

Second Validation of Ukraine:

Final assessment by the EITI International Secretariat

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Acronyms

AFS	Audited financial statement	NGO	Non-governmental organisation
ASM	Artisanal and small-scale mining	NJSC	National joint-stock company
BO	Beneficial ownership	NKRE	National Commission for State Regulation of Energy
CMU	Cabinet of Ministers of Ukraine	OECD	Organisation for Economic Cooperation and Development
CSO	Civil society organisation	PEP	Politically Exposed Person
EDRPOU	Ukrainian unique legal entity identifier (corporate/entity ID)	PJSC	Public joint-stock company
EITI	Extractive Industries Transparency Initiative	PrJSC	Private joint-stock company
EUR	European Euro	PSA	Production sharing agreement
Gas TSOUA	Gas Transmission System Operator of Ukraine LLC	QFE	Quasi-fiscal expenditure
GDP	Gross domestic product	SE	State (unitary) enterprise
GVA	Gross value added	Sm3	Standard cubic meter
IA	Independent Administrator	Sm3 o.e.	Standard cubic meter of oil equivalent. Gas volume unit: 1000 Sm3 of gas equals 1 Sm3 o.e.
IMF	International Monetary Fund	SMIDA	Stock market infrastructure development agency of Ukraine
ISRS	International Standard on Related Services, issued by International Auditing and Assurance Standards Board	SOE	State-owned enterprises
JSC	Joint-stock company	ToR	Terms of Reference
JV	Joint venture	UAEITI	Ukraine Extractive Industries Transparency Initiative
LLC	Limited liability company	UAH	Ukrainian hryvnia
LTD	Limited	UGV	Ukrgazvydobuvannya JSC
MMscf	Millions of standard cubic feet, gas volume unit	USD	United States Dollar
MSG	Multi-stakeholder group	USR	Unified State Register of Legal Entities, Individual Entrepreneurs and Public Organisations of Ukraine
NAK	Naftogaz NJSC		

1 Summary

Since Ukraine's first Validation, efforts have been made to strengthen Extractive Industries Transparency Initiative (EITI) implementation to ensure that it is embedded in the government's broader extractive sector and national reform agenda. Improvement of the extractive sector's legal framework – harmonising fragmented laws – is one of the priorities for the country. Significant progress has been made in this regard with the adoption of the Law of Ukraine “On ensuring transparency in the extractive industries”. The law aims to provide a legal foundation for meeting the country's commitments to the EITI and to ensure implementation of directives under the European Union law to improve transparency of economic activities in the extractive industries.

Improving the investment climate is another key priority for the government. The government of Ukraine has started to ensure transparency in license allocations by enhancing and digitalising the licensing process, as well as by disclosing subsoil agreements. To complement these reforms, Ukraine EITI (UAEITI) is piloting electronic data collection through a UAEITI open data portal, partially hosted by the Ministry of Energy. With more timely data collected and disclosed through an online data collection system, there are opportunities for the multi-stakeholder group (MSG) to develop more targeted analyses to strengthen the fiscal regime and inform policies and public debate. There could be also more focus on further analysis of state-owned enterprises' (SOEs) financial relations with government, including through a diagnostic of the rules and practices related to third-party financing and state guarantees as a means of supporting SOE reforms.

In line with the country's decentralisation efforts, Ukraine is making good use of the EITI process to improve transparency at the regional level. This has been achieved by convening information meetings and discussions between communities, industry and local government to further the citizens' understanding of decentralisation of rental payments. EITI reporting also includes revenue streams that are particularly relevant for extractive areas such as environmental payments. Active dissemination and outreach activities have improved awareness and trust at community levels.

The EITI process also contributes to the government's anti-corruption reform through beneficial ownership transparency. This Validation shows that Ukraine has made satisfactory progress in implementing the evolving EITI requirements on beneficial ownership disclosure by making beneficial ownership data more accessible. Further work could be done on ensuring implementation of verification procedures as well as full interoperability between different registries, linking to asset disclosures of publicly exposed persons.

EITI implementation provides opportunities for stakeholders to further improve transparency in other aspects of the extractive sector. Stakeholders cite “outdated state secrecy laws” as constraints for disclosures of comprehensive production and reserves data. The EITI could address this legal barrier by leveraging the government's commitment to increase transparency in economic activities in line with EITI commitments and EU directives. Another area for improvement is the disclosure of transportation revenues at a more granular level. Given the significance and complexity of the transportation sector in Ukraine, disclosing disaggregated figures is a key step in making the collection of transportation payments more efficient.

MSG governance could also be strengthened by maintaining the independence of each of the constituencies, and their ability to independently nominate and elect representatives to the MSG. To better engage industry, Ukraine may wish to extend their engagements to target sub-sector stakeholders, including associations that provide platforms for the broader industry constituency, and to engage new stakeholders of significance for the extractive governance such as the Gas Transmission System Operator of Ukraine (Gas TSOUA, formed as of February 2019).

The Secretariat's assessment is that Ukraine has fully addressed three of the eight corrective actions and has made "meaningful progress" *with considerable improvements* in addressing the other five corrective actions. Based on a technical assessment and an assessment of effectiveness, it can be reasonably concluded that Ukraine has addressed phase 1 of the framework for Validating Requirement 2.5. The outstanding gaps relate to state participation (Requirement 2.6), production data (Requirement 3.2), comprehensiveness (Requirement 4.1), transportation revenues (Requirement 4.4), and SOE transactions (Requirement 4.5).

The draft assessment was sent to the MSG on 5 January 2021, with a deadline for the MSG's comments for 25 January 2021. This deadline was extended to 23 February 2021 upon Ukraine EITI's request on 11 January 2021. Following comments from the MSG received on 23 February 2021, the assessment was finalised for consideration by the EITI Board.

2 Scorecard

EITI Requirements		Level of progress					Direction of Progress
Categories	Requirements	No progress	Inadequate	Meaningful	Satisfactory	Beyond	
Ukraine's second Validation scorecard							
MSG oversight	Government engagement (#1.1)						=
	Industry engagement (#1.2)						=
	Civil society engagement (#1.3)						=
	MSG governance (#1.4)						=
	Work plan (#1.5)						=
Licenses and contracts	Legal framework (#2.1)						=
	License allocations (#2.2)						=
	License register (#2.3)						=
	Policy on contract disclosure (#2.4)						=
	Beneficial ownership (#2.5)						N/A
	State participation (#2.6)						→
Monitoring production	Exploration data (#3.1)						=
	Production data (#3.2)						→
	Export data (#3.3)						=
Revenue collection	Comprehensiveness (#4.1)						→
	In-kind revenues (#4.2)						=
	Barter agreements (#4.3)						=
	Transportation revenues (#4.4)						→
	SOE transactions (#4.5)						→
	Direct subnational payments (#4.6)						=
	Disaggregation (#4.7)						=
	Data timeliness (#4.8)						=
	Data quality (#4.9)						→
Revenue allocation	Distribution of revenues (#5.1)						=
	Subnational transfers (#5.2)						=
	Revenue management & expenditures (#5.3)						=
Socio-economic contribution	Social expenditures (#6.1)						=
	SOE quasi-fiscal expenditures (#6.2)						→
	Economic contribution (#6.3)						→
Outcomes and impact	Public debate (#7.1)						=
	Data accessibility and open data (#7.2)						=
	Recommendations from EITI (#7.3)						=
	Outcomes & impact (#7.4)						=

Legend to the assessment card

	No progress. All or nearly all aspects of the requirement remain outstanding and the broader objective of the requirement is not fulfilled.
	Inadequate progress. Significant aspects of the requirement have not been implemented and the broader objective of the requirement is far from fulfilled.
	Meaningful progress. Significant aspects of the requirement have been implemented and the broader objective of the requirement is being fulfilled.
	Satisfactory progress. All aspects of the requirement have been implemented and the broader objective of the requirement has been fulfilled.
	Outstanding progress. The country has gone beyond the requirement.
	This requirement is only encouraged or recommended and should not be considered in assessing compliance.
	The MSG has demonstrated that this requirement is not applicable in the country.

3 Background

Ukraine joined the EITI in 2013. Ukraine's first Validation under the EITI Standard concluded on 29 June 2018, in which the EITI Board found that Ukraine had made 'meaningful progress' in implementing the EITI Standard.¹ Eight corrective actions were identified by the Board, to be assessed in a second Validation commencing on 29 December 2020. On 13 February 2020, the EITI Board agreed that Ukraine was eligible for an extension of its deadlines and postponed the commencement date of their second Validation.² Ukraine's second Validation commenced on 30 June 2020, and the EITI International Secretariat has assessed the progress made in addressing the eight corrective actions, under the 2016 EITI Standard, related to:

1. State participation (#2.6)
2. Production data (#3.2)
3. Comprehensiveness (#4.1)
4. Transportation revenues (#4.4)
5. SOE transactions (#4.5)
6. Data quality (#4.9)
7. SOE quasi-fiscal expenditures (#6.2)
8. Economic contribution (#6.3)

Ukraine has undertaken a number of activities to address the corrective actions:

- The 2017 Ukraine EITI Report was published on 2 June 2020.³
- A series of trainings and workshops have been conducted on various EITI-related topics.^{4,5}
- On 7 October 2018, UAEITI published an Annual progress report for 2017.⁶

¹ EITI (2016), 'EITI Standard 2016'. Accessed in August 2020. Available at: <https://eiti.org/document/eiti-standard-requirements-2016>

² EITI (2020), 'Board decision 2020-19/BM-46'. Accessed in August 2020. Available at: <https://eiti.org/board-decision/2020-19>

³ UAEITI (2020), 'Report of the EITI of Ukraine for 2017'. Available at: <http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/>

⁴ UAEITI (n.d.), 'News: Events'. Available at: <http://eiti.org.ua/category/novyny/podiji/page/2/>

⁵ UAEITI (n.d.), 'News: Announcements'. Available at: <http://eiti.org.ua/category/novyny/anonsy/>

⁶ UAEITI (2020), 'Annual progress report for 2017'. Available at: <http://eiti.org.ua/documents/zvit-pro-diyalnist-bhzo-u-2017-rotsi/>

- On 28 December 2019, UAEITI published an Annual progress report for 2018.⁷
- On 2 June 2020, UAEITI published an Annual progress report for 2019.⁸
- On 6 December 2019, UAEITI published a work plan for 2020.⁹
- UAEITI developed a Monitoring and evaluation framework for EITI Ukraine.¹⁰
- Ukraine passed a Law “On ensuring transparency in extractive industries” on 18 September 2018.¹¹
- UAEITI is now piloting an electronic platform for submission of data for EITI reporting.¹²

The following section addresses progress on each of the corrective actions. The assessment covers the corrective actions established by the Board and the associated requirements in the 2016 EITI Standard. The assessment follows the guidance outlined in the Validation Guide.¹³ In the course of undertaking this assessment, the International Secretariat has also considered whether there is a need to review additional requirements, i.e. those assessed as “satisfactory progress” or “beyond” in the 2017 Validation. While these requirements have not been comprehensively assessed, in the Secretariat’s view there is no evidence to suggest progress has fallen below the required standard and no additional issues that warrant consideration by the EITI Board. The EITI International Secretariat has also assessed beneficial ownership disclosure in accordance with phase 1 of the beneficial ownership Validation framework agreed by the EITI Board in June 2019.¹⁴ The Secretariat’s assessment is that Ukraine has achieved “satisfactory progress” on Requirement 2.5.

4 Effectiveness and impact of EITI implementation

Impact and effectiveness

In Ukraine’s first Validation, the EITI process was seen as effective and with a great potential for impact. This potential remains for the relevant period under review, and Ukraine has made progress in key areas already.

UAEITI continues to design objectives where EITI contributes to additional transparency and accountability. Ukraine is improving reporting on state participation in the sector as data is increasingly disclosed by state-owned enterprises (SOEs) themselves. This is of particular importance in a country where government involvement is high, some estimating a total of 3,400 SOEs in the country.¹⁵ The findings and consultations described below indicate that environmental topics are of great interest to stakeholders of all constituencies. There are on-going strategic discussions regarding the government’s involvement in the coal sector, including its dependence on petroleum. UAEITI’s recent focus on monitoring and evaluation will also help the country document outcomes and impact.

⁷ UAEITI (2020), ‘Annual progress report for 2018’. Available at: <http://eiti.org.ua/documents/richny-zvit-ukrainy-za-2018-rik/>

⁸ UAEITI (2020), ‘Annual progress report for 2019’. Available at: <http://eiti.org.ua/documents/richny-zvit-pro-prohres-za-2019-rik/>

⁹ UAEITI (2020), ‘EITI Work Plan for 2020’. Available at: <http://eiti.org.ua/documents/robochy-plan-ipvh-na-2020-rik/>

¹⁰ UAEITI (2020), ‘Monitoring and evaluation system for the Extractive Industries Transparency Initiative of Ukraine’. Available at: <http://eiti.org.ua/documents/systema-monitorynhu-ta-otsinky-dlia-initsiatyvy-prozorosti-vydobuvnykh-haluze-ukrainy/>

¹¹ Law #2545-VIII ‘On ensuring transparency in extractive industries’. Available at: <https://eiti.org/document/law-of-ukraine-2545viii-on-ensuring-transparency-in-extractive-industries-translation> and <https://zakon.rada.gov.ua/laws/show/2545-19#Text>

¹² UAEITI (2020), ‘The Ministry of Energy reveals data on the use of natural resources of Ukraine’. Available at: <http://eiti.org.ua/2020/02/v-ukraini-z-ivnyt-sia-portal-danykh-vydobuvnoi-haluzi/>

¹³ EITI (2019), ‘EITI Validation Guide’, available at: <https://eiti.org/document/eiti-validation-guide>

¹⁴ See EITI Board decision 2019-48/BM-43, available at: <https://eiti.org/board-decision/2019-48>

¹⁵ OECD (2019), ‘State-Owned Enterprise Reform in the Hydrocarbons Sector in Ukraine’, p.20. Available at: <https://www.oecd.org/daf/ca/SOE-Reform-in-the-Hydrocarbons-Sector-in-Ukraine-ENG.pdf>

The work plan relates to national priorities. It consists of two main objectives: (i) increasing transparency and openness of data, and (ii) strengthening relations between government entities, companies, and local communities. EITI reporting is firmly linked to the first priority, while the MSG platform is relevant for the latter.

Stakeholders noted an example of outcomes related to both of the above priorities. Subnational transfers of certain revenues are considered challenging but there are important areas of improvement. While transactions are easy to track, calculations are often confusing and too abstract for wider audiences. Consultations indicate that, combined with regional data on rents and environmental effects, EITI data and discussions on subnational transfers have become the crux for building trust between communities, industry, and local government.

In addition, Ukraine has started disclosing some subsoil special agreements ahead of the 1 January 2021 deadline. This is a significant step that could further contribute to improving the country's investment climate.

Reporting is also becoming more effective. Ukraine EITI is currently piloting a new online platform for data submission. All reporting stakeholders cited this as a key development to ensure data collection as disclosure becomes more regular. It also helps counter duplication of corporate reporting; a challenge cited by several industry stakeholders.

Outside of the EITI platform, systematic disclosures are also going beyond EITI Requirements. Ukraine's beneficial ownership registry was a key achievement recognised in the first Validation. Two years onward, stakeholders have focused on ensuring the interoperability of registries, and BO data can now be compared with asset-disclosures of Politically Exposed Persons (PEPs). So far, the registries provide this data separately (albeit using similar data standards), and additional improvements could be sought for more seamless comparison directly in the various registries, rather than requiring a manual approach.

Lastly, in 2018 Ukraine passed the law on ensuring transparency in extractive industries.¹⁶ This is a key outcome of the EITI process in Ukraine, although Ukraine still needs to develop and complete its by-laws and other legal instruments.

Stakeholder consultations reflected different views regarding the MSG's functioning in practice. Industry stakeholders consulted see the process as useful to attain increased trust at community levels. Still, industry representatives also noted that the constituency's other objectives and goals were pursued through other platforms, such as the Association of Gas Producers in Ukraine.^{17,18} Industry nonetheless highlighted EITI as the main platform for ensuring improvements in transparency, and that alternative platforms are used for other policy-goals.

At the same time, civil society representatives noted concerns about the MSG's ability to engage and meet objectives at a national level. Since 2019, the EITI process has lost some momentum due to frequent changes in the administration coupled with a bureaucratic process to appoint new government representatives. This also caused delays in reaching several of the work plans' goals, and the reporting cycle was prolonged as a result. This placed an even greater burden on civil society representatives as drivers of the process. Although stakeholders highlighted these concerns, they

¹⁶ UAEITI (2018), Law #2545-VIII 'On ensuring transparency in extractive industries'. Available at: <https://eiti.org/document/law-of-ukraine-2545viii-on-ensuring-transparency-in-extractive-industries-translation> and <https://zakon.rada.gov.ua/laws/show/2545-19#Text>

¹⁷ Specifically, members noted importance of gas sales restrictions and pricing, gas field depletion which requires additional attention to exploration and development of new fields, and environmental considerations.

¹⁸ Association of Gas Producers of Ukraine (2021), 'Association of Gas Producers of Ukraine: Homepage'. Available at: <https://agpu.org.ua/en/>

refer to them as a symptom of an MSG platform that may be in decline, though time will tell for future reporting and Validations. None of the stakeholders identified it as an issue for the process leading up to the 2017 EITI Report that was not remedied through extension requests submitted in 2019.¹⁹ In other words, no stakeholders questioned the continued assessment of Satisfactory progress for MSG oversight (Requirement 1.4).

Sustainability

Stakeholders generally consider the EITI process in Ukraine as sustainable and useful. The Initial assessment from Ukraine's first Validation^{20,21} indicated that, in 2017, the Ukrainian government approved legislation to require activists and journalists in the anti-corruption field to publicly declare their personal assets in the same manner as politically exposed persons. Civil society representatives consulted during the first Validation indicated that they did not view the legislation as inhibiting their engagement with the EITI process, and in consultations related to this second Validation assessment, it was noted that the legislation was overturned as unconstitutional.

Civil society is considered by all stakeholders consulted as the main driver of the EITI process in Ukraine. This is particularly evident with the frequent changes in government representatives. Civil society has formed an even stronger coalition, with better formulated internal rules and regulations. The Association Energotransparentnist is now registered as a distinct legal entity²². Industry representatives consulted consider EITI useful for establishing trust between extractive companies and communities. On the other hand, for issues other than transparency, they consider alternative channels and mechanisms as more effective. Several associations now exist, with the Association of Gas Producers of Ukraine cited as the most prominent one, which includes both private companies and SOEs.

Government representatives consulted see potential for the EITI process, while emphasizing that timelier data is needed for external audiences to see the added value. Consultations have also identified additional government and SOE stakeholders for future engagement.

As previously mentioned, civil society representatives identified one weakness or risk for EITI implementation: One interpretation of Ukrainian laws and by-laws leave little flexibility to civil society to ensure their nominations procedures for MSG representatives is sufficiently independent and free from undesired interference from other parties. It is important to note that these laws and by-laws have not been fully implemented at present, and currently civil society constituency does not experience any barriers to their own nominations. However, some CSOs noted that certain government entities wished to facilitate the selection of CSO representatives, while CSOs reject the need for involvement by other parties. Representatives from civil society considered that their own mechanisms are sufficient to ensure adequate transparency surrounding the selection process, in accordance with the civil society protocol.²³ It is therefore important that the EITI Board and International Secretariat continues to monitor this development as part of their support to Ukraine's EITI process.

¹⁹ EITI (2020), 'Ukraine is eligible for the extension of its reporting and Validation deadlines'. Available at: <https://eiti.org/board-decision/2020-19>

²⁰ The amendment received condemnation from the European Union, US and UK, as well as Human Rights Watch, Freedom House and Amnesty International. The amendment was later ruled as unconstitutional and void.

²¹ EITI (2018), 'Ukraine Validation 2017: Report on initial data collection and stakeholder consultation', see Requirement 1.3. Available at: https://eiti.org/sites/default/files/documents/final_draft_validation_initial_assessment-ukraine_clean.pdf

²² Energotransparentnist website. Available at: <http://energytransparency.org/index.php/pro-nas>

²³ EITI (2015), 'EITI Protocol: Participation of civil society'. Available at: <https://eiti.org/document/eiti-protocol-participation-of-civil-society>

Ukraine EITI is largely funded by international development partners. A recent funding review estimates 25% of funding is sourced from government and 50% from development partners. Funding constraints of CSOs at community-levels seem to be eased through membership in the Association Energotransparentnist. Also, a significant share of funds budgeted for 2020 is directed towards a new online reporting platform for EITI.

The focus on online reporting will also feed into an EITI open data portal, which is partially maintained/hosted by the Ministry of Energy. According to Ukraine's latest submission of summary data²⁴, systematic disclosures are expanding. This is particularly true for beneficial ownership, licensing data and allocation of revenues. Information on revenue collection and financial reports of SOEs are also publicly available. EITI Reporting can therefore begin highlighting what gaps exist and collating data on these gaps. However, more work in this area is needed.

5 Review of corrective actions

As set out in the Board decision on Ukraine's first Validation, the EITI Board agreed eight corrective actions.²⁵ The Secretariat's assessment below discusses whether the corrective actions have been sufficiently addressed. Since the first Validation, Ukraine has published two EITI Reports. The assessments below are based on the 2020 work plan²⁶, the 2017 EITI Report²⁷, the 2017-2019 annual progress reports²⁸ and minutes of the MSG meetings from 2018 to 2020, alongside various documents submitted by the national secretariat to the International Secretariat, e-mail correspondence, and stakeholder consultations (largely via telecommunications platforms such as Skype). Additionally, audited financial statements of material state-owned enterprises and other reports have been reviewed to obtain a full overview of public disclosures regarding the state-owned enterprises and their activities in Ukraine (see Annex A for the precise references). As audited financial statements use accrual-based accounting for calculation of companies' transactions and net positions, EITI reporting largely uses cash-based accounting, which may influence the comparability of some figures and values. Please keep these limitations in mind when drawing inferences from the below assessments.

5.1 Corrective action 1: State participation (#2.6)

In accordance with Requirement 2.6.a, the MSG should provide a comprehensive overview of state-owned enterprises, including an explanation of the prevailing rules and practices related to SOEs' retained earnings, reinvestment and third-party funding. The government should also ensure annual disclosure of any changes in government ownership in SOEs or their subsidiaries, and provide a comprehensive account of any loans or loan guarantees extended by the state or SOEs to mining, oil, and gas companies in line with Requirement 2.6.b.

Findings from the first Validation

The first Validation concluded that Ukraine had made inadequate progress in this requirement. The 2014-2015 EITI Report included which state-owned companies formed part of the scope of the report. However, it was not possible to assess the comprehensiveness of the information, particularly in

²⁴ EITI (2020), '2017 Ukraine Summary data'. Available at: <https://eiti.org/summary-data/ukraine-2017>

²⁵ EITI (2018), 'EITI Board decision 2018-37/BM-40: The EITI Board agreed that Ukraine has made meaningful progress in implementing the 2016 EITI Standard'. Available at: <https://eiti.org/board-decision/2018-37>

²⁶ EITI (2020), 'Ukraine EITI 2020 workplan'. Available at: <https://eiti.org/document/ukraine-eiti-2020-workplan>

²⁷ EITI (2020), 'Ukraine 2017 EITI Report'. Available at: <https://eiti.org/document/ukraine-2017-eiti-report>

²⁸ EITI (2018, 2019, 2020), Ukraine 2017-2019 annual progress reports. Available at: <http://eiti.org.ua/documents/>

terms of government shares in each SOE. The report did not contain general information regarding rules between SOEs and central government. It did present limited information regarding sector-specific rules for financial relationships, including the practices associated with these; contributions toward SOEs from the state budget for coal and iron sectors, and third-party financing of Naftogaz NJSC's (NAK) operations. As NAK's annual reports formed the basis for most gas SOEs included in the report, it reinforced recommendations made under legal framework (#2.1) that there is a need for Ukraine EITI to document developments in the sector more regularly, e.g. through online reporting.

