, natural gas and condensate are subject to VAT at 0%.

For PSAs, a number of VAT exemptions are granted for the importation of goods and services intended for the PSAs, as well as for imports of products produced in the exclusive (maritime) economic zone of Ukraine.

- ▶ **Customs duty.**⁷⁹ Customs duty is charged on imports and exports of certain goods into/from the territory of Ukraine.

Gas, oil, and condensate imports do not attract import duty. The gas exports in a gaseous or liquefied state attract export duty at the rate of 35 percent of the customs value or at least UAH 400 per tcm / tonne. No export duty is charged on oil exports. A number of import and export duty exemptions are granted for PSAs⁸⁰.

- ▶ **Excise tax.**⁸¹ Excise tax is an indirect tax charged on the importation of excisable goods and sales of excisable goods produced in Ukraine.

Excise tax is not applied to crude oil and gas sales. However, the imports and sales of domestically produced liquefied gas are subject to excise tax at the rate of EUR 44 per 1,000 kg. Petroleum product imports and sales are subject to excise tax at rates dependent on the type of petroleum products and the amount imported or sold.

- ▶ **Levy in the form of a special-purpose surcharge to the applicable natural gas tariff for consumers of all ownership forms.**⁸² Companies in extractive industries that directly supply natural gas to consumers pay the levy at a rate of 2 percent of the value of the natural gas on the gas supplied to companies and state-funded institutions, and 4 percent in case of gas supplies to households.

- ▶ **Land fee.**⁸³ Land fee is charged in the form of a land tax and a rental fee for the state- and municipally-owned land plots. Extractive companies pay the land fee on general terms. The land fee rate depends on a number of factors, including the location, the

⁷⁸ Section V of the Tax Code.

⁷⁹ Section IX of the Customs Code.

⁸⁰ Section XVIII of the Tax Code.

⁸¹ Section VI of the Tax Code.

⁸² Section XIV of the Tax Code.

⁸³ Section XIII of the Tax Code.

functional use, and the availability of the standard monetary land value for the land plot in question.

- ▶ **Environmental tax.**⁸⁴ Companies that emit pollutants into the air or discharge pollutants into water, or dispose of waste (subject to some exceptions) are required to pay an environmental tax. Rates of the environmental tax depend on the contamination source type and object, the contaminant type and concentration, etc.
- ▶ **Special water use levy.**⁸⁵ The levy is charged on the actual amount of water used by water users taking into account water losses in their water supply systems. Levy rates are set dependent on a number of factors (such as the region, the purpose of water use, etc.).
- ▶ **Special forest resource use levy.**⁸⁶ If an extractive company fells forest trees for the exercise of its activity (e.g., to clear construction sites), it is subject to the special forest resource use levy. Rates of the duty depend on the wood felling type and features, and the region.
- ▶ **Fee for the use of other natural resources.**⁸⁷ This fee is paid by companies, institutions, organizations and individuals – quota users (in respect to aquatic ecosystems) and permits (in respect to wild animals) in the amount determined on the basis of the use limits (quotas) and standard rates of the fee charged for each type of such resources.
- ▶ **First vehicle registration levy.**⁸⁸ Companies pay levy for the first registration of a vehicle. The amount of the levy depends on vehicle type and technical parameters (engine volume or capacity, vessel length, aircraft maximum takeoff mass).
- ▶ **Personal income tax**⁸⁹. PIT is charged on income of individuals at the rate of 15 percent from amounts not exceeding 10 minimum salaries (UAH 11,470 in 2013) and 17 percent from amounts exceeding that. Some income items are taxed at other rates (e.g., wages of mine workers are taxed at the rate of 10 percent). Extractive companies withhold and pay PIT on salaries and other compensatory payments disbursed to their employees on general terms.
- ▶ **Unified social contribution.**⁹⁰ Companies withhold and pay USC from salaries and other compensatory payments disbursed to their employees at a rate of 3.6 percent. The maximum amount liable to USC is equivalent to 17 minimum subsistence amounts (UAH 19,499 in 2013). In addition, employers are required to charge and pay USC on wages and salaries at rates of 36.76 to 49.7 percent (depending on the occupational risk

⁸⁴ Section VIII of the Tax Code.

⁸⁵ Section VI of the Tax Code.

⁸⁶ Section XVIII of the Tax Code.

⁸⁷ Section XX of the Tax Code.

⁸⁸ Section VII of the Tax Code.

⁸⁹ Section IV of the Tax Code.

⁹⁰ Law of Ukraine "On Collection of, and Accounting for, the Unified Contribution for Mandatory State Social Insurance Contribution" # 2464-VI of July 08, 2010.

class of the company). For instance, crude oil production is rated as risk class 18 and taxed at the rate of 37.13 percent, while the natural gas production is rated as risk class 20 and taxed at the rate of 37.17 percent.

4.4 Register of special subsurface subsoil permits

The information about owners of special subsoil use permits is accessible online, on the web site of the State Research and Production Enterprise “State Geological Information Fund of Ukraine” at <http://geoinf.kiev.ua/specdozvoli/>.

The search system allows search for valid, invalid and suspended permits.

The system, in particular, contains information about a permit owner, a subsoil plot allotted for use with the indication of geographical coordinates, the registration number, the date of issue, the duration and the validity period of the permit, and the mineral resource type. The system also contains information about grounds for the issuance of a permit, the subsoil use type, the subsoil use purpose, the special conditions of a permit, and the details of an agreement on terms and conditions of the subsoil plot use. The system, however, does not contain information about the date of an application for a special permit.

The web site of the State Research and Production Enterprise “State Geological Information Fund of Ukraine” can be searched for applications for special subsoil use permits at <http://geoinf.kiev.ua/zayavy-na-otrymannya-spetsdozvoliv-na-korystuvannya-nadramy/>.

In addition, there is an interactive map of subsoil areas covered by special subsoil use permits on the same web site at <http://geoinf.kiev.ua/wp/interaktyvni-karty-spetsdozvoliv.htm>.

We note that as of 2013, this information was not publicly accessible. It became accessible in late March 2015.

As of the date of this Report, the register of special subsoil use permits contained information about 378 special permits issued in 2013. According to the register, 367 special subsoil use permits out of 378 were still valid as of the date of this Report.

The register of special subsoil use permits and the register of applications for special subsoil use permits are updated regularly. As represented by a State Research and Production Enterprise “State Geological Information Fund of Ukraine” employee, the registers are updated on a monthly basis.

4.5 Special subsoil use permit obtaining procedure

A party willing to engage in geological exploration of oil and gas or in production of oil and gas within the territory of Ukraine must obtain a special oil and gas subsoil use permit for a particular area.

The special permits are issued for the following types of oil and gas bearing subsoil use:⁹¹

- ▶ *Geological exploration of oil/gas, including pilot production.* This type of use of oil and gas bearing subsoil permits a user to produce only a limited amount of oil and gas from a field in order to determine the commercial value of such a field and to estimate oil or gas reserves.
- ▶ *Geological exploration of oil/gas, including pilot production and subsequent production of oil and gas (commercial development of fields).* This type of use of oil and gas bearing subsoil permits a user to extract oil, gas, and associated useful components from the field after pilot production period.
- ▶ *Oil and gas production (commercial development of deposits).* In addition to actual production of oil and gas, this type of use also allows a user to prospect and explore new occurrences of oil and gas within the area allotted to the user.
- ▶ Construction and the operation of underground structures not related to mineral resources production, including oil and gas underground storage facilities and facilities for disposal of oil and gas waste and associated water.
- ▶ Performance of works under PSAs.

A special subsoil use permit is normally obtained as a result of an auction. However, the law also provides for the possibility to obtain permits without an auction.

Periods for which permits are issued depend on the subsoil use types. The maximum period for which a permit for oil and gas production can be granted is 30 years (in case of oil and gas production within the continental shelf and the exclusive (maritime) economic zone of Ukraine) or the PSA validity period in case of PSAs (not exceeding 50 years, with the option for extension).

The permit extension period may not exceed duration periods prescribed for relevant types of subsoil use.

One of the principles underlying the issue of special permits is that the applicant must have appropriate qualifications, logistical and financial potential to use oil and gas bearing subsoil. However, in most cases, the Ukrainian regulations do not specify clear-cut requirements for

⁹¹ Article 13 of the Law "On Oil and Gas".

technical criteria to be applied when making a decision on issuing a permit. Financial criteria boil down to the payment of the special permit issue fee.

A special permit may contain special conditions of subsoil use. As a rule, these special conditions reflect the requirements stated in approvals obtained from local executive authorities, municipal bodies, the State Mining Supervision and Industrial Safety Service of Ukraine, and the Ministry of Ecology and Natural Resources of Ukraine.

These conditions may cover, for instance, types, scope and time of performance of works to be carried out at subsoil plots, rules and standards of the use of specific subsoil plots, the quality of products or work, technologies for mineral resources production and processing. Such conditions are not disclosed to the public.

No information has been provided for the purposes of the Report about any substantial deviations from the procedure of issuing special subsoil use permits prescribed by the regulations.

In addition to the Subsoil Code of Ukraine and the Law of Ukraine "On Oil and Gas", the procedure obtaining special permits is governed by a number of secondary regulations, including the Special Subsoil Use Permit Issuing Procedure⁹², the Procedure for Conducting Auctions for the Sale of Special Subsoil Use Permits⁹³, the Methodology of Setting the Initial Sale Price for a Special Subsoil Use Permit at an Auction⁹⁴, and the Resolution on the Issuing of Special Subsoil Use Permits for Particular Areas for the Purposes of Geological Exploration and Extraction of Strategically Important Mineral Resources.⁹⁵

Procedure for the Obtainment of Special Permits from an Auction

Auctions to sell special subsoil use permits are held by the State Service for Geology and Mineral Resources of Ukraine. Auction committees, members of which exercise general guidance and control over the compliance with rules of conducting auctions, are also nominated by the State Service for Geology and Mineral Resources of Ukraine.

The procedure for determining the list of fields to be auctioned is not explicit.

⁹² Resolution of the Cabinet of Ministers of Ukraine No. 615 of 30 May 2011 "On Approval of the Special Subsurface Resource Use Permit Issuing Procedure".

⁹³ Resolution of the Cabinet of Ministers of Ukraine No. 594 of 30 May 2011 "On Approval of the Procedure for Conducting Auctions for the Sale of Special Subsoil Use Permits".

⁹⁴ Resolution of the Cabinet of Ministers of Ukraine # 1374 of 15 October 2004 "On Approval of the Methodology of Setting the Initial Sale Price for a Special Subsoil Use Permit at an Auction".

⁹⁵ Resolution of the Cabinet of Ministers of Ukraine No. 742 of 15 July 1997 "On the Issuing of Special Subsoil Use Permits for Particular Areas for the Purposes of Geological Exploration and Extraction of Strategically Important Mineral Resources".

The State Service for Geology and Mineral Resources of Ukraine is supposed to prepare suggestions regarding the list of fields taking into account applications from auction applicants⁹⁶. However, there are no legal requirements to the content of this application, its registration and no procedure for its consideration.

Before an auction, the State Service for Geology and Mineral Resources of Ukraine or the interested company on its own initiative must approve putting up permits to use specific subsoil plots for auction with the following state and municipal bodies: the Council of Ministers of the Autonomous Republic of Crimea, appropriate oblast (region), Kyiv and Sevastopol city councils, as well as the Ministry of Ecology and Natural Resources, and the State Mining Supervision and Industrial Safety Service of Ukraine.

However, the fact of filing an application or obtaining approvals by the applicant does not guarantee that the field will be put for an auction and that the applicant will be admitted as its participant. The final decision on whether or not to hold an auction and on the list of fields to be auctioned is made by The State Service for Geology and Mineral Resources of Ukraine.

Before holding an auction, the State Service for Geology and Mineral Resources of Ukraine must determine the starting price for the permit. This price is calculated in accordance with the approved methodology on the basis of value of reserves and inventories of mineral resources within fields or subsoil plots⁹⁷, and may not be lower than 2 % of the cumulative net revenue for the total period of field development, to be calculated excluding capital expenditure⁹⁸.

When calculating the starting price for the special permit the degree of geological exploration (mineral reserves category) is taken into account, among other things.

The State Service for Geology and Mineral Resources of Ukraine of Ukraine must publish an announcement of the auction in the *Uryadovyi Kuryer (Government Courier)* newspaper and on its official web site 30 calendar days prior to the auction date. The announcement must contain basic information about the auction and the special permit (e.g., the name and the location of the subsoil plot, the type of subsoil use, the period for which the permit will be granted, the initial permit price, etc.)

To participate in an auction, a potential bidder must:

⁹⁶ Para.6 of Procedure for Conducting Auctions for the Sale of Special Subsoil Use Permits", approved by Resolution of the Cabinet of Ministers of Ukraine No. 594 of 30 May 2011.

⁹⁷ Methodology for calculating the value of reserves and resources of minerals in a filed or a subsoil plot which is given into use, approved by Resolution of the Cabinet of Ministers of Ukraine of 25 August 2004 # 1117.

⁹⁸Para. 6 of the Methodology of Setting the Initial Sale Price for a Special Subsoil Use Permit at an Auction", approved by Resolution of the Cabinet of Ministers of Ukraine # 1374 of 15 October 2004.

- ▶ *Purchase the auction document package.* The auction document package costs 3.12 percent of the initial permit price, but at least UAH 4,500 and not more than UAH 72,550.
- ▶ *Submit a statement of intent to take part in the auction to the auction committee.* This statement should be supported by a package of documents, including a copy of passport and tax identification number (in case of individuals); documentary proof of registration of a legal entity in country of its incorporation (in case of legal entities), documentary proof of powers of persons authorized to represent the bidder at the auction, etc. There are no clear requirements to the content of the package of documents to be submitted.
- ▶ *Pay a guarantee deposit.* The guarantee deposit amounts to 20 percent of the initial permit price, and is refunded to auction participants who did not win within 30 days of the auction.

An auction is held on condition that at least two permit contenders sign up. The auction step depends directly on the initial permit price and is prescribed by the Procedure for Conducting Auctions for the Sale of Special Subsoil Use Permits⁹⁹ (for instance, if the initial price for a permit ranges from UAH 1,000,000 to 2,999,999, the bidding step is UAH 20,000; if the initial price for the permit ranges from UAH 3,000,000 to 4,999,999, the bidding step is UAH 30,000, etc.).

A bidder that agrees to pay the highest price for the permit is declared the auction winner. The auction winner enters into a permit sales contract with the State Service for Geology and Mineral Resources of Ukraine and pays the difference between the permit sale price and the guarantee deposit.

Procedure of the Obtainment of Special Permits without an Auction

In specific situations defined by the Special Subsoil Use Permit Issue Procedure¹⁰⁰, special subsoil use permits may be granted without an auction, namely:

- ▶ for oil and gas production, if applicants at their own expense estimated mineral resource reserves or successfully sought approval of mineral resource reserves from the State Commission of Ukraine on Mineral Resource Reserves at the State Service for Geology and Mineral Resources of Ukraine;
- ▶ for an increase in the amount of oil and gas production by a user that has already been granted a subsoil use permit by expanding the plot boundaries. In this case, a special permit is issued without an auction, provided that the neighboring block has not been granted for use, and the expansion does not exceed 50 percent of reserves covered by the prior permit;

⁹⁹ Resolution of the Cabinet of Ministers of Ukraine No. 594 of 30 May 2011 “On Approval of the Procedure for Conducting Auctions for the Sale of Special Subsoil Use Permits”.

¹⁰⁰ Resolution of the Cabinet of Ministers of Ukraine No. 615 of 30 May 2011 “On Approval of the Special Subsoil Use Permit Issuing Procedure”.

- ▶ for geological exploration of subsoil at the expense of the state budget;
- ▶ for geological exploration, including the pilot production and production of oil and gas by public sector companies and companies in which the state owns interest amounting to at least 25 per cent of the share capital;
- ▶ for geological exploration, including pilot production of mineral resource fields of national significance or production of mineral resources, if the applicant owns an integral property complex built (reconstructed) for purposes of production and processing of mineral resources from a subsoil plot to be covered by the permit, or if the said property complex has been transferred to the subsoil user on a lease (concession) basis;
- ▶ for performance under PSAs.

The possibility for state-controlled companies to obtain special permits without an auction could limit opportunities for other applicants.

In order to obtain a permit under a no-auction procedure, an applicant must:

- ▶ obtain approvals from the Council of Ministers of the Autonomous Republic of Crimea, relevant oblast (region), Kyiv or Sevastopol city councils, the Ministry of Ecology and Natural Resources, and the State Mining Supervision and Industrial Safety Service of Ukraine;
- ▶ submit an application with annexes to the State Service for Geology and Mineral Resources of Ukraine. The annexes include, *inter alia*, an explanatory note specifying the company's capacity and other relevant information, a catalog of geographic coordinates of corner points of the subsoil plot, an overview map, etc. The final list of documents to be submitted by an applicant to the State Service for Geology and Mineral Resources of Ukraine depends on the type of subsoil use and the grounds for application of the no-auction procedure;
- ▶ pay a fee in the amount of the initial auction permit sale price calculated in accordance with the approved methodology (except for granting permits for the implementation of PSAs, in which case the fee amounts to 1 percent of the initial price).

Special permits are granted to applicants by the decision of the State Service for Geology and Mineral Resources of Ukraine (except in the case of implementation of a PSA, where the special permit is granted on the basis and the conditions of the relevant PSA).

