

Extractive Industries
Transparency Initiative

NATIONAL REPORT
OF UKRAINE
2016

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1 List of abbreviations and glossary of terms

Term	Meaning
Budget Code	Budget Code of Ukraine No. 2456-VI dated 8 July 2010
CMU	Cabinet of Ministers of Ukraine
Customs Code	The Customs Code of Ukraine No. 4495-VI dated 13 March 2012
Geoinform of Ukraine SRPE	State Geological Information Fund of Ukraine State-owned Research and Production Enterprise
EITI	Extractive Industries Transparency Initiative
EITI International Secretariat	Independent body responsible for EITI implementation and management at the international level. It is based in Oslo (Norway)
EITI National Secretariat	National body, which coordinates and supports EITI at the country level.
EITI Report	Report containing the major deliverables of the procedures performed as part of EITI implementation at the country level for a year (in this particular case - for 2016)
EITI Standard	International standard of ensuring the transparency of a country's natural resource governance process within the EITI framework
GZK	Ore Preparation Plant
GTS	Gas transportation system
Independent Administrator	External independent entity, which provides the services on preparation of EITI Report for 2016 and which has no conflict of interest in respect of provision of such services
IPG	Integral property group
JAA	Joint Activity Agreement
JV	Joint Venture
Law on Oil and Gas	The Law of Ukraine "On Oil and Gas" No. 2665-III dated 12 July 2001
License	Special permit for the use of subsoil
Ministry of Ecology	Ministry of Ecology and Natural resources of Ukraine
Ministry of Energy, MECl	Ministry of Energy and Coal Industry of Ukraine
Ministry of Economy	Ministry of Economic Development and Trade of Ukraine
Mining Law	The Mining Law of Ukraine No. 1127-XIV dated 6 October 1999
Ministry of Finance	Ministry of Finance of Ukraine
MSG	Multi-stakeholder group, which includes the representatives of government, companies and civil society and has been created to control the process and communication on EITI Report findings, as well as to integrate EITI for broader activities on ensuring the extractive industries transparency
NJSC	National Joint-Stock Company
NBU	National Bank of Ukraine
NEURC	National Energy and Utilities Regulatory Commission

Term	Meaning
Non-production royalty	Rent fee for the use of subsoil for purposes other than production of mineral resources
OJSC	Open Joint-Stock Company
Parliament	Verkhovna Rada of Ukraine
PICE	Private Industrial and Commercial Enterprise
PIT	Personal income tax
Production royalty	Rent fee for the use of subsoil for production of mineral resources
PJSC	Public Joint-Stock Company
PrJSC	Private Joint-Stock Company
Procedure on granting licenses	The Procedure on granting special permits on subsoil use, approved by the Resolution of the CMU No. 615 dated 30 May 2011, as of 10 November 2016, unless otherwise specified in the EITI Report
Procedure for holding the auctions for licenses	The Procedure for holding auctions for sale of special permits on subsoil use approved by the Resolution of the CMU No. 594 dated 30 May 2011, as of 10 November 2016, unless otherwise specified in the EITI Report
PSA	Production Sharing Agreement
PSA Law	The Law of Ukraine "On Production Sharing Agreements" No. 1039-XIV dated 14 September 1999
Transportation royalty	Rent for transportation of oil and oil products through trunk pipelines and oil product pipelines through Ukrainian territory, natural gas and ammonia transit transportation via pipelines through Ukrainian territory
Reporting entities	Companies and government authorities, which provide the reporting data for further processing and presentation in the EITI Report
SE	State Enterprise (unless otherwise noted)
SCMR	State Commission on Mineral Resources
SFS	The State Fiscal Service of Ukraine
Heolekspertyza SGE	State Commission for Examination of Geological Projects and Estimates Heolekspertyza
SJSC	State Joint-Stock Company
SLLC	Small Limited Liability Company
SOJSC	State Open Joint-Stock Company
Subsoil Code	The Subsoil Code of Ukraine No. 132/94-VR dated 27 July 1994
Geology Service	The State Service for Geology and Mineral Resources of Ukraine
MSIS	The State Service for Mining Supervision and Industrial Safety of Ukraine (its operations is ceased by the Order of the CMU No 1021-r dated 30.09.2015)
State Statistics Service, SSSU	State Statistics Service of Ukraine
State budget	State Budget of Ukraine

Term	Meaning
State Labor Service	The State Labor Service of Ukraine, created as a result of reorganization of State Service for Mining Supervision and Industrial Safety of Ukraine and the State Labor Inspection of Ukraine
Tax Code	The Tax Code of Ukraine No. 2755-VI dated 2 December 2010
UAH	Ukrainian hryvnia
UBMR	Construction Works Department
USC	Unified contribution for mandatory state social insurance, Unified Social Contribution
USD	US dollar. Average exchange rate in 2016 was - 25,55 UAH/USD
VAT	Value added tax

2 Executive summary

This Report is the third Extractive Industries Transparency Initiative (EITI) report of Ukraine. The background and financial information presented in this Report relates to activities in the extractive industries of Ukraine during 2016.

The scope of the Report 2016 has been extended and includes additional information on three new extractive industries, namely: mining of fire and high-melting clays, and quartz sand. However, no payment reconciliation has been done for companies operating in these extractive industries.

The contribution of extractive industries to the economy of Ukraine

Extractive industries remain an important part of Ukraine's economy. The cost of the extractive industries production in 2016 exceeded UAH 253,770 mln or 4.68% of the output of the Ukrainian economy¹.

The contribution of extractive industries to the gross domestic product of Ukraine in 2016 amounted to UAH 131,650 mln or 5.4% of GDP. For the first time in the last 6 years, the extractive industries grew faster than the GDP of Ukraine.

Coal

The coal industry - one of the main energy sectors of Ukraine - is represented by both public and private sector companies. As of 01.01.2017, there were 482 operating mines in the territory of Ukraine, 95 of which are state owned and 387 are non-state owned mines.

The actual mining volumes in 2016 did not cover the internal need of Ukraine in coal, resulting in the growth of imported coal by 7% compared to the previous year.

The coal mining companies are located mostly in the ATO zone, which hampers the reform of the industry. As of 01.07.2017, 131 public sector enterprises are defined as those located in the territory where the state authorities do not exercise their powers.

Nevertheless, in order to address the existing problems of the industry in a comprehensive way and increase the effective use of the potential in 2017, a new Coal Industry Reform Concept for the period till 2020 was developed and endorsed.

Oil and natural gas

Balance sheet oil reserves of Ukrainian deposits are estimated at 121,124 thousand tonnes as of 01.01.2017. There are 135 developed fields on the state balance sheet. Their reserves comprise 81% of the balance sheet oil reserves in Ukraine.

The degree of exploration of the original potential reserves of oil is estimated at 39.2%, and their depletion is 73.5%. It means that only 26.5% of the explored deposits have not been depleted. So, it is necessary to continue exploration to cover the domestic needs in oil.

According to data from Geoinform of Ukraine SRPE, there are 402 hydrocarbon deposits where natural gas is extracted, 269 deposits are under industrial development. In general, the balance sheet reserves of natural gas amounted to 905,623 mcm, while off-balance sheet reserves are 9,553 mcm as of 01.01.2017.

In general, according to the results of 2016, the volume of oil extraction amounted to

¹ Due to the lack of relevant official statistical information, the data on contribution to the economy do not include the economic performance of the enterprises engaged in oil and natural gas transportation.

1,619 thousand tonnes, which is 198 thousand tonnes less than in 2015. The volume of natural gas extraction from Ukrainian deposits amounted to 20,037 mcm, which is 129 mcm more than in 2015.

The public sector enterprises have been traditionally the leaders in oil and natural gas production in 2016 like in previous years. The group of companies of Naftogaz of Ukraine NJSC accounted for about 90% of oil and gas condensate production, including Ukrnafta PJSC - about 68% of the total oil production and Ukgazvydobuvannia PJSC - 22%. Ukgazvydobuvannia PJSC accounts for 73% of the total volume of natural gas extraction in Ukraine, Ukrnafta PJSC - 6%

Transportation of oil and natural gas

Natural gas

The Ukrainian natural gas transportation system includes 38.55 thousand km of gas pipelines, including trunk pipelines - 22.16 thousand km and gas pipeline branches - 16.39 thousand km. The total volume of natural gas transported in 2016 amounted to 111,791 mcm (transit and transportation to domestic consumers), which is more than the actual volume in 2015 by 14.7%, including increase in the volume of natural gas transit by 22.5% compared to 2015 and amounted to 82.2 bcm.

Active implementation of the liberalized natural gas market in Ukraine in accordance with the Law of Ukraine "On the Natural Gas Market" continued in 2016. In particular, the plan for the restructuring of Naftogaz of Ukraine NJSC is approved that envisages the separation of activities for the transportation and storage of natural gas (unbundling).

In fact, for the purposes of practical realization of the unbundling and ensuring the independence of the GTS Operator from other market participants, Main Gas Pipelines of Ukraine PJSC was established in November 2016, which is expected to carry out activities for managing GTS operations instead of Ukrtransgaz PJSC in the future. In addition, at the moment, the Ministry of Energy and Coal Industry initiated transferring corporate rights from Ukrtransgaz PJSC to Main Gas Pipelines of Ukraine PJSC and searching for international partners for the joint management of the GTS of Ukraine.

Oil

According to Naftogaz of Ukraine NJSC, the system of trunk oil pipelines in Ukraine includes 19 oil pipelines with a total length of 3,506.6 km, 51 oil pump stations (OPS) and the sea oil terminal Pivdennyi. The input capacity of the system is 114.5 mln tonnes/year, the output capacity is 56.3 mln tonnes/year.

Ukrtransnafta PJSC contains 3 branches in its structure: Druzhba Main Oil Pipelines (oil transportation to Drogobych refinery and Naphtokhimik Prykarpattya), Prydniprovski Main Oil Pipelines (Lisichansky Refinery (suspended as of 2016) and Kremenchuh Refinery) and Pivdenni Main Pipelines (Kherson Refinery (suspended in 2005), and Odessa Refinery (suspended as of 2016)). The total volume of oil transit through the main pipelines of Ukrtransnafta PJSC in 2016 amounted to 13.8 mln tonnes, and transportation to the Ukrainian refineries -1.4 mln tonnes.

Iron ores

In the territory of Ukraine, reserves of iron ores are concentrated in Kryvyi Rih and Kerch iron ores basins, as well as Kremenchuh, Bilozirske and Mariupol iron ores regions.

The Geology Service maintains state accounting for the balance sheet reserves of iron ores for 60 deposits of Ukraine. As of 01.01.2017, the category A + B + C1 balance sheet reserves amounted to 19,725.9 mln tonnes, C2 category - 7,367.0 mln tonnes.

Total mining volumes of iron ores amounted to 164 mln tonnes in 2016. Mining decreased by 8 mln tonnes compared to the previous year.

In 2016, Ukraine continued to export iron ores and concentrates (agglomerated and non-agglomerated), although the total exports decreased by 14% compared to the previous year and totaled 39.2 mln tonnes.

Titanium ores

Ukraine has considerable titanium ores reserves including explored ones. According to Geoinform of Ukraine SRPE, three companies were involved in exploration operations in 2016: Zhytomyrburrozvidka LLC, Pivdenukrgeologiya SE, Donetskgeologiya SRGE.

Mining of titanium-containing ores is carried out from spreading deposits. Ilmenite predominates in reserves and mining, and the reserves of rutile are limited. Currently, 14 deposits are being developed in Ukraine. The sales volumes of titanium concentrates by United Mining and Chemical Company PJSC, the largest company of the industry, amounted to 376.9 thousand tonnes in 2016.

The volume of titanium ores and concentrate exports increased by 57% compared to the previous year and amounted to 463.4 thousand tonnes in 2016.

Manganese ores

According to Geoinform of Ukraine SRPE, the balance sheet deposits of manganese ores in Ukraine include three deposits of the Nikopol basin and technogenic deposit Sludge dump named after Maximov. As of 01.01.2017, the category A+B+C1 manganese ores reserves amounted to 2,179.7 mln tonnes and category C2 - 197.3 mln tonnes. The off-balance sheet reserves of manganese ores amounted to 58.0 mln tonnes. No substantial geological surveys were conducted during 2016.

The total volume of manganese ores mined in 2016 amounted to 2,874.1 thousand tonnes, or 22% (800.8 thousand tonnes) less than in 2015 when the volumes of mining of manganese ores amounted to 3,674.9 thousand tonnes.

The volume of manganese ores and concentrates imports exceeded their exports in 2016. Ukraine exported 61 thousand tonnes of manganese ores and concentrates to the value of USD 2.8 mln and imported 957.1 thousand tonnes to the value of USD 132 mln in 2016.

Fire clays

Ukraine has significant reserves of fire clays. The main explored deposits are localized within the Dniro-Donets depression, the Donetsk folded structure, the Ukrainian shield. Geoinform of Ukraine SRPE records 28 deposits of fire clays.

The total balance sheet reserves of fire clays amounted to 617.6 mln tonnes in category A+B+C1, 367.6 mln tonnes in C2 category as of 01.01.2017. Off-balance reserves of fire clays accounted for 137.7 mln tonnes.

The total volume of fire clays mining amounted to 5,414 thousand tonnes in 2016, which is 18% more than in 2015.

The total exports of fire clays amounted to 85% of total mining - 4,579.6 thousand tonnes at the cost of USD 170.1 mln in 2016. Thus, Ukraine meets its internal demand for mineral raw materials. Imports were insignificant.

High-melting clays

Geoinform of Ukraine SRPE records 20 objects with high-melting clays reserves as of 01.01.2017, 17 of which are the main deposits. 4 fields are in the process of development.

Balance sheet reserves of high-melting clays as of 01.01.2017 in category A+B+C1 amounted to 83,299.45 thousand tonnes, in C2 category - 72,788.0 thousand tonnes.

The volume of high-melting clays mining in the territory of Ukraine amounted to 40.2 thousand tonnes in 2016, which is significantly higher than in 2015 (0.55 thousand tonnes).

Quartz sand

The deposits of glass quartz-containing raw materials are found in all geological regions of Ukraine and concentrated in more than 100 deposits and shows. The territories that are valuable in terms of quartz-containing raw materials include the areas of the Donetsk folded structure, the Dnipro-Donets depression, the Ukrainian shield, and the Volyn-Podilsky plate.

The state balance sheet of mineral resources of Ukraine records 40 deposits of quartz sand and one deposit of liparite. As of 01.01.2017, the total category A+B+C1 reserves of quartz sand amounted to 227.67 mln tonnes, in C2 category - 70.16 mln tonnes.

The volume of glass raw materials mining in the territory of Ukraine increased by 47% (305.9 thousand tonnes) in 2016 compared to 2015 and amounted to 961.9 thousand tonnes.

Reconciliation of tax and other payments

The completeness of reconciliation for EITI Report 2016 is 91.8%. The total of UAH 91,918,519.5 thousand (out of the total of UAH 100,088,748.23 that were subject to reconciliation) have been reconciled. 60 extractive companies were requested to provide the information, 45 of them provided it.

The highest coverage of 95.1% is demonstrated by oil and gas companies (the total of UAH 81,239,165.95 thousand has been reconciled out of UAH 85,436,753.79 thousand); out of 28 companies, 23 replied to the requests.

The total revenues of UAH 72,038,561.94 thousand (out of UAH 72,362,578.59 thousand) from 16 (out of 18) public sector companies and UAH 19,879,957.65 thousand (out of UAH 27,726,169.63 thousand) from 29 (out of 42) private sector companies have been reconciled in the EITI Report 2016. Therefore, the completeness of reconciliation is higher for the public sector companies (99.6%) than that for the private sector companies (71.7%).

The initial reconciliation identified the discrepancy between the data provided by the state bodies and the data provided by 33 companies, 29 of them clarified the information.

As a result of reconciliation of revenues from extractive companies, the discrepancies between the data provided by the state bodies and the data provided by companies in the amount of UAH 7,612,174.96 thousand have been resolved. The discrepancies of UAH (5,514.71) thousand remained unresolved.

By the extractive industries, the biggest total unresolved discrepancy was identified for coal mining companies in the amount of UAH (8,032.83) thousand or (0.17%). The discrepancies of UAH 2,792.46 thousand or 0.05% were identified for metal ores mining companies and UAH (274.33) thousand or 0.0003% for oil and gas companies.

By the forms of ownership, bigger unresolved discrepancies were identified for private sector companies in the amount of UAH (16,270.41) thousand or (0.08%) compared to public sector companies - UAH 10,755.71 thousand or 0.01%.

By the types of payments, the payments from personal income tax demonstrated the highest level of unresolved discrepancies in the amount of UAH (19,763.74) thousand or (0.45%).

3 Extractive industries transparency initiative in the world and in Ukraine

Ukraine received the status of a candidate country for the Extractive Industries Transparency Initiative (EITI) in October 2013. The goal of the EITI implementation in Ukraine is to improve transparency of the country's natural resources management and disclose information on the level of government revenues from the extractive industries.

The EITI Standard operates in a way that the official information from the Government of Ukraine and other authorities on the revenues from extracting companies is compared to the information on the payments made by the mining companies on an annual basis. The results of the comparison of payment information, as well as other information on mining activities in Ukraine shall be presented in the National EITI report. The report shall be subject to an international peer review and monitored by the Multi-Stakeholder Group (MSG).

A Multi-Stakeholder Group was established on December 26, 2012, and Ukraine became a candidate country for the Extractive Industries Transparency Initiative on October 17, 2013.

To enable implementation of the EITI standards, on June 16, 2015, Verkhovna Rada adopted Law No. 521-VIII "On Amending Certain Legislative Acts of Ukraine on Transparency in Extractive Industries". In particular, the law obliges subsoil users to provide and disclose information on national and local taxes and duties, other payments, as well as on production (business) activities which is the use of mineral resources for the extraction of minerals, in accordance with the procedure approved by the Cabinet of Ministers of Ukraine. In addition, the state authorities responsible for the oversight in the field of geological exploration, rational use and protection of mineral resources, are obliged to provide and publish information on geological exploration, use and protection of mineral resources under the procedure established by the Government. The purpose of the Law is to increase transparency of the extractive industry in Ukraine and to improve the management of natural resources, implementation of standards for Initiatives to ensure transparency of extractive industries, including improving the investment climate in Ukraine.

In order to promote EITI, appropriate campaigns were launched through media resources to highlight the implementation process of the Standard both in Ukraine and abroad; a web portal <http://eiti.org.ua> was developed where information on the events related to EITI in Ukraine and abroad was made public. It also hosts the EITI Standard, the legislative analysis reports, and other useful information.

EITI in Ukraine is supported by:

- ▶ World Bank
- ▶ International Renaissance Foundation
- ▶ USAID;
- ▶ German and UK Governments through the "Good Financial Governance" Project implemented by the federal enterprise Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.

The first EITI Report of Ukraine (for 2013) was issued in 2015, which covered oil and gas sector and contained information on the performances of the companies engaged in oil and natural gas production and their transportation within the country in the period.

Out of the total amount of tax payments made by the companies according to the

questionnaires submitted in 2013 (UAH 24.2 bln), 88% were confirmed as a result of reconciliation, the cause of the discrepancies (12%) could not be determined. In addition, the conclusion was made about the low percentage of reliable data collection on non-tax payments for the benefit of the state institutions - central and local executive authorities and state-owned enterprises.

In February 2017, the second national EITI Report was published. The scope was expanded and included, in addition to natural gas and oil extraction, the data on the mining of coal, iron, titanium and manganese ores in Ukraine in 2014 and 2015. The second Report contained, in addition to contextual information and payments reconciliation information, the beneficiary owners' data.

During 2016, the EITI was further promoted in Ukraine by the National EITI Secretariat, representatives of territorial communities, as well as other stakeholders. A number of round tables in the regional centres of oil and gas regions were held with the participation of representatives of local authorities, local communities and mining companies. In addition, a series of expert discussions on current legislative initiatives aimed at increasing transparency in the field and public events for media representatives were held by the National Secretariat and representatives of the MSG in order to promote the information on current achievements, as well as the goals and objectives of the Initiative in the near future².

As a part of the improvement of the regulatory framework of the EITI, the Law of Ukraine No. 6229 "On Ensuring Transparency in the Extractive Industries" was drafted and registered in the Verkhovna Rada, which, in addition to increasing transparency in the extractive industries, will also contribute to the fulfilment of Ukraine's obligations under the Ukraine EU Association Agreement and the Agreement between Ukraine and the European Atomic Energy Community and their Member States and to implementation, in terms of increasing transparency of economic operations in extractive industries, Directive 2013/34/EC of the European Parliament and of the Council of 26 June 2013, Directive 2013/50/EC of the European Parliament and of the Council of 22 October 2013 and Directive 2007/14/EC of the European Parliament and of the Council of 08 March 2007.

² For detailed information see: EITI in Ukraine web-site section News: <http://eiti.org.ua/category/novyny/>

4 The methodology and approach used to prepare the EITI report

4.1. Scope of the EITI Report

The EITI Report for 2016 includes the information from business entities, regardless of their ownership, which carried out business activities related to extraction of minerals and transportation of oil and natural gas through the territory of Ukraine, as well as executive authorities, who received payments from companies of the extractive industries.

The EITI Report for 2016, in accordance with the decision of the MSG (Minutes of the MSG meeting of September 20, 2017), covers three new extractive industries, namely: the extraction of fire and high-melting clays, quartz sand. The contribution of these additional extractive industries to Ukraine's GDP and total government revenues was insignificant in 2016. In accordance with the decision of the MSG, no reconciliation of payments were made for companies operating in the above three mining industries.

Therefore, this EITI Report includes the context information required by the EITI Standard for the following industries:

- ▶ mining of coal;
- ▶ extraction of crude oil;
- ▶ extraction of natural gas;
- ▶ mining of iron ores;
- ▶ mining of titanium ores;
- ▶ mining of manganese ores;
- ▶ mining of fire clays;
- ▶ mining of high-melting clays;
- ▶ mining of quartz sand (for the purposes of production of glass);
- ▶ transportation of oil and natural gas.

The list of extractive companies included into the scope of EITI Report (Annex 2)

The list includes all companies, which during 2016 had a special permit for the use of subsoil (natural gas, oil, coal, iron, titanium and manganese ore, fire and high-melting clays, and quartz sand), as well as companies engaged in oil and natural gas transportation through the territory of Ukraine. The sources of information on holders of the special permit are the on-line register of Geoinform of Ukraine SRPE, the websites of the companies engaged in oil and natural gas production and other open sources of information. Moreover, in order to double check the information on permit holders, a formal request was sent to State Service for Geology and Mineral Resources of Ukraine.

The list of taxes and other payments made by extractive companies for the benefit of the state

Based on the Independent Administrator's feasibility study carried out using the information received from the SFS, the list of extractive industries, taxes and revenues, and other extractive companies is determined which make cumulatively main part (more than 95%) of all government revenues in the Consolidated budget and Pension Fund from the companies of extractive industries. More information on determining the scope for reconciliation in EITI

Report 2016 is presented in *section 7*.

The list of contextual and other information not related to the payments

This list is compiled in accordance with the EITI Standard requirements and taking into consideration the MSG opinion. The contextual and other information not related to the payments includes the total volume of resources extracted in the territory of Ukraine, the data on explored reserves, and the number of special permits and other information to be disclosed according to the requirements of the EITI Standard. The above-mentioned information is received from the questionnaires filled in by the companies of extractive sector (**Annex 3**) and state authorities and from the open sources (the State Statistics Service of Ukraine, Geoinform of Ukraine SRPE publications etc.).

Artisanal and small-scale mining

Taking into account the objective factors, such as absolute immateriality of activities, lack of official and/or reliable information about such activities, location of possible objects of artisanal and small-scale mining on the territory that is not temporally controlled by the Ukrainian authorities in the zone of ATO, it is impossible to estimate this type of extractive activity. In view of this, MSG decided (Minutes of MSG meeting from January 18, 2018) to exclude artisanal and small-scale mining from the scope of the EITI Report of Ukraine for 2016.

Disclosures by extractive companies located in the ATO zone and in the temporarily occupied territory of Ukraine

According to the Law of Ukraine "On Ensuring the Rights and Freedoms of Citizens and Legal Regime in the Temporarily Occupied Territory of Ukraine", since February 20, 2014, the territory of the Autonomous Republic of Crimea (hereinafter - ARC) and of the city of Sevastopol is a temporarily occupied territory.

In accordance with the Law of Ukraine "On Creation of a Free Economic Zone *Crimea* and the Peculiarities of Economic Activity in the Temporarily Occupied Territory of Ukraine" (hereinafter - the Law on FEZ) a free economic zone *Crimea* shall be created in the territory of the Crimea and the city of Sevastopol for the period of 10 years. According to Art. 12 of the Law on the FEZ, the individuals and entities registered with the controlling bodies or had their official a place of residence (residence) on the territory of the ARC or in the city of Sevastopol at the beginning of the temporary occupation, shall be exempted from the duty to submit to the controlling bodies their declarations (other than customs declarations), financial statements and other documents related to the calculation and payment of taxes and duties during the period of the temporary occupation and after it elapses.

Pursuant the Presidential Decree "On the Decision of the National Security and Defense Council of Ukraine of April 13, 2014 "On Urgent Measures to Overcome the Terrorist Threat and Preserve the Territorial Integrity of Ukraine", since April 2014, an anti-terrorist operation (ATO) is carried out on the certain territories of Donetsk and Luhansk regions.

A number of enterprises located in the ATO zone or on the temporarily occupied territory, which is partially or fully not controlled by the Ukrainian government, suspended or ceased their operations in 2016. Therefore, there was an objective difficulty in obtaining information for the EITI Report for 2016 from the enterprises on the temporarily occupied territory and in the ATO zone, which greatly impacts the preparation of the part of the 3rd EITI Report.



Therefore, on January 31, 2018, the MSG applied to the EITI Board for the adapted implementation of the EITI Standard in terms of the scope of the report on the extractive industries in Donetsk and Luhansk regions and in the annexed Crimea for 2016. On February 13, 2018, the EITI Board satisfied the request.

Despite the above facts, the EITI Report for 2016 partially unilaterally discloses the operations of individual mining companies on the temporarily occupied territory and ATO zone, including the data on payment of taxes (source of information - SFS), volumes of coal mining (source of information - Geoinform of Ukraine SRPE).

4.2. Data collection

The procedure of gathering the information from Ukrainian extractive companies and oil and natural gas transportation companies and government entities includes the following steps:

- ▶ Consultations with MSG members and representatives of the MECI on the scope of the EITI Report, as well as on the list of information to be included in the questionnaires;
- ▶ Adjustments to the questionnaires for extractive companies and oil and natural gas transportation companies with regard to the contextual information (**Annex 3**) and taxes, non-tax and other payments (**Annex 4**), as well as to the respective cover letter signed by the Minister of Energy and Coal Industry of Ukraine;
- ▶ Preparation of separate requests to the state entities listed in **Annex 1**, and the respective cover letter signed by the Minister of Energy and Coal Industry of Ukraine;
- ▶ Incorporation of the comments, remarks and recommendations provided by the MGS members and representatives of the MECI in respect of the development of questionnaires for information request;
- ▶ Sending of the questionnaires and requests along with the MECI cover letters by the MECI and the Independent Administrator;
- ▶ Filling in the questionnaires by the companies and state entities in a hard or soft copy (the soft copies of questionnaires for reporting organizations were posted by the EITI National Secretariat of Ukraine at the web-site eiti.org.ua);
- ▶ Sending the filled in questionnaires to the e-mail eiti@mev.gov.ua by the reporting entities;
- ▶ Receiving the filled in questionnaires by the responsible person from the MECI and submission to the Independent Administrator via the protected communication channels;
- ▶ Processing the questionnaires by the Independent Administrator and consolidation of the respective aggregated indicators and information to be used for the EITI Report.

4.3. Audit and assurance procedures in extractive companies and public bodies

The Independent Administrator analyzed the audit and assurance procedures in extractive companies (including oil and natural gas transportation) and government agencies.

4.3.1 Audit by extractive companies (including transportation of oil and natural gas)

The legal basis for conducting audit activities in Ukraine is regulated by the Law of Ukraine "On Auditing" of April 22, 1993, No. 3125-XII.

According to Article 6 of the Law of Ukraine "On Auditing", auditors and audit firms shall apply the relevant standards on auditing when conducting audits. The standards on auditing used in Ukraine are based on the International Standards on Auditing and Code of Ethics for Professional Accountants published by the International Federation of Accountants and comply with the requirements of the Law of Ukraine "On Auditing", the Law of Ukraine "On Prevention and Counteraction to Legalization (Laundering) of the Proceeds from Crime, Financing Terrorism and Financing Proliferation of Weapons of Mass Destruction" and other normative legal acts. According to Article 3 of the Law of Ukraine "On Auditing", an audit can be conducted by initiative of the entities and in cases stipulated by law (statutory audit).

According to the current legislation, there is no direct requirement to audit or provide other assurance for the reporting specifically for mining companies (including transportation of oil and natural gas).

According to Article 8 of the Law of Ukraine "On Auditing" auditing is statutory for:

- 1) assurance of reliability and completeness of annual financial statements and consolidated financial statements of public joint stock companies, bonds issuers, professional securities market participants, financial institutions and other entities, the reporting of which is subject to official publication in accordance with Ukrainian legislation, with the exception of institutions and organizations that are fully financed from the state budget;
- 2) checking the financial status of the founders of banks, enterprises with foreign investments, public joint stock companies (except for individuals), insurance and holding companies, joint investment institutions, trust companies and other financial intermediaries;
- 3) issuers of publicly traded securities and derivatives, as well as when obtaining a license for professional activity in the securities market.

Audit is also mandatory in other cases provided by the laws of Ukraine.

Formally, according to Article 18 of the Law "On Business Companies" the reliability and completeness of the annual financial statements of the company must be confirmed by the auditor (audit firm). Statutory audit of the annual financial statements of the companies with an annual economic turnover of less than two hundred and fifty non-taxable minimum income shall be done once every three years. However, since the legislation establishes no control over and liability for non-audited financial statements, such companies often do not have their statements audited in practice.

In the recent years, in Ukraine, a number of draft laws and regulations were developed that aimed at introducing mandatory audit and / or the obligation to report under the international standards for the enterprises engaged in mining minerals of national significance.

On October 5, 2017, the Verkhovna Rada adopted the Law "On Making Amendments to the Law of Ukraine "On Accounting and Financial Reporting in Ukraine". The law expanded the list of enterprises, which have to prepare their financial statements under the International Financial Reporting Standards (IFRS). In addition, the enterprises engaged in extraction of minerals of national significance should publish their consolidated and separate financial statements along with audit reports on its own web-page.

4.3.2 Auditing in executive bodies and public entities

The legislation does not provide for an independent statutory audit for public entities.

At the same time, according to the Law of Ukraine "On the Basic Principles of Implementation of State Financial Control in Ukraine", the reliability of accounting and financial reporting in the ministries and other executive bodies, state funds, budgetary institutions and public entities, as well as enterprises and organizations funded from the state budget at all levels and state funds that use the state or communal property, shall be controlled by the state financial control bodies.

The state financial control is performed through the conduct of public financial audit, inspection of public procurements and other inspections using the procedure established by the Cabinet of Ministers of Ukraine. Therefore, the results of the execution of the state financial control can be used in preparing the EITI Report for 2016. In addition, the use of budgetary funds is controlled by the Accounting Chamber on behalf of the Verkhovna Rada of Ukraine. In accordance with the Law of Ukraine "On the Accounting Chamber", the Accounting Chamber, inter alia, conducts financial audit, which includes verification, analysis and evaluation of the lawfulness, completeness and fairness of accounting for budget revenues and budget expenditures, establishing the actual state of affairs with regard to the intended use of budgetary funds, compliance with legislation while performing operations with budgetary funds.

The Accounting Chamber publishes the reports on its web-site: <http://www.ac-rada.gov.ua/control/main/uk/publish/category/16748561> .

The data of the Accounting Chamber can also be used for the purpose of preparing the EITI Report.

4.4. Data quality and assurance

The agreed upon procedures in respect of the amount of taxes and other payments paid by the extractive companies for the benefit of the state are described in **Section 7**.

The above mentioned procedures do not confirm the fact that the reporting entities made no payments in favor of government agencies other than those presented in the Report. These payments or amounts could not be included in the reports by the companies or state authorities. The current standards do not require the Independent Administrator to perform the detailed check of the initial documents in order to identify such omissions. Identifying such situations is difficult even during the in-depth audit of all companies.

Independent Administrator considered the information provided by the reporting entities to be comprehensive and reliable, since

- ▶ The completeness and reliability of data provided by extractive companies (private and public) was confirmed by the signatures of the senior officers of the companies, which guarantee the correctness of the data provided, and/or by conclusions of the external

auditor on the data provided (in the case of the audit opinion availability), for each company;

- ▶ The completeness and reliability of the data received from the state authorities was confirmed by the signatures of senior officers of the authority, and by the principles of interaction between different authorities and provision of reliable data.

Information on the availability of financial statements and audit opinion by extractive companies is provided in **Annex 14**.

5 Background information on extractive industries

More than 20 thousand deposits and shows were found in the depths on the territory of Ukraine, where 117 types of mineral raw materials are concentrated. According to the Geoinform of Ukraine SRPE, the industrial deposits are recorded in the State balance sheet of mineral resources and there are 9,168 units of them as of 01.01.2017.

There are more than 3,371 deposits of minerals under industrial development in Ukraine, where more than two thousand mining and processing enterprises operate. The degree of exploration of reserves of the deposits ranges from 40% to 75%.

Ukraine is one of the leading countries in the world in terms of the explored reserves of coal, iron, manganese and titanium and zirconium ores, graphite, kaolin, potassium salts, sulphur, fire clays, facing stone. In particular, the Ukrainian coal reserves make up 7.5%, iron ores - 15%, manganese - 42.8% of the global reserves³.

Currently Ukraine extracts significant volumes of coal (1.5% of the global coal production), iron ores (4.5%) and manganese (9%) ores, uranium, titanium, zirconium, kaolin (18%), bromine, non-metallic metallurgical raw materials (quartzite, flux limestones and dolomites), chemical raw materials (stone salt), facing stone (granite, gabbro, labradorite, etc.), glass sand, etc. Hydrocarbon raw materials, peat, cement raw materials, high-melting and fire clays, raw materials for the production of building materials, iodine, bromine, various mineral waters, valuable and precious stones, piezo wares, etc. are extracted from the state's bowels. In rather insignificant volumes, nickel ores, scandium, hafnium, amber, zeolites and others are mined. Deposits of minerals that are not traditional for Ukraine such as chromium, lead, zinc, copper, molybdenum, beryllium, lithium, tantalum, niobium, rare earths, fluorite, apatite, oil shale, bischofite, etc. are explored with different level of detalization.

The analysis of geological exploration in the past 10 years shows the potential increase in hydrocarbon reserves, discoveries and exploration of the deposits of the minerals that are new for Ukraine like gold, chromium, copper, lead, zinc, molybdenum, rare and rare earth elements, lithium, niobium, tantalum, phosphorites, fluorite, stone-and-flowered raw materials, for which there is a significant demand due to the need to create conditions for increasing the export potential of the state.

However, currently the speed and scale of extending the mineral and raw material base in the country do not satisfy the needs of the Ukrainian economy. The shortage of funds has led to a reduction in the number of exploration operations during the last decade. Therefore, since 1994, the growth of explored reserves of the most important minerals does not compensate for their extraction⁴. In addition, the explored deposits often do not meet the economic conditions of the market. Thus, deposits of iron, manganese and uranium ores are relatively low-quality, and mining and geological conditions of the coal deposits are more complicated than in neighbouring Poland and Russia.

The disadvantages of the mineral and resource base of Ukraine include the limited resources of extractive hydrocarbons - oil and natural gas, and lack (with some exceptions) of non-ferrous and rare metals, as well as some other minerals. Therefore, there is a need to import such types of raw materials and metals as bauxite, magnesite, float spar, copper, lead, zinc, tin, nickel, chromium, molybdenum, tungsten.

³ <http://geoinf.kiev.ua/mineralno-syrovynna-baza-ukrayiny/stan-zapasiv-rodovyschch-korysnykh-kopalyn-ukrayiny/>

⁴ <http://geoinf.kiev.ua/mineralno-syrovynna-baza-ukrayiny/stan-zapasiv-rodovyschch-korysnykh-kopalyn-ukrayiny/>

5.1 Mining of coal

5.1.1 The role of the state in coal mining industry and budget support to the industry

The coal mining is one of the basic sectors of the energy industry in Ukraine where both public sector and private sector enterprises operate. The coal mining companies mostly belong to the private sector, e.g. DTEK Group (DTEK Pavlogradugol PrJSC, DTEK Mine Komsomolets Donbassa PrJSC, DTEK Sverdlovanthracite LLC, DTEK Dobropolyeugol LLC, DTEK Rovenkyanthracite LLC, Mine Bilozerska ALC), Shakhtoupravlinnya Pokrovske PrJSC, Mine named after O.F. Zaciadko PJSC, Lysychanskvuhillia PJSC and others.

The public sector in coal mining is represented by such enterprises as Lvivvuhillia SE, Vuhilna kompaniia Krasnolymanska SE, Selydivvuhillia SE, Myrnohradvuhillia SE, Volynvuhillia SE and others.

According to the Geoinform of Ukraine SRPE, as of 01.01.2017, there were 482 operating mines in Ukraine, 95 of them are state owned and 387 are non-state owned mines.

According to the Ministry of Energy and Coal Industry, as of 01.01.2016, the number of public sector enterprises administered by the Ministry amounted to 216 enterprises and 128 business entities, for which the Ministry of Energy and Coal Industry of Ukraine manages the corporate rights of the state. The number of the state owned enterprises, institutions and associations of the coal industry and peat mining complex, managed by the Ministry of Energy and Coal Industry of Ukraine, amounted to 219 as of 01.07.2017. It should be noted that 131 public sector enterprises out of those that existed as of 01.07.2017 are defined as those located in the territory where Ukrainian authorities temporarily do not exercise their powers.⁵ As of 01.07.2017, there were 126 business entities where the Ministry of Energy and Coal Industry exercised the powers of managing the corporate rights of the state. 88 of the above mentioned business entities are located in the territory where the Ukrainian authorities temporarily do not exercise their powers.

According to the information provided on the website of the Ministry of Energy and Coal Industry, in 2016 it was planned to allocate funds for the implementation of budget programs of the energy industry in the amount of UAH 9,289,153.66 thousand (the data include General and Special-purpose funds), and the actual use of funds amounted to UAH 6,833,792.90 thousand.⁶ The detailed information on the use of funds allocated for budget programs in coal mining is presented in the following table.

⁵For the list of the state owned enterprises, institutions, organizations and associations under the Ministry of Energy and Coal Industry of Ukraine, see: http://mpe.kmu.gov.ua/minugol/control/uk/publish/article?art_id=245223760&cat_id=244916218

⁶<http://mpe.kmu.gov.ua/> Last visit to the MECU web-site on 30.10.2017

Table 5-1: Budget programs in coal mining, UAH thousand

Budget program name	General-purpose fund		Special-purpose fund	
	Plan for 2016 as amended	Cash execution for 2016	Plan for 2016 as amended	Cash execution for 2016
Oversight and management and management over the fuel and energy complex and coal industry	38,879.2	38,483.8	4,080.5	3,819.7
Restructuring of the coal and peat industry	120,991.0	106,695.1	801.6	-
Mine rescue operations at coal-mining enterprises	271,031.0	263,210.2	-	-
Government support provided to the coal-mining enterprises to partly cover the cost of coal products	1,372,757.0	1,372,755.0	-	-
Replenishment of working capital or increase in statutory funds of coal-mining enterprises to repay the wage arrears to employees accrued as of 01.01.2016	500,000.0	500,000.0	-	-
Government support for the construction of mine № 10 Novovolynska	50,000.0	50,000.0	-	-

In 2016, payments were made to fulfil the state guarantee obligations for a loan agreement between PJSC Lisichanskvugillya and the State Development Bank of the People's Republic of China in the amount of USD 17,864,087.82.

Table 5-2: Payments made by the state as guarantee obligations in 2016⁷

State guarantee (date and number)	Loan agreement /security details (date and number)	Payments	
		USD	UAH equivalent
Guarantee agreement dated 26.12.2011	Loan agreement dated 21.12.2011 between Lisichanskvugillya PJSC and the State Development Bank of the PRC	17,864,087.82	461,688,747.11

According to the State Treasury Service (**Table 5-3**), as of 01.01.2017, the arrears to the state for the loans taken by PJSC Lisichanskvuhillia under the state guarantees amounted to UAH 1,166,532.3 thousand.

⁷ <http://www.treasury.gov.ua/main/uk/doccatalog/list?currDir=359194>

Table 5-3: Overdue debts of the coal industry entities to the state for loans borrowed under state guarantees in 2016.⁸

Name of the entity	Overdue debt to the state under the loans		Funds received as repayment to the state budget, UAH thousand	Penalty accrued on the overdue debt UAH thousand	
	USD thousand	UAH thousand		Accrued	Paid to the State budget
Lisichanskvugillya PJSC	42,901.6	1,166,532.3	5.0	280,738.7	4.4

Overall, the coal mining industry needs government support. As stated in the Concept⁹, in 2016, the volume of coal production mined by the state coal-mining enterprises amounted to 5.8 mln tonnes or UAH 4.4 bln, while they received UAH 1.372 bln from the state to cover the part of the coal products cost. Losses from coal production amounted to UAH 2.5 bln. However, the economic situation in the country makes it impossible for the state to support the industry. In order to address the key problems of the coal industry in a comprehensive way and to enhance the effective use of the sector's potential, a new Concept, which reflects the state policy in the field of coal industry reform and development for the period till 2020, was approved in May 2017. The Concept also envisages an increase in coal production: by 6.3 mln tonnes in 2017, 8.7 mln tonnes in 2018, and by more than 10 mln tonnes in 2019 and 2020 respectively.

5.1.2 Coal reserves

The main coal deposits in Ukraine are located in Donetsk and Lviv-Volyn basins and according to Geoinform of Ukraine SRPE, they make up to 94.8% of the total coal reserves in Ukraine.

Donetsk Basin is located in Donetsk, Luhansk, Dnipropetrovsk and part of Kharkiv regions of Ukraine and Rostov region of the Russian Federation. Proven reserves of coal are calculated to the depth of 1200 - 1500 m, and projected reserves for the depth of 1800 - 2000 m. The number of commercial seams of the basin is up to 120, of which about 65 are in operation. The depth of development of coal seams in the basin ranges from 200 to 1350 m and is 730 meters on average. According to the quality criteria, coal ranges from long-flame coal to anthracite.

Lviv-Volyn basin is located in Lviv and Volyn regions and goes further to the west and belongs to Lublin Basin in the territory of Poland. Lviv-Volyn basin is characterized by a wave bedding of coal deposits. The basin includes 88 coal seams, only 30 of which have commercial potential. The coal height increases from 600 m in the northeast to 1,200 meters in the southwest. According to the classification criteria, the basin contains the following five types of coal: long-flame, gas, gas-fat, fat and coking coal.

⁸ <http://www.treasury.gov.ua/main/uk/doccatalog/list?currDir=359194>

⁹ The Concept of the Coal Industry Reforming and Development up to 2020 No 733-r dated 24.05.2017

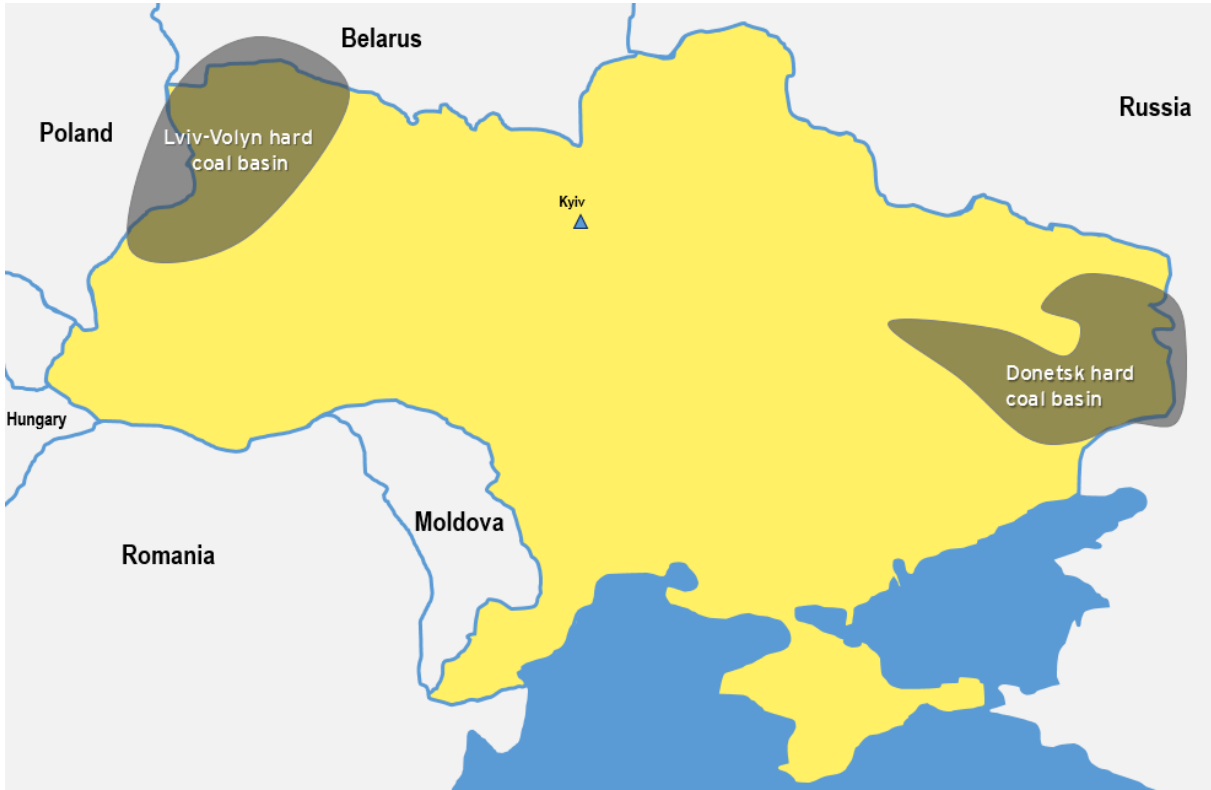


Figure 5-1: Ukrainian coal basins location

According to Geoinform of Ukraine SRPE, as of 01.07.2017 the balance sheet reserves of coal in Ukraine amounted to 41,637 mln tonnes.¹⁰ The largest reserves are concentrated in Donetsk and Luhansk regions - 33% (13,537 mln tonnes) and 34% (14,310 mln tonnes) of coal of the total balance sheet coal reserves. Dnipropetrovsk region accounts for 26% of coal reserves, or 10,706 mln tonnes.

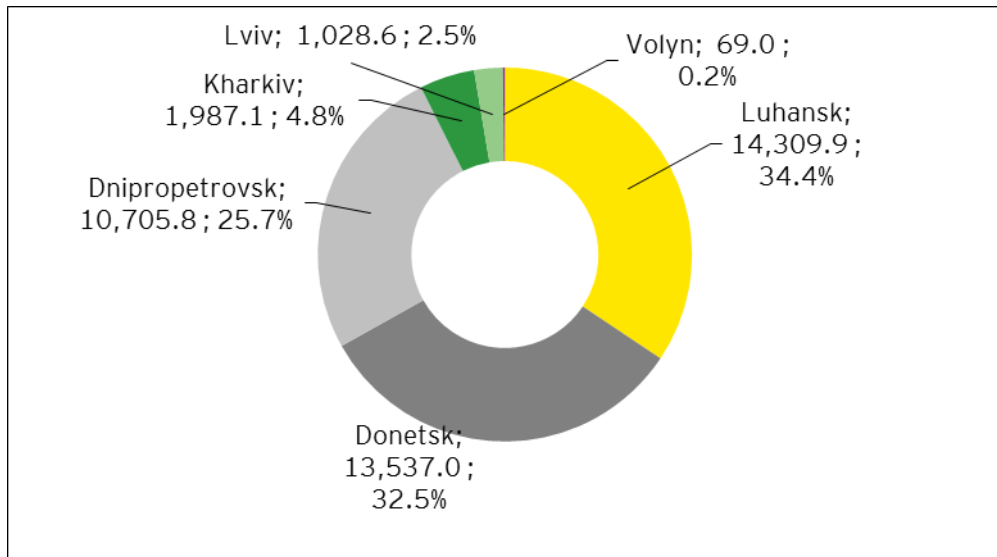


Figure 5-2: Coal reserves, by the regions of Ukraine, mln tonnes¹¹

¹⁰ Geoinform of Ukraine SRPE, Yearbook of Mineral Resources of Ukraine 2017

¹¹ Geoinform of Ukraine SRPE, Yearbook of Mineral Resources of Ukraine 2017

According to the distribution of coal reserves by categories, as of January 1, 2017, D category coal is prevalent, accounting for 31% of the balance sheet reserves of Ukraine. 19% is gas coal (G category), 16% - long-flame (DG category), 15% -anthracite (A category).

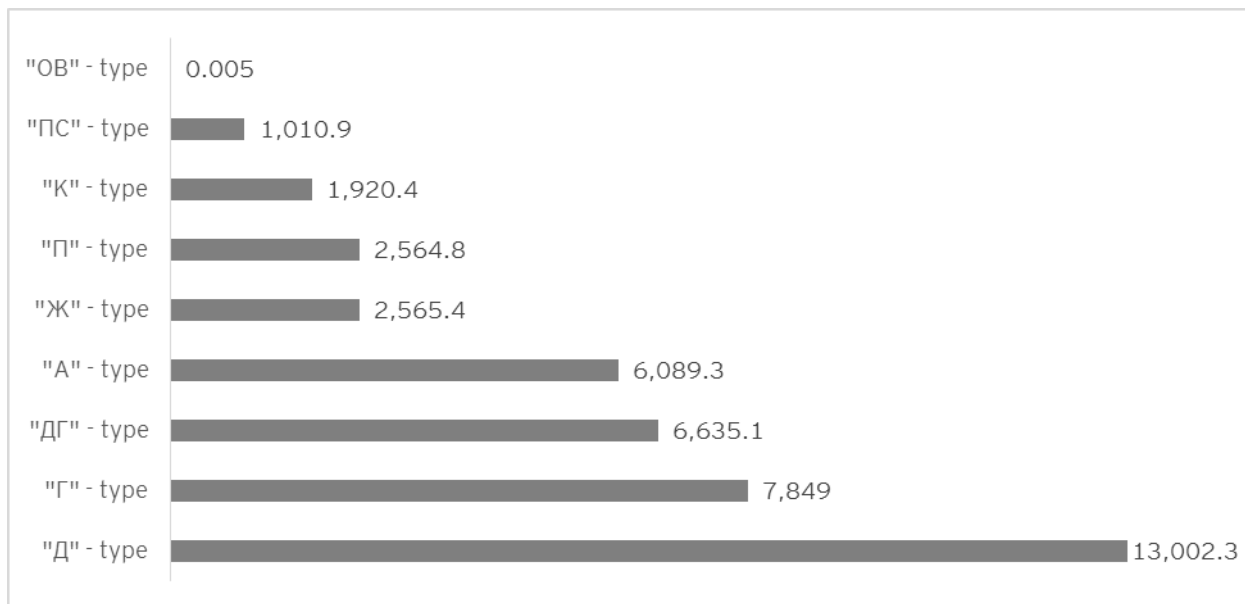


Figure 5-3: Coal reserves in Ukraine, by coal categories, mln tonnes¹²

5.1.3 Significant explorations

Works on geological and economic assessments were carried out at the objects of Dnipropetrovsk region and Lviv-Volyn basin during 2016.

The coal reserves of all the objects located in the fields of the six mines owned by DTEK Pavlogradugol PrJSC have been assessed and for almost all of them approved by the protocols of the SCMR:

- ▶ Stepova mine: the balance sheet coal reserves B + C1 category were estimated at 110.36 mln tonnes, and the total off-balance sheet reserves 167.78 mln tonnes.
- ▶ Samarska mine: the balance sheet coal reserves of B + C1 category were estimated at 53.07 mln tonnes, and off-balance sheet reserves - 34.26 mln tonnes.
- ▶ Zakhidno-Donbaska mine: B + C1 category coal reserves were estimated at 213.14 mln tonnes, and off-balance sheet reserves - 121.39 mln tonnes.
- ▶ Dniprovskia mine: the balance sheet coal reserves of B + C1 category amounted to 78.2 mln tonnes, C2 category - 8.37 mln tonnes, off-balance sheet reserves - 118.46 mln tonnes.
- ▶ Mine named after M. I. Stashkova: the balance sheet coal reserves of B + C1 category amounted to 45.43 mln tonnes, C2 category - 15.81 mln tonnes, and off-balance sheet reserves - 71.68 mln tonnes.
- ▶ Blagodatna mine: the balance coal reserves of B + C1 category amounted to 60.95 mln tonnes, and off-balance sheet reserves - 33.42 mln tonnes¹³.

¹² Geoinform of Ukraine SRPE, State Balance Sheet of Mineral Resources of Ukraine 2017

¹³ As of 16.12.2016 the Protocol of the State Commission on Mineral Resources No 3768 is not approved.

During 2016, the Lviv exploration expedition of the SE Zakhidukrheologiya carried out exploratory work in the field of the Lubelsk mine No 4 in the Lviv-Volyn Basin, including compiling a geological report on the performed works.

In addition, work was carried out on the object "site Lyubelska No 3", in particular, a report on the geological and economic assessment of coal reserves of the site was prepared, as well as studies on its technological value.

According to Geoinform of Ukraine SRPE, as of 01.01.2017, seven promising areas for exploration have been identified in the Lviv-Volyn Basin: Mezhirichia-Zakhidna, fields of the following mines: Tyaglivska No 2, Tyaglivska No 3, Chervonogradska No5, Chervonogradska No6, Pivnichna Zabuzka and Krechivskaya Verkhnia. Their balance sheet reserves of coal are estimated at 290.2 mln tonnes for the category A + B + C1 and 153.9 mln tonnes for the category C2.

5.1.4 Information on special permits for use of subsoil

In 2016, according to Geoinform Ukraine SRPE, there were totally 455¹⁴ special permits effective in Ukraine for the use of subsoil for the purposes of geological exploration and extraction of coal and natural gas from coal mines.

Among the existing special permits, the oldest ones date back to 1997 - there were 2 such permits in 2016. According to the Geoinform of Ukraine SRPE, the largest number of special permits for the use of subsoil for the period 1997 - 2016 was issued in 2012 - 97 permits. Subsequently, the number of new issued special permits gradually decreased. For example, in 2013 32 permits were issued, in 2014 and 2015 - 10 and 1 respectively. In 2016, the Geology Service issued one special permit for the geological exploration of the subsoil, including survey and commercial development of coal deposits. This trend may be partly attributed to the situation in the eastern part of the country, where most of the coal deposits are located.



Figure 5-4: Special permits for use of subsoil (coal¹⁵) in Ukraine effective in 2016, by year of issuance¹⁶

¹⁴ The data does not include 12 special permits that were suspended in 2015 and at the moment of preparation of this Report were identified as inactive on the information platform of Geoinform of Ukraine SRPE.

¹⁵ In this section of the Report the term "coal" refers to the following categories: bituminous coal, bituminous coal (anthracite), gas natural from coal mines (methane).

¹⁶ According to the data of Geoinform of Ukraine SRPE.

According to the data of Geoinform of Ukraine SRPE, in coal mining¹⁷, 96% (439) of special permits were issued for the extraction of minerals (commercial development of deposits), 3% (13) for geological survey of mineral resources, including survey and commercial development of deposits, and less than 1% (3) for geological study of depths.

Table 5-4: Special permits effective in 2016, by type of use of subsoil (coal)

Type of use of subsoil	Number of permits
Geological study of depths	3
Geological survey of mineral resources, including survey and commercial development of nationally significant deposits	13
Extraction of minerals (commercial development of deposits)	439
Total	455

The largest number of existing permits is in Luhansk region - 266 permits, or 59%. 164 special permits, or 36%, were issued for the deposits located in Donetsk region. The equal number of permits - 10 permits in each region - was provided for the use of the depths of Lviv and Dnipropetrovsk regions. Only 5 special permits were issued for the objects located in Volyn region.

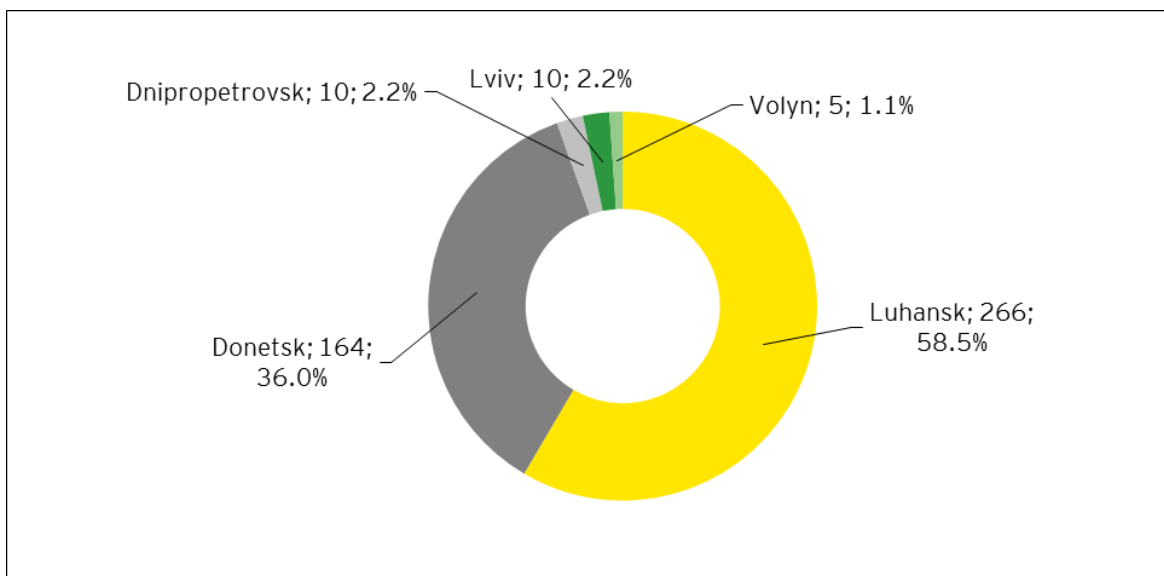


Figure 5-5: Special permits for use of subsoil for coal mining, by regions of Ukraine (effective in 2016)

¹⁷ Hereinafter, the term "coal" means "bituminous coal" unless otherwise specified.

5.1.5 Volumes of coal mining

Information on the volumes of coal mining is accumulated by three state institutions: the Ministry of Energy and Coal Industry, the State Statistics Service of Ukraine and the Geoinform of Ukraine SRPE. MECI and SSSU use the data obtained in the process of statistical accounting, and Geoinform of Ukraine SRPE uses the data received as the results of mine surveying measurements. In both cases, the information comes from the mining companies, however there are differences in the methodology for calculating the volume of extracted products. According to Geoinform of Ukraine SRPE, the discrepancy in the assessments of mining volumes determined using the statistical accounting approach and the mine surveying measurements is due to contamination of coal: dead rock layers, falling ramble rocks, inclusions of side rocks, because of use of the extractive machines that do not always correspond to the capacity of coal bearing layers, as well joint transportation of coal and minerals from the treatment and preparatory workings.¹⁸

According to the State Statistics Service,¹⁹ the volume of coal mining in 2016 amounted to 43,177 thousand tonnes, according to the Ministry of Energy and Coal Industry - 40,864 thousand tonnes,²⁰ and according to Geoinform of Ukraine SRPE - 26,852 thousand tonnes.²¹ In the previous periods, the discrepancy between the SSSU and the MECI was insignificant (less than 1%), since these state authorities accumulate the information prepared using the same methodological approach. However, in 2016 the difference was 5.4%.

The discrepancy between the information provided by Geoinform of Ukraine SRPE and the State Statistics Service of Ukraine and/or the Ministry of Energy and Coal Industry in previous periods was 25-35%, in 2016 - 34.3% compared to the MECI and 37.8% compared to the SSSU data.

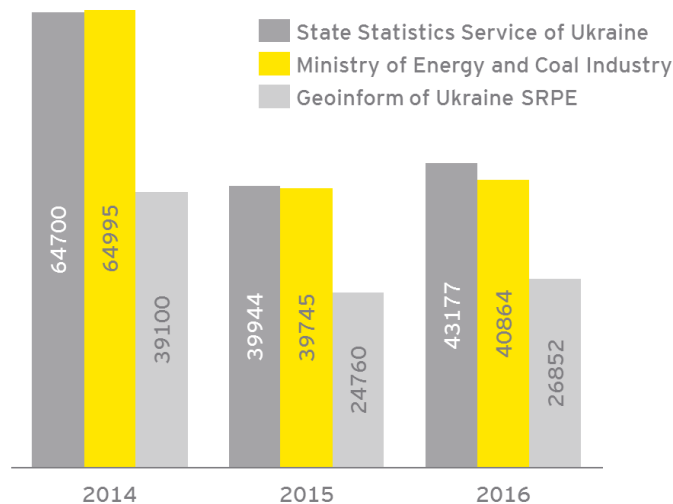


Figure 5-6: Dynamics of coal mining in 2014 - 2016 in Ukraine, thousand tonnes

The bulk of the coal mining volumes is produced in Dnipropetrovsk (42.7%) and Donetsk regions (33.5%). The share of Luhansk region amounted to 19.7% of total volumes of coal mining in 2016.

¹⁸ Geoinform of Ukraine SRPE, State Balance Sheet of Mineral Resources of Ukraine, 2017, Coal, Book 1, p. 53

¹⁹ Information from the State Statistics Service was received in response to the official request of the Independent Administrator for the preparation of the EITI Report for 2016.

²⁰ The information from the MECI was obtained from publicly available reports on the official site of the Ministry, section Statistical Information (http://mpe.kmu.gov.ua/minugol/control/uk/publish/officialcategory?cat_id=35081)

²¹ Information from Geoinform of Ukraine SRPE, State Balance Sheet of Mineral Resources of Ukraine, 2017, Coal

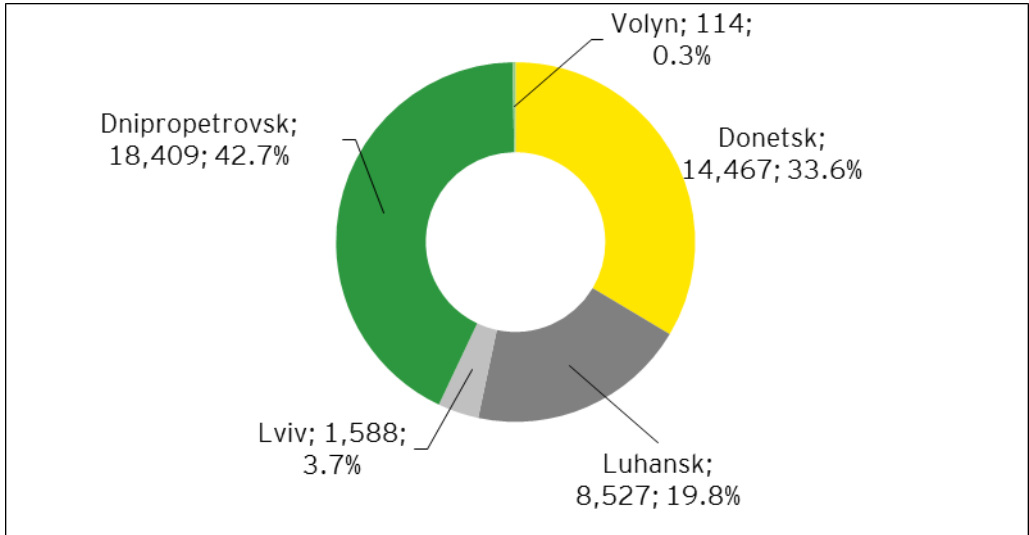


Figure 5-7: Volumes of coal mining in Ukraine, by regions in 2016, thousand tonnes²²

Despite the fact that the total volumes of coal mining has increased, the coal mining enterprises under the Ministry of Energy and Coal Industry in 2016 produced 954.8 thousand tonnes of coal less than in the previous year (or by 14.2%). In addition, the volumes of energy coal produced in 2016 was 564.2 thousand tonnes less than in the previous year and the volumes of coking coal - 390.5 thousand tonnes less than in previous year.²³

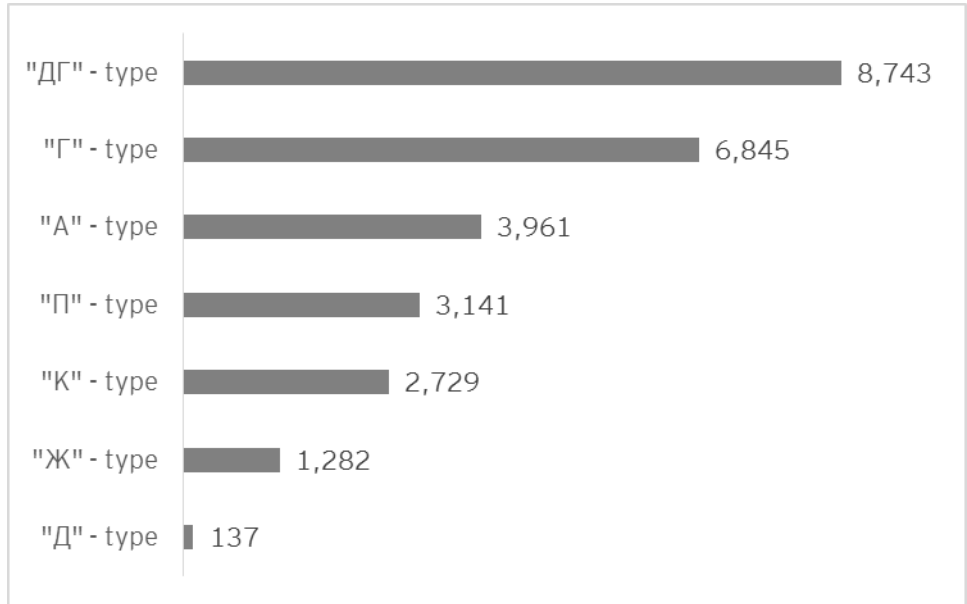


Figure 5-8: Volumes of coal mining in Ukraine, by marks in 2016, thousand tonnes²⁴

According to the data of Geoinform of Ukraine SRPE, in 2016 the breakdown of coal mining volumes by marks shows that mark "ДГ" accounted for 8,743 thousand tonnes (32.6%), mark "Г" - 6,845 thousand tonnes (25.5 %), mark "А" - 3,961 thousand tonnes (14,7%). The

²² The data on the volumes of coal mining in Volyn and Dnipropetrovsk regions were not disclosed by the State Statistics Service of Ukraine in order to ensure compliance with the requirements of the Law of Ukraine "On State Statistics" regarding the confidentiality of statistical information. Therefore, the information for these two regions was obtained from the MECI.

²³ Data provided by MECI http://mpe.kmu.gov.ua/minugol/control/uk/publish/article?art_id=245176314&cat_id=35081 (last visit to the website on 3.11.2017)

²⁴ Data of Geoinform of Ukraine SRPE "State Balance Sheet of Mineral Resources of Ukraine", 2017.

information provided by the State Statistics Service contains no data on the mining of coal by marks.

In 2016 DTEK Pavlogradugol PrJSC (18,409 thousand tonnes) and Shakhtoupravlinnia Pokrovske PJSC (4,302 thousand tonnes) kept the position of the largest coal mining enterprises in Ukraine. During 2016, Ukrainian private companies and the Ministry of Energy and Coal Industry still held operational control over the coal enterprises located in the territory of Ukraine not controlled by the Ukrainian government. However, in March 2017, control over these enterprises was lost. In 2016, the enterprises located in the temporarily uncontrolled territory of Ukraine, mined 11,379 thousand tonnes of coal, 9,646 thousand tonnes of which were mined by private companies.

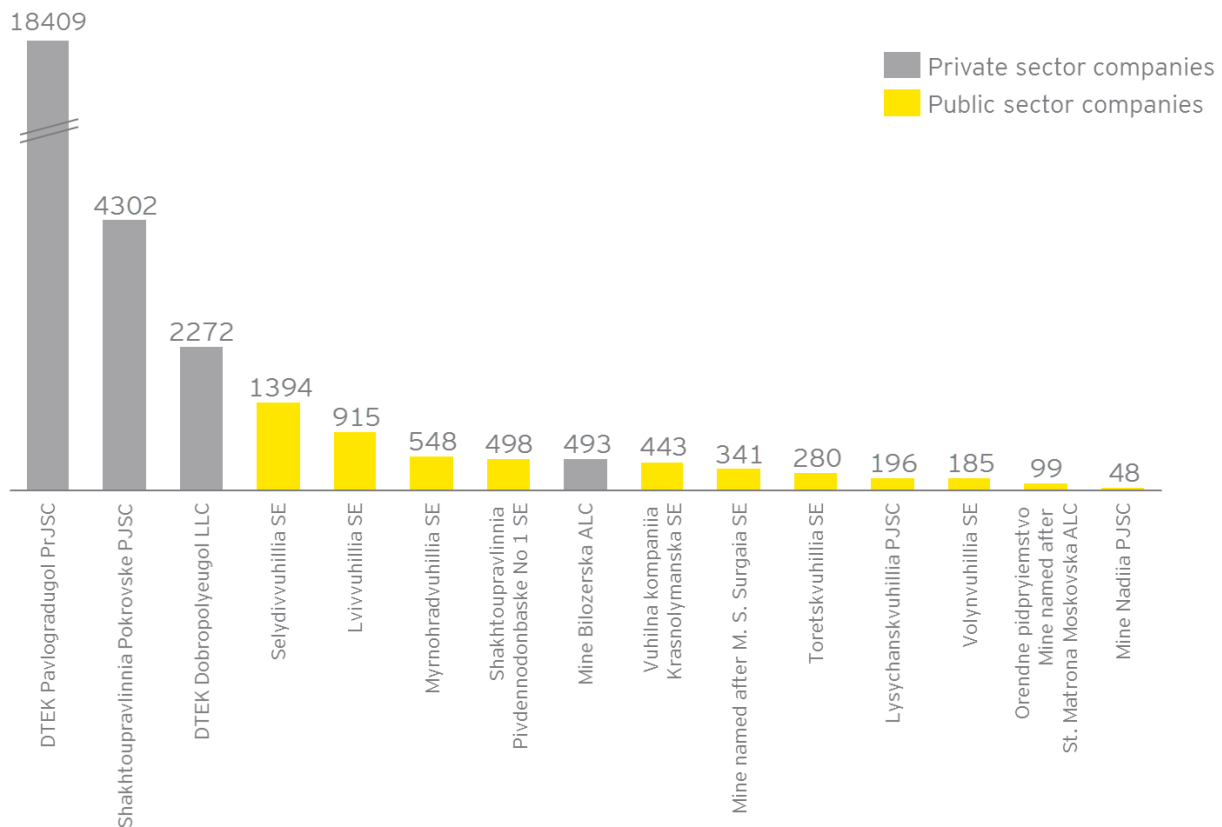


Figure 5-9: Volumes of coal mining, by companies located in the territory controlled by Ukrainian government in 2016, thousand tonnes²⁵

²⁵ Data from the Ministry of Energy and Coal Industry for all companies except for Lvivvuhillia SE (the information received from the company's questionnaire for the EITI Report), Volynvuhillia SE (the information received from the company's questionnaire for the EITI Report) and Mine Nadiia PJSC (the information received from mine surveying measures).

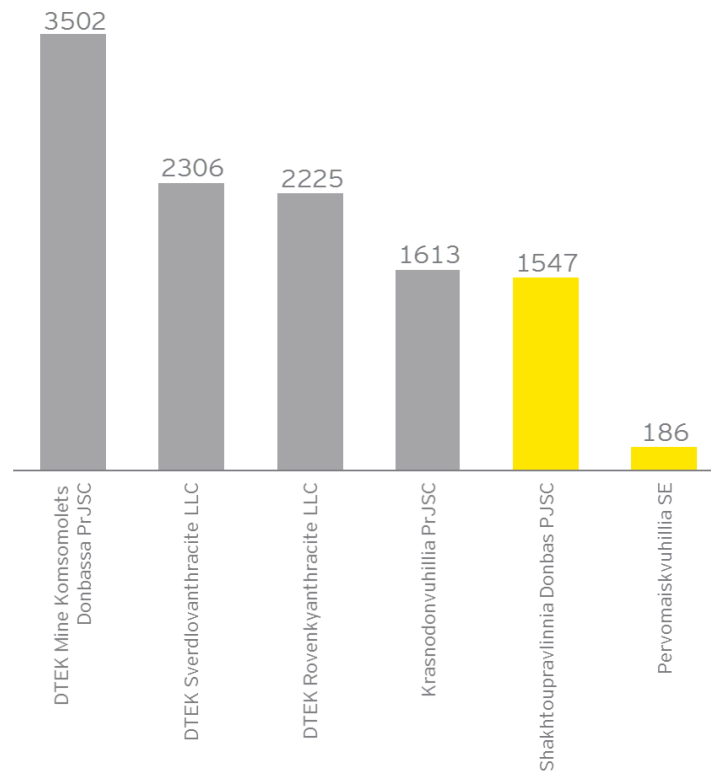


Figure 5-10: Volumes of coal mining, by companies located in the temporarily uncontrolled territory of Ukraine²⁶ in 2016, thousand tonnes²⁷

5.1.6 Exports and imports of coal

The volumes of exported coal in 2016 decreased by 7% compared to 2015 and comprised 520.6 thousand tonnes. The largest amount of coal was exported to Slovakia - 262 thousand tonnes, which is 50% of the total coal exports in 2016. Coal supplies from Ukraine to Turkey amounted to 124.9 thousand tonnes, or 24% of the total exports of coal.