The report did not provide specific comments towards assessing the comprehensiveness of government ownership. This was exacerbated by the lack of information regarding regions which were affected by the EITI Board-approved Adapted implementation request, especially in identifying where potential or actual gaps exist. Terms attached to government equity stake in certain companies were not provided for in the EITI Report, for SOEs in which the government holds less than 100% share; SOEs, subsidiaries, joint ventures, nor joint activity agreements. While the report did not indicate whether there had been changes in state ownership of SOEs, the assessment presumed it to be correct. The EITI Report did list two loan guarantees, but no state loans to SOEs. Specific details of transactions were lacking or not explained.

Progress since Validation

Ukraine's 2017 EITI Report forms the basis of this assessment. Additionally, audited financial statements of material SOEs and other reports have been reviewed in order to obtain a full overview of public disclosures regarding the SOEs and their activities (see Annex A for the precise references). Audited financial statements are based on accrual-accounting for calculation of companies' transactions and net positions, while EITI reporting uses cash-based accounting, which may influence the comparability of some figures and values.

Since the first Validation, Ukraine has broadened disclosures related to SOEs and state participation in the extractive industries. The 2017 EITI Report improves its clarification of which companies are considered SOEs, both from the perspective of the Ukrainian legislation (only directly owned companies with 50% + 1 stake are considered SOEs) and from the perspective of Ukraine EITI (which also covers indirectly owned companies majority-owned by SOEs). The report provides a clear list of these companies. The report provides more details regarding which companies are considered SOEs, and to include information for their majority-owned subsidiaries, joint activities and joint ventures (JVs). Additionally, the report clarifies that there were no changes in government ownership in the year under review. Coverage of SOEs in the EITI Report follows the same thresholds and selection criteria as for other companies. One company, Nadra of Ukraine, is included to ensure comprehensive coverage of pre-production activities, and to ensure continuity with previous EITI Reports. Therefore, implicitly, all SOEs contributing UAH 85m²⁹ and above to the state, were deemed material.

Ukraine adheres to the terms of their adapted implementation³⁰ as approved by the EITI Board. Ukraine continues to attempt data collection from companies and SOEs operating in the Donetsk and Luhansk oblasts and Crimea, and identifies the companies where Ukraine is unable to collect information. Furthermore, EITI reporting does detail arbitration proceedings between NAK and the Russian Federation related to extractive companies in these areas.

The report details *how* the state participates in the extractive industries, through three types of incorporation: Joint-stock companies (JSCs), State (unitary) enterprises (SEs), and National joint-stock

²⁹ Approximately USD 3.2m, using the annual average exchange rate of USD 1 = UAH 26.6.

³⁰ EITI (2018), 'The Board approved Ukraine's request for adapted implementation'. Available at: <https://eiti.org/board-decision/2018-10>

companies (NJSCs).³¹ The MSG's comments clarified that JSCs and NJSCs have the same *legal status*, with any special legal status determined by the level of the state's participation in the company itself. A general overview of the state's responsibilities towards the different forms of incorporated entities is provided, and most data is provided by individual SOE. However, the report is limited to material SOEs and their *immediate* majority-owned subsidiaries, joint ventures, and joint activities.

State participation in Ukraine is complex. OECD estimates that there were more than 3,400 SOEs in 2017, with more than 820,000 employees.³² For the year under review (2017), 15 SOEs were included in the scope of reconciliation (a full list is provided in Annex 2 of the 2017 EITI Report). Material SOEs' roles are described, alongside confirmation that SOEs do not collect revenues on behalf of the state, with the exception of transportation revenues that are collected by oil and gas transportation companies. The state's responsibilities towards SOEs are also described, with the state mainly providing budget support to companies in the coal sector.³³ NJSCs are overseen by the Cabinet of Ministers of Ukraine (CMU), while SEs are overseen through different line ministries; Ministry of Energy and Environmental Protection (coal companies) and Ministry for Development of Economy, Trade and Agriculture (for the sole SE in the Titanium sector). The state largely limits their oversight to only directly owned SOEs, however, the report notes the existence of ambiguous and contradictory rules, such as on dividend payments from subsidiaries of SOEs (pp.167-168 of 2017 EITI Report).

As confirmed by the Ukrainian MSG, SOEs are subject to special rules on their financial relationship with the state, with financial plans subject to state approval annually. These financial plans details how each SOE intends to comply with rules regarding e.g. dividend payments to government, the projected values of transfers to and from government, and earnings that SOEs aim to retain or reinvest in their operations. SOEs are able to seek third-party financing, both debt and equity, with the financial plans detailing the precise targets for the year. *While not required by the EITI Standard*, it is worth noting that the EITI Report falls short of specifying what decisions were made for specific SOEs through financial plans. Therefore, SOEs' and the government's interpretation of how the rules relate to each of the above financial elements (and each SOE) are not publicly accessible, even if the general rules governing SOEs' financial relations with the state are clear from the EITI Report.

The report describes some aspect of actual *practices* of SOEs' financial relations in 2017, but not all practices. Firstly, for each sector, the report states that there were no deviations from financial policies in practice. However, the report lacks comprehensive information for retained earnings, reinvestments and third-party financing³⁴ for each SOE, subsidiary and joint ventures within the scope of reporting in 2017; raising questions about the basis of the report's assessment of a lack of deviation between rules and practices. Secondly, the EITI Report indicates that several state and SOE loans and guarantees were outstanding in 2017, including from SOEs to extractive companies, and from the government to extractive SOEs. Lastly, key information on government and SOE loans to extractive companies is still missing on interest rates, loan tenor, and repayment modalities. Therefore it is not possible to assess whether or how these loans and guarantees are preferential compared to market rates.

Additionally, this assessment uncovered two different types of gaps in disclosures related to state participation (see Annex A for details):

³¹ For a detailed explanation of how these forms of incorporation differ, please consult Annex A.

³² OECD (2019), 'State-Owned Enterprise Reform in the Hydrocarbons Sector in Ukraine', p.20. Available at: <https://www.oecd.org/daf/ca/SOE-Reform-in-the-Hydrocarbons-Sector-in-Ukraine-ENG.pdf>

³³ Some minor programs were budgeted for gas pipelines, though actual transfers were insignificant (see details in Annex A).

³⁴ No information is available for third-party financing arrangements for Vuhilna kompaniia Krasnolymanska SE, Myrnohradvuhillia SE, Shakhtoupravlinnia Pivdenodonbaske No 1 SE, Toretskvuhillia SE or Mine named after M. S. Surgai SE.

EITI Reporting gaps:

- The report contains data on dividends received by the Ukrainian government from SOEs, amounting to more than UAH 13.6bn. However, the report only includes some dividend *incomes* from SOEs' immediate subsidiaries³⁵, and public financial disclosures do not seem to report on other SOEs' dividend *incomes* from all subsidiaries, associated companies and joint ventures, including subsidiaries of subsidiaries.
- It is challenging to assess the comprehensiveness of disclosures related to SOEs' ownership of equity interests in companies in the extractive industries, as the report only comprehensively provides data for immediate subsidiaries (majority-owned companies) of SOEs. The report does not consistently provide equity interest for all joint activities and joint ventures of SOEs. Publicly accessible documents confirm and document some SOEs' affiliated extractive companies (*minority-owned companies*) and joint ventures that are not listed in the EITI Report.^{36,37}
- Loans and loan guarantees from the state to material extractive companies seem to exist based on EITI reporting and publicly accessible documents³⁸, but without explanation of the terms and repayment schedule in either the EITI Report or the respective companies' audited financial statements. As an example, terms and repayment schedules for servicing government loans to SOEs, notably NAK and its subsidiaries, are not included. Lastly, loan and guarantees issued by SOEs towards extractive companies and subsidiaries are not referenced in EITI reporting or in publicly available documents. These points are of particular interest given the importance of public debt held by non-financial parastatals and state-owned enterprises for Ukraine's total public-sector total debt profile.^{39,40}

In addition to the above, the draft assessment indicated that there were additional gaps in reporting related to the terms of ownership for each SOE interest (whether full-paid equity, carried interest, or free equity). The assessment cited the example of the lack of information regarding Ukrnafta PJSC's interests in JV Ukrkarpatoil LTC LLC, another material company in the scope of Ukraine's 2017 EITI Report. However, MSG's comments clarified that the EITI Report implies that all government equity in material extractive SOEs consists of full-paid equity (see page 171 of Ukraine's 2017 EITI Report). The MSG's comments noted that special arrangements are possible, such as carried interest for specific PSAs and concessions or free equity for some arrangements. Nonetheless, a comprehensive overview of all SOE equity interests in extractive companies, both held directly and indirectly, is not publicly accessible, as is evident in outstanding gaps in public disclosures of all extractive companies in which UGV holds equity interests.

Differences between public financial data and EITI reporting⁴¹

³⁵ The report indicates that at least two such transactions occurred, from Ukrgazvydobuvannya JSC (UAH 5.96bn) and Ukrtransnafta JSC (UAH 4.18bn) to Naftogaz NJSC (see pages 45 & 174-175 of the 2017 Report).

³⁶ For example, according to their AFS for 2017, Ukrnafta has two unreported minority-owned companies, one of which appears to be an extractive company; JV Boryslav Oil Company LLC.

³⁷ SOEs and their extractive subsidiaries are only required to disclose which *upstream extractive* companies they are affiliated with.

³⁸ Ministry of Finance (2020), 'Register of state guarantees.' Available at: <https://mof.gov.ua/uk/reestr-derzhavnih-garantij>

³⁹ IMF (2017), 'Ukraine: 2016 Article IV Consultation'. Available at: <https://www.imf.org/en/Publications/CR/Issues/2017/04/04/Ukraine-2016-Article-IV-Consultation-and-third-review-under-the-Extended-Arrangement-44798>

⁴⁰ IMF (2020), 'Ukraine: Ex-Post Evaluation of Exceptional Access Under the 2015 Extended Arrangement'. Available at: <https://www.imf.org/en/Publications/CR/Issues/2020/06/16/Ukraine-Ex-Post-Evaluation-of-Exceptional-Access-Under-the-2015-Extended-Arrangement-Press-49518>

⁴¹ In addition to the two differences covered in bullet points, the draft assessment highlighted a difference where the EITI Report claims Ukrtransnafta JSC holds 50% equity in Transmunai LLC (corporate ID or EDRPOU 34300318), without inclusion in any of the company's financial statements. However, the MSG provided compelling evidence to support that there is a relationship between the two companies.

- Practices surrounding retained earnings and reinvestment data are provided for all SOEs. However, data differs significantly between the EITI Report and SOEs' audited financial statements, which raises concerns over the accuracy of EITI reported data.⁴²
- The EITI Report claims that Ukrtransnafta JSC holds 50% equity in Transmunai LLC (corporate ID or EDRPOU 34300318), although the company is not listed in any of the company's financial statements. The MSG's comments provided evidence to support that Ukrtransnafta JSC does hold interests in Transmunai LLC. That the information is not included in Ukrtransnafta JSC's audited financial statements, suggests that the MSG may wish to investigate this issue in future EITI reporting.
- The EITI Report contains no information on third-party debt financing of Ukrnafta PJSC and JV Ukrkarpatoil LTD LLC although publicly accessible documents imply they exist. See details in Annex A.

Secretariat's assessment

The International Secretariat's assessment is that Ukraine has partly addressed the corrective action on state participation and has made meaningful progress with considerable improvements on Requirement 2.6. The 2017 EITI Report addresses several aspects of the requirement on state participation. Government stakes in material state-owned enterprises (SOEs) are mostly available, including for most majority-owned subsidiaries and joint ventures. However, there are subsidiaries and associate extractive companies (minority-owned) for which SOEs' precise equity stakes, or the terms associated with the equity interests, are not publicly disclosed. The statutory rules governing SOEs' retained earnings, reinvestments, third-party investments and dividend payments are summarised through EITI reporting. Financial practices are largely described in public documents, though there are some significant differences between the contents of the EITI Report and other publicly accessible documents, especially regarding retained earnings and reinvestments. Dividend incomes exist for some SOEs, towards their parent company NAK, but there is no data on dividend income of all material SOEs. Third-party financing of SOEs is disclosed in the EITI Report and other publicly available documentation. Several loans and loan guarantees exist between SOEs and extractive companies, and between the government and SOEs. These are documented through publicly accessible documents and EITI reporting, though neither stipulate the precise terms and repayment schedules, nor which precise loans are guaranteed by the state. The International Secretariat could not locate any public disclosures of SOEs' loans and guarantees issued to extractive companies or SOEs specifically.

In accordance with Requirement 2.6, Ukraine should ensure that the policies and practices regarding the financial relationship between the government and state-owned enterprises are publicly disclosed, and that EITI reporting complements existing disclosures by covering gaps in public disclosures. This includes (i) decisions and practices related to SOEs' retained earnings, reinvestments, dividends and third-party financing, as well as those of their subsidiaries and joint ventures; (ii) the level of state participation in all SOEs, their subsidiaries, associated companies, joint activities and ventures, and the terms associated with equity shares. Any loans or loan guarantees provided by the government or SOE(s) to oil, gas and mining companies operating within the country should be publicly disclosed, including their total amounts, outstanding balances, interest rates and repayment schedules.

Ukraine may wish to use EITI reporting to assess the comprehensiveness of SOEs disclosures through publicly accessible financial statements, and to assess whether additional disclosures are needed by

⁴² The EITI Report indicates that Naftogaz NJSC did not retain earnings or reinvest in its own operations in 2017. However, their audited financial statements imply that the company retained UAH 80bn and reinvested UAH 14.4bn (see Annex A for details and reference).

SOEs to fully reflect disclosures of transfers, retained earnings, reinvestment and third-party financing related to SOE joint ventures and subsidiaries.

5.2 Corrective action 2: Production data (#3.2)

In accordance with Requirement 3.2, the MSG should ensure that future reports disclose the production values for every extractive commodity produced, including crude oil, natural gas and every mineral covered by reports. To strengthen implementation, the MSG may wish to comment on parallel reporting systems for production volumes including regular publication and verification procedures, to ensure consistent, regular and reliable data.

Findings from the first Validation

The first Validation concluded that Ukraine had made meaningful progress in this requirement. UAEITI provided, per commodity, production volumes as per Requirement 3.2. Stakeholder consultation drew attention to a potential problem of reliability; production volumes were available through three different channels which present different figures. This was not reflected in the 2014-2015 EITI Report and no discussion of the reliability of these numbers was identified. Still, Validation found that Ukraine had disclosed data on production volumes to a sufficient degree. However, production values were not calculated. This was confirmed through consultation with stakeholders. No consistent data on production values appeared to exist by commodity, as required by EITI Requirement 3.2. A supplementary note subsequent to the publication of the EITI Report attempted to rectify this missing information, but did not cover production values to a sufficient level of detail.

Progress since Validation

The 2017 EITI Report provides a comprehensive overview of production volumes for coal, oil, natural gas, iron, titanium, and manganese ores. Moreover, the report provides production volumes for such construction materials as fire clays, high-melting clays, quartz sand and building stones. All sources of information are clearly stated.

The Independent Administrator noted in the report that the information about coal production volumes is collected by several state entities – the Ministry of Energy, the State Statistics Service and the State Geological and Subsoil Service – but that their data differ significantly due to differences in applied methodologies. During stakeholder consultations, it was confirmed that the Ministry of Energy and the State Statistics Service collect gross coal production volumes, while the State Geological and Subsoil Service collects information only on pure coal production volumes.

According to relevant legislation, information about titanium ore production volumes is classified. The 2017 EITI Report provides 2017 production volumes of titanium ore according to the data disclosed by the US Geological Survey as well as titanium production volumes sourced from two out of seven companies producing titanium ore in Ukraine. A government representative confirmed that production data on titanium ore as well as other precious/rare metals are considered to be state secret and noted that the discussion about publicly disclosing this information is ongoing.

The 2017 EITI Report provides production values for coal, oil, and natural gas. In addition, the report provides the sales values of iron, titanium and manganese ore production based on the data provided by material companies. It also notes that there is no publicly accessible information on production values of construction materials, including fire clays, high-melting clays, quartz sand, building stones,

and titanium ores. None of the companies producing construction materials was considered to be material in the 2017 EITI Report. Given that production data on titanium ore were not publicly available, this information was requested from reporting companies, and only two out of seven companies provided this information.

Lastly, the report does not provide data on uranium production, which does seem significant judging by other sources. One source claim that Ukraine is among the top 10 uranium-producing countries in the world⁴³, with 500-1200 tonnes of uranium produced annually.^{44,45}

Secretariat's assessment

The International Secretariat's assessment is that Ukraine has partly addressed the corrective action on production data and has made meaningful progress with considerable improvements on Requirement 3.2. The 2017 EITI Report provides production volumes and values of almost all main extractive commodities produced in Ukraine in 2017. All sources of information are clearly stated and differences in methodologies applied by different state agencies are documented. While the MSG has been transparent about constraints on disclosure of titanium production data, EITI reporting provides titanium production values for only some – but not all – of the extractive companies operating in this sector.

In accordance with Requirement 3.2, Ukraine should ensure disclosure of production volumes and values for all extractive commodities produced in Ukraine, including titanium, uranium, and other ores.

Ukraine is also encouraged to continue the ongoing efforts related to ensuring that differences in methodologies applied by different agencies are well-explained. Ukraine may also wish to consider systematic disclosure of mining production value data by relevant government entities.

5.3 Corrective action 3: Comprehensiveness (#4.1)

In accordance with Requirement 4.1.c, the MSG should ensure that the materiality of payments from each non-reporting entity and the nature of discrepancies are clearly assessed to support the IA's overall assessment of the comprehensiveness of reconciliation. In accordance with Requirement 4.1.d, unless there are significant practical barriers, the government is additionally required to provide full disclosure of material revenues from non-material companies, disaggregated by revenue stream.

Findings from the first Validation

The first Validation concluded that Ukraine had made meaningful progress in this requirement. Despite a lack of explicit quantitative materiality threshold, the MSG and IA used a targeted reconciliation approach, following the outcomes of the scoping study. The MSG's decision on selecting all significant revenues streams and the biggest taxpaying companies was documented in its meeting minutes. The 2014-2015 EITI Report provided descriptions for each revenues stream. The report appeared to provide a comprehensive reconciliation of government revenues and company payments in accordance with the agreed scope, including the government's disclosure of revenues from

⁴³ Investing news Network (2020), 'Largest Uranium-producing Countries'. Available at: <https://investingnews.com/largest-uranium-producing-countries/>

⁴⁴ UA-Energy (2020) ". Available at: <https://ua-energy.org/uk/posts/skhidnyi-hzk-na-tretynu-zmenschiv-vyrobnystvo-uranovoho-kontsentratu>

⁴⁵ Gov.UA (2020) 'Extraction and processing of uranium raw materials'. Available at: <https://data.gov.ua/dataset/d1be130c-4b9d-4790-a44d-05caefc41fed/resource/2d4b578f-866e-4133-9fe2-213eb2aaa261?page=2>

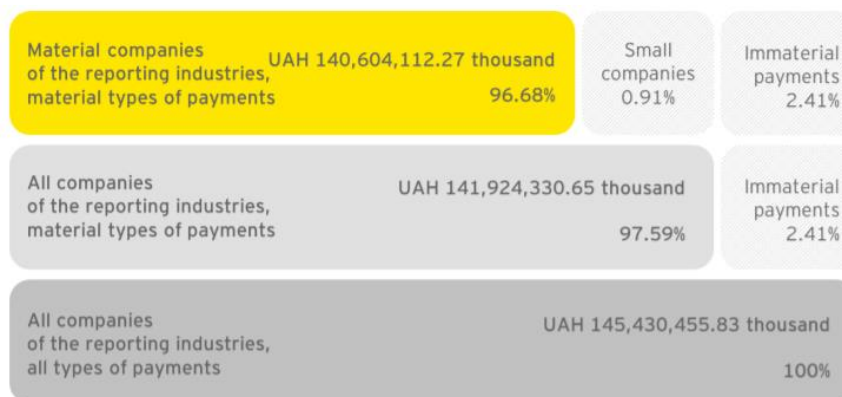
companies below the materiality threshold. The report was not explicit about the reporting government entities. The report did not provide an assessment of the materiality of company omissions. The IA's conclusion on the comprehensiveness of the disclosure and explanation of the discrepancies were missing.

Progress since Validation

The scoping study, the inception report and the 2017 EITI Report clearly document considerations for defining material revenue streams. Overall, all material revenue streams from all extractive companies accounted for 97.59% of total payments. The 2017 EITI Report provides a list of all material revenue streams and their detailed descriptions.

Moreover, the MSG discussed and agreed a materiality threshold of UAH 85m (USD 3.5m) for selecting material companies. The list of material companies is provided in the 2017 EITI Report. The report notes that, out of 53 material companies, 36 companies provided full reporting on taxes and non-tax payments, six companies provided partial reporting (meaning that one or more data points of the reporting template were not filled in), four companies were located in the territories temporarily not controlled by the Government of Ukraine, one company stopped production and rented its facilities to other companies and five companies did not reply.

According to the 2017 EITI Report, material payments from material companies accounted for 96.68% of total payments from all extractive companies, from selected extractive sectors:



Source: 2017 EITI Report, p. 239

The scoping study and the 2017 EITI Report provide an overview of material extractive sub-sectors and their contribution to total revenues from the extractive sector. The scoping study confirms that oil, gas, coal as well as iron, titanium and manganese ores to be material sub-sectors for the 2017 fiscal year. In addition, it is noted that the MSG agreed to include some contextual information on construction materials. At the same time, the scoping study and the 2017 EITI Report does not seem to comment on the significance of the uranium sub-sector and its contribution to the total revenues from the extractive sector in the 2017 fiscal year.

According to stakeholder comments to the draft assessment, the meeting of the MSG on 22 November 2019 approved both the scoping study and inception report for 2017. According to the MSG's comments, 95% of government revenues from "extractive sectors" arose from petroleum, coal, iron and petroleum transportation sectors. However, in the second review of both reports, the uranium

and thorium subsectors do not seem to have been referenced in the table.^{46,47} While the MSG's comments highlighted that other subsectors (including uranium and thorium) accounted for a combined 5% of total government revenues from the sector, no additional documentation was provided for the precise value of government revenues from the uranium and thorium subsector in 2017. The uranium and thorium subsector had been reviewed as part of the MSG's consideration of materiality in preparation of the 2016 EITI Report and had not been considered material.⁴⁸ However, data available from public media sources also indicate that the uranium sector is strategically important, given that Ukraine was reported to be among the world's ten largest uranium producers.⁴⁹ Public media and government sources indicate an annual production of 500-1200 tons of uranium between 2016-2020.^{50,51} The International Secretariat's understanding is that supposedly there are three active uranium mines in the country, all owned by a single state-owned company. Upon review of the financial statements of this SOE (Eastern Mining and Processing Plant SE⁵²), it seems that the income tax payments accrued in 2017 totalled more than UAH 90m, which is above the MSG's materiality threshold of UAH 85m for selecting material companies.

The 2017 EITI Report specifies the list of government entities receiving material revenues and notes that all of them provided the requested information. The report and annexes to it cover the full government disclosures of material revenues from both material companies that were reconciled and material companies that were not reconciled. In addition, these data are also available in the summary data file covering the 2017 fiscal year.