Permits for geological exploration and production of oil and gas if their reserves or prospective resources exceed 10 million tons for oil and 10 bcm for gas may be issued subsequent to obtaining of an opinion of the Interagency Subsoil Use Commission.¹⁰¹

¹⁰¹ The said Commission consists of the Prime Minister of Ukraine as the chair of the Commission, the Minister of Ecology and Natural Resources as the first deputy chair of the Commission, the Minister of Energy and Coal Industry as a deputy chair of the Commission, the first deputy (deputy) Minister of Economic Development and Trade, the first

Amendments to Special Permits

Under the law, special subsoil use permits may not be transferred (presented, sold or otherwise disposed of). The regulations also prohibit in kind contribution of special permits to share capitals of companies established with the participation of subsoil users and to joint activity arrangements.¹⁰²

However, certain changes may be introduced into a permit that can effectively result into replacement of a subsoil user. For instance, this is possible in case of:

- ▶ successor legal entity (subsoil user) acquiring the permit as a result of corporate reorganization;
- ▶ establishing by a subsoil user of a legal entity for purposes of continuing activities on a subsoil plot granted to the said user. The changes may be introduced to the permit provided that the newly established legal entity is provided with fixed assets (premises and equipment) or other property required for the efficient subsoil use in accordance with the permit. In this case, the subsoil user must hold at least 50 percent interest in the share capital of the newly established legal entity at the time the decision on introduction of changes into the permit is taken.¹⁰³

Subsurface Resource Use Agreement

Regardless of the procedure under which the special permit is obtained (with or without an auction), the State Service for Geology and Mineral Resources of Ukraine and the subsoil user must enter into a subsoil use agreement. This agreement constitutes an integral part of a special permit.

Requests for information about the list of participants of auctions for purchase of special oil and gas bearing subsoil use permits that took place in 2013, as well as conditions of the said auctions have been sent out to all reporting companies and executive agencies in charge. However, no responses were received by the Independent Administrator. Due to this, the relevant information is not covered by this EITI Report.

deputy Minister of Finance, the first deputy (deputy) Minister of Justice, the deputy Minister of Ecology and Natural Resources, the head (deputy head) of the Secretariat of the Cabinet of Ministers of Ukraine, the Head of the State Service for Geology and Mineral Resources of Ukraine, the Head of the State Mining Supervision and Industrial Safety Service of Ukraine, a representative of the Secretariat of the Cabinet of Ministers of Ukraine Resolution of the Cabinet of Ministers of Ukraine No. 742 of 15 July 1997 "On the Issuing of Special Subsoil Use Permits for Particular Areas for the Purposes of Geological Exploration and Extraction of Strategically Important Mineral Resources".

¹⁰² Article 16 of the Subsoil Code of Ukraine, Article 14 of the Oil and Gas Law.

¹⁰³ Item 17 of the Special Subsoil Use Permit Issuing Procedure approved by Resolution of the Cabinet of Ministers of Ukraine No. 615 of 30 May 2011.

4.6 Access to information about ultimate beneficial owners of legal entities

In 2013, Ukrainian regulations contained no provisions directly requiring disclosure of ultimate beneficial owners of legal entities producing oil and/or gas, submitting an application for a special subsoil use permit, or investing into subsoil use projects.

The information about founders/participants of a legal entity is submitted to the state registrar at the stage of registration of a legal entity¹⁰⁴. The information about founders/participants of legal entities is available online on the web site of the Ministry of Justice of Ukraine at <https://usr.minjust.gov.ua/ua/freesearch>.

However, the publicly available information about founders/participants is not always the information about ultimate beneficial owners because legal entities may be owned by other legal entities or by nominal owners.

The information with documents confirming the ownership structure of legal-entity founders making it possible to identify individuals who own material participatory interest in such legal entities should also be submitted to the state registrar. However, the law does not require disclosure of this information.

In addition to the above, the information about holders of more than 10 percent of shares in joint stock companies is accessible in the database of issuers available on the web site of the Stock Market Infrastructure Development Agency of Ukraine at <http://smida.gov.ua/db/emitent>.

As of the date of this Report, the information about ultimate beneficial owners (controllers) of legal entities started to appear on the web site of the Ministry of Justice of Ukraine at <https://usr.minjust.gov.ua/ua/freesearch>.

The disclosure of information about ultimate beneficial owners was requested from all the reporting companies. We received responses from 47 (out of 120) companies. The information provided by the companies mirrored the data available from the web site of the Ministry of Justice of Ukraine (<https://usr.minjust.gov.ua/ua/freesearch>).

Overall, 66 (out of 120) companies disclosed information about their beneficial owners as required by the law and/or provided such information upon our request. We list these companies in Annex 6 to this Report. Companies whose beneficial owners were not indicated in public registers or which have not provided us with the information about their beneficial owners we requested were not included to this list.

¹⁰⁴ Article 24 of Law “On State Registration of Legal Entities and Individual Entrepreneurs” No. 755-IV of 15 May 2003.

4.7 Contracts in the oil and gas sector

Subsoil Resource Use Agreement

A subsoil resource use agreement is the main contractual document that defines conditions for the use of subsurface resources.

The agreement is concluded between the State Geology and Subsurface Resources Service of Ukraine and the holder of a special subsoil use permit, and is an inseparable part thereof.¹⁰⁵ An agreement must contain conditions governing technical, process, organizational, financial, economic, social, and environmental undertakings of the parties, and the procedure for the regulation of relations among them in the course of the use of oil and gas subsoil resources in the subsoil resource block granted to them.

Essential conditions of subsoil resource use agreements include, *inter alia*, a work program to be developed by the holder of a special oil and gas subsoil resource use permit, the sources of financing of the work, the provisions governing the ownership to the information obtained as a result of the use of oil and gas subsoil resources, etc.

Sample subsoil resource use agreements have been approved by the order of the State Geology and Subsoil Resources Service of Ukraine and are available on its official web site at <http://geo.gov.ua/uhody-pro-umovy-korystuvannya-nadramy.html>.

However, the legislation of Ukraine does not require any disclosure of the concluded subsurface resource use agreements. Texts of such agreements are not publicly available.

Production Sharing Agreements¹⁰⁶

Under the PSA Law, a PSA envisages that the State represented by the CMU assigns an investor to perform prospecting, exploration and production of mineral resources (that may include oil, gas and condensate) for a specified period, while the investor undertakes the work at its own expense and risk.

The investor is entitled to compensate its PSA-related costs in the form of a portion of the extracted production ("cost recovery production"). The quarterly percentage of cost recovery production may not exceed 70 percent of the total amount of production extracted until full reimbursement of the investor's costs. The rest of the production ("profit production") is shared between the investors and the State in accordance with the terms of the PSA. Until shared, all extracted production is deemed to be owned by the State.

As a general rule, a PSA is concluded with a tender winner. The maximum period for the conclusion of an agreement is 50 years with a possible extension at the request of the investor.

¹⁰⁵ Article 28 of the Law "On Oil and Gas".

¹⁰⁶ Specific features of the regulation of PSAs are covered by the Law of Ukraine "On Production Sharing Agreements" # 1039-XIV of September 14, 1999

A special subsoil use permit for the purposes of the PSA performance is granted without an auction. The State ensures the issuance of other permits to PSA investors and their contractors.

A list of essential terms and conditions of a PSA is specified in the Law "On Production Sharing Agreements" and provided as *Annex 6*. However, the legislation does not require any disclosure of the PSA contents, and texts of the concluded PSAs are not publicly available.

Current PSAs: As of the end of 2013, 4 PSAs were concluded between the Ukraine via the CMU and:

- Vanco International Limited in respect of the Prykerchenska block (PSA signing date: 19 October 2007)¹⁰⁷
- Shell Exploration and Production Ukraine Investments IV B.V. and LLC Nadra luzivska in respect of the luzivska block (PSA signing date: 24 January 2013)¹⁰⁸
- Chevron Ukraine B.V. and LLC Nadra Oleska in respect of the Oleska block (PSA signing date: 5 November 2013)¹⁰⁹
- ENI Ukraine Shallow Waters B.V., EDF Shallow Waters SAS, LLC Vody Ukrainy, PJSC State Joint-Stock Company Chornomornaftogaz in respect of Abikha, Kavkazka areas, Maiachna block, and Subbotina structure (PSA signing date: 27 November 2013)¹¹⁰.

The state control over the PSA performance is exercised by the CMU or by a central state authority designated by the CMU in accordance with the terms and conditions prescribed by the PSA and the PSA Law. The CMU shall organize and undertake a comprehensive audit of the compliance with the conditions of a PSA with the involvement of the central state authority at least once in five years.

PSA Fiscal Regime: The taxation under PSAs is based on special rules specified in the Tax Code and the PSA itself. During the validity period of the PSA, the charge of the majority of taxes from the investor, other than corporate profit tax, VAT, and subsoil use fee for the production of mineral resources, is replaced with the sharing of production. Investors are also required to withhold and pay PIT and USC from salaries and other payments made to their employees, as well as pay fees and duties for services of state authorities. The Tax Code grants a number of tax incentives to PSA investors.

The state guarantees that the legislation valid at the time of entry into the agreement will apply to investors during the validity period of the PSA, save for the case when the new legislation

¹⁰⁷ Information about PSA signing: <http://tsn.ua/groshi/kabmin-domovivsyia-pro-rozrobku-shelfu.html>

¹⁰⁸ Information about PSA signing: <http://zakon2.rada.gov.ua/laws/show/576-2013-%D1%80>

¹⁰⁹ Information about PSA signing: http://www.kmu.gov.ua/control/uk/publish/article?art_id=246879555&cat_id=244276429

¹¹⁰ Information about PSA signing: http://www.kmu.gov.ua/control/uk/publish/article?art_id=246879555&cat_id=244276429

reduces or abolishes taxes, simplifies the conduct of business, etc. The stability clause does not apply to changes in laws governing issues of defense, national security, public order, and environmental protection.

4.8 Joint Activity regarding the Use of Oil and Gas Fields

Some companies that have special subsoil use permits conclude joint activity agreements with other companies.

A joint activity agreement does not create the rights to use subsoil, but only governs contractual relations between its parties.

Under JAAs, parties operate jointly without setting up a separate legal entity to attain a certain goal. The terms of JAAs, including the coordination of the joint activities of the participants or the performance of their joint activities, the legal status of assets contributed to the joint activity, the coverage of expenses and losses of the parties, sharing of profits of joint activity, and other conditions is negotiated by the parties.¹¹¹ The Ukrainian legislation does not contain any specific requirements for JAAs in oil and gas production, except for the prohibition to contribute special subsoil use permit to the joint activity¹¹².

An approval of the CMU is required for entry into JAAs with state-owned enterprises (SOEs) and companies with the state-owned interest in the equity exceeding 50 percent.¹¹³ State authorities managing the companies in question should provide the Ministry of Economic Development and Trade of Ukraine with the information about the JAAs performance progress on a quarterly basis. The Ministry of Economic Development and Trade of Ukraine summarizes the information and submits its opinions and proposals to the CMU.¹¹⁴ The legislation does not require publication of the signed JAAs, and JAA texts are not publicly available.

Fiscal Regime: For taxation purposes, two or more entities which carry out joint activities without setting up a legal entity, are deemed to be separate taxpayers. Business relations between parties to a joint activity agreement are considered equivalent to relations based on separate civil law contracts.

Accounting of results of joint activity is done by a taxpayer authorized to do so by other parties under the terms of the JAA, and should be ring-fenced from accounting of other activities of

¹¹¹ Chapter 77 of the Civil Code.

¹¹² Part 2 of Article 14 of Oil and Gas Law.

¹¹³ Procedure of Entry of State-owned Enterprises, Institutions, and Organizations, as well as Commercial Companies with the State-owned Share in the Equity Exceeding 50 percent, into Joint Activity Agreements, Commission, Agency, and Property Management Contracts, approved by Resolution of the CMU No. 296 of 11 April 2012.

¹¹⁴ Procedure of Entry of State-owned Enterprises, Institutions, and Organizations, as well as Commercial Companies with the State-owned Share in the Equity Exceeding 50 percent, into Joint Activity Agreements, Commission, Agency, and Property Management Contracts, approved by Resolution of the CMU No. 296 of 11 April 2012.

such taxpayer. The taxpayer so authorized is responsible for administering corporate income tax, VAT, and subsoil use fee under JAAs.¹¹⁵

4.9 Use of the local content in extractive industries

The Ukrainian legislation does not require the use of a local content as a prerequisite for obtaining a special subsoil use permit. However, texts of sample subsoil use agreements oblige a subsoil user to use predominantly Ukrainian goods and services, in so far as their price and quality, as compared to international prices and quality, are technically, technologically, and economically practicable, and would not impair production nor environmental safety.

The Law on PSA also provides that a PSA must require an investor:

- ▶ To give preferences to products, goods, work, services, and other material valuables of Ukrainian origin, other conditions (pricing, performance, quality, and conformity with international standards) being equal;
- ▶ To ensure the preferential employment (recruitment) of Ukrainian citizens to work in the territory of Ukraine for the purposes specified in the PSA, and arranging for their training as indicated in the agreement.

The Ukrainian legislation does not require companies or state authorities to disclose information about the local content as a condition for the relevant contracts, thus this information is not publicly available.

4.10 Budget process in Ukraine

The Budget Code of Ukraine sets out the detailed procedure for preparation, adoption, execution, reporting on execution of the State and municipal budgets, as well as control over compliance with budget laws (“budget process”). The budget process consists of the four stages¹¹⁶:

- ▶ Budgets preparation

At the initial stage of budget process, the CMU approves, and the Verkhovna Rada of Ukraine adopts the Main Strands of Budget Policy. The Main Strands of Budget Policy are developed by the Ministry of Finance of Ukraine together with the other central state authorities according to the budget policy priorities set out in the President’s annual

¹¹⁵ Sections II, III, V, and XI of the Tax Code.

¹¹⁶ Paragraph 10 of part 1 of Article 2, part 1 of Article 19 of the Budget Code of Ukraine.

message to the Verkhovna Rada of Ukraine on the internal and external situation of Ukraine.

After adoption of the Main Strands of Budget Policy, the budget funds holders prepare and send the “budget requests” to the Ministry of Finance of Ukraine which should contain substantiated proposals for allocation of budget funds necessary for their activities.

Based on the budget requests’ analysis, the Ministry of Finance of Ukraine develops the draft of the State budget.

The CMU approves the State budget draft and submits it to the Verkhovna Rada of Ukraine and the President of Ukraine with relevant supporting documents no later than 15 September of the year which precedes the planning one.

Drafts of the municipal budgets are developed by the municipal finance authorities and adopted at the municipal councils’ sessions.

► Budgets adoption

The Verkhovna Rada of Ukraine elaborates on the Law on the State Budget of Ukraine and adopts it according to the special procedure¹¹⁷ within three readings no later than 1 December of the year which precedes the planning one¹¹⁸. The Law on the State Budget shall be signed by the President of Ukraine.

The relevant municipal authorities adopt municipal budgets within two weeks after adoption of the Law on the State Budget and the budgets of the higher level.

► Execution and amendment of budgets

The budgets are executed from 1 January to 31 December of the calendar year according to the annual, quarterly, and monthly schedule.

The Verkhovna Rada of Ukraine may amend the State budget upon the initiative of the President of Ukraine, People’s Deputies, the CMU, and the National Bank of Ukraine in cases set out in the budget law, particularly, in case of the justified deviation from the forecast indicators based on which the budget was adopted¹¹⁹.

The relevant municipal councils take decision on amendments of the municipal budgets according to the official conclusion of the municipal finance authority.

¹¹⁷ Section 27 of the Law of Ukraine “On the Rules of Parliamentary Procedure of the Verkhovna Rada of Ukraine” No. 1861-VI of 10 February 2010.

¹¹⁸ In practice, however, the Parliament often fails to meet this deadline. For example, the Law on the State Budget for 2013 was adopted on 6 December 2012.

¹¹⁹ Article 160 of the Law of Ukraine “On the Rules of Parliamentary Procedure of the Verkhovna Rada of Ukraine”, Article 52 of the Budget Code of Ukraine.

► Reporting on budget execution and audit

The Budget Code provides for, inter alia, monthly, quarterly, and annual reporting on fulfillment of the State and municipal budgets¹²⁰. The law sets out special requirements to each type of the reporting documents.

The CMU submits the annual report on the fulfillment of the Law on the State Budget to the Verkhovna Rada of Ukraine, the President of Ukraine, and the Accounting Chamber of Ukraine no later than 1 April of the year which follows the reporting one. Within two weeks the Accounting Chamber prepares and sends to the Verkhovna Rada of Ukraine the conclusions on the State budget funds use along with the efficiency assessment of such use and suggestions regarding elimination of the detected violations. The Verkhovna Rada of Ukraine elaborates on the annual report on the fulfillment of the State budget according to the special procedure¹²¹.

Audit, efficiency assessment of the budget funds use, and budget law compliance control are carried out within all stages of the budget process. The Accounting Chamber exercises control over transfer of funds to the State budget of Ukraine and their use¹²². The State Finance Inspection of Ukraine exercises the state financial control aimed at supervision of the budget law compliance, in particular, the audit regarding the lawful and efficient use of the state or municipal funds and property, and fulfillment of the budget programs^{123,124}.