²⁶ The territory, where the Ukrainian state authorities temporarily do not exercise power (briefly - temporarily uncontrolled territory). The list of territories is determined by Resolution of CMU "List of settlements in the territory of which the state authorities temporarily do not exercise their powers" No 1085 dated November 7, 2014.

²⁷ Data of the Ministry of Energy and Coal Industry for all companies except for Shakhtoupravlinnia Donbas PJSC (the information received from mine surveying measures), Pervomaiskvuhillia SE (the information received from mine surveying measures).

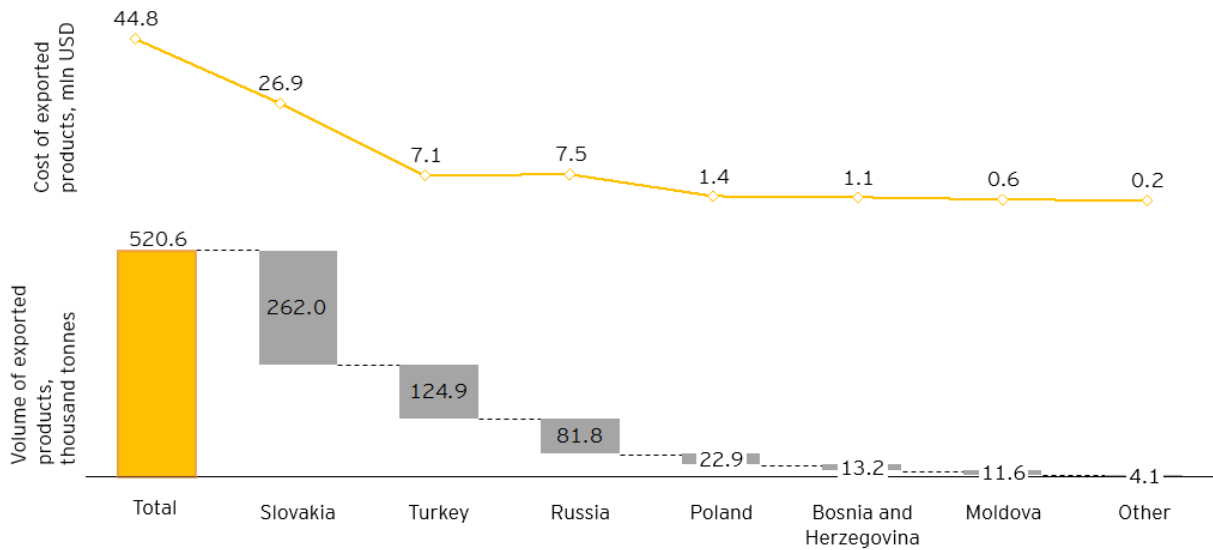


Figure 5-11: Exports of coal, by countries in volume and in value²⁸

Despite the fact that the volumes of coal production increased, the volume of imported coal also increased and in 2016 amounted to 15,647.6 thousand tonnes, which is 7% more than in 2015.

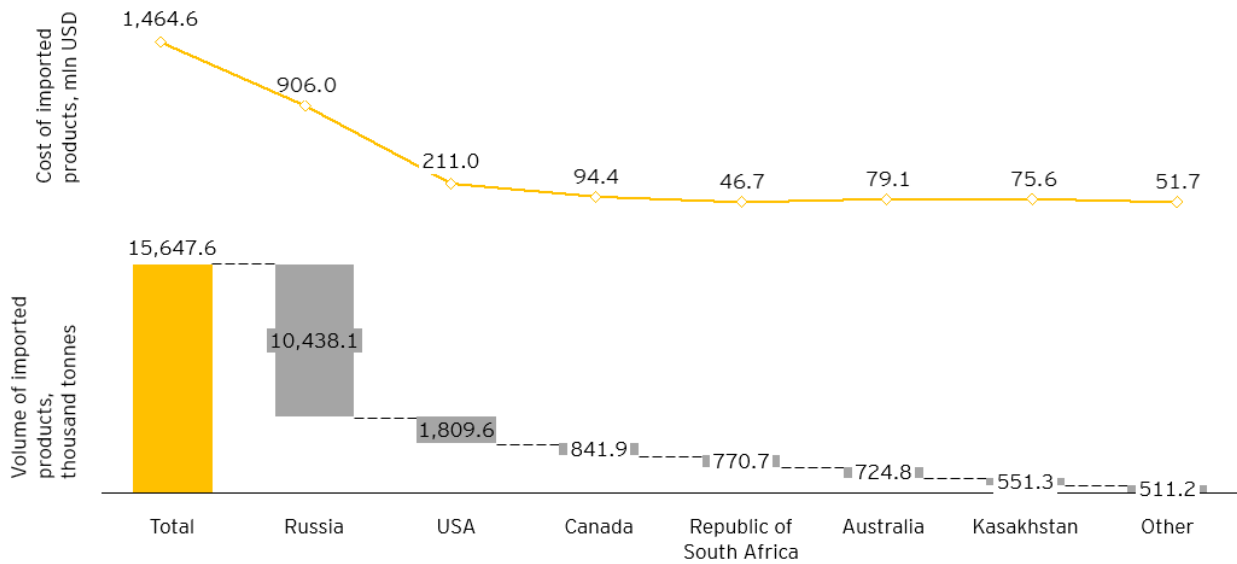


Figure 5-12: Imports of coal, by countries in volume and in value²⁹

²⁸ SSSU data: <http://www.ukrstat.gov.ua/>

²⁹ SSSU data: <http://www.ukrstat.gov.ua/>

Summary:

Ukraine has significant reserves of coal, 67% of which are concentrated in Donetsk and Luhansk regions. Coal category "Д" is predominant -31% of the balance sheet reserves. Anthracite (category "A") is 15% or 6,089.3 mln tonnes in the balance sheet reserves.

The coal produced in 2016 did not cover the domestic needs of Ukraine in coal, which resulted in the growth of imported coal by 7% compared to 2015. The volume of coal imported from Russia, the leading supplier, amounted to 10,438.1 thousand tonnes, which is by 2,512.1 thousand tonnes more than in the previous year.

The fact that a major part of the coal mining enterprises is located in the ATO zone hampers reforming the industry. As of 01.07.2017, 131 public sector enterprises are defined as those located in the territory where the state authorities do not exercise their powers.

Nevertheless, in order to address the existing problems of the industry in a comprehensive way and increase the effective use of the potential in 2017, a new Concept for coal industry reforming and development for the period till 2020 was approved. The document, among other things, provides for an increase in the volume of coal mining by the state owned enterprises by up to 6.3 mln tonnes in 2017, 8.7 mln tonnes in 2018, and by up to more than 10 mln tonnes in 2019 and 2020 each year.

5.2 Extraction of oil and natural gas

5.2.1 The role of the state in oil and gas extraction industry

The oil and gas industry is represented in Ukraine by the players of the both private and public sectors. Ukrnafta PJSC is still the largest oil extractive enterprise. Other oil producing companies are Ukgazvydobuvannia PJSC, Natural resources PrJSC, Ukrkarpatoil LLC JV, KashtanPetroleum LTD JV, Poltava Petroleum Company JV, Boryslavska Naftova Kompaniia LLC JV, Vydobuvna kompaniia Ukrnaftoburinnia PrJSC, Naftogazvydobuvannia PrJSC and others.

The largest gas producer in Ukraine is Ukgazvydobuvannia PJSC. Significant players are Ukrnafta PJSC, Naftogazvydobuvannia PrJSC, Energy Service Company Esco-Pivnich LLC and other commercial structures.

The state is engaged in oil and gas production through legislative regulation of the market, as well as the provision of special permits for the use of subsoil. In addition, the state, represented by the Cabinet of Ministers of Ukraine, owns 100% of shares in Naftogaz of Ukraine NJSC, and through the State Service of Geology and Subsoil of Ukraine, it owns 100% of shares in Nadra Ukrainy NJSC.³⁰

Naftogaz of Ukraine NJSC and Nadra Ukrainy NJSC are the largest vertically-integrated companies of the Ukrainian oil and gas industry. They implement the state policy in oil and natural gas extraction industry by managing enterprises the beneficiary of which is state. Naftogaz of Ukraine NJSC performs a full cycle - from exploration and development of deposits to supplying gas to consumers.³¹ The mission of Nadra Ukrainy NJSC is geological survey, exploration of deposits and facilitation in attracting investments in geo-exploration projects.³²

During 2016, there were no changes in the share of the state in the ownership structure of the Ukrainian oil and gas companies.

According to the Ministry of Energy and Coal Industry, as of 01.03.2017, 33 entities are in the list of state owned enterprises, organizations and associations of the oil and gas industry, that are accountable to the MECI and 2 legal entities are in the list of business entities where the Ministry of Energy and Coal Industry manages the corporate rights of the state.³³ The said enterprises, organizations and associations may provide services or other support but they are not engaged in extractive operations.

³⁰ <https://smida.gov.ua/>

³¹ Naftogaz of Ukraine NJSC web-site: <http://www.naftogaz.com/www/3/nakweb.nsf/>

³² Nadra Ukrainy NJSC web-site: <http://nadrakrayny.com.ua/>

³³ Ministry of Energy and Coal Industry: http://mpe.kmu.gov.ua/minugol/control/uk/publish/officialcategory?cat_id=244916132

Table 5-5: Beneficial ownership of the state in oil and gas industry (Naftogaz of Ukraine NJSC)

Name of company	Share owned by Naftogaz of Ukraine NJSC
Production of natural gas, oil and their products	
Ukrgezvydobuvannia PJSC	100%
Zakordonnaftogaz SE	100%
DAT Chornomornaftogaz PJSC	100%
Ukrnafta PJSC	50% + 1 share
Ukrtatnafta PJSC	43%
Petrosannan Company (JA, Egypt)	50%
Oil and natural gas transportation	
Ukrtransgaz PJSC	100%
Ukrspetstransgaz PJSC	100%
Ukrtransnafta PJSC	100%
Wholesale and retail trading	
Gaz Ukrainy State Company	100%
Kirovogradgaz OJSC	51%
Naftogaz Trading Europe S.A.	100%
Ukravtogaz Subsidiary Enterprise	100%
Other	
Vuglesintezgas of Ukraine SE	100%
Naukanaftogaz SE	100%
NaftogasService SE	100%
Ukrnaftogazkomplekt SE	100%
Naftogaz Safety SE	100%
LIKVO SE	100%

Table 5-6: Beneficial ownership of the state in oil and gas industry (Nadra Ukrainy NJSC)

Name of company	Share owned by Nadra Ukrainy NJSC
Subsidiary Companies (SC) of Nadra Ukrainy NJSC	
SC of Nadra Ukrainy NJSC Chernigivnaftogazgeologiya	100%
SC of Nadra Ukrainy NJSC Krymgeologiya	100%
SC of Nadra Ukrainy NJSC Poltavanaftogazgeologiya	100%
SC Ukrnaukageocentr	100%
SC of Nadra Ukrainy NJSC Agrogeofizika	100%
SC of Nadra Ukrainy NJSC Zahidukrgeologiya	100%
SC of Nadra Ukrainy NJSC Mirgorodnaftogazrozvidka	100%
SC of Nadra Ukrainy NJSC Centrukrgeologiya	100%
SC of Nadra Ukrainy NJSC Nadraresource	100%
Other companies under control of Nadra Ukrainy NJSC	
Ukrgeolremmash SJSHC	100%
Ukrainian Geophysical Company LLC	100%
Nadra Krymu LLC	99,91%
Azovske Rudoupravlinnya LLC	99,9%
Nadra Yuzivska LLC	99%
Nadra Skifska LLC	99%
Nadralinvest LLC	90%
Nadra Oleska LLC	90%
Zhytomyrbudrozvidka LLC	90%
Vody Ukrainy LLC	80%
Potavanaftogazrozvidka LLC	70%
Nadra Shelf LLC	58,44%
Engineering & Drilling Group Triton LLC	50%
Gaichursky GZK LLC	50%
Perzhnsky Career LLC	50%
Nadra Horodotske LLC	50%
Nobilsky Construction & Assembling Company LLC	45%
ZahidInvest LLC	34,99%
Golden Derrik LLC	33%
Nadra Tunivska LLC	25%
Chornomorzahidinvest LLC	25%
Chornomorgeoresource LLC	25%
Closed non-diversified venture capital investment fund Standard Plus PJSC	21%

According to the information provided by the Ministry of Energy and Coal Industry, it was planned to allocate UAH 600 mln in 2016 for the budget support program to the oil and gas industry, however the cash execution of the budget is UAH 0.³⁴

Table 5-7: Budget programs in oil and gas industry, UAH thousand

Budget program name	General-purpose fund		Special-purpose fund	
	Plan for 2016 as amended	Cash execution for 2016	Plan for 2016 as amended	Cash execution for 2016
Reconstruction, overhaul and technical upgrading of the Urengoy-Pomary-Uzhhorod gas pipeline	-	-	600,000.0	-

More information about the program is provided by the State Treasury Service. According to the list of loans (borrowings) attracted by the state to the Special-purpose fund of the State Budget of Ukraine in 2016 from foreign countries, banks and international financial organizations for the implementation of investment programs³⁵, the amount of the attracted loan (borrowing) for the reporting year for the program Reconstruction, Overhaul and Technical Upgrading of the Urengoy-Pomari-Uzhgorod Gas Pipeline was UAH 300 mln from the European Bank for Reconstruction and Development and UAH 300 mln from the European Investment Bank. However, there were no disbursements of funds in the reporting year 2016.

Table 5-8: Information about external liabilities granted under state guarantees to oil and gas entities in 2016

Entity name, EDRPOU code	State guarantee	Effective since	Guarantee liabilities		
			Amount of guaranteed loan, mln USD	Amount of guaranteed loan, mln UAH	Additional liabilities under the guarantee
Naftogaz of Ukraine NJSC EDRPOU code 20077720	Guarantee indemnity agreement dated 30.12.2016 No G-2440-UA CMU Resolution dated 30.11.2016 No 876	30.12.2016	500.00	13,595,429.00	All IBRD costs related to performance of warranty obligations

³⁴ Ministry of Energy and Coal Industry: data.gov.ua/file/106820/download?token=IV_OvAbb

³⁵ <http://www.treasury.gov.ua/main/uk/doccatalog/list?currDir=359194>

According to the State Treasury Service of Ukraine³⁶, during 2016 one contract was concluded on the provision of state guarantees for external obligations. It was a state guarantee issued for the IBRD in 2016 for a total amount of USD 500 mln³⁷ for the fulfilment of the Resolution of the Cabinet of Ministers of Ukraine No 876 dated November 30, 2016, "Some Issues of Granting a State Guarantee to the International Bank for Reconstruction and Development for the Commitments of National Joint Stock Company Naftogaz of Ukraine.

According to the data provided by the State Treasury Service of Ukraine, during 2016 the State Budget received funds from Naftogaz of Ukraine NJSC and Ukrtransgaz PJSC as a repayment of the debt and as of January 1, 2017 the total amount was UAH 2,016,576.76.

Table 5-9: Overdue debts of business entities in the oil and gas industry to the state under the loans borrowed under state guarantees in 2016³⁸

Company name	Currency	Amount of overdue debt to the state under the loans		Funds received to the state budget as repayment of debt, UAH	Overdue penalty accrued on overdue debt, UAH	
		in foreign currency	in national currency		Overdue amount	Paid to the state budget
Naftogaz of Ukraine NJSC (Agreement dated 05.06.2009 No 28010-02/60)	UAH	-	-	1,972,214.08	-	-
Naftogaz of Ukraine NJSC EBRD (Agreement dated 23.10.2015 No 47283)	USD	-	-	40,043.32	-	-
Ukrtransgaz PJSC (Agreement dated 11.12.2012 No 15010-03/127)	EUR	684.45	19 453,85	4,319.36	165.15	-

5.2.2 Oil and natural gas reserves

Ukraine's oil and natural gas deposits are located in three major oil and gas regions: Eastern (Dniprovsko-Donetsk oil and gas region), Western (Volynsko-Podilsky, Precarpathian, Transcarpathian oil and gas regions), Southern (Pereddobuzka, Black Sea-Crimean, Azov-Berezanska, Indolo-Cubanska and Black Sea promising regions).

³⁶<http://www.treasury.gov.ua/main/uk/doccatalog/list?currDir=359194>

³⁷<http://zakon0.rada.gov.ua/laws/show/876-2016-%D0%BF>

³⁸<http://www.treasury.gov.ua/main/uk/doccatalog/list?currDir=359194>

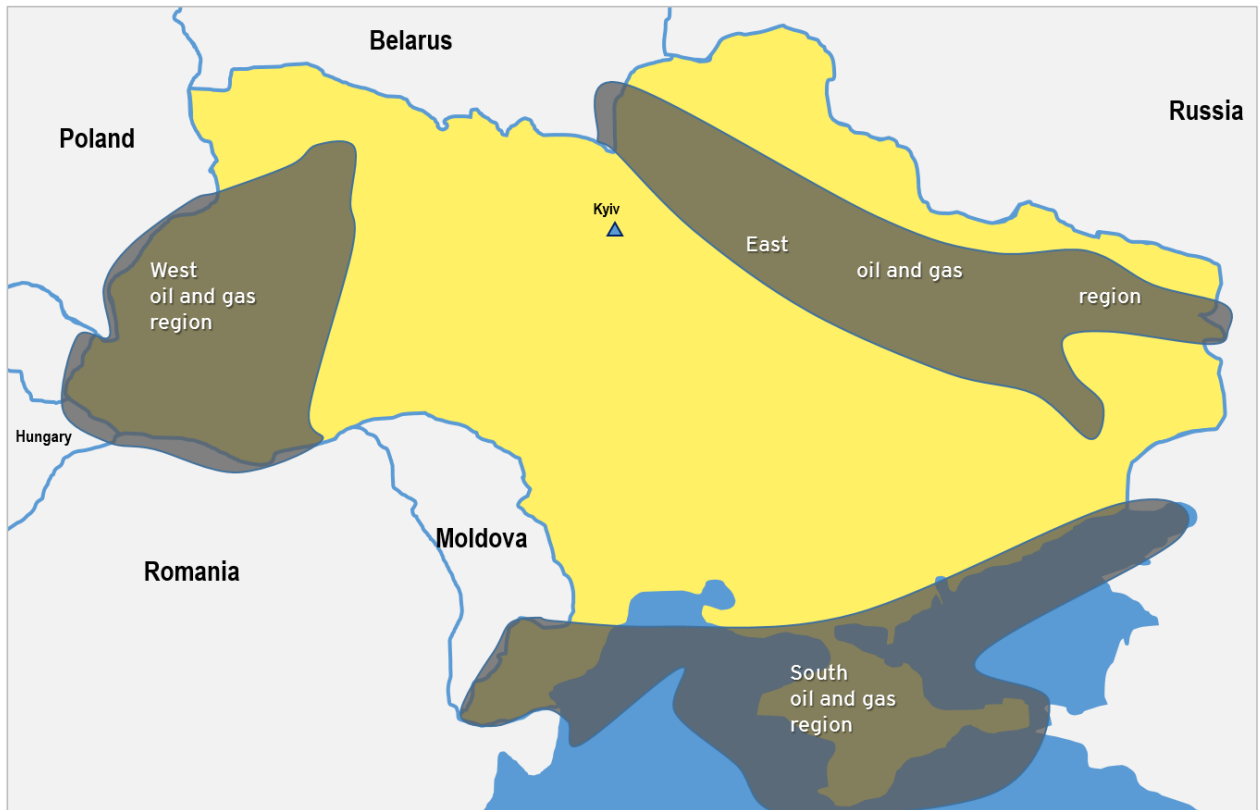


Figure 5-13: Ukrainian oil and natural gas regions location

According to the data provided by Geoinform of Ukraine SRPE, there are 197 deposits with the balance sheet (extractable) oil reserves in the territory of Ukraine, which as of 01.01.2017 are estimated at 121,124 thousand tonnes. 135 developed deposits are recorded in the State balance sheet. Their reserves make 81% of the balance sheet oil reserves in Ukraine, or 98,112 thousand tonnes. Overall, the off-balance sheet oil reserves in Ukraine as of 01.01.2017 are estimated at 39,962 thousand tonnes

According to Geoinform of Ukraine SRPE, oil deposits in Ukraine are typically classified as small and very small. The category of middle sized deposits includes Bugruvativske (Sumy region) and Hlynsko-Rozbyshivske (Poltava region) deposits. The total value of the balance sheet reserves of these deposits is 21,175 thousand tonnes, or 17.48% of Ukraine's reserves. The category of small reserves includes Yablunivske deposit (Poltava region) whose balance sheet reserves are estimated at 7,424 thousand tonnes, and the Stynavske deposit (Lviv region), whose balance sheet reserves are 12,982 thousand tonnes.

Major oil reserves (48.3%) are located in the fields of the Eastern region. The Western region accounts for 38.4% of the balance sheet reserves of oil, and 13.3% are concentrated in the deposits of the Southern region.

Distribution of the balance sheet (extractable) reserves of oil by regions of Ukraine shows that the largest reserves are in Poltava region - 20% or 24,346 thousand tonnes. A bit less oil reserves are located in Lviv and Ivano-Frankivsk regions - 21,641 thousand tonnes (18 % of total oil reserves of Ukraine) and 21,087 thousand tonnes (or 17%) respectively. 15% (18,244 thousand tonnes) of oil reserves are concentrated in the Sumy region.

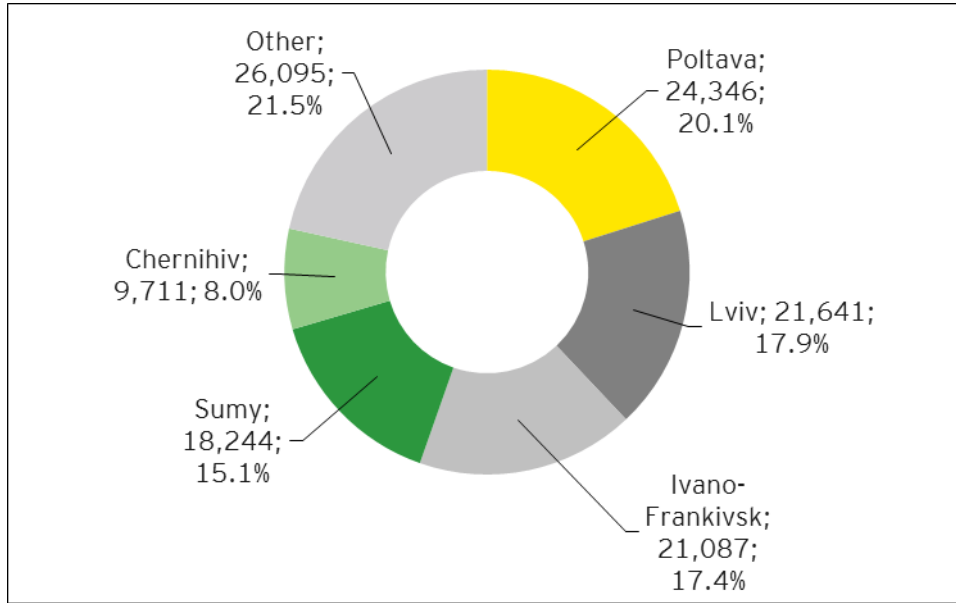


Figure 5-14: Oil reserves, by the regions of Ukraine, thousand tonnes³⁹

The degree of exploration of the initial potential reserves of oil is estimated at 39.2%, and the explored ones are 73.5% depleted. This suggests that only 26.5% of the explored reserves are not depleted. So, it is necessary to continue exploration to cover the domestic needs in oil.

According to data provided by Geoinform of Ukraine SRPE, there are 224 gas condensate deposits in the territory of Ukraine. As of 01.01.2017 the balance sheet (extractable) reserves of gas condensate are to 49,161 thousand tonnes. There are 180 developed deposits recorded in the State balance sheet. Their balance sheet reserves are estimated at 44,623 thousand tonnes.

Among the most important condensate deposits are Yablunivske deposit, where balance sheet (extractable) reserves amount to 5,909 thousand tonnes (12% of the balance reserves of Ukraine), Glinsko-Rozbyshivske deposit with 4,686 thousand tonnes or 9.5% of the balance sheet reserves of Ukraine, Andriyashivske deposit, whose balance sheet stocks are 2,150 thousand tonnes, or 4%, and Berezivske deposit - 1,673 thousand tonnes or 3% of the total balance sheet reserves of Ukraine.

The largest deposits of gas condensate are concentrated in the Eastern region and make up 91%. Significantly fewer stocks are located in the Western and Southern regions - 5 and 4% respectively.⁴⁰

As the distribution of the balance sheet (extractable) reserves of gas condensate shows, the largest reserves are located in Poltava region - 26,627 thousand tonnes (54%), 19% (9,273 thousand tonnes) are on Kharkiv region, and 13% (6,216 thousand tonnes) are in Sumy region.

³⁹ Yearbook of Mineral Resources of Ukraine 2017

⁴⁰ Geoinform of Ukraine SRPE, Yearbook of Mineral Resources of Ukraine 2017

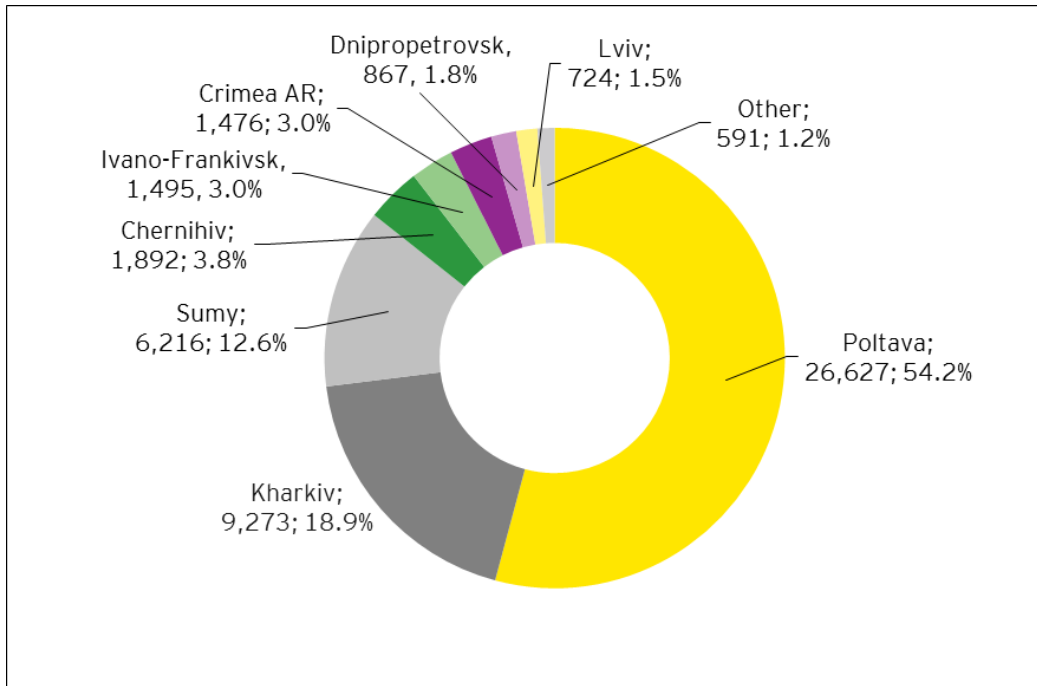


Figure 5-15: Gas condensate reserves, by the regions of Ukraine, thousand tonnes⁴¹

The initial gas condensate reserves have been explored by 27.1%, and their depletion rate is 62.2%. So, despite the fact that 37.8% of the explored stocks can still be exploited, there is a great potential for exploration of gas condensate reserves.

According to data provided by Geoinform of Ukraine SRPE, there are 402 hydrocarbon deposits from which gas is extracted, of them 269 deposits are being developed, and 56 are off balance sheet deposits. Overall, as of 01.01.2017, the balance sheet reserves of natural gas⁴² amounted to 905,623 mcm, while the off balance sheet reserves of gas condensate are 9,553 mcm.⁴³

The major natural gas reserves are concentrated in the Eastern region of Ukraine, where 244 deposits with balance reserves of 726,651 mcm are located, which is equivalent to 80% of Ukraine's reserves. The Western region of the country hosts 116 deposits with the balance sheet reserves of 111,047 mcm, which is 12% of Ukraine's reserves. In the Southern region 42 deposits are located, whose total reserves amount to 67,925 mcm, or 7.5% of Ukraine's reserves.

On the territory of Ukraine, natural gas reserves are located in 6 major fields. Shebelinske field (Ukrgezvydobuvannia PJSC) is classified as a large deposit. Its natural gas reserves as of 01.01.2017 were estimated at 110,552 mcm, or 12.2% of Ukraine's reserves. The reserves of Yablunivske deposit amount to 59,633 mcm. Zakhidno-Khreshchishchenske deposit (Ukrgezvydobuvannia PJSC) contains balance sheet reserves of natural gas in the amount of 51,383 mcm. Yefremivske and Melikhivske deposits (Ukrgezvydobuvannia PJSC) have reserves in the amount of 36,644 mcm and 22 969 mcm respectively. The smallest is Mashivske deposit (Ukrgezvydobuvannia PJSC), whose reserves amount to 3,819 mcm as of 01.01.2017.

⁴¹ Geoinform of Ukraine SRPE, Yearbook of Mineral Resources of Ukraine 2017

⁴² Includes free gas, gas cap and dissolved gas

⁴³Data provided by Geoinform of Ukraine SRPE

The distribution of the balance sheet reserves of natural gas by regions shows that the largest volume of stocks is in the Kharkiv region - 37%, or 338,473 mcm and Poltava - 35% or 320,206 mcm. A much smaller amount of stocks is concentrated in Lviv region - 8% (73.051 mcm).

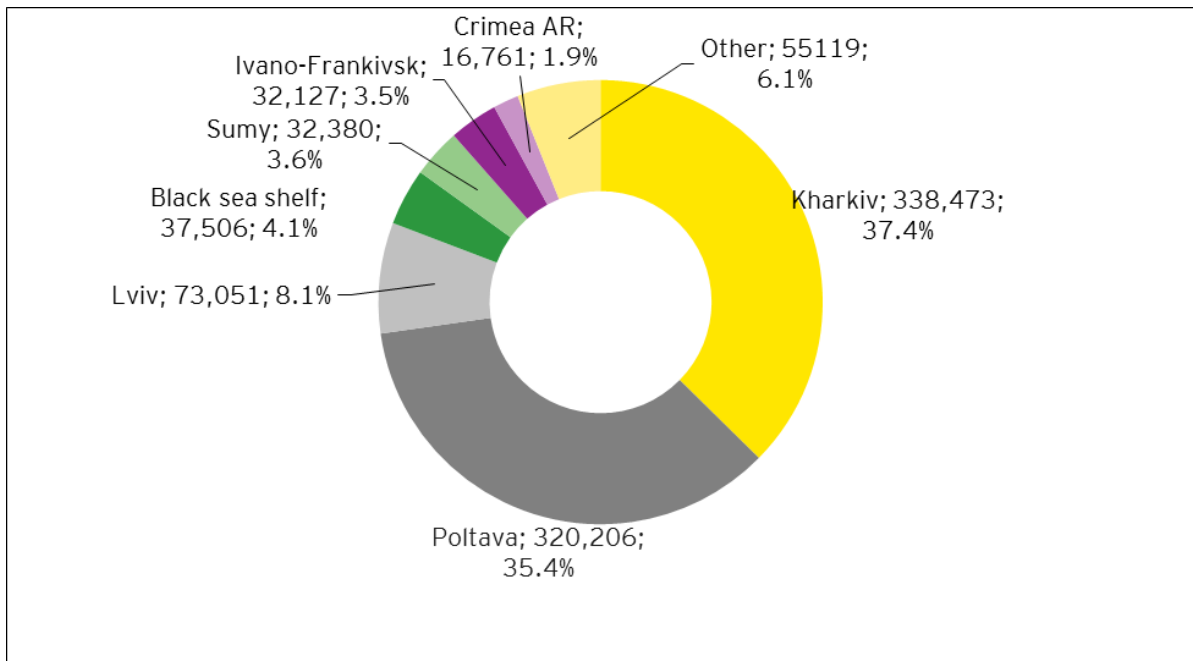


Figure 5-16: Natural gas reserves, by the regions of Ukraine, mcm⁴⁴

5.2.3 Significant explorations

According to the data provided by Geoinform of Ukraine SRPE, as of 01.01.2017, 22 objects with the total balance sheet estimated reserves of 12,533 thousand tonnes were in the process of exploration.

The geological prospecting conducted during 2016 made it possible to estimate the growth in balance sheet (extractable) oil reserves of the objects of PJSC Ukrnafta and Ukgazvydobuvannia PJSC that are the part of Naftogaz of Ukraine NJSC. The total increase in stocks for the objects of the above-mentioned enterprises was estimated at the level of 110 thousand tonnes.

The total balance sheet oil reserves and their increase as of 01.01.2017 including the findings of geological exploration works, are presented below (**Table 5-11**).

⁴⁴ Geoinform of Ukraine SRPE, Yearbook of Mineral Resources of Ukraine 2017

Table 5-10: Increase in balance sheet oil reserves following the exploration works in 2016

Name of deposit	Increase in balance sheet oil reserves, thousand tonnes	
	Total	including new fields and deposits
Urknaftha PJSC		
Korchanivske	8	0
Korzhivske	13	0
Milkivske	2	0
Pivnichno-Yaroshivske	2	0
Pivdenno-Hvizdetske	2	0
Verkhnyomaslovetske	45	0
Khukhrynske	10	0
Ukrgezvydobuvannia PJSC		
Olyvynivske	1	1
Borysivske	3	3
Hadyatske	14	10
Pereschepynske	2	0
Mygrynske	1	0
Novoselivske	1	0
Skvortsivske	5	0
Yuliivske	1	0
Total	110	14

Table 5-11: Balance sheet oil reserves and their increase as of 01.01.2017, thousand tonnes⁴⁵

Name	Balance sheet reserves	Increase in balance sheet reserves in 2016	Reserves with undetermined commercial value	Prospective resources	Increase
Urknaftha PJSC	68,895	82	59,751	10,820	- 158
Ukrgezvydobuvannia PJSC	10,005	28	10,293	5,548	4,026

Overall, in 2016, the reserves of 11 oil deposits were approved with the total balance sheet reserves 14,661 thousand tonnes. The list of deposits includes Prokopenkivske, Bugruvativske, Matlakhivske (Urknaftha PJSC), Bytkiv-Babchinske, Krasnogradske, Novotroitske (Ukrgezvydobuvannia PJSC), Stynavske (Boryslavska Naftova Kompaniia LLC JV), Pivnichno-Yablunivske (Arab Energy Alliance UA LLC), Strashevyske (Zakhidenergobud LLC), Southern block of Skorobagatkivske (Nadra-Geoinvest LLC), Sakhalinske (Ukrnaftoburinnia PrJSC).

The exploratory works to identify the condensate reserves allowed approving increase in reserves for 21 objects owned by Urknaftha PJSC, Ukrgezvydobuvannia PJSC, Vydobuvna

⁴⁵ Geoinform of Ukraine SRPE, Yearbook of Mineral Resources of Ukraine 2017

kompaniia Ukrnaftoburinnia PrJSC, Kub-gaz LLC, Nadra-Geoinvest LLC, Systemoilengineering LLC. The total increase is 238 thousand tonnes, of which 41 thousand tonnes are in the new fields and deposits.

The SCMR approved the total balance sheet reserves of condensate of 1,368 thousand tonnes for 19 deposits in 2016.

Table 5-12: Increase in balance sheet gas condensate reserves following the exploration works in 2016

Name of deposit	Increase in balance sheet gas condensate reserves, thousand tonnes	
	Total	including new fields and deposits
Urknaftha PJSC		
Rudkivske-Chervonozavodivske	12	12
Kachanivske	2	0
Ukrgezvydobuvannia PJSC		
Shebelynske	1	1
Maksalske	2	2
Zakhidno-Solokhivske	14	0
Zakhidno-Starovirivske	15	0
Kuzmychivske	16	0
Abazivske	6	0
Bairatske	6	0
Borysivske	1	0
Lymanske	2	0
Matviivske	2	0
Melykhivske	2	0
Opishnyanske	2	0
Skvortsivske	2	0
Yablunivske	99	0
Yuliivske	6	0
Vydobuvna kompaniia Ukrnaftoburinnia PrJSC		
Sakhalinske	8	0
Kub-gaz LLC		
Makiivske	7	10
Nadra-Geoinvest LLC		
Skorobahatkivske	7	0
Systemoilengineering LLC		
Vodyanivske	26	26
Total	238	41

According to the data of Geoinform of Ukraine SRPE, geological exploration allowed to calculate the increase in the balance sheet reserves of natural gas in the amount of 8,805 mcm. The

stock assessment was carried out for 45 objects of public and private sector of economy. In 2016, the SCMR approved natural gas reserves for 25 deposits.

Table 5-13: Increase in balance sheet natural gas reserves following the exploration works in 2016

Name of deposit	Increase in balance sheet natural gas reserves, mcm	
	Total	including new fields and deposits
Urknafra PJSC		
Rudkivske-Chervonozavodivske	277	109
Kachanivske	6	0
Andriyashivske	38	0
Ukrgezvydobuvannia PJSC		
Shebelynske	55	55
Maksalske	66	66
Ukryanivske	125	7
Nedilne	11	11
Zakhidno-Solokhivske	72	0
Zakhidno-Starovirivske	464	0
Skhidno-Poltavske	1773	0
Kehychivske	505	0
Zahidno-Sosnivske	1319	0
Bezpalivske	405	0
Komyshnyanske	627	0
Kuzmychivske	227	0
Malokrynivske	49	0
Borysivske	28	0
Oparske	2	0
Vynohradivske	9	0
Zahidno-Vidradnenske	22	0
Druzhelyubivske	37	0
Leventsivske	19	0
Matviivske	28	0
Novoukrainske	32	0
Pivdenno-Kolomatske	31	0
Pereschepynske	17	0
Skvortsivske	26	0
Chervonoyarske	22	0
Yablunivske	806	0

Name of deposit	Increase in balance sheet natural gas reserves, mcm	
	Total	including new fields and deposits
Bohatoiske	15	0
Yevheniivske	9	0
Medvedivske	10	0
Narizhnyanske	4	0
Skhidno-Novoselivske	6	0
Yuliivske	72	0
Bytkiv-Babchynske	34	0
Byshnyanske	44	0
Dubanevytske	35	0
Vydobuvna kompaniia Ukrnaftoburinnia PrJSC		
Sakhalinske	112	0
Kub-gaz LLC		
Makiivske	402	0
Nadra-Geoinvest LLC		
Skorobahatkivske	88	0
Systemoilengineering LLC		
Vodyanivske	461	461
Ukr-Az-Oil LLC SAUP		
Velykomostivske	104	104
Nordik Private Enterprise		
Kolodnytske	311	311

5.2.4 Information on special permits for the use of subsoil

During 2016, 535 special permits were effective in Ukraine⁴⁶ for the use of subsoil for the purposes of geological exploration, research and development, and oil and natural gas extraction⁴⁷. The source of the data is publicly available information of Geoinform of Ukraine SRPE⁴⁸.

One special permit for the use of subsoil for oil and natural gas issued in 1995 and 2 permits issued in 1996 were still valid in 2016. Among the existing ones - 38 special permits, or 7%, were issued in 2016. Analysis of the permits existing in 2016 by the date of their issuance shows that the peak in issuance of special was in 1999 - 57 permits. 55 special permits still valid in 2016 were issued in 2012.

⁴⁶ The data do not include 6 permissions suspended back in 2015 and as of November 7, 2017 recognized by Geoinform of Ukraine SRPE as invalid.

⁴⁷ In this section of the report, "oil and natural gas" refers to the following categories: natural gas, oil, gas from shale deposits, natural gas free, natural gas dissolved in petroleum, condensate.

⁴⁸<http://geoinf.kiev.ua/specdozvoli/>

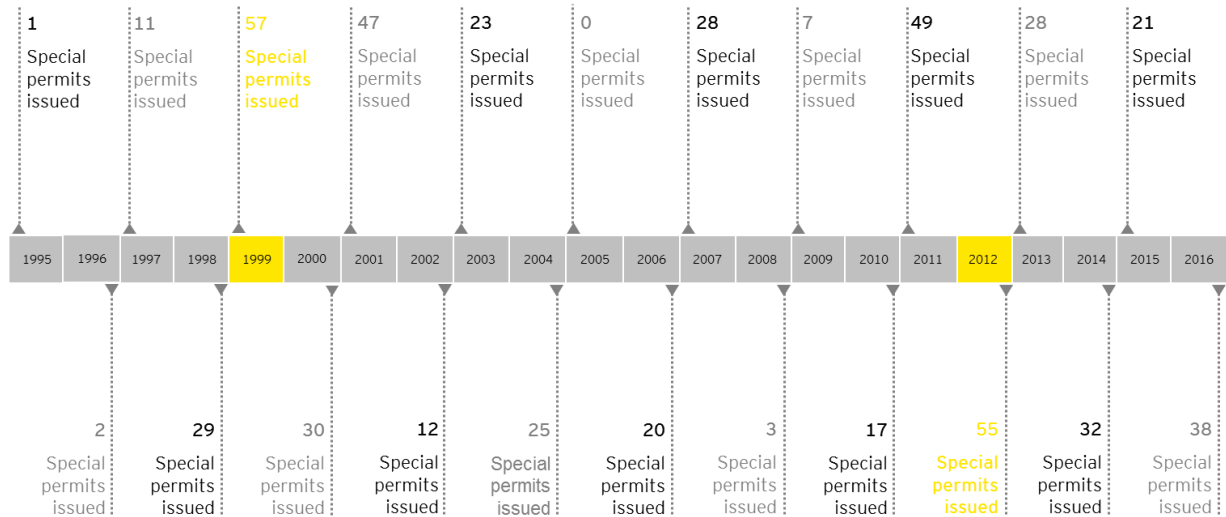


Figure 5-17: Special permits for the use of subsoil (oil and natural gas) in Ukraine effective in 2016 by year of issuance⁴⁹

According to data from Geoinform of Ukraine SRPE, 301 permits (or 56%) valid in 2016 were issued for the purpose of extraction of minerals. 227 permits were issued for the purpose of geological exploration of subsoil with commercial development and subsequent extraction: 119 for geological exploration of oil and gas potential deposits, including research and development of hydrocarbon deposits with subsequent extraction of oil and gas (commercial development of deposits), and 108 for geological exploration of subsoil including pilot development of minerals of national importance.

Table 5-14: Special permits effective in 2016 by types of use of subsoil (oil and natural gas)

Type of use of subsoil	Number of permits, pcs
Geological exploration of subsoil including pilot development of minerals of national importance	108
Geological exploration of oil and gas potential deposits, including research and development of hydrocarbon deposits with subsequent extraction of oil and gas (commercial development of deposits)	119
Performance of works (activities) provided for by the production sharing agreement	3
Extraction of minerals (commercial development of deposits)	301
Establishing geological areas and objects that have an important scientific, cultural and recreational value	4
Total	535

Most of the special permits for use of mineral resources for oil and natural gas are concentrated in Kharkiv, Poltava and Lviv regions - 19.6%, 18.9% and 16.6%, respectively. Ivano-Frankivsk region has 10.5% of permits.

One of the problems in this area is that most of the new special permits are issued out of the auction. Thus, according to the Association of Gas Producers of Ukraine, 11 special permits

⁴⁹ Data provided by Geoinform of Ukraine SRPE

were issued with the use of the auction procedure, 20 special permits⁵⁰ were issued out of the auction in 2016. In general, auctions in the oil and gas industry are conducted extremely irregularly, and the offered lots are very insignificant in size and do not attract foreign investors.

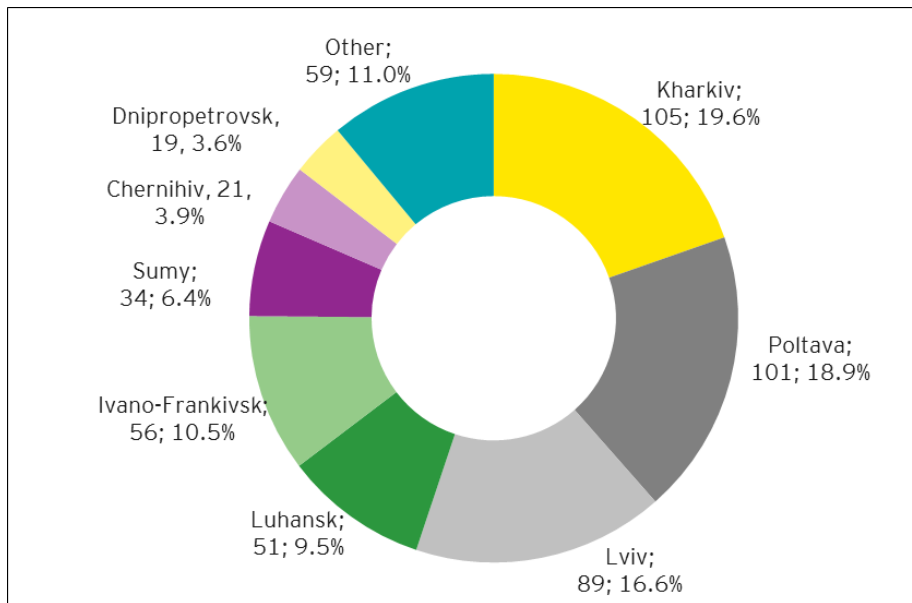


Figure 5-18: Special permits for use of oil and gas subsoil by regions of Ukraine (effective in 2016)

5.2.5 Volumes of oil and natural gas extraction

Traditionally, the state-owned enterprises are the leaders in oil and natural gas production in 2016 like in previous years. The Naftogaz of Ukraine NJSC group of companies produces about 90% of oil and gas condensate, including Ukrnafta PJSC (about 68% of the total oil production) and Ukgazvydobuvannia PJSC (22%⁵¹ of the total oil production). Ukgazvydobuvannia PJSC produces 73% of the total volume of natural gas extraction in Ukraine, and Ukrnafta is 6%.

Overall, according to the results of 2016, the volume of oil extraction amounted to 1,619 thousand tonnes, which is less by 198 thousand tonnes than in 2015. According to the data of Geoinform of Ukraine SRPE, the largest part of the total oil production is in Sumy region - 717 thousand tonnes, or 44% of the total extraction in 2016. About 17% of oil is produced in both Chernihiv region (278 thousand tonnes) and Ivano-Frankivsk region (277 thousand tonnes). 159 thousand tonnes of oil was extracted from the fields of Poltava region in 2016, which is 10% of the total production in the country.

Totally, 1,175 thousand tonnes of oil were produced in 17 significant Ukrainian deposits, or 62.7% of the total extraction volumes (more detailed information is presented in the **Table 5-15**).

The distribution of oil extraction by deposits shows that Bugruvativske, Anastasivske, Dolynske, Hnidynsivske, Pivnichno-Dolynske, Kachanivske and Hlynsko-Rozbyshivske deposits, which are developed by Ukrnafta PJSC totaled 51.14% of Ukraine's total production volumes.

⁵⁰ Associations of Gas Producers of Ukraine, <http://agpu.org.ua/upload/files/10152204748142.pdf>

⁵¹ Annual Report of Naftogaz of Ukraine NJSC for 2016: http://www.naftogaz.com/files/Zvity/Anual_report_ukr_170608.pdf

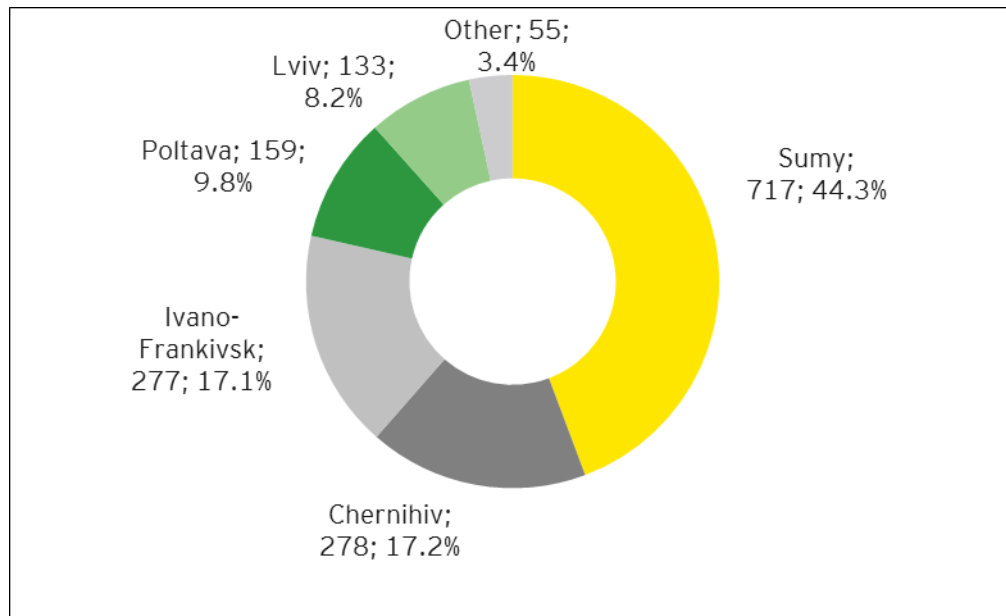


Figure 5-19: Volumes of oil extraction in Ukraine, by regions in 2016, thousand tonnes⁵²

Table 5-15: Oil extraction, by significant deposits of Ukraine in 2016, thousand tonnes⁵³

Name of deposit	Oil extraction, thousand tonnes	% of the total oil extraction in Ukraine, %
Bugruvativske	288	17.79
Anastasivske	214	13.22
Dolynske	114	7.04
Hnidyntsiivske	102	6.3
Pivnichno-Dolynske	43	2.66
Kachanivske	34	2.1
Hlynsko-Rozbyshivske	33	2.04
Skorohodivske	29	1.79
Rybalse	28	1.73
Strutynske	28	1.73
Yablunivske	24	1.48
Boryslavske	23	1.42
Prylutske	19	1.17
Malodivyt'ske	14	0.86
Korzhivske	13	0.8
Stynavske	9	0.56
Bytkiv-Babchenske	0	0
Total	1 015	62.7

⁵² Geoinform of Ukraine SRPE, Yearbook of Mineral Resources of Ukraine 2017

⁵³ Data provided by Geoinform of Ukraine SRPE, State Balance Sheet of Minerals of Ukraine 2017

Extraction of gas condensate in 2016 from the deposits of Ukraine amounted to 645 thousand tonnes, which is 8 thousand tonnes less than in 2015. According to the data provided by Geoinform of Ukraine SRPE, gas condensate production by regions of Ukraine in 2016 is distributed with prevalence of extraction in Poltava region - 411 thousand tonnes, or 64%. A much smaller share is produced in Kharkiv region, where 193 thousand tonnes of gas condensate was extracted.

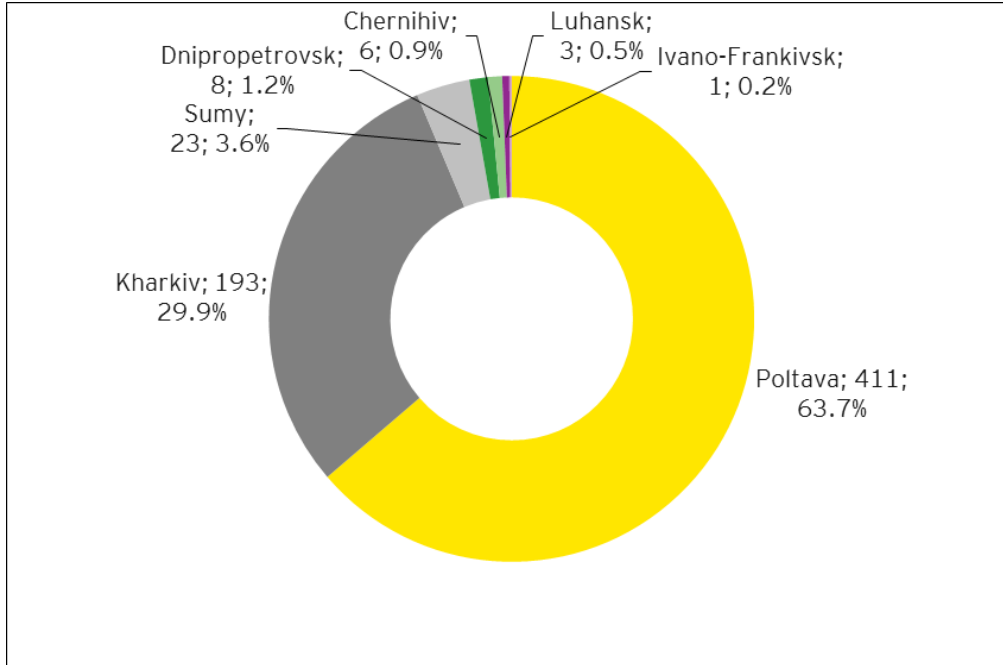


Figure 5-20: Volumes of gas condensate extraction in Ukraine, by regions in 2016, thousand tonnes⁵⁴

Ukrnafta PJSC remained the largest oil company in the country - it produced 1,443.2 thousand tonnes of crude oil and 72.4 thousand tonnes of gas condensate in 2016. The volume of crude oil extracted by Ukgazvydobuvannia PJSC amounted to 102.4 thousand tonnes, and that of gas condensate - 380.9 thousand tonnes. Quite significant volumes of oil and gas condensate in 2016 were provided by the following companies: Naftogazvydobuvannia PJSC, Poltava Petroleum Company JV, Natural resources PJSC, Vydobuvna kompaniia Ukrnaftoburinnia PrJSC, Energy Service Company Esco-Pivnich LLC.

The volumes of natural gas extraction from Ukrainian deposits amounted to 20,037 mcm, which is by 129 mcm more than in 2015. According to the data provided by Geoinform of Ukraine SRPE, most of the extracted natural gas is produced in the fields in Kharkiv and Poltava regions. The results of 2016 show that 9,364 mcm, or 47% of natural gas were produced in the territory of Kharkiv region, and 8,303 mcm, or 41% - in the territory of Poltava region.

⁵⁴ Geoinform of Ukraine SRPE, Yearbook of Mineral Resources of Ukraine 2017

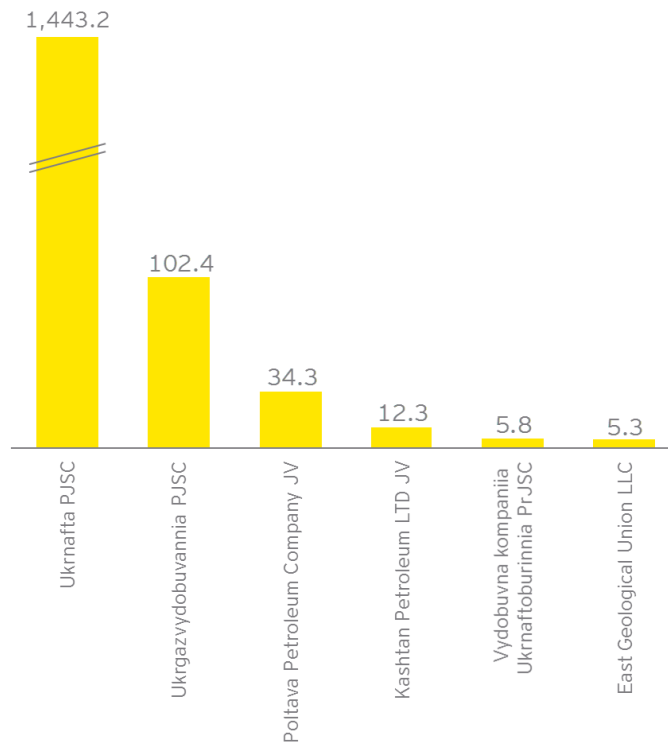


Figure 5-21: Volumes of oil extraction in Ukraine, by individual companies in 2016, thousand tonnes⁵⁵

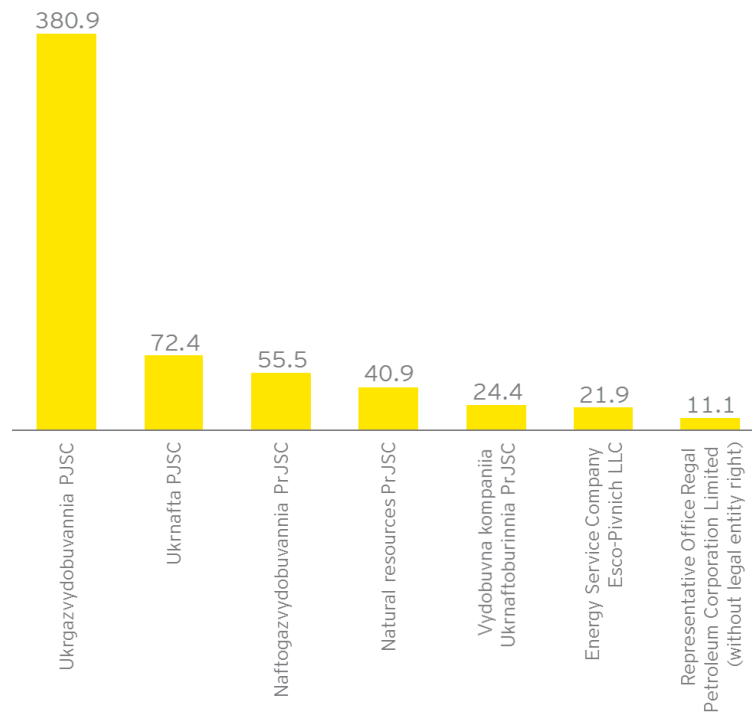


Figure 5-22: Volumes of gas condensate extraction in Ukraine, by individual companies in 2016, thousand tonnes⁵⁶

⁵⁵ The volumes of oil extraction are based on the information received from the extractive companies.

⁵⁶ The volumes of gas condensate extraction are based on the information received from the extractive companies.

The total volume of extraction from the major deposits of Ukraine: Yefremivske, Zahidno-Khrestishenske, Melykhivske, Shebelynske, Yablunivske, Mashivske - amounted to 5,823 mcm.

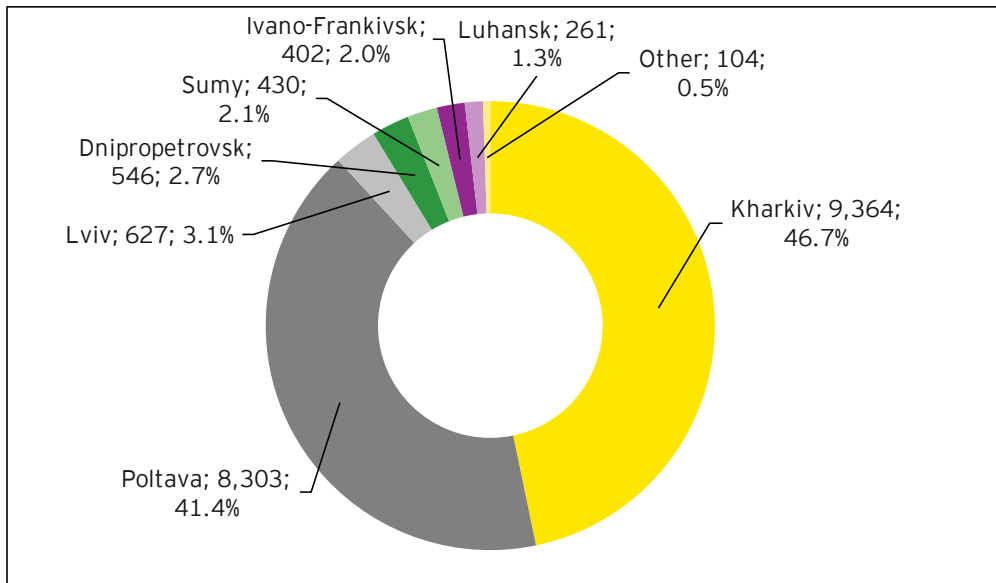


Figure 5-23: Volumes of natural gas extraction in Ukraine, by regions in 2016,⁵⁷ mcm

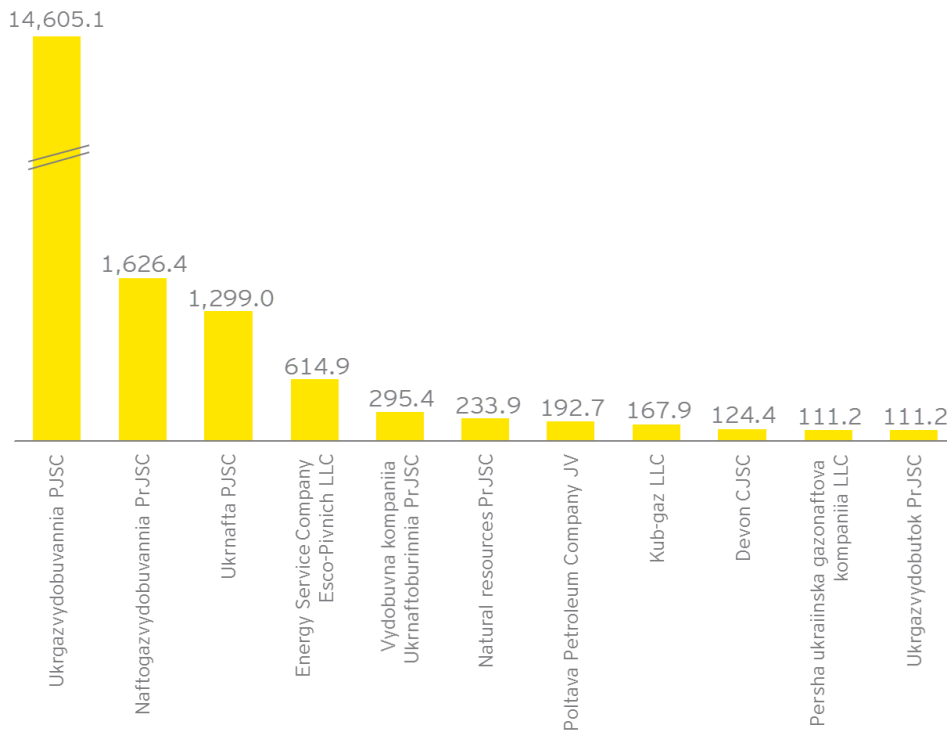


Figure 5-24: Volumes of natural gas extraction in Ukraine, by individual companies in 2016, mcm⁵⁸

⁵⁷ Geoinform of Ukraine SRPE, Yearbook of Mineral Resources of Ukraine 2017

⁵⁸ The volumes of natural gas extraction of all companies, except for Devon CJSC, are given based on information received from the extractive companies. The source of information on the volumes of natural gas extraction by Devon CJSC was MECI

The leaders in the Ukrainian gas industry in 2016 were Ukrgazvydobuvannia PJSC (14,605.1 mcm), Naftogazvydobuvannia PJSC (1,626.4 mcm), Ukrnafta PJSC (1,299.0 mcm), Energy Service Company Esco-Pivnich LLC (614.9 mcm).

5.2.6 Oil and natural gas transportation

5.2.6.1 Natural gas transportation

Background on gas transmission system and the main transportation routes

Ukraine's gas transportation system (GTS), due to its branching and accessibility, enables not only the sustainable transportation of gas produced in Ukraine to domestic consumers but also ensures uninterrupted transit to European consumers. In 2016, transition of gas through the Ukrainian GTS remained one of the main ways of importing natural gas to the EU (*Figure 5-25*).

The Ukrainian gas transportation system includes 38.55 thousand km of gas pipelines, including 22.16 thousand km of trunk pipelines and 16.39 thousand km of gas pipelines-branches. As of the end of 2016, there are 1,455 gas distribution stations (GDS). There are also 702 gas-pumping units, which are located at 72 compressor stations. Productivity of individual GTS branches ranges from 5.5 to 32.0 bcm a year (*Figure 5-26*).

The total volume of natural gas transportation in 2016 amounted to 111,791 mcm (transit and transportation to domestic consumers), which is 14.7% more than in 2015. At the same time, the volume of natural gas transit increased by 22.5% compared to 2015 and amounted to 82.2 bcm. (*Figure 5-25*).

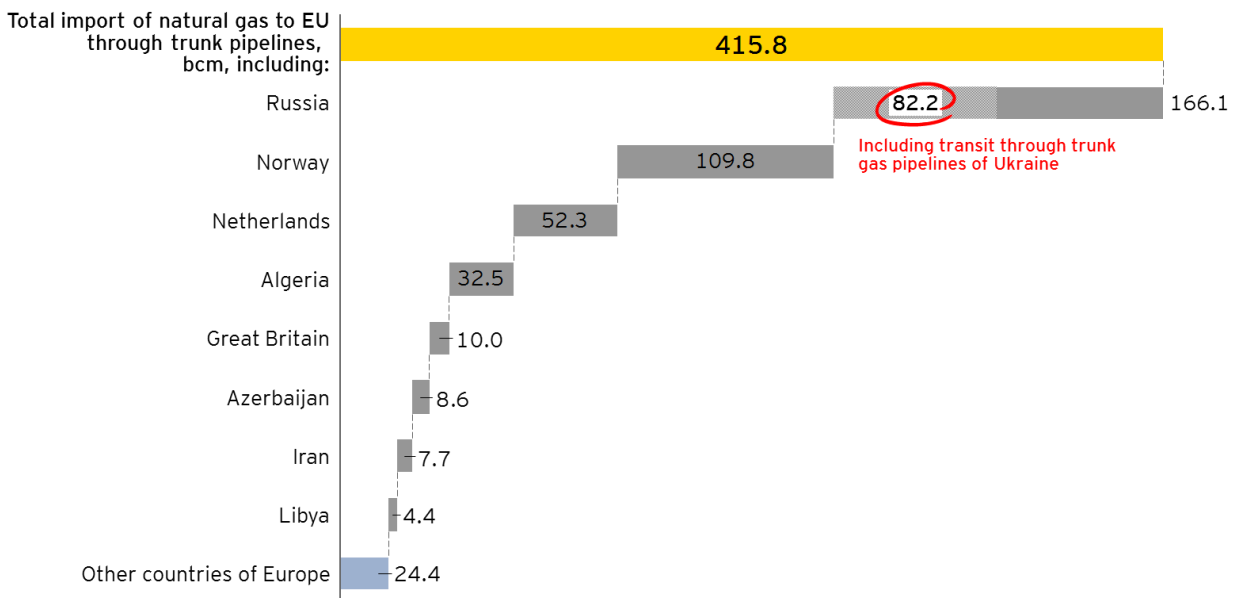


Figure 5-25: Volumes of natural gas received by EU countries through trunk gas pipelines in 2016⁵⁹

⁵⁹1) BP Statistical Review of World Energy 2017; 2) Annual Report of Naftogaz of Ukraine NJSC 2016

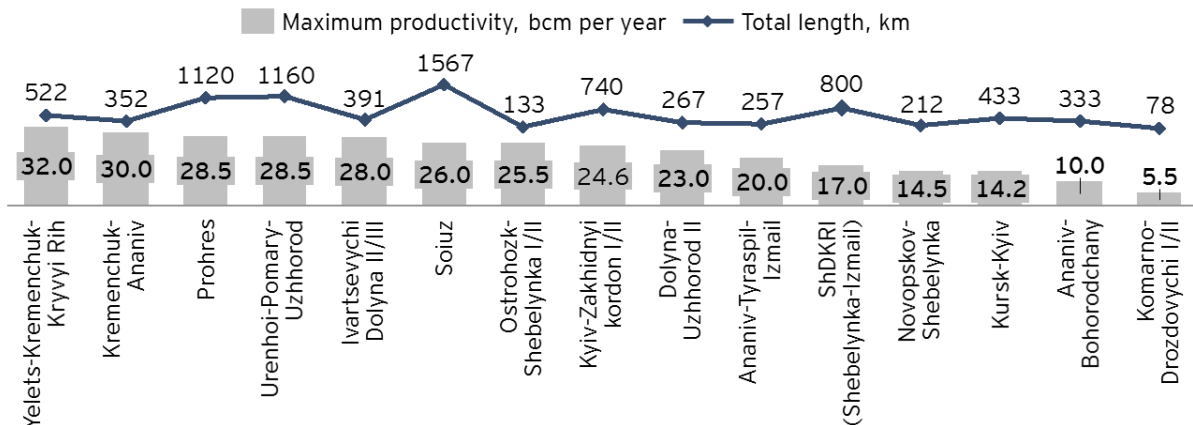


Figure 5-26: The list and main features of Ukrainian trunk gas pipelines⁶⁰

The total amount of imported natural gas from the EU countries in 2016 was 1.1 bcm, which is almost 8% more than in 2015 (when the total imports from the EU countries amounted to 10.3 bcm⁶¹).

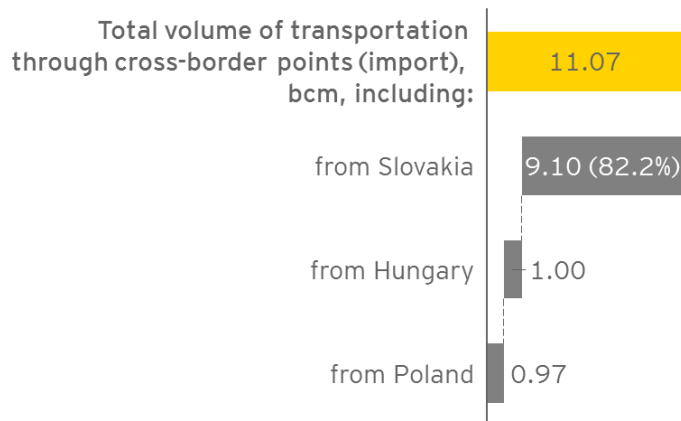


Figure 5-27: Volumes of physical inflow of natural gas through the cross-border points in 2016, by countries⁶²

According to Naftogaz of Ukraine NJSC, in 2016, natural gas was imported under contracts with more than 20 traders, including Axpo Trading AG, CEZ, a.s., Engie SA, Eni Trading & Shipping SpA, RWE Supply & Trading GmbH and Uniper Global Commodities SE and others⁶³.

It should also be noted that the total volume of natural gas supplied under the arrangements between private companies and traders has increased significantly. In 2016, the total volume of such arrangements amounted to 2.9 bcm, which is 2.6 times more than in 2015.

⁶⁰ Data provided by PJSC Ukrtransgaz <http://utg.ua/utg/gts/description.html>

⁶¹ The total amount of natural gas imports in 2015 was 16.4 bcm

⁶² Report of the Ministry of Energy and Coal Industry on the results of the natural gas supply safety monitoring for 2016.

⁶³ Annual Report of Naftogaz of Ukraine NJSC 2016

<http://www.naftogaz.com/www/3/nakweb.nsf/0/9B0566E71C6B0F9CC2257EDD006E558B?OpenDocument&Expand=3&>

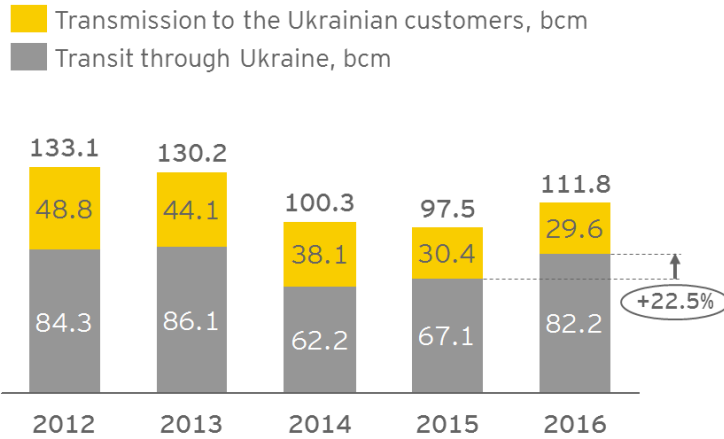


Figure 5-28: Volumes of natural gas transited and transported to the Ukrainian customers through trunk gas pipelines in 2012 - 2016⁶⁴

Transportation routes

Ukrtransgaz PJSC being the operator of the trunk gas pipeline system, transported natural gas to the EU, the Balkan countries and Turkey in 2016. The inflow and outflow of natural gas through the individual border gas measuring stations in 2016 is presented below (Figure 5-29).