The 2017 EITI Report provides a comprehensive overview of the completeness of company reporting and states that the share of payments from the reporting companies that did not provide information was equal to 1.61% of the payments from extractive companies that were subject to reconciliation. Data on payments to government from each of the non-reporting companies are publicly accessible from the scoping study. It is noted that the percentage of non-reconciled payments is relatively insignificant (<2%) and considerably smaller than in the previous EITI Reports. Ukraine multi-stakeholder group's request for adapted implementation concerning coverage of extractive industries in the Donetsk and Luhansk regions and in Crimea was approved by the EITI Board. The 2017 EITI Report comments on the limitations of collecting information from temporarily uncontrolled territories and provides unilateral disclosures where possible.

The 2017 EITI Report states that the Independent Administrator considered the information provided by the reporting entities to be comprehensive and reliable.

⁴⁶ Ref. table 7.1 of the 2017 EITI Report, page 233. The table is identical to the 2017 Scoping study's table 2.1, page 8. It refers to the NACE/KVED codes of various upstream extractive sectors, namely Coal mining (code 05.10), Extraction of crude oil (06.10), Extraction of natural gas (06.20), Mining of iron ores (07.10), Mining of other non-ferrous metal ores (07.29), Quarrying of ornamental and building stone, limestone, gypsum, chalk and slate (08.11), Extraction of sand, gravel, clay and kaolin (08.12), and Pipeline transportation (49.50). The subsector of uranium and thorium ores (NACE/KVED codes 07.21) is not listed or valued.

⁴⁷ Statistics Service of Ukraine (2011), 'Classification of economic activities'. Available at:

http://kved.ukrstat.gov.ua/KVED2010/kv10_i.html

⁴⁸ UAEITI (2018), 'Ukraine EITI Report 2016, English version'. Available at: <http://eiti.org.ua/documents/tretij-zvit-ipvh/>

⁴⁹ Investing news Network (2020), 'Largest Uranium-producing Countries'. Available at: <https://investingnews.com/largest-uranium-producing-countries/>

⁵⁰ UA-Energy (2020) 'Східний ГЗК на третину зменшив виробництво уранового концентрату'. Available at: <https://ua-energy.org/uk/posts/skhidnyi-hzk-na-tretynu-zmenschiv-vyrobnnytstvo-uranovoho-kontsentratu>

⁵¹ Gov.UA (2020) 'Extraction and processing of uranium raw materials'. Available at: <https://data.gov.ua/dataset/d1be130c-4b9d-4790-a44d-05caefc41fed/resource/2d4b578f-866e-4133-9fe2-213eb2aaa261?page=2>

⁵² VostokGOK (2018), 'Audited financial statements of 2015-2017'. Available at: http://vostgok.com.ua/sites/default/files/pdf/Skhid_GZK_IFRS_FS_2015-2017_UKR.pdf

Secretariat's assessment

The International Secretariat's assessment is that Ukraine has partly addressed the corrective action on comprehensiveness and has made meaningful progress with considerable improvements on Requirement 4.1. The MSG agreed on a targeted reconciliation approach for material revenue streams and set a clear materiality threshold for material companies. The scoping study to the 2017 EITI Report also provides an assessment of materiality of different extractive sub-sectors; however, it does not comment on the significance of uranium and thorium ores' revenues in total extractive revenues. While the MSG provided some additional context for its materiality decisions for the 2017 EITI Report, its comments on the draft assessment did not confirm the value of government revenues from the uranium and thorium subsectors in 2017 to support its decision to exclude the subsector from the scope of reporting in 2017 even though this information was available for previous years (e.g. the 2016 EITI Report). The 2017 EITI Report provides a comprehensive reconciliation of government revenues and company payments in accordance with the agreed scope and includes an assessment of the materiality of company omissions. The 2017 EITI Report also includes the IA's conclusion on the comprehensiveness of disclosures and provides full government disclosures. The Secretariat's assessment is that Ukraine adhered to the terms of the adapted implementation request.

In accordance with Requirement 4.1, Ukraine should provide an assessment of materiality of all extractive companies, including those operating in uranium and thorium ore sub-sectors. If this information is not available, the MSG should provide an explanation of any barriers preventing from such disclosures as well as any steps taken to address these issues.

To strengthen implementation, Ukraine is encouraged to continue the ongoing work on systematic disclosure of taxes and revenues with a view to ensuring comprehensive and reliable disclosures of government extractive revenues in a timely manner through routine government and company disclosures.

5.4 Corrective action 4: Transportation revenues (#4.4)

In accordance with Requirement 4.4, the MSG should ensure that the next EITI Report disaggregates the transportation revenues by pipeline/route and by paying company.

Findings from the first Validation

The first Validation concluded that Ukraine had made meaningful progress in this requirement. Transport revenues were assessed as material in Ukraine. While the assessment documented the MSG's efforts to increase transparency in transportation arrangements, the revenues received in tariffs and other payments were not disaggregated by each paying company, nor were barriers to disclosure identified or recommendations made to overcome such barriers.

Progress since Validation

Ukraine's 2017 EITI Report forms the basis of this assessment (see chapter 5 above for more details). Additionally, audited financial statements have been reviewed for the purpose of obtaining a full overview of public disclosures regarding the state-owned enterprises involved in Ukraine's oil and gas transportation sectors (see Annex A for detailed references).

Transportation revenues continue to form a significant revenue source for SOEs in Ukraine. Additionally, the transportation sector was clearly selected to be part of reconciliation (2017 EITI Report, p.234). In the absence of materiality thresholds specific to transport revenues, the general materiality threshold for selecting revenue streams for reconciliation can be considered to apply to transport revenues as well (see Requirement 4.1). Thus, the thresholds used for revenues was UAH 3.0bn⁵³, and UAH 85m for companies. Transportation revenues related to both oil and gas are material based on the MSG's general materiality threshold for selecting revenue streams.⁵⁴

The report lists multiple forms of transport services provided and related transport revenues collected by these two SOEs, and reports their aggregate value in 2017 of almost UAH 55bn. Reporting and stakeholder consultations confirm that less than 5% of natural gas transport revenues are attributable to domestic extractive activities, which rely extensively on third parties to facilitate transportation. The remaining 95% represents transit natural gas from other countries (e.g. largely Russia). The report provides some data on transportation costs reported and disaggregated by material companies, amounting to 0.45% of total transportation revenues, but these were not reconciled due to non-reporting by company of Ukrtransgaz JSC and Ukrtransnafta JSC. On this basis, stakeholders argue that reconciliation of *material* companies does not add value, which is in line with the expectations and encouragements of Requirement 4.4.

However, revenues from the transportation of extractive commodities totalled around UAH 55bn in 2017. This means that, when applying the common threshold for revenues, transportation revenues are clearly material. The EITI Report notes general constraints on disclosure of disaggregated transportation revenues due to the large number of companies making such payments to the two SOEs. The report discloses oil and gas transportation revenues collected from material companies, which accounted for roughly 0.3% of total extractive transport revenues in 2017, and this data was solely collected from material companies, not from the recipient SOE. Furthermore, the report does not identify constraints hindering the two SOEs from unilaterally disclosing transportation revenues related to extractive commodities, disaggregated by company, for the largest customers of the two SOEs (regardless of whether transported commodities were extracted in Ukraine or not). The report takes note of some practical challenges in disaggregating revenue data by revenue stream and material company. Stakeholder consultations noted the existence of confidentiality provisions in oil and gas transport contracts, but it remains unclear whether these confidentiality clauses relate specifically to disaggregated disclosures of oil and gas transportation arrangements and related revenues. There are no publicly accessible plans from the MSG or government entities to overcome these barriers to disaggregated disclosure of extractive transportation revenues.

Secretariat's assessment

The International Secretariat's assessment is that Ukraine has partly addressed the corrective action on transportation revenues and has made meaningful progress with considerable improvements on Requirement 4.4. The 2017 EITI Report marks an improvement in disclosures of transportation revenues compared to the previous Validation, with MSG efforts to disclose more detailed data. These on-going efforts are commendable, given the complexity of transportation arrangements in Ukraine. The EITI Report discloses extractive transportation revenues in aggregate, sourced from two

⁵³ This materiality threshold equals the smallest revenue stream which the MSG deemed material based on their size or significance (Production royalty for gas condensate Extraction, pp.234-235 of 2017 UAEITI Report). In addition, three revenue streams below this materiality threshold was included in the reconciliation, Land fees, Environmental tax and Fees for granting and extending special permits (see EITI Report pp.235-236).

⁵⁴ According to the 2017 EITI Report gas transportation revenues of Ukrtransgaz amounted to UAH 29bn while oil transportation revenues of Ukrtransnafta amounted to UAH 3.7bn.

transportation SOEs. However, the EITI Report and public disclosures do not present extractive transport revenue data disaggregated by individual company/customer, due to lack of reporting of this detail by Ukrtransgaz and Ukrtransnafta. Additionally, while the EITI Report highlights some practical barriers to disaggregated disclosures, there is insufficient information in the public domain about how specific alleged legal barriers hinder actual disclosures of disaggregated transport revenues. There do not appear to be any plans (nor timelines) in the public domain for how stakeholders in Ukraine intend to overcome these barriers to public disclosure.

In accordance with Requirement 4.4, Ukraine (i) must establish whether transportation revenues are material; (ii) must indicate what level of disaggregation should be sought for transportation revenues (i.e. coverage of disaggregated data), and; (iii) is expected to disclose transportation volumes and revenue values by material revenue stream, and by companies. In the event there are practical or legal barriers to comprehensively disclose data as per (i)-(iii) above, Ukraine must document which practical and legal barriers exist, and document a clear plan for how to overcome the barriers for public disclosure.

To further strengthen public disclosure of transportation revenues, Ukraine is recommended to engage Ukrtransgaz, Ukrtransnafta, the newly incorporated “Gas Transmission System Operator of Ukraine”, and any other SOEs involved in the transportation of extractive commodities, to develop procedures for systematically disclosing extractive transportation revenues and volumes and values of extractive commodities transported. These engagements could focus on procedures to ensure public disclosure of transportation volumes and values, disaggregated by the largest consumers (e.g. searchable by company names and/or identifiers – EDRPOU). Where legal or practical barriers exist to disaggregated transport revenue disclosures, Ukraine is encouraged to publicly document the relevant obstacles and agreed public and time-bound plans for overcoming such constraints.

5.5 Corrective action 5: SOE transactions (#4.5)

In accordance with Requirement 4.5, the MSG should engage relevant government entities and SOEs with the view to ensure that the reporting process comprehensively addresses the role of state-owned enterprises (SOEs), including material payments to SOEs from oil, gas and mining companies, and transfers between SOEs and other government agencies.

Findings from the first Validation

The first Validation concluded that Ukraine had made inadequate progress in this requirement. Ukraine’s first Validation found insufficient information to assess whether SOE transactions were comprehensively included in the EITI Report, due to the amount of SOEs in Ukraine. Most of the documentation was gathered or clarified by stakeholders during consultation, not through reporting. The report included aggregate information regarding transactions to and from SOEs, though often the information was presented in long tables without a description or assessment of comprehensiveness of disclosure.

Progress since Validation

Ukraine’s 2017 EITI Report forms the basis of this assessment (see chapter 5 above for more details). Additionally, audited financial statements and other reports have been reviewed (see Annex A for precise references). SOE’s audited financial statements are based on accrual-based accounting, while

EITI reporting largely uses cash-based accounting, which affects the comparability of figures across the two sets of public documents.

The EITI Report clarifies that SOEs do not have the mandate to collect revenues from companies on behalf of the government. SOEs make payments to the government from the operations in which they are involved in the same way as private enterprises. In addition to regular payments made by all companies, SOEs pay dividends to the state and collect dividends from the companies in which they hold equity. While the report does not set an explicit materiality threshold for SOE transactions, the general materiality threshold for selecting revenue streams can be considered to apply to SOE transactions.⁵⁵

No SOE transactions in the EITI Report seem to have been reconciled, with the exception of dividend payments to the state. Government budget transfers to SOEs, largely to coal companies and petroleum transportation companies, were not reconciled in the EITI Report, although aggregate numbers are available through publicly accessible documents by government entities and disaggregated by SOEs' reporting. None of the government transfers to SOEs appear to have been material in 2017, based on information in the EITI Report. Government subsidies to coal SOEs⁵⁶ form the largest transfers. However, these remain below the materiality threshold and consultations with stakeholders revealed a high level of confidence in the comprehensiveness of disclosures related to SOE transactions in the 2017 EITI Report, given that government disclosures were based on the government's budget documents.

Dividends from SOEs to government are reconciled in the same manner as other material payments to government. However, there are also indications that SOEs' subsidiaries pay dividends to their parent companies, documented by both the EITI Report and some SOEs' audited financial statements. Two SOE subsidiaries' dividend payments to NAK are identified in the EITI Report, indicating that the value of these two companies' payments exceeds the MSG's materiality threshold.⁵⁷ However, these payments are not reconciled in the EITI Report. Dividend incomes from SOEs' extractive subsidiaries or minority-owned companies (associates) have not been considered for EITI reporting.

While SOEs appear to have made payment of some service fees to government in 2017, related to state guarantees on SOE loans, these do not appear to be material and have thus not been reconciled.

Secretariat's assessment

The International Secretariat's assessment is that Ukraine has partly addressed the corrective action on SOE transactions and that Ukraine has made meaningful progress on Requirement 4.5. The 2017 EITI Report marks an improvement in disclosures of transactions related to state-owned enterprises compared to the first Validation. Where previously information was gathered through stakeholder consultations and in tables without adequate details, the report now reports data more systematically. However, the report does not provide much information regarding the MSG's approach to materiality in relation to SOE transactions. This assessment therefore employs the same materiality decisions as for revenues in general. Transactions related to budget support programs do not exceed the MSG's general materiality threshold for selecting revenue streams, even if some are quite significant such as subsidies of coal SOEs. Though not reconciled, government transfers to SOEs were comprehensively

⁵⁵ This materiality threshold equals the smallest revenue stream which the MSG deemed material based on their size or significance (Production royalty for gas condensate Extraction, pp.234-235 of 2017 UAEITI Report).

⁵⁶ "State support for coal mining enterprises to partially cover the cost of the finished coal products", valued at UAH 2.12bn in 2017

⁵⁷ Ukrgezvydobuvannya JSC paid UAH 5.96bn in dividends while Ukrtransnafta JSC paid UAH 4.18bn.

and reliably disclosed based on publicly accessible documentation by government agencies, and complemented by corporate reporting which ensured sufficient disaggregation. Dividend incomes from SOEs' extractive subsidiaries or associates (minority-owned companies) have not been considered for reconciliation, even though they are clearly material in 2017 based on information from the EITI Report *and* available audited financial statements of SOEs. However, given the lack of a comprehensive review of material transactions between government and SOEs or from extractive companies to SOEs, it is not possible to conclude that disclosure of material SOE transactions in the EITI Report is comprehensive or reliable.

In accordance with Requirement 4.5, Ukraine should ensure that the reporting process provides comprehensive and reliable disclosures of SOE transactions with government and extractive companies, including their subsidiaries, joint activities and joint ventures, when material (materiality and reconciliation as per the [standard procedure endorsed by the EITI Board](#)).

To strengthen implementation, Ukraine may wish to consider engaging the government to ensure data on budget programme transfers are available with disaggregated data per SOE (including SEs). Ukraine may further wish to explore how publicly available financial statements of SOEs compare to EITI Requirements, and whether regular publications of additional data is possible to ensure systematic disclosures of all significant SOE transactions.

5.6 Corrective action 6: Data quality (#4.9)

In accordance with Requirement 4.9.a, the EITI requires an assessment of whether the payments and revenues are subject to a credible, independent audit, applying international auditing standards. In accordance with requirement 4.9.b.iii and the standard Terms of Reference for the Independent Administrator agreed by the EITI Board, the MSG and Independent Administrator should:

- i. examine the audit and assurance procedures in companies and government entities participating in the EITI reporting process, and based on this examination, agree what information participating companies and government entities are required to provide to the Independent Administrator in order to assure the credibility of the data in accordance with Requirement 4.9. The Independent Administrator should exercise judgement and apply appropriate international professional standards in developing a procedure that provides a sufficient basis for a comprehensive and reliable EITI Report. The Independent Administrator should employ his/her professional judgement to determine the extent to which reliance can be placed on the existing controls and audit frameworks of the companies and governments. The Independent Administrator's inception report should document the options considered and the rationale for the assurances to be provided.
- ii. ensure that the Independent Administrator provides an assessment of comprehensiveness and reliability of the (financial) data presented, including an informative summary of the work performed by the Independent Administrator and the limitations of the assessment provided.
- iii. ensure that the Independent Administrator provides an assessment of whether all companies and government entities within the agreed scope of the EITI reporting process provided the requested information. Any gaps or weaknesses in reporting to the Independent Administrator must be disclosed in the EITI Report, including naming any entities that failed to comply with the agreed procedures, and an assessment of

whether this is likely to have had a material impact on the comprehensiveness and reliability of the report.

Findings from the first Validation

The first Validation concluded that Ukraine had made meaningful progress in this requirement. The MSG appeared to have approved the selection of the IA for the 2014-15 EITI Report, including ToRs consistent with the Board-approved template, as well as the reporting templates. The IA appeared to have reviewed material entities' statutory audit procedures and actual audit practices. The 2014-15 EITI Report did not assess the significance of reporting from entities that did not comply with the agreed quality assurance procedures. While the IA commented on the quality assurance procedures, it did not seem that the comprehensiveness of the report had been assessed in accordance with the ToRs. The IA made recommendations for strengthening the reporting process and for other extractive sector reforms related to strengthening the impact of implementation of the EITI. The IA prepared summary tables of data in the Ukraine's EITI Reports.

Progress since Validation

The MSG discussed and approved the ToRs for the IA as well as reporting templates. The ToRs for the IA follow the standard ToRs endorsed by the EITI Board. The MSG approved selection of Ernst & Young as an Independent Administrator for the 2017 EITI Report. The IA appears to have applied international professional standards in its work, including provisions for safeguarding confidential information.

The inception report and the 2017 EITI Report provide descriptions of data quality assurance methodology, applicable reconciliation process according to the best international practices and the threshold for discrepancies between company and government data. The main reasons for discrepancies are also comprehensively documented in the report.

The 2017 EITI Report provides a summary of the review of the audit and assurance procedures in companies and government entities participating in the EITI reporting process. According to the MSG meeting minutes, the MSG agreed the following data quality approach:

- For companies – signature of senior management and results or external audit when available;
- For government entities – signature of senior officials.

The 2017 EITI Report and its annexes document list reporting companies' adherence to the agreed quality assurances for their EITI reporting. The report does not note any omissions in providing signatures of senior officials for government data. During stakeholder consultations, the IA noted that the share of companies that did not provide the signed off letter accounted for only 0.3% of the total material revenues. At the same time, some companies did not sign clarifications (second answers). The IA's estimation is that only 8% of the total material revenues were not confirmed through clarification letters. The IA also highlighted that disclosure of 4% of total material revenue streams was not accompanied by the agreed assurance procedures.

The 2017 EITI Report notes that the IA considered the information provided by the reporting entities to be comprehensive and reliable.

The information in the report is clearly sourced and provides references to information taken from the government portals and other publicly accessible sources. In addition, the report provides the assessment of progress with implementing the recommendations from the previous EITI report as well as recommendations for the next reporting cycles.

Secretariat's assessment

The International Secretariat's assessment is that the corrective action on data quality has been fully addressed and that Ukraine has made satisfactory progress on Requirement 4.9. The MSG agreed the ToRs for the IA for the 2017 EITI Report that are consistent with the standard ToRs and agreed-upon procedures issued by the EITI Board. The IA has undertaken a reconciliation of revenue streams by applying international best practices. The assurance and data reliability consisted of attestation of reporting templates by senior company management or senior government officials. These quality assurances were agreed by the MSG based on a review of audit and assurance practices in 2017. In addition, information about audited financial statements was provided where available. Overall, the IA's conclusion is that data provided in the 2017 EITI Report is comprehensive and reliable. The report also comments on the progress with addressing recommendations as well as provides suggestions for the upcoming reporting cycles.

To strengthen implementation, Ukraine may wish to consider alternative approaches to ensuring the reliability of financial data by building on existing systematic disclosures of payments and revenues by relevant companies and government entities.

5.7 Corrective action 7: Quasi-fiscal expenditures (#6.2)

In accordance with Requirement 6.2, the MSG should clarify a definition of materiality with regards to quasi-fiscal expenditures by SOEs, including SOE subsidiaries and joint ventures. The MSG should ensure that disclosure of quasi-fiscal expenditures is in accordance with requirement 6.2. This includes the nature of the subsidy scheme for household utility-payments, and the role of state-owned enterprises. It also includes the financial relationship between the SOE and its subsidiaries, including joint ventures, especially pertaining to coverage of losses. To ensure disclosure is comprehensive, the MSG may wish to define which expenditures are of a quasi-fiscal nature using national laws and regulations.

Findings from the first Validation

The first Validation concluded that Ukraine had made inadequate progress in this requirement. Ukraine's first Validation found insufficient information to assess whether quasi-fiscal expenditures were comprehensively included in the EITI Report. Although several mandatory and voluntary social expenditures were deemed to be of a quasi-fiscal nature, they were not explicitly identified as such nor whether they formed part of local government budgets. There was several diverging, although similar, explanations of subsidies and transactions between SOEs and other entities, though the assessment was unable to conclude whether the subsidies were indeed extra-budgetary. Still, some documentation of quasi-fiscal operations existed. Transactions such as Naftogaz' debt liabilities and servicing of SOE losses were not included or sufficiently described in the EITI Report, even as stakeholders from government and civil society maintained that they were of a quasi-fiscal nature during consultations.

Progress since Validation

Ukraine's 2017 EITI Report forms the basis of this assessment (see chapter 5 above for more details). Additionally, audited financial statements and other reports have been reviewed (see Annex A for the precise references).

The MSG has discussed and agreed a definition of QFEs, clearly distinguishing them from SOEs' social expenditures. The MSG categorised purchases of gas for lower than market prices by Naftogaz and Ukrgazvydobuvannya JSC (UGV) as forms of QFEs. NAK's 2017 audited financial statements suggest that NAK, UGV and Chornomornaftogaz all undertake QFEs on behalf of the government. However, stakeholder consultations revealed that Chornomornaftogaz is not operational, as their main areas of operations are located in Ukraine's uncontrolled territories; NAK together with Chornomornaftogaz is currently in arbitration with the Russian Federation as the company does not have control over its assets and infrastructure.

The report details two of NAK's quasi-fiscal expenditures, namely *supply of natural gas at lower than market prices to power plants to produce heat for households for citizens* and *accumulation of debt related to these sales*. The report states that other SOEs did not perform QFEs in 2017. While the report provides sufficient data on the value of quasi-fiscal expenditures by extractive SOEs in 2017, the precise methodology for calculating the expenditures are not detailed as the SOEs have calculated their own QFEs themselves.⁵⁸

Lastly, stakeholder consultations indicate that each household of workers in the coal sector is entitled to volumes of coal (or peat-briquettes) of up to 5.9 tonnes free of charge.^{59,60} This applies to private and state enterprises alike, and the International Secretariat has explored some aspects of this scheme's applicability in light of Requirement 6.2 on Quasi-fiscal expenditures:

1. The remuneration scheme could be a quasi-fiscal expenditure, as private companies can also partake in provision of services on behalf of the state, as part of IMF's definition;
2. As all companies are affected, these transfers may be viewed as social expenditures mandated by law, and;
3. Lastly, it may be considered a government-mandated employee remuneration scheme.