¹²⁰ Article 58 of the Budget Code of Ukraine.

¹²¹ Articles 161-162 of the Law of Ukraine "On the Rules of Parliamentary Procedure of the Verkhovna Rada of Ukraine".

¹²² The Law of Ukraine "On the Accounting Chamber of Ukraine" No. 315/96-BP of 11 July 1996.

¹²³ Regulation on the State Finance Inspection of Ukraine approved by the Decree of the President of Ukraine No. 499/2011 of 23 April 2011.

¹²⁴ The Procedure for Carrying Out State Financial Audit of the Activities of Business Entities by the State Finance Inspection and Its Territorial Authorities approved by Resolution of the Cabinet of Ministers of Ukraine No. 361 of 25 March 2006; the Procedure for Carrying Out State Financial Audit of the Fulfillment of Budget Programs approved by Resolution of the Cabinet of Ministers of Ukraine No. 1017 of 10 August 2004.

5. RECONCILIATION OF TAX AND OTHER FEES DATA

In 2013, the scope of the EITI Report covered 120 oil and gas companies, and each of them was sent questionnaire forms to be completed. Due to time constraints and delays with the development of the appropriate regulatory framework, merely 49 companies at least partially responded to the request of the Independent Administrator, of which 8 companies refused to provide any information, responses from 3 were partial and only 38 companies provided complete responses. Forty (40) companies (from 120) fully ignored the need for the provision of the information within the scope of the EITI. We couldn't find 31 companies for their official and mailing addresses (*Figure 5.1*).

Thus, the Independent Administrator has prepared a consolidated database with details of the payment of taxes and other fees on the basis of questionnaires completed by 38 companies¹²⁵ (*Annex 8*). Based on this database and taking into account volumes of production of the oil and gas, the payments reconciliation was made for companies that are responsible for 87.9 percent of the oil produced within the territory of Ukraine and 85.6 percent of the produced natural gas were reconciled for the purposes of the development of the EITI Report.

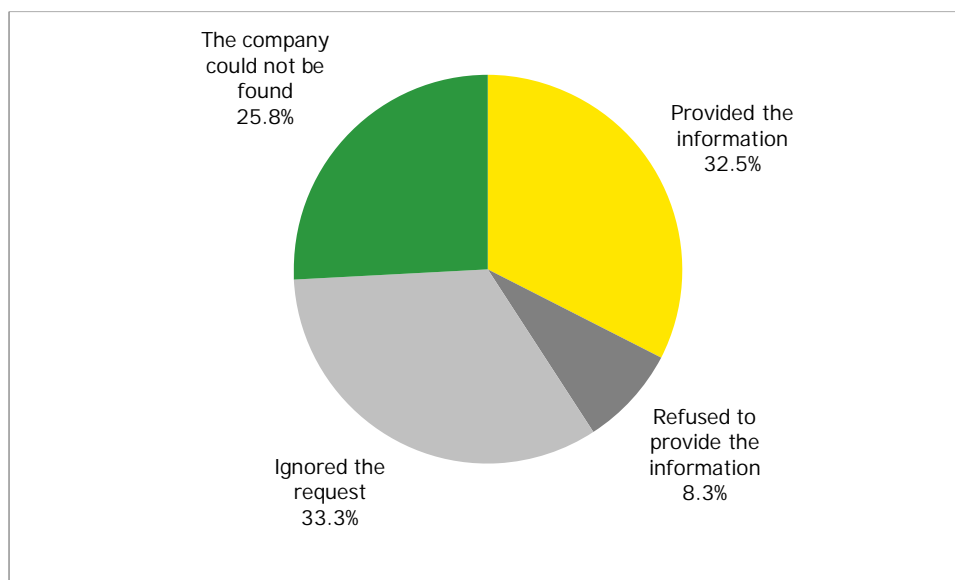


Figure 5.1 – Status of responses from oil and gas sector companies to the request for information within the scope of preparation of the EITI Report

Requests for the information about tax and other payments were sent to 18 central state authorities, local authorities, and to the state-owned and budget-funded enterprises, institutes,

¹²⁵ PJSC Ukrnafta and PJSC State Joint Stock Company Chernomorneftegaz provided only contextual information, so reconciliation of payments of these companies is not possible.

and other organizations providing services to companies of oil and gas sector (*Annex 1*). The results on these requests reflected below (*Figure 5.2*)

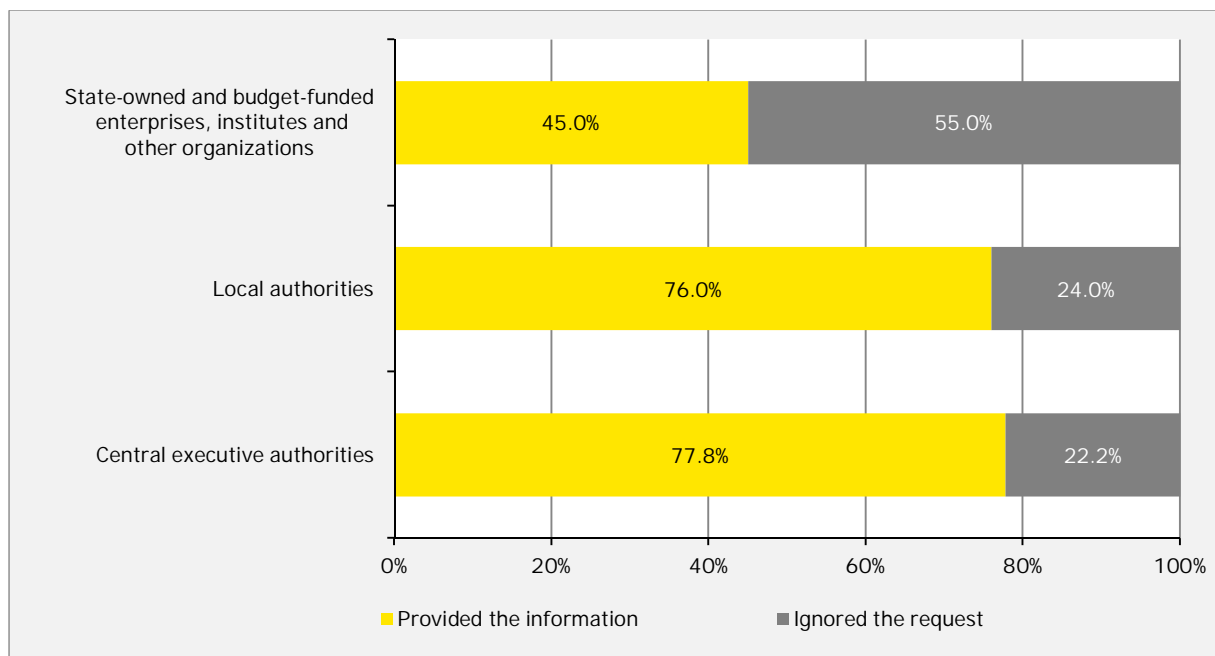


Figure 5.2 – Status of responses from central state authorities, local authorities, and state-owned and budget-funded enterprises to the Request for Information within the scope of preparation of the EITI Report

The lack of responses from companies and government agencies has made it impossible to reconcile information about all payments. That’s why data reconciliation was made only for payments of 38 companies and only for those types of payments, of which information from government agencies was provided.

Below, unless otherwise noted, it’s analyzed the differences only to those companies and types of payments, of which information from respondents was provided. Among the most significant payment, which is impossible to reconcile, most significant are unified contribution for mandatory state social insurance, fee for administrative services, dividends. According to data from 38 companies, amounts for these payments totaled in 2013 UAH 2.186 billion, 153 million and 43 million, respectively.

The total amount of tax payments in 2013, confirmed after reconciliation (based on 38 companies) is 21,347.6 million UAH or 79.6% of all payments of oil and gas companies in Ukraine according to SFS data (*Table 5.1*).

2,890.5 million was the amount of tax payments for 2013, for which unexplained discrepancies were found (based on 38 companies) because of the lack of answers from respondents.

Among non-tax payments in 2013 due to lack of response from companies and government bodies only 90.3 million was confirmed.

Table 5.1

Tax payments from oil and gas companies in 2013

	Final results after data reconciliation
Information from taxpayers (38 companies)	25,369.0 ¹²⁶
Information received from the government on 38 companies that provided data for EITI Report	24,238.1 ¹²⁷
Information received from government on all companies of oil and gas sector (120 companies)	26,837.0 ¹²⁸
Total amount of confirmed tax payments	21,347.6 ¹²⁹
Total payments for which unexplained discrepancies were found due to the lack of answers from respondents to the second request (regarding 38 companies that provided data for EITI Report)	2,890.5

Total non-tax payments, 2013, UAH mln	
Information from taxpayers (38 companies)	2,496.5
Information received from government on all companies of oil and gas sector (120 companies)	454.9
Total amount of confirmed non-tax payments	90.3

¹²⁶ This payment includes the amount of VAT from NJSC Naftogaz of Ukraine UAH 7 742,4 million mainly not related to oil and gas extraction in Ukraine

¹²⁷ This payment includes the amount of VAT from NJSC Naftogaz of Ukraine UAH 7 742,4 million mainly not related to oil and gas extraction in Ukraine

¹²⁸ This payment includes the amount of VAT from NJSC Naftogaz of Ukraine UAH 7 742,4 million mainly not related to oil and gas extraction in Ukraine

¹²⁹ This payment includes the amount of VAT from NJSC Naftogaz of Ukraine UAH 7 742,4 million mainly not related to oil and gas extraction in Ukraine

More details on each type of payments and information on the reasons of discrepancies (where it was possible to find out the cause and fix the differences) are presented below.

5.1 Tax payment data reconciliation

Among the tax payments of oil and gas companies in 2013, there are four major types of taxes (Figure 5.3):

- ▶ value added tax,
- ▶ fee for the use of subsurface resources,
- ▶ rental fee and duties for fuel and energy resources,
- ▶ corporate income tax.

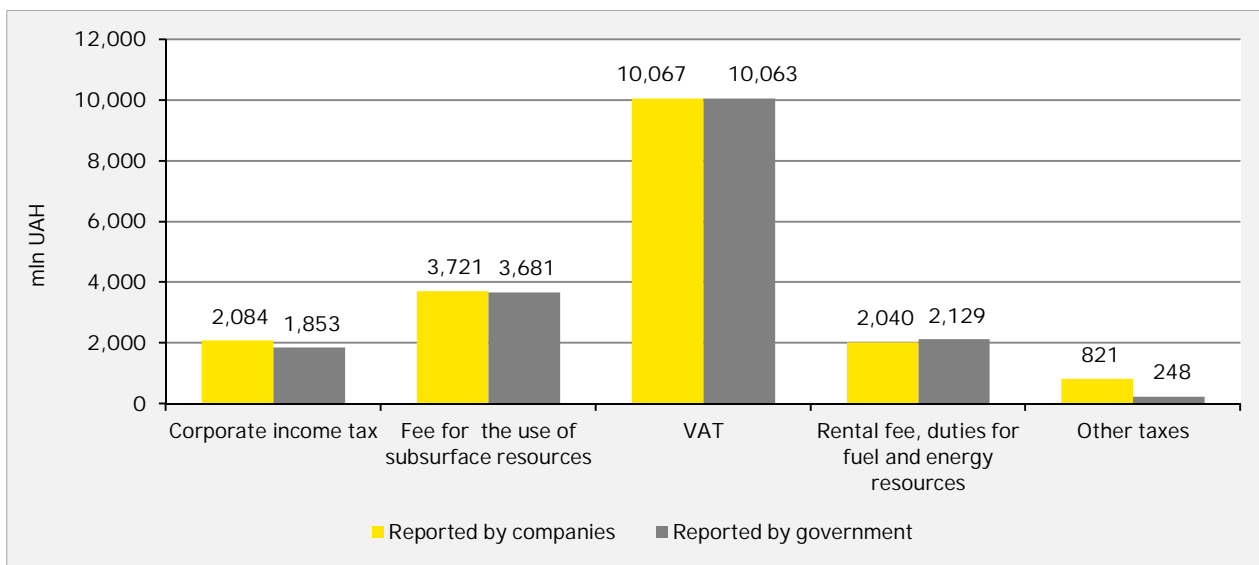


Figure 5.3 – Total tax payments of oil and gas companies in 2013 by major types of taxes¹³⁰

Further in all tables of this section data for 38 companies, that provided data for EITI Report, is presented.

¹³⁰ This payment includes the amount of VAT from NJSC Naftogaz of Ukraine UAH 7 742,4 million mainly not related to oil and gas extraction in Ukraine

5.1.1 Corporate income tax

Corporate Income Tax	Results of the initial request	Adjustments during reconciliation	Final results after data reconciliation
Reported by companies	3,190,248	3,972	3,194,220
Reported by government	2,822,090	-	2,822,090
Discrepancy	368,157		372,129

** all data in the table is presented in UAH thousands*

In 2013 the amount of discrepancies between companies and government data for corporate income tax was UAH 372 129 thousand. Regarding found differences companies and State Fiscal Service were unable to provide explanation. Therefore, confirmation of these payments and the reasons of discrepancy are impossible.

5.1.2 Personal income tax

Personal income tax	Results of the initial request	Adjustments during reconciliation	Final results after data reconciliation
Reported by companies	960,024	(5,774)	954,251
Reported by government	184,056	(8,663)	175,393
Discrepancy	775,969		778,858

** all data in the table is presented in UAH thousands*

In 2013 the amount of discrepancies between companies and government data for personal income tax was UAH 778,858 thousand. Regarding found differences companies and State Fiscal Service were unable to provide explanation. Therefore, confirmation of these payments and the reasons of discrepancy are impossible.

5.1.3 Tax on owners of transport facilities, mechanical vehicles and mechanisms

Tax on owners of transport facilities, mechanical vehicles and mechanisms	Results of the initial request	Adjustments during reconciliation	Final results after data reconciliation
Reported by companies	61	-	61
Reported by government	62	-	62
Discrepancy	(1)		(1)

* all data in the table is presented in UAH thousands

In 2013 the amount of discrepancies between companies and government data for tax on owners of transport facilities, mechanical vehicles and mechanisms was UAH 1 thousand. Regarding found differences companies and State Fiscal Service were unable to provide explanation. Therefore, confirmation of these payments and the reasons of discrepancy are impossible.

5.1.4 Fee for the use of subsurface resources

Fee for the use of subsurface resources	Results of the initial request	Adjustments during reconciliation	Final results after data reconciliation
Reported by companies	8,895,339	(69,436)	8,825,903
Reported by government	8,799,975	(43)	8,799,932
Discrepancy	95,364		25,971

* all data in the table is presented in UAH thousands

In 2013 the amount of discrepancies between companies and government data for fee for the use of subsurface resources was UAH 25 971 thousand. Regarding found differences companies and State Fiscal Service were unable to provide explanation. Therefore, confirmation of these payments and the reasons of discrepancy are impossible.

5.1.5 Land fee

Land fee	Results of the initial request	Adjustments during reconciliation	Final results after data reconciliation
Reported by companies	96,788	(19,871)	76,917
Reported by government	73,542	(17)	73,525

Land fee	Results of the initial request	Adjustments during reconciliation	Final results after data reconciliation
Discrepancy	23,246		3,392

* all data in the table is presented in UAH thousands

In 2013 the amount of discrepancies between companies and government data for land fee was UAH 3 392 thousand. Regarding found differences companies and State Fiscal Service were unable to provide explanation. Therefore, confirmation of these payments and the reasons of discrepancy are impossible.

5.1.6 Special water use duty

Special water use duty	Results of the initial request	Adjustments during reconciliation	Final results after data reconciliation
Reported by companies	2,438	8	2,446
Reported by government	330	(5)	324
Discrepancy	2,108		2,122

* all data in the table is presented in UAH thousands

In 2013 the amount of discrepancies between companies and government data for special water use duty was UAH 2 122 thousand. Regarding found differences companies and State Fiscal Service were unable to provide explanation. Therefore, confirmation of these payments and the reasons of discrepancy are impossible.

5.1.7 VAT

VAT	Results of the initial request	Adjustments during reconciliation	Final results after data reconciliation
Reported by companies	10,212,539	(22,456)	10,190,083 ¹³¹
Reported by government	10,187,046	(1,395)	10,185,651 ¹³²
Discrepancy	25,493		4,431

* all data in the table is presented in UAH thousands

In 2013 the amount of discrepancies between companies and government data for VAT was UAH 3 498 thousand. Regarding found differences companies and State Fiscal Service were unable to

¹³¹ This payment includes the amount of VAT from NJSC Naftogaz of Ukraine UAH 7 742,4 million mainly not related to oil and gas extraction in Ukraine

¹³² This payment includes the amount of VAT from NJSC Naftogaz of Ukraine UAH 7 742,4 million mainly not related to oil and gas extraction in Ukraine

provide explanation. Therefore, confirmation of these payments and the reasons of discrepancy are impossible.

5.1.8 Customs duties

Customs duties	Results of the initial request	Adjustments during reconciliation	Final results after data reconciliation
Reported by companies	18,005	(430)	17,575
Reported by government	-	-	-
Discrepancy	18,005		17,575

* all data in the table is presented in UAH thousands

In 2013 the amount of discrepancies between companies and government data for customs duties was UAH 17 575 thousand. Regarding found differences companies and State Fiscal Service were unable to provide explanation. Therefore, confirmation of these payments and the reasons of discrepancy are impossible.