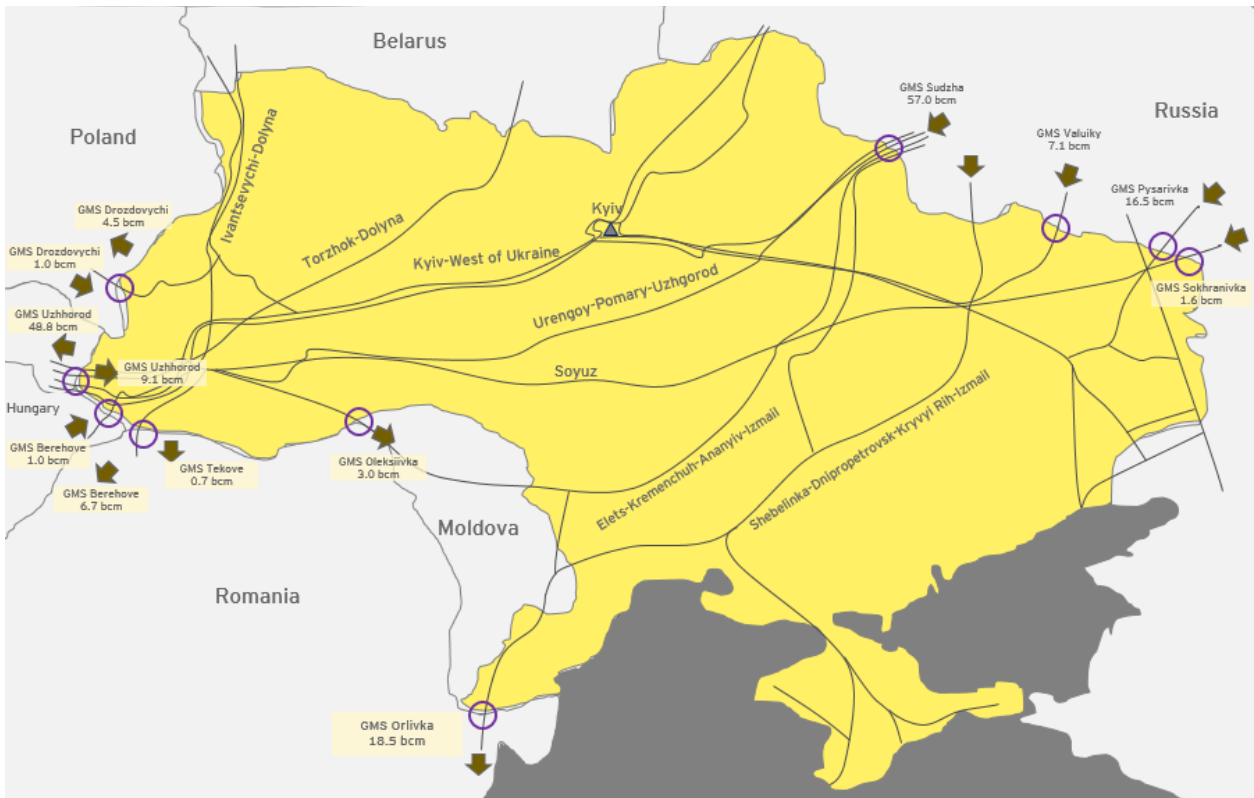


Figure 5-29: Inflows and outflows of natural gas through the individual border gas measuring stations (GMS) in 2016⁶⁵

⁶⁴ Annual Report of Naftogaz of Ukraine NJSC 2016

⁶⁵ Annual Report of Naftogaz of Ukraine NJSC 2016

In addition to transiting and importing natural gas, the Operator of the trunk gas pipelines system maintains routine operations to fill the underground gas storage facilities (UGS) of the Ukrainian gas transportation system with natural gas and to withdraw it from the facilities. According to Naftogaz of Ukraine NJSC, the total amount of natural gas accumulated in UGS before the 2015-2016 heating season started, was 14.7 bcm. The total volume of natural gas withdrawn from the UGS during the 2015-2016 heating season amounted to almost 8.5 bcm, while during the 2016-2017 heating season it was 6.7 bcm⁶⁶.

GTS operator transparency

Over the past few years, significant progress has been made in improving the operations of the GTS operator, increasing its transparency, ensuring non-discriminatory access of gas producers and traders to the GTS to ensure the uninterrupted transportation of contracted natural gas volumes.

A good example of the transparency of the GTS operator is the current publicly available web platform for monitoring the system. The platform enables a wide range of stakeholders to access data on current natural gas inflow into the territory of Ukraine, transit volumes, gas injection into UGSs and gas withdrawal from UGSs, level of filling the UGSs. The image of the system interface and the basic data available for analysis are presented below (Figure 5-30).

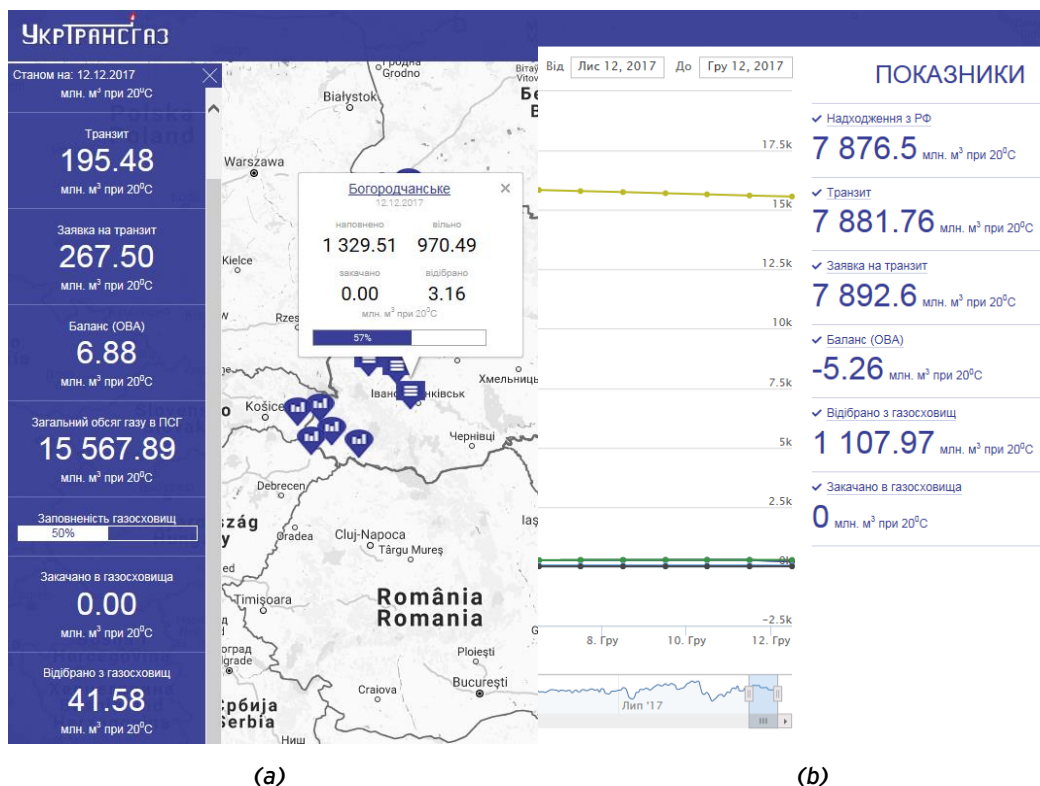


Figure 5-30: Screen shot of GTS Operator's web platform with information on current (a) and historical (b) data on natural gas inflows, transit, injection into and withdrawal from UGS⁶⁷

⁶⁶ Annual Report of Naftogaz of Ukraine NJSC 2016

⁶⁷ GTS Operator's web-platform <http://utg.ua/live/>

Separation of GTS Operator

Active implementation of the liberalized natural gas market in Ukraine in accordance with the Law of Ukraine "On the Natural Gas Market" continued in 2016. In particular, the plan for restructuring of Naftogaz of Ukraine NJSC was approved, which envisages separation of the natural gas transportation and storage activities (unbundling).

In order to implement unbundling and to ensure the independence of the GTS Operator from other market participants, in November 2016 Main Gas Pipelines of Ukraine PJSC was established, which is expected to manage the GTS operations in the future instead of Ukrtransgaz PJSC. In addition, at the moment, the Ministry of Energy and Coal Industry initiated the process of transferring corporate rights from Ukrtransgaz PJSC to Main Gas Pipelines of Ukraine PJSC and searching for international partners for joint management of the Ukrainian GTS.

Other important changes concerning the GTS Operator that took place in 2016 include the effectiveness of the Gas Transport System Code, pursuant to which the GTS Operator initiated procedures designed to distribute and streamline the system capacity at physical entry and exit points at the interstate connections (in the form of an electronic auction), collection of nominations - applications from producers, suppliers, consumers and traders, as well as allocations - confirmation of the distribution of natural gas by counterparts for a certain period.

Tariffs for natural gas transportation

The pricing approach for transportation and storage of natural gas significantly changed in 2016. Thus, since January 1, 2016⁶⁸, new tariffs have been introduced for the services of natural gas transportation for entry points to and exit points from the GTS located at the state border, which enabled flexible pricing with geographical localization.

In addition, in June 2016, the methodology for calculating tariffs for storage (injection and withdrawal) services in UGSs with regulated access regime was approved. The methodology provides for the payment for storage services in UGSs depending on the capacity allocated among the applicants. The tariff for the natural gas injection, storage and withdrawal from the UGSs in 2016 was 112 UAH/ tcm.

The question on the tariff for natural gas transportation for the entry points of the Ukrainian gas producing enterprises was still pending in 2016 and was settled in 2017, when the National Commission for State Regulation in Energy and Utilities (the Regulator) established two tariffs: 296.8 UAH/tcm per day for the points of natural gas entry from deposits into GTS and for the virtual points of entry from gas distribution systems, and 0 UAH/tcm per day for the points of entry into the UGSs⁶⁹.

The total tariff for the transportation of natural gas via the trunk and distribution pipelines to Ukrainian consumers in 2016 increased by 4% compared to 2015 (**Figure 5-31**). At the same time, the weighted average tariff for transportation via the trunk gas pipelines decreased by 7% from 236.7 to 219.0 UAH/tcm.

⁶⁸ Approved by the Resolution of NEURC dated 29.12.2015 No 3158

⁶⁹ Approved by the Resolution of NEURC dated 28.03.2017 No 348 "On setting tariffs for natural gas transportation services for Ukrainian consumers for entry points to and exit points from PJSC Ukrtransgaz"

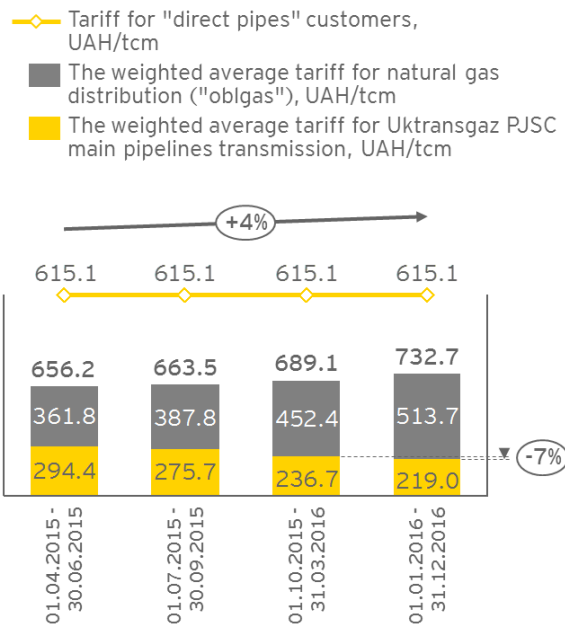


Figure 5-31: Average general tariffs for natural gas transportation through trunk and distribution pipelines to Ukrainian consumers⁷⁰

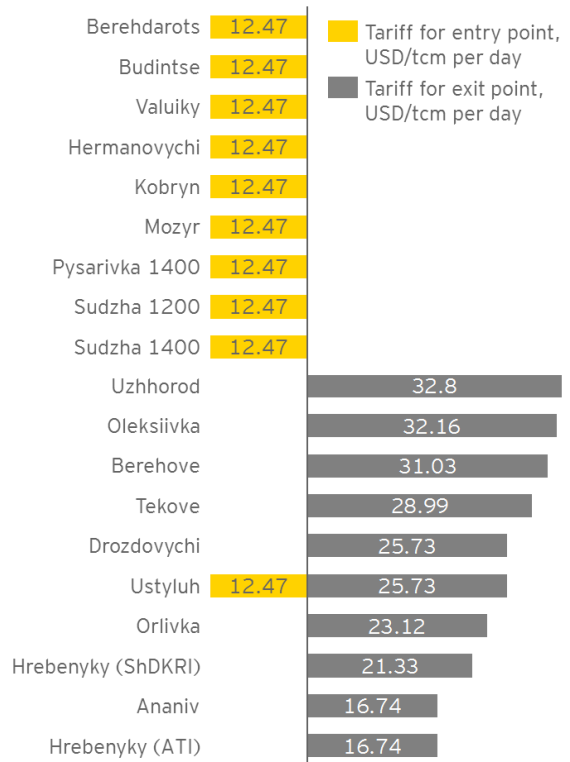


Figure 5-32: Tariffs for natural gas transportation through trunk pipelines for entry points to and exit points from the GTS, USD / tcm⁷¹

Revenue and financial performance of the Operator of the natural gas transmission system

The main factor influencing the revenue of the GTS Operator (Ukrtransgaz PJSC) is the volume of transit of natural gas through the territory of Ukraine. At the same time, from 2014 to 2016, provided the growth of transit volumes was sustained, the net loss of Ukrtransgaz PJSC increased by almost 8 times - from UAH 777 mln to more than UAH 6 bln (Figure 5-33).

The revenues Ukrtransgaz PJSC in 2016 received from the transportation of natural gas amounted to UAH 36,864,810 thousand, including:

- ▶ Natural gas transit services - UAH 19,892,415 thousand;
- ▶ Natural gas transportation by main gas pipelines - UAH 9,833,747 thousand;
- ▶ Services of UGS - UAH 1,346,839 thousand;
- ▶ Revenue from power distribution (cross-border points) - UAH 4,671,857 thousand;
- ▶ The revenue from balancing the system - UAH 950,763 thousand;
- ▶ Other products, goods, works and services - UAH 169,188 thousand.

⁷⁰ Resolution of NEURC No 3159 dated 29.12.2015

⁷¹ Resolution of NEURC No 3158 dated 29.12.2015

— Volumes of natural gas transit, bcm
■ Revenue from main activity, mln UAH

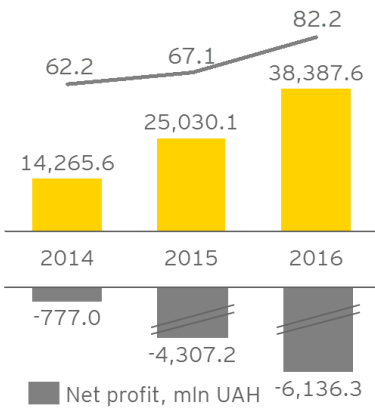


Figure 5-33: Revenue from operating activities and net profit (loss) of Ukrtransgaz PJSC⁷²

■ Revenue of Naftogaz of Ukraine NJSC from transportation, distribution and storage of natural gas
■ Including revenue from transit of natural gas

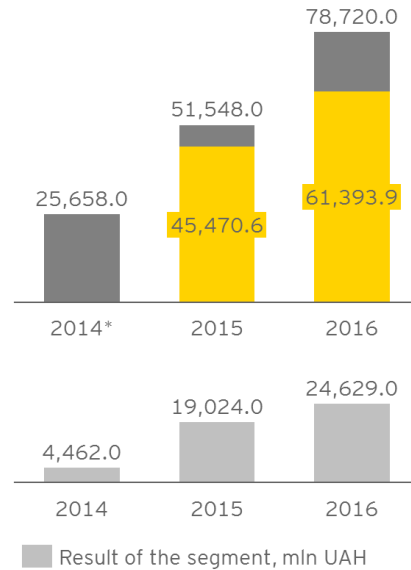


Figure 5-34: Revenue and financial performance of Naftogaz of Ukraine NJSC from transportation, distribution and storage of natural gas in 2014-2016⁷³

Thus, Naftogaz of Ukraine NJSC being an integrated structure, which included, as of 2016, the GTS Operator, the operations on transportation, distribution and storage of natural gas were profitable (**Figure 5-34**).

Due to the lack of information from extractive companies, payments for the transportation of natural gas were not reconciled under the EITI Report. Only 11 oil and gas companies provided at least partial information on physical volumes and costs of transportation of natural gas. Thus, according to the obtained data, these companies spent UAH 174.4 mln on transportation of 1,099.6 mcm of natural gas, the bulk of which was received by Ukrtransgaz PJSC - UAH 108.2 mln (**Table 5-16**). In addition, five extractive companies paid UAH 29.5 mln to Ukrtransgaz PJSC for the provision of other services related to the transportation of natural gas in 2016 (**Table 5-17**).

Natural gas extracted in the territory of Ukraine is pumped into the gas transmission system, including underground gas storages, and it is not possible to determine the routes of its transportation in the sense of the EITI standard.

⁷²Financial Statements of PJSC Ukrtransgaz for 2014-2016: <http://utg.ua/utg/about-company/reports.html>

⁷³Annual Report of Naftogaz of Ukraine NJSC for 2015-2016, Consolidated Financial Statements of Naftogaz of Ukraine NJSC for 2014-2016

<http://www.naftogaz.com/www/3/nakweb.nsf/0/C4775D2495121A4AC2257AD90051F66D?OpenDocument&Expand=1&>

Table 5-16: Costs of natural gas transportation in 2016

Name of payer company	Physical volumes of transportation of natural gas extracted by the company, mcm	Total costs of transportation of natural gas extracted by the company, UAH thousand (without VAT)	Name of company that provided transportation of extracted natural gas
Kub-gaz LLC	22.765	1,274.840	Ukrtransgaz PJSC
Joint activity agreement of 21/07/1997 No 23-3/97-84Б-97 - authorized entity Gaz-MDS LLC 24253556	2.517	1,664.200	Ukrgezvydobuvannia PJSC
Nadra-Geoinvest LLC	87.793	58,040.500	Ukrgezvydobuvannia PJSC
Ukrnafta PJSC	562.274	85,790.833	Ukrtransgaz PJSC
Energii-95 LLC	90.055	na	Ukrtransgaz PJSC
Energy Service Company Esco-Pivnich LLC	41.900	6,501.900	Ukrgezvydobuvannia PJSC
Persha ukraiinska gazonaftova kompaniia LLC	0.301	4.029	Ukrnaftohazinvest LLC
Ukrgezvydobuvannia PJSC	33.140	21,113.440	Ukrtransgaz PJSC
Natural resources PrJSC	233.850	na	Ukrtransgaz PJSC
East Geological Union LLC	9.810	na	Ukrtransgaz PJSC
Zakhidnadraservis LLC	15.159	na	Ukrtransgaz PJSC
Total	1,099.564	174,389.742	

Table 5-17: Other payments of extractive companies to Ukrtransgaz PJSC in 2016

Name of payer company	Purpose of payment	Amount of payment, UAH thousand (without VAT)
Kub-gaz LLC	Payment for non-compliance with natural gas quality parameters	156.950
	Payment for residuals of natural gas	2.830
Ukrnafta PJSC	Payment for non-compliance with natural gas quality parameters	179.944
	Payment for withdrawal and injection	11,462.012
	Payment for withdrawal and storage	63.601
	Payment for injection and storage	716.803
Naftogazvydobuvannia PrJSC	Payment for communication services of Upravlinnia Ukrgeztehsviazok Branch	54.600
	Payment for storage of natural gas	14,645.600
Energy Service Company Esco-Pivnich LLC	Payment for injection and storage of natural gas	1,242.200
	Payment for non-compliance with natural gas quality parameters	327.900
Natural resources PrJSC	Payment for injection of natural gas	737.360
	Payment for storage of natural gas	446.950
	Payment for withdrawal of natural gas	658.560
Total		29,453.110

5.2.6.2 Transportation of oil

Background information on the main transportation routes and the Operator of the trunk oil pipelines system

Ukraine has an oil pipeline transportation system which enables oil transportation from domestic production facilities to domestic refineries, as well as transit of oil to other countries, mainly to the EU countries. The Operator of the trunk oil pipelines system is Ukrtransnafta PJSC, 100% shares of which belong to Naftogaz of Ukraine NJSC.

According to Naftogaz of Ukraine NJSC, the Ukrainian trunk oil pipelines system includes 19 oil pipelines with a total length of 3,506.6 km, 51 oil pumping stations (OPS) and the sea oil terminal Pivdennyi. The input capacity of the system is 114.5 mln tonnes/year, and the output capacity is 56.3 mln tonnes/year. The total nominal capacity of tank farms in the trunk oil pipelines system is 1,083 tcm. The simplified scheme of the Ukrainian trunk oil pipelines in relation to the main infrastructure facilities (refineries, marine oil terminal and cross-border points) is shown below. (Figure 5-35).



Figure 5-35: Scheme of main trunk oil pipelines of Ukraine ⁷⁴

The terminal Pivdennyi is designed for reception, shipment and transportation of oil via the trunk oil pipelines of Ukraine. The capacity of the terminal Pivdennyi is 14.5 mln tonnes/year, with the possibility of extension to 45 mln tonnes/year. Tanker deadweight is up to 150 thousand tonnes. The reservoir park capacity is 200 tcm.

The structure of Ukrtransnafta PJSC includes 3 branches: Druzhba Main Oil Pipelines (oil

⁷⁴ Annual Report of Naftogaz of Ukraine NJSC for 2016

transportation to Drogobych refinery and Naphtokhimik Prykarpattya), Prydniprovski Main Oil Pipelines (Lisichansky Refinery (suspended as of 2016) and Kremenchuh Refinery) and Pivdenni Main Pipelines (Kherson Refinery (suspended in 2005) and Odessa Refinery (suspended as of 2016)).

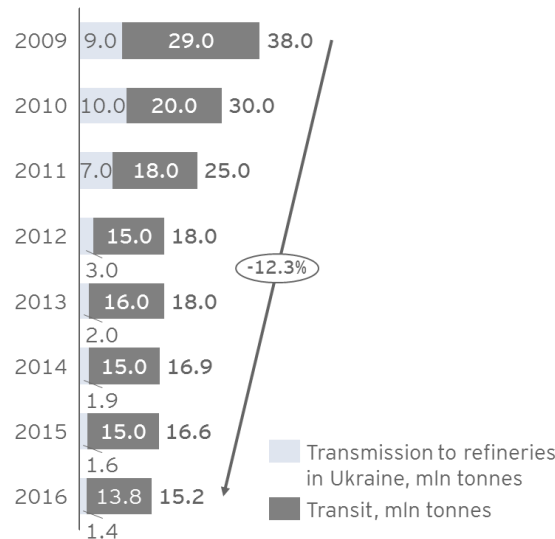


Figure 5-36: Volumes of oil transported and transited through the trunk oil pipelines of Ukrtransnafta PJSC in 2009-2016⁷⁵

The historical dynamics of transportation volumes is shown in **Figure 5-36**. The main reason for a significant decrease in domestic oil supply was the suspension of operations of a number of domestic refineries in the 2000s, caused by regulatory conditions of that time and a significant supply of petroleum products from Belarusian and Russian oil refineries.

Tariffs for oil transportation

The current tariffs for oil transportation via the trunk oil pipelines of Ukrtransnafta PJSC are established by the Resolution of NEURC of 23.12.2016 No. 2362. They are differentiated for the main essential sections of oil pipelines. Tariffs in 2016, compared to 2015, have slightly changed, in terms of both increase and decrease for the main sections of the pipelines (**Figure 5-38**).

In addition to Ukrtransnafta PJSC in 2016, transportation via the oil pipelines was carried out by the subsidiary PrykarpZahidtrans which runs the section of the Samara-Western Direction pipeline (the total length is about 1100 km) and transports diesel fuel from Russia and Belarus to the EU countries.

According to the information from open sources, the PrykarpZahidtrans SE renewed pumping of diesel fuel in May 2016, the volume of pipeline supplies in the corresponding year amounted to 860 thousand tonnes⁷⁶.

⁷⁵Source: Annual Reports of Ukrtransnafta PJSC for 2009-2014, Annual Report of Naftogaz of Ukraine NJSC for 2016

⁷⁶http://integrumventures.com/newsview/itogi_2016_ukrainskiy_rynok_nefteproduktov_vyiros_na_9

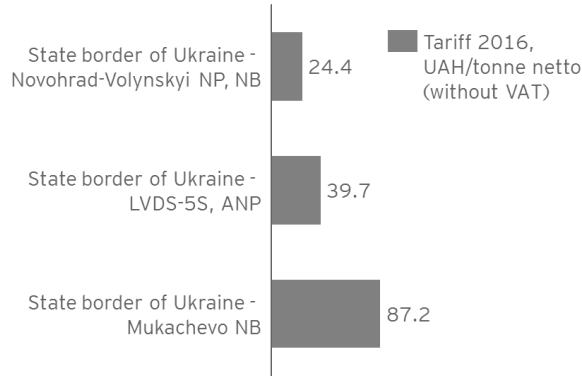


Figure 5-37: Tariffs for transportation of petroleum products through the trunk pipelines of PrykarpatZahidtrans SE⁷⁷

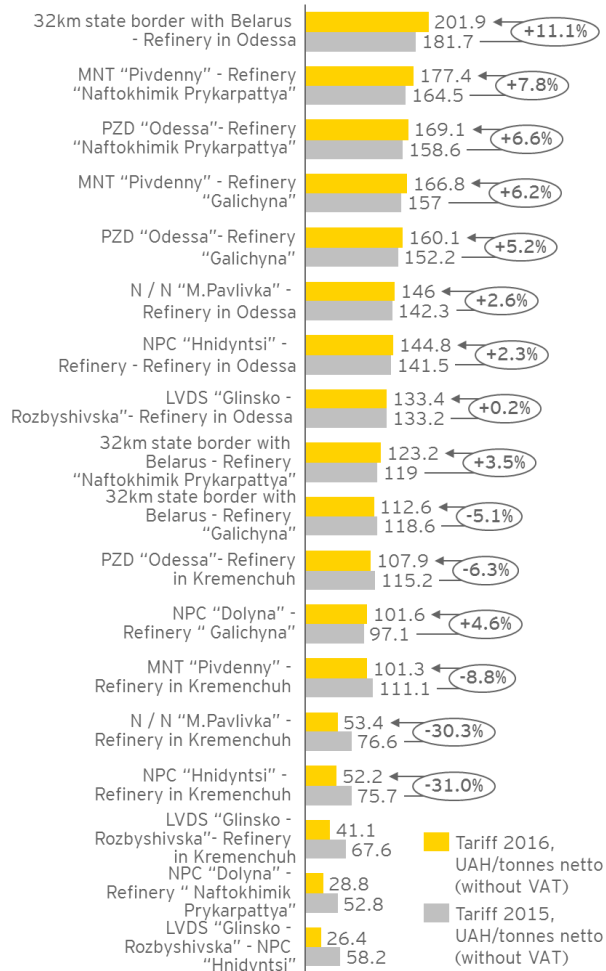


Figure 5-38: Tariffs for oil transportation through trunk pipelines of Ukrtransnafta PJSC in 2016⁷⁸

⁷⁷Source: Resolution of NEURC dated 09.07.2010 No 809

⁷⁸Resolution of NEURC No 2362 dated 23.12.2016

Revenue and financial performance of the Operator of oil transportation system

In 2016, Ukrtransnafta PJSC kept on demonstrating profit growth against the rising gross income (*Figure 5-39*).

Ukrtransnafta's PJSC revenue in 2016 amounted to about UAH 3,505 mln, which is 5.2% more than in 2014. The net profit of the company in 2016 decreased somewhat - from UAH 1.6 bln to UAH 1.5 bln.

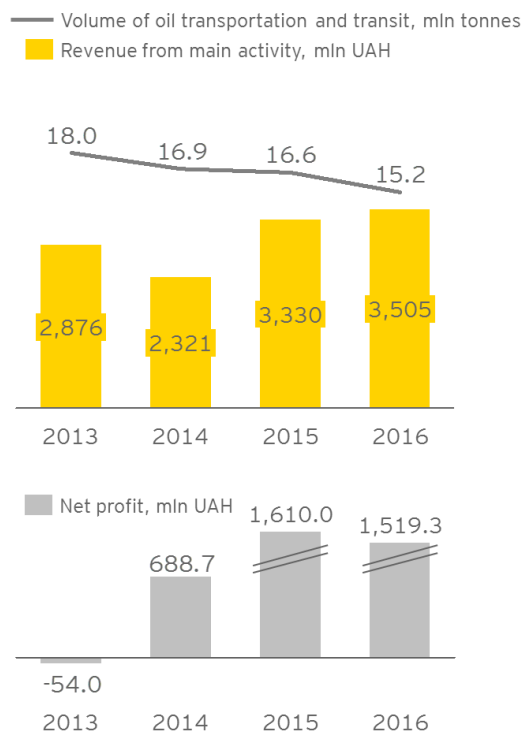


Figure 5-39: Revenue from main activities and net profit of Ukrtransnafta PJSC compared to volumes of transit in 2016 ⁷⁹

According to the information of Ukrtransnafta PJSC, total revenues from transportation of oil extracted in the territory of Ukraine amounted to UAH 126.4 mln in 2016. The total volume of oil transportation was 1,406 thousand tonnes, 345.4 thousand tonnes of which were transported for Ukrnafta PJSC (*Table 5-18*).

According to the information of Ukrnafta PJSC, 1,327.1 thousand tonnes of oil were transported in 2016, for which the company paid UAH 89.3 mln (without VAT). The Independent Administrator has no information on possible reasons of the discrepancy between the data of Ukrtransnafta PJSC and Ukrnafta PJSC. Other extractive companies did not provide information on transportation of oil extracted in the territory of Ukraine in 2016 for EITI Report.

⁷⁹ Source: Annual Reports of PJSC Ukrtransnafta for 2009-2016

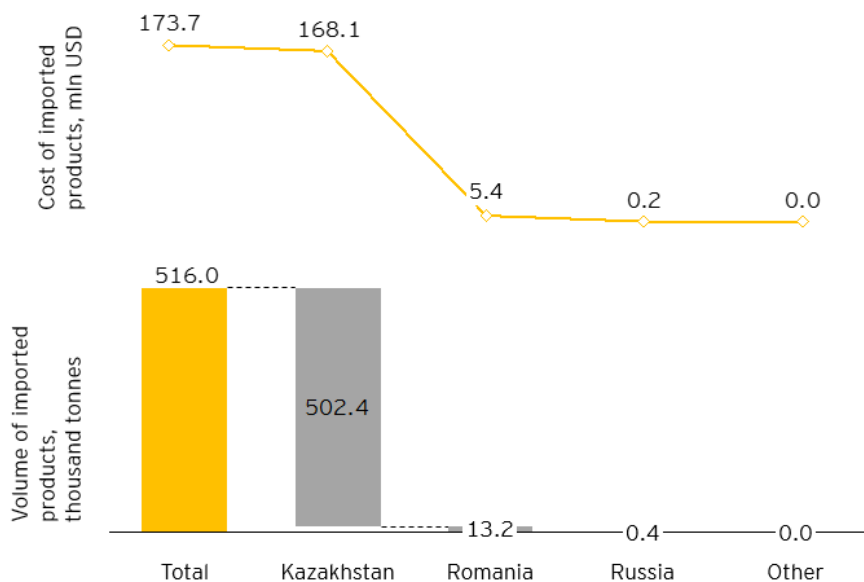
Table 5-18: Routes and payments for oil transportation in 2016

Name of payer company	Amount of payment, UAH thousand (with VAT)	Route of transportation	Volumes of oil transportation, tonnes
Ukrnafta PJSC	30,816.890	Boryslav - Drohobych	104,786.4
		Dolyna - Halychyna Oil Refinery Complex	215,911.7
		Oriv - Drohobych	24,741.2
Ukrtatnafta PJSC	95,534.040	Hlynsko-Rozbyshivska - Kremenchuh Refinery	92,128.6
		Hnidyntsi - Kremenchuh Refinery	545,849.0
		M. Pavlivka - Kremenchuh Refinery	422,626.8

5.2.7 Exports and imports of oil and natural gas

There were no exports of oil of Ukrainian origin in 2016.

According to the State Statistics Service, the total amount of oil imports in 2016 amounted to 516 thousand tonnes in volume or USD 173.7 mln in value. Kazakhstan was the main importing country, covering about 97% of the total Ukrainian imports. Small volumes were also imported from Romania, Russia and other countries.


Figure 5-40: Imports of oil, by countries in volume and in value⁸⁰

No natural gas of Ukrainian origin was exported in 2016.

According to the State Statistics Service, the total volume of natural gas imports in 2016 amounted to 10.9 bcm and its value was USD 2190.8 mln. Natural gas was imported mainly

⁸⁰Data of SSSU: <http://www.ukrstat.gov.ua/>

from Switzerland⁸¹ and Germany, France, as well as Great Britain and Poland.

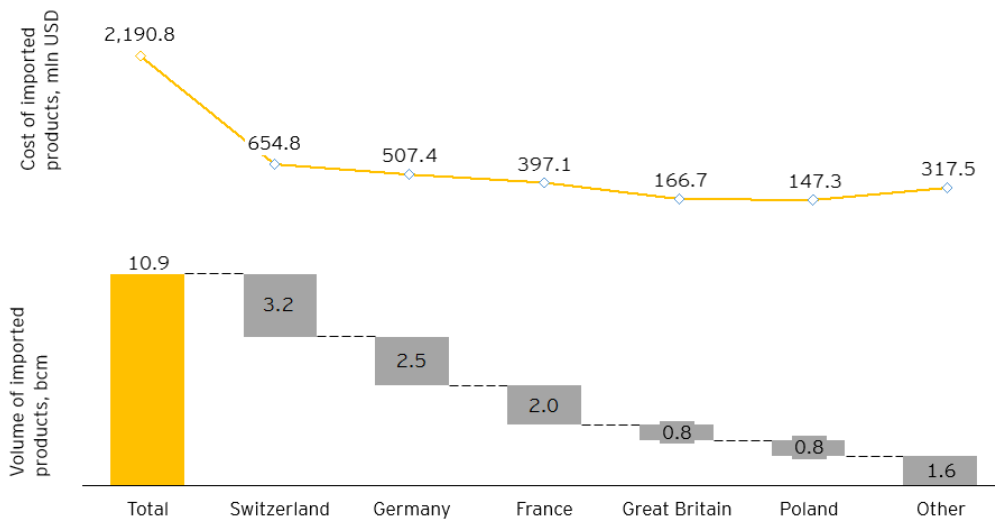


Figure 5-41: Imports of natural gas, by countries in volume and in value⁸²

Summary:

The volumes of oil and natural gas extraction in 2016 failed to meet the domestic needs of the country in these resources. Consequently, no oil or natural gas was exported during 2016. In 2016, oil imports increased by almost 2 times compared to 2015, while natural gas imports decreased by 5.5 bcm.

The situation with the extraction of natural gas was stabilized, the volume of production in 2016 increased by 129 mcm compared to 2015, and amounted to 20,037 mcm.

The volumes of oil extraction continued to decrease. The percentage of proven non-depleted fields is 26.5%, while 39.2% are proven reserves. However, further exploration is complicated by the rapid drop in oil prices and as a consequence, the suspension of investment programs.

⁸¹ Looks like it is the country of gas trader registration, not the origin of gas.

⁸²Data of SSSU: <http://www.ukrstat.gov.ua/>

5.3 Mining of iron ores

5.3.1 The role of the state in iron ores mining industry

In iron ores mining the private sector prevails. The state is represented in the sector by the Directorate of Kryvyi Rih Mining and Enrichment Complex of Oxidized Ores (KGZKOR) SE, Ukrainian Geological Company SE, Pivdenukrgeologiya SE.

The state enterprise Directorate of Kryvyi Rih Mining and Processing Plant for Oxidized Ores was designed to be a mining company, however since its construction is not finished, it is engaged in technical testing and research. According to information from the Higher Commercial Court of Ukraine, the plant is in a state of rehabilitation, which was initiated by a decision of the economic court of Kirovohrad region dated June 16, 2009.

Directorate of KGZKOR SE is under the management of the Ministry of Economic Development and Trade of Ukraine, which is the main manager of funds under budget programs designed to support the operations of the enterprise.

Table 5-19: Uses of funds under individual budget programs in iron ores mining industry, UAH thousand⁸³

Name of budget program	General-purpose fund	
	Allocated funds	Funds actually used during 2016
Enhancing operations and viability of Kryvyi Rih Mining and Enrichment Complex of Oxidized Ores	23,850.00	23,850.00

Ukrainian Geological Company SE and Pivdenukrgeologiya SE are under to the State Service of Geology and Subsoil of Ukraine. Their core operations are geo-exploration.

5.3.2 Iron ores reserves

In the territory of Ukraine, the reserves of iron ores are concentrated mainly on the Ukrainian crystalline shield, which in turn is divided into the following deposits areas: Kryvyi Rih and Kerch iron ores basins, Kremenchuh, Bilozirske and Mariupol iron ores regions.

A shallow precipitation of iron ores is the main feature of Kryvyi Rih iron ores basin, so surface mining predominates. In the southern and northern parts of the basin, rich ores include brown iron ores, but they are not mined.

The rich ores of the Pivdenno-Bilozirske deposit located in Bilozirsk ore district are mined underground.

On the territory of Kerch iron ores basin, there are two groups of deposits of brown iron ores. The southern group is partially developed, however the deposits have been preserved since 1992. The actual geological information on these deposits is not available, as they are located in the territory of Ukraine that is not under control of Ukrainian authorities.

Overall, according to the geological-industrial typology, iron ores of Ukraine belong to the

⁸³ The State Treasury Service of Ukraine: <http://www.treasury.gov.ua/main/doccatalog/document?id=359221>

following categories: ferruginous quartzites, rich magnetite-hematite-martite ores and eolithic brown iron ores.

The Geology Service maintains official accounting records for the balance sheet reserves of iron ores for 60 Ukrainian deposits. As of 01.01.2017, the balance sheet category A + B + C1 reserves amounted to 19,725.9 mln tonnes, C2 category - 7,367.0 mln tonnes.

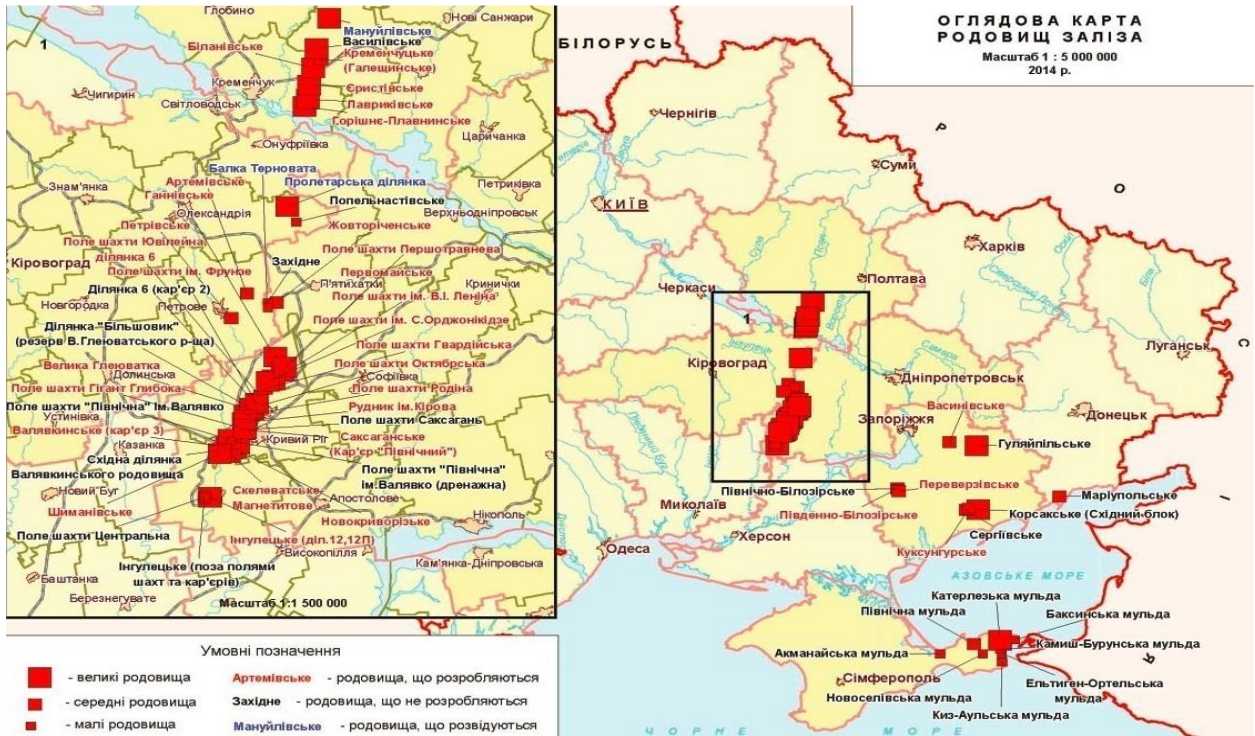


Figure 5-42: Geographical location of iron ores deposit areas

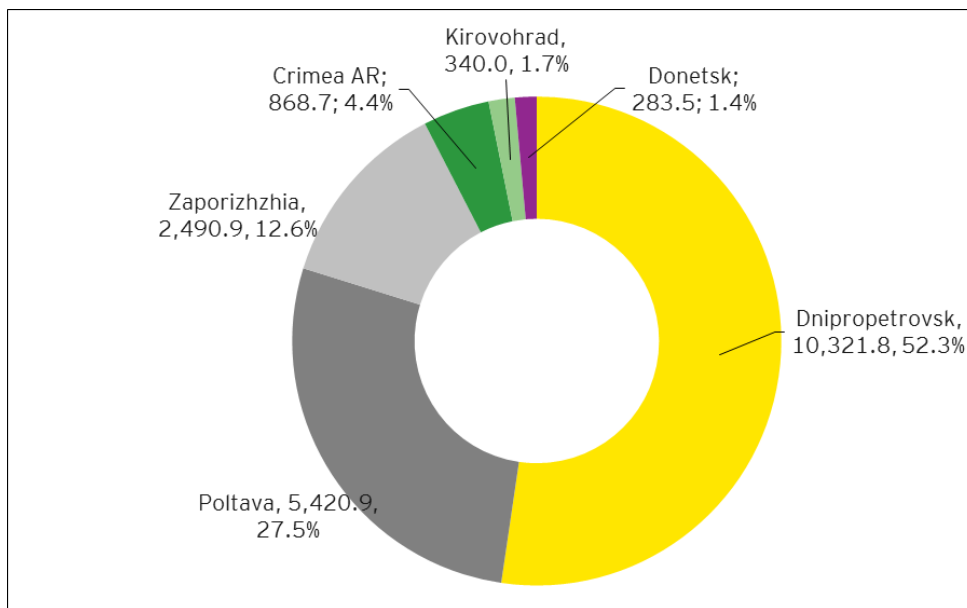


Figure 5-43: Iron ores reserves, by regions of Ukraine, mln tonnes⁸⁴

⁸⁴ Data of Geoinform of Ukraine SRPE, The State Balance Sheet of Minerals of Ukraine 2017

The largest reserves of iron ores are localized in Dnipropetrovsk region and constitute 52% of category A + B + C1 balance sheet reserves of Ukraine, or 10,321.8 mln tonnes. Poltava region accounts for 28% of iron ores reserves, or 5,420.9 mln tonnes. In Zaporizhyya region 2,490.9 mln tonnes of reserves are located.

5.3.3 Significant explorations

During 2016, exploratory work was continued on such fields of deposits

- ▶ Brovarkivska, Zarudenskaya, Kharchenkovska, Vasylivska areas in Poltava region (the works were carried out by Poltava Mining and Processing Plant PJSC);
- ▶ Mykolaiv area in Kirovograd region (Mykolaiv Stil LLC);
- ▶ Lozuvatska area in Kirovograd region (Lozuvatske Stil LLC);
- ▶ Orekhivske area in Kirovograd region (Orekhivske Stil LLC);
- ▶ Chervonofedorivske area in Kirovograd region (Chervonofedorivske Stil LLC);
- ▶ Proletarske area in Kirovograd region (Proletarske Stil LLC);
- ▶ Area Kirov Rudnyk in Artem mine field in Dnipropetrovsk region (ArcelorMittal Kryvyi Rih PJSC, permission for geological study, including for pilot commercial development as of January 14, 2016 was canceled)⁸⁵.

Exploration works are also carried out by Pivdenukrgeologiya SE on the four sites that are currently suspended. For the first site - the Gulyaypole field of ferruginous quartzites - the reserves of iron ores are calculated and approved by the categories B + C1, but there is a need for additional exploration of the Northern Career area. The second suspended object - Valyavkynske deposit - requires additional geological exploration. Popelnastivske deposit is the third suspended object and also requires additional exploration since its feasibility is not proven. For the fourth object - Chortomlyk deposit - exploration and identification of optimal conditions for development and enrichment of minerals is needed.

Exploration has been carried out by Ukrainian Geological Company SE since 2006. The objects under exploration are three iron ores shows - Pischanske, Saranske, Baibuzivske - which are located in the Middle Pobuzhyya area. These shows are closely located, they have significant reserves of iron ores at shallow depths. The total reserves of ores in the three shows are estimated at over 1 bln tonnes. However, due to insufficient financing, the works are currently suspended.

5.3.4 Information on special permits for use of subsoil

According to publicly available information provided by Geoinform of Ukraine SRPE, in 2016 there were 33 existing special permits for the use of subsoil for geological exploration and extraction of iron ores.^{86,87}

Among the special permits valid in 2016, the oldest ones were issued in 1996 (3 permits). Among the existing permits for the use of subsoil the largest number was issued in 2001 (8 permits). According to the data of Geoinform of Ukraine SRPE, none of the special permits valid in 2016 was issued in 2008 - 2016.

⁸⁵ Data of Geoinform of Ukraine SRPE, The State Balance Sheet of Minerals of Ukraine 2017

⁸⁶ Calculated by the Independent Administrator on the basis of the publicly available information of the Geology Service (Geoinform of Ukraine SRPE)

⁸⁷ The data do not include 1 permit which was suspended in 2015, and as of November 7, 2017 recognized by Geoinform of Ukraine SRPE as invalid

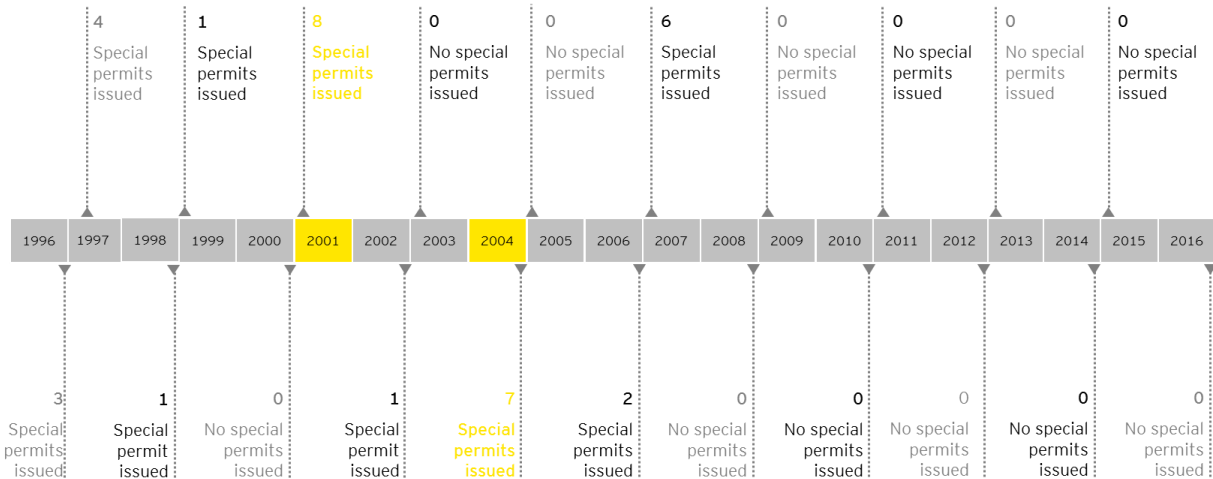


Figure 5-44: Special permits for the use of subsoil (iron ores⁸⁸) in Ukraine effective in 2016, by year of issuance⁸⁹

Data of Geoinform of Ukraine SRPE show that 82%, or 27 special permits were issued for the purpose of mineral mining and 18%, or 6 special permits were issued for geological study of the depths.

Table 5-20: Special permits effective in 2016, by types of use of subsoil (iron ores)

Type of use of subsoil	Number of permits, pcs.
Geological exploration of the depths	1
Geological exploration of the depths, including pilot commercial development of deposits of minerals of national importance	5
Extraction of minerals (commercial development of deposits)	27
Total	33

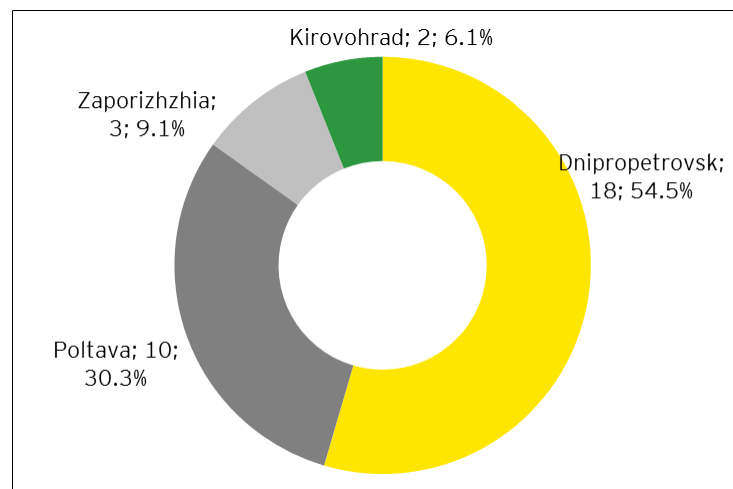


Figure 5-45: Special permits for the use of subsoil for iron ores mining, by regions of Ukraine (effective in 2016)

⁸⁸ In this section of the Report the term "iron ore" refers to the following categories: iron quartzite, iron ore, quartzite, ferritic magnetite quartzite, magnetite quartzite ore, iron ore quartzite ore, rich iron ore

⁸⁹ According to the data of Geoinform of Ukraine SRPE

The distribution of the existing permits for the use of subsoil for the extraction of iron ores shows that the Dnipropetrovsk region has the largest share - 55% or 18 permits. 10 permits, or 30%, were issued for Poltava region. Significantly fewer permits for subsoil use are issued in Zaporizhzhya and Kirovograd regions - 3 permits (9%) and 2 permits (6%) respectively.

5.3.5 Volumes of iron ores mining

According to data from Geoinform of Ukraine SRPE, in 2016 11 enterprises produced iron ores in the territory of Ukraine. Total mining volumes of iron ores amounted to 164 mln tonnes. Compared to the previous year, mining decreased by 8 mln tonnes.

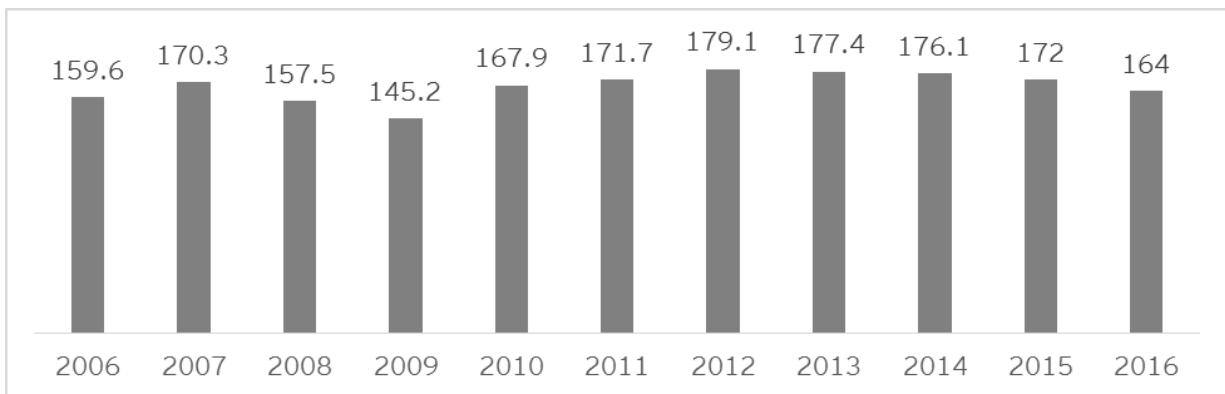


Figure 5-46: Dynamics of iron ores mining in 2006-2016, mln tonnes⁹⁰

According to the data of Geoinform of Ukraine SRPE, the iron ores are mined in four regions of Ukraine. The highest percentage of mining (69%, or 113.1 mln tonnes) is in Dnipropetrovsk region. In Poltava region in 2016, 40.9 mln tonnes of iron ores were extracted. Kirovograd and Zaporizhzhya regions are characterized by significantly lower mining levels: 3% (5.7 mln tonnes) and 3% (4.4 mln tonnes) respectively.

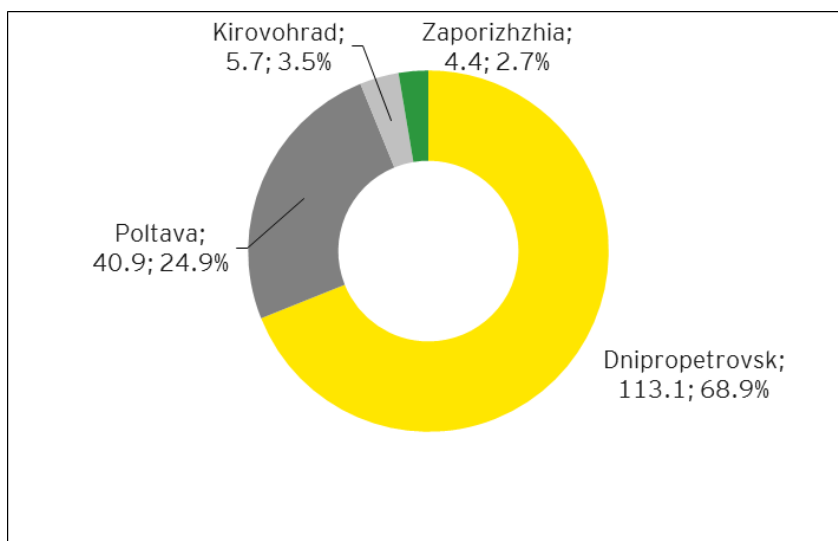


Figure 5-47: Volumes of iron ores mining, by regions of Ukraine, mln tonnes⁹¹

⁹⁰ Geoinform of Ukraine SRPE, Yearbook of Mineral Resources of Ukraine 2017

⁹¹ Data of Geoinform of Ukraine SRPE, The State Balance Sheet of Minerals of Ukraine 2017

During 2016, iron ores mining was carried out in 6 mines and 13 quarries.

According to the data of Geoinform of Ukraine SRPE, in 2016 the companies Krivoj Rog`s iron-ore combine PJSC, mine for underground ores mining of ArcelorMittal Kryvyi Rih PJSC, Sukhha Balka PJSC extracted rich ores and magnetite quartzite by mining in the Kryvyi Rih basin. The companies Ingulets Iron Ore Enrichment Works PrJSC, Southern mining factory PJSC, Northern Iron Ore Enrichment Works PrJSC and ArcelorMittal Kryvyi Rih PJSC produced magnetite and oxidized quartzite in an open way. Central Iron Ore Enrichment Works PrJSC applied both mining and quarrying methods.

Table 5-21: Companies of iron ores mining industry, deposits and mining volumes in 2013-2016⁹²

No	Company	Deposit	Raw ore extraction, thousand tonnes			
			2013	2014	2015	2016
1	AreslorMittal Kryvyi Rih PJSC	Artem mine field (former Kirov mine)	653.0	695.0	790.0	755.0
		Pivdennyi career	255.0	136.0	n/a ⁹³	n/a
		Novokryvoriz'ke deposit	8,916.0	9,035.0	8,983.0	8,764.0
		Valyavkynske deposit	15,243.0	14,900.0	14,321.0	11,679.0
2	Vostok-Ruda LLC	Zhovtorichynske deposit	583.0	412.0	28.0	n/a
3	Mariupol Metallurgical Plant PJSC	Saksahanske deposit (Pivnichnyi career)	655.6	512.8	597.7	546.1
4	Sukha Balka PrJSC	Yuvileina mine	1,785.0	1,746.0	1,782.0	1,641.6
		Frunze mine	1,123.0	1,086.0	1,094.0	988.7
5	Central Iron Ore Enrichment Works PrJSC	Velyka Hleyuvatka deposit	5,865.0	5,861.0	5,435.0	4,828.0
		Ordzhonikidze mine	1,318.0	1,230.0	1,205.0	1,312.0
		Petrivske deposit	5,817.0	5,780.0	5,427.0	4,081.0
		Artemivske deposit	1,450.0	1,523.0	1,621.0	1,660.0
6	Ingulets Iron Ore Enrichment Works PrJSC	Inhulets deposit	32,388.0	31,687.0	28,093.0	27,368.7

⁹² Yearbook of Mineral Resources of Ukraine 2017

⁹³ No extraction in 2015, the company was developing the ores that had been previously lost when the underground method was used

No	Company	Deposit	Raw ore extraction, thousand tonnes			
			2013	2014	2015	2016
7	Southern mining factory PJSC	Sklevatsko-Mahnetytve deposit	24,602.0	23,944.0	24,264.0	25,823.4
8	Northern Iron Ore Enrichment Works PrJSC	Pervomaysk deposit	22,111.0	20,112.0	19,740.0	17,129.0
		Hanivske deposit	9,530.0	8,736.0	8,240.0	7,806.0
9	Krivoj Rog`s iron-ore combine PJSC	Lenin mine	1,236.0	1,389.0	1,462.0	1,200.0
		Hvardiiska mine	1,064.0	1,356.0	1,317.0	1,340.2
		Oktyabrsk mine	1,077.0	1,194.0	1,326.0	1,187.8
		Rodina mine	1,812.0	1,536.0	1,049.0	1,233.5
10	The foreign investment enterprise in the form of PrJSC Zaporizhzhia iron ore industrial complex	Pivdenno-Bilozerske deposit	4,340.0	4,321.0	4,449.0	4,220.0
		Pereverzivske deposit	22.0	60.0	60.0	138.0
11	Ferrexpo Poltava mining PrJSC	Horishnye-Plavniyske-Lavrykivske deposit	22,660.0	28,876.0	24,623.0	27,864.0
		Yerystivske deposit	6,518.0	9,162.0	14,197.0	12,989.0

5.3.6 Exports and imports of iron ores and its processing products

According to the data provided by SSSU, in 2016 exports of iron ores and concentrates decreased by 14% compared to the previous year and totaled 39.2 mln tonnes, of which non-agglomerated ores amounted to 24.1 mln tonnes, and agglomerated ores - 15.1 mln tonnes.

The total exports of ores and concentrates of iron (non-agglomerated) amounted to 24,091.6 thousand tonnes with the value of USD 936.4 mln. Their exports, as well as the export of agglomerated iron ores, are diversified by the partner countries. The largest volume was exported to China, significantly less volume of ores and non-agglomerated concentrates was exported to Poland, the Czech Republic and Slovakia, and relatively small volumes - to Romania, Austria, Serbia, and Hungary.

Ukraine's trade in the international market of agglomerated ores was in smaller volumes. In 2016, the export of agglomerated ores and concentrates of iron was 15,111.7 thousand tonnes (UAH 890.8 mln). The largest volume of exports was to China and Austria, somewhat smaller volumes of iron ores were exported to Germany, Japan, Serbia, and Slovakia.

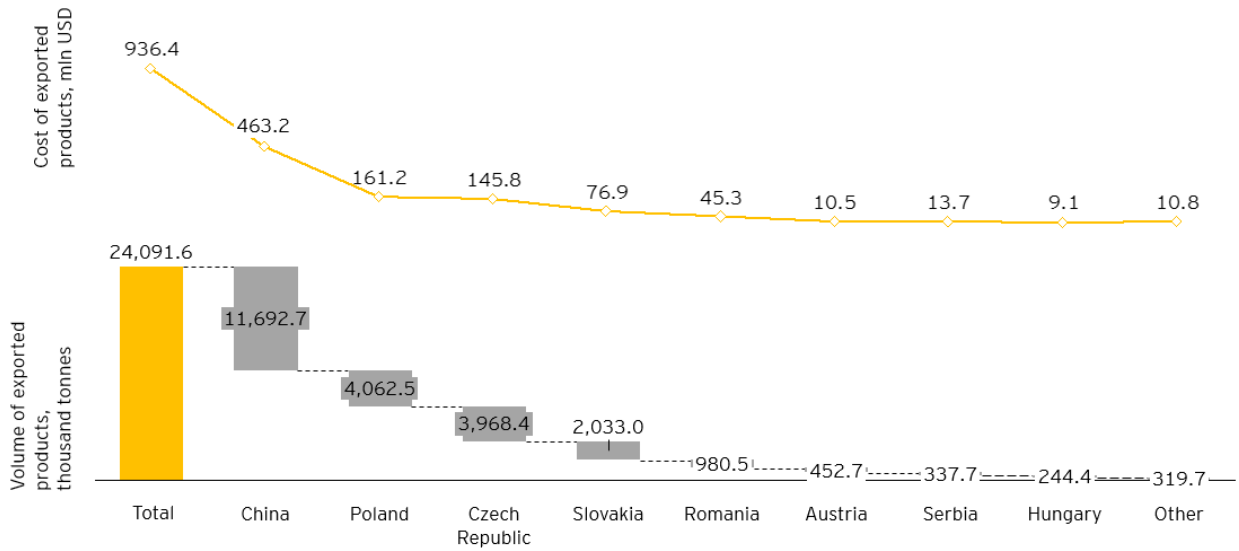


Figure 5-48: Exports of iron ores and concentrates (non-agglomerated), by countries in volume and in value⁹⁴

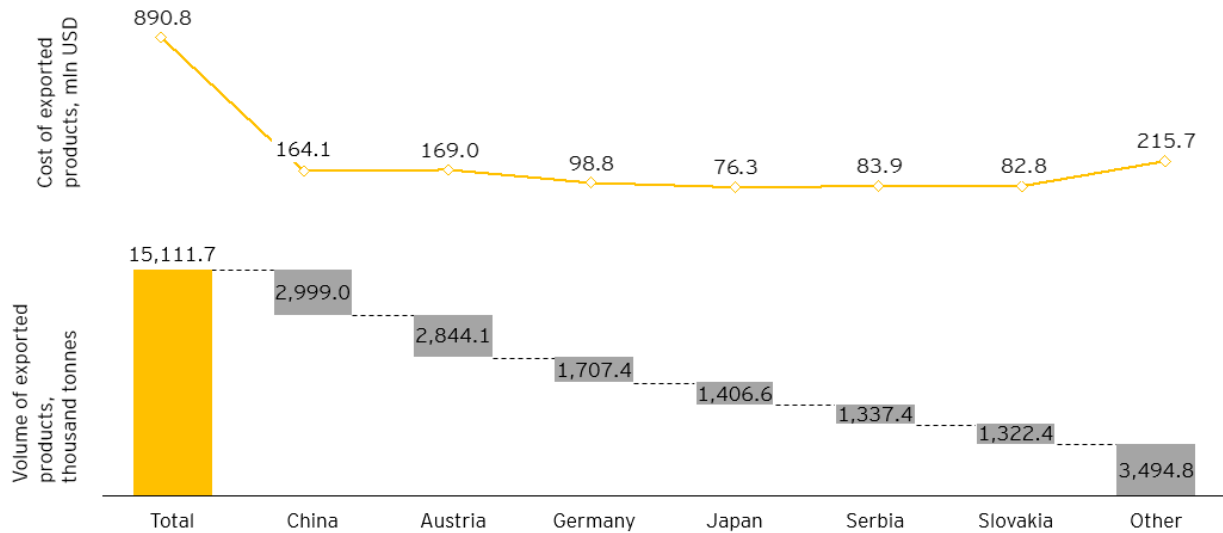


Figure 5-49: Exports of iron ores and concentrates (agglomerated), by countries in volume and in value⁹⁵

The imports of non-agglomerated ores and concentrates of iron ores in 2016 amounted to 1,685.9 thousand tonnes (USD 70.7 mln). Almost all non-agglomerated iron ores (about 99%) were imported from Russia, and insignificant portion of the total from other countries.

⁹⁴ Data of SSSU: <http://www.ukrstat.gov.ua/>

⁹⁵ Data of SSSU: <http://www.ukrstat.gov.ua/>

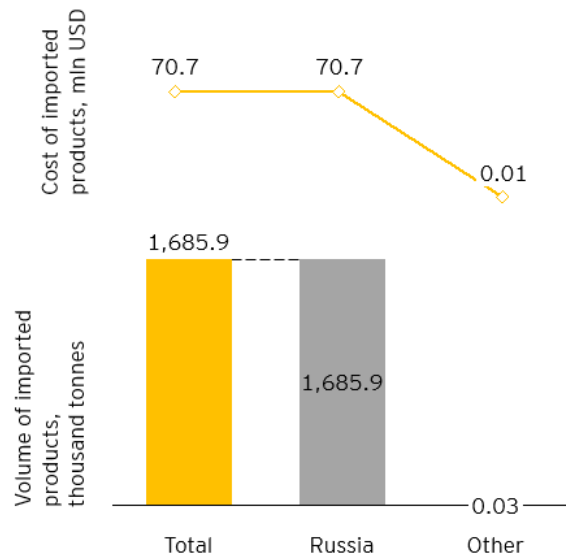


Figure 5-50: Imports of iron ores and concentrates (non-agglomerated), by countries in volume and in value⁹⁶

78.8 thousand tonnes of agglomerated ores and iron concentrates worth UAD 5.3 mln were imported in 2016. Almost all imports (about 100%) came from Russia and only insignificant portion from other countries.

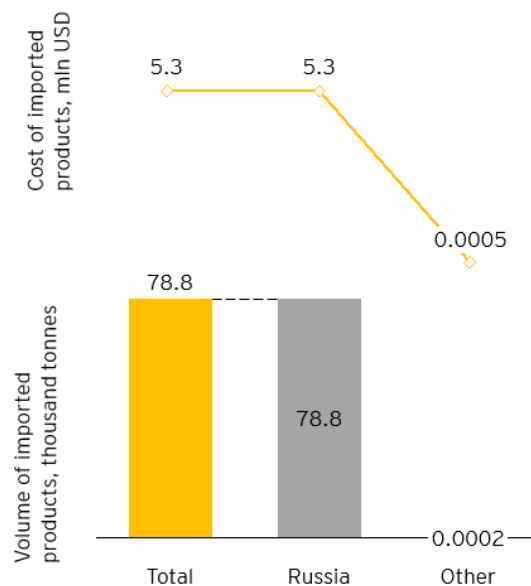


Figure 5-51: Imports of iron ores and concentrates (agglomerated), by countries in volume and in value⁹⁷

⁹⁶Data of SSSU: <http://www.ukrstat.gov.ua/>

⁹⁷Data of SSSU: <http://www.ukrstat.gov.ua/>

Summary:

The reserves of iron ores in Ukrainian territory are concentrated in Kryvyi Rih and Kerch iron ores basins, Kremenchuh, Bilozirsky and Mariupol iron ores areas.

In 2016, total mining volumes of iron ores amounted to 164 mln tonnes. Compared to the previous year, mining decreased by 8 mln tonnes.

In 2016, Ukraine continued to export iron ores and concentrates (agglomerated and non-agglomerated), although the total exports decreased by 14% compared to the previous year and amounted to 39.2 mln tonnes.

5.4 Mining of titanium ores

5.4.1 The role of the state in titanium ores mining industry

In the titanium-containing ores extraction sector, the state is represented by United Mining and Chemical Company PJSC, which is under the management of the Ministry of Economic Development and Trade of Ukraine. The company was established in 2009, and in 2014, Irshansk Mining and Processing Plant and Vilnohirsk Mining and Metallurgical Combine, which were previously under the Crimea Titan company, were transferred under PJSC United Mining and Chemical Company.

PJSC United Mining and Chemical Company is the successor of the United Mining and Chemical Company SE, which ceased to exist in December 2016 following its corporatization. Then the company issued 2 bln shares, 1 UAH each. In September 2016, the Cabinet of Ministers of Ukraine included the company in the list of enterprises subject to privatization. The next step is to be setting up a supervisory board and transferring the enterprise under the State Property Fund for further privatization.⁹⁸

5.4.2 Titanium ores reserves

Ukraine has significant reserves of titanium ores, including explored ones. According to the Geology Service estimates, the reserves include apatite-ilmenite deposits, alluvial continental deposits, ancient marine placer deposits of rutile-zircon-ilmenite (polymineral) composition, exogenous residual ilmenite deposits in the weathering crust.

In Ukraine, titanium-containing ores are extracted from scattered deposits. Ilmenite predominates in reserves and extraction, and the reserves of rutile are limited.

Currently, 14 deposits are being developed in Ukraine.

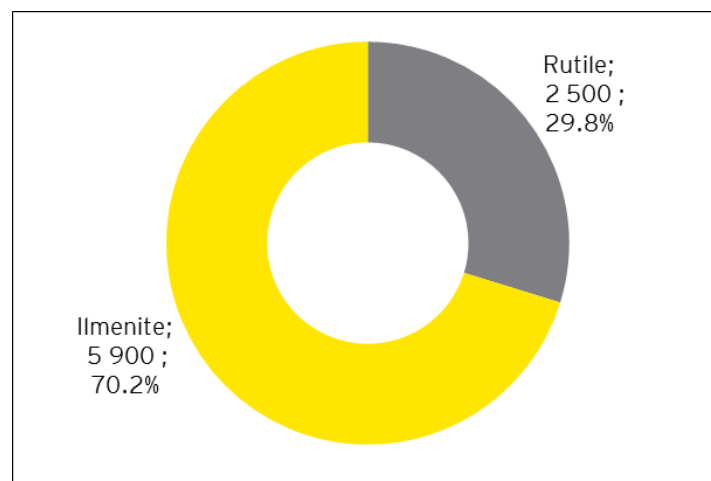


Figure 5-52: Titanium ores reserves in Ukraine in 2016, thousand tonnes⁹⁹

⁹⁸ Web-site of United Mining and Chemical Company PJSC:

https://umcc.com.ua/news/570/obednana_g%D1%96rnicho_h%D1%96m%D1%96chna_kompan%D1%96ya_ust%D1%96shno_zave_rshila_korporatizats%D1%96yu

⁹⁹ Data of the US Geological Survey: <https://minerals.usgs.gov/minerals/pubs/mcs/2017/mcs2017.pdf>

Further information on titanium ores reserves in Ukraine is not publicly available, as such data are state secrets and not subject to disclosure.

5.4.3 Significant explorations

According to the data of Geoinform of Ukraine SRPE, the exploration works in 2016 was conducted with the participation of three enterprises: Zhytomyrburrozvidka LLC, Pivdenukrgeologiya SE, Donetskgeologiya SRGE.

The exploration works on Paramivsk field started back in 2003. The findings of the exploration constitute a basis for approval of the constant conditions parameters for estimation of titanium ores deposits. In 2016, geological prospecting works on this field continued with the participation of Zhytomyrburrozvidka LLC.

In 2016, Pivdenukrgeologiya SE carried out exploration works on Pokrovo-Kyryivsky show of complex vanadium-bearing titanomagnetite ores. Donetskgeologiya SRGE carried out geological exploration works on Yantarivska prospect area, including Andriivsky and Uspenivsky alluvial deposit. The work was also carried out on the Krasnorichynske deposit of ilmenite ores with the participation of Zhytomyrburrozvidka LLC.

5.4.4 Information on special permits for use of subsoil

According to the data of Geoinform of Ukraine SRPE, the total number of existing special permits for the geological exploration and extraction of titanium-containing ores in 2016 amounted to 15.^{100,101}



Figure 5-53: Special permits for the use of subsoil (titanium ores) in Ukraine effective in 2016, by year of issuance

¹⁰⁰ The data do not take include 1 permit, whose validity was suspended in 2015, and as of November 7, 2017, recognized by the Geoinform of Ukraine SRPE as invalid.

¹⁰¹ Calculated by the Independent Administrator on the basis of the publicly available information of the Geology Service (Geoinform of Ukraine SRPE).

Among the permits valid in 2016, the oldest one was issued in 2001. The largest number of the permits for the use of subsoil that were valid on 2016 was issued in 2013 (4 permits.) In 2016, permits for the use of subsoil for the purposes of geological exploration or extraction of titanium-containing ores were not issued.

According to the data of Geoinform of Ukraine SRPE, 80% of the special permits (12 permits) for the use of subsoil (titanium ores) during the year 2016 were issued for the purpose of extraction of minerals (commercial development of deposits). 20% (3 permits) of the special permits issued for the purpose of geological exploration of the subsoil, including 2 special permits for the geological study of the subsoil and pilot and commercial development of mineral deposits of national importance.

Table 5-22: Special permits effective in 2016, by types of use of subsoil (titanium ores)

Type of use of subsoil	Number of permits
Geological exploration of depths	1
Geological exploration of mineral resources, including pilot commercial development of nationally significant deposits	2
Extraction of minerals (commercial development of deposits)	12
Total	15

The distribution of the existing permits by the regions of Ukraine shows that the largest number of permits are issued for objects located in Zhytomyr region (8 permits), or 54%. In Dnipropetrovsk and Kirovograd region there are fewer special permissions - 3 (20%) and 2 (13%) respectively.

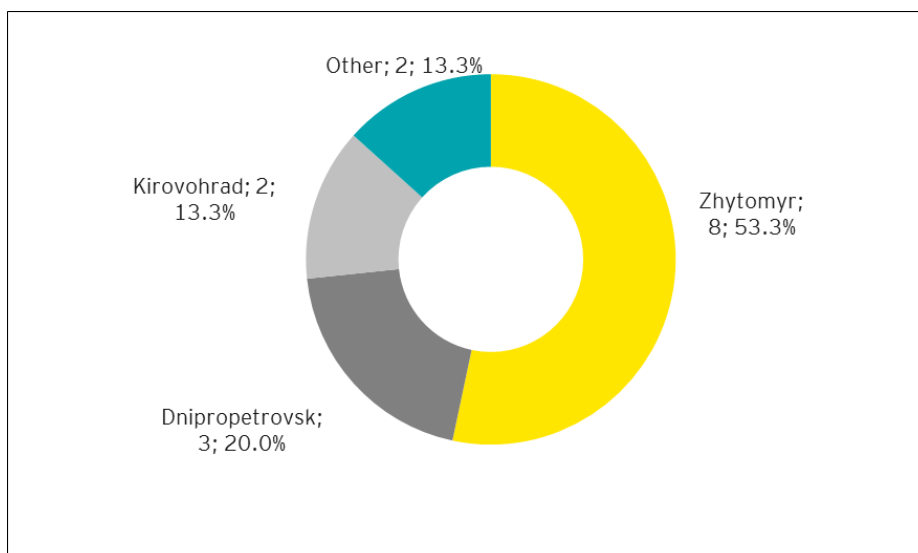


Figure 5-54: Special permits for the use of subsoil (titanium ores), by regions of Ukraine (effective in 2016)

5.4.5 Volumes of titanium ores mining

In 2016, 7 enterprises produced titanium-containing ores in Ukraine. They include two large mining companies, which belong to United Mining and Chemical Company PJSC:

- ▶ Branch Irshansk Mining and Processing Plant which produces ilmenite concentrate, which is a raw material for the production of pigment titanium and titanium sponge, and
- ▶ Branch Vilnohirsk Mining and Metallurgical Combine which produces ilmenite and rutile concentrate. Ilmenite concentrate from Malyshevsky deposit is a raw material for the titanium sponge and partly for the rutilisation of ilmenite.