Government stakeholders in particular highlighted the importance of this issue for the competitiveness of the Ukrainian coal sector, while highlighting issues in government oversight of such schemes and costs. Due to the lack of oversight, it is difficult to assess the applicability and materiality of this potential QFE. Our calculations, based on data from the State Statistics Service⁶¹ and coal price estimates⁶² imply that the highest potential cost of these remunerations would amount to UAH 1.5bn⁶³, which is lower than the generally implied materiality threshold.⁶⁴

⁵⁸ UAEITI (2018), '2016 Ukraine EITI Report'. Accessed in August 2020. Available at: <https://eiti.org/document/2016-ukraine-eiti-report>

⁵⁹ Ministry of Justice (1999), 'Mining Law of Ukraine, No 50', Article 43. Available at: <https://zakon.rada.gov.ua/laws/show/1127-14#Text>

⁶⁰ Ministry of Justice (2011), 'Resolution No.303 of 2011 by the CMU: About the statement of the list of trades of workers on extraction (processing) of coal and workers of the coal-building enterprises to whom coal is provided free of charge for household needs and which structure of the general monthly or annual taxable income does not include cost of such coal'. Available at: <https://zakon.rada.gov.ua/laws/show/303-2011-%D0%BF#Text>

⁶¹ State Statistics Service of Ukraine (2019) 'Statistical Yearbook of Ukraine for 2018', p.64. Available at: http://www.ukrstat.gov.ua/druk/publicat/kat_u/2019/zb/11/zb_yearbook_2018_e.pdf

⁶² DTEK (2018) 'Integrated report: Coal market'. "Average cost of coal for 2017 is UAH 3,135". Available at: <https://dtek.com/content/files/coal-market.pdf>

⁶³ Authors own calculations: Maximum of 5.9 tonnes of coal per worker's household, 85,000 employees, and an average price of UAH 3,135.

⁶⁴ This materiality threshold equals the smallest revenue stream which the MSG deemed material based on their size or significance (Production royalty for gas condensate Extraction, pp.234-235 of 2017 UAEITI Report).

Secretariat's assessment

The International Secretariat's assessment is that the corrective action on quasi-fiscal expenditures has been fully addressed and that Ukraine has made satisfactory progress on Requirement 6.2. The report identifies three forms of quasi-fiscal expenditures in Ukraine, two of which were relevant in the period under review. The report provides some methodology for calculating these quasi-fiscal expenditures, and indicates which SOEs are involved in these expenditures. No other quasi-fiscal expenditures were reported to exist. Stakeholder consultations highlight the existence of free coal supplies to households of mining employees of coal companies (state-owned and private), that may conform with definitions of QFEs (or mandatory social expenditures). However, even when calculating the highest-cost-potential of free coal provisions to coal miners, the provisions are still below the general materiality threshold for selecting revenue streams.

To strengthen implementation, Ukraine may wish to undertake an annual review of all expenditures that could be considered quasi-fiscal, including the provision of coal free of charge to coal companies' employees. Additionally, Ukraine may wish to explore the extent to which state (unitary) enterprises, SEs, provide social services to mining communities, and whether these operations may conform with the definitions of quasi-fiscal expenditures. Lastly, Ukraine could ensure that calculations of existing and confirmed quasi-fiscal expenditures by gas companies are made on a regular basis by the relevant entities, and systematically disclosed.

5.8 Corrective action 8: Economic contribution (#6.3)

In accordance with Requirement 6.3, the MSG should clarify the public availability of estimates of informal extractives activities, including but not limited to artisanal and small-scale mining.

Findings from the first Validation

The first Validation concluded that Ukraine had made meaningful progress in this requirement. The 2014-2015 EITI Report provided a sufficient amount of information regarding the extractive sector's contribution to gross domestic product, exports, government revenues and employment, as well as investments. It also provided an impressive analysis of wages in the sectors in relation to Ukraine as a whole. The key areas of production in Ukraine were also highlighted in the report.

Due to the disclosure of this information, it could be argued that it warranted an assessment of satisfactory progress toward the requirement, even if the EITI Report did not address the informal sector of Ukraine (nor artisanal and small-scale mining (ASM)). But as stakeholder consultations and documents illustrated that significant informal activities do take place in certain regions of Ukraine and that estimates were available; the International Secretariat deemed that the disclosures were not sufficient.

Progress since Validation

The 2017 EITI Report thoroughly documents the contribution of the extractive industries, including the absolute and relative values of their contribution to GDP, government revenues, exports and employment. Employment data is disaggregated by main regions of production, but not by gender. In addition, the report clearly notes the main regions of production.

The 2017 EITI Report comprehensively documents different considerations taken into account to estimate the informal extractives activities. The IA analysed publicly available data from the State Statistics Service of Ukraine on informal employment and a study by the Ministry for Development of Economy, Trade and Agriculture of Ukraine on the share of the shadow economy. The IA provides an estimate of 8.5% of informally employed people to the total employed in the industry sector. It is also noted that the share of informally employed in the extractive industries is expected to correspond to the share of informally employed in the whole industry sector and, therefore, it is estimated that 18,700 people are informally employed in the extractive industries. The 2017 EITI Report notes that, according to the Ministry of Economy, the level of the shadow economy in the extractive industries calculated using the loss-making enterprise method, was 38% of the gross value added in the industry in 2017. None of the stakeholders consulted expressed any concerns regarding data on informal activities disclosed in the 2017 EITI Report.

Secretariat's assessment

The International Secretariat's assessment is that the corrective action on economic contribution has been fully addressed and that Ukraine has made satisfactory progress on Requirement 6.3. The 2017 EITI Report provides comprehensive information on the extractive industries' contribution, in absolute and relative terms, to GDP, government revenues, exports and employment and notes the main regions of production. The report provides a thorough overview of informal employment and elaborates on shadow economy estimates.

To strengthen implementation, Ukraine may wish to continue reviewing available studies regarding the informal sector activity in Ukraine and continue engaging with relevant stakeholders on the issue to ensure that annual updates on informal extractive activities are publicly accessible. To strengthen implementation in accordance with the 2016 EITI Standard, Ukraine is encouraged to ensure that employment data is disaggregated by gender and, when available, by company and occupational level.

6 Other requirements assessed

In the course of undertaking this assessment, the International Secretariat has also considered whether there is a need to review additional requirements, i.e. those assessed as “satisfactory progress” or “beyond” in the 2016 Validation. While these requirements have not been comprehensively assessed, in the Secretariat's view there is no evidence to suggest progress has fallen below the required standard and no additional issues that warrant consideration by the EITI Board. The EITI International Secretariat has also assessed beneficial ownership disclosure in accordance with phase 1 of the beneficial ownership Validation framework agreed by the EITI Board in June 2019.⁶⁵ The Secretariat's preliminary assessment is that Ukraine has achieved “satisfactory progress” on Requirement 2.5.

⁶⁵ See EITI Board decision 2019-48/BM-43, available at: <https://eiti.org/board-decision/2019-48>

6.1 Assessment of beneficial ownership (#2.5)

Findings from the first Validation

Ukraine was not required to address beneficial ownership and progress with this requirement in the first Validation. However, Validation considered that Ukraine had gone beyond this requirement by creating a publicly accessible register of beneficial owners as encouraged by the EITI Standard. Ukraine EITI was commended for being at the forefront of beneficial ownership disclosures and precise requirements of such disclosures. Based on the information of the 2014-2015 EITI Report and analyses performed by stakeholders both on and outside the MSG, the International Secretariat concluded that the information contained in the BO registry (Unified State Registry) was up to date, comprehensive, and reliable.

Progress since Validation

In 2016, the EITI Standard introduced a gradual approach to beneficial ownership disclosures. It set out that multi-stakeholder groups (MSGs) were required to adopt beneficial ownership roadmaps by 1 January 2017. Disclosure of beneficial owners is expected as of 1 January 2020. Therefore, before 1 January 2020, implementing countries were encouraged to disclose beneficial owners and Validations have provided an overview of BO transparency in the countries, but have not assessed progress on meeting the requirement. Considering that Ukraine has started disclosure of beneficial owners prior to the 1 January 2020 deadline, the first Validation of Ukraine considered that Ukraine had gone beyond the encouraged requirement. From 1 January 2020, disclosure of beneficial owners became mandatory and, therefore, Validations are required to assess progress on meeting the requirement.

Adherence to Requirement 2.5 on beneficial ownership is assessed in Validation as of 1 January 2020 as per the framework agreed by the Board in June 2019.⁶⁶ The assessment consists of a technical assessment focusing on initial criteria and an assessment of effectiveness.

Technical assessment

The technical assessment is included in Annex A.

Ukraine has agreed the definition of “beneficial owner”⁶⁷ that is in line with the 2016 EITI Standard. In addition, a description of direct and indirect control is clearly documented, noting a 25% threshold for decisive influence.

According to relevant legislation⁶⁸, all companies, including companies applying for extractive permits, are obliged to provide information about their beneficial owners to the Unified state register of legal entities, individual entrepreneurs and public organisations of Ukraine (hereinafter – USR) managed by the Ministry of Justice.⁶⁹ The law requiring companies to report their beneficial owners was approved in 2014 and updated several times since then. Moreover, a recently adopted Law “On ensuring

⁶⁶ Board decision 2019-48/BM-43. Available at: <https://eiti.org/board-decision/2019-48>.

⁶⁷ Law of Ukraine ‘On Prevention and Counteraction to Legalization (Laundering) of Criminal Proceeds, Terrorist Financing, Financing of Proliferation of Weapons of Mass Destruction’. Available at: <https://zakon.rada.gov.ua/laws/show/361-20#Text>.

⁶⁸ Law of Ukraine ‘On state registration of legal entities, individual entrepreneurs and public organisations’. Available at: <https://zakon.rada.gov.ua/laws/show/755-15#Text>.

⁶⁹ Unified state register of legal entities, individual entrepreneurs and public organisations of Ukraine. Available at: <https://usr.minjust.gov.ua/content/free-search>

transparency in extractive industries”⁷⁰ reiterates that all extractive companies should disclose their beneficial owners.

The register includes such information as full name, identification code, passport data (not publicly accessible), country of citizenship, place of residence of a beneficial owner, and type and share of beneficial ownership. During stakeholder consultations, representatives of different constituencies noted that some of the beforementioned information is incomplete for some entries. This has been also flagged in several analytical studies conducted since the establishment of the register.⁷¹ A government representative noted that this is mainly due to technical limitations of the register which are expected to be mitigated in the nearest future.

In addition, the register does not seem to include a data field for publicly-listed companies that would allow providing a name of the stock exchange and a link to the stock exchange filings. At the same time, the 2017 EITI Report refers to the Agency for Development of Stock Market Infrastructure of Ukraine⁷² that provides information on the country’s stock exchange. According to the MSG’s comments, material companies included in the 2017 EITI Report did not include any publicly-listed companies registered abroad. Therefore, this issue was not specifically addressed in the Report. The MSG’s comments also note that information on non-resident owners of extracting companies is accessible on the website of the Agency for Development of Stock Market Infrastructure of Ukraine and in the state register of legal entities. While the MSG provided some additional context for beneficial owners of publicly-listed companies, its comments did not confirm that all (including non-material) publicly-listed companies were required to disclose the name of the stock exchange and provide a link to the stock exchange filings where they are listed.

The information from the USR is also provided and regularly updated on the Open data portal.⁷³ Furthermore, in 2017, Ukraine became one of the first countries that joined the Global beneficial ownership register.⁷⁴ The 2017 EITI Report notes that the information on the beneficial owners is already partially available in the Global beneficial ownership register, but further system integration will be required to transfer information in full. In addition, several stakeholders noted the ongoing discussions on such issues as transliteration of names.

It appears that information about politically exposed persons (PEPs) is not included in the USR, although it is disclosed through a website managed by the NGO “Anti-corruption Action Centre”.⁷⁵ Besides, starting from 2017, the information about state officials who are beneficial owners of legal entities has become available in the Unified state register of declarations of persons authorized to perform functions of the state or local governments. During stakeholder consultations, it was also noted that beneficial ownership information is regularly shared with the National Agency for the Prevention of Corruption (NAPC) that oversees declarations. According to the MSG’s comments on the draft assessment, such state-authorized entities as the NAPC and primary financial monitoring entities have appropriate mechanisms for verifying information across various databases. For example, they compare information from the USR and information from the Unified state register of declarations. In addition, there are commercial platforms such as Youcontrol⁷⁶ that collate and compare information from different Ukrainian and international company registers.

⁷⁰ Law of Ukraine ‘On ensuring transparency in extractive industries’. Available at: <https://zakon.rada.gov.ua/laws/show/2545-19#Text>.

⁷¹ Open Society Foundation, Liga.net (n.d.) “Beneficial Owner: What is Inside Ukrainian Business Register?”. Available at: https://project.liga.net/projects/beneficiar/index_en.html

⁷² SMIDA <https://smida.gov.ua/>

⁷³ Open data portal, section on beneficial ownership. Available at: <https://data.gov.ua/dataset/1c7f3815-3259-45e0-bdf1-64dca07ddc10>.

⁷⁴ Global beneficial ownership register. Available at: <https://register.openownership.org/>.

⁷⁵ Anti-corruption Action Centre. Public register of PEPs. Available at: <https://pep.org.ua/en/>.

⁷⁶ Youcontrol.ua (n.d.), ‘YouControl: Home’. Available at: <https://youcontrol.com.ua/en/>

The USR provides information on legal owners of companies, which was also confirmed in consultations. It was also noted that this information is provided in the same cell where information about beneficial owners is covered. A government representative noted that this issue will be fixed with the ongoing system update.

Several stakeholders from different constituencies highlighted the need for improving the verification process. A government representative stated that, according to the recent amendments to the legislation, the assurance procedures will be improved and all companies will need to provide a package of documents that will help to ensure data quality. According to the MSG's comments on the draft assessment, Ukraine is systematically working on improving verification procedures. This commitment was also included in Ukraine's Open Government Partnership (OGP) action plan.⁷⁷

Assessment of effectiveness

Ukraine's commitment to continuous work on ensuring beneficial ownership transparency has been consistently expressed by various stakeholders, including at the Opening Up Ownership Conference in Jakarta in November 2017⁷⁸ and at the EITI Board meeting in Kyiv in February 2019⁷⁹.

Work on ensuring beneficial ownership disclosures of extractive companies is included in the broader reform agenda of Ukraine and goes beyond the EITI platform. The register established by the Ministry of Justice covers all companies that are registered in Ukraine and, therefore, the work on further improvements of disclosures involves a wide range of stakeholders from all sectors. There is ample evidence that EITI stakeholders are actively engaged in those discussions.

While the register provides several different types of information, stakeholders commented that there are several technical issues that do not always allow for comprehensive disclosures. For example, data points for beneficial and legal owners have been previously provided in one data field which, in some cases, lead to confusion. A government representative noted the ongoing efforts to address this issue.

Moreover, it appears that there are some inconsistencies in beneficial ownership information of SOEs. For example, there are cases where published data indicates that there are no beneficial owners, whereas no information is provided in other cases. In addition, the register does not clearly differentiate whether a company is directly or indirectly state-owned. For example, Ukrnafta PJSC⁸⁰ is majority state-owned (50%+1 share), but the register notes the absence of a beneficial owner. While information on the legal ownership of the company (NAK) is publicly available elsewhere, the register does not provide a reference to NAK and it is unclear if there are any other beneficial owners. In addition, for directly state-owned companies such as United Mining and Chemical Company JSC, Selydivuhillia SE, Lvivuhillia SE, the register either (i) does not include any information on beneficial owners or (ii) notes that there is no beneficial owner. However, the register clearly specifies founders, including state agencies responsible for each company. According to the MSG's comments on the draft assessment, the state register is not expected to include information on beneficial owners of SOEs. Consequently, for SOEs directly owned by the state, the different approaches to reflecting the absence of a beneficial owner (no information versus no beneficial owner) in the register have no practical implications. The MSG's comments also clarify that the register always identifies the direct

⁷⁷ OGP website. Beneficial Ownership Registry (UA0076). Available at:

<https://www.opengovpartnership.org/members/ukraine/commitments/UA0076/>

⁷⁸ EITI (2017), 'Kyrgyzstan receives the first EITI Chair's Award for Beneficial Ownership Transparency'. Available at:

<https://eiti.org/news/kyrgyzstan-receives-first-eiti-chairs-award-for-beneficial-ownership-transparency>

⁷⁹ EITI (2019), 'Ukraine's revolution against corruption and hidden ownership'. Available at: <https://eiti.org/blog/ukraines-revolution-against-corruption-hidden-ownership>

⁸⁰ Unique corporate ID or EDRPOU: 00135390

legal owners of companies. Therefore, it should be possible to reconstitute the chain of corporate ownership of SOEs by searching for the legal owners of each entity listed in the register. However, this would necessitate a manual search for each company to assess state ownership.

The 2017 EITI Report and 2019 annual progress report provide an overview of Ukraine's progress in addressing beneficial ownership disclosures, including outcomes of material extractive companies' reporting. They also comment on the main weaknesses of the USR and the next steps needed to improve data quality. Consultations indicated that stakeholders both engaged in EITI implementation directly and beyond had the same view of weaknesses in current beneficial ownership disclosures and plans for mitigating them. There also appears to be a common understanding of the next steps that would ensure comprehensive beneficial ownership disclosures. For example, there appears to be a mutual understanding of the need to improve verification procedures and technical solution that would allow more granular and exhaustive disclosures as well as timeliness of updates. Some of these reforms have been already reflected in the recent amendments to the relevant legislation. Moreover, work on verification procedures was included in the Open Government Partnership (OGP) action plan for 2018-2020.

While stakeholders consulted confirmed that the information about politically-exposed persons is not included in the USR, it was also noted that these data are available from other publicly accessible sources, including a register of declarations and PEPs register managed by the Anti-corruption Action Centre NGO. The latter one includes a possibility to search by company name. Stakeholders consulted did not express any concerns regarding disclosure of information about PEPs.

While an estimate of companies that did not report or provided incomplete information is not currently available, none of the stakeholders consulted expressed any concerns regarding the comprehensiveness of the data provided to the register. In addition, a separate study on beneficial ownership transparency for the oil and gas sector was conducted in 2018.⁸¹ According to the study, 75% of private oil and gas companies reported on their beneficial owners in 2018. During stakeholder consultations, it was also noted that annual updates to the USR were introduced to improve on comprehensiveness of disclosures.

Furthermore, there is evidence of active public debate on beneficial ownership disclosures, including various investigations conducted by a broad range of stakeholders and media engagement on the beneficial owners of extractive companies.⁸² The MSG and the national secretariat are also actively engaged in the discussion on the topic in regional and global peer-learning events focused on beneficial ownership.

The MSG's comments on the draft assessment argue that Ukraine's progress in addressing the beneficial ownership requirement has gone beyond satisfactory progress and should be assessed as "outstanding progress". While progress in beneficial ownership transparency is commendable, in the first phase, implementing the initial criteria leads to progress being assessed as satisfactory, and outstanding progress is not applicable.⁸³

⁸¹ Anti-corruption Action Centre (2018), 'Who owns the oil and gas fields of Ukraine?'. Available at: <https://antac.org.ua/news/hto-volodijie-naftohazovymy-rodovyschamy-ukrajiny-zvit/>

⁸² See, for example: <https://www.epravda.com.ua/publications/2018/03/28/635428/>, <https://www.radiosvoboda.org/a/news-schemes-sbu-ne-znayshla-katsubu/29608574.html>, <https://www.radiosvoboda.org/a/schemes/29770600.html>

⁸³ Board decision 2019-48/BM-43. Available at: <https://eiti.org/board-decision/2019-48>.

Secretariat's assessment

The International Secretariat's final assessment is that Ukraine has made satisfactory progress on Requirement 2.5. Ukraine has agreed definitions of “beneficial owner” and “politically exposed person” (PEP) that are in line with the 2016 EITI Standard. All companies, including those operating in the extractive sector and applying for extractive licenses, were required to report on their beneficial owners. The data were provided in a publicly accessible state register managed by the Ministry of Justice. The register also covers information regarding legal owners, but does not provide information about PEPs. Information about PEPs is disclosed in the state register of electronic declarations and other publicly accessible sources. Ukraine EITI, the MSG and other stakeholders working on beneficial ownership transparency clearly noted certain disclosure gaps, including some companies' missing beneficial ownership information in the register. An overview of the main gaps as well as actual disclosures by material companies is also available through EITI reporting. In addition, stakeholders consulted confirmed anticipated reforms to mitigate these gaps, strengthen verification mechanisms and improve the comprehensiveness of beneficial ownership and legal ownership disclosures.

To strengthen implementation ahead of the second phase of Validation of Requirement 2.5 from January 2022 onwards, Ukraine is required to disclose the legal and beneficial owners of all companies holding or applying for extractive licenses. Ukraine is encouraged to strengthen its oversight of the reliability of BO disclosures and to pursue work on technical improvements to its public BO register, including with regards to its usability and interoperability with other public BO registers globally as well as inclusion of links to stock exchange information for publicly-listed companies. Ukraine is encouraged to undertake regular assessments of the comprehensiveness and reliability of BO disclosures to ensure that reliable legal and beneficial ownership information is publicly accessible for all companies in the extractive industries.

7 Conclusion

Having reviewed the steps taken by Ukraine to address the eight corrective actions requested by the EITI Board as of the commencement of its second Validation on 30 June 2020, it can be reasonably concluded that three of the eight corrective actions have been fully addressed and that Ukraine has made meaningful progress in implementing the 2016 EITI Standard, with considerable improvements across several individual requirements. Adherence to Requirement 2.5 on beneficial ownership was assessed as per the new framework agreed by the Board in June 2019. Based on a technical assessment and an assessment of effectiveness, it can be reasonably concluded that Ukraine has addressed all criteria in phase 1 of the framework for Validating Requirement 2.5. The outstanding gaps relate to State participation (Requirement 2.6), Production data (Requirement 3.2), Comprehensiveness (Requirement 4.1), Transportation revenues (Requirement 4.4), and SOE transactions (Requirement 4.5).

Annexes

Annex A: Progress in addressing individual EITI Requirements

Requirement 2: Legal and institutional framework, including allocation of contracts and licenses.