5.1.9 Rental fee, duties for fuel and energy resources

Rental fee, duties for fuel and energy resources	Results of the initial request	Adjustments during reconciliation	Final results after data reconciliation
Reported by companies	2,017,311	41,479	2,058,790
Reported by government	2,132,435	104	2,132,539
Discrepancy	(115,124)		(73,749)

* all data in the table is presented in UAH thousands

In 2013 the amount of discrepancies between companies and government data for rental fee, duties for fuel and energy resources was UAH 73 749 thousand. Regarding found differences companies and State Fiscal Service were unable to provide explanation. Therefore, confirmation of these payments and the reasons of discrepancy are impossible.

5.1.10 Environmental tax

Environmental tax	Results of the initial request	Adjustments during reconciliation	Final results after data reconciliation
Reported by companies	48,647	61	48,708

Environmental tax	Results of the initial request	Adjustments during reconciliation	Final results after data reconciliation
Reported by government	48,626	-	48,626
Discrepancy	21		82

* all data in the table is presented in UAH thousands

In 2013 the amount of discrepancies between companies and government data for environmental tax was UAH 82 thousand. Regarding found differences companies and State Fiscal Service were unable to provide explanation. Therefore, confirmation of these payments and the reasons of discrepancy are impossible.

5.2 Reconciliation of non-tax payments

5.2.1 Dividends

Dividends	Results of the initial request	Adjustments during reconciliation	Final results after data reconciliation
Reported by companies	43,251	-	43,251
Reported by government	-	-	-
Discrepancy	43,251		43,251

* all data in the table is presented in UAH thousands

In 2013 the amount of discrepancies between companies and government data for dividends was UAH 43 251 thousand. Regarding found differences companies and State Fiscal Service were unable to provide explanation. Therefore, confirmation of these payments and the reasons of discrepancy are impossible.

5.2.2 Fee for administrative services

This category includes the following types of non-tax payments:

- ▶ Fee for issue of the special subsurface resource use permits;
- ▶ Fee for field supervision over the implementation of the project technical documents of deposits exploration;
- ▶ Fee for the use of geological information prepared (received) using budget funds;
- ▶ Fee for carrying out expertise by the Central Commission of the Ministry of Energy and Coal Industry of Ukraine for the development of gas, gas condensate, oil deposits and operation of underground gas storages;

- Fee for administrative services not related to the production activities.

Fee for administrative services	Results of the initial request	Adjustments during reconciliation	Final results after data reconciliation
Reported by companies	152,703	-	152,703
Reported by government	21	-	21
Discrepancy	152,681		152,681

* all data in the table is presented in UAH thousands

In 2013 the amount of discrepancies between companies and government data for fee for administrative services was UAH 152 681 thousand. Regarding found differences companies and State Fiscal Service were unable to provide explanation. Therefore, confirmation of these payments and the reasons of discrepancy are impossible.

5.2.3 State duty

State duty	Results of the initial request	Adjustments during reconciliation	Final results after data reconciliation
Reported by companies	2,000	-	2,000
Reported by government	-	-	-
Discrepancy	2,000		2,000

* all data in the table is presented in UAH thousands

In 2013 the amount of discrepancies between companies and government data for state duty was UAH 2 000 thousand. Regarding found differences companies and State Fiscal Service were unable to provide explanation. Therefore, confirmation of these payments and the reasons of discrepancy are impossible.

5.2.4 Social contributions

Social contributions	Results of the initial request	Adjustments during reconciliation	Final results after data reconciliation
Reported by companies	2,185,623	814	2,186,437
Reported by government	291,687	-	291,687
Discrepancy	1,893,936		1,894,750

* all data in the table is presented in UAH thousands

In 2013 the amount of discrepancies between companies and government data for social contributions was UAH 1 894 750 thousand. Regarding found differences companies and State

Fiscal Service were unable to provide explanation. Therefore, confirmation of these payments and the reasons of discrepancy are impossible.

5.2.5 Contributions to the Disabled People Social Protection Fund

Contributions to the Disabled People Social Protection Fund	Results of the initial request	Adjustments during reconciliation	Final results after data reconciliation
Reported by companies	4,594	-	4,594
Reported by government	-	-	-
Discrepancy	4,594		4,594

** all data in the table is presented in UAH thousands*

In 2013 the amount of discrepancies between companies and government data for contributions to the Disabled People Social Protection Fund was UAH 4 594 thousand. Regarding found differences companies and State Fiscal Service were unable to provide explanation. Therefore, confirmation of these payments and the reasons of discrepancy are impossible.

5.2.6 Fines

Fines	Results of the initial request	Adjustments during reconciliation	Final results after data reconciliation
Reported by companies	49,057	(48,421)	636
Reported by government	764	-	764
Discrepancy	48,293		(128)

** all data in the table is presented in UAH thousands*

In 2013 the amount of discrepancies between companies and government data for fines was UAH 128 thousand. Regarding found differences companies and State Fiscal Service were unable to provide explanation. Therefore, confirmation of these payments and the reasons of discrepancy are impossible.

6. RECOMMENDATIONS ON THE IMPROVEMENT OF THE EITI REPORTING PROCESS

6.1 Enhancement of the sector transparency and simplification of access to the relevant information

Recommendation	Degree of Importance	Comments
<p>Improvement of the EITI regulatory framework:</p> <ul style="list-style-type: none"> ▶ amend or adopt a new law in the field of the transparency of extractive industries ▶ adopt appropriate secondary legislation (Cabinet Resolution) to detail the process of the collection of information for the EITI Report and specify persons in charge 	High	The existing law does not take into account specific features of other sectors of the extractive industry. It is written in too broad and brief formulations that make it possible for companies and state authorities to justify their refusal to supply the information required.
<p>Simplification of access to information about key aspects of the EITI (publication):</p> <ul style="list-style-type: none"> ▶ the technical information about mineral resource reserves; ▶ the information about actual events of the transfer or the issue of special subsurface resource use permits; financial and technical criteria applied in this case; the information about recipients of special permits, as well as about any deviations from legal and regulatory provisions that govern the special permit issue process; ▶ the information about the list of participants of auctions for the purchase of special subsurface resource use permits, and conditions of the said auctions; ▶ contracts, agreements and any other documents concluded between the Government (either directly, or via a state authority or a state-owned enterprise) and any legal entity, if they are related to the production of mineral resources. 	High	Currently, all the information listed here is classified as confidential or proprietary, or is subject to other restrictions preventing it from being disclosed in the EITI Report and reconciled with the obtained data. This situation limits the opportunities for the transparency, the additional verification of the obtained information, and the disclosure of essential aspects, including payments related to the production of mineral resources in Ukraine.

6.2 Creating conditions conducive to the successful preparation of future EITI Reports

Recommendation	Degree of Importance	Comments
Introduction of sanction against reporting organizations in case of the non-submission or the late submission of the information for the EITI Report.	High	The lack of any sanctions allows some companies to ignore official letters with demands and requests for information for the preparation of the EITI Report, even with the existence of the relevant law on the implementation of EITI in Ukraine
Moving toward the development of an EITI Report which is as up to date as possible (in the current year for the previous year).	Medium	The two-year time lag between the reporting period and the period of actual development of the EITI Report turned out to be a pretty serious problem. Over this period, the list of companies, their management has changed; the legislation has been substantially amended; there were difficulties with searching for, and restoring, the data on the companies' activities in the past periods.
Holding special public events with the involvement of business executives, state authorities and the public before the commencement of the development of the EITI Report.	Medium	Such measures would contribute to the public and business awareness of the EITI, and improve the involvement of companies into the reporting process.
Holding obligatory additional sessions with representatives of reporting organizations for the explanation of specific features of the provision of information within the scope of the EITI. Development of detailed instructions.	Medium	<p>Most companies, which had responded to the request from Independent Administrator, supplied incomplete information or ignored some items of the questionnaire instruction. For instance, only several companies broke down their information at the level of each legal entity owned or each joint venture pursued by them.</p> <p>This situation with the 2013 EITI Report preparation was caused by the lack of time for the Independent Administrator to carry out an appropriate outreach campaign and prepare a detailed instruction on the disclosure of information. Also it should be considered that the EITI Report for 2013 is the first EITI Report of Ukraine. Similar problems during preparation the first report took place in other countries.</p>
Encouraging extractive companies to prepare public financial statements and employ independent auditors to verify them.	Medium	In the oil and gas sector, only some companies develop public financial statements, of which only 23 companies employed independent auditors in 2013 to have their financial

Recommendation	Degree of Importance	Comments
<p>For example, to introduce a legislation requirement subsoil users should prepare financial statements which should be independently audited. Or at least engage independent auditors to provide a separate opinion on companies' data for the purposes of the EITI Report preparation.</p>		<p>statements verified. This situation limits the opportunities for the transparency and the additional verification of the obtained information.</p>
<p>Update the data collection template with questions about audited financial statements.</p>	<p>High</p>	<p>In particular, to update the forms with the following questions:</p> <ol style="list-style-type: none"> 1) Does your company prepare financial statements? If yes, please describe how to find it, or provide a link to the document. 2) Is your financial statements being audited by independent auditor?
<p>Providing relevant supporting documents by companies as a part of submitting data to EITI report</p>	<p>Medium</p>	<p>It is proposed to force the companies mandatory provide to the Independent Administrator / Ministry of Energy and Coal Industry of Ukraine relevant supporting documents as a part of submitting data to EITI report, in particular:</p> <ul style="list-style-type: none"> ▶ for PJSC it would be desirable to provide audited financial statements along with acts of reconciliation payments from the State Fiscal Service of Ukraine; ▶ for other companies it would be desirable to submit acts of reconciliation payments from the State Fiscal Service and confirmation letter by the head of the company. It is necessary to develop a standard form of such a confirmation letter. <p>Also it is necessary to consider the introduction in future of mandatory independent audit of data from extractive companies for next EITI Reports (as do some African countries).</p>
<p>Setting a reasonable level of materiality for the selection of companies and a list of payments, when determining the scope of the EITI Report.</p>	<p>High</p>	<p>It's suggested that the materiality threshold be set at the level of 0.001 percent of aggregate proceeds of the Consolidated Budget of Ukraine. In 2013, it amounted to approximately UAH 4.4 million or about EUR 400,000 at the average 2013 UAH/EUR exchange rate.</p> <p>The suggested materiality threshold (0.001</p>

Recommendation	Degree of Importance	Comments
		percent of aggregate proceeds of the Consolidated Budget) was discussed at the MSG meeting on August 6, 2015, and presented in the Initial Report. The Independent Administrator as of the date of publication of this Report has not received any comments on this proposal from MSG members, the International Secretariat, and the Ministry; for this reason, we consider this proposal to have been accepted.
Setting a reasonable materiality level for the investigation of detected inconsistencies.	High	We suggest that a materiality threshold of 5 percent of payment amount be applied for data reconciliation, as this value is compatible with the generally accepted approach and recommendation on the audit of financial statements. If the difference between company data and data received from the state is less than 5 percent of the total payment amount, such an inconsistency would be considered immaterial and would not be pursued.
Reconciliation of amounts of taxes accrued and paid	Medium	<p>We suggest that the management of companies introduce a procedure of the regular reconciliation (at least, as at the year-end) of amounts and types of taxes accrued and declared with the relevant tax amounts and types presented in accordance with data from the state tax authorities. This practice is sufficiently widespread in the Ukrainian business environment.</p> <p>During the preparation of the 2013 EITI Report, at least one company (PJSC State Joint-Stock Company Chornomornaftogaz) requested the State Fiscal Service that such a reconciliation be carried out.</p>
<p>The implementation of an efficient system for planning and managing the process of the development of subsequent EITI Reports, namely:</p> <ul style="list-style-type: none"> ▶ the search for, and the allocation of, financial and human resources for the EITI Report development by the end of the 1st quarter of the current year at the latest; ▶ the approval of the scope of, and the terms of reference for, the preparation of the future EITI Reports 	High	The lack of time for organizing an efficient information acquisition, completeness and accuracy monitoring process, data analysis and reconciliation of payments (including analysis of original documents) posed a major challenge to the preparation of the 2013 EITI Report. The above recommendations are expected to address this issue. It would be optimal to establish clear deadlines for the completion of each Report development stage (determining the scope, approving the terms of reference, entering into a contract with the Independent

Recommendation	Degree of Importance	Comments
<p>by the end of the 1st quarter of the current year at the latest;</p> <p>▶ holding a tender and selecting an Independent Administrator by the end of the 2nd quarter of the current year at the latest.</p>		<p>Administrator, etc.). To prepare high-quality EITI report it's needed at least three months</p>
<p>Simplification of the structure and the contents of forms of the request for information taking into account the accepted materiality thresholds.</p>	<p>High</p>	<p>Due to time constraints encountered during the development of the 2013 Report, and the fact that this Report was the first one for Ukraine, it was not possible to apply materiality criteria during the Report scoping. For this reason, all the existing payments from oil and gas companies, including payments made for various administrative services, were included into questionnaire forms. Because of that, the questionnaires were overloaded with additional information, whose obtainment required unreasonable time and labor input from the companies.</p>
<p>Moving to preparation of EITI reports disaggregated by companies</p>	<p>Medium</p>	<p>This could be an additional move to a greater transparency of the sector, as well as let Ukraine follow a similar global tendency.</p>

ANNEX 1. LIST OF STATE AUTHORITIES AND INSTITUTIONS SURVEYED WITHIN THE SCOPE OF THE DEVELOPMENT OF THE 2013 EITI REPORT

Central state agencies

1. Ministry of Finance of Ukraine;
2. Ministry of Energy and Coal Industry of Ukraine;
3. Ministry of Ecology and Natural Resources of Ukraine;
4. Ministry of Health of Ukraine;
5. State Fiscal Service of Ukraine;
6. State Property Fund of Ukraine;
7. Pension Fund of Ukraine;
8. Disabled People Social Protection Fund;
9. State Service for Geology and Mineral Resources of Ukraine;
10. State Mining Supervision and Occupational Safety Service of Ukraine;
11. State Mineral Resource Reserves Commission of Ukraine;
12. National Energy and Utilities State Regulation Commission;
13. Emergency Management Service of Ukraine;
14. State Architectural and Construction Inspectorate of Ukraine;
15. State Land Resources Agency of Ukraine;
16. State Agricultural Inspectorate of Ukraine;
17. State Labor Inspectorate of Ukraine.
18. State Statistic Service of Ukraine

State-owned and Budget-funded Enterprises, Institutes, and Other Organizations

1. Ukrheofizyka State Geophysics Enterprise;
2. Prychornomorske State-owned Regional Geological Enterprise;
3. Kirovheolohiia Government-owned Enterprise;
4. "Environmental and Expert Analytics Center" State-owned Enterprise;
5. Donetskheolohiia State-owned Regional Geological Enterprise;
6. Geolekspertyza State-owned Enterprise "State Commission for the Expert Appraisal of Geological Designs and Cost Estimates of Ukraine";

7. Pivdenukrheolohiia Government-owned Enterprise;
8. State-owned Research and Production Enterprise "State Geological Information Fund of Ukraine";
9. Skhidne State-owned Regional Geological Enterprise;
10. Ukrainian State-owned Geological Exploration Institute;
11. "Southern Environmental and Geological Center" Government-owned Enterprise
12. "Ukrainian Geological Company" State-owned Enterprise
13. Ukrainian Oil and Gas Institute;
14. State-owned Enterprise "Oil and Gas Industry Research Institute" of National Joint-Stock Company Naftogaz of Ukraine;
15. Poltavastandartmetrolohiia State-owned Enterprise;
16. Sumystandartmetrolohiia State-owned Enterprise;
17. Kharkivstandartmetrolohiia State-owned Enterprise;
18. Donetskstandartmetrolohiia State-owned Enterprise;
19. Ivano-Frankivskstandartmetrolohiia State-owned Enterprise;
20. Lvivstandartmetrolohiia State-owned Enterprise.