In addition, several small private enterprises in the sector

- ▶ Valki Ilmenite LLC - Ilmenite develops Valky-Gatskivske deposit and produces ilmenite concentrate.
- ▶ Demurinsky Ore Mining and Processing Plant LLC develops the Ovchansky loose deposit of titanium-zirconium ores.
- ▶ Mezhyrichensk Mining and Concentration Complex LLC produces ore at Mezhyrichenske field - Isakivska and Pivdenna areas - and produces ilmenite concentrate, which is a raw material for the further production of titanium dioxide.
- ▶ Industrial and Commercial Firm Velta LLC operates on Birzulovsky deposit.
- ▶ Kolorovi Metaly LLC with foreign investments is developing a man-made deposit of zircon-rutile-ilmenite ore sands - Balka Kruta, namely of its Western and Eastern areas.

According to the information of the Geological Survey of the United States, the volume of production of titanium concentrates in Ukraine in 2016 amounted to 440 thousand tonnes, which was 6.7% of world volume. In 2016, United Mining and Chemical Company PJSC sold 376.9 thousand tonnes of titanium concentrates for the total amount of UAH 1,671.7 mln. Of these, 219.7 thousand titanium concentrates were exported.¹⁰²

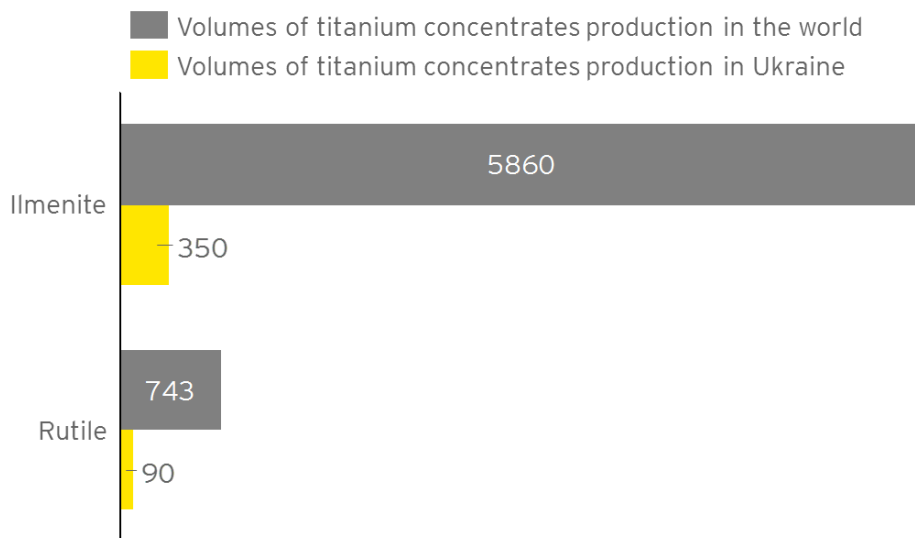


Figure 5-55: Volumes of titanium concentrates production in Ukraine and in the world in 2016, thousand tonnes¹⁰³

¹⁰² The information is received from PJSC United Mining and Chemical Company for the EITI Report.

¹⁰³ Data of the US Geological Survey: <https://minerals.usgs.gov/minerals/pubs/mcs/2017/mcs2017.pdf>

5.4.6 Exports and imports of titanium ores

463.4 thousand tonnes of titanium ores and concentrates were exported (USD 84.4 mln) in 2016. In terms of volume, titanium ores were mostly supplied to Russia - 195.7 thousand tonnes, fewer amount was exported to the Czech Republic (77.0 thousand tonnes), China (69.1 thousand tonnes), the United States (42.9 thousand tonnes), Turkey (39.8 thousand tonnes), and in relatively small volumes to France, Korea, Japan.

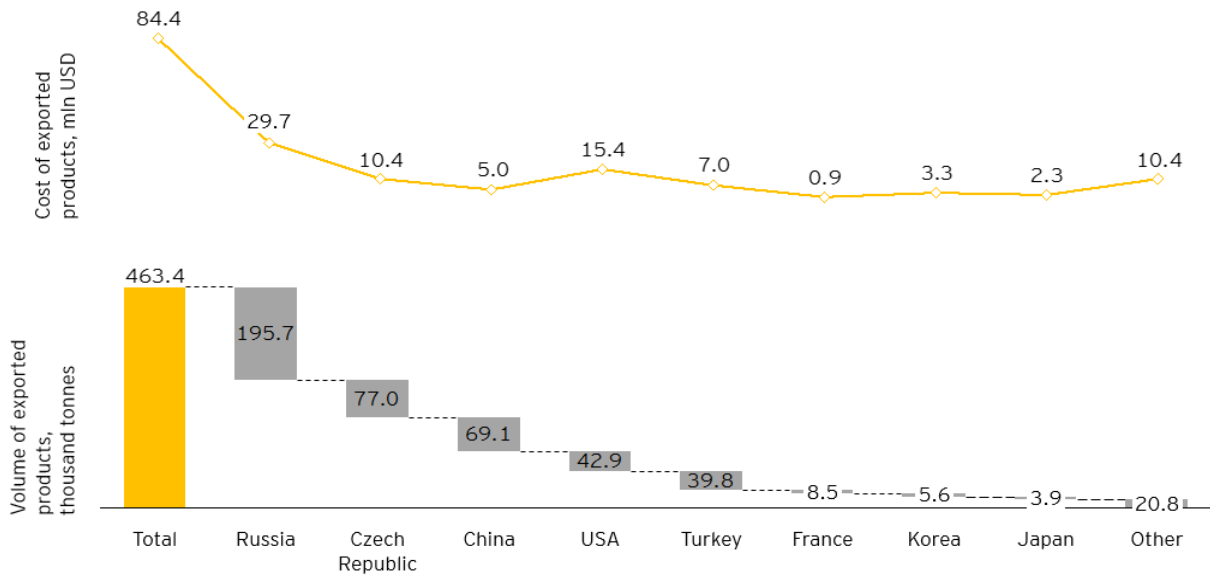


Figure 5-56: Exports of titanium ores and concentrates, by countries in volume and in value¹⁰⁴

Ukraine imported 0.16 thousand tonnes of titanium ores and concentrates in 2016. Almost 99% of imports were from Senegal.

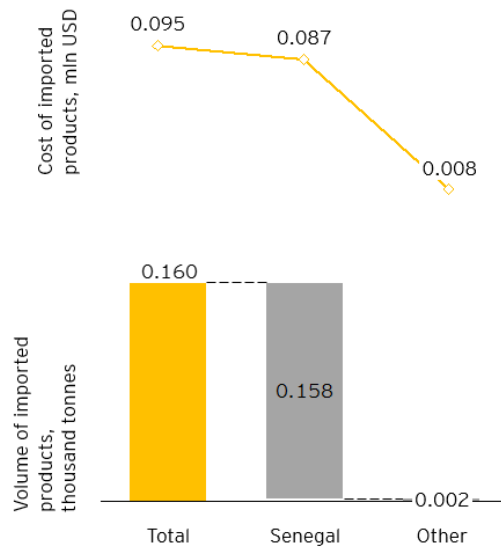


Figure 5-57: Imports of titanium ores and concentrates, by countries in volume and in value¹⁰⁵

¹⁰⁴Data of the SSSU: <http://www.ukrstat.gov.ua/>

¹⁰⁵Data of the SSSU: <http://www.ukrstat.gov.ua/>

Exports of titanium ores and concentrates considerably exceed their imports, so, in 2016 Ukraine was their net exporter.

Summary:

Ukraine has considerable reserves of titanium ores, including explored ones. According to the data of Geoinform of Ukraine SRPE, exploration works were carried out in 2016 by the three companies: Zhytomyrburrozvidka LLC, Pivdenukrgeologiya SE, Donetskgeologiya SRGE.

Titanium-containing ores are extracted from spreading deposits. Ilmenite predominates in reserves and extraction, and the reserves of rutile are limited. Currently, 14 deposits are being developed in Ukraine. During 2016, extraction was carried out by 7 enterprises. The sales volumes of titanium concentrates by the largest company of the industry United Mining and Chemical Company PJSC amounted to 376.9 thousand tonnes in 2016.

In 2016, the volume of exports of titanium ores and concentrates increased by 57% compared to the previous year and amounted to 463.4 thousand tonnes. Import volumes were insignificant.

5.5 Mining of manganese ores

5.5.1 The role of the state in manganese ores mining industry

Ukraine is the leading country in terms of the consumption and production of manganese products, namely: ferromanganese, silicomanganese, metallic manganese.

Manganese ores deposits on the territory of Ukraine are developed by the three main enterprises: Pokrovskiyi GZK PJSC, Marganets GZK PJSC and Landshaft LLC. No state programs to support the production of manganese ores in 2016 not implemented.

5.5.2 Manganese ores reserves

Ukraine has significant reserves of manganese ores. The reserves are located in the north-eastern part of the Black Sea Basin and form the Nikopol Manganese ore Basin. Nikopolsky Basin includes three deposits of manganese ores: Fedorivske, Nikopolske and Veliko-Tokmatske. Manganese ores occur at average depth of 40-75 m. The minimum depth of occurrence of minerals is 10 m, and the maximum depth is 140 m.



Figure 5-58: Location of manganese ores deposits in Ukraine¹⁰⁶

According to the data of Geoinform of Ukraine SRPE, the balance sheet reserves of manganese ores in Ukraine are concentrated in the three fields of the Nikopol Basin and the Maximov Man-made Deposit. As of 01.01.2017, the reserves of manganese ores in the category A + B + C1 were 2,179.7 mln tonnes, and in C2 category - 197.3 mln tonnes. The off-balance sheet

¹⁰⁶ Yearbook Mineral Resources of Ukraine 2017

reserves of manganese ores accounted for 58.0 mln tonnes.

According to the Geoinform of Ukraine SRPE, the distribution of manganese reserves by types of ores shows the predominance of rebellious carbonate ores - 80% (1,743.3 mln tonnes). The reserves of light-enriched oxide ores are 13% (271.8 mln tonnes). The smallest part of the reserves is oxide-carbonate ores in the amount of 7% (158.3 mln tonnes).

The distribution of the reserves by region shows that 73% (1,578.2 mln tonnes) of them are located in Zaporizhzhia region, 27% (595.4 mln tonnes) in Dnipropetrovsk region, and less than one percent in Kherson region - 6 mln tonnes.

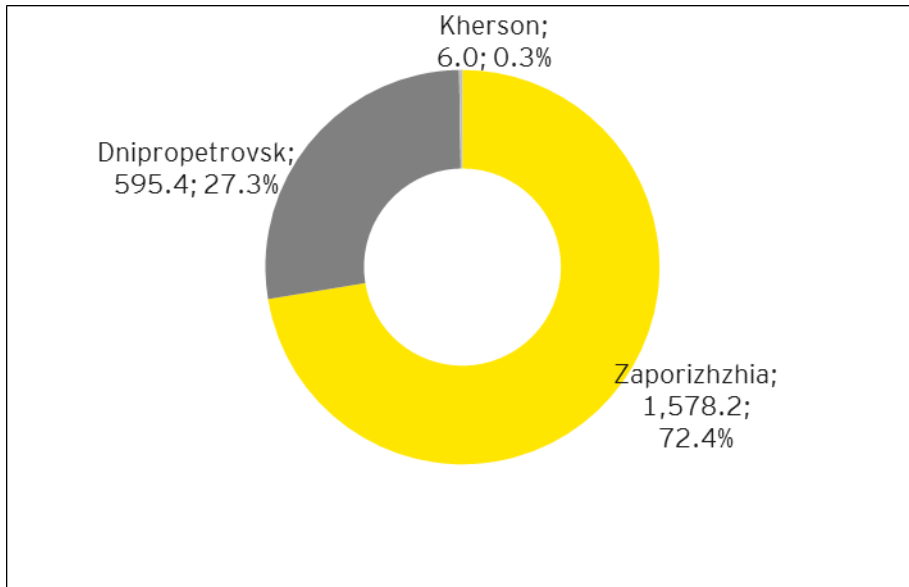


Figure 5-59: Manganese ores reserves, by the regions of Ukraine, mln tonnes¹⁰⁷

5.5.3 Significant explorations

According to the data of Geoinform of Ukraine SRPE, during 2016 no significant explorations were carried out.

The only object where exploration has been carried out in recent years is Novovorontsivske deposit. The works here started with the estimation of promising resources of manganese ores in 2007 - 2011. Later, in 2012, Pivdenukrgeologiya SE commenced a geological feasibility study. However, in 2014, the facility was suspended.

5.5.4 Information on special permits for use of subsoil

According to the Geoinform of Ukraine SRPE, in 2016 there were 4¹⁰⁸ special permits for the use of mineral deposits for the extraction of manganese ores. All four special permits were issued for the extraction of minerals (commercial development of deposits). Special permits existing in 2016 by the date of their issuance are those that were issued in 1996 - 2 permits and those issued in 2010 - 2 permits. The distribution of regions is equal as well: two special

¹⁰⁷ Data of Geoinform of Ukraine SRPE, The State Balance Sheet of Minerals of Ukraine 2017

¹⁰⁸ Calculated by the Independent Administrator on the basis of the publicly available information of the Geology Service (Geoinform of Ukraine SRPE).

permits are issued for the objects in Dnipropetrovsk region, and two special permits - for the objects in Zaporizhzhya region.

5.5.5 Volumes of manganese ores mining

The total volume of manganese ores mined in 2016 amounted to 2,874.1 thousand tonnes, which is 22% (800.8 thousand tonnes) less than in 2015, when the volume of mining amounted to 3,674.9 thousand tonnes.

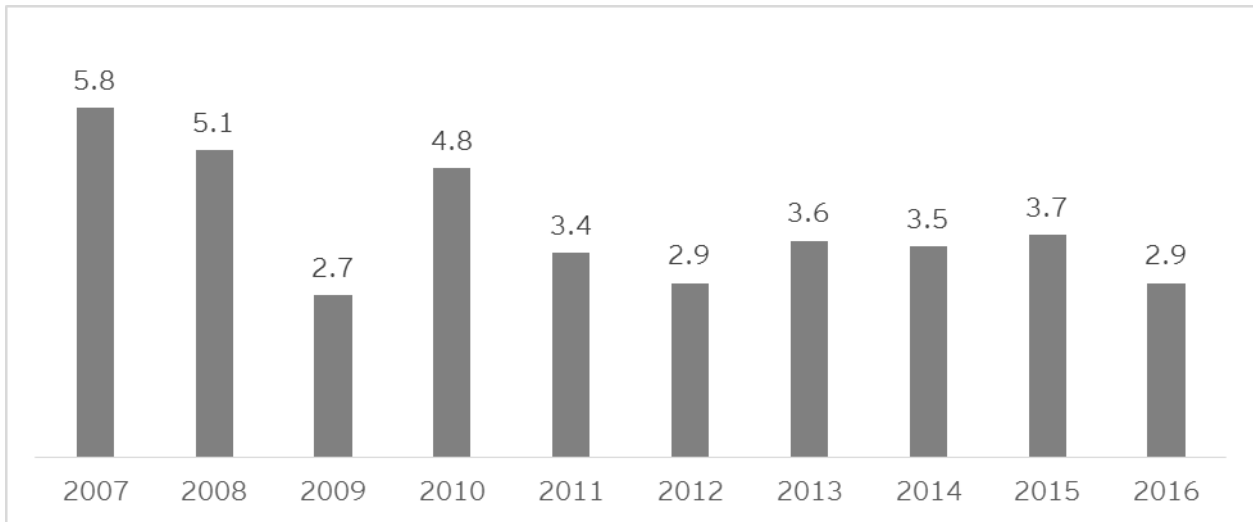


Figure 5-60: Dynamics of manganese ores mining in 2007-2016 in Ukraine, mln tonnes¹⁰⁹

According to the Geoinform of Ukraine SRPE, the total volume of manganese ores was produced in 2016 in Dnipropetrovsk region.

Table 5-23: Companies of manganese ores mining industry, deposits and mining volumes in 2013-2016¹¹⁰

No	Company	Deposit	Volumes of manganese ores mining, thousand tonnes			
			2013	2014	2015 ¹¹¹	2016 ¹¹²
1	Pokrovskiy GZK PJSC	Nikopolske (western part)	2,237.0	2,268.7	2,339.0	1,608.1
2	Marganets GZK PJSC	Nikopolske (eastern part)	1,204.0	1,176.2	1,335.9	1,187.0
3	Landshaft LLC	Maximov Man-made Deposit	158.5	9.45	н/д ¹¹³	79.0

¹⁰⁹ Data of Geoinform of Ukraine SRPE, The State Balance Sheet of Minerals of Ukraine 2017

¹¹⁰ According to the data provided by Geoinform of Ukraine SRPE

¹¹¹ Bulletin The State Balance Sheet of Minerals of Ukraine as of 01.01.2016, manganese ores, Issue 53. Geoinform of Ukraine SRPE

¹¹² Yearbook Mineral Resources of Ukraine 2017

¹¹³ No mining. Bulletin The State Balance Sheet of Minerals of Ukraine as of 01.01.2016, manganese ores, Issue 53. Geoinform of Ukraine SRPE

5.5.6 Exports and imports of manganese ores

In 2016, 61 thousand tonnes of manganese ores and concentrates were exported at the cost of USD 2.8 mln. Exports were made to the following countries: Russia, Hungary, Slovakia, Czech Republic, Poland. The volume of exports to Russia and Hungary was the largest - 24.1 and 22.3 thousand tonnes respectively.

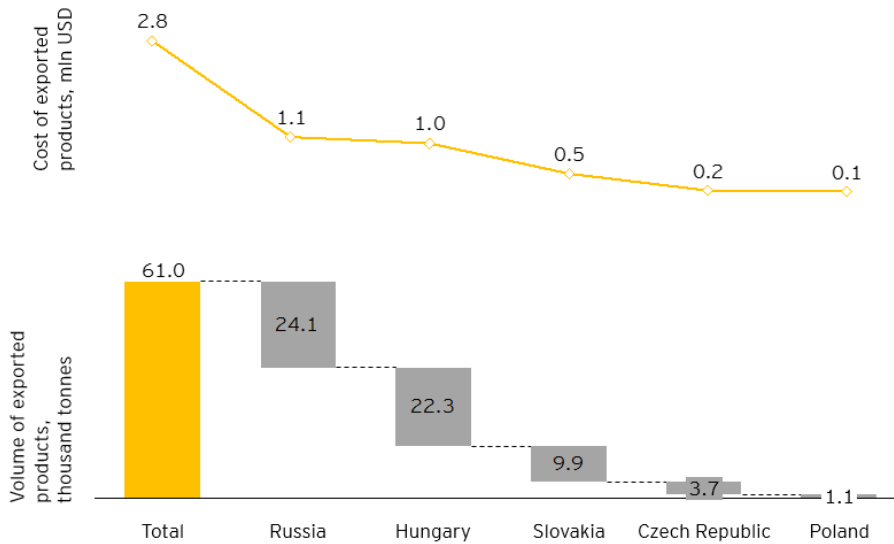


Figure 5-61: Exports of manganese ores and concentrates, by countries in volume and in value¹¹⁴

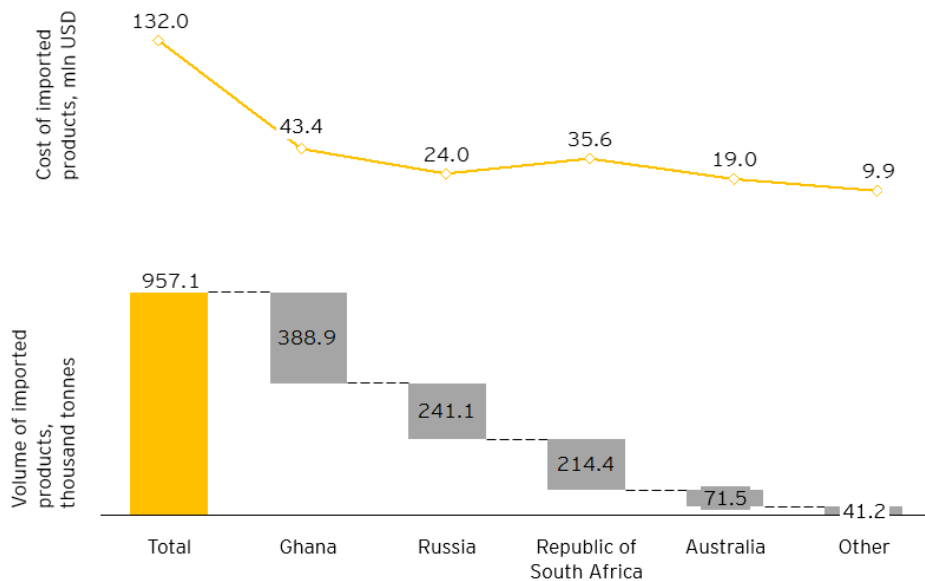


Figure 5-62: Imports of manganese ores and concentrates, by countries in volume and in value¹¹⁵

¹¹⁴ Data of the SSSU: <http://www.ukrstat.gov.ua/>

¹¹⁵ Data of the SSSU: <http://www.ukrstat.gov.ua/>

957.1 thousand tonnes of manganese ores and concentrates at the cost of USD 132 mln were imported in 2016. The largest importing country of manganese ores was Ghana - 388.9 thousand tonnes, somewhat less amount was imported from Russia (241.1 thousand tonnes) and South Africa (214.4 thousand tonnes). In addition, relatively smaller volumes were imported from Australia and other countries.

The imports of manganese ores and concentrates exceeded their exports, so in 2016 Ukraine was a net importer.

Summary:

Ukraine has significant reserves of manganese ores, but the domestic needs are not satisfied with domestic production. The total volume of manganese ores mining decreased by 22% and was 2,874.1 thousand tonnes in 2016. There are three private sector enterprises in the industry; the state is not directly or indirectly involved in the production of manganese ores. There is no information on any government support programs for the manganese ores mining industry either.

In 2016, imports of manganese ores and concentrates were higher than exports. Thus, 61 thousand tonnes of manganese ores and concentrates were exported at the cost of USD 2.8 mln and 957.1 thousand tonnes were imported of USD 132 mln value.

5.6 Mining of fire clays

5.6.1 The role of the state in fire clays mining industry

There were no state budget programs to support the fire clay mining sector during 2016.

5.6.2 Fire clays reserves

Ukraine has significant reserves of fire clays. The main explored deposits are located in the Dnipro-Donets depression, the Donetsk folded structure, the Ukrainian shield. The depth of clays deposition ranges from 1 m to 60 m.

Geoinform of Ukraine SRPE records 30 objects with fire clays, 28 of which are deposits.



Figure 5-63: Location of fire clays deposits in the territory of Ukraine

According to the data of Geoinform of Ukraine SRPE, as of 01.01.2017, the total balance sheet reserves of fire clays in the category A + B + C1 amounted to 617.6 mln tonnes and in C2 category - 367.6 mln tonnes. Off-balance sheet reserves of fire clays were estimated at 137.7 mln tonnes.

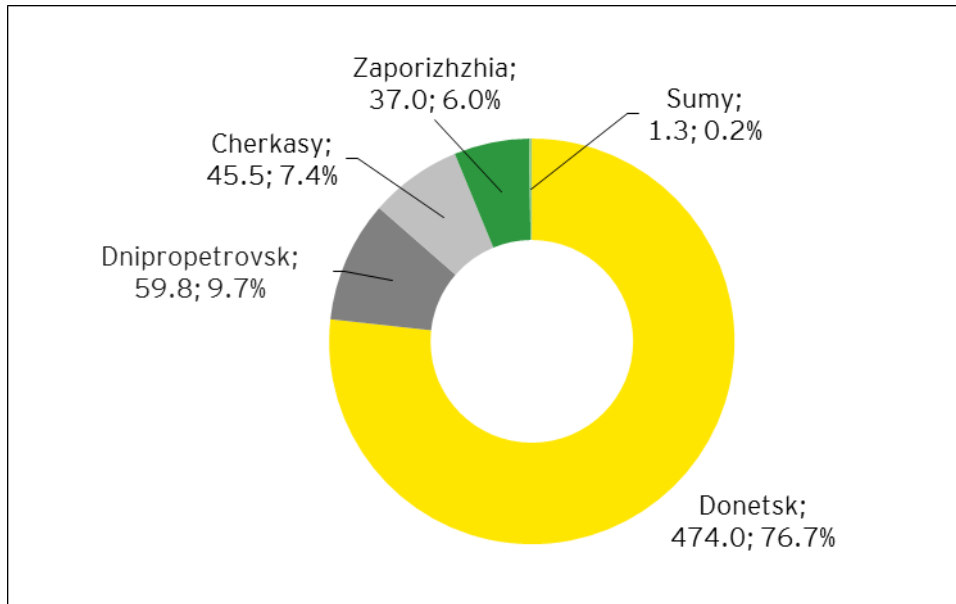


Figure 5-64: Fire clays reserves, by the regions of Ukraine, mln tonnes¹¹⁶

The distribution of fire clays reserves by region is uneven: 77% of the reserves or 474 mln tonnes is located in Donetsk region. Significantly smaller part of balance sheet reserves is concentrated in Dnipropetrovsk region - 10% or 59.8 mln tonnes. Cherkasy and Zaporizhzhya regions account for 45.5 mln tonnes and 37.0 mln tonnes respectively.

5.6.3 Significant explorations

No significant exploration work was carried out in 2016. During 2011-2015, geological feasibility study of the Central section of the Don fire clay deposit was done.

5.6.4 Information on special permits for the use of subsoil

According to the data of Geoinform of Ukraine SRPE, in 2016 there were 29¹¹⁷ permits for the use of subsoil for the purposes of geological exploration and extraction of fire clays.

Among the permits that were valid in 2016, the oldest special permit for the use of subsoil (fire clays) was issued in 1994, the largest number of special permits was issued in 2013 - 5 permits. 2 permits for the use of subsoil were issued in 2016.

¹¹⁶ Data of Geoinform of Ukraine SRPE, The State Balance Sheet of Minerals of Ukraine 2017

¹¹⁷ Of them 11 special permits are issued for the use of for both exploration and extraction of fire clays and high-melting clays

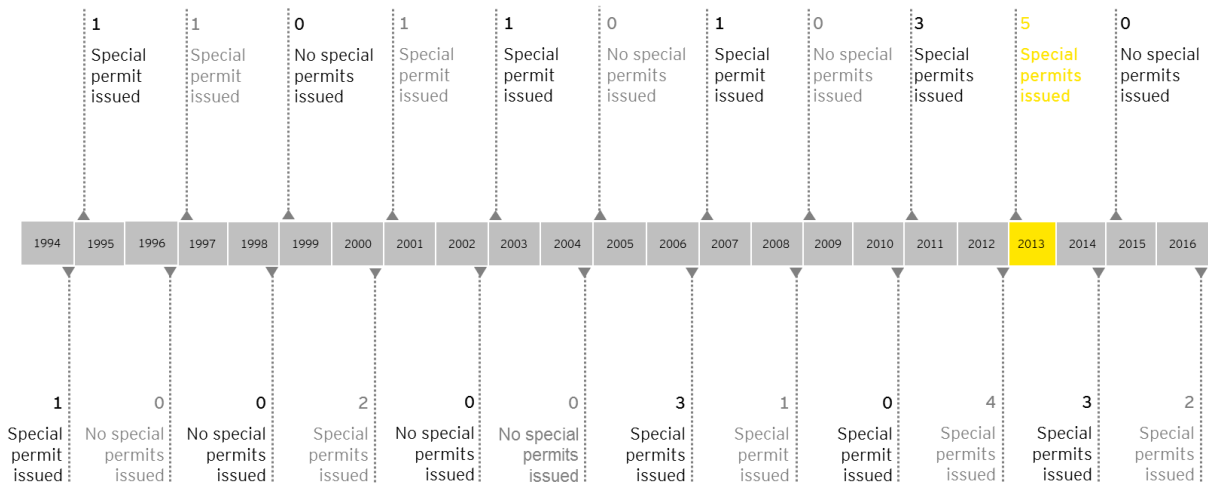


Figure 5-65: Special permits for the use of subsoil (fire clays) in Ukraine effective in 2016, by year of issuance

In terms of the purpose, special permits for the use of mineral resources for extraction of minerals dominate - 23 permits or 79% of the total number of special permits valid in 2016. Significantly less number of permits was issued for the geological exploration - 3 permits, the same number of special permits concerned geological exploration of subsoil, including pilot development of mineral deposits of national importance.

Table 5-24: Special permits effective in 2016, by types of use of subsoil (fire clays)

Type of use of subsoil	Number of permits
Geological exploration of depths	3
Geological exploration of mineral resources, including pilot commercial development of nationally significant deposits	3
Extraction of minerals (commercial development of deposits)	23
Total	29

According to the data of Geoinform of Ukraine SRPE, the objects for which the special permits for use of subsoil (fire clays) were valid during 2016, were located in two regions: in Donetsk region (28 permits) and Zaporizhzhya region (1 permit).

5.6.5 Volumes of fire clays mining

According to data of Geoinform of Ukraine SRPE, the total volume of fire clays mining in 2016 amounted to 5,414 thousand tonnes, which is 18% more than in 2015.

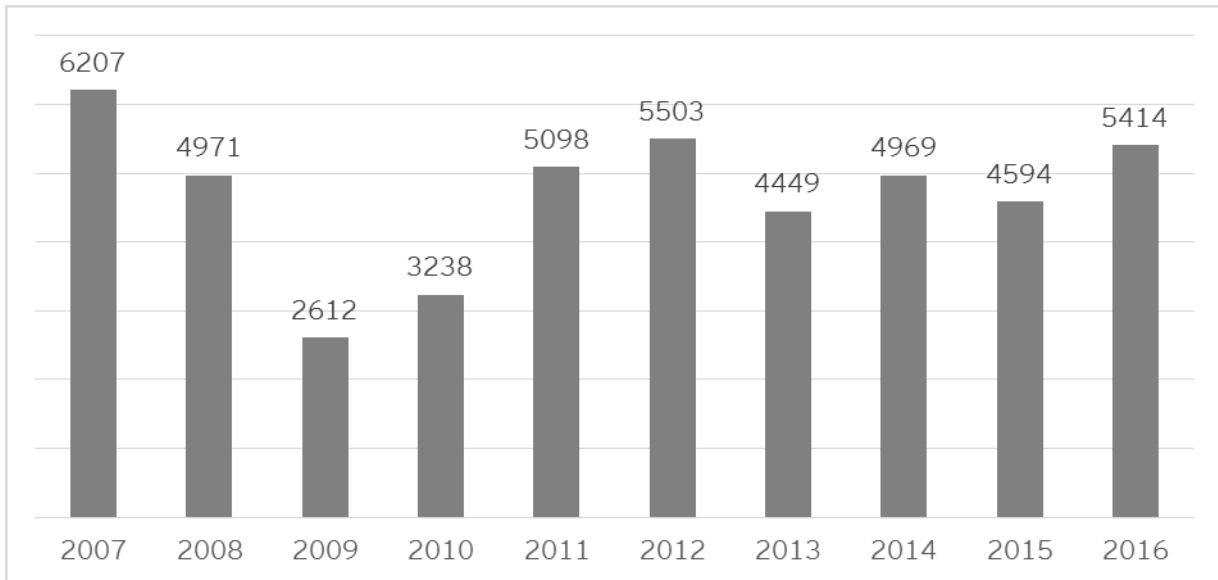


Figure 5-66: Dynamics of fire clays mining in Ukraine in 2007-2016, thousand tonnes¹¹⁸

According to the data of Geoinform of Ukraine SRPE, in 2016 fire clays were extracted on the territory of Ukraine in the Donetsk and Zaporizhzhya regions. The volume of fire clays extracted in Donetsk region amounted to 5,196.96 thousand tonnes, or 96% of the total extraction of this type of clay in 2016. The extraction of fire clays from fields located on the territory of Zaporizhzhya region was 217.4 thousand tonnes in 2016.

It should be noted that the information on the volume of extraction obtained from the Geoinform of Ukraine SRPE and from the State Statistics Service is different. According to the State Statistics Service¹¹⁹, the amount of fire clays extraction in 2016 was 6,770 thousand tonnes, which is 1,356 thousand tonnes less than according to the data of Geoinform of Ukraine SRPE. According to the State Statistics Service, 6,250 thousand tonnes of fire clays were extracted from the Donetsk region deposits. In addition, the SSSU's information shows that in 2016 fire clays was also extracted in Vinnytsia and Ivano-Frankivsk regions, however, quantitative data are not published because of the requirements of the Law of Ukraine "On State Statistics" on confidentiality of information. On the other hand, according to the information of Geoinform of Ukraine SRPE these regions have no reserves of fire clays and accordingly there are no special permits for the use of subsoil in 2016 in the territory of these regions. According to the State Statistics Service of Ukraine, fire clays was also extracted in 2016 on the territory of Cherkassy region, where there are reserves of fire clays (according to the data of Geoinform of Ukraine SRPE), but according to the publicly available information, there were no valid special permits for the use of subsoil (fire clays) in 2016 in Cherkassy region. The Independent Administrator has no information on the possible reasons for such differences in the information of government agencies.

¹¹⁸ Data of Geoinform of Ukraine SRPE, The State Balance Sheet of Minerals of Ukraine 2017

¹¹⁹ The information was received in response to an official request from the Independent Administrator submitted during the preparation of the IEITI Report 2016

5.6.6 Exports and imports of fire clays

The total exports of fire clays amounted to 4,579.6 thousand tonnes at the cost of USD 170.1 mln in 2016. The structure of exports was quite diversified, with Italy (1,473 thousand tonnes) and Spain (1,057.1 thousand tonnes) having the largest share. A slightly smaller amount of fire clays was exported to Russia (847.4 thousand tonnes) and Poland (346.6 thousand tonnes).

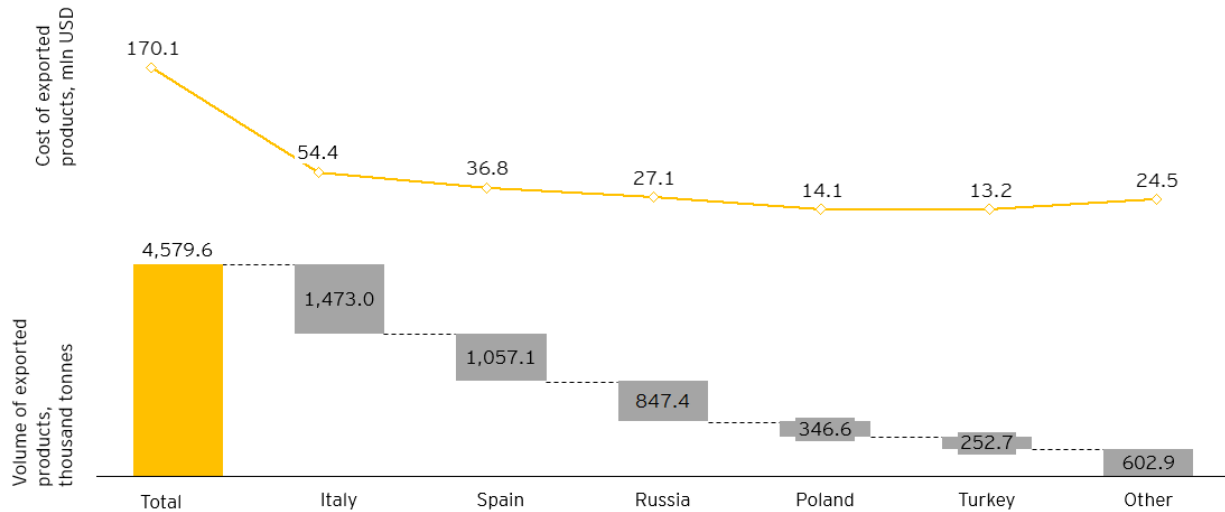


Figure 5-67: Exports of fire clays, by countries in volume and in value¹²⁰

0.65 thousand tonnes of fire clays was imported at a cost of USD 0.423 mln in 2016. Imports were made from three countries: the largest portion is Germany - 0,608 thousand tonnes, Russia - 0.041 thousand tonnes, Poland - 0.001 thousand tonnes of products. In 2016, Ukraine was a net fire clays exporter, as the volume of exports exceeds the volume of imports.

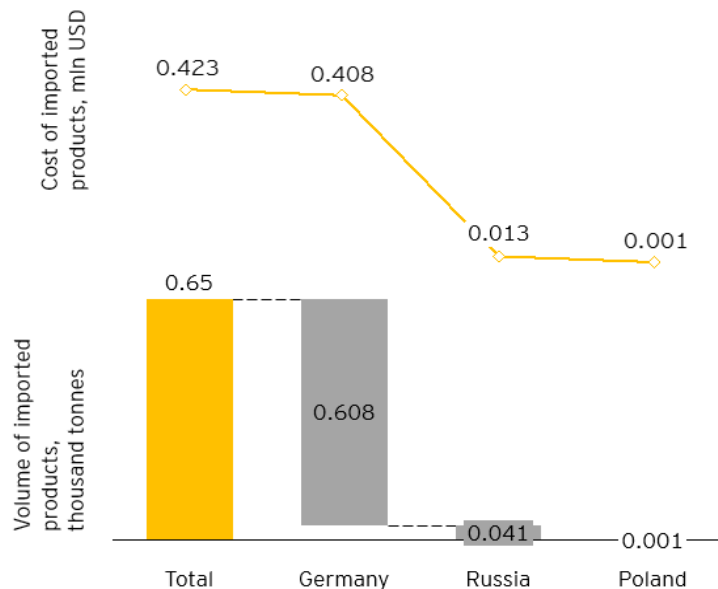


Figure 5-68: Imports of fire clays, by countries in volume and in value¹²¹

¹²⁰Data of SSSU: <http://www.ukrstat.gov.ua/>

¹²¹Data of SSSU: <http://www.ukrstat.gov.ua/>

Summary:

Ukraine has significant reserves of fire clays. There are 28 mineral deposits on the territory of the country. The volume of fire clays mining in 2016 increased by 18% and amounted to 5,414 thousand tonnes.

The analysis of extraction indicators identified that information on mining volumes obtained from the Geoinform of Ukraine SRPE and from the State Statistics Service of Ukraine is different. Thus, according to the State Statistics Service, the volume of fire clays mining were 1,356 thousand tonnes less than that according to data of Geoinform of Ukraine SRPE.

The total exports of fire clays amounted to 85% of the total mining - 4,579.6 thousand tonnes at the cost of USD 170.1 mln in 2016. It means that Ukraine satisfies its internal demand for the mineral raw materials. Imports in 2016 were insignificant.

5.7 Mining of high-melting clays

5.7.1 The role of the state in high-melting clays mining industry

High-melting clays on the territory of Ukraine is extracted by two companies - LLC Rusynia, LLC Keramik-Art. In 2016, there were no government support programs for extractive sectors.

5.7.2 High-melting clays reserves

The deposits of high-melting clays on the territory of Ukraine are located within Dnieper-Donetsk depression, the Transcarpathian depression, Donetsk folded structure, Volyn-Podilska plate, the Ukrainian shield and on its slopes.

Among the regions where high-melting clays occur, the most promising area is Donetsk folded structure and Dnipro-Donets depression, where the thickness of the layers varies from 0.6 m to 63.5 m. In the territory of the Ukrainian shield and its slopes the thickness of the formation of layers is up to 20.6 m. Clays occur in the form of layers and lenses, whose capacity varies from 0.3 to 27 m in the area of the Volyn-Podilska plate. In Transcarpathian intermountain basin, the thickness of clays layers is estimated at 0.5 - 18.9 m.



Figure 5-69: Location of high-melting clays deposits on the territory of Ukraine

As of 01.01.2017, Geoinform of Ukraine SRPE records 20 objects with high-melting clays

reserves, 17 of which are the main deposits. Among the deposits (17 fields and 3 objects of recording), which are part of the State Fund of Minerals, only 4 deposits are being developed.

According to the data of Geoinform of Ukraine SRPE, the balance sheet reserves of high-melting clays as of 01.01.2017 in category A + B + C1 amounted to 83,299.45 thousand tonnes, in C2 category - 72,788.0 thousand tonnes. Off-balance sheet reserves of high-melting clays amounted to 2,364.1 thousand tonnes.

The largest amount of the explored high-melting clays is located in Donetsk region - 52.1 mln tonnes (63%). Zakarpattia region has considerably lower reserves - 13.9 mln tonnes (17%). In the Luhansk region, 9.3 mln tonnes (11%) of high-melting clays reserves are located.

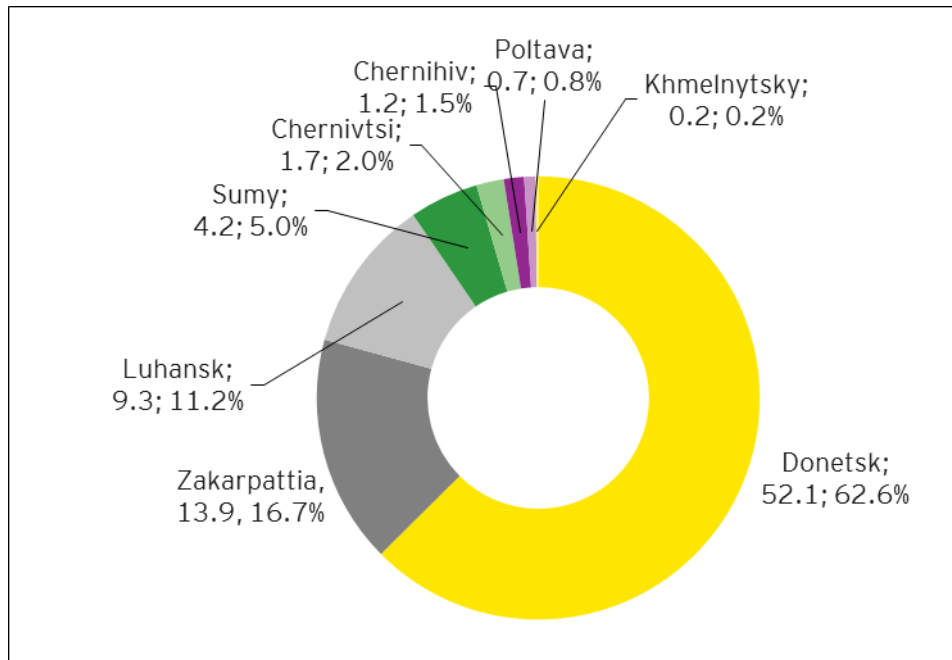


Figure 5-70: High-melting clays reserves, by the regions of Ukraine, mln tonnes¹²²

5.7.3 Significant explorations

According to the data of Geoinform of Ukraine SRPE, there were no geological exploration works on high-melting clays during the reporting period.

5.7.4 Information of special permits for the use of subsoil

According to the data of Geoinform of Ukraine SRPE¹²³, there were 15 special permits for use of subsoil in 2016 for the purpose of geological exploration and extraction of high-melting clays.

The distribution of the existing special permits by the year of their issuance shows that the oldest permit was issued in 1994. During the period from 2015 to 2016 the permits for the use of subsoil for the extraction of high-melting clays were not issued.

¹²² Data of Geoinform of Ukraine SRPE, The State Balance Sheet of Minerals of Ukraine 2017

¹²³ The information was received in response to an official request from the Independent Administrator submitted during the preparation of the IEITI Report 2016

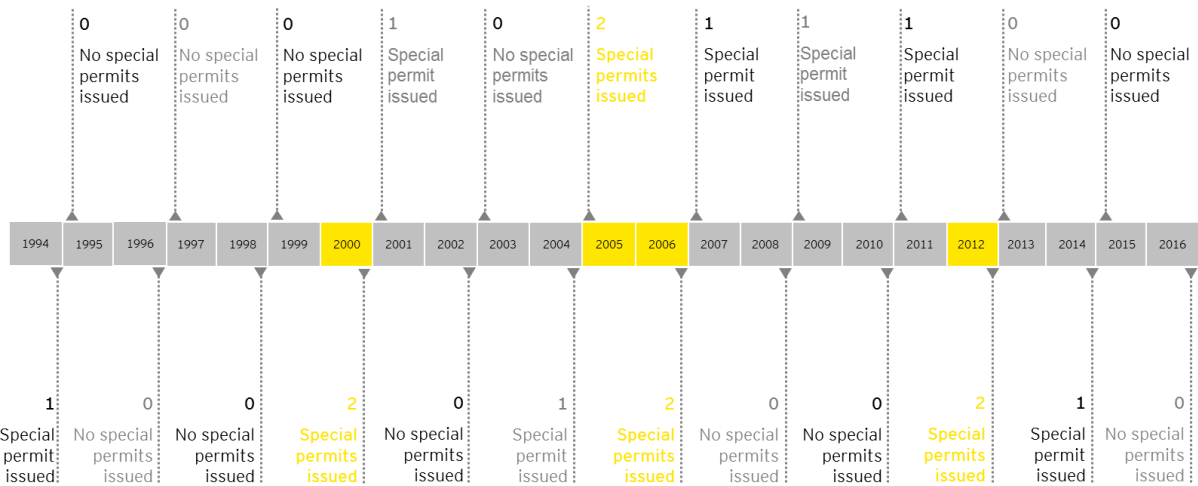


Figure 5-71: Special permits for the use of subsoil (high-melting clays) in Ukraine effective in 2016, by year of issuance¹²⁴

Data on special permits for subsoil use show that 93% (14) special permits were issued for the extraction of high-melting clays, 7%, or 1 permit was issued for geological exploration of the subsoil.

Table 5-25: Special permits effective in 2016, by types of use of subsoil (high-melting clays)

Type of use of subsoil	Number of permits
Geological exploration of mineral resources, including pilot commercial development of nationally significant deposits	1
Extraction of minerals (commercial development of deposits)	14
Total	15

Distribution of the existing permits by regions shows that 93% or 14 special permits are issued for Donetsk region and 1 permit (7%) for Transcarpathia region.

5.7.5 Volumes of high-melting clays mining

According to the data of Geoinform of Ukraine SRPE, the volume of high-melting clays mined in 2016 in the territory of Ukraine amounted to 40.2 thousand tonnes, which is significantly higher than in 2015 - 0.55 thousand tonnes. In the period from 2007 to 2016 the peak in mining of the mineral was in 2011 with 968 thousand tonnes of produced high-melting clays.

¹²⁴ According to the data of Geoinform of Ukraine SRPE

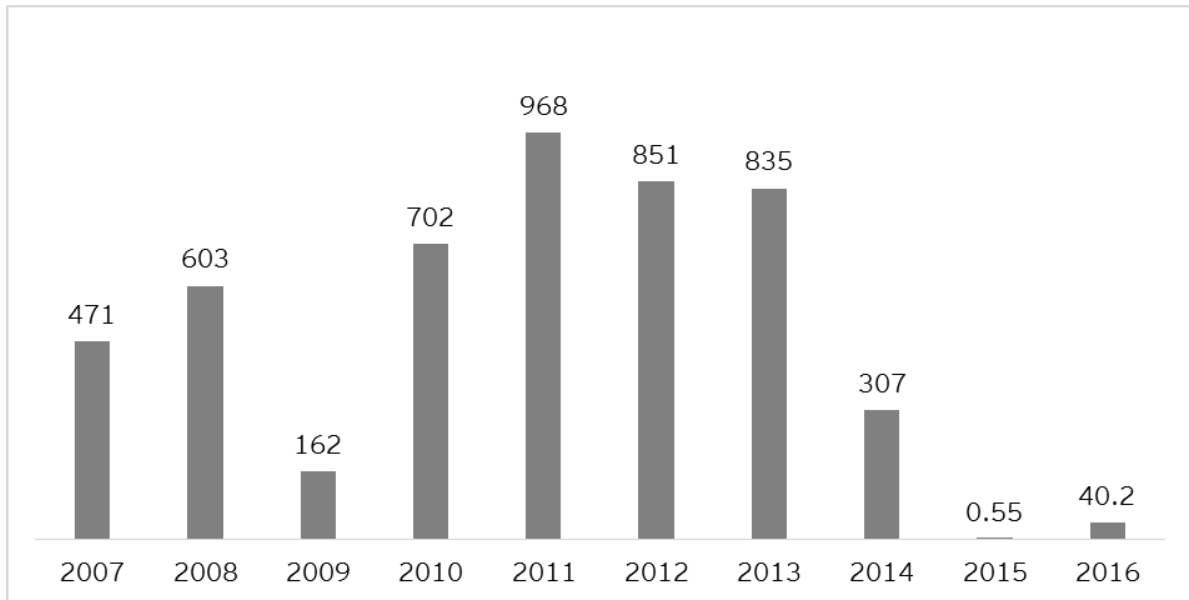


Figure 5-72: Dynamics of high-melting clays mining in Ukraine in 2007-2016, thousand tonnes¹²⁵

The regional distribution of volumes of high-melting clays mining is very uneven, with 94% of total extraction in 2016 or 37.7 thousand tonnes produced in Transcarpathian region. In Donetsk region, only 2.5 thousand tonnes were extracted, which was 6% of total production in 2016.

5.7.6 Exports and imports of high-melting clays

There is no information on the export and import of high-melting clays available in open sources.

Summary:

The reserves of high-melting clays in the territory of Ukraine are located within Dnipro-Donets depression, the Transcarpathian depression, Donetsk folded structure, Volyn-Podilska plate, the Ukrainian shield and on its slopes. Overall, there are 17 deposits in Ukraine, 4 of which are being developed.

According to the results of 2016, the volumes of high-melting clays mining in the territory of Ukraine amounted to 40.2 thousand tonnes, which is significantly higher than in 2015 (0.55 thousand tonnes). By 2013, the average annual production of high-melting clays ranged from 700 to 800 tonnes. In 2016 the sector suffered from the effects of the conflict in the eastern part of Ukraine.

The high-melting clays in the territory of Ukraine were mined by only two enterprises - Rusynia LLC, Keramik-Art LLC in 2016. Zakarpatya region accounts for 94% of total volumes of high-melting clays mining.

¹²⁵ Balance Sheet of Geoinform of Ukraine SRPE

5.8 Mining of quartz sand

5.8.1 The role of the state in quartz sand mining industry

Quartz sand for the purposes of production of glass in Ukraine in 2016 was produced by the following companies: Bronitsky Glass Factory LLC, Marianivsky Glass Factory PJSC, Kaolin-Azov LLC, Terra-Zakhid PE, Rokitnovskiy Glass Work PrJSC, Novoselivskyy GZK PrJSC, Georesursy LLC, Papernia quartz sand quarry LLC. There were no budget programs to support extractive enterprises in 2016.

5.8.2 Quartz sand reserves

The deposits of glass quartz-containing raw materials are found in all geological regions of Ukraine. According to the information provided by the Geology Service over 130 deposits and shows were discovered.

The most valuable areas in terms of quartz-containing raw materials include Donetsk folded structure, Dnipro-Donets depression, the Ukrainian shield, and the Volyn-Podilska plate. Liparite deposits are concentrated on the territory of the Transcarpathian intermountain basin and in the Carpathians mountain formations.

Quartz sand deposits occur in the form of layers with a capacity of 2-3 to 35-40 m under a layer of overlying rocks.



Figure 5-73: Location of quartz sand and liparite deposits on the territory of Ukraine¹²⁶

¹²⁶ Data of Geoinform of Ukraine SRPE

Among the deposits of quartz sand, Novoselivske deposit is the most significant. It is developed by PrJSC Novoselivske Ore Mining and Processing Enterprise, which produces more than 10 types of quartz concentrate. High quality raw materials are also obtained at Malyshevsky complex deposit.

The State Balance Sheet of Minerals of Ukraine records 40 deposits of quartz sand and one deposit of liparite.

According to the data of Geoinform of Ukraine SRPE, as of 01.01.2017 the total reserves of quartz sand in category A + B + C1 amounted to 227.67 mln tonnes, in C2 category - 70.16 mln tonnes.

The largest part of the quartz sand reserves (44%) are located in Kharkiv region, 14% of the reserves are in Lviv region, 12% in Donetsk region and 11% in Zaporizhzhya region. Other regions of Ukraine have considerably lower reserves of quartz sand.

Table 5-26: Quartz sand reserves, by the regions of Ukraine

Region	Reserves in category A+B+C1, mln tonnes	Reserves in category C2, mln tonnes
Kharkiv	99.49	11.75
Lviv	30.90	0
Donetsk	27.77	25.74
Zaporizhzhia	24.60	30.54
Chernihiv	18.93	0
Chernivtsi	5.87	1.07
Kherson	5.84	0
Zhytomyr	3.38	1.06
Rivne	3.29	0
Volyn	2.11	0
Sumy	1.92	0
Kyiv	1.80	0
Crimea	0.73	0
Ternopil	0.46	0
Khmelnyskyi	0.34	0
Ivano-Frankivsk	0.23	0
Total	227.67	70.16

5.8.3 Significant explorations

A detailed geological assessment and feasibility study of Marianivsky-1 deposit was performed in 2016 requested by Marianivsky Glass Factory PJSC. According to the results of assessment,

the sands of Marianivsky-1 deposit were identified as suitable for the manufacture of glassware. Hydrogeological conditions allow open mining. The reserves of quartz sand were approved by the SCMR of Ukraine in the following categories: B - 23 thousand tonnes, C1 - 82 thousand tonnes. The deposit is prepared for commercial development.

At the request of ALC Rohatynpisok, a geological assessment and feasibility study of the stock of building sands in the Northwest section of the Moskalivsky field and a revaluation of the block C1 was made carried out in 2016 to identify the prospects of their further use for extraction of glass raw materials. The results of laboratory studies confirmed the suitability of the quartz sand of the Northwest section for use as raw materials for the glass industry. The reserves were approved by the SCMR of Ukraine in category C1 - 233 thousand tonnes. The North-West section of Moskalivske deposit is prepared for commercial development.

5.8.4 Information of special permits for the use of subsoil

There were 19 valid special permits for the use of subsoil for the purpose of geological exploration and extraction of quartz sand in 2016. The information provided by the Geoinform of Ukraine SRPE ¹²⁷ shows that among the above special permits, the oldest one was issued in 2000. The biggest number of new special permits was issued in 2003 and 2006 - 3 permits in each year. During 2016 no permits for the extraction of quartz sand were issued.

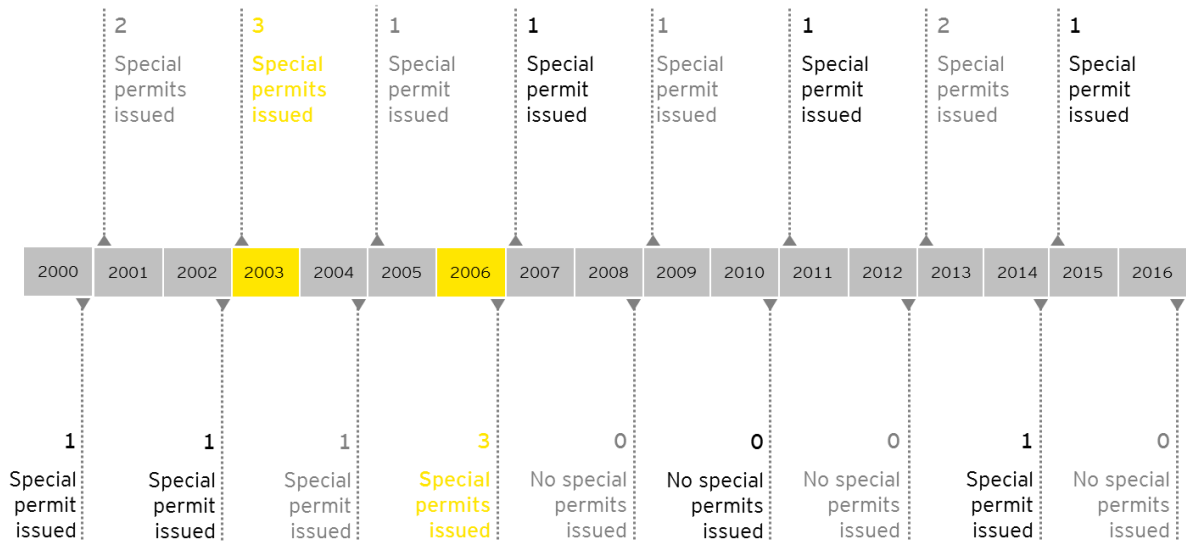


Figure 5-74: Special permits for the use of subsoil (quartz sand) in Ukraine effective in 2016, by year of issuance ¹²⁸

According to the designated purpose, the existing special permits are distributed as follows: 89% (17 permits) for mining, 11% (2 permits) for geological exploration of the subsoil, including survey and commercial development of deposits.

¹²⁷ The information was received in response to an official request from the Independent Administrator submitted during the preparation of the IEITI Report 2016

¹²⁸ According to the data of Geoinform of Ukraine SRPE

Table 5-27: Special permits effective in 2016, by types of use of subsoil (quartz sand)

Type of use of subsoil	Number of permits
Geological exploration of mineral resources, including pilot commercial development of nationally significant deposits	2
Extraction of minerals (commercial development of deposits)	17
Total	19

Most of the existing special permits were issued for the sites located in seven regions of Ukraine. Chernihiv, Dnipropetrovsk and Zhytomyr regions have equal number of permits - 3 per region. In 2016, 8 special permits were valid for the areas of Donetsk, Zaporizhzhya, Lviv and Kharkiv regions, which were evenly distributed over these regions.

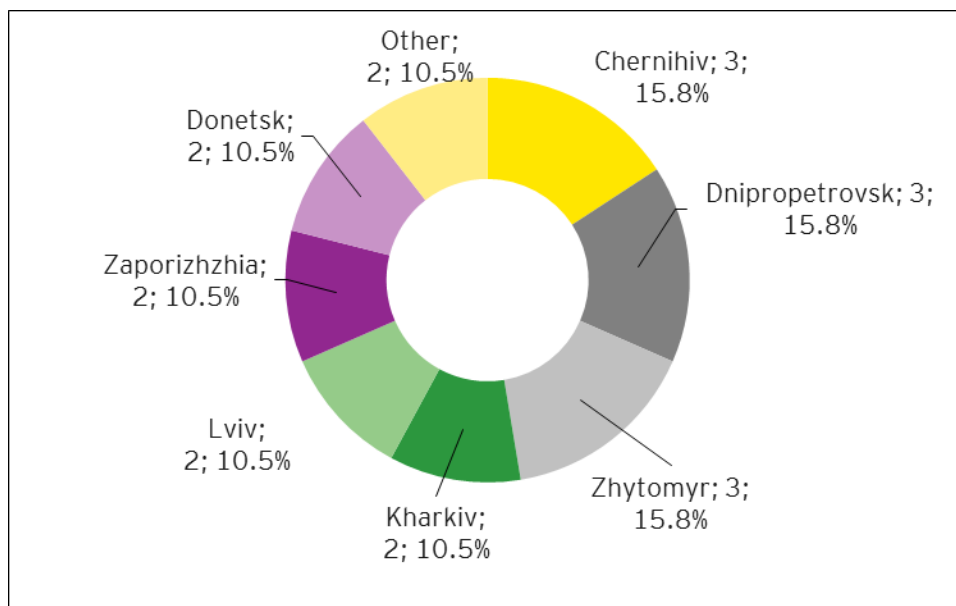


Figure 5-75: Special permits for the use of subsoil for the geological study and mining of quartz sand, by regions of Ukraine (effective in 2016)

5.8.5 Volumes of quartz sand mining

According to the data of Geoinform of Ukraine SRPE, the volume of glass raw materials produced in the territory of Ukraine in 2016 amounted to 961.9 thousand tonnes, which is 47% or 305.9 thousand tonnes higher than in 2015. The biggest annual volume of production in 2006 - 2016 was in 2010 and amounted to 1,862 thousand tonnes.

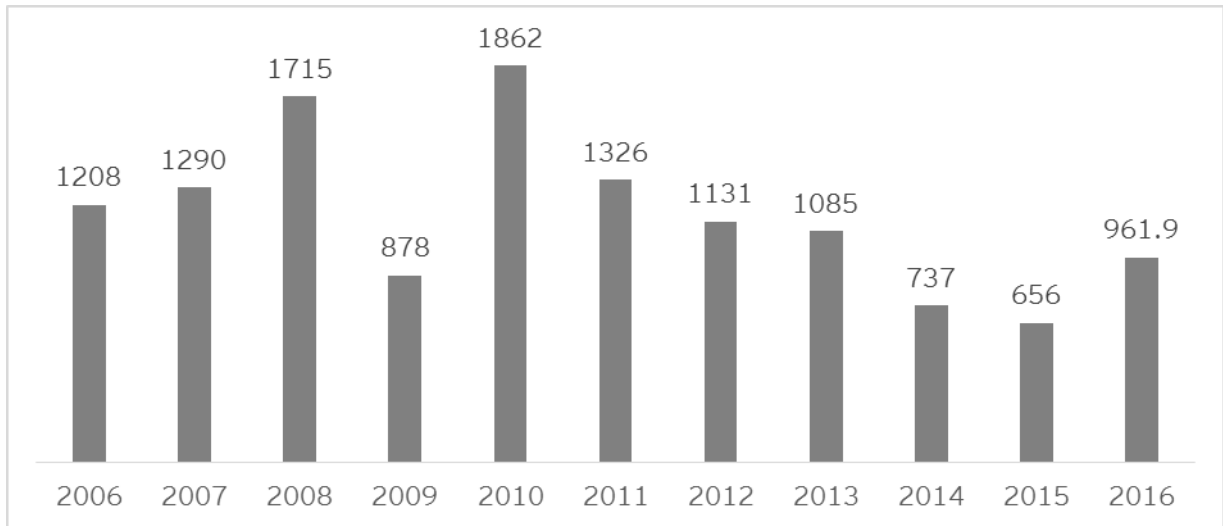


Figure 5-76: Dynamics of glass raw materials mining in Ukraine in 2006-2016, thousand tonnes ¹²⁹

According to the data of Geoinform of Ukraine SRPE, on the territory of Ukraine quartz sand was mostly extracted by 7 companies. Three regions of Ukraine: Kherson, Kharkiv and Chernihiv - provided for a total of 92% of the total mining in Ukraine in 2016. Or, by regions: Kherson region - 36% or 346.6 thousand tonnes, Kharkiv region - 30% or 284.6 thousand tonnes, and Chernihiv region - 249.5 thousand tonnes or 26%.

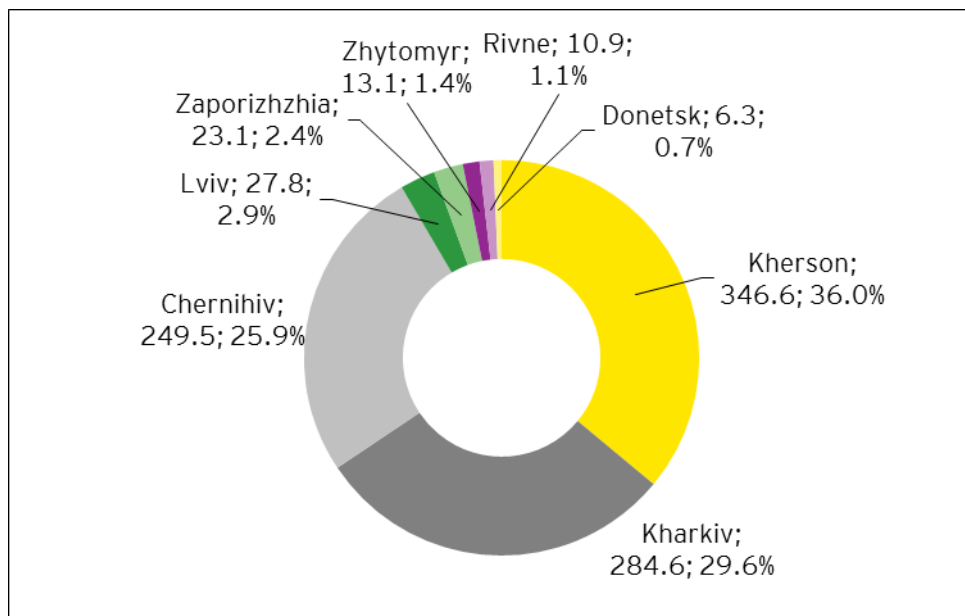


Figure 5-77: Volumes of quartz sand mining, by the regions of Ukraine, thousand tonnes¹³⁰

¹²⁹ Yearbook Mineral resources of Ukraine 2017.

¹³⁰ Data of Geoinform of Ukraine SRPE, State Balance Sheet of Mineral Resources of Ukraine 2017

5.8.6 Exports and imports of quartz sand

There is no information on the export and import of quartz sand available in open sources.

Summary:

The deposits of glass quartz-containing raw materials are found in all geological regions of Ukraine and are concentrated in more than 100 deposits and shows.

The State Balance Sheet of Mineral Resources of Ukraine records 40 deposits of quartz sand and one deposit of liparite.

The volume of glass raw materials mining in the territory of Ukraine in 2016 was 47% (305.9 thousand tonnes) higher than in 2015 and amounted to 961.9 thousand tonnes.

5.9. Contribution of extractive industries to Ukrainian economy

5.9.1 Contribution to formal sector of economy

5.9.1.1 Contribution to GDP

The economic importance of the extractive industries for Ukraine remains rather high. The production value¹³¹ of extractive industries¹³² in 2016 exceeded UAH 253,770 mln, which is 4.68% of the output of the Ukrainian economy.

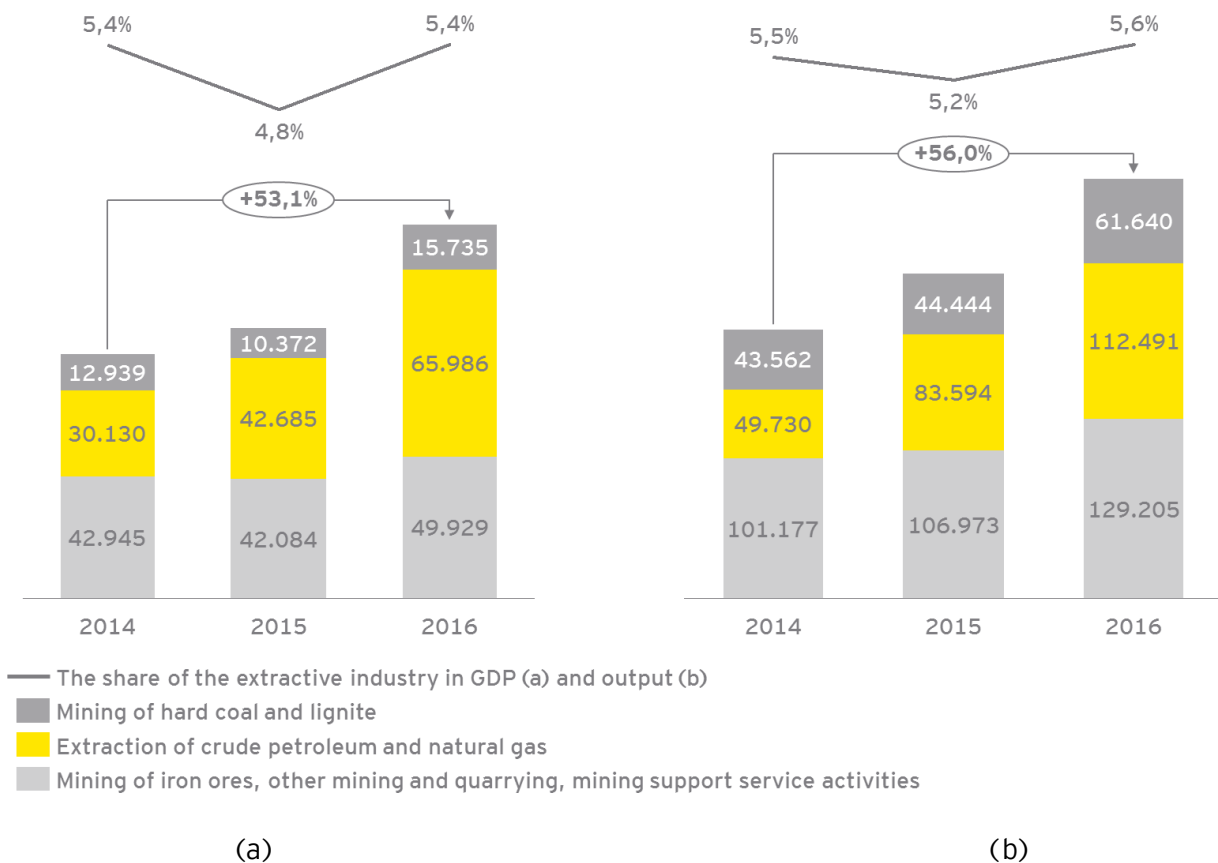


Figure 5-78: Share of extractive industry in the GDP (a) and output (b) of goods and services of Ukraine in 2014-2016, bln UAH¹³³

¹³¹ In statistics, to reflect this economic category (production value), the term "output of goods and services at market prices" is used.

¹³² In this paragraph, unless otherwise specified, the term "extractive industry" refers to the relevant type of economic activity - "Mining and quarrying" (NACE-2010 code B), which includes

- Mining of hard coal and lignite (NACE-2010 code B05)
- Extraction of crude petroleum and natural gas (NACE-2010 code B06);
- Mining of iron ores, other mining and quarrying, mining support activities (NACE-2010 code B07-B09).

In the absence of the relevant official statistical information, all the data mentioned in this paragraph do not include the economic performances of the enterprises engaged in the transportation of oil and gas.

¹³³ Data of the State Statistics Service of Ukraine, statistical collections "Ukraine Input - Output Table in consumers prices 2014"" Ukraine Cost - Benefit Table in consumers prices 2015", "Ukraine Input - Output Table in consumers prices 2016".

The contribution of extractive industries to the gross domestic product of Ukraine in 2016 amounted to UAH 131,650 mln, or 5.4% of GDP. For the first time in the last 6 years, the extractive industries grew faster than the GDP of Ukraine.

In the structure of the extractive industries, according to the classification of NACE (KVED-2010, **the largest segment in terms of the production value** is the mining of iron ores, other mining and quarrying, mining support activities, mainly due to developed of iron ores industry. This type of economic activity in 2016 produced 2.38% of Ukraine's output (UAH 129.2 bln). The share of the oil and gas industry in the Ukrainian output in 2016 amounted to 2.08% (UAH 112.5 bln). At the same time, **in terms of contribution to the GDP of Ukraine**, the largest segment was the oil and gas sector (2.77%, or UAH 66.0 bln).

In order to obtain disaggregated information, the Independent Administrator estimated the production value of the extractive industries of Ukraine (*Table 5-28*). In Ukraine, there are no fully unregulated competitive markets of extractive products, therefore no accurate information on the price (value) of coal, oil, natural gas is available. Thus, the calculation is approximate and is based on assumptions about the prices of listed goods. The discrepancy between the estimation results and the information of the SSSU for coal does not exceed 5%, for oil and natural gas - 18%. It should be noted that in fact, more than half of the natural gas of internal origin, in accordance with the public service obligations (PSO) established by CMU, was sold at lower prices than in the unregulated market segment in 2016, which may partly explain the discrepancy between the estimated data the data of SSSU.

Table 5-28: Value of extracted products in Ukraine in 2016

Product	Volumes of extraction ¹³⁴	Price, UAH	Value, mln UAH	
			According to Independent Administrator`s assessment	According to SSSU
Coal, tonnes	43,177,000	1,487.84 ¹³⁵	64,240.58	61,640.00
Crude oil, tonnes	2,264,000	1,115.06 ¹³⁶	18,508.04	112,491.00
Natural gas, tcm	20,026.00	5,701.90 ¹³⁷	114,186.25	

The main difficulties in assessing the value of extracted iron, manganese and titanium ores are related to the export orientation of these industries and the lack of complete reliable information in open sources. The information on production volumes and product prices in international markets is publicly available. However, most domestic enterprises in these industries sell ore metals with different levels of enrichment (agglomerated ore, concentrate, pellets, etc.). Therefore, the Independent Administrator cannot accurately estimate the value of extracted products in metal ores industry. The information provided by reporting companies

¹³⁴ Volumes of coal mining according to the information of SSSU, volumes of oil, natural gas extraction and iron ores, manganese ores mining according to the information of Geoinform of Ukraine SRPE, volumes of titanium ores mining according to the information of US Geological Survey.

¹³⁵ The price of coal is calculated on the basis of the average market price in the European market (based on the average API2 indexes on CIF terms in the main ports of Western Europe Amsterdam-Rotterdam-Antwerp) corrected for the calorie content of Ukrainian coal. The calculation includes the average value of freight for the transportation of coal to Ukrainian ports, as well as the rate for reloading coal in the port. To calculate the price in UAH, the average annual exchange rate is used (according to the NBU).

¹³⁶ The price of crude oil is calculated on the basis of the average annual Brent oil price on the spot market of Europe, FOB (US Energy Information Administration, <https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=rbrte&f=a>) and average annual exchange rate (according to NBU)

¹³⁷ The weighted average wholesale price of natural gas in the unregulated market segment in 2016 (without VAT)

in questionnaires for EITI Report can be used as an alternative approach of estimation (*Table 5-29*).