Beneficial ownership (#2.5)					
EITI sub-Requirement	Summary of main findings	Source(s) of information	Summary of stakeholder views	Recommendation on compliance with the EITI provisions	Proposed corrective actions and recommendations
The MSG has agreed an appropriate, publicly available definition of the term beneficial owner (#2.5.f)	The definition of a beneficial owner is provided in the Law “On prevention and counteraction to legalization (laundering) of revenues received from crime actions, financing of terrorism and financing of proliferation of weapons of mass destruction”. This law was amended in December 2019 and the updated version entered into force in April 2020. The beneficial owner is defined as any individual exerting a decisive influence (control) over the client’s activities and/or over an individual on whose behalf the financial transaction is conducted. The criterion of direct decisive influence over activities is defined as an individual’s direct ownership of at least 25% of the legal entity’s share capital or voting rights. The law also defines the criteria of indirect	<p>Law of Ukraine “On prevention and counteraction to legalization (laundering) of revenues received from crime actions, financing of terrorism and financing of proliferation of weapons of mass destruction. Available at: https://zakon.rada.gov.ua/laws/show/361-20#Text. Accessed on 15 September 2020.</p> <p>Law of Ukraine “On protection of economic competition”. Available at:</p>	Stakeholders consulted did not express any concerns regarding the existing definition of beneficial owners. It was noted that a broad group of stakeholders were consulted before approval of the definition as beneficial ownership disclosures cover all sectors in Ukraine.	Satisfactory progress	To strengthen implementation ahead of the second phase of Validation of Requirement 2.5 from January 2022 onwards, Ukraine is required to disclose the legal and beneficial owners of all companies holding or applying for extractive licenses. Ukraine is encouraged to strengthen its oversight of the reliability of BO disclosures and to pursue work on technical improvements to its

	<p>decisive influence over activities, PEPs and persons related to PEPs.</p> <p>In addition, the Law “On protection of economic competition” provides a definition of control.</p>	<p>https://zakon.rada.gov.ua/laws/show/2210-14#Text. Accessed on 15 September 2020.</p>			<p>public BO register, including with regards to its usability and interoperability with other public BO registers globally as well as inclusion of stock exchange information for publicly-listed companies. Ukraine is encouraged to undertake regular assessments of the comprehensiveness and reliability of BO disclosures to ensure that reliable legal and beneficial ownership information is publicly accessible for all companies in the extractive industries</p>
<p>There are laws, regulations or policies in place to back establishing and maintaining a public register of beneficial owners (#2.5.a)</p>	<p>According to the Law “On state registration of legal entities, individual entrepreneurs, and public organizations”, all registered companies are required to provide beneficial ownership information to the Unified state register (USR). USR is managed by the Ministry of Justice of Ukraine and is available on its website. Information about beneficial owners is also available and can be downloaded from the Unified State Portal of Open Data. Moreover, starting from 2017, Ukraine is also the first countries to officially become part of the Global Beneficial Ownership Register launched by Open Ownership.</p> <p>In addition, the requirement to disclose beneficial owners was reiterated in the Law “On ensuring transparency in the extractive industries”.</p>	<p>Law of Ukraine “On state registration of legal entities, individual entrepreneurs, and public organizations”. Available at: https://zakon.rada.gov.ua/laws/show/755-15#Text. Accessed on 15 September 2020.</p> <p>Law of Ukraine “On ensuring transparency in the extractive industries”. Available at: https://zakon.rada.gov.ua/laws/show/2545-19#Text. Accessed on 15 September 2020.</p> <p>Unified state register, Ministry of Justice website: https://usr.minjust.gov.ua/ua/freesearch</p>	<p>Stakeholders consulted confirmed that the legislation regulating a public register is in place and is regularly updated. The last amendments to the relevant legislation were made in December 2019 and came into force in April 2020.</p> <p>A government representative confirmed that the USR is a primary source of information that is used by other agencies for their databases.</p>	<p>Satisfactory progress</p>	

		<p>Unified State Portal of Open Data: https://data.gov.ua/data-set/1c7f3815-3259-45e0-bdf1-64dca07ddc10</p> <p>Global Beneficial Ownership Register: https://register.openownership.org/search</p>			
<p>The government's policy and multi-stakeholder group's discussion on disclosure of beneficial ownership is documented (#2.5.b)</p>	<p>The 2017 EITI Report and previous EITI reports clearly document the government's policy on disclosure of beneficial owners and relevant legislation.</p> <p>There is evidence of MSG members' involvement in broader discussions on beneficial ownership disclosures. For example, the 2019 annual progress report documents the ongoing discussions regarding beneficial ownership disclosures and activities on the topic that took place in 2019.</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', section 6.6.3. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p> <p>UAEITI (2019), '2019 Annual progress report'. Available at: http://eiti.org.ua/documents/richny-zvit-pro-prohres-za-2019-rik/. Accessed on 15 September 2020.</p>	<p>Stakeholders consulted confirmed that beneficial ownership disclosures were continuously discussed by EITI Ukraine stakeholders and on a global level. In addition, MSG members were involved in the development of the Law of Ukraine "On ensuring transparency in the extractive industries" which includes a requirement for extractive companies to disclose their beneficial owners.</p>	Satisfactory progress	
<p>The implementing</p>	<p>According to the Law "On state registration of legal entities, individual entrepreneurs,</p>	<p>Law of Ukraine "On state registration of legal</p>	<p>Stakeholders consulted confirmed that it is mandatory</p>	Satisfactory progress	

<p>country has requested beneficial ownership information to be publicly disclosed (#2.5.c)</p>	<p>and public organizations”, all registered companies are required to provide beneficial ownership information to the USR. Furthermore, this was reiterated in the Law “On ensuring transparency in the extractive industries”.</p> <p>In addition, the information about the owners of 5% or more of the shares in joint-stock companies is available on the website of the Agency for Development of Stock Market Infrastructure of Ukraine.</p>	<p>entities, individual entrepreneurs, and public organizations”. Available at: https://zakon.rada.gov.ua/laws/show/755-15#Text. Accessed on 15 September 2020.</p> <p>Law of Ukraine “On ensuring transparency in the extractive industries”: https://zakon.rada.gov.ua/laws/show/2545-19#Text</p> <p>Unified state register, Ministry of Justice website: https://usr.minjust.gov.ua/ua/freesearch</p> <p>Stock market infrastructure development agency of Ukraine. Available at: http://smida.gov.ua/db/emitent</p>	<p>for all companies to submit information about their beneficial owners to the USR managed by the Ministry of Justice. It was noted that only companies that are 100% state-owned are exempt from providing information about their beneficial owners.</p> <p>A government representative noted that, according to the recent amendments to relevant laws, information in the USR should be updated annually irrespective of the fact whether there were any changes.</p>		
<p>The requested information includes the identity(ies) of their beneficial</p>	<p>The 2017 EITI Report notes what information regarding beneficial ownership should be provided by companies (p.214). This includes:</p>	<p>UAEITI (2020), ‘2017 Ukraine EITI Report’, section 6.6.3. Available at: http://eiti.org.ua/docum</p>	<p>Stakeholders consulted confirmed that information about identities of beneficial owners such as their name,</p>	<p>Satisfactory progress</p>	

<p>owner(s), including nationality, country of residence, and identification of politically exposed persons, the level of ownership and details about how ownership or control is exerted (#2.5.c-d)</p>	<ul style="list-style-type: none"> • Last name, first name, patronymic name, date of birth, taxpayer registration number (if any), passport data, country of citizenship, place of residence; • Full name and identification code (for a resident) of the founder of the legal entity where that person is the ultimate beneficial owner (controller); • Percentage of the charter capital/voting power in the legal entity; • Type of beneficial ownership (direct, indirect, representation, other means of control); • Information on the legal entities through which indirect influence on the legal entity is exercised (if applicable), which should be sufficient to understand the whole ownership structure, i.e., from founders to ultimate beneficial owners of the legal entity. <p>Moreover, starting from 2017, the information about state officials who are beneficial owners of legal entities has become available in the USR of declarations of persons authorized to perform functions of the state or local governments. Information about politically exposed persons (PEPs) is also provided in a public register of Ukrainian PEPs administered by the Anti-corruption Action Centre NGO.</p>	<p>ents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p> <p>Ministry of Justice website: https://usr.minjust.gov.ua/ua/freesearch</p> <p>Unified State Register of Electronic Declarations: https://public.nazk.gov.ua/</p> <p>PEPs website: https://pep.org.ua/en/</p>	<p>address, etc. is provided in the USR.</p> <p>At the same time, it was noted that information about the level and type of ownership was not consistently provided due to the limitations of the old software that did not provide a separate entry for such disclosures.</p> <p>In addition, it was mentioned that information regarding PEPs is not included in the state register and is covered in the declarations of public officials and on other public sources. A government representative highlighted that the information in the USR is regularly shared with the National Agency for the Prevention of Corruption and other relevant stakeholders working in the anti-corruption field.</p>		
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<p>Any corporate entity(ies) that apply for, or hold a participating interest in an exploration or production oil, gas or mining license or contract have disclosed the information.</p>	<p>As mentioned above, all companies registered in Ukraine, including those applying for extractive permits, are required to provide beneficial ownership information to the USR.</p> <p>The 2017 EITI Report provides an overview of beneficial owners of material extractive companies based on data provided in the unified state register (Annex 6).</p> <p>In addition, several analytical studies on beneficial ownership disclosures were prepared since the establishment of the USR. For example, one of them states that “86 out of 114 private companies owning oil and gas special permits indicated their beneficial owners in the USR” as per February 2018 (p.8).</p>	<p>UAEITI (2020), ‘2017 Ukraine EITI Report’, section 6.6.3, annex 6. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p> <p>Anti-corruption Action Centre (2018), ‘Who owns oil and gas fields in Ukraine?’ Available at: https://antac.org.ua/news/hto-volodije-naftohazovymy-rodovyschamy-ukrajiny-zvit/. Accessed on 29 October 2020.</p>	<p>Stakeholders consulted confirmed that all companies are required to provide beneficial ownership information and that the 2017 EITI Report provided an overview of those disclosures for material companies.</p>	<p>Satisfactory progress</p>	
<p>The MSG had assessed and documented gaps or weaknesses in disclosure of beneficial ownership</p>	<p>The 2017 EITI Report includes an overview of various gaps in the USR. For example, it is noted that “<i>The USR [Unified state register] does not provide information about ultimate beneficial owners of state and municipal enterprises. Instead, the USR provides information on founders (participants) of</i></p>	<p>UAEITI (2020), ‘2017 Ukraine EITI Report’, section 6.6.3, annex 6. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p>	<p>Stakeholders consulted noted that they could not provide an estimate of how many companies did not report or provided incomplete information. At the same time, a government official noted that recent amendments to the relevant legislation would</p>	<p>Satisfactory progress</p>	

<p>information (#2.5.c)</p>	<p><i>such legal entities, including state executive bodies managing those.</i></p> <p>Moreover, the report notes some inconsistencies in the information provided in the register noting that “...sometimes legal entities provide incomplete or inaccurate information about their beneficial owners, e.g., they disclose information only to the level of nominal owners or managers of trusts” (p.214). However, the report does not assess the share of such omissions or inconsistencies.</p> <p>The 2019 annual progress report documents the MSG’s assessment of progress in addressing the EITI Requirements, including the progress on beneficial ownership disclosures. For example, the 2019 annual progress report refers to what disclosures were collected and requested for the 2017 EITI Report as well as notes the ongoing work on improving verification process and technical solution of the register. It is also noted that beneficial ownership is included in the OGP action plan for 2018-2020.</p> <p>In addition, several analytical papers on beneficial ownership disclosures in Ukraine were prepared. For example, OpenOwnership reviewed the USR,</p>	<p>UAEITI (2019), ‘2019 Annual progress report’. Available at: http://eiti.org.ua/documents/richny-zvit-pro-prohres-za-2019-rik/. Accessed on 15 September 2020.</p> <p>OpenOwnership (2018), ‘Improving beneficial ownership transparency in Ukraine: Review and recommendations’. Available at: https://www.openownerships.org/uploads/improving-beneficial-ownership-transparency-in-ukraine.pdf. Accessed on 29 October 2020.</p>	<p>require an annual update of the information in the register and will allow for better oversight of the reporting process.</p> <p>CSO stakeholders consulted noted that a study on beneficial ownership disclosures for oil and gas sector was conducted a while ago. No strong concerns regarding significant omissions were raised.</p> <p>A government representative highlighted that, in December 2019, relevant laws regulating beneficial ownership disclosures were amended. For example, the process of identification and verification of companies has been improved.</p> <p>Stakeholders consulted also confirmed that the technical platform of the register was outdated which caused some limitations of beneficial ownership disclosures. However, the work on improving the software is currently ongoing and would</p>		
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	assessed data quality and usability as well as provided recommendations for improving the register. Incomplete database, timeliness of data unclear beneficial ownership test, lack of granularity were mentioned as some of the weaknesses that could be improved.		allow such improvements as a clear separation of entries for legal and beneficial owners. A government representative also flagged that in future primary financial monitoring services would be able to note in the register if information requires further confirmation.		
The relevant government entity or the MSG has established an approach for participating companies to assure the accuracy of the beneficial ownership information (#2.5.e)	<p>There is ample evidence that EITI stakeholders were engaged in the broader discussion on beneficial ownership disclosures, including on assuring the accuracy of information.</p> <p>The 2019 annual progress report also highlights the ongoing work on improving the existing verification process (p.13).</p>	<p>International Renaissance Foundation (2018), 'Third Year of the Beneficial Ownership Register: What's Next?'. Available at: https://www.irf.ua/en/orlovsky_benefitsiary/. Accessed on 29 October 2020.</p> <p>UAEITI (2019), '2019 Annual progress report'. Available at: http://eiti.org.ua/documents/richny-zvit-pro-prohres-za-2019-rik/. Accessed on 15 September 2020.</p>	<p>A government official noted that it is an imperative responsibility of all companies to provide correct data to the public register and update the information regularly. It was also mentioned that the state registrar could prosecute company management for not providing information to the register. At the same time, verification and control of whether the information provided in the register is correct is the responsibility of primary financial monitoring services.</p> <p>Starting from April 2020, there is also an obligation to provide information about</p>	Satisfactory progress	

			structure of ownership according to the standard template that is currently being developed by the Ministry of Finance. In addition, state registers are required to do initial identification and beneficial owner. For example, the state registrar should request passport data and other supporting documents of beneficial owners to confirm the identity of the natural person.		
For publicly listed companies, including wholly-owned subsidiaries, the name of the stock exchange has been disclosed and a link included to the stock exchange filings where	The 2017 EITI Report notes that the information about the owners of 5% or more of the shares in joint-stock companies is available in the database to the Stock market infrastructure development agency of Ukraine (SMIDA) (p.215). The report does not comment on publicly listed companies registered abroad. According to stakeholder comments, reporting entities did not include any public listed companies registered abroad. Therefore, this issue was not specifically addressed in the 2017 EITI Report. As for non-resident owners of extracting companies, information on such owners is accessible	<p>UAEITI (2020), '2017 Ukraine EITI Report', section 6.6.3. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p> <p>Stock market infrastructure development agency of Ukraine. Available at: http://smida.gov.ua/db/emitent</p>	<p>A government representative noted that the company is required to disclose this information in the template that is currently being developed by the Ministry of Finance. It is also required to provide copies of documents noting that the company is registered abroad.</p> <p>A government representative noted a challenge of providing updated information for companies whose owners change rather rapidly and highlighted that this issue and</p>	Satisfactory progress	

they are listed (#2.5.f)	on the SMIDA website and the state register of legal entities.		ways of addressing it are currently being discussed with other relevant agencies.		
Information about legal owners and share of ownership of applicable companies is publicly available (#2.5.g)	The 2017 EITI Report notes that information about legal owners is provided in the USR (p.214).	UAEITI (2020), '2017 Ukraine EITI Report', section 6.6.3. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/ . Accessed on 20 September 2020.	Stakeholders consulted noted that, currently, information about legal owners and beneficial owners is provided in the same cell in the public register. They also mentioned that there is an ongoing technical update of the register that will allow splitting this information into two separate cells. Stakeholders consulted could not provide an estimate of completeness of those disclosures. However, they noted that omissions were not significant.	Satisfactory progress	

State participation (#2.6)					
EITI sub-Requirement	Summary of main findings	Source(s) of information	Summary of stakeholder views	Recommendation on compliance with the EITI provisions	Proposed corrective actions and recommendations

<p>The existence of any material state-owned enterprises (SOEs) engaged in the extractive sector has been publicly documented (#2.6.a)</p>	<p>Ukraine's 2017 EITI Report explains that state participation gives rise to material revenues, though it does not explicitly mention other materiality thresholds other than the common threshold for selecting all material companies, i.e. UAH 85m (p.239).</p> <p>Section 6.4 of the 2017 EITI Report (pp.166-184) explains that UAEITI reporting considers that any company in which the state holds 50% + 1 share, indirectly or directly, is considered an SOE, which goes much further than Ukrainian legislation (see below),.</p> <p>Section 6.4 (pp.166-184) explains that there are several forms in which the state participates, both directly and indirectly:</p> <ul style="list-style-type: none"> • Joint-stock companies (JSCs) are publicly listed companies that are considered SOEs if the state holds, at minimum, 50% + 1 share. These companies function on a commercial basis, subject to legislation relevant for private companies, with the exception that the board contains state representatives from relevant agencies. • State (unitary) enterprises (SEs) are public corporations whose 	<p>UAEITI (2020), '2017 Ukraine EITI Report', sections 4.1, 5.1.1, 5.2.1, 5.3.1, 5.4.1, 5.5.1, 5.6.1, 5.7.1, 5.8.1, 5.9.1, 6.4, and annex 2. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 30 June 2020.</p>	<p>Stakeholders consulted, including the IA, confirmed that no other materiality threshold was used for determining material SOEs. All companies with payments to government of more than UAH 85m were selected for reconciliation.</p> <p>Additionally, to ensure continuity and comprehensive coverage, the report does provide additional data on Nadra of Ukraine, even if the company was not deemed material and thus not included in reconciliation.</p>	<p>Satisfactory progress</p>	
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	<p>establishment are formed through government legislation, and where functions and decisions are made by its designated line ministry.</p> <ul style="list-style-type: none"> National joint-stock companies (NJSCs) is a form of hybrid of the two preceding types of SOEs, as they are incorporated as joint-stock companies even if their establishment was done through legislation. 				
<p>An explanation of the role of material SOEs in the sector and prevailing rules regarding the financial relationship between the government and SOEs has been disclosed (#2.6.a.i)</p>	<p>The report covers general rules regarding financial relationships between the government and SOEs operating in extractive sectors covered. These are summarised in the paragraphs below. Section 6.4 notes that the government only recognises its responsibilities towards liabilities (pp.170-171) of companies for which it holds <i>direct ownership or equity interests</i>. I.e. for joint-stock companies the state only recognises liabilities for the direct SOEs, but not for SOEs' subsidiaries, nor for subsidiaries' subsidiaries etc. The government does not assume responsibility for the liabilities of SEs. However, some SOEs are supported by the state, that are established by the Cabinet of Ministers (CMU). The</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', sections 4.1, 5.1.1, 5.2.1, 5.3.1, 5.4.1, 5.5.1, 5.6.1, 5.7.1, 5.8.1, 5.9.1, 6.4, and annex 2. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 30 June 2020.</p> <p>Ministry of Justice (2003), 'The Commercial Code of Ukraine of 2003'. Available at: http://zakon.rada.gov.ua/laws/show/436-15#Text</p>	<p>The IA explains that Section 6.4.2 of the EITI report presents the Accounting Chambers' findings for the oil and gas sector, and that there were multiple deficiencies and delays in approval of the financial plans. However, most of details contained in financial plans and the reports on their performance are publicly available, and the Ukraine EITI was not able to compare policy to practice.</p> <p>All stakeholders consulted on this issue, from government, civil society and SOEs, were either uncertain or confirmed</p>	<p>Satisfactory progress</p>	<p>In accordance with Requirement 2.6.a.i, Ukraine should ensure that the policies and decisions regarding the financial relationship between the government and state-owned enterprises are publicly disclosed. This includes decisions related to SOEs' retained earnings, reinvestments, dividends and third-party financing, as well as those of their subsidiaries and joint ventures.</p>

	<p>government does assume responsibilities of liabilities for these.</p> <p>According to the EITI Report, two laws largely govern the financial relationship between the state and SOEs (p.169): The Commercial Code of 2003, and the Law on the Management of State-Owned Entities of 2006. According to the report, all SOEs are able to (i) receive <u>budget support</u> and <u>subsidies</u>; (ii) <u>retain earnings</u> and <u>reinvest</u> in their own operations; (iii) must pay <u>dividends</u> to the state, and; (iv) are able to raise <u>third-party financing</u>.</p> <p>To ensure the application of financial rules for each SE, these companies are required to submit financial plans to line ministries for approval of forecasted values of each of the above financial items, unless they are natural monopolies or net profits exceed UAH 50m (normally incorporated as JSCs). In the JSC case, the CMU must approve the financial plans in consultation with the line ministry, the Ministry of Economy, and the Ministry of Finance. Financial plans must be approved by 1 September of the year preceding the financial year under review. These plans may be amended twice a year.</p> <p><u>Budget transfers</u> exist, especially for coal sector companies (section 5.1.1, pp.25-31). One type seems to conform with</p>	<p>Ministry of Justice (2006), 'Law on Management of State Property of 2006'. Available at: https://zakon.rada.gov.ua/laws/show/185-16#Text</p> <p>Ministry of Economy (02 March 2015), "Order No. 205: The Procedure for Preparation, Approval and Oversight over the Implementation of the Financial Plan of the Public Sector Entity". Available at: https://zakon.rada.gov.ua/laws/show/z0300-15.</p>	<p>that approved financial plans were not publicly available.</p> <p>Additionally, in the MSG's comments on the draft assessment report, it was clarified that financial plans would contain SOEs' forecasts for financial items in accordance with existing rules about SOEs' financial relationship with the government. Therefore, the SOEs' and the government's interpretation of how the rules relating to each of EITI-required financial element (and each SOE) are not publicly accessible. Finally, the MSG's comments also clarified that the Ministry of Economy only provides generalized information on financial plan indicators and implementation. Though these are too general to compare with actual financial statements.</p>		
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	<p>designation of <u>subsidies</u>: “State support for coal mining enterprises to partially cover the cost of the finished coal products”. It amounted to UAH 2,121,771,000 total (p.28). Some minor budget programmes are noted for gas pipelines (pp.45-46), budgeted at UAH 601m. Only UAH 134,400 was realised.</p> <p>The report indicates that all companies with state ownership, including subsidiaries and joint ventures of SOEs, should pay <u>dividends</u> directly to the state budget, not to their parent companies (p.168), but that this is controversial for subsidiaries of SOEs. As an example, the report identifies that ambiguous legislation on dividend payments, regarding that companies whose 50% shares + 1 are required to pay dividends directly to the state budget. These issues have led to litigations between NAK, UGV and others (see dividend payments pp.167-168,173-174), where the main issue of contention was whether to lodge dividend payments to NAK or the state budget.</p> <p>All companies, SEs and JSCs, are able to <u>retain earnings</u> and to <u>reinvest</u> in their operations, provided that these are approved through their financial plans. For SEs, 75% of net profits should be</p>				
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	<p>transferred to the state (p.174, raised to 90% in 2019), while other companies had to allocate at least 30% of net profits as dividends (p.174).</p> <p>Financing of SOEs, including <u>third-party financing</u> are detailed on page 170. Related-party financing occurs where state and local budget funds, either special funds or general, inject capital into SOEs to increase their equity or asset base. SOEs are also allowed to raise debt financing from third-party financing through bonds issues or credit lines and loans. Only JSCs can raise capital from third parties through equity, but only if approved through financial plans. The report provides an example of this for NAK in 2015 (p.178).</p> <p>There are no references to the individual plans or budgets or financial plans for each SOE in 2017, and the report does not indicate what financial plans were approved for each SOE as they are not publicly accessible. This results in difficulties for EITI reporting in providing documentation of whether SOEs' practices (covered below) conformed with the financial rules SOEs are subject to.</p>				
<p>An explanation of the</p>	<p>According to the 2017 EITI Report, SOEs confirmed no deviations from the rules</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report',</p>	<p>Through stakeholder consultations, it was clarified</p>	<p>Meaningful progress</p>	<p>In accordance with Requirement 2.6.a.i,</p>