ANNEX 2. LIST OF COMPANIES ENGAGED IN OIL AND GAS PRODUCTION AND TRANSPORTATION THROUGH THE TERRITORY OF UKRAINE

1. PJSC Ukgazvydobuvannia
2. PJSC Ukrnafta
3. PJSC State Joint-Stock Company Chornomornaftogaz
4. Zakhidukrgeologiiia subsidiary of National Joint-Stock Company Nadra Ukrainy
5. LLC Zakhidgazinvest
6. National Joint-Stock Company Naftogaz of Ukraine
7. Ukrainian State Geological Research Institute subsidiary of National Joint-Stock Company Nadra Ukrainy
8. National Joint-Stock Company Nadra Ukrainy;
9. LLC Skhidnoukraiinska grupa
10. LLC Iusenko Nadra
11. Myrgorodnaftogaz rozvidka subsidiary of National Joint-Stock Company Nadra Ukrainy
12. LLC Nadra-Geoinvest
13. LLC Vody Ukrainy
14. Krymgeologiiia subsidiary of National Joint-Stock Company Nadra Ukrainy
15. Poltavanaftogazgeologiiia subsidiary of National Joint-Stock Company Nadra Ukrainy
16. Tsentrukrgeologiiia subsidiary of National Joint-Stock Company Nadra Ukrainy
17. Chernihivnaftogazgeologiiia subsidiary of National Joint-Stock Company Nadra Ukrainy
18. LLC Nadra Iuzivska
19. Ivano-Frankivsk National Technical University of Oil and Gas
20. LLC Joint Venture Ukrkarpatoil LTD Ukrainian/American
21. LLC Joint Venture Boryslavska Naftova Kompaniia
22. LLC Kashtan Petroleum LTD Ukrainian Canadian Joint Venture
23. LLC Inzhenerno burova grupa Triton
24. LLC Enerhoservisna kompaniia ESCO Pivnich
25. LLC Pari
26. LLC Persha Ukrainiska gazonaftova kompaniia
27. LLC Krymtoenergosiservis
28. LLC Tekhnosiservis
29. LLC Aldea Ukraine subsidiary
30. LLC Nadragaz
31. LLC Naftogaz Garant
32. LLC Skhidnyi Geolohichnyi Soiuz

33. PrJSC Pryrodni Resursy
34. LLC Geo Alians Pivdenno-Orilske
35. LLC Geo Alians Kosachivske
36. LLC Geo Alians Lvivske
37. LLC Geo Alians Vysochanske
38. LLC Oberon-vugillia
39. LLC Geo Alians Iasenivske
40. LLC Geo Alians Myroliubivske
41. LLC Geo Alians Zakhidno-Iefremivske
42. LLC Geo Alians Taranushynske
43. LLC Plast
44. LLC Nadra Geotsentr
45. LLC Gazcontynental
46. LLC Kub-gaz
47. LLC Tysagaz
48. LLC Tekhnogazindustriia
49. LLC Mizhregionalna gazova kompaniia
50. LLC Gazoilinvest
51. LLC Rekonstruktsiia tekhnologichnykh sverdlovyn
52. PJSC Zasiadko Mine
53. LLC Joint Venture Poltavska Gazonaftova Kompaniia
54. PrJSC Vydobuvna Kompaniia Ukrnaftoburinnia
55. LLC Zakhidnadraserbis
56. LLC Horyzonty
57. LLC Burova Kompaniia Horyzonty
58. LLC State Enterprise Ukrspetszamovlennia
59. LLC Geologichne biuro Lviv
60. LLC Prykarpatska energetychna kompaniia
61. LLC Bogorodchanynaftogaz
62. LLC Ukristgaz
63. PrJSC Gazinvest
64. LLC Kompaniia Azov-Oil
65. LLC Naftogazopromyslova geologiiia
66. LLC Systemoilingenerying
67. PrJSC Naftogazvydobuvannia
68. LLC Vanco Prykerchenska LTD
69. LLC Myronivkabudmontazh
70. LLC Albaresurs

71. LLC Ukrnaftogazinvest
72. LLC Truboplast
73. LLC Regal Petroleum Corporation Limited
74. PrJSC Ukgazvydobutok
75. LLC "Prom-Energoproduct"
76. LLC Geoposhuk LTD
77. LLC Ukrnaftinvest
78. LLC Arabskyi energetychnyi alians iuei
79. LLC Ukrainiska burova kompaniia
80. LLC Praim-Gaz
81. LLC Energiiia-95
82. LLC Tekhnokomservis
83. LLC Naftova kompaniia Bukovyna
84. LLC Promyslova kompaniia Gazvydobuvannia
85. LLC Eni Ukraina
86. LLC MT Grup
87. LLC Kompaniia Krystal
88. LLC Joint Venture Ukrainsko-Azerbaidzhanske Ukr-Az-Oil
89. LLC Rolvud oil
90. LLC Novi Proekty
91. LLC Azov petroleum LLS
92. Kolomyiska naftogazova kompaniia Delta / Ukrainian Canadian Joint Venture
93. LLC Afon 2010
94. LLC Makkom-grup
95. LLC Karpatska industrialna grupa 1926
96. LLC VIVA Eksploraishn
97. LLC Rozhniativnafta
98. LLC ALD
99. LLC Shevron Ukraina
100. LLC Zakhidenergobud
101. LLC Bilmar
102. LLC Evrokrym / Ukrainian British Joint Venture
103. LLC Astrogaz
104. LLC Soiuz-budresursy
105. LLC Gas Resurs
106. LLC Naftogazresurs NVP
107. LLC Naftogazova kompaniia Alfa
108. LLC M.V.-Energosoil



- 109. LLC Ekologichni systemy Ukrainy
- 110. LLC NVK Ukrainyskyi energetychnyi soiuz
- 111. LLC NVP Naftogazekologija
- 112. LLC Ukrgeoinvest
- 113. LLC Ukrneftegazrazvedka
- 114. PJSC Ukrtransnafta
- 115. PJSC Ukrtransgaz
- 116. LLC Shell Ukraine Exploration and Production I
- 117. LLC firma Has
- 118. LLC Karpatynadrainvest
- 119. LLC Tsefei
- 120. LLC Karpatygaz

ANNEX 3. QUESTIONNAIRE FOR THE COMPANIES OF OIL AND GAS SECTOR

Unit 1 – General information for 2013

Full name of the Company:	
Contact information on responsible person, who signed this questionnaire (Full name, job title, contact number, e-mail):	
Location (Legal address):	
Place of business (list of regions and main deposits)	
Types of economic activities according to KVED: <i>(remove odds from the list and/or add new types of economic activity):</i>	<p>06.10 – Extraction of crude petroleum</p> <p>06.20 – Extraction of natural gas</p> <p>19.20 – Manufacture of refined petroleum products</p> <p>46.12 – Agents involved in the sale of fuels, ores, metals and industrial chemicals</p> <p>35.23 – Trade of gas through mains</p> <p>49.50 – Transportation via pipelines</p> <p><i>Other – specify</i></p>

Unit 2 – Production performance

2.1 General production volumes in the territory of Ukraine

	Crude oil (thousand tonnes)			Gas condensate (thousand tonnes)			Oil bitumen (thousand tonnes)			Natural gas (mcm)		
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
Autonomous Republic of Crimea												
Vinnytsia Oblast												
Volyn Oblast												
Dnipropetrovsk Oblast												
Donetsk Oblast												
Including in the temporarily occupied territory												
Zhytomyr Oblast												
Zakarpattia Oblast												
Zaporizhzhia Oblast												
Ivano-Frankivsk Oblast												
Kyiv Oblast												
Kirovograd Oblast												
Luhansk Oblast												
Including in the temporarily occupied territory												
Lviv Oblast												
Mykolaiv Oblast												
Odesa Oblast												
Poltava Oblast												
Rivne Oblast												
Sumy Oblast												
Ternopil Oblast												
Kharkiv Oblast												
Kherson Oblast												
Khmelnyskyi Oblast												
Cherkasy Oblast												
Chernivtsi Oblast												
Chernihiv Oblast												
TOTAL IN UKRAINE												

	Oil-dissolved gas (associated) (mcm)			Shale gas (mcm)			Gas of central-basin type (mcm)			Natural gas of coal mines (mcm)		
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
Autonomous Republic of Crimea												
Vinnitsia Oblast												
Volyn Oblast												
Dnipropetrovsk Oblast												
Donetsk Oblast												
Including in the temporarily occupied territory												
Zhytomyr Oblast												
Zakarpattia Oblast												
Zaporizhzhia Oblast												
Ivano-Frankivsk Oblast												
Kyiv Oblast												
Kirovograd Oblast												
Luhansk Oblast												
Including in the temporarily occupied territory												
Lviv Oblast												
Mykolaiv Oblast												
Odesa Oblast												
Poltava Oblast												
Rivne Oblast												
Sumy Oblast												
Ternopil Oblast												
Kharkiv Oblast												
Kherson Oblast												
Khmelnyskyi Oblast												
Cherkasy Oblast												
Chernivtsi Oblast												
Chernihiv Oblast												
TOTAL IN UKRAINE												

2.2 General volumes of oil and gas products produced in the territory of Ukraine and exported

Item	Indicators for FY		
	2011	2012	2013
Crude oil (thousand tonnes)			
Gas condensate (thousand tonnes)			
Oil bitumen (thousand tonnes)			
Natural gas (butane, ethane, methane) (mcm)			
Oil-dissolved gas (associated) (mcm)			
Shale gas (mcm)			
Gas of the central-basin type (mcm)			
Natural gas of coal mines (mcm)			

Explanation:

The information in the general volumes of oil and gas products of the company (mineral products) produced in the territory of Ukraine and exported is provided.

2.3 Explored deposits (total across the company in the territory of Ukraine)

Item	Indicator		
	as of 01.01.2011	as of 01.01.2012	as of 01.01.2013
Crude oil (thousand tonnes), including:			
Category A (thousand tonnes)			
Category B (thousand tonnes)			
Category C1 (thousand tonnes)			
Category C2 (thousand tonnes)			
Category C3 (thousand tonnes)			
Gas condensate (thousand tonnes), including:			
Category A (thousand tonnes)			
Category B (thousand tonnes)			
Category C1 (thousand tonnes)			
Category C2 (thousand tonnes)			
Category C3 (thousand tonnes)			
Oil bitumen (thousand tonnes), including:			
Category A (thousand tonnes)			
Category B (thousand tonnes)			
Category C1 (thousand tonnes)			
Category C2 (thousand tonnes)			
Category C3 (thousand tonnes)			
Natural gas (butane, ethane, methane) (mcm), including:			
Category A (mcm)			
Category B (mcm)			
Category C1 (mcm)			
Category C2 (mcm)			
Category C3 (mcm)			
Oil-dissolved gas (associated) (mcm), including:			
Category A (mcm)			

Item	Indicator		
	as of 01.01.2011	as of 01.01.2012	as of 01.01.2013
Category B (mcm)			
Category C1 (mcm)			
Category C2 (mcm)			
Category C3 (mcm)			
Shale gas (mcm), including:			
Category A (mcm)			
Category B (mcm)			
Category C1 (mcm)			
Category C2 (mcm)			
Category C3 (mcm)			
Gas of the central-basin type (mcm), including:			
Category A (mcm)			
Category B (mcm)			
Category C1 (mcm)			
Category C2 (mcm)			
Category C3 (mcm)			
Natural gas of coal mines (mcm), including:			
Category A (mcm)			
Category B (mcm)			
Category C1 (mcm)			
Category C2 (mcm)			
Category C3 (mcm)			

2.4 Special permits (received for areas in the territory of Ukraine)

Item	Indicator
Number of special permits as at 01.01.2013 (pcs)	
Number of valid special permits as at 31.12.2013 (pcs)	
Number of special permits issued during 2013 (pcs)	
Number of special permits expired in 2013 and not extended (pcs)	

2.5 Employment

Item	Number, persons		
	2011	2012	2013
Number of fulltime employees, persons (line 12010, Section I, DPSPF Form 6-ПВ (annual))			
Average number of fulltime employees, persons (line 3010, Section I, DPSPF Form 1-ПВ (quarterly) for January-December)			

Unit 3 – Financial and legal information

3.1 Financial indicators

Item name	Indicator for FY		
	2011	2012	2013
Net financial result (income or loss) of the company (UAH million) related to oil and gas production activity			
including financial result (income or loss) before tax related to oil and gas production activity (UAH million)			
Costs for exploration, survey and development of oil and gas producing wells related to the current year and which were capitalized or recognized in the statement of financial results (Income statement) during the current year (tangible and intangible assets related to the acquisition of rights to deposit exploration, carrying out of topographic, project, geological exploration works, geochemical and geodesic survey, construction of exploration wells, etc.) (UAH million)			
Total revenues from sales of oil and gas (UAH million), including:			
Crude oil (UAH million)			
Gas condensate (UAH million)			
Oil bitumen (UAH million)			
Natural gas (butane, ethane, methane) (UAH million)			
Oil-dissolved gas (associated) (UAH million)			
Shale gas (UAH million)			
Gas of the central-basin type (UAH million)			
Natural gas of coal mines (UAH million)			
Total revenues from export of oil and gas (UAH million), including:			
Crude oil (UAH million)			
Gas condensate (UAH million)			
Oil bitumen (UAH million)			
Natural gas (butane, ethane, methane) (UAH million)			
Oil-dissolved gas (associated) (UAH million)			
Shale gas (UAH million)			
Gas of the central-basin type (UAH million)			
Natural gas of coal mines (UAH million)			

Explanation:

If a part of produced products (mineral products) is sold within the group (for example, supplied to the gas processing plant) the internal cost of total volume of products sold within the group is added to the structure of total revenue.

3.2 Legal information

Item	Indicator
Provide information in accordance with Article 17 of the Law of Ukraine "On State Registration of Legal Entities and Individual Entrepreneurs" on: <ul style="list-style-type: none"> - full name of the legal entity; - the business legal structure; - location of the legal entity; - list of founders (participants) of the legal entity; - information on ultimate beneficiary owner (controller) of the legal entity, including ultimate beneficiary (controller) of its founder, if the founder (participant) is a legal entity indicating the participation interest (share) of the beneficiary owner in the legal entity's capital; - information on ownership structure of founders - legal entities, which makes it possible to identify individuals - owners of substantial shareholding of these legal entities. 	
State share (including through the state-owned enterprises) in the authorized capital of the company as at 31.12.2013	
Name of the legal entity or the state authority, through which the state holds its share in the authorized capital.	
Were there any changes in 2013 in the state share (including through the state-owned enterprises) in the authorized capital of the company? If yes, please specify the date and nature of such changes	
Did the state and/or state-owned enterprises grant loans and/or guarantees on loans to you company in 2013? If yes, please specify the amount of such loans guarantees, terms and conditions of loan repayment.	

Unit 4 – Non-tax payments

Item	Indicator
Provide information on any additional costs (social expenses, help to local communities, state infrastructure expenses, etc.), which are not directly related to business operation of the company. Please specify the amounts and target use of such costs.	
Provide information on additional costs in respect of financing subsidies/differences in energy tariffs and public debt servicing. Please specify the amounts and target use of such costs.	
Specify the amounts of any payments which were actually made in 2013 to the state (state-owned enterprises, funds, etc.) intended to finance a special-purpose program or certain geographical region.	
Share of produced products (cash equivalent) <i>transferred</i> (allocated) according to the Production Sharing Agreement / Joint Activity Agreement for the benefit of state-owned enterprises.	
Share of produced products (cash equivalent) <i>received</i> according to the Production Sharing Agreement / Joint Activity Agreement (only state-owned enterprises)	
Revenue from produced products belonging to the state (state authorities	

Item	Indicator
and/or state-owned enterprises).	
<p>The information on any barter agreements with state (state authority or enterprise), except Joint Activity Agreement, according to which the company transferred (or received from the state of state-owned enterprises) products and services, loans, carried out infrastructure works, etc. in return for the possibility (right) to carry out exploration and/or extract oil and gas, or in return for the actual volumes of oil and gas. On each agreement please specify:</p> <ul style="list-style-type: none"> - the date of agreement; - the term of agreement; - the full name of legal entity – counterparty according to this agreement; - the value of agreement; - the amount of expenses (benefits) incurred (for state-owned enterprises specify incurred and received benefits, if any) in 2013 according to the agreement; - the nature of barter costs/benefits (list of goods, services, works, etc.) incurred (for state-owned enterprises specify incurred and received benefits, if any) in 2013 according to the agreement. 	
<p>Social costs (in cash and in kind) required from your company in accordance with the legislation, PSA, investment and any other obligations to the state, central and local authorities.</p> <p>If the expenses incurred in kind, please specify the nature and estimated value of these costs in kind. If the recipient of social costs is a third party (for example, a non-governmental organization), please specify the name and function of the recipient.</p>	
<p>The information on the transportation of oil and gas produced by the company, including:</p> <ul style="list-style-type: none"> - product (good), physical volume and its transportation route; - expenses (tariff, additional tax or any other payments) for transportation services (including pumping, storage and offtake from the underground and ground reservoirs/storages) 	
<p>Revenues received from the transportation of gas (including pumping, storage and offtake from the underground and ground reservoirs/storages) produced in the territory of Ukraine by companies (legal entities) which provided gas for transportation</p>	
<p>The physical volume and route of the transportation of gas produced in the territory of Ukraine by companies (legal entities) which provided gas for transportation</p>	
<p>Tariffs for the transportation of gas produced in the territory of Ukraine (including loading, storage and pumping from the underground and ground reservoirs/storages) and the methodology for their calculation.</p>	
<p>Revenues received from the transportation of oil (including pumping, storage and offtake from the underground and ground reservoirs/storages) produced in the territory of Ukraine by companies (legal entities) which provided oil for transportation.</p>	
<p>The physical volume and route of the transportation of oil produced in the territory of Ukraine by each company (legal entities) which provided oil for transportation</p>	