Table 5-29: Revenues from the sale of commodities of own production in 2016

Name of company	Volumes of raw ore mining, thousand tonnes	Sales volumes of marketable products, thousand tonnes	Revenue from sales of marketable products, mln UAH (without VAT)	Marketable products to be sold
Iron ores				
Ingulets Iron Ore Enrichment Works PrJSC	27,368.70	11,571.60	11,306.50	iron ore concentrate
Central Iron Ore Enrichment Works PrJSC	11,881.00	4,958.82	7,102.20	iron ore concentrate, pellets
Southern mining factory PJSC	25,823.40	11,570.80	14,605.30	iron ore concentrate
Northern Iron Ore Enrichment Works PrJSC	24,935.00	10,830.30	15,106.51	iron ore concentrate, pellets
Ferrexpo Yeristovo mining LLC	12,989.00	12,843.61	1,391.80	raw ore, iron ore concentrate, pellets
Krivoj Rog`s iron-ore combine PJSC	4,961.50	5,300.67	4,453.10	raw ore
ArcelorMittal Kryvyi Rih PJSC	21,198.00	1,185.00	1,033.00	iron ore concentrate
Ferrexpo Poltava mining PrJSC	27,864.00	11,222.13	16,640.90	pellets
The foreign investment enterprise in the form of PrJSC Zaporizhzhia iron ore industrial complex	4,358.00	na	na	na
Sukha Balka PrJSC	2,630.30	na	na	na
Total	164,008.90	69,482.93	71,639.30	
Manganese ores				
Marganets GZK PJSC	1,187.0	272.34	435.81	manganese concentrate
Pokrovskiy GZK PJSC	1,608.1	na	na	na
Landshaft LLC	79.0	na	na	na
Toal	2,874.1	272.34	435.81	
Titanium ores				
United Mining and Chemical Company SE	8,675.00	396.90	1,696.70	titanium concentrate
Total	8,675.00	396.90	1,696.70	

Thus, the total revenue of metal ores companies, which provided information for EITI Report, in 2016 amounted to 73,771.81 mln UAH¹³⁸, including:

- ▶ iron ores mining - 71,639.30 mln UAH,
- ▶ manganese ores mining - 435.81 mln UAH,

¹³⁸ The given data does not include companies that did not provide information for the EIT Report

- ▶ titanium ores mining - 1,696.70 mln UAH.

The publicly available information of the SSSU does not include disaggregated data on production value by commodities (iron, manganese and titanium ores). The nearest benchmark may be the information on the value of production of mining of metal ores, other mining and quarrying, mining support service activities industries, which amounted to UAH 129,205.00 mln in 2016, according to SSSU.

5.9.1.2 Contribution to export

Total value of exported products of the extractive industries that were included in the scope of the EITI Report amounted to USD 2,129.25 mln or 4.7% of the total exports of goods and services in 2016 (**Table 5-30**). Metal ores mining industry accounted for the major share of exports - 4.1% of total export of Ukraine.

Table 5-30: Extractive industries exports in 2016

Extractive industry	Value of exported products, mln USD	Share in total export of goods and services, % ¹³⁹
Mining of coal	44.76	0.1%
Extraction of crude oil	0.00	0.0%
Extraction of natural gas	0.00	0.0%
Mining of iron ores	1,827.20	4.1%
Mining of titanium ores	84.36	0.2%
Mining of manganese ores	2.80	0.0%
Mining of fire clays	170.13	0.4%
Mining of high-melting clays	na	na
Mining of quartz sand (for the purposes of production of glass)	na	na
Total	2,129.25	4.7%

5.9.1.3 Contribution to government revenues (Consolidated budget and Pension Fund)

Total payments in favor of the state from extractive industries that were included in the scope of the EITI Report amounted to UAH 104,963.46 mln or 11.8% of revenues of the Consolidated budget and Pension Fund in 2016 (**Table 5-31**).

¹³⁹ Calculated by the Independent Administrator based on information of SSSU, Statistical Yearbook "Ukraine's foreign trade in goods and services in 2016.", http://www.ukrstat.gov.ua/druk/publicat/kat_u/2017/zb/06/Zb_ztutp2016.pdf.zip

Table 5-31: Revenues of the Consolidated budget and Pension Fund from extractive industries of Ukraine in 2016

Extractive industry	Payments from extractive industries, mIn UAH	Share in total revenues of the Consolidated budget and Pension Fund, % ¹⁴⁰
Mining of coal	8,188.11	0.9%
Extraction of crude oil and natural gas	81,280.03	9.1%
Mining of iron ores	5,920.18	0.7%
Mining of titanium ores	882.46	0.1%
Mining of manganese ores	398.22	0.04%
Transportation of oil and natural gas	8,294.47	0.9%
Total	104,963.46	11.8%

5.9.1.4 Contribution to capital investments

Capital investments in the Ukrainian mining industry in 2016 amounted to UAH 22.5 bln¹⁴¹, or 6.3% of total capital investment in Ukraine. The main share (42.9%) of this amount was directed to the gas-extraction industry.

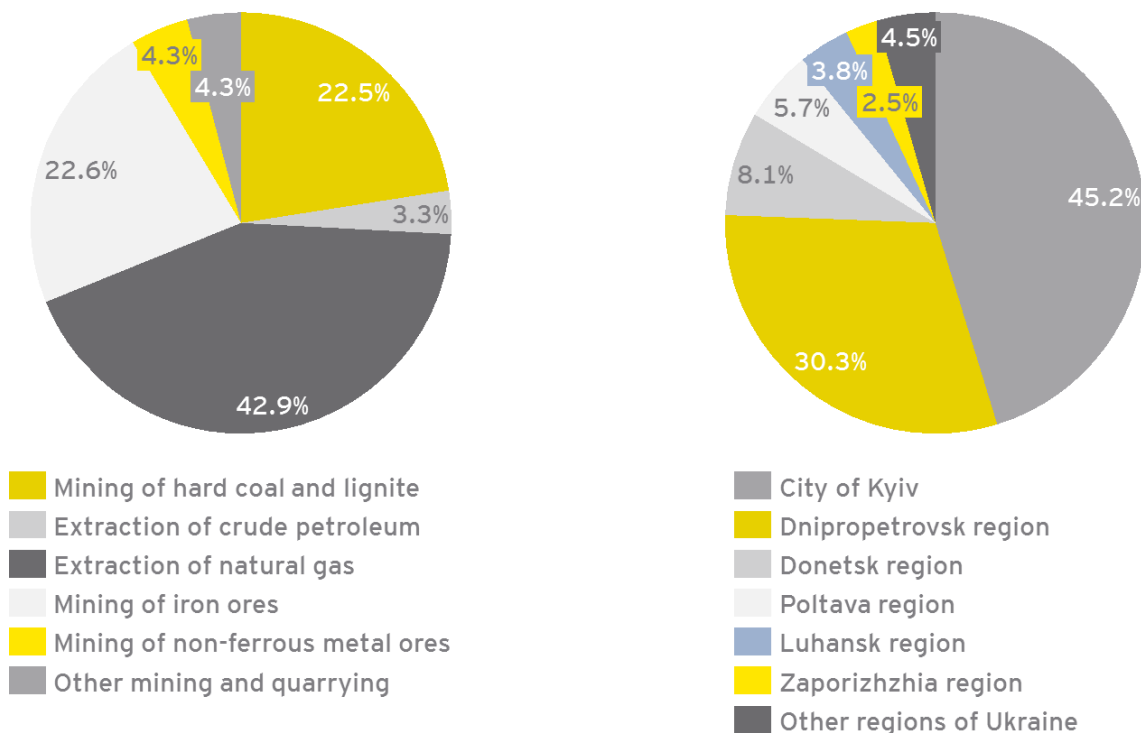


Figure 5-79: Capital investments in extractive industries of Ukraine in 2016

¹⁴⁰ Calculated by the Independent Administrator based on information of the Ministry of Finance: <http://www.treasury.gov.ua/main/uk/doccatalog/list?currDir=359194>. Only revenues from unified contribution for mandatory state social insurance was taken into account among all revenues of the Pension Fund: <http://www.pfu.gov.ua/informatsiya/byudzhet/arhiv-zvitnist-byudzhet/2016/vikonannya-byudzhetu-pensijnogo-fondu-u-2/>

¹⁴¹ Data of the State Statistics Service of Ukraine, statistical bulletin "Capital investment in Ukraine for January-December 2016"

In Ukraine, a common practice among mining companies is the registration of legal entities in the capital city, regardless of the region in which the production activities are conducted. Because of this, Kyiv in 2016 remained the leader among all regions of Ukraine by the investment in fixed assets in the mining industry (45.2%). Other regions include Dnipropetrovsk region, where the main Ukrainian iron ores companies are located, Donetsk region (due to coal companies) and Poltava region (due to oil and gas and iron ores companies).

5.9.1.5 Contribution to employment

The enterprises engaged in mining minerals in Ukraine are important employers. Due to the economic difficulties experienced by Ukraine since the end of 2013, as well as military actions in the eastern part of the country, in 2014-2016, the number of employed in the mining industry declined at a rapid pace - by 24.9% annually. Thus, according to the State Statistics Service of Ukraine, in 2016 the average number of full-time employees in the extractive industries amounted to 232 thousand people¹⁴², which was 11.8% of all employees in the industry and 3.0% of all full-time staff in Ukraine. In 2016, the average number of full-time employees in the extractive industries decreased by 23 thousand people, of which 19 thousand were employed in field of coal mining.

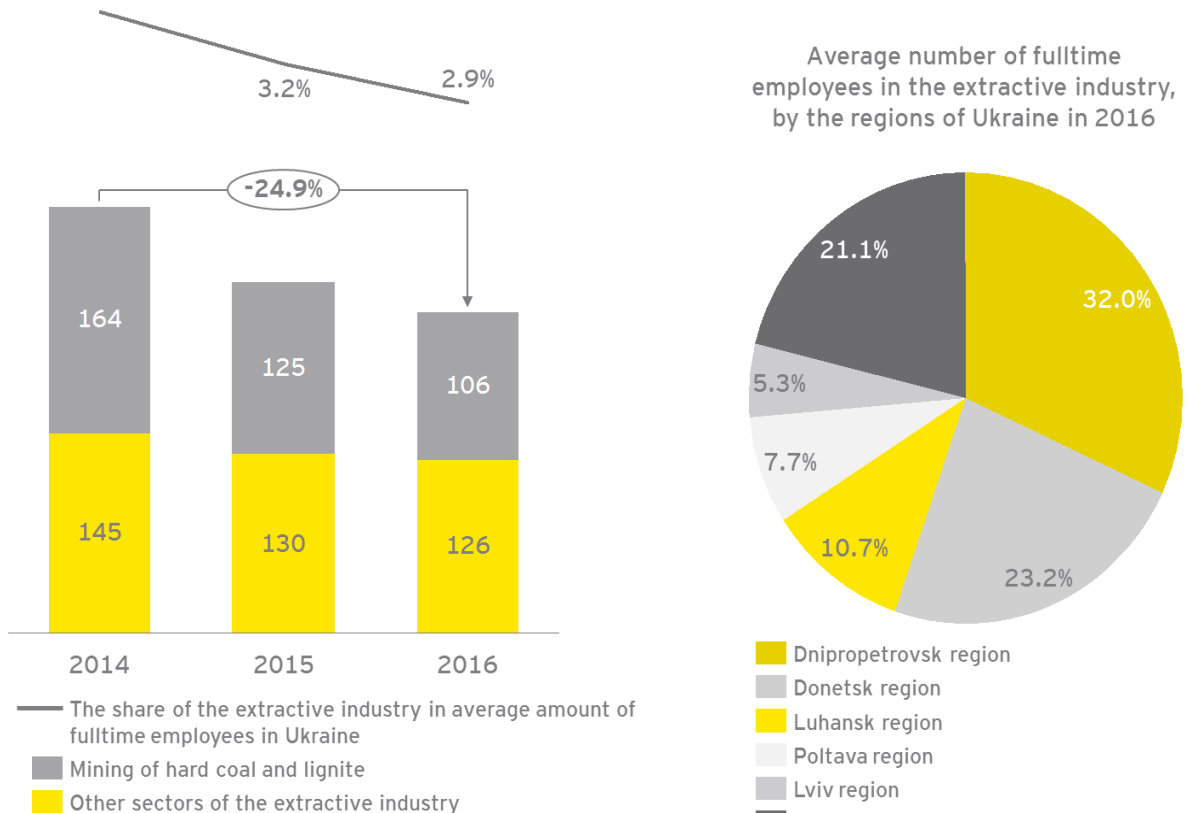


Figure 5-80: Employment in the extractive industries of Ukraine in 2014-2016

Approximately 66% of all employees in the extractive industries are concentrated in three main regions: Donetsk, Dnipropetrovsk and Luhansk regions. It should be noted that the Poltava region in 2016 was the only region in Ukraine where the number of employed in the extractive industries increased (from 15.5 thousand in 2015 to 17.9 thousand in 2016).

¹⁴² Data of the State Statistics Service of Ukraine, statistical bulletin "Labour in Ukraine for January-December 2016"

5.9.2 Contribution to informal sector of economy

There is no publicly available reliable assessments of informal sector in extractive industries.

The only official source of information about the informal sector of economy in 2016 is the Report of the State Statistics Service of Ukraine *Economic activity of Ukrainian population 2016*¹⁴³. The report includes the information on the number of the informally employed population in the extractive industry (6.1% of the total number of the informally employed population in Ukraine, or 241.6 thousand persons). Thus, the total registration amount of regular workers in industry in 2016 presented 1,990.7 thousand persons¹⁴⁴. So, the share of informally employed people in the industry in the total number of the formally employed regular workers in 2016 is 12.1%.

If we assume, based on this information, that the share of workers that are informally employed in the extractive industries is the same as for the Ukrainian industry at large, the employment in an informal sector in extractive industries can be estimated at 28.2 thousands.

The above assessment is very tentative and cannot be evidenced due to the lack of other sound sources of information or reliable assessments.

¹⁴³ SSSU http://www.ukrstat.gov.ua/druk/publicat/kat_u/2017/zb/07/zb_eanu2016pdf.zip

¹⁴⁴ SSSU, Statistical bulletin *Labor in 2016*, http://www.ukrstat.gov.ua/druk/publicat/kat_u/2017/zb/08/zb_pracia_2016.zip

5.9.3 Extractive companies' social and charitable payments

The information about social and charitable payments made by the extractive companies gathered in the survey is presented in the EITI Report 2016, including:

- ▶ Social payments in money and in kind required from companies by the legislation, by production sharing agreements, agreements on using subsoil, investment obligations, concession agreements, agreements of purchase-sale of state property or any other obligations before the state, central and by local authorities, that are mandatory under the regulations or agreements related to extractive activity;
- ▶ Any social spending made by the companies on a voluntary basis;
- ▶ Value of goods, works, services, provided for free by the companies to the state owned enterprises, institutions and organizations, public and local self-government authorities or other recipients;
- ▶ Charitable payments and donations (in the meaning of Law of Ukraine "On Charity activity and charitable organizations"), provided by the companies to the state owned enterprises, institutions and organizations, public and local self-government authorities or other recipients

In addition, the social and charitable spendings have been analyzed by the areas such as:

- ▶ health care;
- ▶ education and science;
- ▶ environment;
- ▶ support to local communities and
- ▶ other.

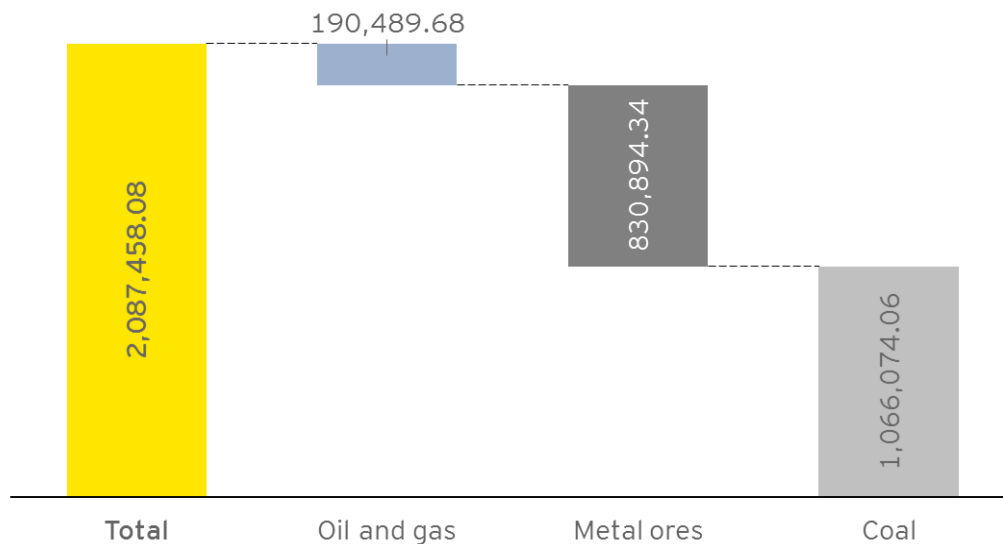


Figure 5-81: Social and charitable payments made by extractive companies in 2016, UAH thousand¹⁴⁵

¹⁴⁵ For the purposes of reconciliation of the payments, the companies whose activities is categorized as crude oil extraction and natural gas extraction were grouped into one category - oil and gas. Companies whose activities is categorized as iron ores mining, manganese ores mining and titanium ores mining, were grouped in one category - metal ores.

According to the information provided by the companies, their total social and charitable spending in 2016 amounted to UAH 2,087,458.08 thousand. The payments were mostly done by coal mining companies - UAH 1,066,074.06 thousand or 51.07% (**Figure 5-81**).

According to the companies, the payments fall basically on the categories "Voluntarily social payments" and "Charitable payments and donations". The more detailed structure by the extractive industries is presented in **Table 5-32**.

Table 5-32: Social and charitable payments by expenditure categories and extractive industries in 2016, UAH thousand

Types of social and charitable payments	Oil and gas	Coal	Metal ores	TOTAL
Social payments required by law	2,960.56	17,350.00	52,889.47	73,200.03
Voluntarily social payments	163,923.49	118,359.10	704,907.18	987,189.77
Value of goods, works, services provided for free	1,670.60	81,594.40	26,619.10	109,884.10
Charitable payments and donations	21,935.03	848,770.56	46,478.59	917,184.18
TOTAL	190,489.68	1,066,074.06	830,894.34	2,087,458.08

The survey showed that social and charitable spending were recognized by the companies as "Other", except for the oil and gas companies, whose spending are mostly in a category "Support to local communities" (**Table 5-33**)

Table 5-33: Social and charitable payments in 2016 by their designated purpose, UAH thousand

The areas of social and charitable payments	Oil and gas	Coal	Metal ores	TOTAL
Health care	280.89	35.00	4,460.84	4,776.73
Education and science	2,480.63	80.00	7,787.00	10,347.63
Environment	40.00	0.00	16,873.00	16,913.00
Support to local communities	148,407.58	118,924.10	64,360.68	331,692.36
Other	39,280.58	947,034.96	737,412.82	1,723,728.36
TOTAL	190,489.68	1,066,074.06	830,894.34	2,087,458.08

Among companies that reported about their social and charitable payments in 2016, DTEK Pavlogradugol PrJSC and ArcelorMittal Kryvyi Rih JSC are the leaders (**Figure 5-82**).

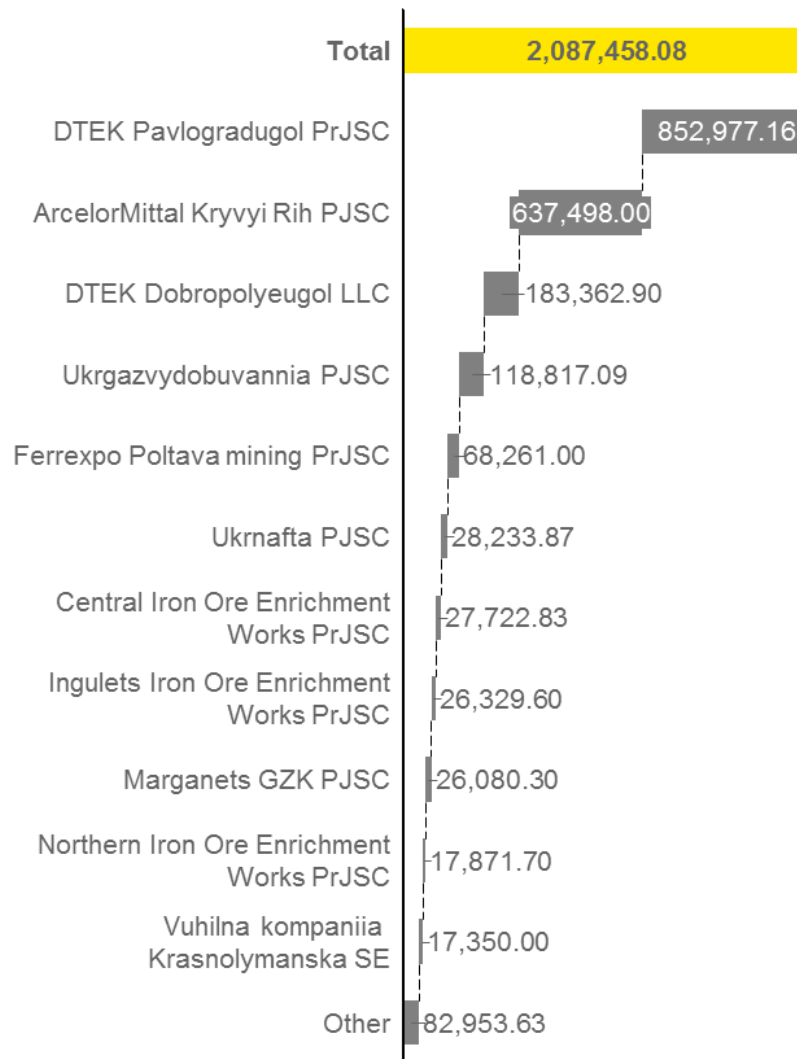


Figure 5-82: Companies with the biggest social and charitable payments in 2016, UAH thousand

5.10. Quasi-fiscal operations

Requirement 6.2 of the EITI Standard emphasizes the need for disclosure of quasi-fiscal operations of the state-owned enterprises in the EITI Report. According to the Standard, quasi-fiscal operations include payments for social services, public infrastructure, fuel subsidies and national debt servicing. The Standard also states that the MSG is required to develop a reporting process with a view to achieving a level of transparency commensurate with other payments and revenue streams, and should include SOE subsidiaries and joint ventures.

Since quasi-fiscal operations have a significant impact on the economy and the fiscal balance of the country, quasi-fiscal transactions shall be disclosed using the IMF Manual on Fiscal Transparency.¹⁴⁶

The IMF emphasizes the importance of identifying quasi-fiscal operations and quantifying them. Quasi-fiscal activities can generate implicit contingent liabilities for the government. Quasi-fiscal operations often have redistributive effects, so their impact should be a topic for public debate.

The IMF Manual on Fiscal Transparency specifies 3 main types of quasi-fiscal operations:

- ▶ Operations related to the financial system:
 - Subsidized lending
 - Under-remunerated reserve requirements
 - Credit ceilings
 - Rescue operations
- ▶ Operations related to the exchange and trade systems:
 - Multiple exchange rates
 - Import deposits
 - Deposits on foreign asset purchases
 - Exchange rate guarantees
 - Subsidized exchange risk insurance
 - Nontariff barriers
- ▶ Operations related to the commercial enterprise sector
 - Understated commercial prices
 - Provision of noncommercial services
 - Pricing for budget revenue purposes
 - Paying overstated commercial prices to suppliers

According to the IMF Fiscal Transparency Code,¹⁴⁷ quasi-fiscal operations are government operations conducted by institutions that are not government authorities (central bank and other state corporations). Such operations include preferential loans from the central bank, preferential lending to state corporations and provision of services at prices lower than market rates.

Based on the available information and recommendations of the Independent Administrator, a decision was taken by MSG (Minutes of the MSG meeting of January 18, 2018) to disclose information on quasi-fiscal operations in the gas and coal industries of Ukraine in the EITI Report for 2016, since the quasi-fiscal operations of these extractive industries were identified as significant.

¹⁴⁶ Manual on fiscal transparency, <https://www.imf.org/external/np/pp/2007/eng/051507m.pdf>

¹⁴⁷ IMF Fiscal Transparency Code, <http://blog-pfm.imf.org/files/ft-code.pdf>

5.10.1 Quasi-fiscal operations in extractive industries

The principles of regulation and functioning of the gas market are laid down in the Law of Ukraine "On the Natural Gas Market" No. 329-VIII dated 9 April 2015. The law provides for the introduction of a principle of free pricing along with state regulation of monopoly markets except in cases when the Cabinet of Ministers imposes special obligations on the natural gas market actors.

According to the Resolution of CMU "On Approval of the Regulation on Assignment of Special Responsibilities to Natural Gas Market Participants for Acting in the Best Public Interests in the Process of Functioning of the Natural Gas Market" No. 758 of October 1, 2015, (Resolution No. 758) and the Law of Ukraine "On Natural Gas Market" No. 329-VIII dated 9 April 2015, Naftogaz of Ukraine NJSC is obliged to purchase natural gas extracted by Ukrgezvydobuvannia PJSC for the purposes of formation of the natural gas reserves for households, religious organizations (except for the volumes used for running their industrial and commercial activities) and thermal energy producers at prices, and under the terms and conditions and in the manner determined by the Resolution of No. 758.

Since Naftogaz of Ukraine NJSC is the main supplier of natural gas for the category of consumers subject to the Regulation No. 758, the quasi-fiscal operations were estimated by the Independent Administrator based on the data on the activities of Naftogaz of Ukraine NJSC.

The MSG decided (Minutes of the MSG meeting of January 18, 2018) to estimate the quasi-fiscal operations using an approach that calculates the difference between a fixed price for natural gas for preferential consumer categories and the market price for industry based on consumption volumes. Publicly available information shall only be used for the calculations.

Since the information on monthly consumption of natural gas by consumer categories in 2016 is not publicly available, gross volumes of consumption by categories and weighted average prices for the respective categories were used to estimate the quasi-fiscal operations. Thus, according to NEURC¹⁴⁸, the average weighted selling price of natural gas provided by Naftogaz of Ukraine NJSC to suppliers for household consumers was UAH 4,215.5 per tcm (without VAT), for the needs of religious organizations - UAH 2,317.8 per tcm (without VAT). The Naftogaz of Ukraine NJSC average weighted price of natural gas provided to heat energy producers for the purpose of heating and hot water supply to the households in 2016 was UAH 3,283.1 per tcm (without VAT), for the production of thermal energy for religious organizations - UAH 2,353.3 per tcm (without VAT). In the wholesale market segment with free pricing, the weighted average wholesale price of natural gas in 2016 amounted to UAH 5,701.9 per tcm (without VAT).

According to the assessment of the Independent Administrator, the value of natural gas consumed in 2016 by the categories of consumers covered by Resolution No. 758, amounted to UAH 68,969.1 mln. Weighted average prices (without VAT) for the relevant categories of consumers were used for calculation, as well as the corresponding total volume of natural gas consumed by these categories (**Figure 5-83**).

¹⁴⁸ Performance report of NEURC in 2016, http://nerc.gov.ua/data/filearch/Catalog3/Richnyi_zvit_NKREKP_2016.pdf

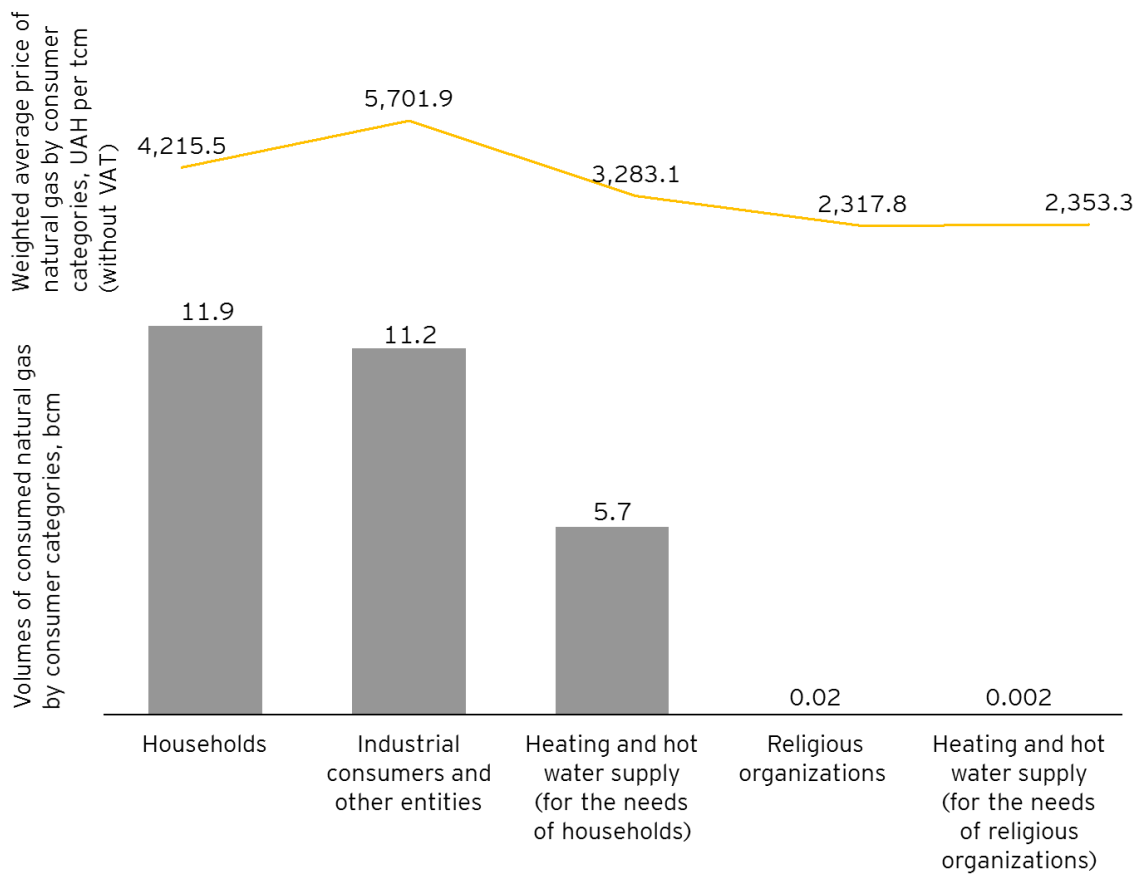


Figure 5-83: Volumes of natural gas consumption and weighted average prices by consumer category in 2016¹⁴⁹

Assuming that the weighted average price of natural gas for the preferential consumer categories in 2016 would be equal to the weighted average price for industrial consumers and other economic entities (i.e. UAH 5,701.9 per tcm), the total value of natural gas consumed by the preferential categories would be UAH 100,575.8 mln. According to the adopted approach to quasi-fiscal operations, it can be assumed that the quasi-fiscal operations of Naftogaz of Ukraine NJSC in 2016 amounted to UAH 31,606.7.

¹⁴⁹ According to official figures of Naftogaz of Ukraine and NEURC.

5.10.2 Quasi-fiscal operations in coal mining industry

Use of the coal extracted in Ukraine

Most of the coal produced in Ukraine is the energy coal (gas group) and is used by generating companies (GC HPP) to produce electricity. The total volumes of gas group coal mining and utilization by GCs for the purposes of their core operations are presented below.

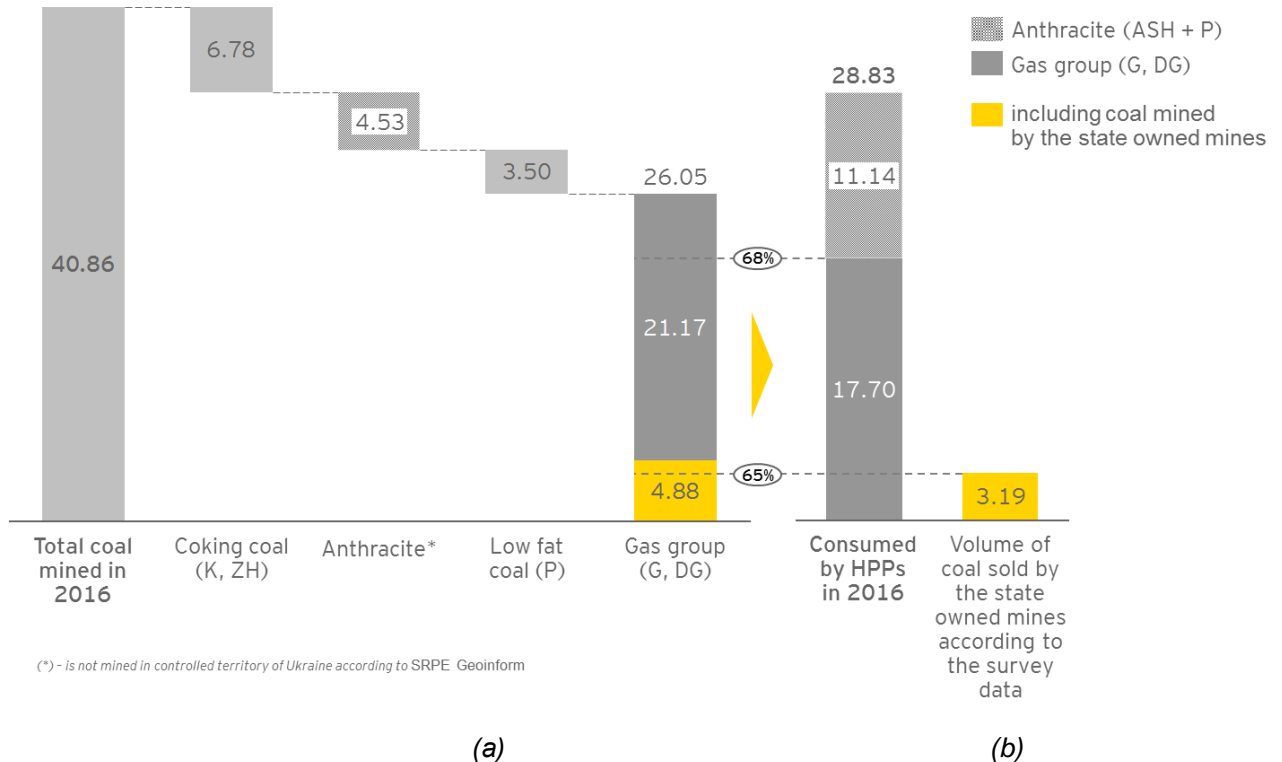


Figure 5-84: Volumes of the gas group coal mining in the overall structure of coal mined in 2016 (a) compared to the volumes of coal consumed by HPP¹⁵⁰ and volumes of gas group coal sold by the state owned mines according to the survey data (b), mln tonnes

The bulk of gas group coal is produced by private companies. According to the Ministry of Energy and Coal Industry, the share of the specified coal mined at the state owned mines is 18.7% (4.88 mln tonnes) of total volumes of gas group coal mining.

Pricing for coal for HPP

In Ukraine, actually there is no coal market, where reliable changes in price can be observed. However, the forecasted wholesale market price for electricity, which is one of the components of the fuel price set by GC HPP, is determined by the Regulator (NEURC) based on the Resolution of NEURC "On approval of the formation of the projected wholesale market price of electricity" No. 289 dated 03.03.2016¹⁵¹ (Resolution No. 289).

¹⁵⁰ Extraction of ordinary coal in December 2016, Information on coal consumption by TPP in 2015-2017 - Information provided by MECI

¹⁵¹ Resolution of NEURC No. 289 dated 03.03.2016, available at: <http://www.nerc.gov.ua/?id=19380>

The specified procedure requires to include in the price of electricity producers operating based on price applications (GC HPP) the indicative price of coal, which is determined on the basis of the average market price in the European market (based on the average API2 indices on CIF terms in the main Western European ports Amsterdam - Rotterdam - Antwerp) for the 12 months preceding the month of determining the forecast wholesale market price, taking into account the weighted average hryvnia exchange rate as of the date of settlement. In addition, the average price of freight for the transportation of coal from the specified ports to Ukrainian ports is added to the specified price, as well as the rate of reloading of coal in the port.

The procedure was published in the Uriadovy Courier newspaper № 60 dated March 30, 2016. Therefore, the calculation of the forecast wholesale price of electricity should have been made on the basis of the API2 price index for 9 months of 2016 - from April to December 2016.

The values of the API2 index on CIF terms for coal with a calorific value of 6000 kcal/kg, USD/tonne for the period from April 2015 to December 2016, and estimates of the relevant indicative coal price included in the forecast wholesale electricity price in the wholesale electricity market of Ukraine are presented below.

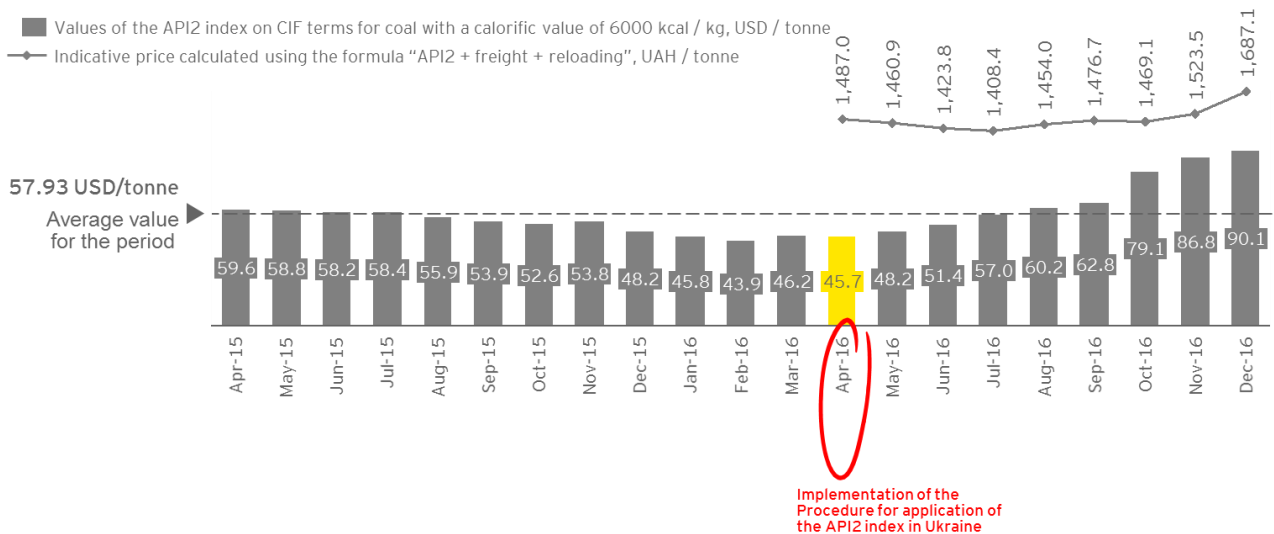


Figure 5-85: Actual values of the API2 index on CIF terms for coal with a calorific value of 6000 kcal/kg, USD/tonne and estimated indicative price for coal, calculated based on API2 + freight + delivery formula¹⁵²

The data of the state owned mines on revenues from sale of coal products

The Independent Administrator analyzed the revenues and volumes of extraction of 7 coal mining enterprises (65% of the total volume of the gas group coal production in Ukraine) in the state ownership, based on the obtained data. The calculated average cost of coal of these enterprises is lower than the indicative price, calculated using the methodology specified in the NEURC Order No 289 (Figure 5-86).

¹⁵²Taking into account the average freight data for the transportation of coal to the ports of Amsterdam - Rotterdam - Antwerp to the Ukrainian ports and the Calculation of the average coal loading rate at the port ("Formation of the wholesale market price of electricity, the details of the key parameters for 2017", NEURC Presentation, 2016) with adjustments for the actual average calorific value of coal produced in Ukraine which is 5156 kcal / kg (data of the Ministry of Energy and Coal Industry)

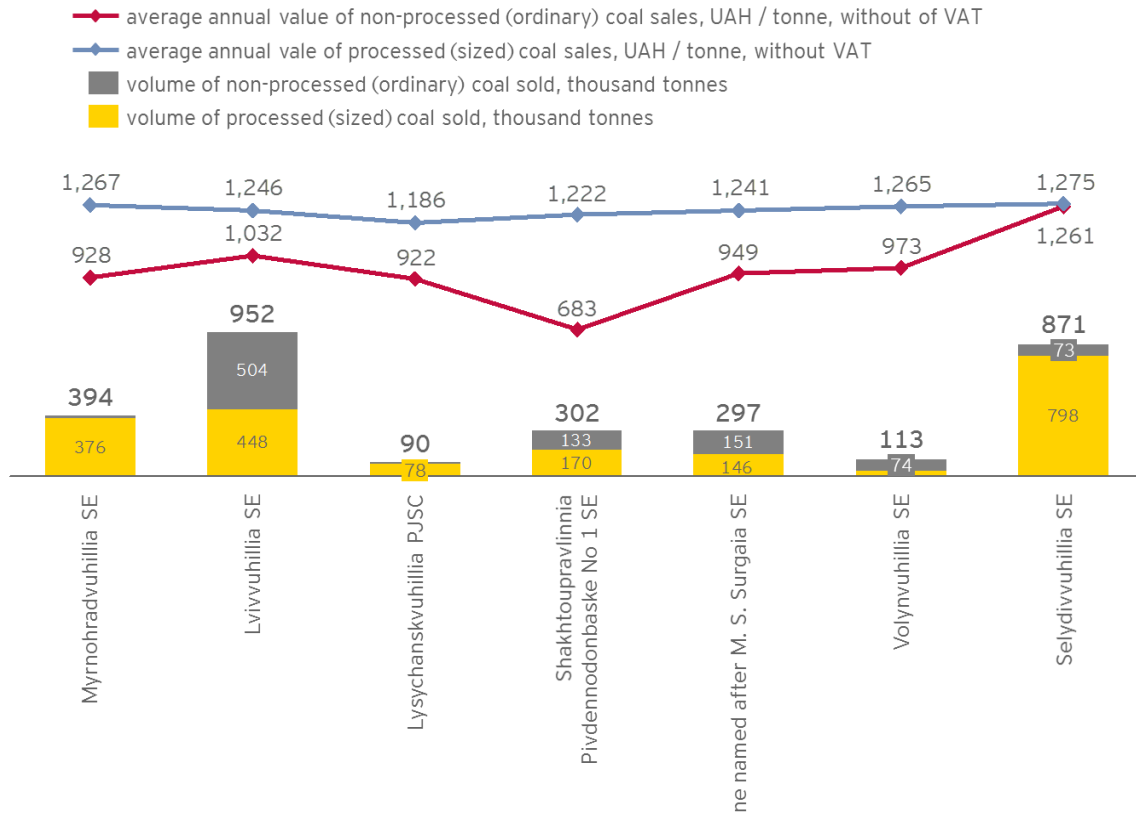


Figure 5-86: Volumes and average annual value of coal sold by the state owned mines in 2016¹⁵³

The Independent Administrator analyzed the amount of potential revenue that would have been obtained by the 7 mines in state ownership, when applying the pricing principles stipulated in the NEURC Order No. 289. The results are presented below (Figure 5-87).

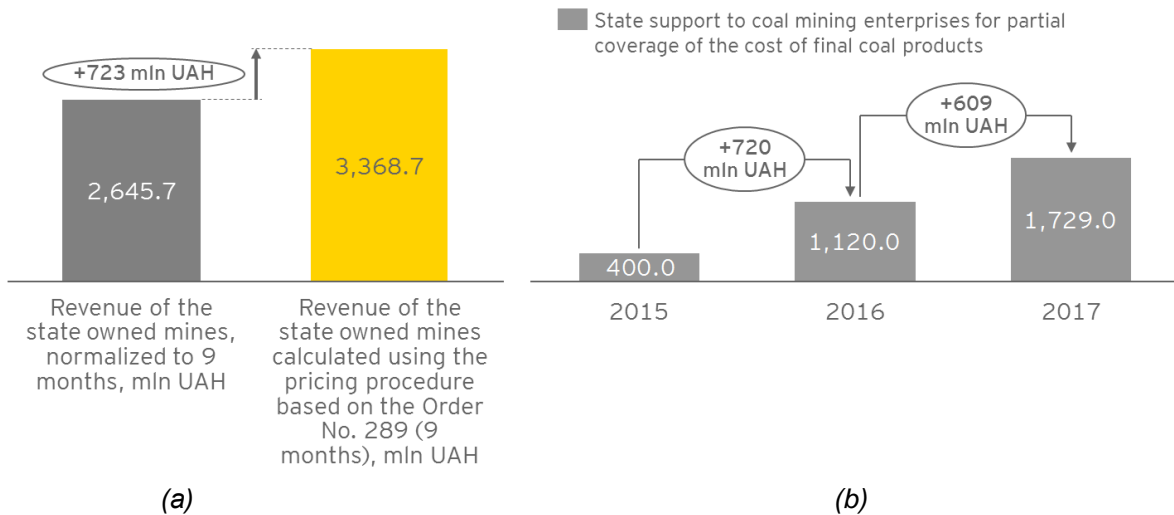


Figure 5-87: Revenue of the analyzed state owned mines when applying the procedure stipulated by NEURC Order No. 289 (a) and the Consolidated budget expenditures to support coal mining enterprises

¹⁵³ According to the survey of the seven mines (65% of the total volume of gas coal mining by state enterprises) carried out by the Independent Administrator

So, with the application of the pricing principles laid down in the NEURC Order No. 289, the revenue of the state owned mines would amount to UAH 3,368.7 mln in 2016.

Assuming that the mentioned shortfall in income from the sale of coal products (UAH 723 mln) is related to the prevention of growth in the forecast wholesale market price of electricity (which ultimately directly affects the retail price of electricity for consumers in Ukraine), it can be interpreted as quasi-fiscal costs of state owned coalmining enterprises.

However, it should be noted that the abovementioned amount (UAH 723 mln) is in general commensurate with the expenditures of the Consolidated budget for government support to coalmining enterprises, which is related to the partial coverage of the cost of finished coal products (the increase in 2016 amounted to UAH 720 mln).

5.11 Generation of government revenues from extractive industries by the regions of Ukraine

Most tax and non-tax payments made by extractive companies in Ukraine do not have clearly stated special purpose and their destination is the Consolidated budget and /or local budgets. The only exception is the single social payment that is directed to the Pension fund and used for funding the expenses related to the pension and social system. The detailed information on the purpose of taxes and duties to the state or local budgets is presented in **Section 6.5**.

Revenues the State budget from payments for the use of subsoil for the purpose of producing gas and gas condensate, rent for the transit transporting via the pipelines of natural gas through the territory of Ukraine and duties in a form of a special purpose surcharge to the current tariff on natural gas for the consumers of all forms of ownership in 2016 shall be used for transferring subventions from the state budget to the local budgets for granting privileges and subsidies to the households (including for paying electricity, natural gas, heating, water supply and water treatment bills, apartment rent etc.).¹⁵⁴ The detailed information on the corresponding subsidies in 2016 is presented in **Annex 11**.

Therefore, since the objective official data are not available, the Independent Administrator assessed the regional origin of payments from extractive companies.

The results of the assessment represent the indicative amounts of revenues to the Consolidated budget and Pension Fund generated by a specific region of Ukraine in 2016. The assessment is tentative.

The assessment algorithm and basic assumptions are the following:

1. The scope of the assessment includes the revenues from the reporting companies (60 extractive companies) by all types of payments in 2016. The source of information is the SFS data with regard to the revenues to the Consolidated budget and Pension Fund in 2016 received for the purposes or reconciliation in the EITI Report.
2. The revenues from oil and natural gas transportation industry (Ukrtransgaz PJSC and Ukrtransnafta PJSC), as well as Naftogaz of Ukraine NJSC were not disaggregated by the regions of Ukraine, so it is impossible to exactly match tax and non-tax payments paid by these companies and the revenues of specific Ukrainian regions.
3. The revenues from iron, titanium and manganese ores mining are allocated to the regions of country by simple comparison of the actual address of conducting activity and the payments paid by the companies. For example, the location of AscelorMittal Kryvyi Rih PJSC extractive activity is solely in Dnipropetrovsk region, that is why all payments of company can be allocated to Dnipropetrovsk region.
4. The total revenues from the coal mining companies were allocated among the regions of Ukraine proportionally to the volumes of extracted coal. So, it was assumed that since 42.7% of the total coal production in Ukraine in 2016 was mined in Dnipropetrovsk region, then 42.7% of all revenues from the coal mining industry can be allocated to Dnipropetrovsk region. The information about regional allocation of coal production is received from is the SSSU and MECI.
5. Determination of the total revenues from the natural gas and oil production separately. In case of the companies engaged in extracting oil and natural gas, their payments were

¹⁵⁴ CMU Resolution No 20 from 20.01.2005 "On approval of the Procedure for transferring certain subventions from the state budget to the local budgets for granting of privileges, subsidies and indemnifications".

distributed between the natural gas and oil industries proportionally to the payments for the use of subsoil (rent) according to the corresponding budgetary classification codes. Since the taxation base for payments for the use of subsoil for the purpose of extracting hydrocarbons is the cost of saleable products (oil, condensate and natural gas), it was deemed reasonable to distribute the payments made by oil and gas companies as those related to natural gas extraction and those related to oil extraction proportionally to the rent paid by them.

6. The total revenues from oil and natural gas production separately are allocated to the regions proportionally to the regional structure of oil and gas production.

About 77% of payments from extractive industries paid in 2016 are estimated for their regional origin using this algorithm. It is clear that such allocation contains errors, however no other more precise approach can be used with the available information. The Independent Administrator received no replies from many extractive companies and therefore based only on the publicly available information it is not always possible to identify on the territory of which region a company conducts its activities. Moreover, in the case when a company operates in a few regions, or is engaged in production of both oil and natural gas, correct allocation of payments is impossible at all without the detailed explanations from each such company, especially with regard to the share of each mineral (oil or gas) production in the taxation base for most of taxes.

The payments from Naftogaz of Ukraine NJSC (15.4% of the total revenues, or UAH 16,171,507.50 thousand), and all the payments from of oil and natural gas transportation industry (7.9% or UAH 8,294,474.50 thousand) remained unallocated by the regions.

The results of assessment show that three regions of Ukraine (Kharkiv, Poltava and Dnipropetrovsk regions), where the main gas, oil and iron ore fields are located, provided for 78.5% revenues to the state from extractive industries in 2016. Another 20.1% of the revenues were received from the 6 regions (Sumy, Donetsk, Lviv, Ivano-Frankivsk, Luhansk and Chernihiv regions). Other regions of Ukraine contributed 1.5% revenues to the state and local budgets in 2016.

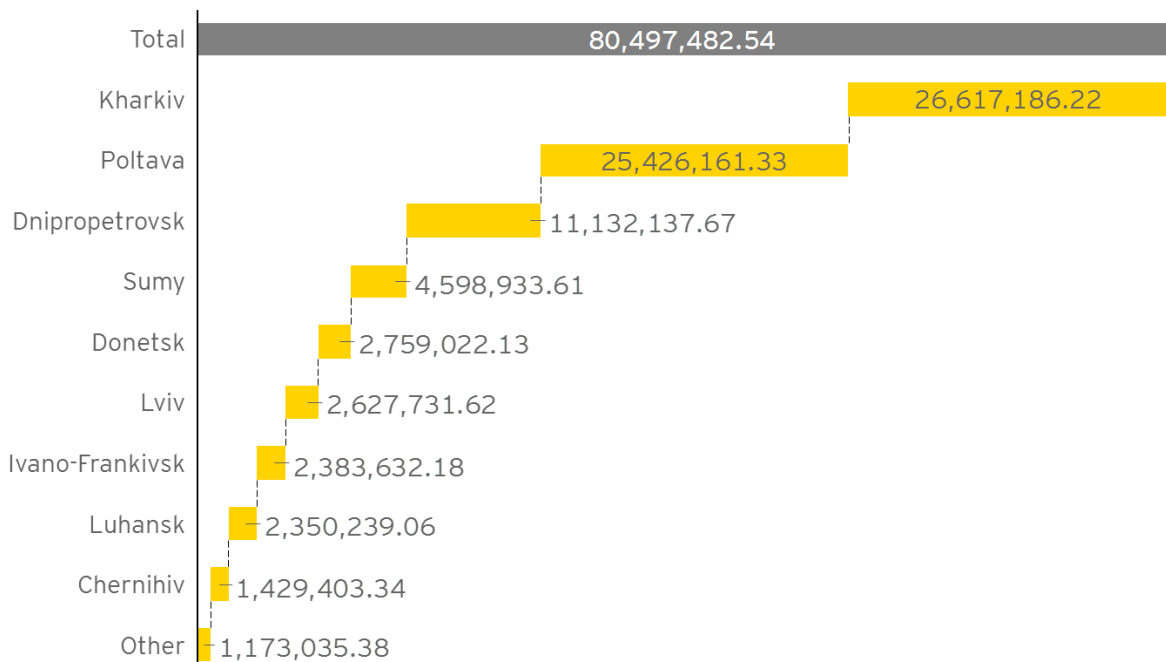


Figure 5-88: Independent Administrator's assessment of generation of government revenues from extractive industries by the regions of Ukraine in 2016

Table 5-34: Independent Administrator's assessment of generation of government revenues from extractive industries by the regions of Ukraine in 2016

Region of Ukraine	Total, UAH thousand	including:					
		Oil	Natural gas	Iron ores	Titanium ores	Manganese ores	Coal
Volyn region	98,033.45		76,378.33				21,655.12
Dnipropetrovsk region	11,132,137.67	97,223.78	1,489,377.39	5,273,225.91	378,084.93	397,303.40	3,496,922.26
Donetsk region	2,759,022.13		10,911.19				2,748,110.94
Zhytomyr region	471,737.05				471,737.05		
Zakarpattia region	19,094.58		19,094.58				
Zaporizhzhia region	409,668.60			408,754.13		914.48	
Ivano-Frankivsk region	2,383,632.18	1,287,057.62	1,096,574.56				
Kyiv region	46.60				46.60		
Kirovohrad region	132,059.51			99,631.27	32,428.24		
Luhansk region	2,350,239.06	18,518.81	711,955.12				1,619,765.12
Lviv region	2,627,731.62	615,750.59	1,710,328.98				301,652.05
Mykolaiv region	240.46			240.46			
Poltava region	25,426,161.33	2,638,931.10	22,648,901.91	138,328.31			
Sumy region	4,598,933.61	3,425,980.72	1,172,952.89				
Kharkiv region	26,617,186.22	1,074,091.25	25,543,094.97				
Cherkasy region	162.15				162.15		
Chernivtsi region	41,992.98	9,259.41	32,733.57				
Chernihiv region	1,429,403.34	1,314,835.85	114,567.49				
Total	80,497,482.54	10,481,649.13	54,626,870.98	5,920,180.08	882,458.98	398,217.88	8,188,105.50

6 Statutory and fiscal regulation for extractive industries in 2016

6.1 Overview of the regulations applicable to extractive industries

According to Article 13 of the Constitution of Ukraine, the subsoil and natural resources within the territory of Ukraine, natural resources of its continental shelf and the exclusive (maritime) economic zone are the property of the People of Ukraine. Public authorities and local governments exercise these proprietary rights of the Ukrainian people within the limits set by the Constitution.

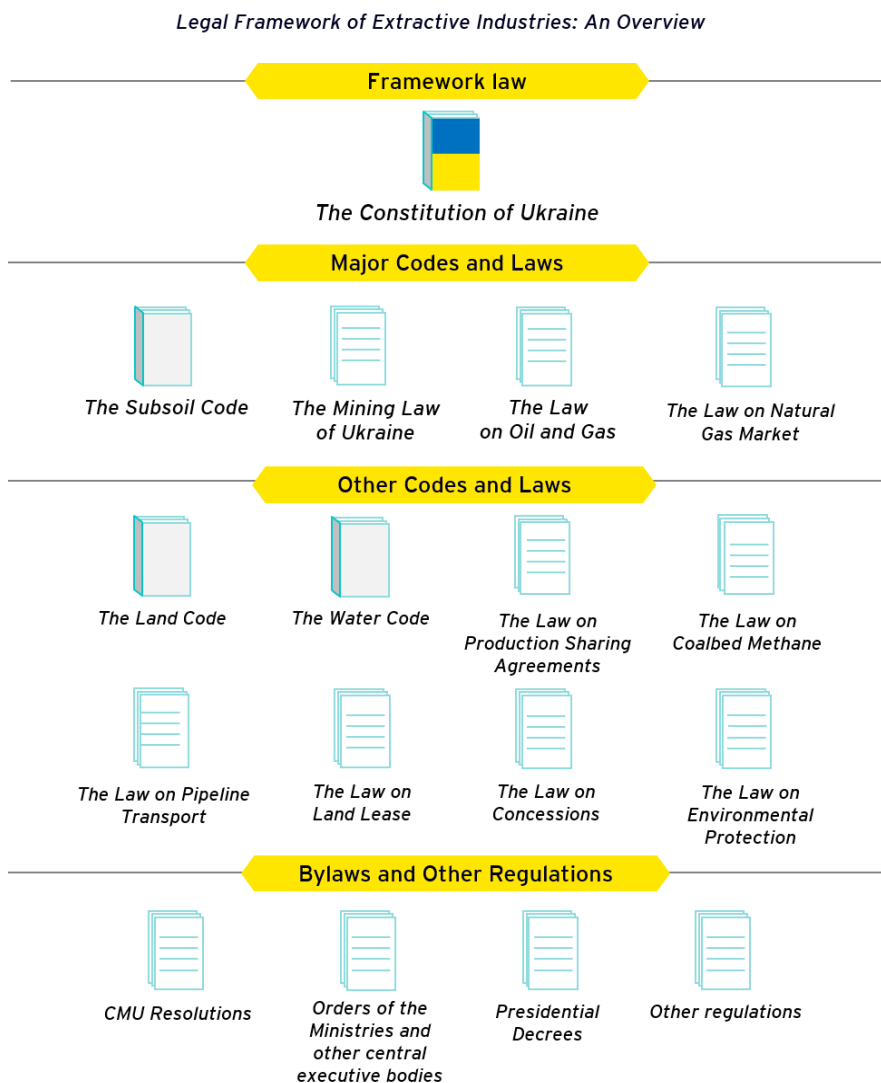


Figure 6-1: Legal framework of extractive industries

The Ukrainian legislation regulating mining is quite complicated. Some issues may be subject to multiple regulations, which may be not fully coherent. In addition to the laws, the relationships in the sector are governed by a plenty of by-laws. The texts of laws and by-laws are available at the web-site of the Verkhovna Rada of Ukraine <http://rada.gov.ua/> (this report refers to the links to the regulations available as of 14 February 2018).

This section provides information on the statutory and tax regulation for mining industries applicable at the end of 2016. In case if certain rules or regulations had been effective only for a certain period, this fact is indicated separately.

6.1.1. The Subsoil Code of Ukraine

The Subsoil Code of Ukraine No 132/94-VR dated 27 July 1994 is the principal piece of legislation governing the rational use and protection of natural resources. The Code determines the legal status of subsoil minerals, types of minerals, the powers of the central and local governments in regulating the mining relations (i.e. relations connected with the rational use and protection of mineral resources), and also establishes rules for granting subsoil into use and sets the conditions thereof.

In particular, under the Subsoil Code the minerals are divided into minerals of national and local importance¹⁵⁵. The lists of minerals of national and local importance have been approved by the Cabinet of Ministers of Ukraine¹⁵⁶. According to the lists, natural gas, oil, quartz sand, and clay belong to minerals of national importance¹⁵⁷.

To use the subsoil, a person should obtain a license (the official name to a license is a “special permit for the use of the subsoil”). Notably, the Subsoil Code explicitly prohibits the license holder from any alienation of the rights under the license granted thereby, including through transfer of license to the equity of a legal entity or as a contribution to the joint venture¹⁵⁸. For more information on the awarding of the licenses, see section “**6.6.2. Procedure for granting licenses**”.

For industrial development of a field, a developer also needs to obtain a mining allotment¹⁵⁹. Mining allotments to develop mineral deposits of national importance starting from March 2016 are provided by the State Labor Service¹⁶⁰. The document certifying the right to use the subsoil is the act of granting the mining allotment. Conducting a geological study does not require obtaining a mining allotment. To determine the commercial value of a field and its mineral deposits, mineral reserve requirements (requirements to quality and quantity of minerals, as well as various development conditions) is made.¹⁶¹ Mineral reserve requirements are subject to the Geology Service’s confirmation. The procedure for developing the mineral reserves requirements is set by the Ministry of Ecology.¹⁶² Mineral deposits of a proven field, as well as additionally explored mineral deposits are subject to the Geology Service’s assessment, the

¹⁵⁵ Article 6 of the Subsoil Code of Ukraine, available at: <http://zakon5.rada.gov.ua/laws/show/132/94-%D0%B2%D1%80>.

¹⁵⁶ Resolution of the Cabinet of Ministers of Ukraine "On approval of mineral and natural resources of state and local importance" No.827 dated 12.12.1994, available at: <http://zakon2.rada.gov.ua/laws/show/827-94-%D0%BF>.

¹⁵⁷ List of minerals of national and local importance attributes clay to minerals of national importance, if such clay is a refractory cement raw material, a forming raw material or a raw material for the brewing of iron ore concentrates. Certain varieties of clay (for example, brick and tile raw materials) are listed as minerals of local importance.

¹⁵⁸ Part 6 of, Article 16 of the Subsoil Code of Ukraine, available at: <http://zakon5.rada.gov.ua/laws/show/132/94-%D0%B2%D1%80>.

¹⁵⁹ It should be noted that mining allotments are abolished by the Draft Law No. 3096-d “On Amending Certain Legislative Acts of Ukraine Concerning Facilitation of Certain Aspects of the Oil and Gas Industry” signed by the President of Ukraine in March 2018.

¹⁶⁰ Para. 20 of Resolution of the CMU No. 59 dated 27 January 1995 “On approval of the Procedure for granting mining allotments”, available at: <http://zakon5.rada.gov.ua/laws/show/59-95-%D0%BF>, with changes introduced by the Resolution of the CMU No. 76 dated 11 February 2016 “On amendments to some acts of the Cabinet of Ministers of Ukraine”, available at: <http://zakon3.rada.gov.ua/laws/show/78-2016-%D0%BF>. Prior to the entry into force of the relevant changes, namely until 04.03.2016, the function of granting mining allotments was performed by MSIS.

¹⁶¹ Article 45 of Subsoil Code of Ukraine, available at: <http://zakon5.rada.gov.ua/laws/show/132/94-%D0%B2%D1%80>.

¹⁶² Currently, the Procedure of performing and substantiating the mineral reserves estimation for calculating the deposit value of solid mineral resources is approved by the Order of DKZ No.300 dated 7 December 2005, available at: <http://zakon3.rada.gov.ua/laws/show/z0065-06>.

procedure for which is set by the CMU.¹⁶³

The Subsoil Code also sets out the rights and obligations of the users of mineral resources. The basic rights include carrying out a geological study of mineral resources on the granted block, overall development of mineral deposits, and other works, as well as the use of the produced minerals. The key obligations of the subsoil users are to exploit the subsoil solely in accordance with a designated purpose, to ensure the comprehensiveness of a geological study, to secure the rational and integrated use and protection of subsoil resources, and to maintain the security of people, property, and the environment.

Works and research activities related to geological study of subsoil resources are subject to compulsory state registration and monitoring by the State Geological Information Fund. The state registration¹⁶⁴ and monitoring of works and research activities¹⁶⁵ related to a geological study of subsoil is the competence of the Geology Service.

Geological information obtained at state expense is considered state property. The procedure and terms for providing geological information into the use of different types of users of mineral resources, as well as its sale is determined by the **Regulation on the Procedure for providing geological information**¹⁶⁶.

The fee for the use of geological information is determined by Heolekspertyza State Geophysics Enterprise using the **Methodology for determining the cost of the geological information** obtained at state expense¹⁶⁷. The geological information obtained at the subsoil user's expense is, to the contrary, deemed the subsoil user's property, and its use should be agreed with the Geology Service.

The Geology Service and local governments exercise state control over the rules and regulations for subsoil use being complied with. Starting from March 2016, the State Labor Service and its local bodies supervises the geological studies and their use in accordance with the **Regulations on the procedure for state mining supervision**¹⁶⁸.

In addition, the Subsoil Code contains the provisions regulating a number of other issues, including the matters of geological exploration of mineral resources, state registration of mineral deposits, design and construction of mining facilities, protection of the subsoil resources etc.

¹⁶³ Part 4 of Article 45 of the Subsoil Code of Ukraine. In fact, the assessment and appraisal is conducted by the DKZ of the Geology Service in accordance with para. 4 of the Resolution of the CMU No. 865 dated 22 December 1994 "On approval of the Procedure for State assessment and appraisal of mineral reserves", available at: <http://zakon3.rada.gov.ua/laws/show/1689-2000-%D0%BF>.

¹⁶⁴ Order of the Ministry of Ecology and Natural Resources of Ukraine No. 263 dated 14 June 2013 "On approval of the Procedure for state registration of works and studies related to geological study of subsoil", available at: <http://zakon5.rada.gov.ua/laws/show/z1157-13>.

¹⁶⁵ Order of the Ministry of Ecology and Natural Resources of Ukraine No. 262 dated 14 June 2013 "On approval of the Procedure for state registration of works and studies related to geological study of subsoil", available at: <http://zakon5.rada.gov.ua/laws/show/z1156-13>.

¹⁶⁶ Regulations on the procedure for managing geological information, approved by CMU Resolution No. 423 dated 13 June 1995, available at: <http://zakon5.rada.gov.ua/laws/show/423-95-%D0%BF>.

¹⁶⁷ Resolution of the CMU No. 1075 dated 10 December 2008 "On Approval of the Methodology for estimation of the cost of the geological information obtained at the cost of the state budget", available at: <http://zakon5.rada.gov.ua/laws/show/1075-2008-%D0%BF>.

¹⁶⁸ Resolution of the CMU No. 134 dated 21 February 1995, available at: <http://zakon2.rada.gov.ua/laws/show/134-95-%D0%BF> with changes introduced by Resolution of the CMU No 76 dated 11 February 2016 "On amendments to some acts of the Cabinet of Ministers of Ukraine", available at: <http://zakon3.rada.gov.ua/laws/show/78-2016-%D0%BF>. Prior to the entry into force of the relevant changes, namely until 04 March 2016, the function of granting mining allotments was performed by the State Service for Mining Supervision and Industrial Safety of Ukraine.

6.1.2. The Mining Law of Ukraine

The Mining Law of Ukraine No 1127-XIV dated 10 June 1999 (hereinafter - the "Mining Law") is the principal law regulating the matters of mineral production and mining operations.

Among other things, the Mining Law regulates the creation and location of mining enterprises, the main requirements to mining operations, technical safety measures, prevention of emergencies, environmental safety and environmental impact measures, as well as a number of working conditions in the mining industry. The Mining Law sets up the preconditions for government support to mining entities (including the employees of mining enterprises) in the form of subsidies, benefits, compensation, aid, etc.

6.1.3. The Law of Ukraine "On Oil and Gas"

The principal law regulating relationships with regard to the use of oil and gas resources, as well as production, transportation, storage and use of oil, gas and their byproducts is the **Law of Ukraine "On Oil and Gas"** No2665-III dated 12 July 2001.

The procedure for the use of oil and gas resources in the respective block of oil and gas mineral resources is set by an agreement on the use of oil and gas mineral resources, which is an annex to the relevant license. As a general rule, oil and gas extracted by the user of oil and gas mineral resources is the property of such subsoil user.

Both the Subsoil Code and the Law on Oil and Gas explicitly prohibit the license holder from any kind of alienation of the license-granted rights, including by transferring such rights into the equity of a legal entity or as contributing them into a joint venture¹⁶⁹. At the same time, the Law on Oil and Gas stipulates that if the use of oil and gas mineral resources occurs under a JAA, co-production agreement, or production cooperation agreement, one of the parties to such an agreement should have a relevant license¹⁷⁰.

After the expiry of a license, the state property provided to a license holder should be passed back to the state, whereas any property created by the license holder while carrying out its subsoil use activities remains the property of such license holder.

For the companies and the parties to the cooperation agreements in which the state directly or indirectly owns 50 percent or more, special rules are set with regard to the sale of the produced minerals. In particular, crude oil, gas condensate, and liquefied gas should be sold exclusively at auctions on a monthly basis. The rules for such auctions are determined by the CMU, and the starting price for such auctions for gas condensate and crude oil should be determined based on the crude oil customs value. The unsold amounts of such crude oil and gas condensate should be sold to the Naftogaz of Ukraine NJSC at a starting price of an additional auction.¹⁷¹

After the new Law "On the Natural Gas Market" was adopted, it is only Ukrgezvydobuvannia PJSC that is still required to sell its domestically produced natural gas to Naftogaz of Ukraine NJSC¹⁷². During 2016, Ukrgezvydobuvannia PJSC had to sell natural gas of its own production

¹⁶⁹ Part 2, Article 14 of the Law on Oil and Gas, available at: <http://zakon2.rada.gov.ua/laws/show/2665-14>.

¹⁷⁰ Article 49 of the Law on Oil and Gas.

¹⁷¹ Article 4-1 of the Law on Oil and Gas.

¹⁷² Regulation on imposing special obligations onto the natural gas market players in order to ensure public interests in the natural gas market (relations during a transition period), approved by the Resolution of the CMU No. 758 dated 1 October 2015, available at: <http://zakon0.rada.gov.ua/laws/show/758-2015-%D0%BF>, adopted to implement Article 11 of the Law of Ukraine "On the Natural Gas Market" No 329-VIII dated 9 April 2015.

on a monthly basis¹⁷³ to Naftogaz of Ukraine National Joint-Stock Company at a fixed price for the formation of the natural gas resource for household consumers, religious organizations, and producers of thermal energy.

The Law on Oil and Gas also regulates a number of other issues including commercial development of oil and gas deposits, basic requirements for commercial development, environmental protection, special labor conditions, and responsibility for violations in the oil and gas industry.

6.1.4. Law “On the Natural Gas Market”

The Law of Ukraine “On the Natural Gas Market” No. 329-VIII dated 9 April 2015 (hereinafter - the “Law on the Natural Gas Market”) was adopted in pursuance of Ukraine's international obligations regarding the implementation of the Third Energy Package.

The Law on the Natural Gas Market covers a fairly wide range of issues related to the operation of the natural gas market. The law defines the principles of functioning of the natural gas market and the role of the state in it (in particular, regarding the establishment of technical requirements and licensing of economic activities on the natural gas market), the rules for the supply, transportation, distribution and storage of natural gas, as well as the rules for the installation of LNG.

6.1.5. Tax regulations

The extractive industry companies are subject to taxation under the following basic regulations:

- ▶ Tax Code of Ukraine No. 2755-VI dated 2 December 2010 sets the list of taxes, levies, and their administration, the rights and obligations of the taxpayers, competencies and powers of the tax authorities, and the responsibilities for violation of tax laws;
- ▶ Customs Code of Ukraine No. 4495-VI dated 13 March 2012 defines the procedure for charging customs duties when moving goods across the customs border of Ukraine;
- ▶ Law of Ukraine “On Customs Tariff of Ukraine” No. 584-VII dated 19 September 2013 sets up the rates of import duty for the goods imported into the customs territory of Ukraine;
- ▶ Law of Ukraine “On Collection of, and Accounting for, the Unified Contribution for Mandatory State Social Insurance Contribution” No. 2464-VI dated 8 July 2010 regulates the procedure for USC collection and accounting;
- ▶ Budget Code of Ukraine No. 2456-VI dated 8 July 2010 establishes the procedure for approval and implementation of budgets, including the procedure for allocation of tax revenues between the state and local budgets.

Certain tax issues are also regulated by the by-laws issued by the CMU, the Ministry of Finance of Ukraine and the SFS.

¹⁷³ Except for the amount of production and technology costs, the volumes used to meet its own needs related to extraction, preparation for the transportation and transportation of natural gas, as well as for the production of liquefied natural gas and stable gasoline.

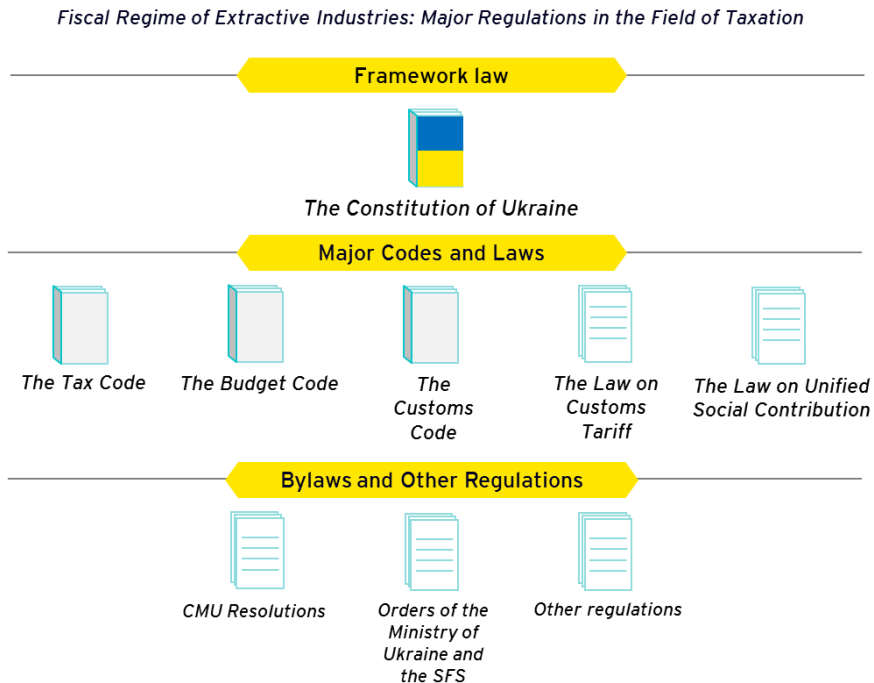


Figure 6-2: Regulatory framework for extractive industries (major tax laws and regulations)

6.1.6. Other regulations

The Law of Ukraine “On Environmental Protection” No. 1264-XII dated 25 June 1991 sets the basic requirements to the use of natural resources, including minerals. The law determines the responsibilities of the state authorities and local governments, as well as environmental control and supervision procedures.

The Law also sets out the general environmental requirements to be followed while using the natural resources (rational and economical use of natural resources, implementation of measures to prevent spoilage, pollution, and depletion of natural resources, doing business and other operations without violating environmental rights of others and other requirements) as well as the measures to ensure environmental safety in the course of various activities.

The Law of Ukraine “On Pipeline Transport” No. 192/96-VR dated 15 May 1996 sets the framework for pipeline transportation sector (also addressing some matters of oil and gas production), covering industrial pipelines (connected networks), i.e. non-trunk pipelines within the plants, and the oil and gas pipelines that are the part of petroleum tanks or petroleum plants. Among other things, the Law governs the relations between the entities engaged in pipeline transportation of hydrocarbons and other products and substances from their initial locations, locations of mining (production fields), production or storage to the places of their processing or use, handling and subsequent transportation.