<p>prevailing practices regarding the financial relationship between the government and SOEs has been disclosed for the year under review (#2.6.a.i)</p>	<p>related to SOEs' financial relationship with government in practice in 2017 (p.23,38,163,171).</p> <p>However, the report does not provide documentation of rules and approved financial plans to the actual numbers (see above). Actual data for SOEs are located in various tables in the report (see sources to the right), though there are some outstanding gaps in reporting:</p> <p><u>Budget transfers & subsidies</u> Seem to exist (see sections above). However, it is unclear whether there were government transfers to Vuhilna kompaniia Krasnolymanska SE, Shakhtoupravlinnia Pivdenodonbaske No 1 SE, and Toretskvuhillia SE.</p> <p><u>Dividends</u> to the state are clearly and comprehensively reported for all companies as part of the reconciliation exercise. However, dividend incomes of SOEs do not seem comprehensive, as it only includes payments from some material SOEs to NAK. Two dividend payments to NAK that are reported (not reconciled), all exceed the common materiality threshold of UAH 3bn.</p> <p><u>Retained earnings:</u> Is provided for all SOEs. However, differences between EITI reporting and other publicly accessible</p>	<p>sections 4.1, 5.1.1, 5.2.1, 5.3.1, 5.4.1, 5.5.1, 5.6.1, 5.7.1, 5.8.1, 5.9.1, 6.4, and annex 2. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 30 June 2020.</p> <p><u>Budget transfers:</u> Oil and gas (incl transportation): Table 5.13 (pp.45-46); Titanium: Page 87; Coal: Table 5.3 (p.29).</p> <p><u>Subsidies:</u> Oil and gas (incl transportation): Page 50; Titanium: Page 87; Coal: Table 5.3 (p.29).</p> <p><u>Dividends:</u> Oil and gas (incl transportation): Annex 10, section 18.9 (p.373-376); Titanium: Annex 10, section 18.9 (p.373-376); Coal: Annex 10, section 18.9 (p.373-376).</p> <p><u>Retained earnings:</u> Oil and gas (incl transportation): Table</p>	<p>that budget transfers and subsidies to Vuhilna kompaniia Krasnolymanska SE, Shakhtoupravlinnia Pivdenodonbaske No 1 SE, and Toretskvuhillia SE were not omitted, but due to zero budget transfers/subsidies.</p> <p>The IA confirmed that the terms “zero”, “-”, or “0” was used interchangeably in the 2017 EITI Report, which is what companies submitted for EITI reporting. The IA did not make any further comments regarding these differences.</p> <p>Other SOE stakeholders consulted, without referring to specific examples, mentioned that methodologies used in EITI reporting and financial statements may be different, with financial statements potentially consolidating retained earnings of subsidiaries.</p> <p>Lastly, the IA and other stakeholders consulted indicated that SOEs were not required to report their</p>		<p>Ukraine should ensure that the practices regarding the financial relationship between the government and state-owned enterprises are publicly disclosed, and that EITI reporting complements existing disclosures by covering gaps in public disclosures. This includes SOEs' retained earnings, reinvestments, dividends and third-party financing, as well as those of their subsidiaries and joint ventures.</p>
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	<p>sources exist. As an example, NAK's audited financial statement for 2017 seems to indicate that UAH 80bn of earnings were retained by the company. However, table 5.16 (p.48) seems to imply that NAK retained no earnings in the period under review. Discrepancies between retained earnings in the EITI Report and audited financial statements raise concerns over the comprehensiveness and reliability of data in the EITI Report, even if differences in numbers may be due to differences in the basis of accounting for these disclosures (i.e. cash- vs accrual-based accounting).</p> <p><u>Reinvestment</u>: Is provided for all SOEs. However, differences exist, as for retained earnings. As one concrete example, NAK's audited financial statement for 2017 reports that UAH 14,438m was reinvested in subsidiaries and operations, while the 2017 EITI Report states "zero" (table 5.16, p.48).</p> <p><u>Third-party financing</u>: Third-party financing arrangements are generally included, with total amounts reported in the EITI Report. The authors have not compared all third-party financing data to SOEs' financial statements.</p> <p>Financing arrangements are not clear or available for subsidiaries, joint activities,</p>	<p>5.16 (p.48); Titanium: Table 5.35 (p.87); Coal: Table 5.6 (p.31) & Annex 14 (pp.412-414).</p> <p><u>Reinvestment</u>: Oil and gas (incl transportation): Table 5.16 (p.48); Titanium: Table 5.35 (p.87); Coal: Table 5.6 (p.31) & Annex 14 (pp.412-414).</p> <p><u>Third-party financing (debt and equity)</u>: Oil and gas (incl transportation): Tables 5.16-5.18 (pp.47-50); Titanium: Table 5.35 (p.87); Coal: Tables 5.5, 5.7 (pp.30-31), page 31, Annex 14 (pp.412-414).</p> <p>Naftogaz NJSC (NAK) (2018), '2017 Audited financial statements', available at: http://www.naftogaz.com/files/Zvity/NAK_AnRep2017_EN.pdf</p> <p>State Judicial Administration of Ukraine (2018), 'Resolution of the Supreme Court dated</p>	<p>collections of dividend incomes from their subsidiaries as part of EITI reporting. Additionally, data was not sought from companies in which SOEs held only minority equity interests.</p>		
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	<p>and joint ventures of UGV, Naftogaz of Ukraine NJSC, Ukrtransgaz JSC, Ukrtransnafta JSC.</p> <p>As an example, third-party financing arrangements of UGV does seem to have been reported (tables 5.16, 5.17 & 5.18, pp.47-50).</p> <p>There are also internal inconsistencies within the EITI Report. Tables 5.17 and 5.18 (pp.47-50) appear to relate to the same data sets, although they are sourced from different public documents. If related, table 5.18 would cover gaps for borrowings listed under table 5.17 by including repayment dates for loans covered by state guarantees. But the loan repayment schedules remain unclear for those covered by state guarantees.</p>	<p>02 October 2018 in Case No. 2a-18853/10/2670', available at: http://reyestr.court.gov.ua/Review/76906087</p> <p>Ukrnafta PJSC (2018), '2017 Financial report by the International reporting standards 21 January 2017'. Available at: https://www.ukrnafta.com/data/Investor_news/Okrema%20zvitnist%202017.pdf</p>			
<p>The government and SOE(s) have disclosed their level of ownership in mining, oil and gas companies operating within the country's oil, gas and</p>	<p>The report discloses the level of state ownership in all companies and identifies SOEs in various sections of the report.</p> <p>Annex 2 lays out, per individual SOE, the precise line ministry or principal SOE that has equity shares in each. It also states the terms associated with the SOE's liabilities, where the State only seems to incur liabilities, through NAK: "The state carries the risk of loss related to activities of Naftogaz of Ukraine NJSC, within its</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', sections 4.1, 5.1.1, 5.2.1, 5.3.1, 5.4.1, 5.5.1, 5.6.1, 5.7.1, 5.8.1, 5.9.1, 6.4, and annex 2. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 30 June 2020.</p>	<p>Stakeholders confirmed that the terms attached to SOEs' subsidiaries that are incorporated as private companies are the same as for conventional private companies, i.e. full-paid equity.</p> <p>The IA through consultations clarified that information was only reported for immediate-</p>	<p>Meaningful progress</p>	<p>In accordance with Requirement 2.6.a.ii, Ukraine should ensure that the level of state participation in all SOEs, their subsidiaries, associated companies, joint activities and ventures, and the terms associated with equity shares, should be</p>

<p>mining sector, including those held by SOE subsidiaries and joint ventures. The terms associated with these ownership interests have been disclosed (#2.6.a.ii)</p>	<p>share value” (pp.274-280). However, it is not clear whether all of the SOEs’ associates (minority-owned companies) and JVs are listed in the EITI Report, nor whether the subsidiaries of SOEs’ subsidiaries are included in either EITI reporting or publicly available for all SOEs. Immediate subsidiaries or associates are listed in publicly available financial statements.</p> <p>All of UGV’s and Ukrnafta PJSC’s joint venture arrangements are missing data on equity share or the terms attached to their equity. Although these are available through publicly accessible documents, the terms associated with each equity interest do not appear to be described in any publicly-accessible documents.</p> <p>A review of Ukrnafta’s audited 2017 financial statement indicates that there are two additional associated companies that are not mentioned in EITI reporting, one of which seems to be involved in extractive activities (JV Boryslav Oil Company LLC). Additionally, the financial report does not confirm one subsidiary mentioned in the EITI Report (Transmunai LLC, 50% ownership, owned by Ukrtransnafta JSC). The precise terms of equity interests held by Ukrtransnafta JSC are not clear.</p>	<p><u>Levels of ownership in SOEs:</u> Oil and gas (incl transportation): Tables 5.9, 5.10 (pp.40-41); Titanium: Page 87; Coal: Page 27, Annex 14 (pp.412-414). All: Annex 2 (pp.274-280).</p> <p><u>Subsidiaries:</u> Oil and gas (incl transportation): Tables 5.9, 5.10, 5.12 (pp.40-41,43-45), page 214; Titanium: Page 87; Coal: Tables 5.1 (pp.26-27), Annex 14 (pp.412-414).</p> <p>Naftogaz NJSC (NAK) (2018), ‘2017 Audited financial statements’, available at: http://www.naftogaz.com/files/Zvity/NAK_AnRep2017_EN.pdf</p> <p>Ukrnafta PJSC (2018), ‘2017 Financial report by the International reporting standards 21 January 2017’. Available at: https://www.ukrناfta.co</p>	<p>controlled and majority-owned subsidiaries. Subsidiaries of subsidiaries were nonetheless collected through reporting templates. Additionally, and as confirmed by other government stakeholders, no SE holds ownership over other separate legal entities, although separate departments with separate operations exist <i>within</i> these companies.</p> <p>No PSAs were operationally active in 2017, except for one PSA, involving Chornomornaftogaz JSC. It is related to areas outside of Ukraine’s control, as described in section 4.1 of the report. The report also describes the arbitration proceedings related to this PSA, between NAK and the Russian Federation over the operations related to the area and infrastructure covered by the PSA. Vody Ukrainy LLC was confirmed as a subsidiary of a non-material SOE.</p>		<p>comprehensively disclosed.</p>
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	<p>The EITI Report indicates that there are no subsidiaries or associates in the coal sector, only subdivisions and mines.</p> <p>Although most of the SOE subsidiaries' equity interests are described in publicly-accessible documents, the terms attached with the different equity interests (e.g. full-paid equity, free equity or carried interest) do not appear to be described in public documents. As one example, the terms attached to Ukrnafta PJSC's equity interest in JV Ukrkarpatoil LTC LLC are not described in public documents (or the EITI Report).</p>	<p>m/data/Investor_news/Okrema%20zvitnist%202017.pdf</p> <p>Ukrgezvydobuvannya JSC (2018), '2017 Audited financial statements', available at: http://ugv.com.ua/uploads/1522851503.pdf</p>	<p>The IA and other stakeholders indicated that reporting was sought for SOEs and their immediate, majority-owned subsidiaries, though not necessarily subsidiaries of subsidiaries. Additionally, data was not sought for minority-owned companies of SOEs.</p> <p>As one example of missing data on subsidiaries according to Ukrnafta's corporate webpages, there are several assets and companies owned by the company that was not covered by EITI reporting, although these are located through public disclosures of Ukrnafta.</p> <p>Additional examples were posed to the IA for UGV, for which the IA confirmed that equity shares are not accessible through public sources.</p> <p>Some gaps in equity shares were solved through public sources, such as for a joint</p>		
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			activity agreement (Karpatygaz LLC), where UGV held 49.99% share in 2017 (2017 AFS, pp.21-22).		
Any changes in the level of SOE or state ownership during the reporting period have been disclosed, including the terms of the transactions (#2.6.a.ii)	The report confirms that no changes occurred in the government's ownership during the reporting period: For coal companies, see page 25; Oil and natural gas, page 23; Titanium, page 87. Other sectors do not have SOEs in the upstream sector. As a categorical statement, the report notes that "According to information provided by EITI reporting entities, charter capitals of enterprises with state participation were not increased in 2017" (section 6.4.4.4, page 178).	UAEITI (2020), '2017 Ukraine EITI Report', sections 4.1, 5.1.1, 5.2.1, 5.3.1, 5.4.1, 5.5.1, 5.6.1, 5.7.1, 5.8.1, 5.9.1, 6.4, and annex 2. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/ . Accessed on 30 June 2020. <u>Subsidiaries:</u> Oil and gas (incl transportation): Tables 5.9, 5.10, 5.12 (pp.40-41,43-45), page 214; Titanium: Page 87; Coal: Tables 5.1 (pp.26-27), Annex 14 (pp.412-414).		Satisfactory progress	
Details about any loans or loan guarantees to mining, oil and gas companies operating	A description of government loans and loan guarantees are provided in Section 6.4.4 (pp.175-181). According to the report, SOEs can seek and provide loans (p.169). SOEs must receive approval from the Ministry of	UAEITI (2020), '2017 Ukraine EITI Report', sections 4.1, 5.1.1, 5.2.1, 5.3.1, 5.4.1, 5.5.1, 5.6.1, 5.7.1, 5.8.1, 5.9.1, 6.4, and annex 2. Available at:	Stakeholder consultations regarding loan and loan guarantees were largely focused on clarity of EITI reporting, including when compared to other publicly available documents.	Meaningful progress	In accordance with Requirement 2.6.a.ii, Ukraine should ensure that any loans or loan guarantees provided by the government or SOE(s) to oil, gas and mining

<p>within the country have been disclosed, including loan tenor and terms (i.e. repayment schedule and interest rate) (#2.6.a.ii)</p>	<p>Finance and the Ministry of Economic Development for guarantees (p.169).</p> <p>According to the report, one loan existed in the coal sector with state guarantees, to Lysychanskvuhillia PJSC. The loan was provided by the China Development Bank in December 2011, with a state guarantee agreement covering the loan concluded the same month (p.30). The report provides the total loan amount, including a discrepancy between government and company-reported data of UAH 381.6m, which the IA could not resolve. Payments in 2017 of the Ukrainian Government on behalf of the company are also provided, including amounts overdue of the loan from the SOE to government. However, the loan tenor, repayment schedule or interest rates are not disclosed.</p> <p>The report and public disclosures indicate several oil and gas SOEs have outstanding loans from the government, or outstanding loans guaranteed by the government. Total amounts of government guarantees towards NAK, and other companies, seem to be disclosed. However, the report does not clarify which of UGV's loans are covered by state guarantees nor what financing arrangements relate to their joint ventures, activities or subsidiaries.</p>	<p>http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 30 June 2020.</p> <p><u>Loan guarantees and agreements & Loan transactions</u>: Oil and gas (incl transportation): Tables 5.15, 5.17 (p.47,49); Titanium: Page 87; Coal: Tables 5.4-5.5 (p.30).</p>	<p>Consultations confirmed that NAK did not provide data regarding the loan repayment schedules for all of their loans and state guarantees. It also confirmed that the debt of UAH 26.9bn of Ukrnafta PJSC to the state is challenged by the company and the parties are currently in the middle of a litigation process.</p> <p>Consultations also revealed that there are several loan and guarantee agreements associated with extractive companies and SOEs in Ukraine. However, consultations confirmed that some data associated with loans and guarantees granted to SOEs by the state was not fully clarified. Equally, loans and guarantees of SOEs to other extractive companies or subsidiaries disclosed.</p>		<p>companies operating within the country should be identified, including their total amounts, outstanding balances, interest rates and repayment schedules.</p>
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	<p>There are gaps in the EITI Report's coverage. The report notes three "service charge payments" of petroleum SOEs in return for state guarantees on their loans. Furthermore, the report includes the value of five outstanding third-party loans to petroleum companies, some of which are guaranteed by the state. Albeit the EITI Report does not clarify the terms, repayment schedule, interest rates, nor outstanding amounts. The level of state guarantee awarded to each of the loans remains unclear.</p> <p>The report also indicates Ukrnafta PJSC does not have any debts to the government, however, the audited financial statements of NAK implies a total of UAH 26.92bn in loans were outstanding at the end of 2017. The 2017 EITI Report does not highlight any details regarding this dispute, other than noting that one exists, with a reference to further documentation.</p> <p>However, the report does indicate that loans and loan guarantees exist for Ukrtransgaz JSC, without explanation of the terms and repayment schedule.</p> <p>The report includes a statement that all loan obligations were fulfilled, however, the basis for this conclusion is unclear,</p>				
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	<p>nor whether “loan obligations” refers to repayments.</p> <p>In addition to the above, some loans and guarantees awarded by either the state or SOEs towards their subsidiaries, or other extractive companies, remains undisclosed. One example of such possible debts was identified for Joint Venture Ukrkarpatoil LTD LLC, which is fully owned by Ukrnafta PJSC. It largely relates to tax debts.⁸⁴</p>				
<p>SOEs have publicly disclosed their audited financial statements, or the main financial items (i.e. balance sheet, profit/loss statement, cash flows) where financial statements are not</p>	<p><i>Annex 12 confirms which SOEs and private companies have published their audited financial reports, and provides links to six such reports.</i></p>	<p>UAEITI (2020), ‘2017 Ukraine EITI Report’, annex 12, pp.387-392. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 30 June 2020.</p> <p>Audited financial statements:</p> <ul style="list-style-type: none"> Naftogaz of Ukraine NJSC: http://www.naftogaz.com/files/Zvity/NAK_AnRep2017_UA.pdf 			

⁸⁴ Ukrainian Energetika (2017), ‘[Oil for Companies, problems for communities] Нафту – фірмам, проблеми – громадам’. Available at: <https://ua-energy.org/uk/posts/naftu-firmam-problemy-hromadam>

<p>available (#2.6.b)</p>		<ul style="list-style-type: none"> • Ukgazvydobuvannia JSC: http://www.ugv.com.ua/page/docs?count=1 • Ukrnafta PJSC: https://www.ukrnafta.com/data/lvestor_news/Okrema%20finansova%20zvitnist%202017_SKORYGOVAN A.pdf • Ukrtransgaz JSC: http://utg.ua/utg/about-company/reports.html • Ukrtransnafta JSC: https://www.ukrtransnafta.com/dokumenty/ • United Mining and Chemical Company JSC: https://umcc.com.ua/purchase 			
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<p>The country has publicly described the rules and practices related to SOEs' operating and capital expenditures, procurement, subcontracting and corporate governance, e.g. composition and appointment of the Board of Directors, Board's mandate, code of conduct (#2.6.c)</p>		<p>E.g. 2017 EITI Report, section 7.1. or Ministry of Mines website, section "Legislation": www.... (accessed 9 August 2018).</p>			
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Requirement 3: Exploration and production

<p>Production data (#3.2)</p>

EITI sub-Requirement	Summary of main findings	Source(s) of information	Summary of stakeholder views	Recommendation on compliance with the EITI provisions	Proposed corrective actions and recommendations
<p>Total production volumes by commodity have been disclosed (#3.2)</p>	<p>The 2017 EITI Report notes that, based on the MSG discussion, the following minerals were included in the scope of reconciliation (pp.233-234):</p> <ul style="list-style-type: none"> • Coal; • Crude oil; • Natural gas; • Iron ores; • Titanium ores; • Manganese ores; • Transportation of oil and natural gas. <p>The 2017 EITI Report provides production volumes for coal (pp.34-36), oil (pp.58-64), natural gas (pp.58-64), iron (pp.83-84), titanium (p.89) and manganese (p.93) ores. In addition, the report provides production volumes for construction materials including fire clays (p.98), high-melting clays (p.102),</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', sections 7.1, 5.1-5.9. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p> <p>Decree of the Security Service of Ukraine #440 "On approval of the information constituting a state secret". Available at: https://zakon.rada.gov.ua/laws/show/z0902-05#Text. Accessed on 22 September 2020.</p>	<p>Stakeholders consulted did not express any concerns regarding the data provided in the 2017 EITI Report.</p> <p>According to a government representative, it was confirmed that information about state reserves and consequently production volumes of precious/rare metals, including titanium ores, is considered to be a state secret. It was also noted that the problem of classification of these metals is not a new issue and the negotiations regarding public disclosure of this information have been ongoing for a while.</p> <p>A government representative also clarified that the differences in information on production volumes of coal provided by three agencies are due to different methodologies</p>	<p>Satisfactory progress</p>	<p>In accordance with requirement 3.2, Ukraine should ensure disclosure of production volumes and values for all extractive commodities produced in Ukraine, including titanium ore.</p> <p>Ukraine is also encouraged to continue the ongoing efforts related to ensuring that differences in methodologies applied by different agencies are well-explained. Ukraine may also wish to consider systematic disclosure of mining production value data by relevant government entities.</p>

	<p>quartz sand (p.106) and building stones (pp.110-111).</p> <p>The 2017 EITI Report provides production volumes for titanium ores based on data from the US Geological Survey. In addition, the report provides production volumes as reported by two out of seven titanium companies. According to the Decree of the Security Service “On approval of the information constituting a state secret”, information about reserves of titanium ore is considered to be a state secret.</p> <p>The report also notes that there are several sources of information that provide data on production volumes of coal (State Statistics Service, Ministry of Energy, State Service of Geology and Subsoil), and that differences in values are due to different methodologies applied.</p>		<p>applied. For example, it was noted that the main difference might occur due to the fact that some agencies calculate production volumes of impurified coal layers while other agencies base their calculations on volumes of purified coal.</p>		
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<p>Total production values by commodity have been disclosed (#3.2)</p>	<p>The 2017 EITI Report provides production values for coal, oil, natural gas (p.115). In addition, the report includes revenues from sales of marketable products for iron, manganese and titanium ores (pp.116-117). It is also noted that there is no publicly accessible information on production values of construction <materials, including fire clays, high-melting clays, quartz sand and building stones (p.117). However, none of these construction materials was produced by material companies in the scope of reconciliation in the 2017 EITI Report.</p> <p>Production values for titanium ore are based on the data provided by two extractive companies, while there seven companies producing this commodity.</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', sections 7.1.1, 5.10.1.1. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p>	<p>Stakeholders consulted did not express any concerns regarding the data provided in the 2017 EITI Report.</p> <p>Please see the sub-section above regarding production data of coal and titanium ores.</p>	<p>Meaningful progress</p>	
<p><i>The sources of production data and</i></p>	<p><i>The 2017 EITI Report provides three sources of</i></p>	<p><i>UAEITI (2020), '2017</i></p>			

<p><i>information on how production data has been calculated have been disclosed (#3.2)</i></p>	<p><i>information for production volume of coal (pp.34-37). For estimates of coal production value, the Independent Administrator used production volumes of coal provided by the Ministry of Energy of Ukraine. Production volumes for oil, natural gas, iron and manganese ores, fire clays, high-melting clays, quartz sand and building stones are based on the data reported by the State Service of Geology and Subsoil of Ukraine. Production volumes of titanium ore are based on the US Geological Survey and data reported by the companies.</i></p> <p><i>The 2017 EITI Report notes that information about production values disaggregated by commodity is currently not publicly available. Therefore, for oil, natural gas and coal, the Independent Administrator provided estimates based</i></p>	<p><i>Ukraine EITI Report', sections 5.1-5.9. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</i></p>			
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	<p><i>on the average weighted prices during 2017 (p.115). At the same time, the Independent Administrator used the information provided by reporting companies for estimation of production values for iron, manganese and titanium ores (pp.116-117).</i></p>				
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Requirement 4: Revenue collection

Comprehensive disclosure of taxes and revenues (#4.1)					
EITI sub-Requirement	Summary of main findings	Source(s) of information	Summary of stakeholder views	Recommendation on compliance with the EITI provisions	Proposed corrective actions and recommendations
<p>The MSG has agreed on a materiality definition for revenue streams, including any reporting thresholds, as well as the options considered and the rationale for the</p>	<p>According to the 2017 scoping study, 2017 inception report and MSG meeting minutes from November 2019, the Independent Administrator firstly analysed the largest revenue streams that together accounted for 99% of total government</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', section 7.1.2. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p>	<p>The IA confirmed that the following approach was applied to selecting material revenue streams:</p> <ul style="list-style-type: none"> • Firstly, information on all types of payments from all extractive companies was collected. 	<p>Satisfactory progress</p>	