Item	Indicator
Tariffs for the transportation of oil produced in the territory of Ukraine (including pumping, storage and offtake from the underground and ground reservoirs/storages) and the methodology for their calculation.	
Any other revenues received from oil and gas production companies. Please specify the volumes and nature of such revenues	
Please provide information on payments from the list below which were actually made in 2013. Specify the amount and recipient of each payment (budget, state-owned enterprise, state authority) inclusive of VAT, UAH	
Fee for carrying out the state expertise of reports on the geological subsurface resources study and other geological materials	
Fee for valuation (determination) of the geological information cost	
Fee for copying of geological reports	
Fee for determination of the initial selling price of special permits at an auction; determination of value of special permits on objects not related to mineral products production; determination of the amount of fee for special permits extension	
Fee for other services provided by state-owned enterprises, institutions and organizations, state authorities and local authorities in relation to exploration, survey and production of mineral products	
Value of goods, works and services provided free of charge to the state-owned enterprises, institutions and organizations, state authorities and local authorities in relation to exploration, survey and production of mineral products	
Fee for carrying out the state ecological expertise (Article 13 of the Law of Ukraine "On Ecological Expertise", paragraph 6 of the List of types of activities and objects of high environmental hazard approved by Resolution #808 of the Cabinet of Ministers of Ukraine of 28 August 2013)	
Fee for Environmental Impact Assessment (EIA, Article 32 of the Law of Ukraine "On Ecological Expertise")	
Fee for preparation of the plan of research and commercial development of mineral product deposits of national significance	
Fee for obtaining a permit for preparation of the land management plan in respect of land allocation for business entities	
Charitable contributions and donations made to the state-owned enterprises, institutions and organizations, state authorities and local authorities in relation to exploration, survey and production of mineral products	
Fee for carrying out the expertise of safety and security of industrial production of a business entity	
Fee for participation in tender for conclusion of hydrocarbons sharing agreements	
Cost of auction documentation package and guarantee deposit for participation in the auction on selling special subsurface resource use permits which were paid in 2013 but not returned	

ANNEX 4. ANNUAL REPORT ON TAX AND OTHER PAYMENTS FOR ENTERPRISES BELONGING TO EXTRACTIVE INDUSTRY FOR 2013

Submitted by:	Term for submission:
Legal entities, separated subdivisions of legal entities, which carry out industrial activities	Not later than 6 August 2015

Respondent:	
Full name:	_____
Identification code per EDRPOU	_____
Location (legal address)	_____
	<i>(Post code, oblast, district, city/town/ street/lane, square, etc.</i>

	<i>building/block #, apartment/office #)</i>
Address of the place of business in respect of which the reporting form is submitted (actual address)	_____

<i>(Post code, oblast, district, city/town/ street/lane, square, building/block #, apartment/office #)</i>	

State/local budget	CCBR	Payment	Information on accruals for the reporting period, UAH'000			Payment in the reporting year, UAH'000	
			Tax basis	Tax rate	Incurring for the reporting year	Paid in the reporting year, total	Including for the previous years
		Taxes			0	0	0
	11020000	Income tax			0	0	0
SB	11020100 - 11024600	Corporate income tax, production activities			0		
SB	11020100 - 11024600	Corporate income tax, other types of activities			0		
	11010000	Personal income tax			0	0	0
SB	11010100- 11010700	Personal income tax, production activities			0		
SB	11010100- 11010700	Personal income tax, other types of activities			0		
	12020000	Tax on owners of transport facilities, mechanical vehicles and mechanisms			0	0	0
LB	12020100 - 12031200	First vehicle registration duty, production activities			0		
LB	12020100 - 12031200	First vehicle registration duty, other types of activities			0		
	13030000	Fee for the use of subsurface resources			0	0	0
SB/LB	13030100	Fee for the use of subsurface resources for production of mineral products of national significance			0		
LB	13030200	Fee for the use of subsurface resources for production of mineral products of local significance			0		
SB	13030400	Fee for the use of subsurface within the continental shelf			0		

State/local budget	CCBR	Payment	Information on accruals for the reporting period, UAH'000			Payment in the reporting year, UAH'000	
			Tax basis	Tax rate	Incurring for the reporting year	Paid in the reporting year, total	Including for the previous years
		and/or the exclusive (maritime) economic zone					
LB	13030500	Payment/Receipt of restructured debt on the fee for the use of subsurface resources			0		
LB	13030600	Fee for the use of subsurface resources for the purposes not related to mineral products production			0		
SB	13030700	Fee for the use of subsurface resources for oil production			0		
SB	13030800	Fee for the use of subsurface resources for natural gas production			0		
SB	13030900	Fee for the use of subsurface resources for gas condensate production			0		
	<i>13050000</i>	<i>Land fee</i>			0	0	0
LB	13050100 - 13050600	Land fee, production activities			0		
LB	13050100 - 13050600	Land fee, other types of activities			0		
	<i>13020000</i>	<i>Special water use duty</i>			0	0	0
SB/LB	13020000	Special water use duty, production activities			0		
SB/LB	13020000	Special water use duty, other types of activities			0		
	<i>13010000</i>	<i>Special forest resource use duty</i>			0	0	0
LB	13010000	Special forest resource use duty, production activities			0		
LB	13010000	Special forest resource use duty, other types of activities			0		
	<i>13070000</i>	<i>Fee for the use of other natural resources</i>			0	0	0
LB	13070000	Fee for the use of other natural resources, production activities			0		
LB	13070000	Fee for the use of other natural resources, other types of activities			0		

State/local budget	CCBR	Payment	Information on accruals for the reporting period, UAH'000			Payment in the reporting year, UAH'000	
			Tax basis	Tax rate	Incurred for the reporting year	Paid in the reporting year, total	Including for the previous years
	14010000	VAT			0	0	0
SB	14010100, 14010300 - 14010700	VAT, production activities			0		
SB	14010100, 14010300 - 14010700	VAT, other types of activities			0		
SB	14010200	VAT refund from the budget in cash			0		
SB	14010900	Tax liability on VAT of the enterprises, additional tax liabilities on this tax, instalment tax liabilities of National Joint-Stock Company Naftogaz of Ukraine and its companies on VAT (including interests on the use of tax credit) which are channeled for repayment of debt on the difference in tariffs for thermal energy, water supply and sanitation produced, transported and supplied to the households, which arose due to the inconsistency of the actual cost of thermal energy, water supply and sanitation tariffs approved or agreed by the respective state or local authorities			0		
SB	14011100	Tax liability on VAT of the enterprises, additional tax liabilities on this tax, instalment tax liabilities of National Joint-Stock Company Naftogaz of Ukraine and its companies on VAT (including interests on the use of tax credit) which are channeled for subvention from the state budget to the local budgets for granting benefits and housing subsidies to the households for payment for electricity, natural gas, heat and water supply and sanitation, housing rent, removal of household and liquid			0		

State/local budget	CCBR	Payment	Information on accruals for the reporting period, UAH'000			Payment in the reporting year, UAH'000	
			Tax basis	Tax rate	Incurred for the reporting year	Paid in the reporting year, total	Including for the previous years
		wastes					
		Customs duties			0	0	0
SB	15010000	Import duty			0		
SB	15020000	Export duty			0		
	17000000	Rental fee, duties for fuel and energy resources			0	0	0
	17010000	Rental fee			0		
SB	17010100	Rental fee for oil produced in Ukraine accrued before 1 January 2013			0		
SB	17010200	Rental fee for natural gas produced in Ukraine accrued before 1 January 2013			0		
SB	17010300	Rental fee for gas condensate produced in Ukraine accrued before 1 January 2013			0		
SB	17010400	Payment / Receipt of restructured debt on the payment of the rental fee for oil produced in Ukraine			0		
SB	17010500	Payment / Receipt of restructured debt on the payment of the rental fee for natural gas produced in Ukraine			0		
SB	17010700	Rental fee for transit transportation of natural gas by the pipelines through the territory of Ukraine			0		
SB	17010800	Rental fee for transit transportation of oil and petroleum products by the trunk and oil-product pipelines through the territory of Ukraine			0		
SB	17010900	Rental fee for transit transportation of ammonia by the pipelines through the territory of Ukraine			0		
SB	17011200	Tax liability on rental fee for transit transportation of natural gas by the pipelines through the territory of Ukraine, instalment tax liabilities of National Joint-Stock Company Naftogaz of Ukraine and its companies on this tax (including interests on the use of tax credit) which are channeled for repayment of debt on			0		

State/local budget	CCBR	Payment	Information on accruals for the reporting period, UAH'000			Payment in the reporting year, UAH'000	
			Tax basis	Tax rate	Incurred for the reporting year	Paid in the reporting year, total	Including for the previous years
		the difference in tariffs for thermal energy, water supply and sanitation produced, transported and supplied to the households, which arose due to the inconsistency of the actual cost of thermal energy, water supply and sanitation tariffs approved or agreed by the respective state or local authorities					
SB	17011500	Tax liability on rental fee for transit transportation of natural gas by the pipelines through the territory of Ukraine, instalment tax liabilities of National Joint-Stock Company Naftogaz of Ukraine and its companies on this tax (including interests on the use of tax credit) which are channeled for subvention from the budget to the local budgets for granting benefits and housing subsidies to the households for payment for electricity, natural gas, heat and water supply and sanitation, housing rent, removal of household and liquid wastes			0		
SB	17060000	Duty in the form of special-purpose supplement to the applicable natural gas tariff for consumers of all forms of ownership			0		
	19010000	<i>Environmental Tax</i>			0	0	0
SB	19010100 - 19010900	Environmental tax, production activities			0		
SB	19010100 - 19010900	Environmental tax, other types of activities			0		
		Non-tax receipts/payments			0		
	21000000	<i>Dividends</i>			0	0	0

State/local budget	CCBR	Payment	Information on accruals for the reporting period, UAH'000			Payment in the reporting year, UAH'000	
			Tax basis	Tax rate	Incurred for the reporting year	Paid in the reporting year, total	Including for the previous years
SB	21010000-21010900	Part of net profit (income) of the state-owned or communal unitary enterprises and their associations transferred to the respective budget, production activities			0		
SB	21010000-21010900	Part of net profit (income) of the state-owned or communal unitary enterprises and their associations transferred to the respective budget, other types of activities			0		
SB	21010000-21010900	Dividends (income) accrued on shares of business entities with the state share in the authorized capital, production activities			0		
SB	21010000-21010900	Dividends (revenue) accrued on shares of business entities with the state share in the authorized capital, other types of activities			0		
	22010000	Fee for administrative services			0	0	0
SB	22012100	Fee for issue of the special subsurface resource use permits			0		
SB		Fee for field supervision over the implementation of the project technical documents of deposits exploration			0		
SB		Fee for the use of geological information prepared (received) using budget funds			0		
SB		Fee for carrying out expertise by the Central Commission of the Ministry of Energy and Coal Industry of Ukraine for the development of gas, gas condensate, oil deposits and operation of underground gas storages			0		
LB	22011500, 22010200 - 22011400, 22011700	Fee for administrative services not related to the production activities			0		

State/local budget	CCBR	Payment	Information on accruals for the reporting period, UAH'000			Payment in the reporting year, UAH'000	
			Tax basis	Tax rate	Incurred for the reporting year	Paid in the reporting year, total	Including for the previous years
	- 22012000, 22012200 - 22012500						
	22090000	State duty					
SB	22090100 - 22090600	State duty					
		<i>Social contributions</i>			0	0	0
		Universal social contribution accrued by the employer on the employees' salaries, production activities			0		
		Universal social contribution accrued by the employer on the employees' salaries, other types of activities			0		
	50000000	<i>Special-purpose funds</i>			0	0	0
LB	50070000	Contributions to the Disabled People Social Protection Fund			0		
		<i>Fines</i>			0	0	0
LB		Fines, penalties, confiscation, production activities			0		
LB		Fines, penalties, confiscation, other types of activities			0		
		<i>Other</i>			0	0	0
SB/LB		Part of profit products belonging to the state according to PSA			0		
SB		Special payment (bonus) for signing agreement, special payment (bonus) for discovery of industrial deposits of hydrocarbon, other similar special payments (bonuses) paid for the benefit of state, state and local authorities, state-owned enterprises, institutions and organizations for exploration, survey and production of products			0		



State/local budget	CCBR	Payment	Information on accruals for the reporting period, UAH'000			Payment in the reporting year, UAH'000	
			Tax basis	Tax rate	Incurred for the reporting year	Paid in the reporting year, total	Including for the previous years
LB		Other taxes and duties paid directly to local budgets, production activities			0		
SB		Other taxes and duties paid directly to the state budget, production activities			0		

Total paid	0
to the state budget	0
to the local budget	0

LB payments/proceeds to the local budget
 SB payments/proceeds to the state budget

 Signature of the Director (owner) and/or person authorized for authenticity of the information provided

 (Full name)

 (Full name)

telephone: _____

fax: _____

e-mail: _____

Instruction on the procedure for filling in the Annual report on taxes and other payments for enterprises belonging to the extractive industry

1. Background

This instruction shall apply to the enterprises, institutions and organizations of extractive industry, their subdivisions, branches, other separate subdivisions and representative offices of foreign business entities ("the Enterprise").

Report of Payments/Proceeds shall be filled in for 2013 by the enterprises of the extractive sector (including owners of oil and gas pipelines).

2. Instruction on filling in

1. If the Payer has branches and representative offices, the Report shall be filled in for each business entity.
2. Information on Payments / Proceeds shall be filled in by the Payer/Recipient as per the Classification of Codes of Budget Revenues (CCBR) in accordance with the Unified Budget Classification of Ukraine approved by Decree #11 of the Ministry of Finance of Ukraine "On Budget Classification" of 14.01.2011.
3. The Report shall provide the amounts of payments actually made in the reporting period, including Payments made against debt repayment for the previous period, including against payment surplus specified in the Report. Amounts of Payments accrued but not paid in the reporting period shall not be included to this Report.
4. Amounts of Payments shall be stated by the Payer in accordance with accounting data and approved by the Auditor which audits the Payer's activities. In case of absence of Auditor's Opinion or assurance on tax amounts made by the Payer, such payer shall provide explanations concerning the reasons of absence of audit/assurance by the auditor of tax amounts. VAT fund amounts shall be put with minus.
5. When obtaining from the Company a reconciliation request in respect of erroneous or incomplete data, as well as in respect of differences between the Payer and the Recipient data:
 - the Recipient shall provide statements of Payer's account in respect of which there is a difference for the respective period;
 - the Payer shall provide documents supporting the amount of made payment in respect of which there is a difference, such as bank statements, personal account which confirms tax payment through netting off against other taxes, etc.
6. If it is necessary, the Payers/Recipients may address the Company on reconciliation for explanations in respect of the Report preparation.
7. The dashes shall be inserted if there are no specific indexes.

8. The Report shall be approved by the Director of the Payer/Recipient or his/her authorized representative responsible for quality and fairness of information.
9. If the total income of non-core segments of the Enterprise (other than production and transportation) from the sale of products (goods, works and services) to external buyers and according to intra-company settlements of the Enterprise is less than 10% of total income from sale to external buyers and according to intra-company settlements of all segments of specific type (economic or geographic, respectively), the Enterprise not allocate tax payment between extractive industry and other types of activities. The tax payment shall be considered to be related to the extractive industry only.
10. If the total income of non-core segments of the Enterprise (other than production and transportation) from the sale of products (goods, works and services) to external buyers and according to intra-company settlements of the Enterprise is not less than 10% of total income from sale to external buyers and according to intra-company settlements of all segments of specific type, the Enterprise shall allocate tax payment between extractive industry and other types of activities. The allocation shall be made pro rata the total income of core and non-core economic segments.
11. The Report shall be prepared in hard and soft copies and sent to the Ministry of Energy and Coal Industry of Ukraine within the term and to the address, specified in the Order of the Ministry of Energy and Coal Industry of Ukraine.

3. Contents of filling in template

State/local Budget	Identifies to which budget the tax shall be paid (ST - state budget, LB - local budget)
CCBR	CCBR, according to which the payments are credited
Name of payment	List of tax and non-tax proceeds/payments
Tax basis	Basis from which the proceeds of respective tax is accrued, UAH'000
Tax rate	Effective rate for respective tax
Accrued for the reporting year	Tax amount accrued for the reporting year
Paid in the reporting year, total	Amount of Payment/Proceeds specified in the column Name of payment, actually made/received as per CCBR as specified in the column CCBR, UAH'000
Including for the previous years	Amount of Payment/Proceeds, actually made/received in the reporting year but for the previous periods specified in the column Name of payment, actually made/received as per CCBR as specified in the column CCBR, UAH'000

ANNEX 5. POWERS OF STATE AUTHORITIES OF UKRAINE IN THE FIELD OF THE OIL AND GAS PRODUCTION

State authority	Main functions/powers in oil and gas production sector	Subordination to the state authority	Laws and regulations
Verkhovna Rada (Parliament) of Ukraine	1) Adoption of laws ¹³³ 2) Setting out main lines of state policy ¹³⁴ 3) Approval of national programs for development of oil and gas production industry ¹³⁵	Elected body	Constitution of Ukraine Law of Ukraine "On Rules of Parliamentary Procedure of the Verkhovna Rada of Ukraine" ¹³⁶ Subsoil Code of Ukraine
President of Ukraine ¹³⁷	1) Taking part in the legislative process (the power to initiate laws, sign/veto the laws adopted by the Verkhovna Rada of Ukraine)	Elected body	Constitution of Ukraine

¹³³ According to paragraph 5 of part 1 of Article 92 of the Constitution of Ukraine, the principles of the use of natural resources may only be set out by laws of Ukraine. Apart from the Constitution of Ukraine, the main laws governing oil and gas production sector are Subsoil Code of Ukraine No. 132/94-BP of 27 July 1994, Law of Ukraine "On Oil and Gas" No. 2665-III of 12 July 2001, Mining Law of Ukraine No. 1127-XIV of 6 October 1999, Law of Ukraine "On Production Sharing Agreements" No. 1039-XIV of 14 September 1999, and other laws.

¹³⁴ Resolution of the Verkhovna Rada of Ukraine " On Main Tasks of the State Policy of Ukraine on Environmental Protection, Use of Natural Resources and Ensuring Ecological Safety" No. 188/98-BP of 5 March 1998.