The Law of Ukraine “On Production Sharing Agreements” No. 1039-XIV dated 14 September 1999 regulates the process of bidding for PSAs, entering into such agreements, and their performance.

The Law of Ukraine “On Coalbed Gas (Methane)” No. 1392-VI dated 21 May 2009 sets the framework for geological exploration of coalbed methane, the conditions of its production and removal during gas draining-out and its further use, including the access to gas transportation networks.

Land plots for use in mining operations are provided under the procedure prescribed by the land legislation of Ukraine, where the main act is **the Land Code of Ukraine** No. 2768-III dated 25 October 2001 and **the Law of Ukraine “On Land Lease”** No. 161-XIV dated 6 October 1998. To carry out exploration works, a relevant agreement with a land owner or an consent from a person currently using the land plot is required.

The plots indicated in the licenses are limited by certain acreage and depth. The dimensions and boundaries of the plots granted for use should be established by the Geology Service. The maximum land area granted for geological exploration of oil and gas mineral resources cannot exceed 500 km², and 1000 km² for the areas of the Black Sea.¹⁷⁴

The Water Code of Ukraine No. 213/95-VR dated 06 June 1995 regulates the issues related to use of water resources during mining operations. In particular, the Water Code requires obtaining a permit for special water use (i.e. the diversion of water from water bodies using buildings or technical devices, water use and discharge of pollutants into water, including water intake and discharge of harmful substances in water reverse using channels).

The Laws of Ukraine “On Concessions” No. 997-XIV dated 16 July 1999 and **“On Peculiarities of Lease or Concession of the State-Owned Facilities of Fuel and Energy Industry Objects”** No. 3687-VI dated 8 July 2011 set the procedure and specifics of lease and concession of the state-owned facilities.

A number of issues related to mining are governed by numerous by-laws.

Summary:

Extractive activities are governed by the Constitution of Ukraine, as well as numerous laws and by-laws.

The key priorities in reforming the regulatory framework are simplification and harmonization of the regulations. This may include adoption of a new Subsoil Code, easing of the licensing system in extractive industries and aligning other laws and regulations with the modern extractive industry standards. It is also crucial to enact by-laws to implement the adopted laws, as well as to continue transparency reforms in extractive industries, especially with respect to license awarding.

Ukraine has significant potential in terms of natural resources and it is of great importance for Ukraine's economy. Legislation governing the use of natural resources should enable the state and private companies to effectively achieve this potential. Changes in the legislative field throughout 2016-2017 (for example, decreased gas extraction royalties) may contribute to the investment attractiveness of the Ukrainian extractive sector, although the need for further comprehensive reforms remains of high priority.

¹⁷⁴ Article 19 of the Law on Oil and Gas.

6.2 Functions and responsibilities of public authorities

Activities of extractive companies are regulated by a number of central and local authorities of the state¹⁷⁵:

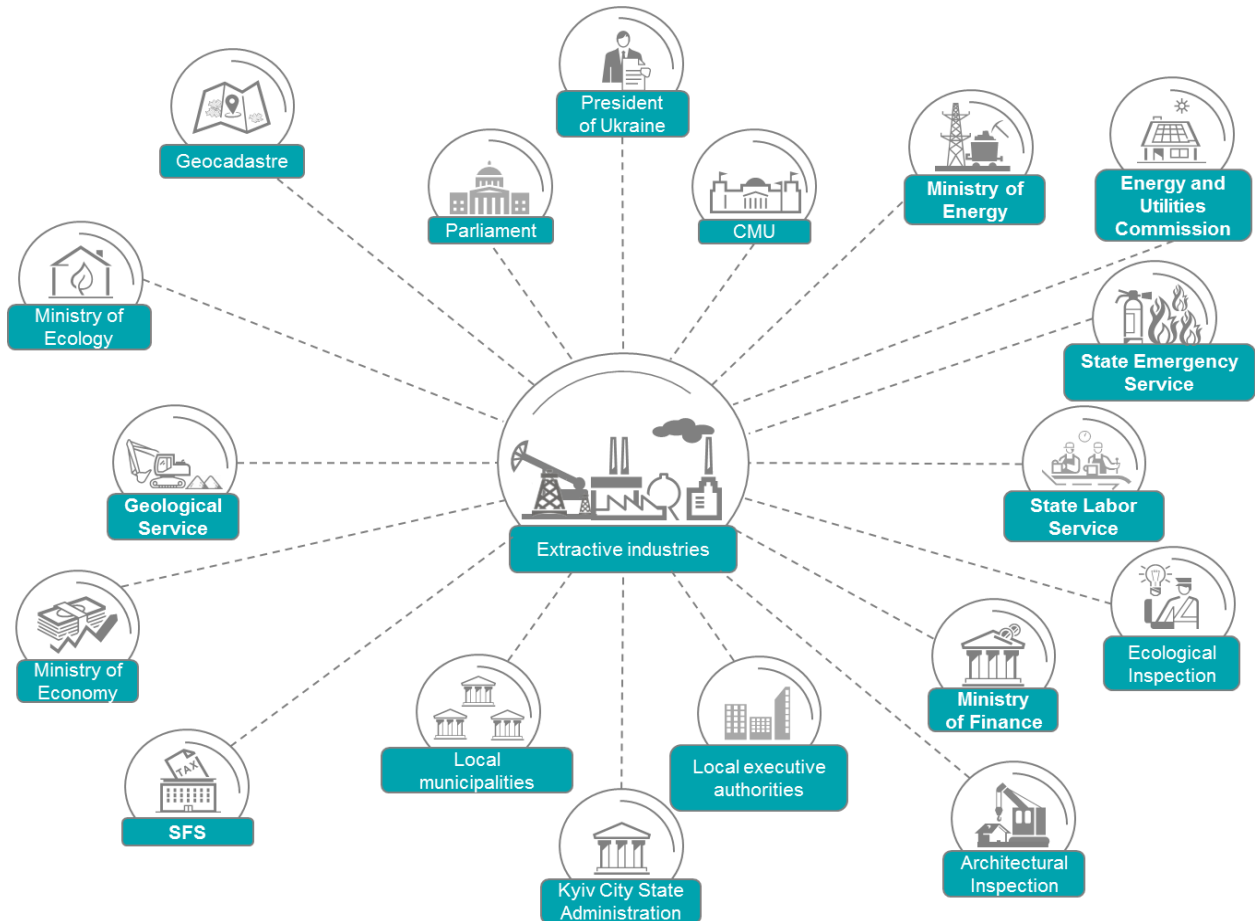


Figure 6-3: State authorities that regulate the activities of extractive companies

Verkhovna Rada of Ukraine (the Parliament) establishes the main directions of the national policy in the extractive industries and regulates the relations in the industry by adopting laws.

The President of Ukraine takes part in the legislative process (he has the right to legislative initiative and veto) and participates in the creation, liquidation and restructuring of ministries and other central executive bodies.

The Cabinet of Ministers of Ukraine (the CMU) implements the national policy in, and governs the extractive industries. To implement the laws, the CMU adopts resolutions where the rules, procedures and requirements are specified in more details. The CMU also coordinates the work

¹⁷⁵ This section does not include information on state authorities that did not regulate extractive companies in 2016 (for example, the Parliament and the Council of Ministers of the Autonomous Republic of Crimea, etc.).

of ministries and other central executive bodies. The CMU is accountable to the President of Ukraine, is controlled by, and reports to Verkhovna Rada of Ukraine.

The main functions of central executive bodies of Ukraine with regard to mining are distributed as follows:

- ▶ **The Ministry of Energy and Coal Industry of Ukraine (the Ministry of Energy)** regulates a number of issues in the fuel and energy sector, approves the start of commercial development of oil and gas deposits, monitors the oil and gas market, approves technical design documents for the development of oil and gas, develops and implements the energy supervision and coal quality control measures;
- ▶ **The Ministry of Ecology and Natural Resources of Ukraine (The Ministry of Ecology)** regulates a number of issues, including registration and monitoring of geological studies, accounting for the depleted deposits, mining losses, and oil and gas wells, as well as approves granting subsoil into use;
- ▶ **The State Service for Geology and Mineral Resources of Ukraine (the Geology Service; locally known as Derzhheonadra)** keeps state records of fields, deposits, and occurrences of minerals, as well as grants licenses;
- ▶ **The National Commission for State Regulation in Energy and Utilities** ensures shaping and **implementation** of pricing and tariff policies in the energy sector, approves the rules for the supply of natural gas, grants licenses for activities related to the transportation, distribution, storage, supply of natural gas and providing LNG installation services. Functions and powers of the Commission were streamlined in the new Law "On National Commission for State Regulation in Energy and Utilities", adopted on 22 September 2016;
- ▶ **The State Labor Service of Ukraine (locally known as Derzhpraci)** carries out the function of state mining supervision, grants mining allotments and other permissive documents related to the performance of hazardous works and the use of hazardous objects;
- ▶ **State Emergency Service** organizes and provides protection from fire for the companies, institutions, organizations and other facilities under the respective agreements;
- ▶ **State Commission on Mineral Resources (DKZ)** approves and performs revaluation of mineral reserves, sets the mineral reserve requirements for calculating the value of mineral reserves, provides technical opinions on feasibility of deposit development based on the estimated mineral reserves and their commercial use, etc.;
- ▶ **The State Service of Ukraine for Geodesy, Cartography and Cadastre** transfers the title to, or grants the right to use the land plots of agricultural purpose¹⁷⁶. Non-agricultural land plots are transferred to the ownership or use by local governments or regional state administrations, the Kyiv City State Administration, or the CMU, depending on whether such areas are state- or municipally-owned and on their location;
- ▶ **The State Fiscal Service of Ukraine (the SFS)** administers and controls the collection of taxes, customs duties, and USC;
- ▶ **The Ministry of Finance of Ukraine** provides for development and implementation of the state tax, customs, financial, fiscal policy, as well as the public policy to fight crimes in application of tax and customs laws;

¹⁷⁶ Article 122 of the Land Code of Ukraine No. 2768-III of 25 October 2001.

- ▶ **The Ministry of Economic Development and Trade of Ukraine (the Ministry of Economy)**, among its other functions, provides for the development and implementation of state policy on management of state property, including the state-owned corporate rights; develops and submits to the CMU the draft decisions on transfer of the state-owned and municipal property, provides methodological and regulatory support for the management of state-owned property.

Separate aspects of activities of extractive companies are regulated by other executive authorities (State Architectural and Construction Inspection, etc.). The local executive authorities and the local municipalities also have certain functions related to extractive activities.

For more information on the powers of the government and local municipalities with regard to the mineral production, see “**Annex 5**” of this Report.

Summary:

Regulatory and oversight powers in extractive industries are split between a number of state authorities. Currently, there is no single state body responsible for development and implementation of state extractive industry policy.

The operations of extractive companies are regulated by more than 10 state bodies and institutions, and extractive companies are forced to obtain a number of permits and approvals for their core business, which creates a significant bureaucratic burden for their activities. Thus, according to the Association of Gas Producers of Ukraine, in order to start commercial development of a deposit extractive companies are required to apply to 16 state authorities and institutions and receive about 44 approvals and permits, which may take up to 3.5 years, with some approvals duplicated.¹⁷⁷

Despite relative progress in state regulation reform in 2016 (in particular, final liquidation of the State Service for Mining Supervision and Industrial Safety of Ukraine and transfer of its powers to the State Labor Service; adoption of a separate Law “On the National Commission for State Regulation in Energy and Utilities”), it did not have a significant effect on the powers of the state authorities in extractive industries, where these powers remain scattered.

Consolidation of key powers and functions in a fewer number of state bodies, allowing the increase in the efficiency of state regulation in extractive industries, as well as reduction of the number of approvals and permits required for drilling wells and commercial development of deposits could be considered as some of the objectives for reforms.

¹⁷⁷ See the Study of the Association of Gas Producing Companies of Ukraine “Recommendations: Deregulation of the Permit System in the Oil and Gas Industry”, available at: <http://agpu.org.ua/analytics/section-infographics/rekomendaci-deregulyaciya-dozvilno-sistemi-u-naftoga-zovidobuvniy-galuzi.htm>.

6.3 Reforming of the regulatory and fiscal regime of the mining industry in 2016

During 2016, the implementation of the regulatory reforms continued, as envisaged in the programs and concepts adopted earlier.¹⁷⁸

The main directions for development and reform of the extractive industries were set in the Energy Strategy of Ukraine for the period up to 2030¹⁷⁹, the “Ukraine 2020” Strategy for Sustainable Development,¹⁸⁰ the Coalition Agreement of 2014¹⁸¹. The medium-term reforms were specified in the programs of the Cabinet of Ministers of Ukraine.¹⁸²

The Energy Strategy of Ukraine for the period up to 2035¹⁸³ that was also developed in 2016-2017, stipulates that by 2025 the reform of the energy industry of Ukraine will be completed, while the priority targets for energy security and energy efficiency will be achieved, and its innovation, upgrading and integration with the EU energy sector will be ensured. It also suggests that after 2025, sustainable development of the energy sector of the country will be secured through a number of commitments, e.g., more than a double reduction in energy intensity of GDP, building up new energy generation, increase in the national gas production, adapting the GTS in the context of development of the European natural gas common market, achieving competitive and transparent coal sector operations, etc.

Below we describe the main areas of the reforms that started, continued, or ended in 2016.

Reorganization of the Naftogaz of Ukraine NJSC

- ▶ **Approval of the restructuring plan for Naftogaz of Ukraine NJSC.** In order to separate natural gas transportation and storage (injection, withdrawal) and in line with the EU Directive 2009/73/EC (the Third Energy Package), in 2016 the Plan for Restructuring of Naftogaz of Ukraine NJSC was approved¹⁸⁴. The plan envisages, in particular, incorporation of Main Gas Pipelines of Ukraine PJSC, an independent operator of the gas transportation system of Ukraine, and Underground Gas Storage Facilities of Ukraine PJSC to manage the underground natural gas storage facilities currently on the balance sheet of Ukrtransgaz PJSC. Equity rights in these companies will be managed by the Ministry of Energy. The required assets are to be transferred to the companies for their operation, which, however, did not happen in 2016.
- ▶ **Incorporation of Main Gas Pipelines of Ukraine PJSC.** In pursuance of the Restructuring

¹⁷⁸ Resolution of the CMU “On Approval of the Ukrainian Coal Program” No. 1205 dated 19 September 2001, available at: <http://zakon3.rada.gov.ua/laws/show/1205-2001-%D0%BF>, Resolution of the CMU “On the Process of Structural Transformation of the Coal Industry” No. 280 dated 28 March 1997, available at: <http://zakon2.rada.gov.ua/laws/show/280-97-%D0%BF>.

¹⁷⁹ Approved by the Order of the CMU No. 1071-p dated 24 July 2013, available at: <http://zakon5.rada.gov.ua/laws/show/1071-2013-%D1%80>.

¹⁸⁰ Decree of the President of Ukraine “On the “Ukraine-2020” Sustainable Development Strategy” No. 5/2015 dated 12 January 2015, available at: <http://zakon2.rada.gov.ua/laws/show/5/2015>.

¹⁸¹ Agreement on the Coalition of Deputy Factions “European Ukraine” of 27.11.2014, available at: <http://zakon5.rada.gov.ua/laws/show/n0001001-15>.

¹⁸² Resolution of the CMU “On the Program of Activities of the Cabinet of Ministers of Ukraine” No. 26-VIII of 12 November 2014, available at:

<http://zakon2.rada.gov.ua/laws/show/26-19>; Resolution of the CMU “On the Program of Activities of the Cabinet of Ministers of Ukraine” No. 1099-VIII of 14 April 2016, available at: <http://zakon2.rada.gov.ua/laws/show/1099-19>.

¹⁸³ The Energy Strategy of Ukraine for the period up to 2035 was developed in 2016-2017 and was approved by the Resolution No. 605-p of 18 August 2017, available at:

http://mpe.kmu.gov.ua/minugol/control/uk/publish/article?art_id=245234085&cat_id=35109

¹⁸⁴ The plan for restructuring Naftogaz of Ukraine in order to unbundle natural gas transportation and storage (injection, withdrawal) functions, approved by the Resolution of the CMU “On the unbundling of the natural gas transportation and storage (injection, withdrawal)” No. 496 of 01 July 2016, available at: <http://zakon2.rada.gov.ua/laws/show/496-2016-%D0%BF> (hereinafter the “Restructuring Plan”).

Plan, the CMU incorporated Main Gas Pipelines of Ukraine PJSC and approved its charter. According to the charter, the sole shareholder of the company is the state represented by the Ministry of Energy. In addition to the usual governing bodies, namely, the general meeting, the supervisory board, and the board of directors, the charter provides for appointment (establishment) of the following bodies of Main Gas Pipelines of Ukraine PJSC: corporate secretary (corporate secretary's office), risk management director, controller, authorized person for anti-corruption program, financial controller, and internal audit service.¹⁸⁵

In 2017, the CMU adopted a list of tangible assets of the gas transmission system and a plan for their transfer to Main Gas Pipelines of Ukraine PJSC¹⁸⁶. In particular, by its protocol decision of 14 June 2017, the CMU ordered, among others, Naftogaz of Ukraine NJSC to take measures to implement the plan for the assets' transfer. Due to the inconsistency of the position of Naftogaz of Ukraine NJSC, the CMU, Ukrtransgaz PJSC, and Main Gas Pipelines of Ukraine PJSC, no transfer of assets took place in 2016. On 6 September 2017, the CMU instructed the Ministry of Energy to establish an interagency commission to investigate systematic failure of Naftogaz of Ukraine NJSC to implement the plan for the transfer of assets, logistics, and other resources necessary for the effective operations of Main Gas Pipelines of Ukraine PJSC¹⁸⁷.

- ▶ **Changing the ownership of Naftogaz of Ukraine NJSC**¹⁸⁸. Between 8 December 2015 and 4 October 2012, Naftogaz of Ukraine NJSC was managed by the Ministry of Economy¹⁸⁹. After 4 October 2016, the 100% stake in Naftogaz of Ukraine NJSC was managed by the CMU¹⁹⁰.
- ▶ **Appointment of independent directors to the supervisory board of Naftogaz of Ukraine NJSC**. On 2 June 2016, the Law "On Amendments to Certain Legislative Acts of Ukraine on the State and Municipal Property Management" was adopted, designed to improve corporate governance of state and municipal enterprises. The changes, *inter alia*, included the obligation to establish supervisory boards, where the majority of the members must be independent, for certain types of companies¹⁹¹. To implement the above changes, three independent directors were elected to the supervisory board¹⁹².
- ▶ In September 2017, three directors of the supervisory board of Naftogaz of Ukraine NJSC announced their resignation¹⁹³. The new composition of the supervisory board of Naftogaz

¹⁸⁵ Resolution of the CMU "Issues of Public Joint-Stock Company Main Gas Pipelines of Ukraine" No. 837 of 16 November 2016 available at: <http://zakon3.rada.gov.ua/laws/show/837-2016-%D0%BF>.

¹⁸⁶ The relevant decision of the CMU had not been made public, however, the information about the session was published on the official website of the CMU, see link: http://mpe.kmu.gov.ua/minugol/control/uk/publish/article?art_id=245216554&cat_id=35109

¹⁸⁷ See the official announcement on the website of the CMU, available at: <https://www.kmu.gov.ua/ua/news/250247598>.

¹⁸⁸ On 9 September 2016, the Ministry of Economy adopted Order No. 1503 "On Approval of the New Version of the Charter of the Public Joint-Stock Company Ukrtransgaz" (available at: http://utg.ua/img/menu/company/docs/nakaz_new_statut.PDF), actually taking over the function of Naftogaz of Ukraine regarding the management of Ukrtransgaz PJSC. After that, the CMU decided to change the subordination of Naftogaz of Ukraine. The Ministry of Economy's Order No. 1503 was suspended (see message: <https://www.kmu.gov.ua/ua/news/249329740>), the official decision was not published.

¹⁸⁹ Resolution of the CMU "Some Issues of Improving Corporate Governance of Public Joint Stock Company National Joint-Stock Company Naftogaz of Ukraine" No. 1002 dated 5 December 2015, available at: <http://zakon3.rada.gov.ua/laws/show/1002-2015-%D0%BF>.

¹⁹⁰ Resolution of the CMU "Some Issues of managing Public Joint Stock Company National Joint Stock Company Naftogaz of Ukraine" No. 675 dated 22 September 2016 available at: <http://zakon5.rada.gov.ua/laws/show/675-2016-%D0%BF>.

¹⁹¹ Paragraph 9 of Part 4 of the Law of Ukraine "On Amending Certain Legislative Acts of Ukraine on the Management of State and Municipal Property Objects" No. 1405-VIII of 2 June 2016, available at: <http://zakon2.rada.gov.ua/laws/show/1405-19/page>.

¹⁹² The independent members of the Supervisory Board included Markus Richards, Paul Warwick, Charles Proctor. Available at: http://www.kmu.gov.ua/control/uk/publish/article?art_id=248917424&cat_id=244276429.

¹⁹³ See, for example, the information:

of Ukraine NJSC was approved by the government in November 2017¹⁹⁴.

Reforming the procedure for granting licenses and holding auctions for the sale of licenses

During 2016, the CMU amended the Procedure for granting licenses¹⁹⁵ and the Procedure for holding the auctions for licenses. The changes include, among others, the following:

- ▶ Reduced grounds for granting a license without an auction. In particular, the following grounds were excluded:
 - ▶ Geological exploration, pilot production and extraction of underground drinking and technical water for the needs of production and agriculture;
 - ▶ Geological exploration, including pilot production, if the applicant is the owner of an integral property group, built (reconstructed) for the purpose of minerals' extraction and processing, or if such property is provided into the applicant's rent (concession);
 - ▶ Development of minerals from deposits containing small reserves;
 - ▶ Geological exploration, including pilot production and extraction of peat and amber from the blocks with the area below one hectare¹⁹⁶;
- ▶ Prior to the amendments, public sector entities and companies with the 25% state share could obtain licenses without an auction. The amendments envisaged the increase in the state share (or the share of a 100% state-owned company) up to 100%. Further, the possibility of obtaining a license without an auction for public sector entities and companies with the 100% state share was cancelled starting from 1 April 2017.
- ▶ The requirement to publish information on the decisions taken within the procedure for granting licenses on the official website of the Geology Service. In particular, the requirement is applicable to information on registration of documents for obtaining a license and the outcome of their consideration, as well as information about the auction (including real-time broadcasting). In addition, both the information on licenses and the relevant agreements on the terms and conditions of subsoil use should be published on the official website of the Geology Service (see Section "6.6.4. The contracts in the extractive industries" for details on actual publication of such agreements);
- ▶ A list of geological information and program of work have been included in the auction documents package, which must be purchased by the bidder to participate in the auction;
- ▶ The bidder is now required to disclose the ownership structure covering the ultimate beneficiary owner when submitting an application for participation in the auction;
- ▶ To obtain or extend a license, the confirmation from law enforcement authorities and

<http://www.naftogaz.com/www/3/nakweb.nsf/0/AF6087CA9435890EC2258192004C2928?OpenDocument&year=2017&month=09&nt=%D0%9D%D0%BE%D0%B2%D0%B8%D0%BD%D0%B8&>

¹⁹⁴ The Supervisory Board included six members, namely, Claire Spottiswood, Bruno Lezquua, Amos Hohstein and Stephen Hayes, see: <http://www.naftogaz.com/www/3/nakweb.nsf/0/C8ED6BC50945A6A3C2257F81004EF7EE?OpenDocument&Expand=4&>

¹⁹⁵ Resolution of the CMU "On Amending Certain Acts of the Cabinet of Ministers of Ukraine" No. 76 dated 11 January 2016, available at: <http://zakon2.rada.gov.ua/laws/show/76-2016-%D0%BF/ed20170216/paran63#n63>; Resolution of the CMU "On Amendments to the Procedures, Approved by Resolutions of the CMU dated 30 May 2011 No. 594 and 615, and Declaring certain Resolutions of the CMU as lapsed" No. 277 dated 6 April 2016, available at: <http://zakon2.rada.gov.ua/laws/show/277-2016-%D0%BF/paran99#n99>; Resolution of the CMU "On Amendments to the Procedures, Approved by the Resolutions of the CMU dated May 30, 2011 No. 594 and 615" No. 775 dated 02 November 2016, available at: <http://zakon2.rada.gov.ua/laws/show/775-2016-%D0%BF/ed20161110/paran15#n15>; Resolution of the CMU "On Certain Issues of Implementation of the Pilot Project for Reclamation of Lands for Forestry Affected as a Result of Illegal Amber Extraction" No. 1063 dated 30 November 2016, available at: <http://zakon2.rada.gov.ua/laws/show/1063-2016-%D0%BF/ed20170216/paran98#n98>.

¹⁹⁶ At the same time, it was allowed to obtain a license for geological exploration, including pilot commercial development of amber, on forestry lands, which were impacted due to illegal mining of amber, and for which a mechanism for reclamation was established.

entities responsible for financial monitoring that the applicant is not engaged in financing terrorist activities in Ukraine, and a confirmation from the SFS that the applicant has no outstanding tax debts for the last reporting period must be obtained. The requirement of no tax debt was challenged in court by one of the mining companies¹⁹⁷.

- ▶ Changes in timeframes for certain procedural actions, in particular:
 - ▶ Increased terms for certain actions in favor of the applicants, such as a threefold increase in the period for publication of an auction announcement (90 days instead of 30) and a fivefold increase in the period for submission of bids for participation in the auction (75 days instead of 15);
 - ▶ reduction of deadlines for public authorities, e.g., a twofold decrease in the period for holding a decision on granting a license without an auction (30 days instead of 60) and a decrease in the time period for holding a decision to extend the license from 60 to 45 days.

For details of the procedure for granting licenses, see Section “6.6.2. Procedure for granting licenses”.

Ukraine joined the Global Beneficial Ownership Register

In order to fulfil Ukraine’s obligations following London Anti-Corruption Summit, the CMU adopted a resolution “Certain Issues of Providing Information from the Unified State Register of Legal Entities, Individual Entrepreneurs, and Public Organizations” No. 593 dated 8 September 2016.

This Resolution provides for the possibility of sharing information electronically in order to integrate information on ultimate beneficial owners (controllers) of legal entities from the Unified State Register of Legal Entities, Individual Entrepreneurs, and Public Organizations into the Global Beneficial Ownership Register within the framework of the International OpenOwnership Project¹⁹⁸.

Decentralization of part of revenues from royalties for hydrocarbons starting from 2018

- ▶ On 20 December 2016, the Law “On Amendments to the Budget Code of Ukraine regarding Assignment of the Rental Fee for the Use of Minerals for development of Oil, Natural Gas, and Gas Condensate” No. 1793-VIII was adopted, aimed at partial decentralization of revenues from royalty payments in favor of local budgets.
- ▶ Hence, according to the law, starting from 1 January 2018, the revenues from royalties for the use of minerals for the extraction of hydrocarbons will be partially allocated to the local budgets based on their location (extraction):
 - ▶ 2% - to district budgets
 - ▶ 3% - to budgets of cities of regional significance, budgets of united local communities
 - ▶ 2% - to regional (oblast) budgets

¹⁹⁷ See the resolution section of the decision of the Kyiv District Administrative Court of 11.11.2016, available at: <http://zakon2.rada.gov.ua/rada/show/v1553805-16#n2>, supported with the decision of 17 January 2017 of the Kyiv Appellate Administrative Court available at: <http://reyestr.court.gov.ua/Review/64151259>, in case No. 826/15532/16. At present, the case is reviewed by the court of cassation.

¹⁹⁸ In order to implement this document, on 22 May 2017, a Memorandum on cooperation between the Ministry of Justice, the State Agency for E-Governance, the NGO Transparency International Ukraine and the OpenOwnership Consortium was signed, which provides for the transfer of relevant information to the Global Registry by the end of 2017 (available at: https://ti-ukraine.org/wp-content/uploads/2017/05/220517_memorandum.pdf).

- ▶ 1% - to budgets of local governments.

Reduction of gas production royalty

- ▶ In 2016, the general gas production royalty rates (from 55%/28% to 29%/14%) and the special rate for gas production for the households' needs (from 70% to 28% with the transition period in 2016) were decreased¹⁹⁹. For more details on changes in the fiscal regime, see Section "6.5. Fiscal regime for extractive industries".

Adoption of the Law of Ukraine "On the National Commission for State Regulation of Energy Sector and Utilities" No. 1540-VIII dated 22 September 2016

- ▶ Before a separate law was adopted, the functions of the NEURC were stipulated in the Regulations on the NEURC approved by the Presidential decree²⁰⁰, while separate functions were provided for by the laws, including the Law on the Natural Gas Market.
- ▶ The adopted law defines the status, powers, and procedure for the election of the members of the NEURC. Its powers in relation to the gas market are basically mirroring the powers specified in the Law on the Natural Gas Market²⁰¹.
- ▶ In addition, the law stipulates the composition of the Commission, the peculiarities of its formation and rotation, as well as ensures the independence of the Commission by both the appointment of independent members and requiring its funding by market participants through relevant contributions to the Special-purpose fund of the State Budget.

Preparation of draft laws and strategic documents in the extraction field

- ▶ Development of the draft of the updated "Safety, Energy Efficiency, Competitiveness" Energy Strategy of Ukraine until 2035. At the end of 2016, the website of the Ministry of Energy announced the publication of the updated draft Energy Strategy for Ukraine until 2035²⁰², prepared in pursuance of the Government Priority Action Plan for 2016²⁰³.
- ▶ The strategy is the basic document of the state energy policy, which defines the purpose and objectives of the energy sector development until 2035. Following long discussions of the draft²⁰⁴, the Strategy was approved by the CMU in the second half of 2017²⁰⁵.
- ▶ Development of the draft Law of Ukraine "On the Market of Coal Products". The draft was developed in early 2016 by the Ministry of Energy in pursuance of the Action Plan for

¹⁹⁹ The changes were made by the Law of Ukraine "On Amendments to the Tax Code of Ukraine and Certain Legislative Acts of Ukraine on Balancing Budget Revenues in 2016" No. 909-VIII of 24 December 2015. See also. Letter of the SFS of Ukraine No. 2038/7/99-99-15-04-02-17 "On Charging a Rent in 2016" dated 22 January 2016, available at: <http://sfs.gov.ua/zakonodavstvo/podatkovye-zakonodavstvo/liisti-dps/66179.html>

²⁰⁰ Formally, the Presidential Decree "On Approval of the Regulation on the National Commission for State Regulation in Energy and Utilities" No. 715/2014 dated 10 September 2014, available at: <http://zakon3.rada.gov.ua/laws/show/715/2014> is still in force.

²⁰¹ The new powers include, among others, the establishment of restrictions for subjects of natural monopolies with regard to combining activities in energy and utilities (paragraph 3 of clause 1 of Article 17), and control over the prevention of cross-subsidization (item 12, paragraph 1, Article 17 of the Law)

²⁰² This is the third version of the Energy Strategy of Ukraine. Prior to this, two Energy Strategies until 2030 were effective, the first version was adopted in 2006 (available at: <http://zakon2.rada.gov.ua/laws/show/145-2006-%D1%80>), lapsed with the adoption of the updated version in 2013 (available at: <http://zakon3.rada.gov.ua/laws/show/n0002120-13/ed20130724>)

²⁰³ Paragraph 5, Part 2, Section III of the Government Priorities Plan for 2016, approved by the CMU No. 418-r dated 27 May 2016, available at: <http://zakon3.rada.gov.ua/laws/show/418-2016-%D1%80>.

²⁰⁴ It should be noted that, according to the publicly available information, after the draft Strategy was published, the Ministry of Energy and Coal Industry received critical comments from the European Commission on the imperfection and conceptual deficiencies of the Strategy, which include, inter alia, the elaboration of the only - optimistic - scenario without analyzing other options, using unreasonable indicators, and lack of information on Ukraine's compliance with international commitments in this area. Access to the article through: <http://ua.interfax.com.ua/news/general/397840.html>.

²⁰⁵ Resolution of the CMU "On Approval of the Energy Strategy of Ukraine until 2035" Safety, Energy Efficiency, Competitiveness" No. 605-r dated 18 August 2017, available at: <http://zakon2.rada.gov.ua/laws/show/605-2017-%D1%80>.

implementation of the CMU's Program of Activities²⁰⁶ and the "Ukraine 2020" Strategy for Sustainable Development adopted in 2015²⁰⁷. The draft is aimed to establish the rules for trading in the market for coal products in the context of phased denationalization of the energy industry.

In addition, the draft law provides for the pricing for coal products under market mechanisms (electronic stock exchanges, long-term contracts without state intermediaries, etc.)²⁰⁸. In 2017, the draft was under development.

- ▶ Development of the Concept for Reform and Development of the Coal Industry for the period until 2020²⁰⁹. The Concept describes the crisis in the coal industry and suggests the ways for its further development. To this end, the reform of the coal industry is determined as the most feasible option. According to the Concept, the reform envisages privatization of the prospective coal mining enterprises and liquidation of non-prospective ones. In addition, it is proposed to divide mine reserves into prospective mines with a significant volume of coal reserves capable to reach the break-even point in the shortest time, and non-prospective mines²¹⁰. The Concept and its implementation plan were approved in May 2017.
- ▶ Approval of the Concept for Development of Ukrainian Gas Production by the CMU. The Concept for Development of Ukrainian Gas Production is designed to increase the volume of gas production in Ukraine²¹¹. The objective of the Concept is to identify measures that would increase the volume of natural gas extraction to reduce dependence on imports of energy products, attract investment in the energy sector, and ensure energy independence of Ukraine, etc. In particular, the Concept includes:
 - ▶ Approval of the rules for development of oil and gas deposits (adopted in 2017)²¹²;
 - ▶ Decentralization of royalties for extraction of hydrocarbons²¹³ (approved at the end of 2016, entered into force on 1 January 2018);
 - ▶ Introduction of tax incentives for new wells and separate royalty rates for the PSA²¹⁴

²⁰⁶ Paragraph 267.4 of the Plan of arrangements to implement the Program of the Cabinet of Ministers of Ukraine and the Sustainable Development Strategy "Ukraine-2020" in 2015, approved by the Cabinet of Ministers of Ukraine No 213-r dated 4 March 2015., available at: <http://zakon3.rada.gov.ua/laws/show/213-2015-%D1%80>.

²⁰⁷ The draft is placed on 10 February 2016 on the official web site of the Ministry of Energy and Coal Industry available at: http://mpe.kmu.gov.ua/minuqol/control/uk/doccatalog/list?currDir=49913&documentList_stind=41.

²⁰⁸ Currently, the draft law is under development. According to the press service of the Vice Prime Minister of Ukraine dated 21 March 2017, the Cabinet of Ministers of Ukraine initiated establishment of a working group on liberalization of the coal market, which included senior officials from the Ministry of Energy and Coal Industry, the Ministry of Economic Development and Trade, the Ministry of Finance, the National Commission on Securities and Stock Market, NEURC, the Parliamentary Committee on Fuel and Energy Complex, Nuclear Policy and Nuclear Safety, as well as representatives of the Secretariat of the CMU, the Office of Reforms, the Energy Resources of Ukraine Company, the Ukrainian Energy Exchange, DiXiGroup Analytical Center, the Civic Network Opora, the Center for Economic Strategy and others. Available at: http://www.kmu.gov.ua/control/uk/publish/article?art_id=249831196&cat_id=244276429.

²⁰⁹ The Draft Concept is available on the official web site of the Ministry of Energy and Coal Industry at the following link: http://mpe.kmu.gov.ua/minuqol/control/uk/publish/officialcategory?cat_id=244916227.

²¹⁰ According to publicly available information, the CMU approved the Concept ("The Government has made a decision to approve the Concept of the Reform and Development of the Coal Industry for the period till 2020 and approve the Plan for its Implementation" dated 24 May 2017. Available at: http://mpe.kmu.gov.ua/minuqol/control/uk/publish/article?art_id=245211119&cat_id=35109).

²¹¹ Resolution of the CMU "On Approval of the Concept for the Development of the Gas Extractive Industry of Ukraine" No 1079-r of 28 December 2016, <http://zakon2.rada.gov.ua/laws/show/1079-2016-%D1%80>.

²¹² The Rules for the development of gas and oil deposits approved by the order of the Ministry of Natural Resources of 15 March 2017, No. 118, available at: <http://zakon.rada.gov.ua/laws/show/z0692-17>.

²¹³ The Law of Ukraine No. 1793-VIII "On Amendments to the Budget Code of Ukraine with regard to Inclusion of Rent Payment for Utilization of Subsoil for the Extraction of Oil, Natural Gas and Gas Condensate" dated 20 December 2016.

²¹⁴ The Law of Ukraine dated 07 December 2017 No 2245-VIII "On Amendments to the Tax Code of Ukraine and Certain Legislative Acts of Ukraine on Balancing Budget Revenues in 2018".

(which took place in 2017 and entered into force in 2018);

- ▶ Promotion within the Parliament of the Draft Law No. 3096-d "On Amending Certain Legislative Acts of Ukraine Concerning Facilitation of Certain Aspects of the Oil and Gas Industry"²¹⁵. The draft envisages, *inter alia*, simplification of the procedure for acquiring rights to land for exploration and development of oil and gas, simplification of access to geological information, and abolition of mining permits for oil and gas mineral resources. The draft Law No. 3096-d was adopted as a whole and signed by the President of Ukraine in March 2018.
- ▶ Promotion to the Draft Law No. 4868 "On Amendments to Certain Legislative Acts of Ukraine (on bringing them in line with the Law of Ukraine "On the Market of Natural Gas")" (in 2017, it was not included in the Parliament's agenda)²¹⁶.
- ▶ The rest of the measures envisaged in the Plan for the implementation of the Concept were under development in 2016-2018.

Legislative support for EITI implementation in Ukraine

- ▶ On 17 June 2016, a draft Law No. 4840 "On Disclosure in Extractive Industries"²¹⁷ was registered in pursuance of EITI implementation in Ukraine²¹⁸. The draft law was developed to implement international practices and standards for disclosure in the extractive industries in accordance with the EITI standards. The project envisaged, *inter alia*, the obligation of mining companies, their parents and payment recipients to disclose information on payments in favor of the budget by submitting a report to the Ministry of Energy or publishing relevant information on their official webpage²¹⁹. The draft was rejected on 21 February 2017.
- ▶ As of the date of preparing this Report, the Parliament adopted in the first reading the draft Law "On Ensuring Transparency in Extractive Industries" No. 6229 dated 23 March 2011²²⁰, which aims to fulfil the same tasks as the Draft Law No. 4840.
- ▶ In addition, some steps to ensure transparency were made later in 2017 by amending the legislation on accounting and financial reporting regarding disclosure of the financial statements of the companies engaged in developing minerals of national importance²²¹.

Increasing transparency of mining companies' reporting

- ▶ In 2017, the Law No. 2164-VIII of 10 May 2017 "On Amendments to the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" regarding improvement of certain provisions" was adopted. The law is effective from 1 January 2018.
- ▶ Among other things, the law requires the enterprises engaged in development of minerals of national importance to prepare financial statements solely according to International Financial Reporting Standards and publish them along with an auditor's report. The law also

²¹⁵ Available at: http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=61900.

²¹⁶ The draft law No 4868 is not included on the agenda on 14 July 2016 (available at: http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=59497)

²¹⁷ Available at: http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=59455.

²¹⁸ Adoption of the Law of Ukraine "On Amending Certain Legislative Acts of Ukraine on Transparency in Extractive Industries" No 521-VIII dated 16 June 2015, available at: <http://zakon2.rada.gov.ua/laws/show/521-19>, as well as the approval of the Regulation on Data Sets to be made public in the form of publicly available data, the Resolution of the CMU No. 835 dated October 21, 2015p. <http://zakon4.rada.gov.ua/laws/show/835-2015-%D0%BF>.

²¹⁹ The draft project was rejected February 21, 2017

²²⁰ See http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=61409

²²¹ Law No 2164-VIII of 5 October 2017 "On Amendments to the Law of Ukraine "On Accounting and Financial Reporting in Ukraine", available at: <http://zakon.rada.gov.ua/laws/show/2164-19>

establishes the obligation for such companies to submit a report for payments in favor of the state and increases the transparency and accessibility of financial statements of other companies.

Summary:

Despite the difficult economic and political situation in Ukraine, during 2016 a number of steps were taken to reform the extractive industries, mostly aimed at fulfilling Ukraine's international commitments regarding implementation of the provisions of the EU Energy Community's Third Energy Package, the simplification of regulatory processes for mining companies, and encouraging mineral production.

Implementation of reforms in general was slower than planned. At the same time, in 2016-2017, some important measures were introduced to increase the efficiency of the extractive industries for the benefit of Ukrainian economy and fulfil Ukraine's commitments to international partners. Such measures included wide public discussions of the reforms by the stakeholders, while the major events were covered in the media.

Accelerating the pace of reforms remains an urgent issue, as it is necessary for efficient solutions of problems and mitigation of deficiencies in the Ukrainian extractive industries regulation and operations. Active development of proposals for regulatory and fiscal changes, their adoption and effective implementation are important for the Ukrainian society.

6.4 State participation in extractive industries

6.4.1. Definition of “state-owned enterprises”

Under para. 2.6 of the EITI Standard, where state participation in the extractive industries gives rise to material revenue payments, the countries implementing EITI must disclose an explanation of the prevailing rules and practices regarding the financial relationship between the government and state-owned enterprises (SOEs), e.g., the rules and practices governing transfers of funds between the SOEs and the state, retained earnings, reinvestment and third-party financing. In accordance with Requirement 2.6 of the EITI Standard, a state-owned enterprise (SOE)²²² is a wholly or majority government-owned company that is engaged in extractive activities on behalf of the government.

Ukrainian legislation includes a number of definitions that may be relevant to the definition from the EITI Standard, in particular, “public sector entities”.

Public sector entities include²²³:

- ▶ Entities operating on the basis of state-owned property only, in particular, state-owned unitary enterprises; and
- ▶ Entities with the state share in the charter capital that exceeds 50% or is of a magnitude that provides the government with the right of decisive influence on the business activity of these entities. Such entities include, for instance, Naftogaz of Ukraine National Joint Stock Company and Nadra Ukrainy National Joint Stock Company.

A state-owned unitary entity (i.e., a state-owned enterprise established by one founder) is an enterprise formed by a competent state body and within the scope of its management powers. The key features of a state-owned entity as a separate form of an enterprise are as follows:

- ▶ The entity is established under the prescribed procedure that requires the decision of the competent state authority;
- ▶ The functions of the entity’s owner are performed by the state authority, whose scope of management includes such an enterprise. In particular, if there is no supervisory board, the head of the enterprise is appointed by such an authority;
- ▶ The entity operates using state-owned property.

A state-owned unitary entity can be either a commercial enterprise or an enterprise supported by the state budget.

A *state-owned commercial enterprise* is a business entity responsible for the consequences of its activities with all its property held under the right of economic management²²⁴. In addition, as a general rule, the government and the managing state authority are not liable for the

²²² In the Ukrainian translation of the EIT Standard, the term “state-owned enterprise (SOE)” refers to the term “state entity (SE)”. Since the term of the Standard is wider than the definition of a “state entity” in Ukrainian legislation, for the purposes of this Report, the concept of “state-owned enterprise” (in the EITI Standard) and “state-owned entity” (in Ukrainian legislation) should be distinguished.

²²³ Part 2 of Article 22 of the Commercial Code of Ukraine No. 436-IV of 16 January 2003, available at: <http://zakon3.rada.gov.ua/laws/show/436-15> (hereinafter - “Commercial Code”).

²²⁴ Economic management means a substantive right in which an entity owns, uses and manages the property entrusted to it by the owner, but may manage certain types of property only with the consent of the owner in the cases provided for by law (Article 136 of the Commercial Code).

obligations of the enterprise²²⁵.

An enterprise supported by the state budget is established by the decision of the CMU, which determines the nature of the enterprise's activity and the body whose scope of management includes the enterprise. The property and assets are provided to such entity under the right of operational management²²⁶. The enterprises supported by the state budget are created in specific sectors of economy specified by the Commercial Code, in particular, in which (i) the law permits business activities only by state-owned enterprises; (ii) the major consumer of the products (works, services) (exceeding 50%) is the state; and (iii) cost-ineffective production of socially necessary products (works, services) prevails (over 50%)²²⁷.

Additionally, public sector entities include business companies with more than 50 percent of shares owned by the state, and the companies with 100 percent state ownership²²⁸. Legislation on the management of the companies owned by the state often contains ambiguous or contradictory rules. For example, Naftogaz of Ukraine NJSC and Nadra Ukrainy NJSC are business entities incorporated as joint stock companies, although they had been established by regulatory acts²²⁹.

Below is a figure that illustrates the public sector entities under the Commercial Code.

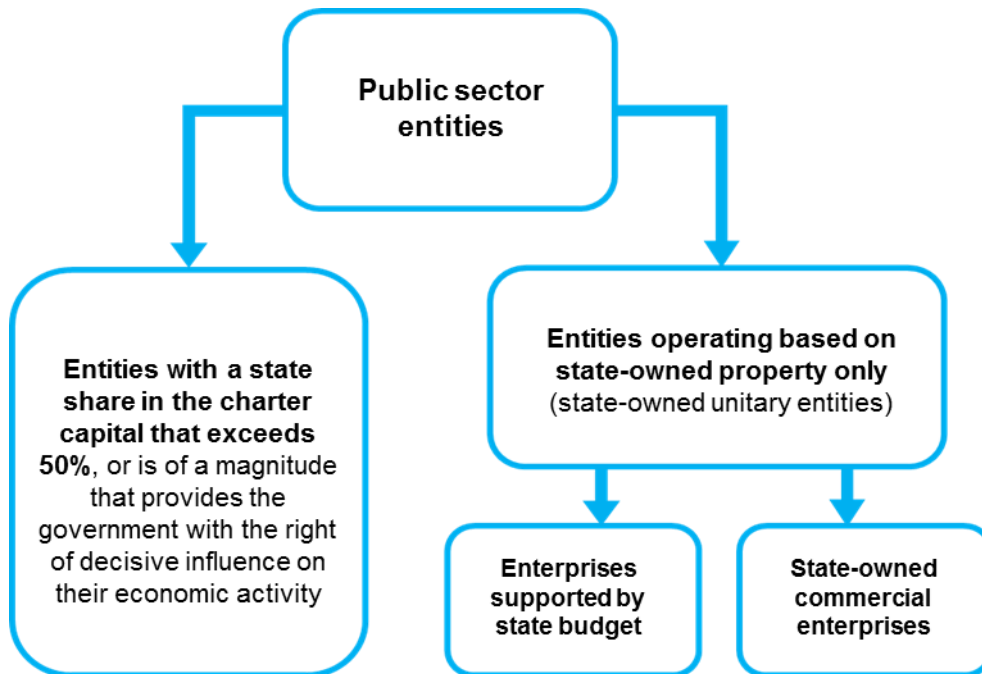


Figure 6-4: Public sector entities under the Commercial Code

It is important to underscore the insufficiently defined status of enterprises under the indirect

²²⁵ Article 74 of the Commercial Code.

²²⁶ Operational management means a substantive right in which an entity owns, uses and manages the property entrusted to it by the owner for the purpose of carrying out non-commercial economic activities. In this case, the owner of the property has the right to remove from the subject of the property the property used for other purposes (Article 137 of the Commercial Code).

²²⁷ Article 76 of the Commercial Code.

²²⁸ Article 18 of the Law of Ukraine "On the Management of the State-Owned Entities" of September 21, 2006, No. 185-V.

²²⁹ Resolution of the CMU No. 747 of 25 May 1998 "On the Establishment of Naftogaz of Ukraine NJSC", Resolution of the CMU No. 1128 of 14 July 2000 "On the Establishment of Nadra Ukrainy National Joint Stock Company", available at: <http://zakon0.rada.gov.ua/laws/show/1128-2000-%D0%BF>.

control of the state (e.g., subsidiaries of state-owned enterprises, as well as the enterprises with more than 50% shares belonging to public sector entities).

Such enterprises, among others, include Ukgazvydobuvannia PJSC, Ukrtransgaz PJSC, Ukrtransnafta PJSC with 100% shares owned by Naftogaz of Ukraine NJSC, and Ukrnafta PJSC with 50%+1 shares owned by Naftogaz of Ukraine NJSC, and the subsidiaries of Nadra Ukrainy NJSC.

Formally, these enterprises are not covered by the definition of “public sector entities”, which does not include the indirect ownership criterion. At the same time, in separate cases, state authorities exercise certain functions of the owner of such enterprises based on laws or by-laws. Specifically:

- ▶ Reorganization of the subsidiaries of Naftogaz of Ukraine NJSC engaged in transportation via trunk pipelines and storage in underground gas storage facilities, is carried out by the decision of the CMU;
- ▶ Alienation of fixed assets and shares in the charter capital of such enterprises is prohibited, except for the transfer of property for the purpose of performing the functions of the Unified Ukrainian GTS Operator²³⁰;
- ▶ Business entities with 50% or more shares contributed to charter capitals of the companies 100%-owned by the state must pay dividends directly to the State Budget²³¹;
- ▶ Certain acts of the CMU contain provisions that provide for retaining of 100 percent of corporate rights (shares) of some enterprises, whose shares are owned by Naftogaz of Ukraine NJSC, in state ownership, despite their transfer to the charter capital of, or other acquisition by Naftogaz of Ukraine NJSC. In particular, Ukrtransgaz PJSC, Ukgazvydobuvannia PJSC, Ukrtransnafta PJSC, Ukrnafta PJSC, and a subsidiary of Naftogaz of Ukraine NJSC, Gaz of Ukraine, were included in the list of state-owned entities that are strategically important for the economy and security of the state under the Resolution of the CMU No. 83 dated 4 March 2015.

Hence, for full disclosure for the purposes of this Report, state owned enterprises (SOEs) for the purposes of Requirement 2.6 of the EITI Standard, include the enterprises that belong to the public sector of economy and the enterprises with more than 50% shares indirectly owned by the state.

6.4.2. State policy in public sector entities' management

According to information published by the CMU²³², there are about 80 entities responsible for state property management in Ukraine, which manage more than 3,500 enterprises of various legal forms. At the same time, Ukraine has no single state policy for public sector entities' management, which could determine the government's influence on key aspects of the activities of such entities.

²³⁰ Article 7 of the Law of Ukraine “On Pipeline Transport” dated May 15, 1996 N 192/96-BP, available at: <http://zakon2.rada.gov.ua/laws/show/192/96-%D0%B2%D1%80>

²³¹ Part 5 of Article 11 of the Law of Ukraine “On the Management of State Property Objects” No. 185-16 of 21 September 2006, available at: <http://zakon2.rada.gov.ua/laws/show/185-16>.

²³² The reform of the management of state enterprises – the official web site of the Cabinet of Ministers of Ukraine, available at: <https://www.kmu.gov.ua/ua/diyalnist/reformi/prodazh-neefektivnogo-derzhavnogo-majna>

The specifics of public property management²³³, including regulation of financial relations between the state and the entities partially or fully owned by the state are stipulated in the Law of Ukraine "On management of public property items" No. 185-V dated 21 September 2006²³⁴. Such specifics are also determined by separate provisions of the Ukrainian Constitution²³⁵, the Commercial Code of Ukraine²³⁶, the Civil Code of Ukraine²³⁷, the Laws of Ukraine "On Protection of Economic Competition"²³⁸, "On Business Companies"²³⁹, "On Leasing State and Municipal Property"²⁴⁰, "On Joint-Stock Companies"²⁴¹, the Law on Oil and Gas, etc.

Public authorities managing state-owned enterprises

State authorities exercise functions related to management of state-owned entities. Such authorities may include the CMU, ministries, and other central executive bodies, including the Ministry of Energy, the Ministry of Economy, the Geology Service, and the State Property Fund of Ukraine.

There is no publicly available aggregate list of enterprises managed by each state body. Instead, such information is usually posted on the official websites of such public authorities, which sometimes leads to fragmented information and makes it difficult to have a clear picture of the state's participation in the extractive industries²⁴².

Development and implementation of state ownership policy is one of the requirements of the IMF Memoranda on Economic and Financial Policies and of the acts of the CMU (e.g., the CMU Resolution No. 662-r dated 27 May 2015) in the context of the reform of state-owned entities.

In 2016, the long-lasting reform of corporate governance of state-owned enterprises continued. During 2016, the Ministry of Economy²⁴³ and the CMU²⁴⁴ were developing Basic Principles of State Policy of Ownership with regard to State-Owned Enterprises that will define the principles, objectives, and priorities of management of state-owned enterprises, and which would determine the separation of functions of the state as the owner, and regulatory functions. Basic Principles of State Policy were supposed to be a framework document to be used by the state bodies and other managing entities to develop their own management strategies for specific state-owned enterprises, taking into account their individual specifics. However, in 2016 and during 2017 this document was not adopted.

In 2017, the CMU approved the Basic Principles of State Ownership in relation to Naftogaz of Ukraine NJSC²⁴⁵, which should specify the objectives and priorities of state's ownership of this enterprise, the expected results of its operations, and the basic corporate governance principles. The document defines the state's strategic vision of corporate governance of Naftogaz of Ukraine NJSC.

²³³ These entities own, among others, the property transferred to state owned enterprises and corporate rights owned by the government in the charter capital of the economic organizations.

²³⁴ Available at: <http://zakon0.rada.gov.ua/laws/show/185-16/ed20160101/print>

²³⁵ Article 116 of the Constitution of Ukraine.

²³⁶ Available at: <http://zakon.rada.gov.ua/go/436-15>

²³⁷ Available at: <http://zakon.rada.gov.ua/go/435-15>

²³⁸ Available at: <http://zakon.rada.gov.ua/go/2210-14>

²³⁹ Available at: <http://zakon.rada.gov.ua/go/1576-12>

²⁴⁰ Available at: <http://zakon.rada.gov.ua/go/2269-12>

²⁴¹ Available at: <http://zakon.rada.gov.ua/go/514-17>

²⁴² Such conclusions are made by the IMF Technical Mission in its Report on the provision of technical assistance - reform of the management of state property and supervision over it, paragraph 44, p. 33 (January 2016).

²⁴³ 100 largest state enterprises of Ukraine 2016, available at: <http://www.me.gov.ua/Documents/Detail?lang=uk-UA&id=141fbafc-abe3-4d18-8bbe-94bf889bcf26&title=100-NaibishikhDerzhavnikhPidprimstvUkrainiZa2016-Rik>

²⁴⁴ The introduction of property policy - the official website of the Cabinet of Ministers of Ukraine, available at: <https://www.kmu.gov.ua/ua/diyalnist/reformi/prodazh-neefektivnogo-derzhavnogo-majna>

²⁴⁵ Resolution of the CMU dated 26 April 2017 No. 351, available at: <http://zakon2.rada.gov.ua/laws/show/351-2017-n>

6.4.3. Payments made by the enterprises with state participation in favor of the state

The main type of payment made by the enterprises with state participation in favor of the state, in addition to taxes, are dividends and the share of net profit transferred to the state budget.

Payment of the share of net profit by state unitary entities

In 2016, state unitary entities had to transfer 75% of their net profit for the relevant period to the state budget²⁴⁶. State unitary entities submitted a calculation of the net profit to the SFS, and the paid portion of the net profit was accumulated in the General-purpose fund of the State budget.

Dividends of the business entities with a state share in their charter capital

As a rule, the companies with the corporate rights of the state in their charter capital must allocate at least 30% of the net profit as dividends²⁴⁷.

Dividends are calculated in proportion to the size of the state share in the charter capital of the said business entities and must be paid to the State budget no later than 1 July of the year following the reporting year. The business companies, 50% and more of the shares of which are contributed to the charter capital of business entities with a 100% state share, must also pay dividends directly to the State budget²⁴⁸.

The basic rate for allocation of the share of profit as dividends based on the results of financial and economic operations in the corresponding year is established by the CMU. In 2016, the above rate was 75%²⁴⁹.

Untimely payment of dividends may also result in application of a penalty calculated based on the double rate of the National Bank of Ukraine²⁵⁰.

Dividends of the entities owned by the companies with a state participation

The companies, whose 50% or more shares are in the charter capital of the business entities with a 100% state participation, are required to pay dividends directly to the State Budget of Ukraine in accordance with the rules established by the Law of Ukraine "On Management of Public Property Items"²⁵¹.

Ambiguous wording of the rule led to litigations over whether it applies to the companies, 50% or more shares of which were obtained other than through a contribution to the charter capital.

Hence, in 2013, a dispute regarding the mechanism of dividend distribution arose between Ukrkazvydobuvannia PJSC and Naftogaz of Ukraine NJSC as its only shareholder.

²⁴⁶ The procedure for the payment to the state budget of a part of the net profit (income) by state unitary entities and their associations, approved by the Resolution of the Cabinet of Ministers of Ukraine No 138 dated 23 February 2011, available at: <http://zakon2.rada.gov.ua/laws/show/138-2011-%D0%BF/ed20161215>

²⁴⁷ Part 5 of Article 11 of the Law of Ukraine "On the Management of State Property Objects" No 185-16 dated 21 September 2006.

²⁴⁸ Part 5 of Article 11 of the Law of Ukraine "On the Management of State Property Objects" No 185-16 dated 21 September 2006, available at: <http://zakon2.rada.gov.ua/laws/show/185-16>.

²⁴⁹ Resolution of the CMU "On approval of the basic rate for deducting the share of profit to be paid as dividends based on the results of financial and economic operations in the year 2015 of the business entities in the charter capital of which are the corporate rights of the state" No. 228 of March 23, 2016, available at: <http://zakon3.rada.gov.ua/laws/show/228-2016-%D0%BF>. It is worth noting that the next Resolution of the Cabinet of Ministers of Ukraine No 120 of 01 March 2017 decreased the basic standard rate of withdrawal of the share of profit to be paid as dividends based on the results of financial and economic operations in 2016, to 50% in comparison with previous year, available at: <http://zakon3.rada.gov.ua/laws/show/120-2017-%D0%BF>.

²⁵⁰ The Order of the Ministry of Economic Development "On Approval of the Procedure for Accrual of Penalty on the amount of dividends on the state share untimely paid by a company whose charter capital includes the corporate rights of the state and a company, 50 and more percent of shares (interest) of which are in the charter capital of a company, where the state owns 100 percent of shares" No. 725 dated 02 July 2013, available at: <http://zakon2.rada.gov.ua/laws/show/z1830-13>.

²⁵¹ Part 5 of Article 11 of the Law of Ukraine "On the Management of State Property Objects" No. 185-16 of 21 September 2006

Ukrgezvydobuvannia PJSC appealed²⁵² against the decision of Naftogaz of Ukraine NJSC to pay 30% of the company's net profit for 2012 to the state budget. The court supported the position of Ukrgezvydobuvannia PJSC²⁵³. In 2017, Ukrgezvydobuvannia PJSC adopted a resolution on distribution of dividends based on the results of 2016 to Naftogaz of Ukraine NJSC²⁵⁴.

Ukrtransnafta PJSC, 100% shares of which were left in state ownership and transferred to the charter capital of Naftogaz of Ukraine NJSC in accordance with the decision of the CMU²⁵⁵, in 2016 adopted a resolution on distribution of dividends based on the results of 2015 to the state budget²⁵⁶.

6.4.4. State payments to enterprises with state participation

Government support to extractive industries

Government support to extractive industries may include provision of funds to extractive companies under the programs approved by the relevant Law on the State Budget. Such provision takes place in accordance with the procedure approved by the CMU for each program individually.

The Budget Code of Ukraine stipulates that the main administrators of state funds must develop a procedure for using such funds under the programs provided for in the state budget, and the CMU or other administrator shall approve it, subject to consent of the Ministry of Finance. The procedures for the programs specified in the relevant Law on the State Budget for the first time, shall be approved within 30 days from its entry into force²⁵⁷.

In 2016, the following procedures for the use of funds under budget programs related to extractive industries were in effect (the list is not exhaustive):

- ▶ Procedure for using funds provided for in the state budget to support the construction of Novovolynska mine No. 10²⁵⁸;
- ▶ Procedure for using the funds provided for in the state budget to cover part of the expenses of coal-mining enterprises included in the cost of finished coal products²⁵⁹;
- ▶ Procedure for using the funds provided for in the state budget to replenish current assets or increase charter funds of coal-mining enterprises to cover outstanding salary debts to employees, accrued as of 1 January 2016²⁶⁰;
- ▶ Procedure for using the funds provided for in the state budget for restructuring of the coal

²⁵² Decision of the Kyiv Economic Court of the city of No 910/10255/13 dated 27 June 2013, available at: <http://www.reyestr.court.gov.ua/Review/32063317>

²⁵³ Resolution of the Kyiv Economic Court of Appeal in case No 10/10255/13 dated July 10, 2013, available at: <http://www.reyestr.court.gov.ua/Review/32403812>, Decision of the Supreme Economic Court of Ukraine in case No. 10/10255/13 of 13 August 2013, available at: <http://www.reyestr.court.gov.ua/Review/33042667>

²⁵⁴ Available at: <http://uqv.com.ua/uploads/1517404060.pdf>

²⁵⁵ Resolution of the CMU "On establishment of OJSC Ukrtransnafta" No. 256-r dated 23 June 2001, available at: <http://zakon3.rada.gov.ua/laws/show/256-2001-%D1%80>. See also annual information of PJSC Ukrtransnafta for 2016, available at: <http://www.ukrtransnafta.com/wp-content/uploads/2017/09/%D0%A0%D1%96%D1%87%D0%BD%D0%B0-2016.pdf>

²⁵⁶ See information published by the company: <http://www.ukrtransnafta.com/pat-ukrtransnafta-splatit-rekordnu-sumu-dividendiv-1-mlrd-grn/>

²⁵⁷ Paragraph 7 of Article 20 of the Budget Code of Ukraine

²⁵⁸ Resolution of the CMU No. 298 dated 12 May 2015, available at: <http://zakon2.rada.gov.ua/laws/show/298-2015-%D0%BF>

²⁵⁹ Resolution of the CMU No. 153 of 23 February 2011 (expired on February 25, 2017), available at: <http://zakon2.rada.gov.ua/laws/show/153-2011-%D0%BF/ed20170225>

²⁶⁰ Resolution of the CMU No. 1 dated January 13, 2016, available at: <http://zakon2.rada.gov.ua/laws/show/1-2016-%D0%BF>

and peat development industry²⁶¹;

- ▶ Procedure for using the funds provided for in the state budget to ensure the operations of the Kryvyi Rih iron ore refinery of oxidized ores²⁶², etc.

Subventions to local budgets for mutual settlements between Naftogaz of Ukraine NJSC, Ukrtransgaz PJSC, coal mining enterprises, heat energy producers and heat supply companies

The Ukrainian legislation specifically provides for subventions from the state budget to local budgets to provide privileges and housing subsidies to the households, including those for electricity and natural gas.²⁶³

Such subventions are formed from the natural gas and gas condensate development royalties, the VAT paid by Naftogaz of Ukraine and Ukrtransgaz PJSC, and inflows to the General-purpose fund of the State budget from repayment of the outstanding VAT debts by electricity producers and coal-mining enterprises.

The subvention mechanism involves the following steps:

1. The Treasury transfers the amounts of subventions to the accounts of regional budgets and the budget of Kyiv, opened in the Treasury bodies, according to the State Budget expenditures within the commitments of local budgets.
2. Regional and Kyiv city state administrations distribute their subventions among the budgets of districts and cities of regional importance, united local communities according to the planned amounts of subventions, while the relevant local governments transfer the subvention to the main spending units of local budgets.
3. the Treasury, based on the payment orders of the main spending units of local budgets, transfer funds to the accounts of suppliers of resources (goods and services) opened in the Treasury bodies.
4. The settlements between the administrators (in particular, gas consumers) of Naftogaz of Ukraine and / or Ukrtransgaz PJSC are conducted based on the acts of reconciliation or agreements that determine the amount of monthly consumption of resources (goods, services) and joint protocol decisions signed by all participants of such settlements.
5. Naftogaz of Ukraine transfers the subvention funds from the current account within the Treasury to the accounts within the Treasury of:
 - ▶ Ukgazvydobuvannia PJSC to cover monetary liabilities from the natural gas and gas condensate production royalty;
 - ▶ Naftogaz of Ukraine in the VAT electronic administration system to transfer VAT to the budget;
 - ▶ Ukrtransgaz PJSC with further transfer of subvention funds to the account of this company in the VAT electronic administration system for paying VAT to the budget.
6. Ukrtransgaz PJSC transfers the funds of the subvention from the current account within the Treasury to accounts within the Treasury of:
 - ▶ Ukgazvydobuvannia PJSC to cover monetary liabilities for natural gas and gas

²⁶¹ Resolution of the CMU No. 236 dated March 11, 2011, available at: <http://zakon3.rada.gov.ua/laws/show/236-2011-%D0%BF>

²⁶² Resolution of the CMU No. 324 dated March 30, 2011, available at: <http://zakon3.rada.gov.ua/laws/show/324-2011-%D0%BF>

²⁶³ Resolution of the CMU "On Approval of the Procedure for the Transfer of Certain Subventions from the State Budget to Local Budgets for Granting of Privileges, Subsidies and Compensations" No. 20 dated 11 January 2005 (expired on 1 January 2018) available at: <http://zakon2.rada.gov.ua/laws/show/20-2005-%D0%BF/ed20170314>

condensate development royalty;

- ▶ Ukrtransgaz PJSC in the VAT electronic administration system to transfer VAT to the budget;
 - ▶ Naftogaz of Ukraine in the VAT electronic administration system to transfer VAT to the budget.
7. Electricity producers transfer the subvention funds from the current account within the Treasury to the accounts within the Treasury of:
- ▶ Coal-producing enterprises in the VAT electronic administration system to transfer VAT to the budget;
 - ▶ Naftogaz of Ukraine in the VAT electronic administration system to transfer VAT to the budget;
 - ▶ Electricity producers in the VAT electronic administration system to transfer VAT to the budget.
 - ▶ The procedure for settlements for natural gas, heat supply, and electricity using subventions is approved by the Ministry of Energy²⁶⁴.

In practice, the functioning of such a mechanism of subventions depends on the availability of funds in the State budget from received royalties and VAT. In 2016, out of UAH 47 bln planned in the State budget for 2016, only UAH 44.1 bln were received (taking into account the changes to the State Budget).²⁶⁵ According to the report of Naftogaz of Ukraine, the debt for subsidies as of 31 December 2016 amounted to UAH 21.8 bln for gas and gas for production of thermal energy, due to insufficient and / or inappropriate financing²⁶⁶.

Provision of state guarantees for companies' borrowings

According to the Budget Code, following the decision of the CMU or based on the international treaties of Ukraine, entities may be granted state guarantees for the full or partial payment of debt. Such guarantees are provided exclusively in the amounts and for the areas provided by the relevant Law on the State Budget²⁶⁷.

Guarantees must be provided on terms of repayment, timeliness, and enforcement of obligations. The Budget Code specifies the mandatory terms of such a guarantee agreement²⁶⁸. The Ministry of Finance, as instructed by the CMU, enters into relevant agreements and maintains the Register of State Guarantees provided during the budget period²⁶⁹ (not publicly available).

The information on the state guarantees granted to companies covered by this Report in 2016 is given in Sections 5.1.1, 5.2.1, 5.3.1, 5.4.1, 5.5.1, 5.6.1, 5.7.1, 5.8.1 (specifically, to Naftogaz of Ukraine).

Increase of charter capital of enterprises with state participation

As a shareholder (participant) of enterprises with a state participation, the state takes part in

²⁶⁴ Procedure for settlements for natural gas, heat supply and electricity, approved by the Order of the Ministry of Energy No. 493/688 dated 3 August 2015. Available at <http://zakon3.rada.gov.ua/laws/show/z1007-15>

²⁶⁵ Report on the implementation of the State Budget of Ukraine for 2016, website of the State Treasury of Ukraine <http://www.treasury.gov.ua/main/uk/doccatalog/list?currDir=359194>

²⁶⁶ Annual report Naftogaz of Ukraine NJSC for 2016, p.105

²⁶⁷ Paragraph 1 of Article 17 of the Budget Code of Ukraine

²⁶⁸ Paragraph 3 of Article 17 of the Budget Code of Ukraine

²⁶⁹ Paragraph 4 of Article 17 of the Budget Code of Ukraine

the management of such enterprises, which includes, among others, adopting decisions on increase in the charter capital to cover cash deficits. For example, in 2015, the CMU decided to increase the charter capital of Naftogaz of Ukraine by UAH 29.7 bln through additional private placement of shares. The Ministry of Finance, as instructed by the CMU, has acquired such shares on behalf of the state through issuance of domestic government bonds for this purpose.

6.4.5. Functions of enterprises with state participation and payments to such enterprises

The legislation of Ukraine does not provide for a comprehensive list of functions to be performed by enterprises with state participation. Such functions are most often specified by the charters of the respective enterprises.

In some cases, the entities are assigned with obligations that are not specified in their statutory documents. In particular, Ukgazvydobuvannia PJSC is obliged to carry out the monthly sale of natural gas of its own production to Naftogaz of Ukraine to secure natural gas reserves.

For companies and the parties to joint venture agreements in which the state directly or indirectly holds 50% or more, are also required to sell oil, gas condensate of their own production and liquefied gas at stock exchange auctions. Unless the full volume of these products is disposed of at such auctions, the remainder of crude and gas condensate oil must be sold to Naftogaz of Ukraine²⁷⁰.

As a rule, mining companies make payments to enterprises with state participation for rendered services or performed work. As there is no aggregated information about such payments or any exhaustive list of such possible payments in the legislation, below are certain types of payments that are significant for the Ukrainian economy.

Payments for transportation of oil and gas

The payments for transportation of oil and gas, which the companies make to Ukrtransnafta PJSC and Ukrtransgaz PJSC, represent one of the most important payment flows in favor of enterprises with state participation. Such payments are made on the basis of contracts with these enterprises.

The tariffs for transportation of oil by trunk oil pipelines, as well as transportation of gas through trunk and transboundary gas pipelines are established by the NEURC. In particular, the following resolutions were effective in 2016:

- ▶ Resolution of the NEURC "On the establishment of tariffs for oil transportation by trunk pipelines of Ukrtransnafta PJSC for consumers in Ukraine"²⁷¹;
- ▶ Resolution of the NEURC "On setting tariffs for Ukrtransgaz PJSC for the supply of natural gas for transboundary gas pipelines for the points of entry and points of exit"²⁷²; and
- ▶ Resolution of the NEURC "On Establishing a General Tariff for Natural Gas Transmission, Tariffs for the Transportation of Natural Gas by Main and Distribution Pipelines"²⁷³

²⁷⁰ Art. 4-1 of the Law on Oil and Gas, available at: <http://zakon2.rada.gov.ua/laws/show/2665-14>.

²⁷¹ Before 23 December 2016 - NEURC Resolution No. 1836 dated 25 June 2015 available at: <http://www.nerc.gov.ua/?id=16440>, after 23 December 2016 - NERC Resolution No. 2362 dated 23 December 2016, available at: <http://www.nerc.gov.ua/?id=22883>

²⁷² NEURC Resolution No.3158 dated 29 December 2015, available at: <http://www.nerc.gov.ua/?id=18635>

²⁷³ NEURC Resolution No.3159 dated 29 December 2015, available at: <http://www.nerc.gov.ua/?id=18636>

Framework contracts for the provision of gas transportation and storage services are posted on the official website of Ukrtransgaz PJSC²⁷⁴.

Performance of prospecting, exploration, pilot works and rendering geological exploration services

Extractive companies need to receive certain services related to exploration and development of minerals. For example, the extension of the license for geological exploration, geological exploration with pilot commercial development and extraction of minerals is only possible if there is a positive report of a state expert review of the reports on geological exploration of the subsoil, as well as other geological materials²⁷⁵.

Such services are provided, among others, by specialized state geological enterprises, institutions and organizations within the scope of management of the Geology Service. Such enterprises include, among others, the state geological enterprise "Heoekspertyza"²⁷⁶ and the state geophysical enterprise "Ukrheofizyka".²⁷⁷ The list of such enterprises is published on the official site of the Geology Service²⁷⁸.

These state owned enterprises can also provide other services, for example:

- ▶ The State Geological Enterprise "Heoekspertyza" provides services on assessment (determination) of the value of geological information, expert opinion on geological materials, design documents, and cost estimates, etc.²⁷⁹;
- ▶ The State Scientific and Production Enterprise "Geoinform of Ukraine" provides services on preparation of certificates on the conditions of the mineral resource base of the region, preparation of a package of geological documents for obtaining licenses, expert examination of geological materials based on the results of additional exploration and revaluation, processing of stock geological materials, etc. performed by geological enterprises²⁸⁰;
- ▶ The State Company "The Centre for Ecologic and Expert Analytics" (which is managed by the Ministry of Ecology) provides services on environmental expertise, assessment of environmental impact, etc.²⁸¹;
- ▶ The State Enterprise "Ukrainian State Geological Prospecting Institute" provides services to determine the starting sale price for licenses at an auction, the amount of fee for extending a license, etc.²⁸²

²⁷⁴ Contracting - official website of PJSC Ukrtransgaz, available at: <http://utg.ua/utg/customers/contracts.html>

²⁷⁵ Paragraph 27 of the Procedure for granting licenses.

²⁷⁶ Available at: <http://gxp.com.ua/uk/%D0%B5%D0%BA%D1%81%D0%BF%D0%B5%D1%80%D1%82%D0%B8%D0%B7%D0%B0-%D0%B3%D0%B5%D0%BE%D0%BB%D0%BE%D0%B3%D1%96%D1%87%D0%BD%D0%B8%D1%85-%D0%BC%D0%B0%D1%82%D0%B5%D1%80%D1%96%D0%B0%D0%BB%D1%96%D0%B2/>

²⁷⁷ Available at: <http://www.ukrgeofizika.kiev.ua/uk/visnovki2.html>.

²⁷⁸ Available at: <http://geo.gov.ua/storinka/geologichna-ekspertyza-zvitiv>.