<p>materiality definition (#4.1.b)</p>	<p>extractive revenues in order to define material revenue streams.</p> <p>As the next step, the MSG discussed the list of suggested material revenue streams and agreed to exclude excise tax from the list of material revenue streams as a payment that is not directly related to the extractive sector and would not significantly affect comprehensiveness of reporting (valued at UAH 2.5bn or approximately USD 93m). The amount of the smallest revenue stream included based on this approach was equal to UAH 3bn (or approximately USD 115m).</p> <p>In addition, the MSG agreed to include the following revenue streams:</p> <ul style="list-style-type: none"> • Land fee; • Environmental tax; • Dividends and payment of a share of net profit; 	<p>UAEITI (2019), '2017 scoping study'. Provided to the EITI International Secretariat.</p> <p>UAEITI (2019), '2017 inception report'. Provided to the EITI International Secretariat.</p> <p>UAEITI (2019), 'MSG meeting minutes from 22 November 2019'. Provided to the EITI International Secretariat.</p>	<ul style="list-style-type: none"> • Secondly, the IA selected the largest revenue streams that accounted for a combined 99% of total extractive payments to government. • Then, the MSG reviewed the list of revenue streams and provided its suggestions on excluding excise tax and adding four additional revenue streams. <p>Stakeholders consulted supported that excise tax was not directly related to the extractive sector and did not express any concerns regarding the approach applied to defining materiality threshold and material revenue streams.</p>		
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	<ul style="list-style-type: none"> • Fees for granting and extending special permits for the use of subsoil and revenues from the sale of such permits. <p>The 2017 EITI Report documents considerations for inclusions of the four abovementioned revenue streams.</p> <p>As result, all material revenue streams accounted for 97.59% of total payments (p.245).</p>				
<p>The MSG has agreed on a materiality definition for companies, including any reporting thresholds, as well as the options considered and the rationale for the materiality definition (#4.1.b)</p>	<p>The scoping study for the 2017 EITI Report provides an assessment of materiality of different extractive sub-sectors. The scoping study confirms that oil, gas, coal as well as iron, titanium and manganese ores to be material sub-sectors for the 2017 fiscal year. In addition, it is noted that the MSG agreed to include some contextual information on construction materials. At the same time, the scoping study and</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', section 7.1.2. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p> <p>UAEITI (2019), '2017 scoping study'. Provided to the EITI International Secretariat.</p>	<p>Stakeholders did not express any concerns regarding the materiality threshold set for companies for the 2017 fiscal year.</p>	<p>Meaningful progress</p>	<p>In accordance with Requirement 4.1, Ukraine should provide an assessment of materiality of all extractive companies, including those operating in uranium and thorium ore sub-sectors. If this information is not available, the MSG should provide an explanation of any barriers preventing from such disclosures as well as any steps taken to address these issues. To strengthen implementation, Ukraine is encouraged to continue the ongoing work on systematic disclosure of taxes and revenues with a view to ensuring comprehensive and reliable</p>

	<p>the 2017 EITI Report does not seem to comment on the significance of the uranium sub-sector and its contribution to the total revenues from the extractive sector in the 2017 fiscal year.</p> <p>According to the 2017 scoping study, 2017 inception report and MSG meeting minutes from November 2019, a materiality threshold of UAH 85m (approximately USD 3.5m) was set for selecting material companies. The MSG meeting minutes from November 2019 clarify that this threshold was suggested because total revenues from all companies below the UAH 85m materiality threshold constitute 1% or less of all payments.</p> <p>The list of all material companies is provided in Annex 2.</p>	<p>UAEITI (2019), '2017 inception report'. Provided to the EITI International Secretariat.</p> <p>UAEITI (2019), 'MSG meeting minutes from 22 November 2019'. Provided to the EITI International Secretariat.</p>			<p>disclosures of government extractive revenues in a timely manner through routine government and company disclosures.</p>
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<p>The revenue streams considered material are publicly listed and described (#4.1.b)</p>	<p>The 2017 EITI Report provides a list of all material revenue streams (pp.244-245) and their detailed descriptions (pp.192-210).</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', section 6.5. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p>	<p>Stakeholders consulted did not express any concerns regarding this issue.</p>	<p>Satisfactory progress</p>	
<p>The revenue streams listed in provision 4.1.b have been considered. Where the MSG has agreed to exclude certain revenue streams from the scope of EITI disclosures, the rationale for their exclusion is clearly documented (#4.1.b).</p>	<p>The 2017 scoping study and inception report provide a full list of taxes and non-tax payments made by the extractive companies. According to the MSG meeting minutes, selection of material revenue streams was discussed and agreed by the MSG. The MSG agreed to exclude the excise tax as a revenue stream that is not directly related to production of extractive commodities (p.244).</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', section 7.1.2. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p> <p>UAEITI (2019), '2017 scoping study'. Provided to the EITI International Secretariat.</p> <p>UAEITI (2019), '2017 inception</p>	<p>Stakeholders consulted did not express any concerns regarding this issue and supported exclusion of the excise tax from the list of material revenue streams.</p>	<p>Satisfactory progress</p>	

		<p>report'. Provided to the EITI International Secretariat.</p> <p>UAEITI (2019), 'MSG meeting minutes from 22 November 2019'. Provided to the EITI International Secretariat.</p>			
<p>The MSG has identified the companies making material payments and whether these companies fully reported all payments in accordance with the materiality definition (#4.1.d and the IA ToR)</p>	<p>The Board approved Ukraine's request for adapted implementation in October 2019 with respect to coverage of extractive industries in the Donetsk and Luhansk regions and in Crimea (temporarily uncontrolled territories) in the 2016 and 2017 EITI Reports. The 2017 EITI Report comments on the legal regime of the temporarily uncontrolled territories (pp.19-20) and provides a list of coal mines located in Donetsk and Luhansk regions (Annex 14). In addition, the 2017 EITI Report partially discloses government data on the activities of</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', sections 4.1, 7.2.1, annexes 2, 12, 14. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p> <p>EITI Board decision 2018-10/BM-39. Available at: https://eiti.org/board-decision/2018-10. Accessed on 20 September 2020.</p>	<p>Stakeholders consulted did not express any disagreements with the data provided in the 2017 EITI Report and annexes to it.</p>	<p>Satisfactory progress</p>	

	<p>individual mining companies in the temporarily uncontrolled territories, including tax data and coal mining volumes (p.20).</p> <p>The list of material companies is provided in the 2017 EITI Report (Annex 12). The report notes that 43 out of 53 material companies provided full or partial reporting on taxes and non-tax payments, four companies were located in the territories temporarily not controlled by the Government of Ukraine, one company stopped production and rented its facilities to other company, and five companies did not reply (Annex 12).</p>				
<p>The MSG has identified the government entities receiving material revenues and whether these government entities fully reported</p>	<p>The 2017 EITI Report specifies the list of government entities receiving material revenues (Annex 1) and notes that all of them provided the</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', section 7.2.1, annex 1. Available at: http://eiti.org.ua/documents/zvit-ipvh-</p>	<p>Stakeholders consulted confirmed that all government entities receiving material revenues fully reported all requested information.</p>	<p>Satisfactory progress</p>	

all receipts in accordance with the materiality definition (#4.1.d and the IA ToR)	requested information (p.246).	ukrai-ny-2017/ . Accessed on 20 September 2020.			
The government fully reported all revenues, including any revenues below the materiality thresholds (#4.1.d)	The 2017 EITI Report and its annexes (Annex 10, 11) cover full government disclosures of material revenues from both material companies that were reconciled and material companies that were not reconciled. Full government disclosures, including material revenue streams from non-material companies, are also available in the summary data file for the 2017 fiscal year.	UAEITI (2020), '2017 Ukraine EITI Report', section 7.2.1, annexes 10, 11. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/ . Accessed on 20 September 2020. UAEITI (2020), Summary data file for the 2017 EITI Report. Available at: https://drive.google.com/drive/folders/0B9BI74fkjArzaVNMSkxBN1ZyTWc . Accessed on 30 October 2020.	Stakeholders consulted did not express any concerns regarding full government disclosure.	Satisfactory progress	
Where companies or government entities paying or receiving material revenues have not submitted	The 2017 EITI Report provides a comprehensive overview of the completeness of company reporting (Annex 12). The	UAEITI (2020), '2017 Ukraine EITI Report', section 7.2.1, annex 12. Available at:	Stakeholders consulted noted that comprehensiveness of reconciliation in the 2017 EITI Report has increased	Satisfactory progress	

<p>reporting templates, or have not fully disclosed all the payments and revenues, EITI reporting documents these issues and includes an assessment of the impact on the comprehensiveness of the report.</p>	<p>report also states that the share of payments from the reporting companies that did not provide information was equal to 1,61% of the total amount. It is noted that the percentage of non-reconciled payments is relatively insignificant (<2%) and considerably smaller than in the previous EITI Report (p.245).</p> <p>The 2017 EITI Report notes that all government entities provided the requested information (p.246).</p>	<p>http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p>	<p>comparing to the previous EITI Report.</p>		
<p>In accordance with the IA ToR, a summary of the key findings from the Independent Administrator's assessment with regards to the comprehensiveness of the EITI disclosures and coverage of the reconciliation has been provided.</p>	<p>The 2017 EITI Report states that the Independent Administrator considered the information provided by the reporting entities to be comprehensive and reliable (p.24).</p> <p>The report also notes that the final reconciliation coverage was equal to 98.39% in 2017 (p.13).</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', sections 2, 4.4. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p>	<p>Stakeholders consulted did not express any concerns regarding the comprehensiveness of the EITI disclosures and coverage of the reconciliation.</p>	<p>Satisfactory progress</p>	

<p>The companies making material payments to government have publicly disclosed their audited financial statements, or the main items (i.e. balance sheet, profit/loss statement, cash flows) where financial statements are not available (4.1.e).</p>	<p>The 2017 EITI Report provides an overview of accessibility of audited financial statements of material companies (Annex 12).</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', annex 12. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p>			
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Transport revenues (#4.4)					
EITI sub-Requirement	Summary of main findings	Source(s) of information	Summary of stakeholder views	Recommendation on compliance with the EITI provisions	Proposed corrective actions and recommendations
<p>The MSG has agreed a definition of materiality with regards to transportation revenues (#4.4)</p>	<p>In the absence of an explicit materiality threshold for transport revenues, it can be assumed that the general materiality threshold used for selection material</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', section 5.2.5, pp.65-77. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/.</p>	<p>As part of consultations, the IA and stakeholders clarified that there were no specific materiality thresholds used to establish the scope of reporting for transportation revenues.</p>	<p>Meaningful progress</p>	<p>In accordance with Requirement 4.4, Ukraine must establish whether transportation revenues are material, and indicate what level of disaggregation should be sought for</p>

	<p>revenue streams also applies to transport revenues. As described under Requirement 4.1, we then employed the implicit materiality threshold of UAH 85m for companies, and UAH 3.0bn for revenues.⁸⁵</p> <p>According to the EITI Report, two material SOEs provide data on transportation services for thousands of customers; Ukrtransgaz and Ukrtransnafta. Both are subsidiaries of the largest SOE, NAK.</p> <p>However, the report argues that <i>Ukrainian</i> extractive companies contribute to only 5% of transportation revenues (p.71, footnote 97), and the domestic gas producers tend to use third parties (e.g. traders or other companies) to transport their natural gas. Although reconciliation would not be of significant</p>	<p>ukrai-ny-2017/. Accessed on 30 June 2020.</p> <p>Ukrtransgaz JSC (2018), 'Audited financial statements 2017'. Available at: http://utg.ua/utg/about-company/reports.html</p> <p>Ukrtransnafta JSC (2018), 'Audited financial statements 2017'. Available at: https://www.ukrtransnafta.com/dokumenty/</p>	<p>According to the IA, reporting from material oil and gas companies on payments to Ukrtransgaz and Ukrtransnafta were deemed as immaterial, based on data received from material companies. Payment data was nonetheless sought from companies, though only some reported.</p> <p>Transportation revenues per paying company (regardless of materiality under 4.1) was sought from Ukrtransgaz and Ukrtransnafta, but not received.</p>		<p>transportation revenues (i.e. coverage of disaggregated data).</p>
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⁸⁵ This materiality threshold equals the smallest revenue stream which the MSG deemed material based on their size or significance (Production royalty for gas condensate Extraction, pp.234-235 of 2017 UAEITI Report).

	<p>benefit, it was possible to disclose some material companies' payments, p.71). Even as these revenues were small, the MSG still considered companies in this sector as part of the reconciliation exercise (pp.233-234), but decided not to reconcile domestic gas producers' transport payments given that most payments are handled through third parties.</p> <p>However, the report does not discuss the significance or materiality of transportation revenues for non-domestically produced gas.</p> <p>Evidence provided by Ukrtransgaz (pp.11,65) suggest 120,900 MMscf of gas was transported in 2017, or 3,424,929.2 Sm³ o.e (authors calculation).</p>				
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<p>Where transportation revenues exist and are considered material, these revenue flows have been fully disclosed to levels of disaggregation commensurate with other payments and revenues streams (4.7), with appropriate attention to data quality (4.9).</p>	<p>The report describes (i) the transportation arrangements, (ii) a definition of relevant transportation payments, (iii) tariff rates (pp.68-69,75,83) and volumes of transported commodities. The report provides a description of the transportation arrangements, and the government entities responsible for oversight. They are the Ministry of Energy, Environmental Protection and the Cabinet of Ministers and NKRE (National Commission for State Regulation of Energy – responsible for tariffs) (p.37).</p> <p>Definitions of transportation tariffs and other payments, including calculation methods, are provided for gas (pp.64-65) and oil (pp.70-71).</p> <p>Tariff rates and volume of transported gas (pp.66-67) and oil (pp.71-72) are</p>	<p>UAEITI (2020), ‘2017 Ukraine EITI Report’, section 5.2.5, pp.65-77. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 30 June 2020.</p> <p>Ukrtransgaz JSC (2018), ‘Audited financial statements 2017’. Available at: http://utg.ua/utg/about-company/reports.html</p> <p>Ukrtransnafta JSC (2018), ‘Audited financial statements 2017’. Available at: https://www.ukrtransnafta.com/dokumenty/</p>	<p>During stakeholder consultations, the IA and representatives of the SOEs expressed concerns regarding this requirement as technically challenging for the company to disclose data. They argued that it is not feasible to disclose data for thousands of customers.</p> <p>Consultations with the IA revealed that transport revenue data received from SOEs were not disaggregated by customer/company. Therefore, as an attempt to address the issue of disaggregation, the IA sought disaggregated data from other companies, but was only partially successful.</p>	<p>Meaningful progress</p>	<p>In accordance with Requirement 4.4, Ukraine is expected to disclose transportation volumes and revenue values by material revenue stream, and by companies.</p>
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	<p>reported. The report also provides data on volumes of gas stored in Ukraine in 2017 (p.63).</p> <p>Furthermore, the report discloses total transported volumes by route and transportation revenues received by Ukrtransgaz by revenue streams. Revenues received by Ukrtransnafta for oil transportation are disaggregated by route.</p> <p>Disaggregated volumes of transported gas volumes and value for 11 material companies (table 5.23, pp. 67-68) is available. However, neither Ukrtransnafta nor Ukrtransgaz provided disaggregated information per company, including other companies outside of the scope of reconciliation. This amounted to UAH 147.5m, or 0.3% of total transportation revenues.</p> <p>The report provides data for two companies that</p>				
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	<p>reported payments to Ukrtransnafta for transportation of crude oil. This included volume and value of transported oil (table 5.27, p.72) and amounted to UAH 75.6m or 0.1% of total transportation revenues.</p>				
<p>Where transportation revenues are material but not disclosed, the MSG has documented and explained the barriers to provision of this information and any government plans to overcome these barriers.</p>	<p>The report notes challenges in disaggregating transportation revenue data by revenue stream and company.</p> <p>The report argues that it is not practically feasible for Ukrtransgaz to provide disaggregated data on transportation revenues as there are thousands of consumers, with domestic mining companies accounting for less than 5% of the natural gas transported in Ukraine's gas pipeline network. Additionally, the report notes a practical issue that most gas companies do not pay transportation services directly to Ukrtransgaz, but</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', section 5.2.5, pp.65-77. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 30 June 2020.</p> <p>Ukrtransgaz JSC (2018), 'Audited financial statements 2017'. Available at: http://utg.ua/utg/about-company/reports.html</p> <p>Ukrtransnafta JSC (2018), 'Audited financial statements</p>	<p>Stakeholders consulted from government, IA and certain SOEs indicated that there are confidentiality constraints that hinder disaggregation of transportation revenues. Other SOEs and industry representatives consulted indicated that there is disagreement on whether confidentiality clauses prevent Ukrtransgaz and Ukrtransnafta from disclosing transportation revenues by company/customer. Some industry representatives indicated that the relevant data is already in the public domain, including how much gas is transported per company. These claims were not substantiated with clear evidence of these public</p>	<p>Meaningful progress</p>	<p>As per Requirement 4.4, and in the event there are practical or legal barriers to comprehensive disclosure of disaggregated data, Ukraine must document which practical and legal barriers exist, and document a clear plan for how to overcome the barriers for public disclosure.</p> <p>To further strengthen public disclosure of transportation revenues, Ukraine is recommended to engage Ukrtransgaz, Ukrtransnafta, the newly incorporated "Gas Transmission System Operator of Ukraine", and other potential transportation SOEs, to develop procedures for disclosing volumes and values from transportation activities. These engagements could focus on procedures to ensure public disclosure of transportation volumes and values, disaggregated by the largest consumers (e.g. searchable by</p>

	<p>via traders or other consumers of natural gas.</p> <p>Based on calculations by the Independent Administrator in the 2017 EITI Report, only three cases where the gas producers paid for transportation services directly were identified. They amounted to UAH 130.4m or 0.45% of gas transportation revenues. The report therefore argues that transportation revenue that could be disaggregated or reconciled is insignificant.</p> <p>The standard contract for gas transportation in Ukraine does contain confidentiality clauses, though it is unclear whether the MSG has discussed the implications of these confidentiality clauses for disclosure of transportation revenues by the largest companies (by transport payments),</p>	<p>2017'. Available at: https://www.ukrtransnafta.com/dokumenty/</p> <p>Ministry of Justice (2015), 'Decree No 2497, About the statement of the Standard contract of transportation of natural gas'. Accessed in September 2020. Available at: https://zakon.rada.gov.ua/laws/show/z1383-15#n14</p>	<p>disclosures. Consultations did not reveal any efforts or plans to address the issue of disaggregation, either in terms of overcoming practical or legal barriers.</p> <p>Additionally, the International Secretariat sought views from the new (as of 2019) vertically integrated gas transportation SOE, Gas Transmission System Operator of Ukraine (Gas TSUOA), Ukrtransgaz, and Ukrtransnafta. However, no responses were provided in time for inclusion in this assessment.</p>		<p>company names and/or identifiers – EDRPOU). Where legal or practical barriers exist to such levels of disaggregation, the engagement could include documentation of the relevant obstacles and time-bound plans for overcoming them.</p>
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	<p>reported by the relevant SOEs.</p> <p>Lastly, the EITI Report documents some barriers and argues against reconciliation and the feasibility of disaggregated disclosures. However, the MSG has not documented any plans, of government or other stakeholders, to overcome barriers for reconciliation.</p> <p>Furthermore, neither the MSG nor government or any other stakeholders have identified barriers to disaggregate transportation revenues by the largest payers, i.e. including non-material companies. No public disclosures identified describe precisely which barriers exist, nor any plans to overcome practical or legal barriers for future disaggregation of transportation revenues for the largest contributing companies.</p>				
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<i>EITI implementation includes additional disclosures (4.4.i-v)</i>					
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SOE transactions (#4.5)					
EITI sub-Requirement	Summary of main findings	Source(s) of information	Summary of stakeholder views	Recommendation on compliance with the EITI provisions	Proposed corrective actions and recommendations
The MSG has established whether SOEs make payments to the government, collect material revenues on behalf of the state, or both (#4.5)	<p>According to the EITI Report, SOEs do not collect revenues on behalf of the government. Transportation revenues collected are covered under Requirement 4.4.</p> <p>The report does not refer to any other materiality threshold used for SOE transactions. This assessment therefore uses UAH 3.0bn, the common materiality threshold for selecting revenue streams as detailed in Requirement 4.1.</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', section 6.4, pp. 166-185. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 30 June 2020.</p> <p>State Treasury Service of Ukraine (2018), 'Annual report on the implementation of the State budget of Ukraine for 2017'.</p>	<p>Consultations with the IA revealed that reconciliation of state budget transfers to SOEs was not considered, as the transfers were publicly disclosed in a reliable way given that they were sourced from official government budget documents. SOEs' unilateral reporting for the EITI Report was used to disaggregate SOEs' payments or receipts.</p>	<p>Meaningful progress</p>	<p>In accordance with Requirement 4.5, Ukraine should ensure that the reporting process provides comprehensive and reliable disclosures of SOE transactions, when material (materiality and reconciliation as per the standard procedure endorsed by the EITI Board).</p>

		Available at: https://www.treasur.gov.ua/ua/file-storage/richniy-zvit-pro-vikonannya-derzhavnogo-byudzhetu-ukraini-za-2017-rik			
The MSG has established whether financial transfers between government entities and SOEs exist and are material (#4.5)	SOEs and their subsidiaries are obliged to pay dividends to the state (p.168). However, in practice, the report notes that Ukrkazvydobuvannya and Ukrtransnafta only paid dividends to NAK in 2017 (p.45). Ukrtransgaz did not pay dividends in either 2017 or 2018 due to excessive losses (p.175). Dividend payments from SOEs to government are reconciled, though only one such payment took place in 2017 by NAK to the state. Government budget programs targeting the coal industry are described in the report (p.28), including the related transactions. Other government transfers	UAEITI (2020), '2017 Ukraine EITI Report', section 5.2.1, 6.4.1, pp.45,168-170. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/ . Accessed on 30 June 2020. State Treasury Service of Ukraine (2018), 'Annual report on the implementation of the State budget of Ukraine for 2017'. Available at: https://www.treasur.gov.ua/ua/file-storage/richniy-zvit-pro-vikonannya-	During consultations, the IA indicated that data on budget program transfers were collected from the State Treasury Service of Ukraine, which are considered reliable and do not require additional assurances. However, there is no publicly accessible documentation on the MSG's decision to rely on unilateral Treasury disclosures of government transfers to SOEs. SOEs' unilateral reporting for the EITI Report was used to disaggregate SOEs' payments or receipts. Stakeholders noted that data for three companies were omitted from table 5.13 (pp.43-46):	Satisfactory progress <i>As state budget transfers to SOEs are publicly disclosed and considered reliable as official government budget documents were used as source, with complementary disaggregation through company-reporting.</i>	To strengthen disclosures of transactions between SOEs and the state, Ukraine may wish to consider engaging the government to ensure data on budget programme transfers are available with disaggregated data per SOE (including SEs).