¹³⁵ Law of Ukraine "On Approval of the *National Program* for Development of the *Mineral Resources* Base of *Ukraine* for the Period until 2030" No. 3268-VI of 21 April 2011.

¹³⁶ Law of Ukraine "On Rules of Parliamentary Procedure of the Verkhovna Rada of Ukraine" No. 1861-VI of 10 February 2010.

¹³⁷ The President of Ukraine does not formally belong to any branch of government (legislative, executive, judicial).

State authority	Main functions/powers in oil and gas production sector	Subordination to the state authority	Laws and regulations
	<ul style="list-style-type: none"> 2) Issuing decrees and directives binding within in the territory of Ukraine¹³⁸ 3) Establishment, reorganization and liquidation of ministries and other central state authorities upon request of the Prime Minister of Ukraine 		
Cabinet of Ministers of Ukraine	<ul style="list-style-type: none"> 1) Implementation of the state policy in oil and gas production sector, directing and coordinating activities of ministries and other central state authorities 2) Taking part in the legislative process (the power to initiate laws) 3) Issuing binding resolutions and directives¹³⁹ 	Accountable to the President of Ukraine; is controlled by and reports to the Verkhovna Rada of Ukraine	<p>Constitution of Ukraine</p> <p>Law of Ukraine "On the Cabinet of Ministers of Ukraine"¹⁴⁰</p>
Ministry of Ecology and Natural Resources of Ukraine	<ul style="list-style-type: none"> 1) Regulating a number of matters, particularly related to keeping record of subsoil geological exploitation works, keeping record of the amount of recovered and extracted mineral resources and of their losses, and keeping record of oil and gas wells 2) Issuing binding orders 	Directed and coordinated by the Cabinet of Ministers of Ukraine (the Ministry is a central state authority responsible for formation and implementation of state policy in the field of rational use, restoration	<p>Law of Ukraine "On Environmental Protection"</p> <p>Regulation on the Ministry of Ecology and Natural Resources of Ukraine¹⁴¹</p> <p>Procedure for Issuing Special Natural Resources Use</p>

¹³⁸ For example, Decree of the President of Ukraine "On Setting the Rent Payments for Oil and Gas Production in Ukraine" No. 785/94 of 21 December 1994, Decree of the President of Ukraine "On Reforming the Oil and Gas Sector of Ukraine" No. 151/98 of 25 February 1998.

¹³⁹ For example, Resolution of the Cabinet of Ministers of Ukraine "On Main Tasks of Reforming the Oil and Gas Sector of Ukraine" No. 1510 of 16 December 1996.

¹⁴⁰ Law of Ukraine "On the Cabinet of Ministers of Ukraine" No. 2591-VI of 7 October 2010.

¹⁴¹ Decree of the President of Ukraine "On Regulation on the Ministry of Ecology and Natural Resources of Ukraine" No. 452/2011 of 13 April 2011.

State authority	Main functions/powers in oil and gas production sector	Subordination to the state authority	Laws and regulations
Ministry of Energy and Coal Industry of Ukraine	3) Registration of first and final drafts of production sharing agreements and state registration of such agreements 1) Issuing binding orders ¹⁴⁴ 2) Monitoring the oil and gas market 3) Approving the technical planning documentation for development of oil and gas fields	and protection of natural resources) Directed and coordinated by the Cabinet of Ministers of Ukraine (the Ministry is a central state authority responsible for formation and implementation of state policy in the oil and gas sector)	Permits and Setting Limits on the Use of Resources of National Importance ¹⁴² Procedure for Registration of Drafts of the Production Sharing Agreement and State Registration of the Production Sharing Agreement ¹⁴³ Regulation on the Ministry of Energy and Coal Industry of Ukraine ¹⁴⁵

¹⁴² Resolution of the Cabinet of Ministers of Ukraine "On Procedure for Issuing Special Natural Resources Use Permits and Setting Limits on the Use of Resources of National Importance" No. 459 of 10 August 1992.

¹⁴³ Order of the Ministry of Ecology and Natural Resources of Ukraine "On Approval of the Procedure for Registration of Drafts of the Production Sharing Agreement and State Registration of the Production Sharing Agreement" No. 40 of 5 February 2013.

¹⁴⁴ For example, Order of the Ministry of Fuel and Energy of Ukraine "On Approval of the List of Statutory Losses, Industrial and Technological Losses of Oil, Gas and Gas Condensate during their Production, Preparation for Transportation and Transportation, and the Procedure for Their Quantification" No. 604 of 30 September 2004. According to Decree of the President of Ukraine "On Optimization of the System of central state authorities" No. 1085/2010 of 9 December 2010, the Ministry of Energy and Coal Industry of Ukraine was established as a result of reorganization of the Ministry of Fuel and Energy of Ukraine and the Ministry of Coal Industry of Ukraine. However, certain regulations of the Ministry of Fuel and Energy of Ukraine in oil and gas sector were still effective in 2013.

¹⁴⁵ Decree of the President of Ukraine "On Regulation on the Ministry of Energy and Coal Industry of Ukraine" No. 382/2011 of 6 April 2011.

State authority	Main functions/powers in oil and gas production sector	Subordination to the state authority	Laws and regulations
Ministry of Revenues and Duties of Ukraine	<ol style="list-style-type: none"> 1) Collection, recording, and control over the payment of taxes, duties, and customs payments (in particular, subsoil use payments for extraction of mineral resources) 2) Issuing binding orders 	Directed and coordinated by the Cabinet of Ministers of Ukraine (the Ministry is a central state authority responsible for formation and implementation of state tax and customs policy)	<p>Tax Code of Ukraine¹⁴⁶</p> <p>Regulation on the Ministry of Revenues and Duties of Ukraine¹⁴⁷</p>
State Service for Geology and Mineral Resources of Ukraine	<ol style="list-style-type: none"> 1) Monitoring of mineral resources base, geological environment and subsoil water 2) State control over geological exploration of subsoil (state geological control) and its rational and efficient use 3) State recording of fields, reserves, and occurrences of mineral resources 4) Issuing special subsoil use permits (in particular, special permits for extraction of mineral resources) 5) Control over compliance by oil and gas subsoil users with terms of permits for starting pilot 	Directed and coordinated by the Cabinet of Ministers of Ukraine through the Minister of Ecology and Natural Resources of Ukraine	<p>Subsoil Code of Ukraine</p> <p>Law of Ukraine "On the State Geological Service of Ukraine"¹⁴⁸</p> <p>Regulation on the State Service for Geology and Mineral Resources of Ukraine¹⁴⁹</p> <p>The Procedure for Issuing Special Subsoil Use Permits¹⁵⁰</p>

¹⁴⁶ Tax Code of Ukraine No. 2755-VI of 2 December 2010.

¹⁴⁷ Decree of the President of Ukraine "On the Ministry of Revenues and Duties of Ukraine" No. 141/2013 of 18 March 2013.

¹⁴⁸ Law of Ukraine "On the *State Geological Service of Ukraine*" No. 1216-VII of 4 November 1999.

¹⁴⁹ Decree of the President of Ukraine "On Regulation on the *State Service for Geology and Mineral Resources of Ukraine*" No. 391/2011 of 6 April 2011.

¹⁵⁰ Resolution of the Cabinet of Ministers of Ukraine "On Approving the Procedure for Issuing Special Subsoil Use Permits" No. 615 of 30 May 2011.

State authority	Main functions/powers in oil and gas production sector	Subordination to the state authority	Laws and regulations
	<p>production and production of field or a separate deposit of oil and gas</p> <p>6) Carrying out inspections within the scope of its powers, formalizing acts and issuing of instructions on eliminating actual violations of the requirements of regulatory acts based on the results of the inspections</p>		
State Ecological Inspection of Ukraine	1) State supervision (control) over compliance with regulations on environmental safety	Directed and coordinated by the Cabinet of Ministers of Ukraine through the Minister of Ecology and Natural Resources of Ukraine	Law of Ukraine "On Environmental Protection" Regulation on the State Ecological Inspection of Ukraine ¹⁵¹
State Service for Mining Supervision and Industrial Safety of Ukraine	<p>1) Issuing mining allotments¹⁵²</p> <p>2) State mining supervision¹⁵³</p>	Directed and coordinated by the Cabinet of Ministers of Ukraine through the Minister of Emergency Situations of Ukraine	Subsoil Code of Ukraine Regulation on the State Service for Mining Supervision and Industrial Safety of Ukraine ¹⁵⁴

¹⁵¹ Decree of the President of Ukraine "On the Regulation on the State Ecological Inspection of Ukraine" No. 454/2011 of 13 April 2011.

¹⁵² Mining allotment is a piece of subsoil allocated to users for development of mineral deposits or for purposes not related to extraction of mineral resources (part 1 of Article 17 of the Subsoil Code of Ukraine).

¹⁵³ State mining supervision is supervision over compliance by enterprises, institutions, organizations, and citizens with laws, rules and regulations applicable to performance of works related to geological exploration of subsoil, its use and protection, as well as the use and processing of mineral raw materials (paragraph 1 of the Regulation on the Procedure for State Mining Supervision).

¹⁵⁴ Decree of the President of Ukraine "On the Regulation on the State Service for Mining Supervision and Industrial Safety of Ukraine" No. 408/2011 of 6 April 2011.

State authority	Main functions/powers in oil and gas production sector	Subordination to the state authority	Laws and regulations
National Commission for State Regulation of Energy Sector	1) Developing and implementing pricing and tariff policy in the oil and gas market (in particular, setting prices for domestically produced commercial gas)	Accountable to the President of Ukraine; controlled by and reports to the Verkhovna Rada of Ukraine	Regulation on the Procedure for State Mining Supervision ¹⁵⁵ Regulation on the Procedure for Issuing Mining Allotments ¹⁵⁶ Regulation on the National Commission for State Regulation of Energy Sector ¹⁵⁷
Verkhovna Rada (Parliament) of the Autonomous Republic of Crimea	1) Distribution of subsoil use payments between the relevant local budgets 2) Developing, approving, and executing local programs of the development of mineral resources base, rational use and protection of the subsoil	Elected body of the Autonomous Republic of Crimea	Constitution of Ukraine Law of Ukraine "On Approval of the Constitution of the Autonomous Republic of Crimea" ¹⁵⁸ Law of Ukraine "On the Verkhovna Rada of the

¹⁵⁵ Resolution of the Cabinet of Ministers of Ukraine "On Approval of the Regulation on the Procedure for State Mining Supervision" No. 134 of 21 February 1995.

¹⁵⁶ Resolution of the Cabinet of Ministers of Ukraine "On Approval of the Regulation on the Procedure for Issuing of Mining Allotments" No. 59 of 27 January 1995.

¹⁵⁷ Decree of the President of Ukraine "On the National Commission for State Regulation of Energy Sector" No. 1059/2011 of 23 November 2011.

¹⁵⁸ Law of Ukraine "On Approval of the Constitution of the Autonomous Republic of Crimea" No. 350-XIV of 23 December 1998.

State authority	Main functions/powers in oil and gas production sector	Subordination to the state authority	Laws and regulations
Council of Ministers of the Autonomous Republic of Crimea	<ol style="list-style-type: none"> 1) Issuing special subsoil use permits (in particular, special permits for extraction of mineral resources of local importance in the territory of the Autonomous Republic of Crimea) 2) Issuing mining allotments (for development of mineral resources fields of local importance in the territory of the Autonomous Republic of Crimea) 3) Directing, coordinating, and controlling the activities of executive authorities of the Autonomous Republic of Crimea 	Government of the Autonomous Republic of Crimea	<p>Autonomous Republic of Crimea"¹⁵⁹</p> <p>Subsoil Code of Ukraine</p> <p>Constitution of Ukraine</p> <p>Law of Ukraine "On Approval of the Constitution of the Autonomous Republic of Crimea"</p> <p>Law of Ukraine "On the Council of Ministers of the Autonomous Republic of Crimea"¹⁶⁰</p> <p>Subsoil Code of Ukraine</p>
Oblast (region), Kyiv, and Sevastopol city state administrations	<ol style="list-style-type: none"> 1) Issuing special water use permits (required for carrying out certain activities in the oil and gas production sector) 2) Control over the use and protection of subsoil 	Local state administrations and their heads are accountable to the President of Ukraine and the Cabinet of Ministers of	<p>Constitution of Ukraine</p> <p>Law of Ukraine "On Local State Administrations"¹⁶¹</p> <p>The Law of Ukraine "On the</p>

¹⁵⁹ Law of Ukraine "On the Verkhovna Rada of the Autonomous Republic of Crimea" No. 90/98-BP of 10 February 1998.

¹⁶⁰ Law of Ukraine "On the Council of Ministers of the Autonomous Republic of Crimea" No. 3530-VI of 16 June 2011.

¹⁶¹ Law of Ukraine "On Local State Administrations" No. 586-XIV of 9 April 1999.

State authority	Main functions/powers in oil and gas production sector	Subordination to the state authority	Laws and regulations
		<p>Ukraine, and are controlled by and report to the Cabinet of Ministers of Ukraine.</p> <p>Local state administrations are controlled by and report to the relevant district and oblast (region) councils with regard to the powers delegated to them by relevant district and oblast (region) councils, and with regard to execution of the decisions of the councils on these matters.</p> <p>The Mayor of Kyiv as the head of the Kyiv City State Administration when exercising his/her executive powers is accountable to the President of Ukraine and the Cabinet of Ministers of Ukraine, and is controlled</p>	<p>Capital of Ukraine - the Hero City of Kyiv¹⁶²</p> <p>Procedure for Approval and Issuance of Special Water Use Permits¹⁶³</p>

¹⁶² Law of Ukraine "On the Capital of Ukraine - the Hero City of Kyiv" No. 401-XIV of 15 January 1999.

¹⁶³ Resolution of the Cabinet of Ministers of Ukraine "On Approval of the Procedure for Approval and Issuance of Special Water Use Permits and Amendments to Resolution of the Cabinet of Ministers of Ukraine of 10 August 1992 No. 459" No. 321 of 13 March 2002.

State authority	Main functions/powers in oil and gas production sector	Subordination to the state authority	Laws and regulations
Oblast (region), Kyiv, and Sevastopol city councils	<ol style="list-style-type: none"> 1) Issuing mining allotments (for development of mineral resources fields of local importance) 2) Issuing special water use permits (required for carrying out certain activities in the oil and gas production sector) 3) Exercising control over the use and protection of subsoil 	<p>by and reports to the Cabinet of Ministers of Ukraine.</p> <p>The authorities and officials of local self-government bodies report to, and are controlled by and accountable to the territorial communities.</p> <p>When exercising powers of local self-government, the Kyiv City State Administration is, as an executive body, controlled by, accountable to, and reports to the Kyiv City Council.</p>	<p>Constitution of Ukraine</p> <p>Law of Ukraine "On the Local Self-Government in Ukraine"¹⁶⁴</p> <p>Law of Ukraine "On the Capital of Ukraine - the Hero City of Kyiv"</p> <p>Subsoil Code of Ukraine</p> <p>Procedure for Approval and Issuance of Special Water Use Permits</p>
Village, rural settlement, city, and district councils	<ol style="list-style-type: none"> 1) Approving applications for allocation of subsoil for use thereof 2) Exercising control over the use and protection of subsoil 	<p>The authorities and officials of local self-government bodies report to, and are controlled by and accountable to the territorial communities.</p> <p>The executive authorities</p>	<p>Constitution of Ukraine</p> <p>Law of Ukraine "On the Local Self-Government in Ukraine"</p> <p>Subsoil Code of Ukraine</p>

¹⁶⁴ Law of Ukraine "On the Local Self-Government in Ukraine" No. 280/97-BP of 21 May 1997.

State authority	Main functions/powers in oil and gas production sector	Subordination to the state authority	Laws and regulations
-----------------	--	--------------------------------------	----------------------

of village, rural settlement, city, and city district councils are controlled by and report to the relevant councils; they are controlled by the relevant executive authorities when exercising powers delegated by executive authorities.