²⁷⁹ Available at: <http://gxp.com.ua/uk/>.

²⁸⁰ Available at: <http://geoinf.kiev.ua/>.

²⁸¹ Available at: <http://ecoanalitika.com/>.

²⁸² Available at: <http://ukrdgri.gov.ua/uk/>.

Summary:

- ▶ For the purposes of this Report, the state-owned enterprises (SOEs) in accordance with Requirement 2.6 of the EITI Standard were considered enterprises in which the state directly or indirectly holds more than 50% of the shares.
- ▶ The principal payments made by extractive enterprises with a state share to the state budget, except for taxes, are the dividends and distribution of the share of net profit. Current legislation contains uncertainty as to the obligation of certain enterprises that are indirectly controlled by the state to pay dividends directly to the State Budget.
- ▶ The state may provide government support to state-owned enterprises in accordance with the approved financing programs. In addition, the state may provide state guarantees for debt obligations of state-owned enterprises, provide funds to increase their charter capital, etc.
- ▶ The mechanism of subventions to local budgets for settlements with certain enterprises of the extractive industries is a separate form of financial relations between the state and certain state-owned enterprises. Once granted, these subventions are credited to the treasury accounts of such enterprises for the purposes of paying individual taxes and fees.
- ▶ Enterprises of the extractive industry with state participation receive payments for rendered services and performed work in the same way as private extractive enterprises. Significant payment flows to entities indirectly owned by the state are from the charges for transportation of oil and natural gas by the trunk and transboundary pipelines of Ukraine. The state regulates the provision of such services separately, including the price policy of such enterprises.
- ▶ The state may impose special obligations on certain enterprises with direct or indirect state participation (for example, with regard to sale of gas by Ukgazvydobuvannia PJSC to Naftogaz of Ukraine for the households' needs, or sale of mined products by certain state-owned enterprises exclusively on stock exchange auctions, etc.).

6.5 Fiscal regime for extractive industries



Overview of taxes payable by extractive companies

In 2016, the major taxes for extractive industries were VAT, CIT, and production royalty. In addition, the extractive industry companies were subject to certain taxes and other mandatory payments that are not industry-specific. The companies that operate the trunk pipeline facilities and provide (arrange for) transportation services through such pipelines also pay the transportation royalty (except transportation of natural gas).

Below is the general information about the taxes, levies, and fees paid by the companies of extractive industries. Unless otherwise is explicitly specified below, this section describes the tax rules effective as of 31 December 2016.



Corporate income tax

In 2016, CIT was paid at 18%.

In 2016, the amount of profit subject to CIT for the majority of companies is determined by adjusting the financial result before tax (profit or loss), stated in the company's financial statements prepared under the national accounting standards or the IFRS, by a number of differences determined under the rules of the Tax Code. There are no special rules in the Tax Code for calculating taxable profits for the extractive industry companies or JAA.

CIT for PSA was calculated under special rules. The amount of taxable profit under a PSA was calculated based on the value of profit production less the amount of USC and the expenses that are not compensated (not subject to compensation) by the cost recovery production. Other income of the investor is not subject to CIT²⁸³.

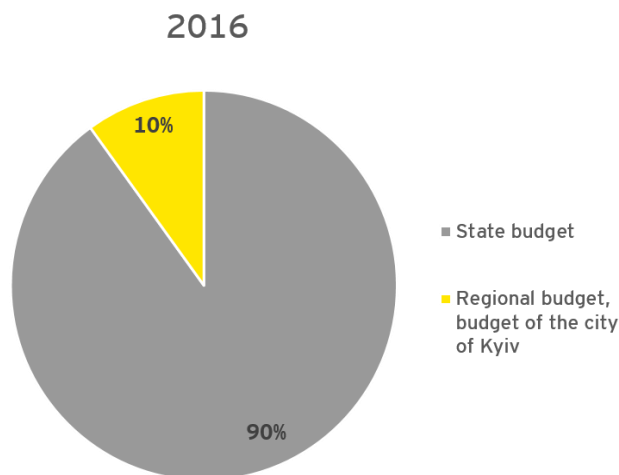


Figure 6-5: Allocation of CIT between the budgets of various levels (general Budget Code rule)²⁸⁴

²⁸³ Section XVIII of the Tax Code.

²⁸⁴ The Budget Code also sets special rules for CIT and other taxes allocation between the Autonomous Republic of Crimea and city of Sevastopol. Since due to aggressor state's occupation of Crimea these special rules were in fact not working in 2016, we do not cover these in the Report.



Royalty payments related to extractive activities

In 2016, a national tax - "rental fee" - was in effect. The tax includes production royalty, non-production royalty, transportation royalty, as well as the other fees for special use of water and forest resources.

Natural gas transit transportation royalty was abolished.



Production royalty

In 2016, the extractive industry companies paid production royalty²⁸⁵.

The specifics of charging the production royalty for hydrocarbons (oil, natural gas, gas condensate, etc.) and for the other minerals covered by this Report are the following.



Hydrocarbon minerals

The tax base for production royalty on hydrocarbon production is the value of the commercial products, i.e. the hydrocarbons produced in the reporting period (with certain exceptions) calculated according to the special rules:

- ▶ **For natural gas:** the average customs value of imported natural gas in the course of its import customs clearance for the tax (reporting) period (the given value is published by the Ministry of Economy on its official website);
- ▶ **For natural gas** that is sold to the Naftogaz of Ukraine National Joint-Stock Company PJSC for the purposes of creating reserves of natural gas to be used for the needs of the households (hereinafter - the "gas sold for households' needs"): the price specified in the contracts for the sale and purchase of natural gas between the production royalty payer and Naftogaz of Ukraine National Joint-Stock Company PJSC in the reporting period;
- ▶ **For oil and condensate:** the average price of a barrel of Urals oil determined according to an international agency (UralsMediterranean and UralsRotterdam quotations), converted into UAH per tonne (at the NBU rate as of the 1st day of the month following the end of the tax (reporting) period).

The rates of production royalty under a PSA should be specified in the PSA. However, they cannot be lower than the rates set by Section IX of the Tax Code at the time of signing the PSA. In 2016, the Tax Code did not provide for special royalty rates for the PSA purposes (such rates were introduced in 2018)²⁸⁶. The parties to the PSA should determine in the agreement the terms and conditions and the procedure for calculation and payment of production royalty, which may differ from the common procedure.

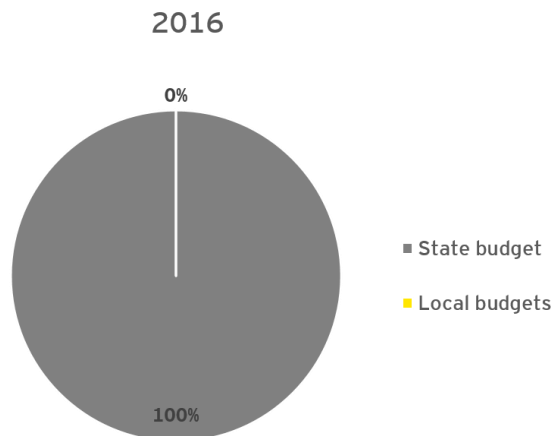
²⁸⁵ Section IX of the Tax Code (effective at the end of 2016).

²⁸⁶ Changes in accordance with the Law of Ukraine No. 2245-VIII dated 7 December 2017, available at: <http://zakon2.rada.gov.ua/laws/show/2245-19/paran346#n346>.

Table 6-1: The rates of the production royalty for hydrocarbons in 2016

Object of taxation	Rate
Oil	
extracted from deposits located at depths of under 5,000 m	45%
extracted from deposits located at depths of over 5,000 m	21%
Condensate	
extracted from deposits located at depths of under 5,000 m	45%
extracted from deposits located at depths of over 5,000 m	21%
Natural gas (of any origin)	
extracted from deposits located at depths of under 5,000 m	29%
extracted from deposits located at depths of over 5,000 m	14%
extracted from deposits in subsoil fields located within the continental shelf and/or the exclusive (maritime) economic zone of Ukraine	11%
extracted from deposits located at depths of under 5,000 meters, sold for households' needs	70% (till 31 March 2016) 50% ²⁸⁷
extracted from deposits located at depths of over 5,000 meters, sold for households' needs	14%
produced under JAA	70%

When calculating a production royalty, adjusting coefficients (0.01 to 0.97) should apply depending on the type of the mineral and the extraction conditions. Starting from 2016, the adjusting coefficient of 0.55 was abolished. The coefficient applied to the production royalty for the extraction of natural gas for industrial needs from the wells put into operation after 1 August 2014.


Figure 6-6: Allocation of production royalty for hydrocarbons between the budgets of various levels under the Budget Code

²⁸⁷ The aforementioned rates of 50% and 70% were applied only in 2016. Starting from 1 January 2017, the production royalty for the natural gas from deposits at a depth of up to 5,000 meters sold for households' needs amounted to 29%.

Due to the legislative changes adopted at the end of 2016²⁸⁸, 5% of the production royalty for hydrocarbon will be allocated to local budgets starting from 1 January 2018 (95% of this tax will remain allocated to the state budget).



Other minerals except for hydrocarbon

The tax base is the value of the commercial products, i.e. minerals extracted in the reporting period (with some exceptions), calculated at the higher of the actual selling prices of the relevant type of minerals and the estimated value of the minerals.

The Tax Code provides for special rules for determining the “actual selling prices” and the estimated value of minerals that are quite complicated.

- *Actual selling price*

- ▶ As a rule, the actual selling price is the value per unit of the relevant minerals determined by the payer based on the amount of revenue received (accrued) from the sale of such minerals.
- ▶ The amount of income received (accrued) from the sale of the minerals for the tax period should be reduced by the costs of transportation of these products to consumers. The Tax Code provides for a comprehensive list of such costs. For the ores,²⁸⁹ the actual selling price is the average price of one tonne of the minerals (iron ore concentrate, ilmenite and rutile concentrates) converted into UAH at the NBU rate as of the 1st day of the month following the reporting period. This price is determined by the Ministry of Economy based on the prices published in a monthly global business information review during the current reporting (tax) period using the methodology determined by the CMU under the general supply terms, from the mining company’s warehouse. If the price for the period cannot be determined, the actual price is deemed the price for the relevant type of ore that is equal or above the price determined by the Ministry of Economy in the previous reporting (tax) period.

- *Estimated cost*

- ▶ The estimated cost of the unit of the relevant type of the commercial products should be determined using the formula specified in the Tax Code which takes into account the payer’s costs related to production of the relevant type of minerals, the profitability indicator of the mining company, and the amount of the minerals produced in the reporting period.
- ▶ If primary mineral processing results in new products, mining companies should determine the amount of the royalty for each new product taking into consideration the tax liabilities for the amount of the relevant type of the extracted mineral that was used for creating new products, net of the tax liabilities that arise from previous operations with this type of minerals.
- ▶ Government subsidies provided to the taxpayer should be disregarded when determining the value of the extracted minerals.

²⁸⁸ The Law “On amendment of the Budget Code of Ukraine regarding assignment of the rental fee for the use of minerals for development of oil, natural gas, and gas condensate” No. 1793-VIII dated 20 December 2016, available at: <http://zakon2.rada.gov.ua/laws/show/1793-19>.

²⁸⁹ Introduced by the Law of Ukraine “On prevention of financial catastrophe and creating conditions for economic growth in Ukraine” No. 1166-VII dated 27.03.2014, available at: <http://zakon2.rada.gov.ua/laws/show/1166-18>.

Table 6-2: Rates of production royalty for minerals other than hydrocarbons in 2016

Object of taxation	Rate
Ore minerals (metal-containing (metal) minerals, including ores)	
ferrous (other than iron ore), colored and alloying metals, uraniferous, and other than uraniferous ores of ferrous, colored and alloying metals	5 %
iron ore	8 %
Energy minerals	
coking coal	1.5 %
energy coal	0.75 %
anthracite	1 %
brown	1 %
Non-energy, non-ore (non-metal-containing (non-metal) minerals, including quartz sand, fire clay, high-melting clay)	
	5 %

When calculating production royalty payments, adjusting coefficients apply depending on the type of material and conditions of extraction.

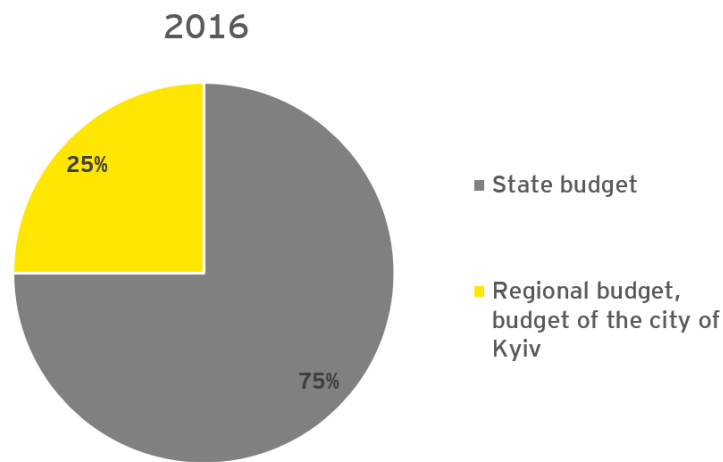


Figure 6-7: Allocation of production royalty for non-hydrocarbon minerals of national importance²⁹⁰ between the budgets of various levels under the Budget Code



Non-production royalty

The companies that use the subsoil for storage of oil, gas, liquid or gaseous petroleum products are required to pay non-production royalty for the underground space at the following rates²⁹¹:

- ▶ Storage of natural gas - UAH 0.38 for tcm of active space;

²⁹⁰ In accordance with the Lists of minerals of national and local importance approved by the Resolution of the CMU No. 827 dated 12 December 1994 (available at: <http://zakon2.rada.gov.ua/laws/show/827-94-%D0%BF>), clay and quartz sand belong to minerals of national importance.

²⁹¹ Section IX of the Tax Code of Ukraine (effective at the end of 2016).

- ▶ Storage of oil and other liquid petroleum products - UAH 0.38 for cm.

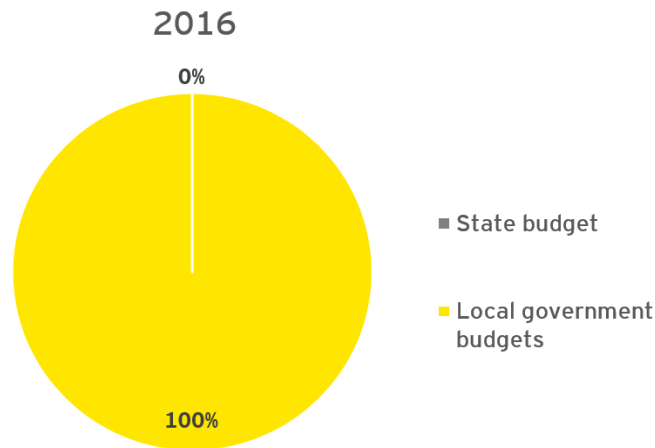


Figure 6-8: Allocation of non-production royalty between the budgets of various levels under the Budget Code



Royalty for transportation of petroleum and petroleum products through trunk pipeline facilities and oil-product pipelines in the territory of Ukraine, pipeline transit of ammonia through the territory of Ukraine

The companies that operate the trunk pipeline facilities and provide (arrange for) cargo transportation services through such pipelines should pay the transportation royalty at the following rates²⁹²:

- ▶ Transportation of 1 tonne of oil or petroleum products - USD 0.56;
- ▶ Transit of 1 tonne of ammonia for 100 km - USD 2.4.

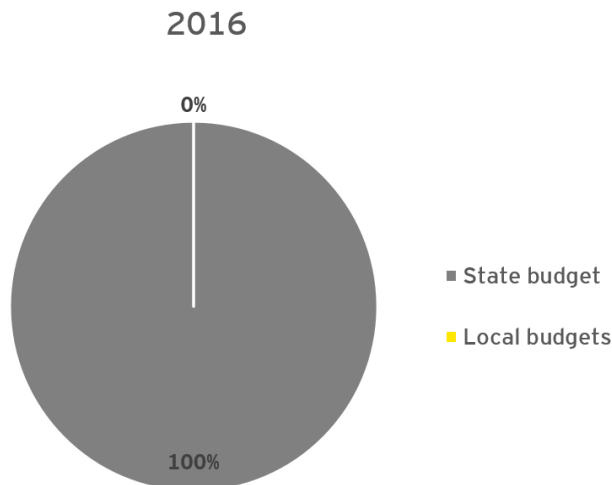


Figure 6-9: Allocation of transportation royalty between the budgets of various levels under the Budget Code

In the case of change in tariffs, an adjusting coefficient should apply to the rates of royalty, except for the royalty rate for ammonia transit and oil transportation through main pipelines for consumers in Ukraine.

²⁹² Section IX of the Tax Code of Ukraine (effective at the end of 2016).

In 2016, transportation royalty was not charged for the transit of natural gas.

 VAT

Supplies, import and export of goods, and supply of services in the customs territory of Ukraine are subject to VAT. VAT is charged at 20%, 7% and 0%, with certain transactions not subject to VAT²⁹³.

Imports of natural gas into the customs territory of Ukraine are exempt from VAT only for Naftogaz of Ukraine National Joint-Stock Company PJSC. Imports of other products of extractive industries are taxed at 20% VAT on general terms. In 2016, the exemption from VAT was abolished for supply of services related to natural gas transmission (transportation) through transboundary gas pipelines (transportation of natural gas through the territory of Ukraine in the customs transit regime). Exports of goods are subject to the zero rate of VAT.

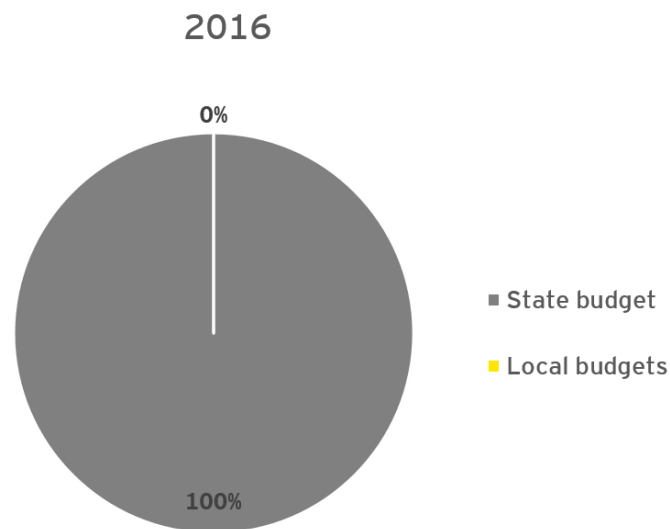


Figure 6-10: Allocation of VAT between the budgets of various levels under the Budget Code

The negative difference between the VAT payable and VAT receivable should be refunded to a taxpayer. As the Ukrainian ore mining industry is majorly export-oriented (unlike the oil and gas industry), ore mining companies are often having considerable VAT refund amounts.

There are a number of VAT exemptions for the PSAs: imports of goods and services for the purposes of PSA and for the import of minerals produced in the exclusive (maritime) economic zone of Ukraine. For multilateral PSAs, there is a special tax credit recognition by the PSA operator and individual investors under the PSA.

In 2016, an electronic VAT administration system was in place. The system provides for the setting up of special VAT accounts to keep track of the VAT amounts, the Unified Tax Invoices Registry, drafting and registration of VAT invoices in electronic form, filing VAT statements electronically by all taxpayers etc.

²⁹³ Section V of the Tax Code of Ukraine.



Customs duty

Customs duty is charged for imports and exports of certain goods from / into the territory of Ukraine²⁹⁴.

Imports of gas, oil, condensate, coal, and manganese ores are not subject to import duty. Import duty at the rate of 1-2% is levied on imports of titanium ore.²⁹⁵ Also, due to entry into force of the economic part of the Association Agreement between Ukraine and the EU starting from 2016 (in particular, the Free Trade Area), import duty rates for imports from the EU were reduced to 0%, including the import duty rate for titanium ores (Ilmenite and others).²⁹⁶

Exports of natural gas in gaseous or liquefied state, except for exports to member states of the Energy Community, are subject to export duty at the rate of 35% of the customs value, but not below UAH 400 per one tcm / tonne.²⁹⁷ Export duty also applies to waste and scrap of ferrous and non-ferrous metals (including titanium) at 15%²⁹⁸. Exports of oil and other products of the extractive industries are not charged with export duty.

For the PSA, there is a number of exemptions from import and export duties²⁹⁹.

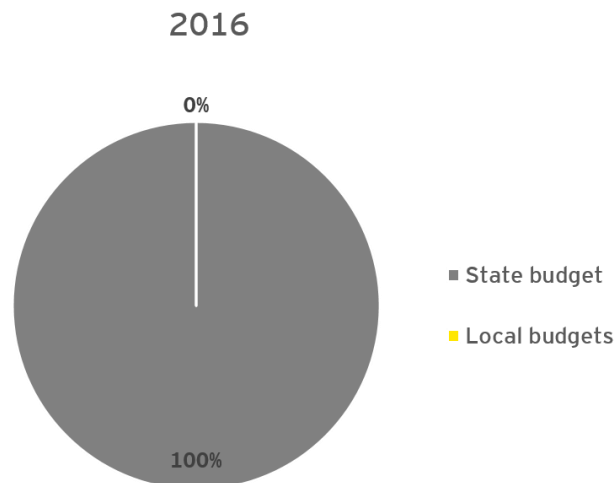


Figure 6-11: Allocation of customs duties between the budgets of various levels under the Budget Code

²⁹⁴ Chapter IX the Tax Code of Ukraine, available at: <http://zakon2.rada.gov.ua/laws/show/4495-17>.

²⁹⁵ Law of Ukraine "On the Customs Tariff of Ukraine" No. 584-VII dated 19 September 2013 (Groups 01-72), available at: <http://zakon.rada.gov.ua/go/584%D0%B0-18>.

²⁹⁶ See, in particular, the official Ministry of Economy's notification on import duty rates in 2016 <http://me.gov.ua/Files/GetFile?lang=en-US&fileId=729882ac-b5ee-40d1-97da-d33381f2c888>.

²⁹⁷ Law of Ukraine dated 3 June 2008 No. 309-VI "On Amendments to Certain Legislative Acts of Ukraine", available at: <http://zakon.rada.gov.ua/laws/show/309-17>.

²⁹⁸ Law of Ukraine "On the rates of export duties on scrap of alloyed ferrous metals, scrap non-ferrous metals and semi-finished products with their use" dated 13 December 2006, No. 441-V, available at: <http://zakon.rada.gov.ua/laws/show/441-16>.

²⁹⁹ Chapter XVIII the Tax Code of Ukraine.



Excise tax

Excise tax³⁰⁰ is an indirect tax levied on the imports and sale in Ukraine of imported and domestically produced excisable goods.

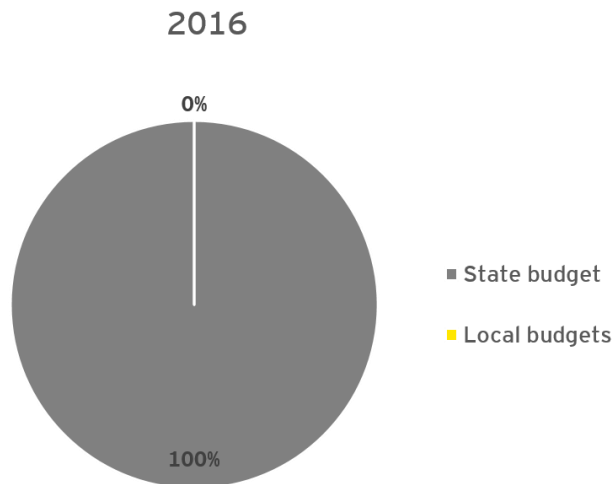


Figure 6-12: Allocation of excise tax between the budgets of various levels under the Budget Code³⁰¹

The excise tax is not applicable to sales of crude oil and gas. Imports and sales of the domestically produced liquefied natural gas were subject to excise tax at the rate of EUR 7 per 1,000 kg until 29 January 2016 and at the rate of EUR 3.67 per 1,000 litres after the mentioned date. Imports and sales of petroleum products are subject to excise tax at rates that depend on the type of petroleum products and the volume of their import / sale.

Starting from 1 March 2016, the System of Fuel Sale Electronic Administration (covering, among others, oil and liquefied gas) and the Unified Register of Excise Invoices were introduced to improve the transparency of the supply chain and reduce the amount of shadow fuel trade³⁰².



Land fee

The land fee³⁰³ (as a component of the property tax, which is a local tax) is charged in the forms of land tax and land rent fee for state- and municipally-owned land plots. Extractive companies should pay the land fee on general grounds.

The land fee calculation depends on several factors, including location, functionality, and availability of the regulatory monetary valuation of the land. In 2016, the marginal land tax rate and the maximum amount of the land rent fee vary depending on above features of the land plot, but have not changed compared to 2015.

³⁰⁰ Section VI of the Tax Code of Ukraine.

³⁰¹ The excise tax on the sale of excisable goods by retail businesses is credited to budgets of unified local communities, city budgets, budgets of cities of district significance, rural, and settlement budgets.

³⁰² Articles 231-232 of the Tax Code of Ukraine.

³⁰³ Section XII of the Tax Code of Ukraine (effective at the end of 2016).



Property tax on property other than land

This tax is a component of the property tax, charged by the owners of residential and non-residential real estate and calculated based on the area of each particular item of real estate³⁰⁴. Industrial buildings, in particular, industrial facilities, manufacturing departments, warehouses of industrial companies, are not subject to this tax. Local municipal authorities determine the tax rate (which cannot exceed 3% of the minimum wage per 1 sq. m.) and are entitled to establish incentives for this tax.

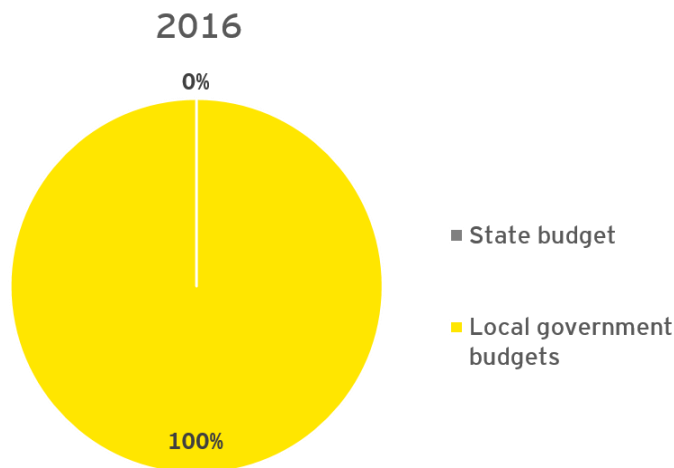


Figure 6-13: Allocation of land fee and property tax on property other than land between budgets of different levels under the Budget Code



Environmental tax

The companies engaged in the emission of pollutants into the air, discharges of pollutants into water bodies or disposal of waste (with some exceptions) should pay the environmental tax³⁰⁵. The environmental tax rates depend on the type of the source and object of pollution, the type and concentration of waste etc. In 2016, the rates of environmental tax were increased.

Under the Tax Code, the tax rate for disposal of waste falling under the definition of “moderately hazardous non-toxic waste from the mining industry” is significantly lower than the rate applicable to the remaining moderately hazardous waste included in group IV. In 2016, the tax rate for mining waste amounted to UAH 0.39 per tonne, while the rest of the taxpayers had to apply the rate of UAH 4.02 per tonne.³⁰⁶ Hence, the environmental tax for disposal of moderately hazardous industrial waste is ten times lower for mining companies as compared to other taxpayers.

³⁰⁴ Section XII of the Tax Code of Ukraine.

³⁰⁵ Section VIII of the Tax Code of Ukraine.

³⁰⁶ Para 246.2 Article 246 of the Tax Code of Ukraine.

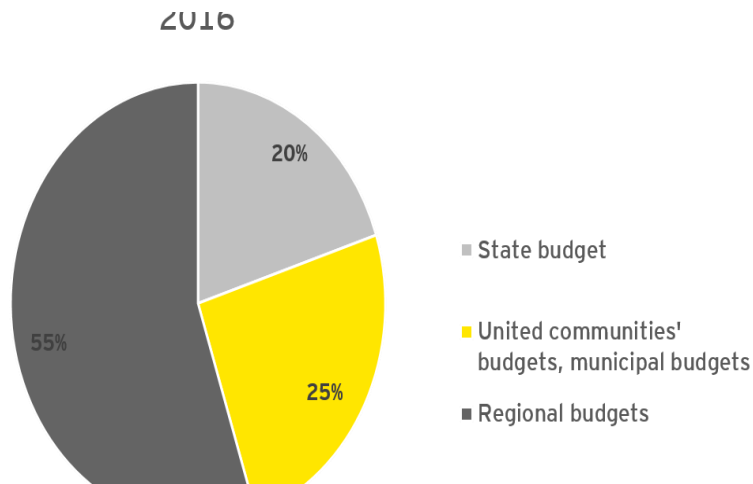


Figure 6-14: Allocation of environmental tax between the budgets of various levels (general Budget Code rule)³⁰⁷

Special water use levy

In 2016, this type of the fee³⁰⁸ was charged on the actual amount of water used by water users and the volume of water losses in their water supply systems. The rates are set in a detailed list depending on a number of factors (region, intended use of water, etc.). In 2016, the rates increased by approximately 26-27%, as compared to 2015.

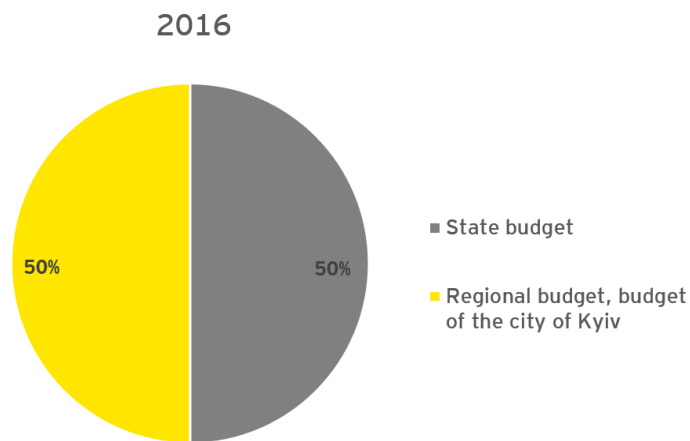


Figure 6-15: Allocation of special water use levy (rent fee) between the budgets of various levels (general Budget Code rule)³⁰⁹

³⁰⁷ In 2016, according to Articles 29 and 69-1 of the Budget Code, 20% of the environmental tax were allocated to the general fund of the state budget, while the remaining 80% were directed to the dedicated funds of local budgets, including 80% to the budgets of Kyiv and Sevastopol. The environmental tax levied for production of radioactive waste and/or temporary storage of such waste by its producers beyond the term specified in the special conditions of the license was allocated to the general fund of the state budget in full.

³⁰⁸ Section IX of the Tax Code of Ukraine (effective at the end of 2016).

³⁰⁹ The exception is the special water use levy for water from water bodies of local importance, which is fully allocated to local budgets.



Personal income tax

Personal income tax³¹⁰ is a tax levied on income of an individual person at 18%. Mining companies should accrue, withdraw and pay income tax on wages and other compensation payments to their employees on general grounds.

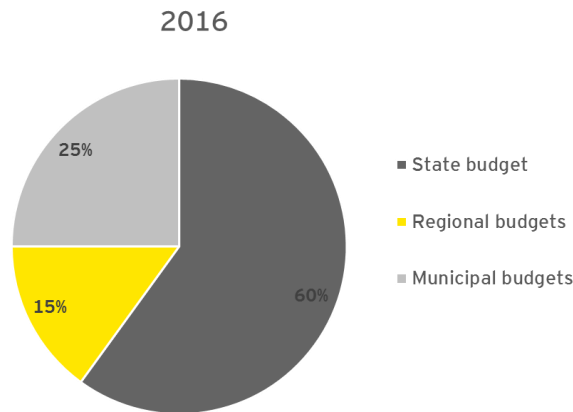


Figure 6-16: Allocation of PIT between the budgets of various levels (general Budget Code rule)³¹¹



Military levy

In 2016, a military levy³¹² introduced in 2014 continued to be charged on personal income at a rate of 1.5%.

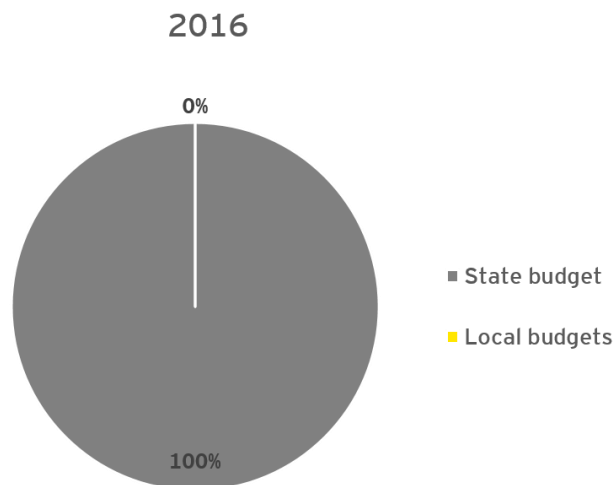


Figure 6-17: Allocation of military levy between the budgets of various levels under the Budget Code

³¹⁰ Section IV of the Tax Code of Ukraine.

³¹¹ There were also special rules for PIT allocation. For example, PIT paid at the city of Kyiv was allocated at the proportion of 40/60 in 2016.

³¹² Subsection 10, Section XX of the Tax Code of Ukraine.



Unified social contribution

In the late 2015, amendments to the legislation on the USC were adopted³¹³. The changes effective from 1 January 2016 are as follows:

- ▶ A single rate for the calculation of USC by the employer irrespective of the professional risk class was introduced (at the same time, the correctness of its determination is no longer subject to audit) - 22% of the tax base, except for the special rates for disabled persons, which remained at the 2014 level (8.41%, 5.3%, and 5.5%);
- ▶ The maximum amount of monthly income from which the USC is paid was raised up to 25 subsistence minimums established by the law for able-bodied persons (i.e., UAH 34,450 from 1 January to 30 April 2016; UAH 36,250 from 1 May to 30 November 2016; UAH 40,000 from 1 December 2016 to 30 April 2017).
- ▶ Deduction of USC from individuals' income was abolished.

Fiscal regime of contracts in extractive industries

JAA and PSA are subject to registration as separate taxpayers. In addition the JAA or PSA participant responsible for calculating and paying taxes to the budget during the performance of the agreement shall be additionally registered as a taxpayer and keep records for JAA or PSA activities separately from other business operations of the company that is a party to the partnership contract or PSA. For the PSA, the law provides for special rules of taxation, including a number of benefits. Taxation of the JAA also has certain specifics, though without any benefits to JAA participants. For more information on JAA and PSA taxation, see Section "6.6.4. The contracts in the extractive industries".

Other payments (bonuses)

There is no payment classified as "bonus" among the mandatory payments required by the Ukrainian legislation. A payment is charged for granting a license (for more details, see Section "6.6.2. Procedure for granting licenses").

The PSA may contain provisions on the investor's obligation to pay a bonus, for example, for signing the PSA or the discovery of the deposit, but these provisions are commercial terms and the law does not require their disclosure.

³¹³ The Law of Ukraine "On Collection of, and Accounting for, the Unified Contribution for Mandatory State Social Insurance Contribution" No. 2464-VI dated 8 July 2010, available at: <http://zakon2.rada.gov.ua/laws/show/2464-17>.

Summary:

Extractive companies are subject to both general taxes and levies (e.g., CIT, VAT, USC) and industry-specific taxes (e.g., production royalties, transportation royalties).

In 2016, the rules for calculating taxes did not change significantly compared to 2015 (with the exception of the tax base for production royalty for natural gas).

In 2016, production royalty rates for natural gas were reduced (including production of gas sold for households' needs), and the transportation royalty for transit of natural gas was cancelled. The remaining production royalty rates did not change compared to the previous year. The adjusting coefficient of 0.55 for deposits put into operation after 1 August 2014 was abolished. In 2017, further decrease in rates took place (in particular, starting from 1 January 2018, the rate for natural gas extracted from new deposits is set between 6% and 12% depending on the depth of the deposit).

The environmental tax rates increased.

In addition, a flat taxation rate was set at 18% for personal income tax and 22% for USC, while the USC is no longer deducted from individuals' personal income. However, these changes were not specifically targeted at extractive industries.

Most of the tax revenues are allocated to the State Budget. In 2016, the share of tax revenues allocated to local budgets did not change compared to 2015.

At the end of 2016, budget legislation was amended to provide for the transfer of 5% revenues from production royalty for hydrocarbons to local budgets. This change is a positive move that can improve the financial position of relevant local budgets and improve the dialogue between mining companies and local communities in the long run.

Changes in tax legislation developed in 2016-2017 and coming into force in 2018 were aimed at the introduction of a favorable tax regime, improving investment attractiveness and stimulating production.

6.6 Regulatory regime for extractive industries

6.6.1. Registry of licenses

The information about the licenses and their holders is available online at the Geoinform of Ukraine SRPE website: <http://geoinf.kiev.ua/specdozvoli/>.

The search engine allows searching valid, invalid and suspended licenses.

The information available includes information about the license holder, characteristics of the subsoil plot granted for use (with its geographic coordinates), the license registration number, granting date, license validity term and expiry date, and type of minerals. The system also contains information about the grounds under which a license was granted, a type of subsoil use under the license, the designated purpose of subsoil use, license special conditions, and the reference details of the agreement for subsoil use.

The website of the Geoinform of Ukraine SRPE also allows a standalone access to the directory of license applications, at the following link: <http://geoinf.kiev.ua/zayavy-na-otrymannya-specdozvoliv-na-korystuvannya-nadramy/>. The information contained in the directory of applications includes the date of its receipt, name and EDRPOU code, and address of the applicant, type of subsoil use, minerals, name of the object applied for, the grounds and stage of application processing, as well as the number and date of issue of the relevant license (if granted).

In addition, the same website contains an interactive map of land plots for which licenses are granted: <http://geoinf.kiev.ua/wp/interaktyvni-karty-spetsdozvoliv.htm>.

As of the date of this Report, the registry of licenses contains information about 170 licenses issued during 2016, all of which are valid.

For more information on licenses that were effective during 2016, see **Sections 5.1.4, 5.2.4, 5.3.4, 5.4.4, 5.5.4, 5.6.4, 5.7.4, 5.8.4**.

6.6.2. Procedure for granting licenses

A person who wishes to carry out geological exploration of mineral resources or mining in the territory of Ukraine is required to obtain a license for a particular block.

Licenses are granted for the following types of subsoil use³¹⁴:

- ▶ Geological exploration of mineral deposits;
- ▶ Geological exploration of mineral resources, including pilot production of minerals of national importance. This type of subsoil use enables users to extract a limited volume of minerals from the field to determine the commercial value of the field and calculate the reserves of oil and gas;
- ▶ Geological exploration of oil and gas mineral resources, including pilot production and subsequent production of oil and gas (commercial development of deposits). This type of use of oil and gas allows a license holder to produce oil, gas, and associated useful

³¹⁴ Article 13 of the Law on Oil and Gas, para. 5 of the Regulation on the procedure for granting special permits for subsoil use, available at: <http://zakon3.rada.gov.ua/laws/show/615-2011-%D0%BF>.

components from the field after pilot production;

- ▶ Production of minerals (commercial development of deposits). In addition to actual production, this type of subsoil use allows the license holder to prospect and explore new occurrences of oil and gas within the block allotted to the user;
- ▶ Construction and operation of underground facilities not related to production of mineral resources, including oil and gas underground storage facilities and facilities for disposal of hazardous substances, production waste, and sewage discharge;
- ▶ Creation of geological areas and facilities of high scientific, cultural, health, and/or recreational value (scientific grounds, geological reserves, wild life preserves, recreational facilities, etc.);
- ▶ Performance of works (activities) under the PSAs.

Licenses are usually awarded through an auction (bidding). However, the effective regulations also set cases when licenses can be obtained without an auction taking place. More detailed information about such cases is mentioned below.

The licenses are granted for different terms depending on the type of subsoil use. The maximum period for which the permit may be granted is generally 20 years for extractive activities, 30 years for the purposes of oil and gas production on the continental shelf and exclusive (maritime) economic zone, and for the term of the agreement (up to 50 years with a possibility of extension) for the purposes of PSAs³¹⁵.

The extended license cannot exceed the terms set for the respective type of subsoil use.

Criteria for granting and reissuing licenses

One of the requirements for granting of licenses is the applicant's technical expertise, logistical and financial capabilities for subsoil use.

However, for most cases, the Ukrainian legislation does not contain clear requirements to technical criteria to be used when a decision to grant the license is taken.

Starting from April 2016, one of the documents the applicant must file to participate in the license auction is the reference-letter that proves the applicant has a sufficient number of qualified employees and technical resources to ensure implementation of the program of works. Yet, the "sufficient number" of employees or resources is not defined in the law.

Financial criteria are actually limited to the obligation to pay the fee for granting a license.

At the same time, in 2016 a list of grounds for dismissal of the license was introduced, supplementing the grounds for non-extension of the license.³¹⁶ Among others, now these grounds also include the following:

- ▶ Failure to comply with the program of works at the mineral block, for which the applicant had already received a license, or violation of the rules for subsoil use proven by the audit report, notification, or an order of the relevant state authority in the field of subsoil use, until remedied except when such report, notification, or an order is declared invalid or terminated under the court ruling;

³¹⁵ The amendments to the Procedure for granting licenses as of 6 April 2016 provided for an additional 3-year term for geological exploration of mineral blocks of local importance, available at: <http://zakon3.rada.gov.ua/laws/show/277-2016-%D0%BF/paran102#n102>.

³¹⁶ Resolution of the CMU "On approval of the Procedure for granting special permits for subsoil use" No. 615 dated 30 May 2011, available at: <http://zakon2.rada.gov.ua/laws/show/615-2011-%D0%BF>.

- ▶ An outstanding debt of the applicant with regard to state taxes as of the last reporting period³¹⁷;
- ▶ The applicant's engagement in terrorist activities in Ukraine as per the information from the law enforcement authorities or persons engaged in financial monitoring.

A license may contain special conditions for subsoil use. Typically, the special conditions reflect the requirements listed in the approval documents issued by local executive bodies, local governments, State Labor Service, Ministry of Ecology. Additionally, depending on the region there may be an established practice when the approval is provided subject to conclusion of agreements with subsoil users related to funding social and/or infrastructural needs of the region where the mineral resources are planned to be used (for more details on such practice, see below). In 2016, the legislative amendments that switched the burden of obtaining these approvals from the license applicant to the Geology Service entered into force³¹⁸.

Such special conditions may cover, for example, the types, amounts, and duration of work on the plot, rules and standards for specific subsoil use, product or work quality, specific technologies for minerals mining and processing. Such conditions are not publicly available.

As of the date of the Report, no information about any significant deviations from the official procedure for granting licenses described in this Report, has been received.

Legal framework for granting licenses

The procedure for granting licenses is regulated, in addition to the Subsoil Code and the Law on Oil and Gas, by a number of by-laws, including the Procedure for granting licenses³¹⁹, the Procedure for holding the auctions for licenses³²⁰, the Methodology for determining the initial sale price at the auction for special permit for subsoil use³²¹, the Resolution concerning licenses for subsoil for the purposes of geological study and mining of strategic minerals³²².

The procedure for awarding the licenses through auction

Auctions for the sale of licenses are organized by the Geology Service. The auction committee responsible for auction management and compliance with the requirements to the auctions is also designated by the Geology Service. At the end of 2016, the Procedure for holding the auctions for licenses was amended to provide for an approval of the auction committee at the consent of the Ministry of Ecology³²³.

The procedure for determining the list of blocks, licenses for which are the items of the auction, is not clearly regulated.

³¹⁷ One of the extracting companies challenged this criterium in court, see the judicial disposition in the Ruling of the Kyiv district administrative court dated 11 November 2016, available at: <http://zakon2.rada.gov.ua/rada/show/v1553805-16#n2>, upheld by the Ruling of the Kyiv appellate administrative court dated 17 January 2017, available at: <http://reyestr.court.gov.ua/Review/64151259>, in case No. 826/15532/16. It is currently reviewed by the court of cassation.

³¹⁸ Resolution of the CMU "On amendments to some resolutions of the Cabinet of Ministers of Ukraine concerning the conformity with the essential requirements to the permit system in economic activity" No. 1173 dated 16 December 2015, available at: <http://zakon2.rada.gov.ua/laws/show/1173-2015-%D0%BF>.

³¹⁹ Resolution of the CMU "On approval of the Procedure for granting special permits for subsoil use" No. 615 dated 30 May 2011, available at: <http://zakon2.rada.gov.ua/laws/show/615-2011-%D0%BF>.

³²⁰ Resolution of the CMU "On approval of the Procedure for holding auctions for the sale of special permits for subsoil use" No. 594 dated 30 May 2011, available at: <http://zakon2.rada.gov.ua/laws/show/594-2011-%D0%BF>.

³²¹ Resolution of the CMU "On approval of Methodology for determining the initial sale price at the auction for special permit for subsoil use" No. 1374 dated 15 October 2004, available at: <http://zakon2.rada.gov.ua/laws/show/1374-2004-%D0%BF>.

³²² Resolution of the CMU "On granting special permits for subsoil for the purposes of geological study and mining of strategic minerals" No. 742 dated 15 July 1997, available at: <http://zakon5.rada.gov.ua/laws/show/742-97-%D0%BF>.

³²³ Resolution of the CMU "On amendment of the procedures approved by the resolutions of the Cabinet of Ministers of Ukraine dated 30 May 2011 No. 594 and 615" No. 775 dated 2 November 2016, available at: <http://zakon2.rada.gov.ua/laws/show/775-2016-%D0%BF/paran11#n11>.

The Geology Service has to prepare proposals with regard to the list of blocks for an auction based on the applications submitted by potential bidding companies³²⁴. However, there are no legal requirements for such an application, the procedure for its registration and consideration.

Before holding the auction, the blocks for the use of which the licenses will be auctioned must be agreed upon with the following state authorities and local governments: the Council of Ministers of the Autonomous Republic of Crimea, the relevant regional, Kyiv or Sevastopol city councils and the Ministry of Ecology³²⁵. The Procedure for granting licenses was amended to introduce the silent consent principle for receipt of approvals. I.e., if no consent is received from the Ministry of Ecology within 30 days, or from other state bodies within 90 days, the consent is deemed provided. However, the fact of filing or receiving by the entity of approvals on subsoil use by other public bodies does not guarantee that the plot would be put up for auction and the applicant will be admitted to this auction. The final decision of whether the auction takes place or not and whether the plot is put on the auction list is taken by the Geology Service.

Before the auction, the Geology Service should determine the initial sale price of the license to be auctioned, which is calculated under to the approved methodology based on the value of the reserves and resources of mineral deposits or the subsoil areas³²⁶ of mineral resources, and should be at least 2 percent of the total net profit for the whole period of field or block development, net of capital investments³²⁷.

When calculating the initial price for a license, a number of factors are considered. These are set out and approved by the State Commission on Mineral Resources with respect to a particular field or block:

- ▶ Discounted estimated annual income from sale of mineral products net of exploitation costs and taxes and other payments to the state;
- ▶ Estimated capital investments into construction, including the purchase of geological information;
- ▶ Period of development of the field or block;
- ▶ Category of exploration of a particular field or block etc. ³²⁸

The basic information for determination of the initial sale price includes the results of previously conducted feasibility studies, protocols on approval of reserves by the State Commission on Mineral Resources, state registries of mineral reserves, acts and protocols of mineral resource appraisal for the objects identified by the Geology Service, protocols of approval of the prospective reserves, and actual technical and economical indicators of mining companies or analogous facilities, as approved by the Geology Service. ³²⁹ Most of the sources and information listed above are not publicly available. The Coalition Agreement envisaged that

³²⁴Para.6 of the Procedure for Holding Auctions for the Sale of Special Subsoil Use Permits, approved by the Resolution of the CMU No. 594 of 30 May 2011.

³²⁵ Until 12 April 2016, it was also necessary to receive an approval from MSIS (for the period between 16 December 2015 and 11 February 2016) or State Labor Service as its legal successor (for the period between 4 March 2016 and 12 April 2016), After 12 April 2016, this approval was abolished.

³²⁶ The methodology for determining the value of reserves and deposits of mineral resources or the plot that are granted for use, approved by the Cabinet of Ministers of Ukraine No. 1117 dated 25 August 2004, available at: <http://zakon3.rada.gov.ua/laws/show/1117-2004-%D0%BF>.

³²⁷ Para 6 of the Methodology for determining the initial price at the auction for a special permit for subsoil use, approved by the Cabinet of Ministers No. 1374 dated 15 October 2004, available at: <http://zakon2.rada.gov.ua/laws/show/1374-2004-%D0%BF>

³²⁸ Para 3 of the Methodology for determining the initial price at the auction for a special permit for subsoil use, approved by the Cabinet of Ministers No. 1374 dated 15 October 2004, available at: <http://zakon2.rada.gov.ua/laws/show/1374-2004-%D0%BF>

³²⁹ Para 5 of the Methodology for determining the initial price at the auction for a special permit for subsoil use, approved by the Cabinet of Ministers No. 1374 dated 15 October 2004, available at: <http://zakon2.rada.gov.ua/laws/show/1374-2004-%D0%BF>

certain changes to the Methodology for determining the initial price at the auction for a license aimed to increase transparency of the calculation of the initial licence price for the auction procedure³³⁰, but such changes were not approved in 2016.

90 days³³¹ before the day of the auction, the Geology Service should post the announcement of the auction in the “Governmental Courier” newspaper and on the Geology Service’s official website. The announcement should indicate the basic information about the auction and the license (such as the name and location of the block, type of subsoil use and the period for which the license is granted, the initial price of the license, etc.).

To participate in the auction, the applicant should:

- ▶ Purchase the package of auction documents. The auction documents package costs 3.12 percent of the initial price of a license, but in any case not less than UAH 4,500 and not more than UAH 72,550. The price of the auction documents package is not repayable to the bidders whose applications are dismissed;
- ▶ Submit the license application to the auction committee, thereby declaring the intention to take part in the auction. The application must be submitted within 75 days upon publication of the announcement of the auction. A package of personal documents is also submitted, including (i) the legal entity registration certificate in the country of location (for legal entities); (ii) information on associated persons of the applicant; (iii) ownership structure of the bidder covering the ultimate beneficiary owner (controller) for the legal entity; (iv) the reference letter proving the sufficient number of employees and technical resources of the applicant; and (v) the documents confirming the payment of the purchase price for the auction documents package, and the guarantee payment.
- ▶ Pay a guarantee. The amount of the guarantee is 20 percent of the initial sale price for the license and should be returned to the participants who did not win the auction (within 30 days after the auction) and whose applications were dismissed (within 10 business days upon the relevant decision).

As mentioned in **Section 6.3**, according to the amendments introduced to the Procedure for holding the auctions for licenses and validated on 12 April 2016, the Geology Service must publish on its official website, in particular, the information on registration of applications declaring the intention to take part in the auction, on acceptance or dismissal of the application, and a list of auction winners, as well as ensure live broadcasting of the auction.

As of the date of this EITI Report, the official website of the Geology Service contains the template of an application declaring the intention to take part in the license auction, information on denial / start of preparation of the mineral block to the auction, and the list of auction winners starting from 2012³³². Additionally, the website includes the information on registration of applications declaring the intention to take part in the auction³³³.

After the registration of applications is closed, the Geology Service requests (i) the State Fiscal Service of Ukraine to confirm that the bidders have no outstanding tax liabilities as of the last reporting period; and (ii) law enforcement authorities and entities responsible for financial monitoring to identify entities engaged in terrorist activities in Ukraine. If no reply is provided

³³⁰ Para.258 of the CMU Activity Agenda (Coalition Agreement) and Sustainable Development Strategy “Ukraine - 2020”: http://www.mil.gov.ua/content/other/postanova_04032015.pdf

³³¹ Before 6 April 2016, the indicated term was 30 calendar days.

³³² Available at: <http://www.geo.gov.ua/prodazh-na-auktsionakh>.

³³³ Available at: <http://www.geo.gov.ua/publikaciya/informaciya-pro-reyestraciju-zayavy-pro-namir-vzyaty-uchast-v-aukcioni>.

to the requests within 30 days, the outstanding tax liabilities are deemed absent, and the entity is deemed non-engaged in terrorist activities in Ukraine³³⁴.

An auction is arranged if at least two candidates for the purchase of a license are registered. The auction step depends directly on the initial price for the license and should be determined by the relevant procedure (for example, the step for an auctioned license with an initial price between UAH 1,000,000 to UAH 2,999,999 is UAH 20,000; between UAH 3,000,000 and UAH 4,999,999 - UAH 30,000 etc.)

The bidder who agrees to pay the highest price wins the auction. After the auction, the winner should enter into the sale and purchase agreement with the Geology Service and pay the final price for the awarded license less the guarantee already paid.

Annex 10 contains information on the license auctions held in 2016, including information on the bidders and the winners.

For the reference, the procedure for awarding licenses through an auction is presented in the diagram below (**Figure 6-18**).

The procedure for granting licenses without an auction

In certain cases explicitly indicated in the procedure for granting licenses³³⁵, licenses can be granted without holding an auction, in particular if it is either:

- ▶ Production of minerals, if the applicant performed the geological exploration of the mineral block as well as the appraisal or approbation of mineral reserves with the DKZ of the Geology Service at its own expense;
- ▶ Increase of the minerals production made by a holder of a valid license, that is achieved by expanding the boundaries of the licensed area. In this case, the license is given without an auction, provided that the adjacent land has not already been granted into use and the expansion comprises of less than 50 percent of reserves identified in the previously awarded license;
- ▶ Geological exploration and production of minerals of local importance;
- ▶ Geological exploration undertaken at the expense of the state;
- ▶ Geological exploration, including pilot production and production by joint-stock companies with a state-owned capital of 100 percent, and the natural gas market players that have special obligations to ensure public interests in the natural gas market with at least 100 percent of charter capital owned by the business entity, whose sole shareholder is the state³³⁶;
- ▶ Performance of PSAs.

Generally, the grounds for granting a license without an auction were shortened. For more details, see Section 6.3 of this Report.

In order to obtain the license under the no-auction procedure, it is necessary to:

³³⁴ Para. 8, 9 of the Procedure for holding auctions for Holding Auctions for the Sale of Special Subsoil Use Permits approved by the Resolution of the CMU No. 594 dated 30 May 2011.

³³⁵ Resolution of the CMU "On approval of the Procedure for Granting Special Permits for Subsoil Use" No 615 dated 30 May 2011.

³³⁶ This para became ineffective as of 12 April 2017.

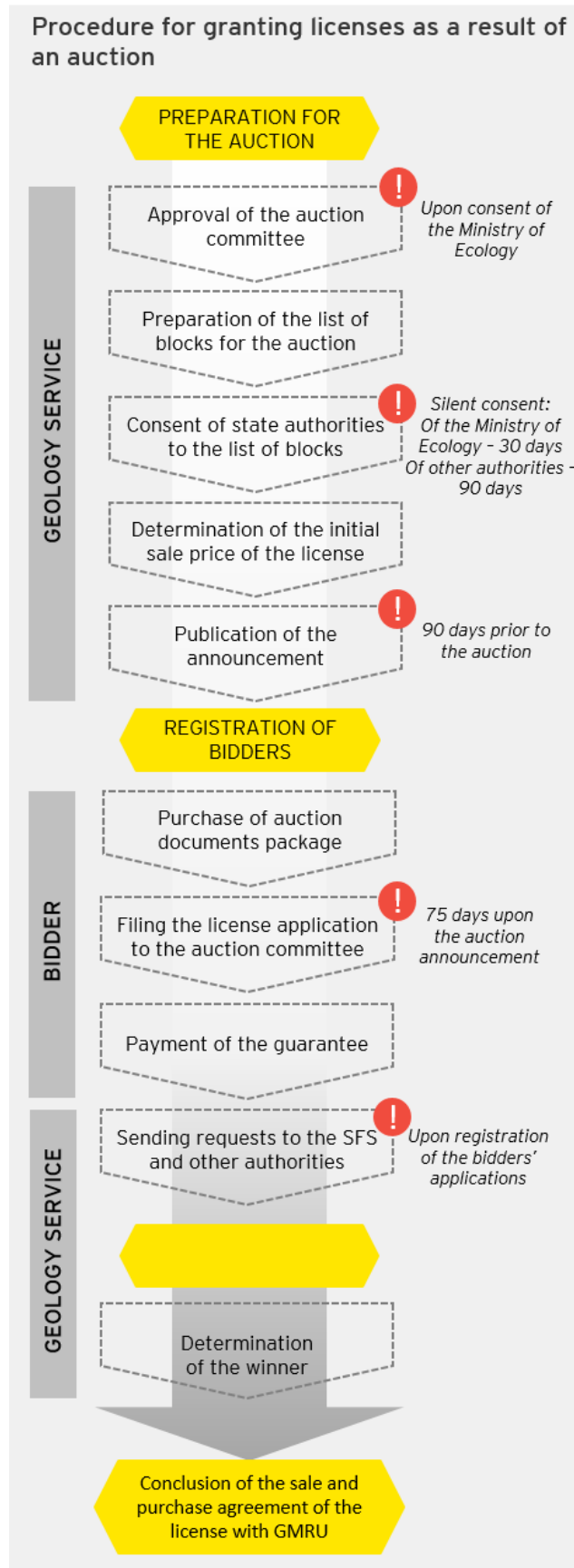


Figure 6-18: The procedure for awarding licenses through an auction

- ▶ Obtain the relevant approvals from respective state executive bodies and/or local governments (the Council of the Autonomous Republic of Crimea, the relevant regional, Kyiv or Sevastopol city councils, the Ministry of Ecology);
- ▶ Submit to the Geology Service an application with a package of attachments stipulated by relevant regulations. Such package may include an explanatory note describing the capacities of the company and other required information, the directory of geographic coordinates of corner points of the mineral block, an overview map etc. The final package of the documents to be submitted to the Geology Service to obtain the license depends on the type of subsoil use and the particular case in respect of which the license may be granted without an auction. The template of an application for the license without an auction may be found on the official website of the Geology Service³³⁷;
- ▶ Receive a confirmation of the absence of a state tax debt as of the latest reporting period from the SFS and non-engagement with terrorist activities in Ukraine from the law enforcement authorities and entities responsible for financial monitoring;
- ▶ Pay a license fee in the amount of the initial sale price of an auction for the license calculated using the approved methodology (except for the licenses for PSAs where the license fee is 1 percent of the initial sale price of an auction).

The license may not be granted without an auction if the person, particularly, (i) fails to comply with the program of works at the mineral block already provided into its use under a license; or (ii) is identified to have violated the rules for subsoil use proven by the audit report, notification, or an order of the relevant state authority in the field of subsoil use, until remedied.

Before 12 April 2016, licenses were granted for geological exploration or development of strategically important minerals, based on the expert opinion of the Interagency Commission on Subsoil Use³³⁸.

For the reference, the procedure for granting licenses without an auction is presented in the diagram below (*Figure 6-19*).

Amending and reissuing the awarded licenses

According to the law, a license cannot be transferred (donated, sold or otherwise alienated) to the person or entity other than the license holder. Moreover, the law prohibits any contribution of a license into the equity of the entities incorporated by license holders or to use licenses as their contribution to a joint venture³³⁹.

At the same time, in certain cases the granted licenses may be amended or reissued.

In particular, the license is amended in the following cases:

- ▶ Changes to special conditions and other conditions defined in the license;
- ▶ Decrease of the block's area at the initiative of the subsoil user or the relevant state authorities;
- ▶ Discovery of information related to new features, quality, or amount of minerals in the course of the subsoil use;
- ▶ Discovery of misprints or obvious errors in the license within three years upon its granting.

³³⁷ Available at: http://www.geo.gov.ua/storinka/ot_rymannya-specdozvoliv-bez-provedennya-aukcionu.

³³⁸ Resolution of the CMU "On amendment of the procedures approved by the Cabinet of Ministers of Ukraine dated 30 May 2001 No. 594 and No. 615, and invalidation of some resolutions of the Cabinet of Ministers of Ukraine" No. 277 dated 6 April 2016.

³³⁹ Para. 6 of Article 16 of the Subsoil Code.

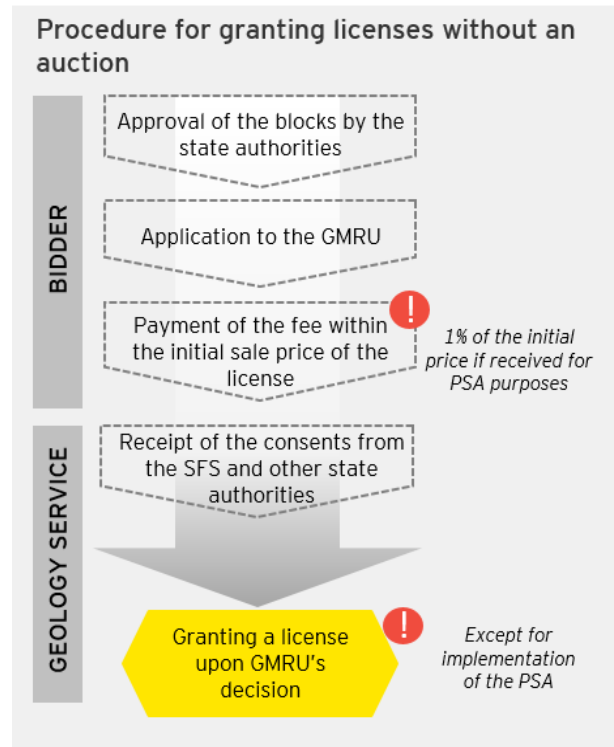


Figure 6-19: Procedure for granting licenses without an auction

The license is amended based on the subsoil user's application and supporting documents, including an explanatory note describing the grounds for the amendment. The Geology Service may refuse the amendment if it discovers the subsoil user's failure to comply with the plan of works at the mineral block already provided into its use, or the violation of the rules for subsoil rules proven by the acts of the respective authorities.

The license may be reissued in the following cases:

- ▶ If such reissuance is provided for in the Law of Ukraine "On the licensing system in the field of business activities";
- ▶ Succession of the legal entity (subsoil user) as a result of reorganization through the change in business type of the entity;
- ▶ Obtainment of an IPG of a state-owned coalmine (license holder) into lease or concession by the legal entity (not holding the license), which thus effectively becomes a subsoil user.

In 2016, it is no longer possible to reissue a license in case of setting up a legal entity by the license holder aimed at continuing the activities on the block granted to the subsoil user, subject to certain conditions. However, in 2017 the Procedure was amended to include a similar provision, which allows to amend the license in case a new entity through separation from the subsoil user with the aim to continue the activities on the mineral block provided into its use, subject to certain conditions (in particular, such subsoil user may not be a state-owned commercial entity or a company with more than 50 percent of state ownership, may not have an outstanding tax debt, unless paid in instalments or repackaged, etc)³⁴⁰.

³⁴⁰ The amendments are introduced by the Resolution of the CMU "On amendment of the procedures approved by the resolutions of the Cabinet of Ministers of Ukraine dated 30 May 2011 No. 594 and No. 615" No. 518 dated 21 June 2017, available at: <http://zakon2.rada.gov.ua/laws/show/518-2017-%D0%BF/paran23#n23>.

The Geology Service reissues the license on a new pre-printed form, or provides a motivated refusal within 30 calendar days upon receipt of the application.

Agreement on the terms and conditions of subsoil use

Regardless of whether the auction or non-auction procedure is followed to grant a license, the Geology Service and a subsoil user becoming a license holder should enter into an agreement on the terms and conditions of subsoil use. The Law on Oil and Gas provides that such an agreement is an integral part of a license. For more details, see Section “6.6.4. The contracts in the extractive industries” of the Report.

6.6.3. Availability of the information about the beneficial owners of extractive companies

- The Unified state register

According to Ukrainian legislation, in addition to information about the founders, the information about the ultimate beneficial owners (controllers) should be also disclosed to the state registrar³⁴¹. Information on the founders (participants) and the ultimate beneficial owners (controllers) of the entities is publicly available online on the website of the Ministry of Justice of Ukraine³⁴² or the Unified State Portal of Open Data³⁴³. However, the publicly available information about the ultimate beneficial owners is not always complete.

Legal entities are obligated to provide the registrar with the documents disclosing the ownership structure of the founders if they are legal entities. This can be used to identify the individuals that are the ultimate owners of the substantial interests in such entities. However, the law does not require the registrar to make this information publicly available.

- The Global Beneficial Ownership Register

Since at the end of 2016 Ukraine joined the Global Beneficial Ownership Register³⁴⁴, the data on beneficial owners of Ukrainian companies in the Unified State Register is also available online through this database³⁴⁵.

- The Unified State Register of Electronic Declarations

Starting from 2017, the information about state officials who are beneficial owners (controllers) of legal entities has become available in the Unified state register of declarations of persons authorized to perform functions of the state or local governments³⁴⁶. In particular, the declarant must provide information on any securities or any other corporate rights, including shares in charter or other equivalent capitals of companies, enterprises, or organizations registered in Ukraine or abroad³⁴⁷.

³⁴¹ Subpara. 9 of para. 2 of Article 24 of the Law of Ukraine “On state registration of legal entities, individual entrepreneurs, and public organizations” No. 755-IV dated 15 May 2003, available at: <http://zakon5.rada.gov.ua/laws/show/755-15>.

³⁴² <https://usr.minjust.gov.ua/ua/freesearch>.

³⁴³ <http://data.gov.ua/passport/73cfe78e-89ef-4f06-b3ab-eb5f16aea237>

³⁴⁴ Resolution of CMU “Some Issues of Providing Information from the United State Register of Legal Entities, Individual Entrepreneurs and Public Organizations” No. 593 dated 8 September 2016, available at: <http://zakon2.rada.gov.ua/laws/show/593-2016-%D0%BF>

³⁴⁵ <https://register.openownership.org>

³⁴⁶ Unified State Register of Electronic Declarations of persons authorized to fulfil functions of the state or local governments, available at: <https://public.nazk.gov.ua>.

³⁴⁷ See subpara. 4 and 5 of para. 1 of Article 46 of the Law of Ukraine “On prevention of corruption” No. 1700-VII dated 14 October 2014, available at: <http://zakon2.rada.gov.ua/laws/show/1700-18/print>.

- Database of issuers of securities

The information about the owners of 10 percent or more of the shares in joint stock companies is available in the database of issuers posted on the website of the Agency for Development of Stock Market Infrastructure of Ukraine at <http://smida.gov.ua/db/emitent>.

6.6.4. The contracts in the extractive industries

Legislation on disclosure of contracts in the extractive industries

Starting from 2016, the Geology Service is obliged to publish both the issued licenses and the relevant subsoil use agreements that are an integral part of such licenses. At the same time, only a part of such agreements (mostly covering the second half of 2016-2017) have been published³⁴⁸. The agreements concluded earlier are still not available.

Except for the obligation imposed on the Geology Service in 2016, the Ukrainian legislation does not require public disclosure of the texts of agreements that contain the terms and conditions for development of oil, gas, and other minerals, as well as other contracts indirectly related to the development of minerals. In practice, joint activity agreements and product sharing agreements are often confidential and publicly unavailable.

According to the Law of Ukraine "On the transparency of the Use of Public Funds"³⁴⁹, the administrators and recipients of state and local public funds, as well as state- and municipally-owned enterprises are required to disclose information on the agreements concluded within the reporting period³⁵⁰. However, the information to be published does not include the text of the agreements.

Subsoil use agreement

The basic contractual document defining the terms and conditions of subsoil use is an agreement on the terms and conditions of subsoil use.

The agreement is concluded between the Geology Service and the license holder and is considered an integral part of the latter in accordance with the Law of Ukraine on Oil and Gas³⁵¹. The agreement should contain provisions on technical, technological, organizational, financial, economic, social, and environmental obligations of the parties as well as the procedure that would govern the relations between them in the process of subsoil use on the block granted by the license.

The essential conditions of the subsoil use agreement are, among others, a program of works to be performed by the license holder, the sources of funding for the works, the provisions on the title to geological information obtained as a result of subsoil use etc.

The framework agreements on terms and conditions of subsoil use are approved by the Geology Service and published on its official website at <http://www.geo.gov.ua/storinka/ugody-pro-umovy-korystuvannya-nadramy>.

Starting from 2016, the Geology Service is obliged to publish the concluded subsoil use agreements. Scan copies of some licenses and respective subsoil use agreements are available on the official website of the Geology Service. However, as of the date of this Report only 99

³⁴⁸ See the official website of the Geology Service, available at: <http://www.geo.gov.ua/storinka/perelik-nadanyh-specdozvoliv-na-korystuvannya-nadramy>.

³⁴⁹ The Law of Ukraine "On the Transparency of the Use of Public Funds" No. 183-VIII dated 11 February 2015.

³⁵⁰ See the website of the Public Fund's Single Web Portal, available at: <https://spending.gov.ua/web/guest>.

³⁵¹ Article 28 of the Law on Oil and Gas.

licenses issued in 2016 and relevant subsoil use agreements were published, whereas in total 170 licenses were granted throughout 2016 (see Section “6.6.1. Registry of licenses”).

Also, particular conditions for subsoil use and development of mineral deposits can be found in respective feasibility studies for mineral reserve conditions. However, these materials are not publicly available either.

Production sharing agreements³⁵²

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

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

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

A license for the purposes of the PSA performance is granted without an auction. The State should facilitate granting the other permits and licenses to PSA investors and their contractors.

The list of essential terms and conditions of a PSA is specified in the PSA Law and provided as “15 Annex 7. Essential terms and conditions of PSA”. However, the law does not require any disclosure of the PSA contents, and texts of the concluded PSAs are not publicly available.

Current PSAs: there was no activity under PSAs in 2016.

As of the end of 2016, the information is available on the following PSAs signed between the State of Ukraine represented by the CMU and,

- ▶ Vanco International Limited regarding Prykerchenska block (PSA signing date: 19 October 2007)³⁵³;
- ▶ Shell Exploration and Production Ukraine Investments (IV) B.V. and Nadra Yuzivska LLC regarding Yuzivska block (PSA signing date: 24 January 2013)³⁵⁴. Shell Exploration and Production Ukraine Investments (IV) B.V. left the project in 2015³⁵⁵;
- ▶ Chevron Ukraine B.V., Nadra Oleska LLC regarding Oleska block (PSA signing date: 5.11.2013).³⁵⁶ In 2014 Chevron informed of unilateral termination of the PSA³⁵⁷;

³⁵² The specifics of PSA regulation are stipulated by the Law of Ukraine “On Production Sharing Agreements” No. 1039-XIV dated 14 September 1999, available at: <http://zakon3.rada.gov.ua/laws/show/1039-14>.

³⁵³ For more details on signing the PSA, see the link: <http://tsn.ua/groshi/kabmin-domovivsyia-pro-rozrobku-shelfu.html>.

³⁵⁴ For more details on signing the PSA, see the link: <http://zakon2.rada.gov.ua/laws/show/576-2013-%D1%80>.

³⁵⁵ <http://ua.interfax.com.ua/news/general/299606.html>.

³⁵⁶ For more details on signing the PSA, see the link: http://www.kmu.gov.ua/control/uk/publish/article?art_id=246879555&cat_id=244276429.

³⁵⁷ <http://ua.korrespondent.net/business/economics/3456069-Chevron-vidmovylasia-vid-proektu-z-osvoiennia-oleskoi-ploschi-zmi>

- ▶ ENI Ukraine Shallow Waters B.V., EDF Shallow Waters SAS, Vody Ukrainy LLC, State Joint-Stock Company Chornomornaftogaz PJSC regarding the areas Abikha, Kavkazka, Mayachna block, structure Subbotina (PSA signing date: 27 November 2013)³⁵⁸.

On 27 October 2015, after Shell Exploration and Production Ukraine Investments IV B.V. had left the project on the shale block of Yuzivska in 2015, a new tender for investors was announced³⁵⁹. In July 2016, Yuzgaz B.V. was announced as the winner³⁶⁰. However, the CMU refused to approve the transfer of the participation share in the PSA³⁶¹. At the end of 2016, Yuzgaz B.V. challenged the decision of the CMU through court proceedings³⁶².

On behalf of the state, the CMU or a central executive body authorized thereby should supervise the implementation of the PSA under the procedure and on the terms specified in the PSA and the PSA Law. At least once every five years the CMU jointly with the central executive body authorized by the CMU should organize and conduct a comprehensive audit of compliance with the conditions stipulated by the PSA.

The state guarantees that the legislation valid at the time of entry into the PSA will apply to investors during the term of the agreement, save for the case when the new legislation reduces or abolishes taxes, simplifies the conduct of business, etc. The stability clause does not apply to changes in laws governing issues of defense, national security, public order, and environmental protection.

The fiscal regime for PSAs: A PSA is taxed according to the special rules set by the Tax Code and the agreement itself. During the term of the PSA, almost all the taxes that the investor is subject to (other than CIT, VAT, and production royalty) are replaced with the distribution of products. The investors are also required to withhold/charge and pay PIT and the USC of the wages and other payments to their employees and to pay fees and duties for the services provided by the state bodies. The Tax Code provides for a number of tax benefits for investors under PSAs.

6.6.5. Other contracts in extractive industries

Joint activity agreements

An extractive company holding a license may enter into joint activity agreements (JAAs) with other companies.

The JAA does not give rise to the right to use the subsoil but only governs the civil relations between the parties to such JAA.

Under JAAs, parties operate jointly without setting up a separate legal entity to attain a certain goal. The terms of JAAs, including the coordination of the joint activities of the participants or the performance of their joint activities, the legal status of assets contributed to the joint activity, the coverage of expenses and losses of the parties, sharing of profits of joint activity, and other conditions are negotiated by the parties³⁶³. The Ukrainian legislation does not contain

³⁵⁸ For more information on signing the JAA, see:

http://www.kmu.gov.ua/control/uk/publish/article?art_id=246879555&cat_id=244276429.