	<p>to coal SOEs are listed in Table 5.3 on (p.29).</p> <p>Budget programmes targeting the oil and gas sector, and the related transactions, are listed in table 5.13 (pp.43-46). Oil and gas SOEs received government's funding for the gas pipelines reconstruction.</p> <p>None of the transactions, with the exception of dividend payments, exceeded the UAH 3.0bn threshold.</p>	<p>derzhavnogo-byudzhetu-ukraini-za-2017-rik</p>	<ol style="list-style-type: none"> 1. Pervomaiskvuhillia SE did not respond to EITI reporting. 2. Krasnolymanska SE reported zero receipts of such payments. 3. Data from Shakhtoupravlinnia Pivdenodonbaske No 1 SE was excluded from the table as an error: it received UAH 130.7m in subsidies and UAH 10m for labour protection and safety. <p>As previously documented, none of these omitted transfers was material.</p>		
<p>Material payments from companies to SOEs have been comprehensively and reliably disclosed (#4.5)</p>	<p>For transportation revenues collected by SOEs, see transportation revenues (Requirement 4.4).</p> <p>SOEs seem to receive dividend income from their subsidiaries, though this has not been comprehensively disclosed in the 2017 EITI Report.</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', sections 4.1, 5.1.1, 5.2.1, 5.3.1, 5.4.1, 5.5.1, 5.6.1, 5.7.1, 5.8.1, 5.9.1, 6.4, and annex 2. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/.</p>	<p>Consultations confirmed that reporting was not sought from SOEs on their dividend <i>income</i> from subsidiaries, especially not from minority-owned companies (associated companies and JVs).</p> <p>Consultations with stakeholders, including the IA, confirmed that SOE transactions such as dividend</p>	<p>Meaningful progress</p>	<p>In accordance with Requirement 4.5, Ukraine should ensure that the reporting process provides comprehensive and reliable disclosures of SOE transactions with extractive companies, including their subsidiaries, joint activities and joint ventures, when material (materiality and reconciliation as per the standard procedure endorsed by the EITI Board).</p>

	<p>Publicly accessible financial statements of SOEs present transactions using accrual-accounting, making it impossible to ascertain the timing of dividend payments and thus whether they are relevant for the EITI Report's cash-based disclosure of dividend payments.</p> <p>The report notes that SOE extractive subsidiaries' dividend payments to SOEs existed in 2017. The EITI Report provides unilateral disclosure of dividends from two NAK extractive subsidiaries: from UGV (UAH 5.96bn) and Ukrtransnafta JSC (UAH 4.18bn). The dividend payments nor other such transactions were reconciled even though they are above the materiality threshold for selecting material revenue streams.</p>	<p>Accessed on 30 June 2020.</p> <p><u>Dividends</u>: Oil and gas (incl transportation): Annex 10, section 18.9 (p.373-376); Titanium: Annex 10, section 18.9 (p.373-376); Coal: Annex 10, section 18.9 (p.373-376).</p> <p>Audited financial statements:</p> <ul style="list-style-type: none"> • Naftogaz of Ukraine NJSC: http://www.naftogaz.com/files/Zvity/NAK_AnRe p2017_UA.pdf • Ukgazvydobuvannya JSC: http://www.ugv.com.ua/page/docs?count=1 • Ukrnafta PJSC: https://www.ukrnafta.com/data/lvestor_news/ 	<p>incomes were not considered in the preparation of the EITI Report. Stakeholders consulted conceded that it was thus not possible to conclude that disclosures in the EITI Report are comprehensive of all material SOE transactions, though such disclosures should be possible through financial statements. Attempts to confirm these claims was unsuccessful, as only inferences of their existence are possible.</p>		
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	<p>It is unclear from publicly accessible documentation whether the two SOE subsidiary dividends disclosed in the EITI Report are comprehensive and cover all dividends paid in 2017 by companies in which the state and SOEs hold equity interests.</p> <p>Given the lack of explicit materiality threshold for selecting SOE transactions, it is challenging to assess the comprehensiveness of disclosures in the EITI Report due to the complex nature of SOEs in Ukraine. While there are multiple intra-SOE transactions, SOEs' consolidated audited financial statements <i>net out</i> intra-group transactions as part of accrual-based reporting.</p>	<p>Okrema%20finansova%20zvitni st%202017 SK ORYGOVANA.pdf</p> <ul style="list-style-type: none"> • Ukrtransgaz JSC: http://utg.ua/utg/about-company/reports.html • Ukrtransnafta JSC: https://www.ukrtransnafta.com/dokumenti/ 			
<p>Material SOE transfers to government (including statutory and ad hoc) have been comprehensively</p>	<p>The EITI Report discloses and reconciles the dividend payments from all material SOEs to government. Of material companies, only</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', sections 4.1, 5.1.1, 5.2.1, 5.3.1, 5.4.1, 5.5.1,</p>		<p>Satisfactory progress</p>	

<p>and reliably disclosed (#4.5)</p>	<p>NAK reported dividend payments to government, of UAH 13.26bn. This amounts to 97% of all dividend payments to government from oil, gas and mining companies (UAH 13.66 bn).</p> <p>Lastly, SOEs seem to have paid service fees in return for state guarantees on loans to SOEs'. These payments are not reconciled in the EITI Report, but seem to be immaterial given that they amounted to less than UAH 10,000 for coal companies, and less than EUR 500,000 (UAH 15m) from petroleum companies in 2017.</p>	<p>5.6.1, 5.7.1, 5.8.1, 5.9.1, 6.4, and annex 2. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 30 June 2020.</p> <p><u>Dividends:</u> Oil and gas (incl transportation): Annex 10, section 18.9 (p.373-376); Titanium: Annex 10, section 18.9 (p.373-376); Coal: Annex 10, section 18.9 (p.373-376).</p>			
<p>Material government transfers to SOEs have been comprehensively and reliably disclosed (#4.5)</p>	<p>None of the budget transfers to neither coal nor petroleum sectors is reconciled in the EITI Report. One type of support does seem significant, but still not material using the MSG's general materiality threshold for selecting</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', sections 5.1.1 & 5.2.1, pp.28-29,46. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/.</p>	<p>During consultations, the IA indicated that data on transfers related to budget programs was collected from the State Treasury Service of Ukraine. The data was considered reliable and the IA did not require additional quality assurances for this data. The publicly</p>	<p>Satisfactory progress</p>	

	<p>revenue streams: “State support for coal mining enterprises to partially cover the cost of the finished coal products”, valued at UAH 2.12bn in 2017.</p> <p>Additionally, transfers to petroleum SOEs, mainly directed towards gas pipeline maintenance, amounted to UAH 134,400, below the MSG’s materiality threshold.</p> <p>However, due to public accessibility of government transfers to SOEs, transactions associated with budget programs seem to be comprehensively and reliably reported, even if not reconciled.</p>	<p>Accessed on 30 June 2020.</p>	<p>accessible documents provide the aggregate budget figures while disaggregated data was obtained through unilateral company reporting.</p>		
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Data quality (#4.9)					
EITI sub-Requirement	Summary of main findings	Source(s) of information	Summary of stakeholder views	Recommendation on compliance	Proposed corrective actions and recommendations

				with the EITI provisions	
<p>The MSG agreed procedures in accordance with the standard procedures endorsed by the EITI Board, which ensure that the payments and revenues disclosed are subject to a credible, independent audit, applying international auditing standards (#4.9.a-b).</p>	<p>According to the MSG meeting minutes from May 2018, the MSG discussed the ToRs for the IA and decided to approve them in electronic format. The ToRs for the IA follow the standard ToRs endorsed by the EITI Board.</p> <p>The inception report for the 2017 EITI Report provides a description of data quality assurance methodology (pp.13-14), including application of such international professional standards as ISRS 4400 and MCA 505. The 2017 EITI Report also includes a description of the reconciliation process (section 7) and the threshold for investigating discrepancies in reconciled data (p.251).</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', sections 4.2, 7. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p> <p>UAEITI (2018), 'ToRs for the IA for the 2017 EITI Report'. Provided to the EITI International Secretariat.</p> <p>UAEITI (2019), '2017 inception report'. Provided to the EITI International Secretariat.</p> <p>UAEITI (2018), 'MSG meeting minutes from 16 May 2018'. Provided to the EITI International Secretariat.</p>	<p>Stakeholders consulted did not express any concerns regarding the quality of the ToRs for the IA for the 2017 EITI Report.</p>	<p>Satisfactory progress</p>	<p>To strengthen implementation, Ukraine may wish to consider alternative approaches to ensuring the reliability of financial data by building on existing systematic disclosures of payments and revenues by relevant companies and government entities.</p>

The MSG had oversight of the procurement of the Independent Administrator (#4.9.a-b).	According to MSG meeting minutes from June 2019, the MSG approved selection of Ernst & Young as an Independent Administrator for the 2017 EITI Report. It is also noted that the World Bank's standard procedures were followed.	UAEITI (2019), 'MSG meeting minutes from 14 June 2019'. Provided to the EITI International Secretariat.	None of the stakeholders consulted expressed concern over the process followed for procuring the IA for the 2017 EITI Report.	Satisfactory progress	
The MSG agreed a procedure to address data quality and assurance based on a standard procedure endorsed by the EITI Board (#4.9.b)	The MSG agreed a procedure to address data quality and assurance in the ToRs which notes that the reconciliation process should be conducted according to the best international practices.	UAEITI (2018), 'ToRs for the IA for the 2017 EITI Report'. Provided to the EITI International Secretariat.	Stakeholders consulted did not express any concerns regarding the applied procedure to address data quality and assurance.	Satisfactory progress	
The MSG has agreed on reporting templates (IA ToRs)	According to MSG meeting minutes from 22 November 2019, the MSG discussed and approved the reporting templates for the 2017 EITI Report. Reporting templates are also provided in the 2017 EITI Report (Annex 3).	UAEITI (2020), '2017 Ukraine EITI Report', annex 3. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/ . Accessed on 20 September 2020.	Stakeholders consulted did not express any particular views on the reporting templates.	Satisfactory progress	

		UAEITI (2019), 'MSG meeting minutes from 22 November 2019'. Provided to the EITI International Secretariat.			
The MSG has undertaken a review of the audit and assurance procedures in companies and government entities participating in EITI reporting (IA ToRs)	The 2017 EITI Report provides a summary of the IA's review of the audit and assurance procedures in companies and government entities participating in the EITI reporting process (pp.22-23).	UAEITI (2020), '2017 Ukraine EITI Report', section 4.3. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/ . Accessed on 20 September 2020.	Stakeholders consulted did not express any concerns regarding the information provided in the 2017 EITI Report.	Satisfactory progress	
The MSG has agreed on the assurances to be provided by the participating companies and government entities to assure the credibility of the data, including the types of assurances to be provided, the options	According to MSG meeting minutes from November 2019 and the 2017 EITI Report, the MSG agreed the following data quality approach: <ul style="list-style-type: none"> • For companies – signature of senior management and results of 	UAEITI (2020), '2017 Ukraine EITI Report', annex 12. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/ . Accessed on 20 September 2020.	The IA confirmed that all reporting documents received from government entities and companies had to be signed by either a senior government official or a senior management representative. This decision was discussed and agreed by the MSG.	Satisfactory progress	

considered and the rationale for the agreed assurances (#4.9.b and IA ToRs)	<p>an external audit when available;</p> <ul style="list-style-type: none"> • For government entities – signature of senior officials. 				
The MSG has agreed on appropriate provisions for safeguarding confidential information (IA ToRs)	The inception report for the 2017 EITI Report describes provisions for safeguarding confidential information (section 6).	UAEITI (2019), ‘2017 inception report’. Provided to the EITI International Secretariat.	The IA clarified that all electronic documents were shared through secure channels, all paper documents received from companies were stored carefully, and no documents were allowed to be transferred to third parties. All reporting entities agreed that provided information could be published in the EITI Report.	Satisfactory progress	
Reporting companies and government entities had their financial statements audited in the financial year(s) covered by EITI reporting, and any gaps have been identified (#4.9.a)	The 2017 EITI Report documents which participating companies had their financial statements audited in the financial year and links to access the publicly available documents (Annex 12).	UAEITI (2020), ‘2017 Ukraine EITI Report’, annex 12. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/ . Accessed on 20 September 2020.	The IA confirmed that the information on whether the financial reports of material companies were subject to independent audit was presented in Annex 12.	Satisfactory progress	

<p>A summary of the key findings from the assessment of the reliability of the data disclosed by companies and government entities has been disclosed (IA ToRs)</p>	<p>The 2017 EITI Report notes that the IA considered the information provided by the reporting entities to be comprehensive and reliable (p.24).</p> <p>Annex 12 documents which participating companies provided signatures from their senior management and which companies had their financial statements audited in the financial year, including links to access the publicly available statements.</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', section 4.4. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p>	<p>The IA commented that companies that did not provide a sign-off letter accounted for only 0.3% of the total material revenues. At the same time, some companies did not sign clarifications (second answers). The IA's estimation is that only 8% of the total material revenues were not confirmed through clarification letters.</p> <p>The IA also highlighted that disclosure of 4% of total material revenue streams was not accompanied by the agreed quality assurance procedures.</p>	<p>Satisfactory progress</p>	
<p>Any non-financial (contextual) information is clearly sourced (IA ToRs)</p>	<p>The information in the report is clearly sourced and provides references to information taken from the government portals and other publicly accessible sources.</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report'. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p>	<p>Stakeholders consulted did not express any concerns regarding the sourcing of information in the 2017 EITI Report.</p>	<p>Satisfactory progress</p>	

EITI reporting has presented a set of recommendations and there has been a review of follow-up on past EITI recommendations through EITI reporting (IA ToRs).	The 2017 EITI Report provides the IA's assessment of progress with implementing the recommendations from the previous EITI report (pp.265-268) as well as the IA's recommendations for the next reporting cycles (pp.269-272).	UAEITI (2020), '2017 Ukraine EITI Report', section 8. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/ . Accessed on 20 September 2020.		Satisfactory progress	
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Requirement 6: Social and economic spending

SOE quasi-fiscal expenditures (#6.2)					
EITI sub-Requirement	Summary of main findings	Source(s) of information	Summary of stakeholder views	Recommendation on compliance with the EITI provisions	Proposed corrective actions and recommendations
The MSG has agreed a definition of materiality with regards to quasi-fiscal expenditures by SOEs, including SOE	The report provides information on QFEs in Ukraine. According to the report, the MSG discussed the issue of QFEs in Ukraine at its meeting on 22 November 2019 and	UAEITI (2020), '2017 Ukraine EITI Report', 5.1.1, pp.126-127. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/ .	According to the IA, 2017 was the first year without a need for additional calculations of QFEs by the IA. Indeed, consultations clarified that UGV and NAK provided all estimates of QFEs and could	Satisfactory progress	To strengthen implementation, Ukraine may wish to further clarify the precise service provisions that companies in Ukraine are subject to, including the provision of coal free of charge to their employees. Additionally, Ukraine may wish to

<p>subsidiaries and joint ventures (#6.2)</p>	<p>agreed to include questions on QFEs in the reporting template for the companies.</p> <p>The MSG also discussed the distinction between QFEs and social expenditures of SOEs. The MSG meeting minutes do not provide many details on the MSG's discussion, although it documents the main issues and the MSG decisions.</p> <p>With regards to QFEs, the MSG agreed to include purchase of gas for lower than market prices (p.126).</p> <p>According to Government Resolutions #758 (from 1 October 2015) and #187 (from 22 March 2017), Naftogaz is obliged to buy natural gas produced by Ukrgezvydobuvannya in order to supply natural gas for the private citizens' energy needs at below market prices set by the government (p.127).</p>	<p>Accessed on 30 June 2020.</p> <p>UAEITI (2019), 'MSG Meeting minutes of 22 November 2019'. Provided to the EITI International Secretariat.</p> <p>Ministry of Justice (1999), 'Mining Law of Ukraine, No 50'. Available at: https://zakon.rada.gov.ua/laws/show/1127-14#Text</p> <p>Ministry of Justice (2011), 'About the statement of the list of trades of workers on extraction (processing) of coal and workers of the coal-building enterprises to whom coal is provided free of charge for household needs and which structure of the general monthly or annual taxable income does not include cost of such coal'. Available at: https://zakon.rada.gov.ua/laws/show/303-2011-%D0%BF#Text</p> <p>State Statistics Service of Ukraine (2019) 'Statistical</p>	<p>confirm that no other such expenditures were made in the year under review. Stakeholders also confirmed that Chornomornaftogaz JSC is not under Ukrainian control and therefore cannot perform any QFEs, and NAK is currently in arbitrations with the Russian Federation over this company and its infrastructure.</p> <p>The IA and MSG therefore did not have any concerns regarding the comprehensiveness or reliability of this information.</p> <p>Stakeholder consultations implied that the MSG discussed whether QFEs were applicable for the coal industry. However, documentation of these discussions was not provided by the time of this assessment.</p> <p>Consultations with government representatives revealed that coal companies are obliged by law to sell 4-6 tonnes of coal production</p>	<p>explore the extent to which state (unitary) enterprises, SEs, provide social services to mining communities, and whether these operations may conform with the definitions of quasi-fiscal expenditures.</p>
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	<p>Additionally, according to the NAK's 2017 audited financial statement (AFS), p.216, both Ukrgezvydobuvannya and Chornomornaftogaz are obliged to sell gas to Naftogaz "for the needs of households, religious organisations, municipal heat-generating entities for heat distribution and hot water supply for households and religious organisations." This suggests that both UGV and Chornomornaftogaz are also subject to QFEs on behalf of the government.</p>	<p>Yearbook of Ukraine for 2018', p.64. Available at: http://www.ukrstat.gov.ua/druk/publicat/kat_u/2019/zb/11/zb_yearbook_2018_e.pdf</p> <p>DTEK (2018) 'Integrated report: Coal market'. "Average cost of coal for 2017 is UAH 3,135. Available at: https://dtek.com/content/files/coal-market.pdf</p> <p>Audited financial statements:</p> <ul style="list-style-type: none"> • Naftogaz of Ukraine NJSC: http://www.naftogaz.com/files/Zvity/NAK_AnRep2017-UA.pdf • Ukergezvydobuvannya JSC: http://www.ugv.com.ua/page/docs?count=1 	<p>directly to miners at below-market-prices, and often for free. It was noted that these arrangements are common to both private commercial companies and SOEs alike, and therefore should be categorised as social expenditures rather QFEs. Calculations based on available statistics indicate that this scheme would lead to expenses for the coal sector as a whole that were at most UAH 1.5bn for the coal sector as a whole, (based on employment statistics from the State Statistics Service of Ukraine, coal price indices from DTEK, and maximum coal provisions to miners from Ukrainian laws).</p>		
<p>Where quasi-fiscal expenditures exist and are material, the</p>	<p>Table 5.41, provides two quasi-fiscal operations of Naftogaz, namely 'a supply</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', section 5.11, pp.126-127.</p>		<p>Satisfactory progress</p>	<p>Ukraine could ensure that calculations of existing and confirmed quasi-fiscal expenditures</p>

<p>MSG has developed a reporting process for disclosure of quasi-fiscal expenditures and these expenditures have been disclosed accordingly (6.2)</p>	<p>of natural gas at lower (preferential) prices to power plants to produce heat for households for citizens' and 'accumulation of debt for selling the natural gas to citizens and power plants'. The report states that other SOEs did not perform QFEs in 2017.</p>	<p>Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 30 June 2020.</p> <p>UAEITI (2019), 'MSG Meeting minutes of 22 November 2019'. Provided to the EITI International Secretariat.</p> <p>Audited financial statements:</p> <ul style="list-style-type: none"> • Naftogaz of Ukraine NJSC: http://www.naftogaz.com/files/Zvity/NAK_AnRep2017_UA.pdf • Ukrgezvydobuvannia JSC: http://www.ugv.com.ua/page/docs?count=1 			<p>by gas companies are made on a regular basis by the relevant entities, and systematically disclosed.</p>
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Contribution to the economy (#6.3)					
EITI sub-Requirement	Summary of main findings	Source(s) of information	Summary of stakeholder views	Recommendation on compliance	Proposed corrective actions and recommendations

				with the EITI provisions	
Information about the contribution of the extractive industries to GDP as well as an estimate of informal sector activity for the fiscal year covered by EITI disclosures has been disclosed in absolute and relative terms (#6.3.a)	<p>The 2017 EITI Report notes that, according to the State Statistics Service, the contribution of the extractive industries to the GDP of Ukraine was equal to UAH 177.2bn (USD 6.7bn), or 5.9% of GDP in 2017 (pp.10, 114).</p> <p>The 2017 EITI Report provides an overview of informal extractive activities (pp.121-123). The calculations are based on data on informal employment available from the State Statistics Service and a study by the Ministry for Development of Economy, Trade and Agriculture of Ukraine on the share of the shadow economy.</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', sections 2, 5.10. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p>	<p>Stakeholders consulted did not express any concerns regarding the data provided in the 2017 EITI Report.</p> <p>Representatives consulted from all constituencies noted that work on addressing the corrective action related to providing an estimate of informal sector activity was delegated to the Independent Administrator. It was highlighted that no comments on this issue were raised during the MSG discussion of the draft 2017 EITI Report.</p>	Satisfactory progress	To strengthen implementation, Ukraine may wish to continue reviewing available studies regarding the informal sector activity in Ukraine and continue engaging with relevant stakeholders on the issue to ensure that annual updates on informal extractive activities are publicly accessible. To strengthen implementation in accordance with the 2019 EITI Standard, Ukraine is encouraged to ensure that employment data is disaggregated by gender and, when available, by company and occupational level.
Information about the contribution of the extractive industries to government revenues for the fiscal year	<p>The 2017 EITI Report specifies that, according to the state entities (State Customs Service, Ministry of Economy, Geology</p>	<p>UAEITI (2020), '2017 Ukraine EITI Report', sections 2, 5.10. Available at: http://eiti.org.ua/do</p>	<p>Stakeholders consulted did not express any concerns regarding the data provided in the 2017 EITI Report.</p>	Satisfactory progress	

covered by EITI disclosures has been disclosed in absolute and relative terms (#6.3.b)	Service), the government revenues from extractive industries amounted to UAH 145,4bn (USD 5.5bn), or 12.5% of total government revenues in 2017 (pp.13, 118-119)	cuments/zvit-ipvh-ukrai-ny-2017/ . Accessed on 20 September 2020.			
Information about the contribution of the extractive industries to exports for the fiscal year covered by EITI disclosures has been disclosed in absolute and relative terms (#6.3.c)	The 2017 EITI Report mentions that, according to the State Statistics Service, the value of the exported products of extractive industries was equal to USD 1.77bn, or 3.4% of the total exports of goods and services in 2017 (p.118).	UAEITI (2020), '2017 Ukraine EITI Report', section 5.10. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/ . Accessed on 20 September 2020.	Stakeholders consulted did not express any concerns regarding the data provided in the 2017 EITI Report.	Satisfactory progress	
Information about the contribution of the extractive industries to employment for the fiscal year covered by EITI disclosures has been disclosed in absolute and relative terms (#6.3.d)	The 2017 EITI Report notes that, according to the State Statistics Service, the average staff number in the extractive industries was 213,000, or 2.8% of all full-time employees in Ukraine in 2017 (p.120). In addition, the report provides disaggregation of employment data by region.	UAEITI (2020), '2017 Ukraine EITI Report', section 5.9. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/ . Accessed on 20 September 2020.	Stakeholders consulted did not express any concerns regarding the data provided in the 2017 EITI Report.	Satisfactory progress	
Information about the location of extractive	Information about the location of extractive	UAEITI (2020), '2017 Ukraine EITI Report',	Stakeholders consulted did not express any concerns regarding	Satisfactory progress	

<p>activities in the fiscal year covered by EITI disclosures has been disclosed (#6.3.e)</p>	<p>activities provided for each sector separately in relevant sections of the 2017 EITI Report (pp.25-113).</p>	<p>sections 5.1-5.9. Available at: http://eiti.org.ua/documents/zvit-ipvh-ukrai-ny-2017/. Accessed on 20 September 2020.</p>	<p>the data provided in the 2017 EITI Report.</p>		
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