ANNEX 6. REPORTING COMPANIES WHICH DISCLOSED INFORMATION ABOUT THEIR ULTIMATE (BENEFICIAL) OWNERS

No.	Reporting company
1.	PJSC Ukgazvydobuvannia
2.	LLC Zakhidgazinvest
3.	LLC Iusenko Nadra
4.	LLC Nadra-Geoinvest
5.	Chernihivnaftogazgeologiiia subsidiary of National Joint-Stock Company Nadra Ukrainy
6.	LLC Inzhenerno burova groupa Triton
7.	LLC Enerhoservisna kompaniia ESCO Pivnich
8.	LLC Pari
9.	LLC Persha Ukrainiska gazonaftova kompaniia
10.	LLC Aldea Ukraine subsidiary
11.	LLC Nadragaz
12.	LLC Naftogaz Garant
13.	LLC Skhidnyi Geolohichnyi Soiuz
14.	PrJSC Pryrodni Resursy
15.	LLC Geo Alians Kosachivske
16.	LLC Geo Alians Lvivske
17.	LLC Geo Alians Vysochanske
18.	LLC Geo Alians Iasenivske
19.	LLC Geo Alians Myroliubivske
20.	LLC Geo Alians Taranushynske
21.	LLC Kub-gaz
22.	LLC Tysagaz
23.	LLC Tekhnogazindustriia
24.	LLC Mizhregionalna gazova kompaniia
25.	LLC Rekonstruktsiia tekhnologichnykh sverdlovyn
26.	LLC Zakhidnadraservis
27.	LLC Horyzonty

No.	Reporting company
28.	LLC Burova Kompaniia Horyzonty
29.	LLC State Enterprise Ukrspetszamovlennia
30.	LLC Geologichne biuro Lviv
31.	LLC Prykarpatska energetychna kompaniia
32.	LLC Bogorodchanyaftogaz
33.	LLC Ukristgaz
34.	PrJSC Gazinvest
35.	PrJSC Naftogazvydobuvannia
36.	LLC Myronivkabudmontazh
37.	LLC Albaresurs
38.	LLC Ukrnaftogazinvest
39.	LLC Truboplast
40.	PrJSC Ukgazvydobutok
41.	LLC Prom-Energoproduct
42.	LLC Ukrainiska burova kompaniia
43.	LLC Naftova kompaniia Bukovyna
44.	LLC Promyslova kompaniia Gazvydobuvannia
45.	LLC MT Grup
46.	LLC Joint Venture Ukrainsko-Azerbaidzhanske Ukr-Az-Oil
47.	LLC Rolvud oil
48.	LLC Azov petroleum LLS
49.	Kolomyiska naftogazova kompaniia Delta / Ukrainian Canadian Joint Venture
50.	LLC Afon 2010
51.	LLC Makkom-grup
52.	LLC Karpatska industrialna grupa 1926
53.	LLC VIVA Eksploreishn
54.	LLC Rozhniativnafta
55.	LLC ALD
56.	LLC Zakhidenergobud
57.	LLC Bilmar
58.	LLC Evrokrym / Ukrainian British Joint Venture
59.	LLC Astrogaz

No.	Reporting company
60.	LLC Soiuz-budresursy
61.	LLC Gas Resurs
62.	LLC Naftogazova kompaniia Alfa
63.	LLC M.V.-Energosoil
64.	LLC NVK Ukrainskyi energetychnyi soiuz
65.	LLC Ukrgeoinvest
66.	LLC Ukrneftegazrazvedka

ANNEX 7. ESSENTIAL TERMS AND CONDITIONS OF THE PSA

The PSA should define a list of investor's activities and a program of mandatory works, specifying performance deadlines, scope and types of financing, technological equipment and other factors that cannot be lower than the investor has indicated in its bidding application, as well as the other essential terms and conditions.¹⁶⁵

The essential terms and conditions of a production sharing agreement are:

- 1) Names of the parties to the agreement and their contact details;
- 2) Description of the subsoil block (mineral deposit), for which the agreement is concluded, including the geographical coordinates of the operation area, as well as depth restrictions on commercial subsoil development;
- 3) Conditions of provision of a land plot for subsoil use and a subsoil block;
- 4) Project of restoration of the lands damaged in the course of prospecting, exploration, and production of minerals;
- 5) Type (-s) of subsoil use;
- 6) List, scope, and deadlines of works performed under the agreement;
- 7) Quality requirements to the works performed under the agreement;
- 8) Rights and obligations of the parties, including the rights of the investor to use the land and subsoil area, and its other rights and obligations set forth herein;
- 9) Procedure of negotiating the budgets and work programs by the parties;
- 10) Terms of use of mineral resources;
- 11) Procedure for determining the value of extracted minerals, specifying the currency in which such value will be indicated, in the agreement with a foreign investor;
- 12) Procedure for paying subsoil use fee;
- 13) Point of measurement;
- 14) Investor's obligation to deliver extracted production to the point of measurement;
- 15) Conditions of calculating the volume of cost recovery production;
- 16) Expenses to be reimbursed by cost recovery production;
- 17) Procedure for and conditions of distribution of the profit production between the State and the investor;
- 18) Procedure and term for the transfer of State portion of profit production to the state. The agreement may provide for the transferring to the State the monetary equivalent of its portion of profit production;

¹⁶⁵ The Law of Ukraine "On Production Sharing Agreements" No. 1039-XIV from 14 September 1999

- 19) Procedure for the transfer of title to extracted production;
- 20) Procedure under which the investor obtains its portion of profit production under the agreement;
- 21) Procedure of transfer of title to property from the investor to the state;
- 22) Procedure for supervising the performance of the PSA; deadlines, templates, and contents of reports, information, invoices to be submitted by the investor to the CMU or the CMU-authorized central state authority;
- 23) Requirements of return of the subsoil area and the land plot, granted for subsoil use, after the expiration of the agreement if the PSA is terminated early, or completion of certain phases of works, as well as the deadlines and procedure for the return of the subsoil area and land plot;
- 24) Terms of change, extension, or early termination of the agreement;
- 25) Terms of assigning the rights and obligations under the agreement by the investor;
- 26) Requirements for the efficient and integrated use and protection of natural resources and the environment, safety and health of personnel involved in performance of the works under the agreement;
- 27) Procedure for conservation or liquidation of mining facilities;
- 28) Term of the agreement, the date, place of its signing, and procedure for its entry into force;
- 29) Responsibility of parties to the agreement, and means to secure it;
- 31) Procedure for the transfer by the investor to the State of movable property created or acquired by the investor for the performance of the PSA and the title to which was transferred to the State in accordance with law;
- 32) other essential terms and conditions stipulated by the law.

The PSAs concluded for prospecting, exploration, and production of hydrocarbons, as well as the use of deposits with significant reserves of minerals should also contain the following essential terms and conditions:

- ▶ annual declaration of extractive characteristics;
- ▶ procedure for use of geological, geophysical and other information;
- ▶ procedure and specifics of accounting for industrial and technological costs;
- ▶ procedure for and terms of assessing the level of pollution in the area of operation the subsoil area (the land plot provided for subsoil use) at the time of concluding the PSA;
- ▶ amount and terms of environmental protection actions;
- ▶ procedure for negotiating and approving the work programs, including programs for petroleum operations;

- ▶ terms of custody over the state portion of extracted minerals before their transfer to the state;
- ▶ terms of insuring the property risks, including the loss of extracted minerals due to flood, or fire;
- ▶ conditions of exclusive risk during field development.

ANNEX 8. CONSOLIDATED DATABASE ON TAX AND OTHER PAYMENTS BY ENTERPRISES BELONGING TO EXTRACTIVE INDUSTRY FOR 2013

State/local budget	CCBR	Name of payment	Accrued for the reporting year	Paid in the reporting year	
				Paid in the reporting year, total	Including for the previous years
		Taxes	27,205,455	25,769,108	1,392,180
	11020000	<i>Income tax</i>	2,038,493	3,194,220	282,893
SB	11020100 - 11024600	Corporate income tax, production activities	1,441,633	2,625,426	272,405
SB	11020100 - 11024600	Corporate income tax, other types of activities	596,861	568,794	10,488
	11010000	<i>Personal income tax</i>	584,232	954,251	45,160
SB	11010100-11010700	Personal income tax, production activities	528,709	896,383	42,303
SB	11010100-11010700	Personal income tax, other types of activities	55,523	57,867	2,857
	12020000	<i>Tax on owners of transport facilities, mechanical vehicles and mechanisms</i>	59	62	-
LB	12020100 - 12031200	First vehicle registration duty, production activities	57	59	-
LB	12020100 - 12031200	First vehicle registration duty, other types of activities	2	2	-
	13030000	<i>Fee for the use of subsurface resources</i>	9,087,620	8,825,903	285,320
SB/LB	13030100	Fee for the use of subsurface resources for production of mineral products of national significance	30,355	184,624	172,690
LB	13030200	Fee for the use of subsurface resources for production of mineral products of local significance	10	85	74
SB	13030400	Fee for the use of subsurface within the continental shelf and/or the exclusive (maritime) economic zone	-	-	-
LB	13030500	Payment/Receipt of restructured debt on the fee for the use of	-	-	-

State/local budget	CCBR	Name of payment	Accrued for the reporting year	Paid in the reporting year	
				Paid in the reporting year, total	Including for the previous years
		subsurface resources			
LB	13030600	Fee for the use of subsurface resources for the purposes not related to mineral products production	7,865	7,727	-
SB	13030700	Fee for the use of subsurface resources for oil production	4,581,781	4,287,758	75,964
SB	13030800	Fee for the use of subsurface resources for natural gas production	3,085,298	2,942,416	31,711
SB	13030900	Fee for the use of subsurface resources for gas condensate production	1,380,761	1,401,797	4,882
	13050000	Land fee	75,700	76,918	5,346
LB	13050100 - 13050600	Land fee, production activities	70,301	71,734	4,410
LB	13050100 - 13050600	Land fee, other types of activities	1,064	847	574
	13020000	Special water use duty	2,404	2,446	431
SB/LB	13020000	Special water use duty, production activities	2,394	2,439	430
SB/LB	13020000	Special water use duty, other types of activities	7	7	1
	13010000	Special forest resource use duty	-	-	-
LB	13010000	Special forest resource use duty, production activities	-	-	-
LB	13010000	Special forest resource use duty, other types of activities	-	-	-
	13070000	Fee for the use of other natural resources	-	-	-
LB	13070000	Fee for the use of other natural resources, production activities	-	-	-
LB	13070000	Fee for the use of other natural resources, other types of activities	-	-	-
	14010000	VAT	12,631,673	10,190,083	322,865
SB	14010100, 14010300 - 14010700	VAT, production activities	2,077,398	2,440,271	116,824
SB	14010100, 14010300 - 14010700	VAT, other types of activities	10,554,275	7,749,812	206,041
SB	14010200	VAT refund from the budget in cash	-	-	-
SB	14010900	Tax liability on VAT of the enterprises, additional tax liabilities on this	-	-	-

State/local budget	CCBR	Name of payment	Accrued for the reporting year	Paid in the reporting year	
				Paid in the reporting year, total	Including for the previous years
		tax, instalment tax liabilities of National Joint-Stock Company Naftogaz of Ukraine and its companies on VAT (including interests on the use of tax credit) which are channeled for repayment of debt on the difference in tariffs for thermal energy, water supply and sanitation produced, transported and supplied to the households, which arose due to the inconsistency of the actual cost of thermal energy, water supply and sanitation tariffs approved or agreed by the respective state or local authorities			
SB	14011100	Tax liability on VAT of the enterprises, additional tax liabilities on this tax, instalment tax liabilities of National Joint-Stock Company Naftogaz of Ukraine and its companies on VAT (including interests on the use of tax credit) which are channeled for subvention from the state budget to the local budgets for granting benefits and housing subsidies to the households for payment for electricity, natural gas, heat and water supply and sanitation, housing rent, removal of household and liquid wastes	-	-	-
		<i>Customs duties</i>	80	17,574	3
SB	15010000	Import duty	80	17,574	3
SB	15020000	Export duty	-	-	-
	17000000	<i>Rental fee, duties for fuel and energy resources</i>	2,545,963	2,058,790	226,274
	17010000	Rental fee	1	295	14,518
SB	17010100	Rental fee for oil produced in Ukraine accrued before 1 January 2013	85	25,952	18,562
SB	17010200	Rental fee for natural gas produced in Ukraine accrued before 1 January 2013	2	124,985	96,958
SB	17010300	Rental fee for gas condensate produced in Ukraine accrued before 1 January 2013	-	86,819	84,694
SB	17010400	Payment / Receipt of restructured debt on the payment of the rental fee for oil produced in Ukraine	-	-	-
SB	17010500	Payment / Receipt of restructured debt on the payment of the rental	-	-	-

State/local budget	CCBR	Name of payment	Accrued for the reporting year	Paid in the reporting year	
				Paid in the reporting year, total	Including for the previous years
		fee for natural gas produced in Ukraine			
SB	17010700	Rental fee for transit transportation of natural gas by the pipelines through the territory of Ukraine	1,638,518	935,444	-
SB	17010800	Rental fee for transit transportation of oil and petroleum products by the trunk and oil-product pipelines through the territory of Ukraine	90,814	99,290	8,476
SB	17010900	Rental fee for transit transportation of ammonia by the pipelines through the territory of Ukraine	-	-	-
SB	17011200	Tax liability on rental fee for transit transportation of natural gas by the pipelines through the territory of Ukraine, instalment tax liabilities of National Joint-Stock Company Naftogaz of Ukraine and its companies on this tax (including interests on the use of tax credit) which are channeled for repayment of debt on the difference in tariffs for thermal energy, water supply and sanitation produced, transported and supplied to the households, which arose due to the inconsistency of the actual cost of thermal energy, water supply and sanitation tariffs approved or agreed by the respective state or local authorities	-	-	-
SB	17011500	Tax liability on rental fee for transit transportation of natural gas by the pipelines through the territory of Ukraine, instalment tax liabilities of National Joint-Stock Company Naftogaz of Ukraine and its companies on this tax (including interests on the use of tax credit) which are channeled for subvention from the budget to the local budgets for granting benefits and housing subsidies to the households for payment for electricity, natural gas, heat and water supply and sanitation, housing rent, removal of household and liquid wastes	-	-	-
SB	17060000	Duty in the form of special-purpose supplement to the applicable natural gas tariff for consumers of all forms of ownership	816,542	786,005	3,066
	19010000	<i>Environmental Tax</i>	47,181	48,708	5,859
SB	19010100 - 19010900	Environmental tax, production activities	47,172	48,699	5,859

State/local budget	CCBR	Name of payment	Accrued for the reporting year	Paid in the reporting year	
				Paid in the reporting year, total	Including for the previous years
SB	19010100 - 19010900	Environmental tax, other types of activities	9	9	-
		Non-tax receipts/payments	2,241,114	2,389,620	135,756
	21000000	Dividends	43,251	43,251	157
SB	21010000- 21010900	Part of net profit (income) of the state-owned or communal unitary enterprises and their associations transferred to the respective budget, production activities	-	-	-
SB	21010000- 21010900	Part of net profit (income) of the state-owned or communal unitary enterprises and their associations transferred to the respective budget, other types of activities	-	-	-
SB	21010000- 21010900	Dividends (income) accrued on shares of business entities with the state share in the authorized capital, production activities	43,251	43,251	157
SB	21010000- 21010900	Dividends (revenue) accrued on shares of business entities with the state share in the authorized capital, other types of activities	-	-	-
	22010000	Fee for administrative services	116,072	152,703	-
SB	22012100	Fee for issue of the special subsurface resource use permits	114,482	150,598	-
SB		Fee for field supervision over the implementation of the project technical documents of deposits exploration	-	-	-
SB		Fee for the use of geological information prepared (received) using budget funds	827	827	-
SB		Fee for carrying out expertise by the Central Commission of the Ministry of Energy and Coal Industry of Ukraine for the development of gas, gas condensate, oil deposits and operation of underground gas storages	764	764	-
LB	22011500, 22010200 - 22011400, 22011700 - 22012000, 22012200 - 22012500	Fee for administrative services not related to the production activities	-	514	-

State/local budget	CCBR	Name of payment	Accrued for the reporting year	Paid in the reporting year	
				Paid in the reporting year, total	Including for the previous years
	22090000	State duty	1,924	2,000	8
SB	22090100 - 22090600	State duty	1,924	2,000	8
		Social contributions	2,027,202	2,186,437	95,401
		Universal social contribution accrued by the employer on the employees' salaries, production activities	1,928,229	2,082,838	89,578
		Universal social contribution accrued by the employer on the employees' salaries, other types of activities	98,973	103,600	5,823
	50000000	Special-purpose funds	3,613	4,593	3,425
LB	50070000	Contributions to the Disabled People Social Protection Fund	3,613	4,593	3,425
		Fines	49,052	636	36,766
LB		Fines, penalties, confiscation, production activities	49,052	614	36,766
LB		Fines, penalties, confiscation, other types of activities	-	22	-
		Other	192,050	400,154	218,030
SB/LB		Part of profit products belonging to the state according to PSA	-	-	-
SB		Special payment (bonus) for signing agreement, special payment (bonus) for discovery of industrial deposits of hydrocarbon, other similar special payments (bonuses) paid for the benefit of state, state and local authorities, state-owned enterprises, institutions and organizations for exploration, survey and production of products	-	-	-
LB		Other taxes and duties paid directly to local budgets, production activities	27,798	27,473	7,876
SB		Other taxes and duties paid directly to the state budget, production activities	164,253	372,681	210,154

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY works together with companies across the CIS and assists them in realizing their business goals. 4,800 professionals work at 21 CIS offices (in Moscow, St. Petersburg, Novosibirsk, Ekaterinburg, Kazan, Krasnodar, Rostov-on-Don, Togliatti, Vladivostok, Yuzhno-Sakhalinsk, Almaty, Astana, Atyrau, Bishkek, Baku, Kyiv, Donetsk, Tashkent, Tbilisi, Yerevan, and Minsk)

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2015 Ernst & Young Audit Services LLC
All Rights Reserves

This document has been prepared based on EITI standard and Terms of Reference for the Independent Administrator, which was approved by the Multi-Stakeholder Group (MSG) in Ukraine. The information contained in this document is based on data provided by the subsoil users and government agencies. Independent Administrator relied on information given to him, and did not carry out any procedures of data verification or evaluation of its completeness, accuracy and correctness. For all information related to the payments of subsoil users to the government, please contact with the respective companies and / or government agencies.

This document has been prepared for general informational purposes only, and is not intended to be relied upon as professional judgment or legal evidence.

EY is not liable for any loss or damage caused to any person as a result of the use of the information contained herein. Those who order or otherwise use the information contained herein do it on their own risk.

ey.com