³⁵⁹ See <http://nadraukrayny.com.ua/?p=531>.

³⁶⁰ See <http://nadraukrayny.com.ua/?p=681>.

³⁶¹ See <http://ua.interfax.com.ua/news/general/381004.html>.

³⁶² Court case No. 826/19366/16 in the Unified State Register of Court Decisions, the ruling on opening the proceedings: <http://reyestr.court.gov.ua/Review/63649072>.

³⁶³ Chapter 77 of the Civil Code of Ukraine No. 435-IV dated 16 January 2003, available at: <http://zakon2.rada.gov.ua/laws/show/435-15>

any specific requirements for JAAs in oil and gas production, except for the prohibition to contribute licenses to the joint activity³⁶⁴.

An approval of the CMU is required for entry into JAAs with SOEs and companies with the state-owned interest in the equity exceeding 50 percent.³⁶⁵ State authorities managing the companies in question should provide the Ministry of Economy with the information about the JAAs performance progress on a quarterly basis. The Ministry of Economy summarizes the information and submits its opinions and proposals to the CMU³⁶⁶. The law does not require disclosing JAAs, so JAAs' contents are not publicly available.

The fiscal regime. For VAT purposes, two or more persons engaged in joint activities without establishing a legal entity are deemed separate taxpayers. Economic relations between the parties to the joint activity are deemed equal to the relations based on individual civil contracts.

Accounting of results of joint activity is done by a taxpayer (a resident or a permanent establishment of a non-resident) authorized to do so by other parties under the terms of the JAA, and should be ring-fenced from accounting of other activities of such taxpayer. The authorized taxpayer is responsible for the administration of VAT and production royalty under the JAA.³⁶⁷ Ring-fenced CIT accounting and administration of JAA was not carried out and each of the participants in the JAA had to have its own CIT accounting and administration.

Concession contracts for state and municipal property

Under the concession contract, state authorities or local governments may grant certain mining facilities (e.g., ore enriching plants) into operation to private parties. Such private parties (concessionaires) thus will get the right to operate such facilities (particularly, for production of minerals), earn profits and obtain products as a result of performance of such contract.

While the concession contract does not give the right to subsoil use, it is still directly related to extractive activities. Under a concession contract, a concessionaire should carry on the activities strictly specified therein and use the conceded facilities solely for its designated purpose (i.e., for extractive activities), while the facility owner (concessor) can inspect if the concessionaire complies with these and other contract terms, and terminate it should the concessionaire violate any of them.

The concession is a special case of a public-private partnership³⁶⁸ regulated by the Law of Ukraine "On Concessions"³⁶⁹. More specific regulations of lease and concession of state-owned facilities related to production and processing of coal and brown coal are provided for in the Law of Ukraine "On Peculiarities of Lease or Concession of State-Owned Fuel and Energy Industry Objects".³⁷⁰

The CMU approves the list of particular state-owned facilities that may be provided into concession, upon the recommendation of the relevant central executive body. The list of

³⁶⁴ Para 2 of Article 14 of the Law on Oil and Gas.

³⁶⁵ The procedure for the SOEs, institutions, organizations as well as the companies, whose authorized capital contains more than 50 percent of the state interest, to enter JAAs, commission agreements, agency and property management agreements, approved by the CMU No. 296 dated 11 April 2012.

³⁶⁶ Resolution of the CMU "On approval of the Procedure for state enterprises, institutions, organizations and commercial companies, whose authorized capital includes more 50 percent of the state share to enter the cooperation agreements, commission agreements, agency and property management agreements" No. 296 dated 11 April 2012, available at: <http://zakon0.rada.gov.ua/laws/show/296-2012-%D0%BF>

³⁶⁷ Sections II, III, V, XI of the Tax Code of Ukraine,

³⁶⁸ Article 5 of the Law of Ukraine "On Public Private Partnership" No. 2404-VI dated 1 July 2010.

³⁶⁹ The Law of Ukraine "On Concessions" No. 997-XIV dated 16 July 1999, available at: <http://zakon5.rada.gov.ua/laws/show/997-14>.

³⁷⁰ The Law of Ukraine "On Peculiarities of Lease or Concession of Fuel and Energy Industry Objects" No 2269-XII dated 10 April 1992, available at: <http://zakon0.rada.gov.ua/laws/show/3687-17>.

municipally owned facilities that may be granted into concession should be approved by the relevant local authorities at their plenary sessions only. The decision on granting a concession of a municipally owned facility to a tender winner should be made by an authorized local governance authority.

The decision on granting a concession of a state-owned facility based on the tender should be adopted by the CMU or its authorized executive body. The decision on the feasibility of granting the fuel and energy facility into concession should be approved by the Ministry of Energy, initiated by legal entities (including potential concessionaires) or the Ministry of Energy itself.

After the decision on the feasibility of granting the facility into concession is made, the Ministry of Energy announces a tender for the right to obtain the facility in concession. The Ministry concludes the concession contract with the winner of the tender and performs necessary registration formalities.

The law sets a list of the essential terms and conditions of a concession contract, listed in “16 Annex 8. Essential terms and conditions of concession contract” to this Report.

The extractive companies that received an integral property group under the concession contract may enjoy a simplified procedure for obtaining various permits. A similar simplified procedure also applies to the cases where there are lease contracts for the IPGs of state coal mining companies.

The concessionaire should record the facilities received into concession on its balance sheet indicating that such property is received in concession. Granting facilities into concession does not involve transfer of ownership over the facility to the concessionaire and does not terminate the right of state or municipal ownership to such facilities.

Concession fees are recorded to the state or local government revenue. The amounts of concession fees are set according to the Methodology for calculation of concession fees determined by the CMU³⁷¹.

Table 6-3: Distribution of licenses valid in 2016 per type of minerals use (quartz sand)

Registration date	Registration No	Concessor	Concessionaire	Property granted into concession and its location	Concession fee	Duration of the concession contract
8 February 2012	006	MECI	DTEK Rovenkyanthracite LLC	IPG SC Rovenkyanratsyt	17082812 - for 1 st quarter	From 30 December 2011 for 49 years
8 February 2012	007	MECI	DTEK Sverdlovanthracite LLC	IPG SC Sverdlovanratsyt	13058227 - for 1 st quarter	From 30 December 2011 for 49 years
5 June 2012	008	MECI	DV naftogazovydobuvn a kompaniia LLC	IPG SC Teploelektrotsentral - Eskhar	819340,30 - for 1 st quarter	From 20 April 2012 for 49 years till 19 April 2061

³⁷¹ Methodology for calculation of concession fees, determined by the CMU No. 639 dated 12 April 2000, available at: <http://zakon0.rada.gov.ua/laws/show/639-2000-%D0%BF>.

The law does not require to disclose the contents and conditions of concession contracts, so the texts of concession contracts are not publicly available. The Register of concession contracts maintained by the State Property Fund is accessible at <http://www.spfu.gov.ua/ua/content/spf-rent-concessions/>.

Fiscal regime

The legislation does not provide for any special tax regime for concession contracts where state or municipal property is granted in concession (with certain exceptions). A concessionaire should record the assets received into concession on its balance sheet and operate them on its own, pay all the taxes and levies, applicable under the law.

The lease or concession fees where an IPG of the state or municipal enterprise (or their divisions) is leased or granted into concession are VAT exempt.

6.6.6. Use of local component in extractive industries

The Ukrainian legislation does not require the use of a local content as a prerequisite for granting a license. However, as it follows from sample texts, subsoil use agreements oblige a subsoil user to use predominantly Ukrainian goods and services, in so far as their price and quality, as compared to international prices and quality, are technically, technologically, and economically practicable, and would not impair production or environmental safety.

The PSA Law additionally stipulates that a PSA should include the investor's obligations to:

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

Under the Law of Ukraine "On Concessions", the concessionaire is obliged to use domestically produced technologies, materials, equipment production at the facility granted in concession, unless otherwise is provided by the agreement.

Ukrainian laws do not impose any obligations on the companies or state authorities to disclose the information related to the local component as a mandatory provision of the relevant agreement, and such information is not publicly available.

6.6.7. Cooperation between extractive companies and local communities

In accordance with paragraph (a) of Requirement 6.1 of the EITI Standard, "where material social expenditures by companies are mandated by law or the contract with the government that governs the extractive investment, implementing countries must disclose and, where possible, reconcile these transactions."

The Ukrainian legislation contains no notion of "mandatory social expenditures of extractive companies" and provides no list of cases where such expenditures of extractive companies (other than the payment of a USC) may be mandatory.

Partial participation in the development of local infrastructure

In accordance with the legislation on urban development activities, an individual/entity that intends to develop a land plot in a certain locality and filed a corresponding application, is obliged to participate in the creation and development of engineering, transport, and social infrastructure of the locality (this requirement does not apply, among others, to construction of engineering, transport infrastructure and energy objects)³⁷².

Such participation takes place by transferring funds from the applicant to the relevant local budget for creation and development of the said infrastructure based on the agreement concluded with the local government. However, this requirement applies to all companies, not just mining companies.

Financing of social and infrastructure needs by extractive companies

Extractive companies can enter into agreements with local governments and undertake to finance social or infrastructure needs of the region's community where the extractive activities are carried out.

The procedure for issuance of licenses provides that mining companies must obtain approval of, among others, the local governments, i.e., regional³⁷³, district, city, settlement, village³⁷⁴ councils (depending on the type of minerals). The legislation does not specify the procedure for local governments to follow when considering a request for such approvals. The governments determine such procedures independently based on the needs of a particular region.

The local governments may:

- ▶ In accordance with the general norms of local government legislation³⁷⁵, approve the procedure for considering subsoil use issues in the region at the level of local legislation, for instance:
 - ▶ The Poltava Regional Council approved³⁷⁶ the procedure for making decisions on approval of granting licenses and / or provision (re-issuance) of mining allotments, which includes, among others, the obligation of the company to provide for approval a copy of an agreement with the local governments on financing of social facilities for the current year and information on financing such objects for the previous and current years (three years in case of granting a license);
 - ▶ The Ivano-Frankivsk Regional Council published a draft of a similar procedure for consideration by the regional council of the use of subsoil in the Ivano-Frankivsk region³⁷⁷. The procedure, *inter alia*, stipulates that the draft decision on the approval by the regional council of the use of subsoil should include a requirement for the subsoil user to conclude an agreement on the social and economic partnership with the local

³⁷² Article 40 of the Law of Ukraine "On Regulation of Urban Development" No. 3038-VI of 17 February 2011 available at: <http://zakon5.rada.gov.ua/laws/show/3038-17>.

³⁷³ Sub-para. 2 of para. 9 of the Procedure for granting special permits for the use of subsoil, approved by the Resolution of the CMU No. 615 dated 30 May 2011.

³⁷⁴ Sub-para. 3 of para. 9 of the Procedure for granting special permits for the use of subsoil, approved by the Resolution of the CMU No. 615 dated 30 May 2011.

³⁷⁵ See, for example, Articles 33, 43, 44 of the Law of Ukraine "On Local Governments in Ukraine" No. 280/97-BP dated 21 May 1997.

³⁷⁶ See "The procedure for consideration by the regional council of issues on the use of subsoil in the territory of the Poltava region" adopted by the decision of the eighteenth session of the regional council of the sixth convocation of 9 October 2013, available at: <http://oblrada.pl.ua/uploads/temp/nadra.pdf>.

³⁷⁷ See Draft Procedure for Consideration by the Regional Council of Issues on Subsoil Use in the Ivano-Frankivsk Region, the data from the official website of the Ivano-Frankivsk Regional Council, available at: http://www.orada.if.ua/fileadmin/documents/Reguljatorna_polityka/Rehulyatornyy_akt_po_nadrakh_2.pdf.

community of the locality where the mineral deposit is located³⁷⁸. At the same time, the availability of such an agreement is a prerequisite for the Regional Council to consider approval of issuing a mining allotment³⁷⁹.

- ▶ Provide the local councils that would endorse the relevant documents with non-binding guidelines on the conclusion of such agreements:
 - ▶ The Kirovohrad Regional State Administration has published on its website the Recommended Procedure for subsoil use approvals to business entities³⁸⁰, including, among others, the recommendation to consider their investment proposals (intentions and/or commitments) and social agreements;
- ▶ Make decisions on each of the approvals separately (the reason for the approval in this case may be, for example, the actual payment of taxes to the region's budget, job creation, etc., instead of the existence of an agreement with the community³⁸¹).

Typically, mass media reports on agreements that include social expenditures by extractive companies do not include explanations as to whether such agreements were concluded with the aim to obtain approvals from local governments of specific permits³⁸². Legislation does not oblige extractive companies to publish their social and economic agreements with local communities or to indicate the motivation for their conclusion (in particular, whether this was a condition for obtaining certain permits).

³⁷⁸ Para. 2.12 of the Draft Procedure for Consideration by the Regional Council of the issues on Subsoil Use in Ivano-Frankivsk Region.

³⁷⁹ Paragraph 2.12 of the Draft Procedure for Consideration by the Regional Council of the issues on Subsoil Use in Ivano-Frankivsk Region.

³⁸⁰ See Kirovograd Regional State Administration's official website, available at: http://prom.kr-admin.gov.ua/nadrokor_dozvil.html.

³⁸¹ For example, see the situation with the approval of the issuance of licenses without concluding social contracts or imposing obligations on mining companies by local communities: http://kurs.if.ua/news/try_kariery_bez_osoblyvyh_umov_pogodyla_na_prykarpatti_ekologichna_komisiya_oblrady_35508.html.

³⁸² For instance, see <http://styknews.info/novyny/ekonomika/2013/04/22/dtek-ta-ivano-frankivska-oda-pidpysaly-ugodu-pro-sotspartnerstvo-na-72-m>.

Summary:

Regulatory regime of extractive activities is complicated and was historically not transparent enough, particularly at the license awarding stage.

Throughout 2016, certain steps were taken to improve transparency in the extractive industry. The improvements in this field include the following:

- 1) Decreased opportunities to grant licenses without an auction;
- 2) Increased requirements to the persons applying for a license, including:
 - ▶ The bidder must confirm the sufficient number of qualified employees and technical resources for implementation of works;
 - ▶ The bidder must disclose its ownership structure covering the controlling persons at the stage of application to the auction;
- 3) The obligation to publish Information related to the steps of the procedure of granting the licenses with / without an auction, as well as the template documents (application, subsoil use agreement) on the official website of the Geology Service.

Along with that, there is still a pressing need for further change to improve the transparency in extractive industries, including:

- ▶ Public disclosure of information on data used to determine the prices for licenses;
- ▶ Clear identification of financial and technical criteria applied to license applicants;
- ▶ Increase of transparency concerning actual conditions for subsoil use;
- ▶ Simplification of access to material payments of extractive companies, including the tax payments (currently, the access to the SFS database related to such payments involves certain technical issues);
- ▶ Making the contents and texts of the contracts in extractive industries, as well as aggregated information with respect to such contracts, publicly available as generally accessible registries (in particular, publication of texts of the subsoil use agreements, which became obligatory in 2016);
- ▶ Further decrease of the list of grounds to obtain a license through a non-auction procedure;
- ▶ Increase of the local community role in relations with extractive companies, in particular, by empowering the communities with more mechanisms of control over the companies' activities concerning the local community interests, developing a unified approach to concluding agreements on cooperation between communities and extractive companies, disclosing their texts, and public control over implementation of such agreements.

6.7. Budget process in Ukraine

The Budget Code of Ukraine sets out the detailed procedure for preparation, adoption, execution, reporting on execution of the State and municipal budgets, as well as control over compliance with budget laws (“budget process”). The budget process consists of the four stages³⁸³:

Preparation, consideration and approval of the draft state budget

- ▶ First, the Ministry of Finance jointly with other central executive bodies prepares and the CMU consents to the Budget Policy Guidelines in accordance with the budgetary policy priorities, determined in the annual address of the President of Ukraine to the Parliament, and then the Parliament approves it;
- ▶ After the Budget Policy Guidelines are approved, the state authorities and institutions that are state funds’ managers should prepare and submit to the Ministry of Finance their budget requests with proposals and justifications of the amounts of state funds necessary for their activities;
- ▶ Based on the analysis of budget requests, the Ministry of Finance develops a draft State budget;
- ▶ The CMU approves the draft State Budget and submits it with appropriate supporting documents to the Parliament and the President of Ukraine no later than on 15 September of the year preceding the year in planning;
- ▶ The Parliament considers and approves the Law on State Budget of Ukraine under a special procedure³⁸⁴ during three readings by 1 December of the year preceding the year in planning³⁸⁵. The Law on the State Budget should be signed by the President of Ukraine.

Preparation, consideration and approval of the draft local budget

- ▶ Within a week from the date of approval by the CMU of the draft State Budget, the Ministry of Finance ensures that the local state administrations and executive bodies of relevant local councils receive the calculations of the forecast amounts of interbudget transfers, their calculation methods, organizational and methodological requirements, and other indicators for preparing draft local budgets;
- ▶ Local state administrations, executive bodies of relevant local councils prepare draft local budgets and draft decisions on relevant local budgets;
- ▶ Prior to consideration of the draft decision on the local budget at the session of the respective local council, it is approved by the local state administration or the executive body of the respective local council;
- ▶ Local budgets should be approved by the decision of the relevant local council before December 25 of the year preceding the year in planning;
- ▶ Within two weeks after the official publication of the Law on the State Budget, the volume of interbudget transfers is adjusted in accordance with the approved state budget.

³⁸³ Para 10 Part 1 Article 2, para 1 Article 19 of the Budget Code of Ukraine, available at: <http://zakon0.rada.gov.ua/laws/show/2456-17>.

³⁸⁴ Chapter 27 of the Law of Ukraine “On the Rules of Parliamentary Procedure of the Verkhovna Rada of Ukraine” No 1861-VI dated 10 February 2010, available at: <http://zakon3.rada.gov.ua/laws/show/1861-17>.

³⁸⁵ In practice, however, the deadlines are often not met. For example, the Law on State Budget for 2016 was adopted on 25 December 2015.

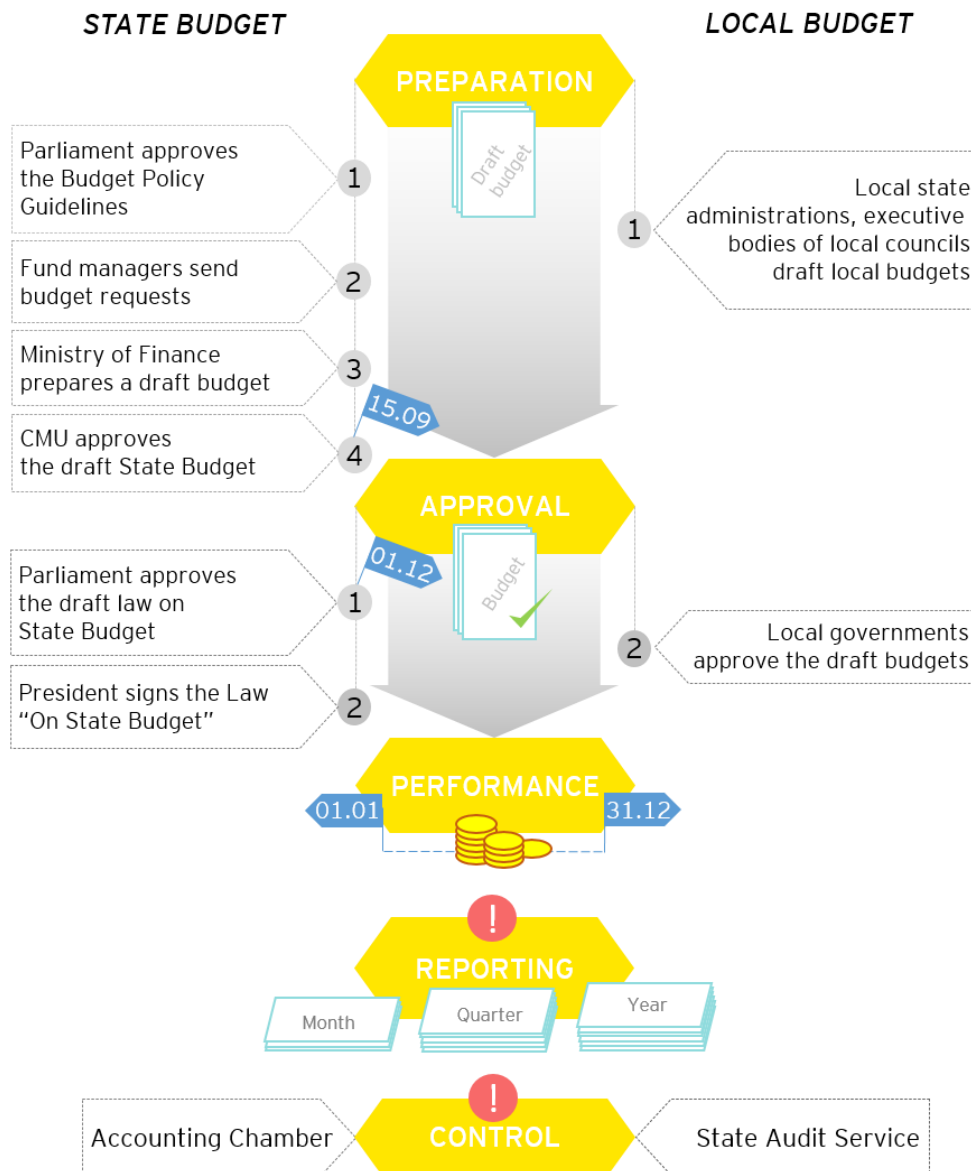


Figure 6-20: Budget process in Ukraine

Execution of budgets and amendments to them

- ▶ Budget should be executed from January 1 to December 31 of the calendar year according to the schedule (annual, quarterly, monthly);
- ▶ The State Budget can be amended by the Parliament at the initiative of the President of Ukraine, MPs, or the CMU in cases specified by the budget law, including when there is an observable deviation from the forecast indicators considered when approving the State Budget.³⁸⁶ The draft law amending the Law on the State Budget is considered by the Parliament subject to availability of an expert opinion of the Ministry of Finance;
- ▶ The decision to amend a local budget should be adopted by the relevant local council on the basis of the official opinion of the local financial authority.

³⁸⁶ Article 160 of the Law of Ukraine "On the Rules of Parliamentary Procedure of the Verkhovna Rada of Ukraine", Article 52 of the Budget Code of Ukraine.

Preparation and review of the budget execution report

- ▶ The state and local budgets execution reports are prepared on a monthly, quarterly and annual basis³⁸⁷. Specific features of each type of the reports are established by the budget law;
- ▶ The CMU submits the Annual Report on the implementation of the State budget to the President of Ukraine, the Parliament, and the Accounting Chamber no later than 1 April of the year following the reporting year. Within two weeks, the Accounting Chamber should prepare and submit its findings on the use of the state funds to the Parliament, also assessing the efficiency of such use, and providing recommendations on how to tackle the identified violations. The Parliament considers the Annual Report on Budget Execution under a special procedure³⁸⁸.

At all stages of the budget process, state funds are audited and analyzed in terms of their efficiency and compliance with the budget legislation. Control over the state revenues and expenditures and their use is exercised by the Accounting Chamber³⁸⁹, which publishes the reports on its website³⁹⁰. Using the Public Fund's Single Web Portal³⁹¹, it is also possible to track the state public expenses in real time (it is possible to search for public funds' managers, specific transactions, regions, etc.).

The state financial control designed to verify the compliance with budget legislation, including the audit of legitimate and effective use of state or municipal funds and property and the implementation of budget programs should be performed by the State Audit Service of Ukraine³⁹² (since mid-2016, a successor of the State Financial Inspection exercising these powers in 2014-2015³⁹³).

³⁸⁷ Article 58 of the Budget Code of Ukraine.

³⁸⁸ Articles 161-162 of the Law of Ukraine "On the Rules of Parliamentary Procedure of the Verkhovna Rada of Ukraine".

³⁸⁹ The Law of Ukraine "On the Accounting Chamber" No. 576-VIII of 2 July 2015, available at: <http://zakon0.rada.gov.ua/laws/show/576-19>.

³⁹⁰ <http://www.ac-rada.gov.ua/control/main/uk/publish/category/16748561>.

³⁹¹ Public Fund's Single Web Portal: <https://spending.gov.ua/>

³⁹² Procedure for the state financial audit of business entities by the State Audit Service, its regional bodies, approved by the Resolution of the Cabinet of Ministers No 361 dated 25 March 2006, available at: <http://zakon0.rada.gov.ua/laws/show/361-2006-%D0%BF>

Procedure for the state financial audit of budget programs by the State Audit Service, its regional bodies, approved by the Resolution of the Cabinet of Ministers No 1017 dated 10.08.2004, available at: <http://zakon5.rada.gov.ua/laws/show/1017-2004-%D0%BF>.

³⁹³ Regulations of State Audit Service, approved by the Resolution of the CMU No. 43 of 3 February 2016, available at: <http://zakon4.rada.gov.ua/laws/show/43-2016-%D0%BF>

Summary:

The procedures for preparing, approving, performing and reporting on the performance of the state and local budgets, as well as the control over compliance with budget laws is regulated by the Budget Code of Ukraine.

Severe centralization of decision-making in the budget process and inability to trace the use of specific payments from the extractive companies upon their transfer to the budgets reduces the ability of local communities to cover their needs and may discourage the communities to cooperate with extractive companies.

In view of this, the most recent trends in decentralization of state revenues (in particular, transfer of 5% of the production royalty for hydrocarbon to local budgets starting from 1 January 2018) is a positive step.



7 Reconciliation of tax and other payments



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Report of factual findings

Ministry of Energy and Coal Industry of Ukraine,

We have performed the procedures agreed-upon with you and enumerated below with respect to taxes and other payments to the state from extractive companies in 2016. Our engagement was undertaken in accordance with the International Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information". The procedures were performed solely to provide information on taxes and other payments to the state from extractive companies in 2016.

The procedures are summarized in Section 7.1 below. We report our findings in Sections 7.2-7.6 below.

Because the procedures listed in Section 7.1 do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on taxes and other payments to the state from extractive companies in 2016.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose as set forth in the first paragraph of this report and relates only to the specific information specified in Sections 7.2-7.6 below and does not extend to any financial statements of the extractive companies.

Ernst & Young Audit Services LLC

15 May 2018

7.1. Agreed-upon procedures

Agreed-upon procedures in respect of taxes, non-taxes and other payments included the following:

- ▶ to obtain from extractive companies and government authorities information on taxes, non-taxes and other payments in 2016;
- ▶ to reconcile the data from extractive companies and government authorities on each type of payments for each company in 2016;
- ▶ If there are no material discrepancies³⁹⁴ between the data on payments obtained from the companies on the one hand and the government authorities on the other hand, the reconciliation is completed and results should be indicated in EITI Report;
- ▶ In case of material discrepancies on payments are identified, to address such company for explanations;
- ▶ If based on the explanations received from the companies (or if the company refused to provide such explanations) it's not possible to determine the cause of discrepancies, to address the respective government authority with a request to provide the detailed information on that type of payment;
- ▶ If based on the explanations received from the companies and government authorities (or if they refused to provide such explanations) discrepancies remains unexplained, the discrepancies should be indicated in EITI report.

³⁹⁴ According to the decision of MSG, the discrepancy is considered material, if it exceeds 5% of a payment, or 1 mln UAH. If the discrepancy exceeds 5%, but in absolute terms it is less than UAH 1,000, it is considered immaterial.

7.2. Determination of the scope of reconciliation within the EITI Report

7.2.1 Determination of the list of extractive industries for reconciliation within the EITI Report

The list of extractive industries, whose payments to the government in 2016 were material, was formed on the basis of the information on payments to the Consolidated budget and Pension Fund received from the SFS (*Table 7-1*).

According to SFS, four extractive industries (coal, oil, natural gas and iron ores mining), as well as oil and natural gas transportation, cover 93.48% of the Consolidated budget and Pension Fund revenues from all extractive industries in 2016.

Because of economic importance of titanium and manganese ores mining, as well as the government's plans for privatization of the key titanium enterprises in Ukraine, the MSG members decided to include them in the scope of reconciliation within the EITI report 2016 (Minutes of MSG meeting of September 6, 2016), despite the relatively immaterial revenues from these industries.

Table 7-1: Payments by extractive companies to the Consolidated budget and Pension Fund in 2016

NACE	Type of economic activity	Payments to the Consolidated budget and Pension Fund in 2016	
		UAH thousand	% of the total payments from the extractive industries companies
05.10	Mining of hard coal	7,867,689.29	9.58%
06.10	Extraction of crude petroleum	10,455,399.18	12.73%
06.20	Extraction of natural gas	47,166,229.64	57.43%
07.10	Mining of iron ores	2,992,403.39	3.64%
07.21	Mining of uranium and thorium ores	325,854.18	0.40%
07.29	Mining of other non-ferrous metal ores, including:	1,291,709.28	1.57%
	Extraction of manganese and titanium ores	1,280,676.85	1.56%
08.11	Quarrying of ornamental and building stone, limestone, gypsum, chalk and slate	983,978.27	1.20%
08.12	Operation of gravel and sand pits; mining of clays and kaolin	936,222.07	1.14%
08.93	Extraction of salt	336,804.06	0.41%
49.50	Transport via pipeline, including:	9,769,373.49	11.90%
	Ukrtransgaz PJSC and Ukrtransnafta PJSC	8,294,474.50	10.10%
	Total	82,125,662.85	100%

So, the following extractive industries were included in the scope of the EITI Report of Ukraine for 2016:

- ▶ coal mining;
- ▶ crude oil extraction;
- ▶ natural gas production;
- ▶ iron ores mining;
- ▶ transportation of oil and natural gas;
- ▶ titanium ores mining;
- ▶ manganese ores mining.

According to SFS, the companies selected for reconciliation from seven extractive industries (hereinafter - reporting industries) in 2016 paid in favor of the state UAH 78,056,872.86 thousand, or 96.78% of the total revenues of the Consolidated budget and Pension Fund from all extractive industries.

7.2.2 Determination of types of payments for reconciliation within the EITI Report

The list of material types of payments from the reporting industries to be covered by the reconciliation was created based on the information on the revenues to the Consolidated budget and Pension Fund received from the SFS about (**Table 7-2**).

Table 7-2 presents the information on payments from the reporting companies of the extractive industries, according to the list of payers used by SFS and the Geology Service. In both cases the source of information is the same - the SFS. However, there is a discrepancy in the list of legal entities and taxpayers, used by the SFS and the Geology Service to identify whether the company belongs to the extractive industries.

The list of extractive companies used by the Geology Service includes all companies that had a valid special permit for the use of subsoil in 2016. The information on holders of special permits is public and open. So, the list was formed on the basis of publicly available sources, namely the register of subsoil users of Ukraine, which was published on the official site of Geoinform of Ukraine SRPE.

The SFS uses its own list of tax payers that belong to extractive industries. This listing is non-public, it is impossible to clearly identify the companies that belong to it.

Taking into account the requirements of the EITI Standard, including Guidance note No. 13 (on defining materiality, reporting thresholds and reporting entities), based on the analysis of information on revenues by types of payments, a list of significant types of payments was determined for the relevant companies to be included in the scope of the reconciliation:

1. Personal income tax;
2. Corporate income tax;
3. Production royalty³⁹⁵;
4. Value added tax;

³⁹⁵ This category includes: (1) production royalty for natural gas extraction; (2) production royalty for oil extraction; (3) production royalty for extraction of mineral resources of national importance; (4) production royalty for oil condensate extraction

5. Unified contribution for mandatory state social insurance, unified social contribution (USC).

Table 7-2: Payments from the companies of reporting extractive industries to the Consolidated budget and Pension Fund in 2016

Budget classification code	Title in the budget classification	Paid by extractive companies of reporting industries in accordance with SFS list		Paid by extractive companies of reporting industries in accordance with the Geology Service list	
		UAH thousand	%	UAH thousand	%
13030100, 13030700, 13030800, 13030900	Production royalty	34,967,430.02	43.96%	40,048,763.53	38,15%
14010100	Value added tax	19,760,465.75	24.84%	36,991,007.67	35,24%
11020100- 11021100	Corporate income tax	9,004,253.32	11.32%	10,353,772.92	9,86%
71010000	Unified social contribution	5,301,966.19	6.67%	6,688,303.33	6,37%
11010100- 11010500	Personal income tax	4,225,738.73	5.31%	5,440,845.13	5,18%
18010500, 18010600	Land fee	774,886.88	0.97%	3,699,204.53	3.52%
19010100- 19010400	Environmental tax	456,842.05	0.57%	1,108,859.68	1,06%
21010100	Dividends and payment of a share of net profit	529,558.42	0.67%	149,301.46	0,14%
TOTAL, MATERIAL PAYMENTS		75,021,141.35	94.32%	101,425,032.76	96.63%
Other types of payments (immaterial)		4,521,662.92	5.68%	3,538,431.78	3.37%
TOTAL, ALL TYPES OF PAYMENTS		79,542,804.27³⁹⁶	100%	104,963,464.54	100%

According to the decision of the MSG (Minutes of MSG meeting of 18 January 2018), three additional types of payments were included in the scope of reconciliation within the EITI Report for 2016:

- ▶ Due to their importance for filling local budgets:
 - Land fee (land fee and land rent for legal entities);
 - Environmental tax;
- ▶ Due to the need for clarification of the relationship between public sector entities and the state:
 - Dividends and payment of a share of net profit.

³⁹⁶ The indicated amount includes tax receipts from Ukrchimtransamiak SE, as well as the companies involved in the extraction of ores of other non-ferrous metals.

Also, according to the same decision of MSG meeting of 18 January 2018, the “Tax on Excisable Goods (Products) Produced in Ukraine” was excluded from the list of significant tax payments as not directly related to the extraction of minerals.

So, the total amount of revenues from the companies of the reporting extractive industries by material types of payments in 2016, according to the list of the Geology Service was UAH 101,425,032.76 thousand or 96.63% of the total payments by companies of reporting industries, and according to the list of the SFS - UAH 75,021,141.35 thousand or 94.32%.

The following types of payments were included in the scope of reconciliation within the EITI report of Ukraine for 2016:

- ▶ Personal income tax;
- ▶ Corporate income tax;
- ▶ Production royalty;³⁹⁷
- ▶ Value added tax;
- ▶ Unified contribution for mandatory state social insurance, unified social contribution (USC);
- ▶ Land fee (land fee and land rent for legal entities);
- ▶ Environmental tax;
- ▶ Dividends and payment of a share of net profit.

³⁹⁷ This category includes: (1) production royalty for natural gas extraction; (2) production royalty for oil extraction; (3) production royalty for extraction of mineral resources of national importance; (4) production royalty for oil condensate extraction

7.2.3 Determination of the list of reporting companies for reconciliation within EITI Report

To determine the list of extractive companies whose payments in favor of the state in 2016 were material and should be covered by reconciliation within the EITI Report, the list of mining companies of the Geology Service was used, since it is publicly available and allows to fully analyze government revenues.

This list includes 1514 legal entities and taxpayers in total (including branches and separate subdivisions of the owners of special permits for use of subsoil) that belong to the reporting industries. According to the SFS, in 2016 these companies paid the total of UAH 104,963,464.54 thousand to the Consolidated budget and Pension Fund (all types of payments), including UAH 101,425,032.76 thousand of material types of payments.

In the structure of revenues from the reporting extractive industries (according to the list of the Geology Service), the contribution of each branch was the following: oil and gas extraction³⁹⁸ - UAH 89,574,502.11 thousand or 85.34% of the total, metal ores mining³⁹⁹ - UAH 7,200,856.93 thousand or 6.86%, coal mining - UAH 8,188,105.50 or 7.80%.

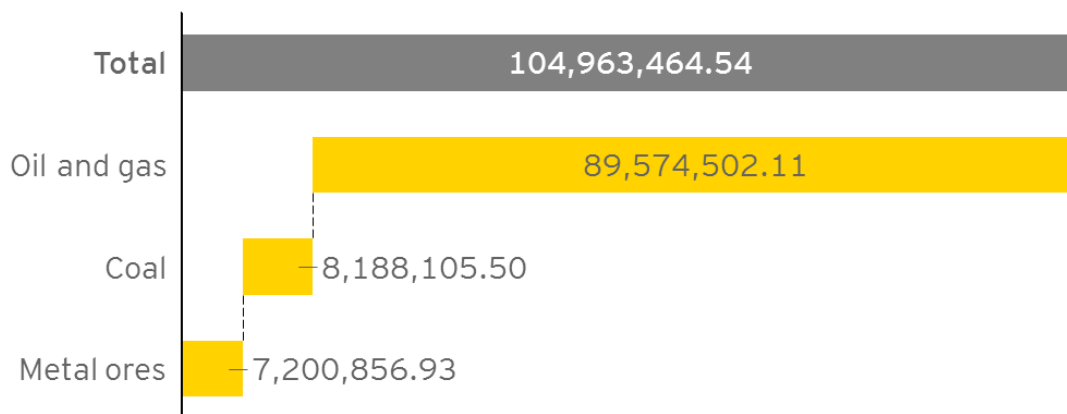


Figure 7-1: Revenues from the companies of the reporting extractive industries to the Consolidated budget and Pension Fund in 2016 (according to the Geology Service list)

Based on information from the SFS on actual payments by extractive companies in favor of the state, 60 companies (hereinafter referred to as "reporting companies") were identified that paid approximately 99% (or UAH 100,088,748.23 thousand) of all material payments in 2016 (UAH 101,425,032.76 thousand). The share of revenues from the reporting companies in the total revenue from all extractive industries for all types of payments in 2016 amounted to 95.36%.

The main steps of determination of the material types of payments and reporting companies to be included in the scope of reconciliation within the EITI Report for 2016 are presented below (**Figure 7-2**).

³⁹⁸ For the purposes of reconciliation of the payments, the companies whose activities is categorized as crude oil extraction and natural gas extraction were grouped into one category - oil and gas.

³⁹⁹ For the purposes of reconciliation of the payments, the companies whose activities is categorized as iron ores mining, manganese ores mining and titanium ores mining, were grouped in one category - metal ores.

Material companies of the reporting industries, Material types of payments	UAH 100,088,748.23 thous 95.36%	Small companies 1.27%	Immaterial payments 3.37%
All companies of the reporting industries, material types of payments	UAH 101,425,032.76 thous 96.63%		Immaterial payments 3.37%
All companies of the reporting industries, all types of payments		UAH 104,963,464.54 thous	100%

Figure 7-2: Determination of material revenues subject to reconciliation within the EITI Report for 2016 (based on Geology Service list)

So, according to the results of the technical economic analysis and assessment of materiality of revenues in accordance with the requirements of the EITI Standard, the scope of reconciliation within the EITI Report for 2016 included the revenues to the state from 60 material companies of the reporting industries by 8 types of material payments in the amount of UAH 100,088,748.23 thousand which is 95.36% of total revenues from all companies of the reporting extractive industries.

Table 7-3: Revenues from the reporting companies to the Consolidated budget and Pension Fund paid as material types of payments in 2016

No	Company name	EDRPOU code /tax number	Sector of extractive industry	Paid as material types of payments	
				UAH thousand	Cumulative % of the total material payments
1	Ukrgezvydobuvannia PJSC	30019775	Oil and gas	37,389,560.57	36,86%
2	Naftogaz of Ukraine NJSC	20077720	Oil and gas	16,163,206.81	52,80%
3	Ukrnafta PJSC	135390	Oil and gas	7,967,857.25	60,66%
4	Ukrtransgaz PJSC	30019801	Oil and gas	7,078,858.34	67,64%
5	Naftogazvydobuvannia PrJSC	32377038	Oil and gas	4,932,627.49	72,50%
6	Joint activity agreement of 10/06/2002 No 3 - authorized entity Karpatygas LLC 30162340	337504782	Oil and gas	3,142,616.46	75,60%
7	ArcelorMittal Kryvyi Rih PJSC	24432974	Metal ores	2,871,697.90	78,43%
8	DTEK Pavlogradugol PrJSC	178353	Coal	2,557,459.50	80,95%
9	Energy Service Company Esco-Pivnich LLC	30732144	Oil and gas	1,685,141.88	82,61%

No	Company name	EDRPOU code /tax number	Sector of extractive industry	Paid as material types of payments	
				UAH thousand	Cumulative % of the total material payments
10	Ukrtransnafta PJSC	31570412	Oil and gas	933,424.24	83,53%
11	Southern mining factory PJSC	191000	Metal ores	964,262.28	84,48%
12	Vydobuvna kompaniia Ukrnaftoburinnia PrJSC	33152471	Oil and gas	879,976.96	85,35%
13	Natural resources PrJSC	33100376	Oil and gas	796,517.94	86,14%
14	United Mining and Chemical Company SE	36716128	Metal ores	771,457.61	86,90%
15	Krivoj Rog`s iron-ore combine PJSC	191307	Metal ores	753,186.03	87,64%
16	DTEK Sverdlovanthracite LLC	37596090	Coal	754,113.53	88,38%
17	DTEK Rovenkyanthracite LLC	37713861	Coal	695,630.27	89,07%
18	Poltava Petroleum Company JV	20041662	Oil and gas	655,382.32	89,71%
19	Kub-gaz LLC	30694895	Oil and gas	629,749.65	90,34%
20	Joint activity agreement of 28/11/2000 No 1- Д21/008/2000 - authorized entity Poltava branch of Devon CJSC 26002442	403742858	Oil and gas	590,387.57	90,92%
21	Northern Iron Ore Enrichment Works PrJSC	191023	Metal ores	477,631.93	91,39%
22	Shakhtoupravlinnia Pokrovske PJSC	13498562	Coal	450,261.50	91,83%
23	Krasnodonvuhillia PrJSC	32363486	Coal	429,561.55	92,26%
24	DTEK Dobropolyeugol LLC	37014600	Coal	431,312.54	92,68%
25	Persha ukraiinska gazonaftova kompaniia LLC	36050166	Oil and gas	432,312.17	93,11%
26	The foreign investment enterprise in the form of PrJSC Zaporizhzhia iron ore industrial complex	191218	Metal ores	399,342.81	93,50%
27	DTEK Mine Komsomolets Donbassa PrJSC	5508186	Coal	406,389.89	93,90%
28	Ukrgazvydobutok PrJSC	25635581	Oil and gas	378,900.69	94,28%

No	Company name	EDRPOU code /tax number	Sector of extractive industry	Paid as material types of payments	
				UAH thousand	Cumulative % of the total material payments
29	Selydivvuhillia SE	33426253	Coal	350,469.84	94,62%
30	Lvivvuhillia SE	32323256	Coal	340,656.56	94,96%
31	Sukha Balka PrJSC	191329	Metal ores	288,267.35	95,24%
32	Vuhilna kompaniia Krasnolymanska SE	31599557	Coal	250,716.61	95,49%
33	Energiiia-95 LLC	24186185	Oil and gas	257,022.00	95,74%
34	Representative Office Regal Petroleum Corporation Limited (without legal entity right)	26333503	Oil and gas	230,509.40	95,97%
35	Pokrovskiyi GZK PJSC	190928	Metal ores	240,011.19	96,21%
36	Central Iron Ore Enrichment Works PrJSC	190977	Metal ores	195,870.09	96,40%
37	Nadra-Geoinvest LLC	35602704	Oil and gas	199,064.83	96,59%
38	Ferrexpo Yeristovo mining LLC	35713283	Metal ores	187,960.19	96,78%
39	Myrnohradvuhillia SE	32087941	Coal	183,577.68	96,96%
40	Joint activity agreement of 24/03/2004 No 493 - authorized entity Karpatygaz LLC 30162340	455860319	Oil and gas	189,074.58	97,15%
41	Joint activity agreement of 24/12/1997 No 999/97 - authorized entity Naftogazovydobuvne upravlinnia Poltavanaftogaz of Ukrnafta PJSC 22525915	403739509	Oil and gas	184,506.25	97,33%
42	Mine named after O.F. Zaciadko PJSC	174846	Coal	169,552.31	97,50%
43	Lysychanskvuhillia PJSC	32359108	Coal	153,649.52	97,65%
44	Marganets GZK PJSC	190911	Metal ores	141,163.74	97,79%
45	Pervomaiskvuhillia SE	32320594	Coal	139,510.40	97,92%
46	Systemoilingenerynng LLC	38203132	Oil and gas	133,861.19	98,06%

No	Company name	EDRPOU code /tax number	Sector of extractive industry	Paid as material types of payments	
				UAH thousand	Cumulative % of the total material payments
47	Mine named after M. S. Surgaia SE ⁴⁰⁰	40695853	Coal	108,220.75	98,16%
48	Prom-Energo Product LLC	31747429	Oil and gas	112,499.96	98,27%
49	Shakhtoupravlinnia Pivdenodonbaske No 1 SE	34032208	Coal	105,425.37	98,38%
50	Toretskvuhillia SE	33839013	Coal	93,929.53	98,47%
51	Boryslavska Naftova Kompaniia LLC JV	22402928	Oil and gas	91,002.97	98,56%
52	Kashtan Petroleum LTD JV	23703371	Oil and gas	88,113.95	98,65%
53	Joint activity agreement of 21/07/1997 No 23-3/97-84Б-97 - authorized entity Gaz-MDS LLC 24253556	536507917	Oil and gas	79,720.38	98,73%
54	Joint activity agreement of 19/01/1999 No 35/4 - authorized entity Ukrnafta PJSC 135390	534663345	Oil and gas	79,168.98	98,80%
55	Volynvuhillia SE	32365965	Coal	68,382.28	98,87%
56	Pari LLC	31037994	Oil and gas	69,855.57	98,94%
57	Mine Bilozerska ALC	36028628	Coal	65,744.89	99,00%
58	East Geological Union LLC	32426289	Oil and gas	65,833.40	99,07%
59	Ferrexpo Poltava mining PrJSC	191282	Metal ores	(72,150.45)	99,00%
60	Ingulets Iron Ore Enrichment Works PrJSC	190905	Metal ores	(321,270.77)	98,68%
Total, material companies				100,088,748.23	98.68%

Table 7-4 below contains detailed information on the revenues from the reporting companies by types of payments and extractive industries in 2016.

⁴⁰⁰ Mine named after M. S. Surgaia SE (EDRPOU 40695853) was established in 2016 by separation of the separated division of Mine Pivdenodonbaska No. 3 named after M. S. Surgaia (EDRPOU 33577404) from the Donetska Vuhilna Enerhetychna Kompaniia SE (EDRPOU 33161769). According to the explanations provided by the Company, the payments by three EDRPOU codes were taken into account during the reconciliation

Table 7-4: Revenues from the reporting companies to the Consolidated budget and Pension Fund in 2016, by material types of payments and extractive industries

Budget classification code	Title in the budget classification	Oil and gas	Metal ores	Coal	TOTAL BY TYPES OF PAYMENTS
13030100, 13030700, 13030800, 13030900	Production royalty	36,248,570.94	2,793,649.03	499,052.30	39 541 272,27
14010100	Value added tax	34,878,908.43	2,759.59	1,752,236.49	36 633 904,51
11020100- 11021100	Corporate income tax	10,349,553.78	-638,828.22	556,312.90	10 267 038,46
71010000	Unified social contribution	1,920,817.47	1,793,709.67	2,801,135.36	6 515 662,49
11010100- 11010500	Personal income tax	1,794,165.95	1,517,540.90	1,976,858.21	5 288 565,05
18010500, 18010600	Land fee	208,758.75	806,111.80	53,999.44	1 068 869,99
19010100- 19010400	Environmental tax	35,978.47	470,487.14	114,969.83	621 435,44
21010100	Dividends and payment of a share of net profit	0.00	152,000.00	0.00	152 000,00
TOTAL BY INDUSTRIES		85,436,753.79	6,897,429.91	7,754,564.53	100,088,748.23

7.2.3 Other non-tax payments

In the course of preparation of the first and second EITI Report of Ukraine, only two significant non-tax payments were identified:

1. Dividends and the payment of a share of net profit (in the previous EITI Reports - income from property and business activity (or the part of the net profit (income) of unitary government enterprises and associations thereof withdrawn to the state budget by law).
2. Unified social contribution.

The both types of payments were included in the scope of reconciliation in this Report.

Gathering of information on other non-tax payments requires additional requests to more than 300 state owned enterprises, organizations and institutions. The extractive companies that were included in the scope of reconciliation under this EITI Report would also have to collect and disclose the data on the payment in favor of more than 300 state owned enterprises, organizations and institutions.

However, the actual results of the collection of the relevant information in the course of preparation of the previous EITI Reports of Ukraine show the overall immaterial amount of other non-tax payments (**Figure 7-3**) in 2013-2015.

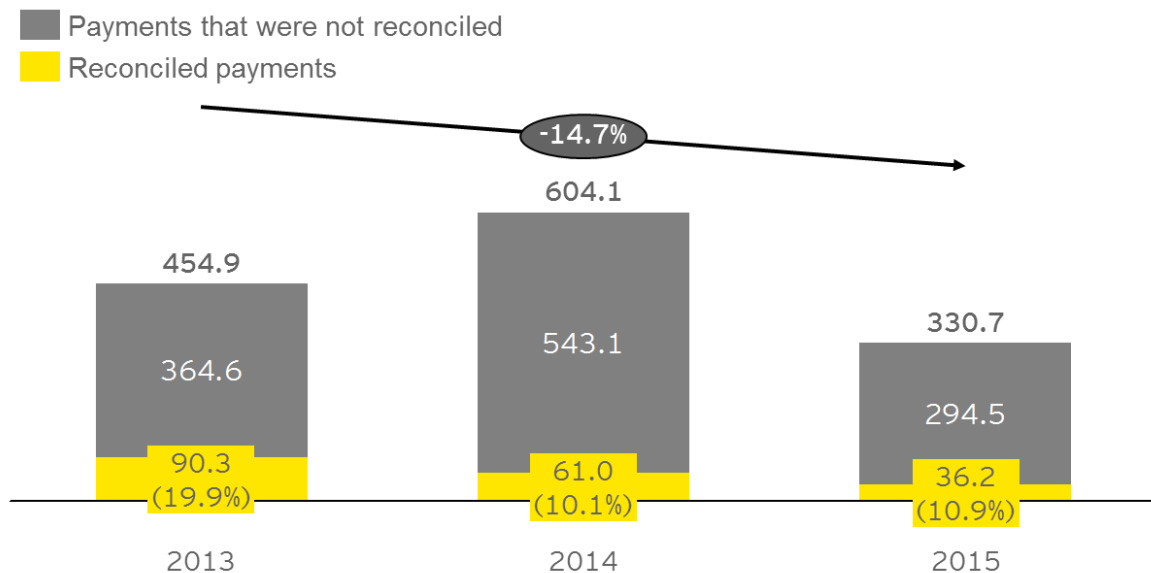


Figure 7-3: Non-tax payments in EITI Reports of Ukraine for 2013-2015, mIn UAH

Taking into account these circumstances and in view of the requirements of the EITI Standard, the MSG decided to exclude other non-tax payments from the scope of the EITI Report for 2016.

7.3. General findings of reconciliation

7.3.1 Completeness of reconciliation

Based on the results of gathering information from the reporting companies, the replies from 45 companies out of 60 were received about their tax and other payments to the Consolidated Budget and Pension Fund. Based on the obtained information, 91.84% of all revenues from the reporting companies in favor of the state, or UAH 91,918,519.59 thousand out of UAH 100,088,748.23 thousand were reconciled. The completeness of reconciliation enhanced compared to previous years, but the proportion of the companies that did not provide information for the EITI Report remains significant (> 5%).

The highest level of reporting was demonstrated by the oil and gas companies - 23 companies out of 28 ones selected for the reconciliation replied to the request (**Figure 7-4**). The high responsiveness made the industry the leader in terms of completeness of reconciliation in comparison to other extractive industries (95.09%). In metal ores mining industry the information was received from 10 companies out of 13 (which means that 86.55% of their payments in favor of the state were reconciled), and in coal mining industry - from 12 companies out of 19 (60.73% of the payments were reconciled) (**Figure 7-5**).

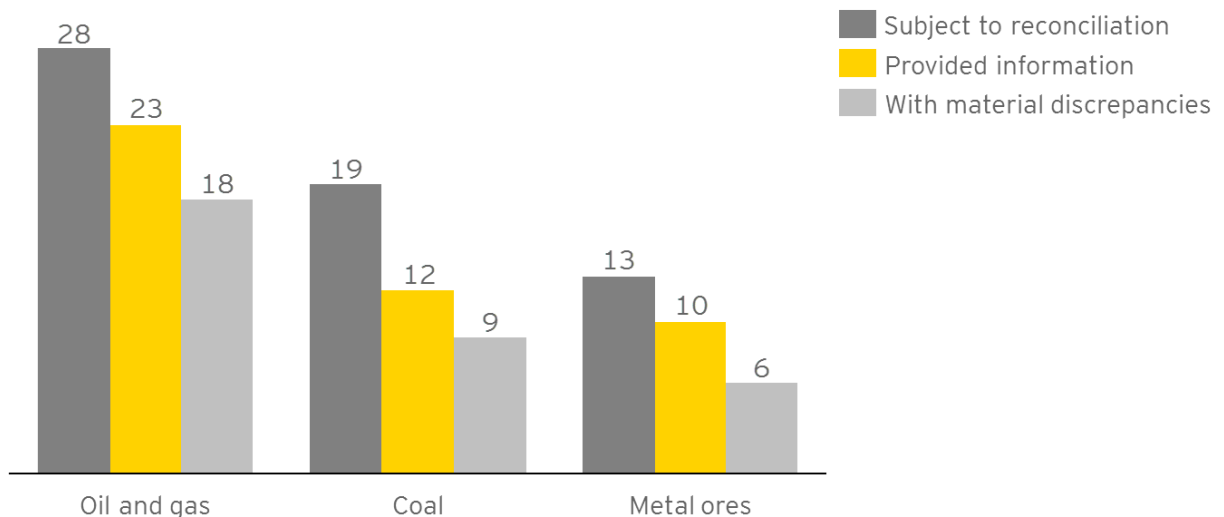


Figure 7-4: Completeness of reconciliation by the number of companies that provided information on tax and other payments to the Consolidated budget and Pension Fund

The initial reconciliation identified material discrepancies for 33 companies between their data and the SFS data (**Figure 7-4**). With regard to these cases, the second requests were submitted for further clarification and adjustment of information.

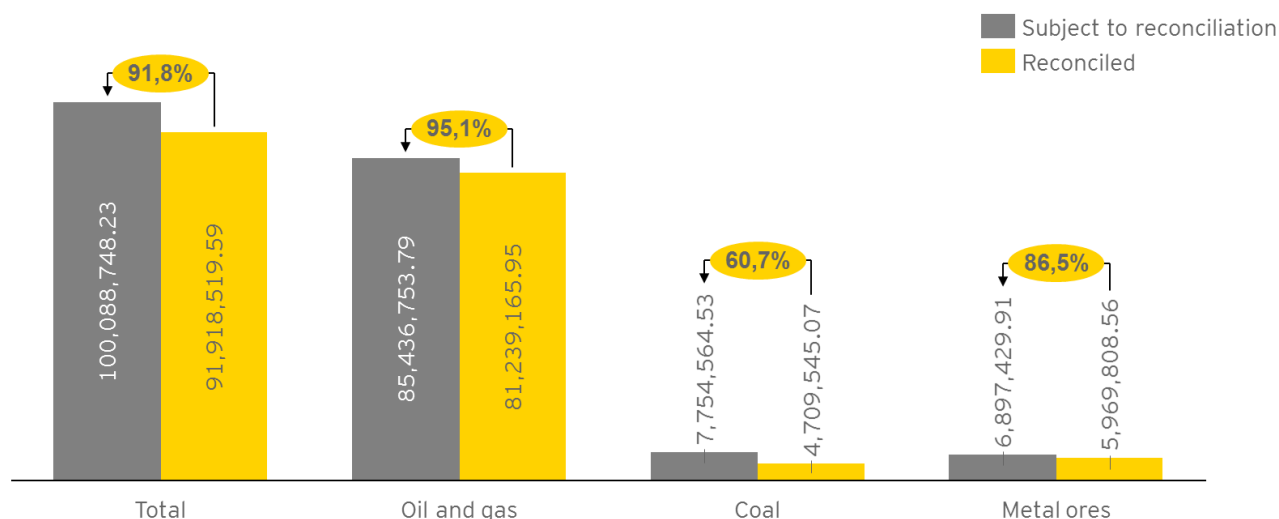


Figure 7-5: Completeness of reconciliation by the volumes of revenues to the Consolidated budget and Pension Fund from the reporting companies, UAH thousand

By the form of ownership, out of 60 reporting companies, 18 ones belong to public sector of economy and 42 ones - to private sector of economy. For the first group of companies the payments in favor of the state were UAH 72,362,578.59 thousand (72.30% of the total payments of the reporting companies), and for the second group - UAH 27,726,169.63 thousand (27.70%).

Out of 18 public sector companies, the Independent Administrator received information from 16 companies that allowed to reconcile 99.55% of payments made by the public sector companies.

29 private companies replied to the request and 71.70% of their revenues to the state were reconciled (**Table 7-5**).

Table 7-5: Completeness of reconciliation of revenues from the reporting companies to the Consolidated budget and Pension Fund in 2016, by extractive industries and form of ownership of the companies

Industry	Public / private sector of economy	Revenues			Number of companies		
		Subject to reconciliation, UAH thousand	Reconciled, UAH thousand	Completeness of reconciliation in terms of revenues, %	Subject to reconciliation	That provided information	Completeness of reconciliation in terms of number of companies, %
Oil and gas	Total, including:	85,436,753.79	81,239,165.95	95.09%	28	23	82.14%
	Public	69,796,582.44	69,612,076.19	99.74%	7	6	85.71%
	Private	15,640,171.35	11,627,089.77	74.34%	21	17	80.95%
Coal	Total, including:	7,754,564.53	4,709,545.07	60.73%	19	12	63.16%
	Public	1,794,538.54	1,655,028.14	92.23%	10	9	90.00%
	Private	5,960,025.99	3,054,516.93	51.25%	9	3	33.33%
Metal ores	Total, including:	6,897,429.91	5,969,808.56	86.55%	13	10	76.92%
	Public	771,457.61	771,457.61	100.00%	1	1	100.00%
	Private	6,125,972.30	5,198,350.95	84.86%	12	9	75.00%
TOTAL	Total, including:	100,088,748.23	91,918,519.59	91.84%	60	45	75.00%
	Public	72,362,578.59	72,038,561.94	99.55%	18	16	88.89%
	Private	27,726,169.63	19,879,957.65	71.70%	42	29	69.05%

7.3.2 General results of reconciliation

According to the data of the SFS, the total revenues of the Consolidated budget and Pension Fund made by 45 companies that provided information amount UAH 91,918,519.59 thousand, while according to the companies themselves, the revenues amount UAH 91,924,034.30 thousand. Based on findings of reconciliation and further adjustments of information, the discrepancies amount (0.01%) or UAH (5,514.71) thousand. Details of all discrepancies and reasons for adjustments for each extractive company are provided in **Appendix 15**.

By the extractive industries, the biggest total discrepancies are observed for coal mining companies - UAH (8,032.83) thousand or (0.17%), the least - for oil and gas companies - UAH (274.33) thousand or (0.0003%). The discrepancies for metal ores mining industry are UAH 2,792.46 thousand or 0.05% (**Figure 7-6**).

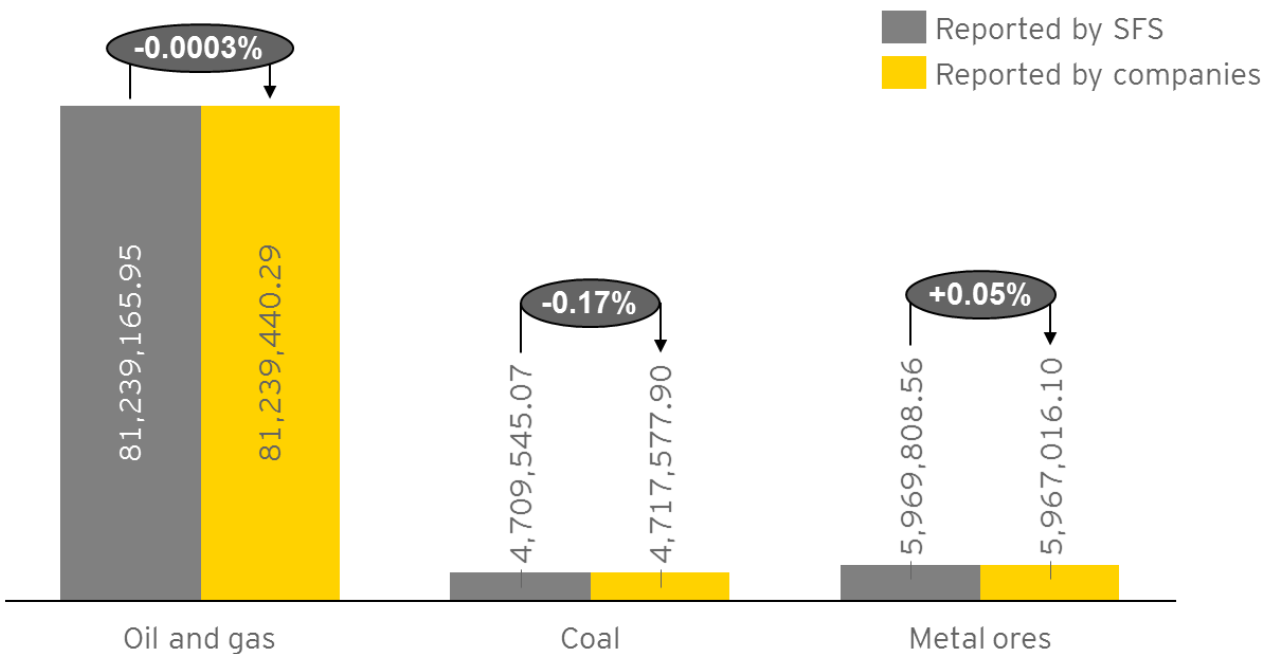


Figure 7-6: Results of reconciliation of revenues by extractive industries, UAH thousand

If analyzed by the types of payments, the biggest discrepancies between the SFS data and the data provided by the companies are observed for personal income tax - (0.45%). (**Figure 7-7**)

For the public sector companies, the discrepancies between the data are 0.01% or UAH 10,755.71 thousand. As compared to them, private companies have bigger discrepancies which are (0.08%) or (16,270.41) thousand (**Table 7-6**).

The tables with the results of reconciliation by types of ownership of the extractive companies (**Table 7-6**) and by the extractive industries (**Table 7-7**) and types of payments (**Table 7-8**) are presented below.

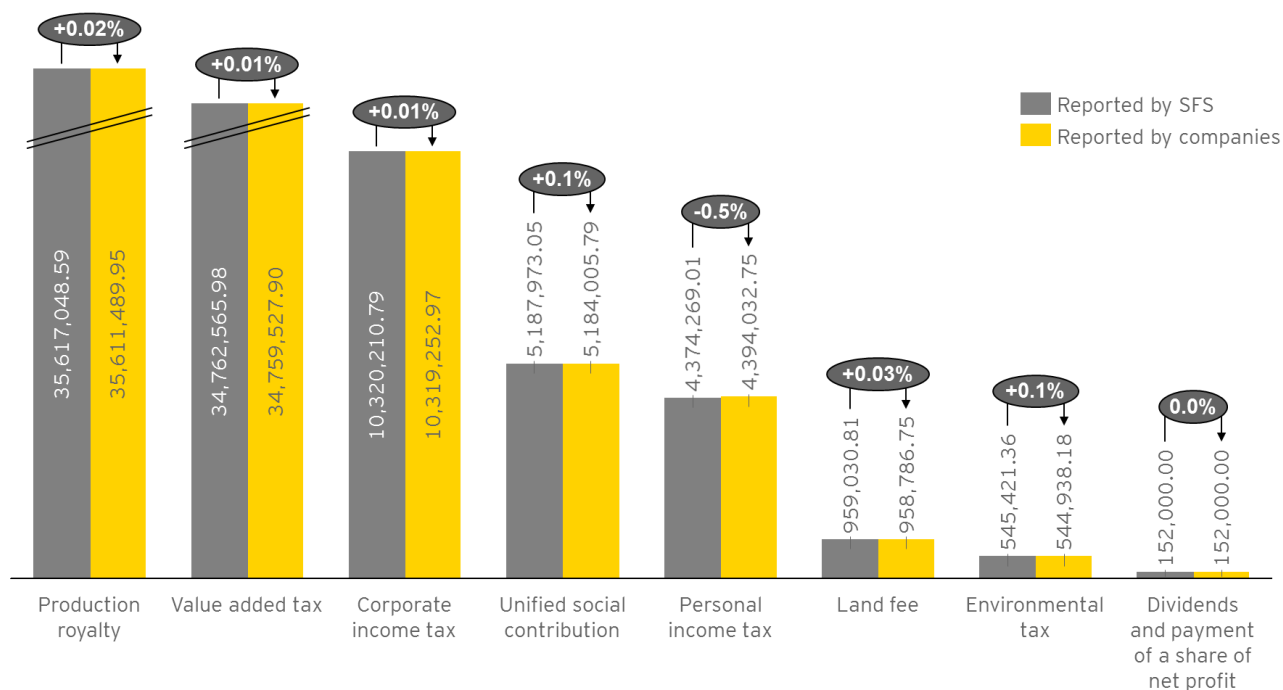


Figure 7-7: Results of reconciliation of revenues by the types of payments, UAH thousand

The most common causes of discrepancies and reasons for adjustments were the following:

- ▶ The fines (penalties) related to a certain tax were not included by the companies in the total amount paid for the tax;
- ▶ The overpaid corporate income tax to be refunded from the budget was not included by the companies in the reported amount. This overpaid tax was not actually repaid from the budget in 2016, so the information provided by the companies is formally correct. However, the SFS recognizes payments such as overpayments (negative corporate income tax), which caused the discrepancies;
- ▶ Some companies included in a value added tax the amount of VAT on goods importer in the territory of Ukraine paid on the accounts of customs. The SFS did not provide the relevant information, that is why the Independent Administrator was unable to reconcile these payments;
- ▶ The corporate income tax imposed on foreign legal entities was not included into the total corporate income tax by the companies;
- ▶ Technical peculiarities of accounting of taxes of some companies (for example, the part of the tax is not recognized withing the period for its actual payment) and technical errors (for example, some payments are mentioned with a wrong code).

Table 7-6: Results of reconciliation of revenues to the Consolidated budget and Pension Fund in 2016, by form of ownership of the companies

Public / private sector of economy	Initial data, UAH thousand			Final data, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancies	Reported by SFS	Reported by companies	Discrepancies
Public	72,038,561.94	75,159,902.99	(3,121,341.05)	72,038,561.94	72,027,806.23	10,755.71
Private	19,879,957.65	24,376,306.26	(4,496,348.61)	19,879,957.65	19,896,228.06	(16,270.41)
Total	91,918,519.59	99,536,209.25	(7,617,689.66)	91,918,519.59	91,924,034.30	(5,514.71)

Table 7-7: Results of reconciliation of revenues to the Consolidated budget and Pension Fund in 2016, by extractive industries

Industry	Initial data, UAH thousand			Final data, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancies	Reported by SFS	Reported by companies	Discrepancies
Oil and gas	81,239,165.95	83,838,160.45	(2,598,994.50)	81,239,165.95	81,239,440.29	(274.33)
Coal	4,709,545.07	4,938,459.00	(228,913.93)	4,709,545.07	4,717,577.90	(8,032.83)
Metal ores	5,969,808.56	10,759,589.80	(4,789,781.24)	5,969,808.56	5,967,016.10	2,792.46
Total	91,918,519.59	99,536,209.25	(7,617,689.66)	91,918,519.59	91,924,034.30	(5,514.71)

Table 7-8: Results of reconciliation of revenues to the Consolidated budget and Pension Fund in 2016, by types of payments

Type of payment	Initial data, UAH thousand			Final data, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancies	Reported by SFS	Reported by companies	Discrepancies
Personal income tax	4,374,269.01	4,506,236.00	(131,966.99)	4,374,269.01	4,394,032.75	(19,763.74)
Corporate income tax	10,320,210.79	10,909,283.14	(589,072.35)	10,320,210.79	10,319,252.97	957.82
Production royalty	35,617,048.59	39,070,954.58	(3,453,905.99)	35,617,048.59	35,611,489.95	5,558.63
Value added tax	34,762,565.98	38,180,237.64	(3,417,671.65)	34,762,565.98	34,759,527.90	3,038.09
Land fee	959,030.81	895,137.30	(63,893.51)	959,030.81	958,786.75	244.06
Environmental tax	545,421.36	545,771.11	(349.75)	545,421.36	544,938.18	483.18
Dividends and payment of a share of net profit	152,000.00	175,300.00	(23,300.00)	152,000.00	152,000.00	0.00
Unified social contribution	5,187,973.05	5,253,289.49	(65,316.44)	5,187,973.05	5,184,005.79	3,967.26
Total	91,918,519.59	99,536,209.25	(7,617,689.66)	91,918,519.59	91,924,034.30	(5,514.71)

7.4. Reconciliation of tax payments

7.4.1 Personal income tax

As the result of reconciliation, the amount of receipts of personal income tax from extractive companies, according to the SFS was UAH 4,374,269.01 thousand and according to extractive companies - UAH 4,394,032.75 thousand in 2016. Total discrepancy between these companies' and SFS' data, based on the initial request was UAH (131,966.99) thousand. The discrepancy after reconciliation was - UAH (19,763.74) thousand.

Table 7-9: Reconciliation of revenues from personal income tax in 2016, UAH thousand

Personal income tax	Initial data	Adjustments	Final data after reconciliation
Extractive industries, total			
Reported by SFS	4,374,269.01	0.00	4,374,269.01
Reported by companies	4,506,236.00	(112,203.25)	4,394,032.75
Discrepancy	(131,966.99)	112,203.25	(19,763.74)
Oil and gas			
Reported by SFS	1,792,483.39	0.00	1,792,483.39
Reported by companies	1,793,453.10	3.55	1,793,456.65
Discrepancy	(969.71)	(3.55)	(973.26)
Metal ores			
Reported by SFS	1,288,099.65	0.00	1,288,099.65
Reported by companies	1,418,480.10	(112,206.80)	1,306,273.30
Discrepancy	(130,380.45)	112,206.80	(18,173.65)
Coal			
Reported by SFS	1,293,685.97	0.00	1,293,685.97
Reported by companies	1,294,302.80	0.00	1,294,302.80
Discrepancy	(616.83)	0.00	(616.83)

7.4.2 Corporate income tax

As the result of reconciliation, the amount of receipts of corporate income tax from extractive companies, according to the SFS was UAH 10,320,210.79 thousand and according to extractive companies - UAH 10,319,252.97 thousand in 2016. Total discrepancy between these companies' and SFS' data, based on the initial request was UAH (589,072.35) thousand. The discrepancy after reconciliation was - UAH 957.82 thousand.

Table 7-10: Reconciliation of revenues from corporate income tax in 2016, UAH thousand

Corporate income tax	Initial data	Adjustments	Final data after reconciliation
Extractive industries, total			
Reported by SFS	10,320,210.79	0.00	10,320,210.79
Reported by companies	10,909,283.14	(590,030.17)	10,319,252.97
Discrepancy	(589,072.35)	590,030.17	957.82
Oil and gas			
Reported by SFS	10,321,052.28	0.00	10,321,052.28
Reported by companies	9,438,252.04	882,320.03	10,320,572.07
Discrepancy	882,800.24	(882,320.03)	480.21
Metal ores			
Reported by SFS	590,959.95	0.00	590,959.95
Reported by companies	590,692.10	259.72	590,951.82
Discrepancy	267.85	(259.72)	8.13
Coal			
Reported by SFS	(591,801.43)	0.00	(591,801.43)
Reported by companies	880,339.00	(1,472,609.92)	(592,270.92)
Discrepancy	(1,472,140.43)	1,472,609.92	469.49

7.4.3 Production royalty

As the result of reconciliation, the amount of receipts of production royalty from extractive companies, according to the SFS was UAH 35,617,048.59 thousand and according to extractive companies - UAH 35,611,489.95 thousand in 2016. Total discrepancy between these companies' and SFS' data, based on the initial request was UAH (3,453,905.99) thousand. The discrepancy after reconciliation was - UAH 5,558.63 thousand.

Table 7-11: Reconciliation of revenues from production royalty in 2016, UAH thousand

Production royalty	Initial data	Adjustments	Final data after reconciliation
Extractive industries, total			
Reported by SFS	35,617,048.59	0.00	35,617,048.59
Reported by companies	39,070,954.58	(3,459,464.62)	35,611,489.95
Discrepancy	(3,453,905.99)	3,459,464.62	5,558.63
Oil and gas			
Reported by SFS	33,030,142.71	0.00	33,030,142.71
Reported by companies	36,494,882.73	(3,464,743.07)	33,030,139.66
Discrepancy	(3,464,740.01)	3,464,743.07	3.05
Coal			
Reported by SFS	192,804.12	0.00	192,804.12
Reported by companies	186,147.10	910.07	187,057.17
Discrepancy	6,657.02	(910.07)	5,746.95
Metal ores			
Reported by SFS	2,394,101.75	0.00	2,394,101.75
Reported by companies	2,389,924.75	4,368.38	2,394,293.13
Discrepancy	4,177.00	(4,368.38)	(191.38)

7.4.4 Value added tax

As the result of reconciliation, the amount of receipts of value added tax from extractive companies, according to the SFS was UAH 34,762,565.98 thousand and according to extractive companies - UAH 34,759,527.90 thousand in 2016. Total discrepancy between these companies' and SFS' data, based on the initial request was UAH (3,417,671.65) thousand. The discrepancy after reconciliation is - UAH 3,038.09 thousand.

Table 7-12: Reconciliation of revenues from value added tax in 2016, UAH thousand

Value Added Tax	Initial data	Adjustments	Final data after reconciliation
Extractive industries, total			
Reported by SFS	34,762,565.98	0.00	34,762,565.98
Reported by companies	38,180,237.64	(3,420,709.74)	34,759,527.90
Discrepancy	(3,417,671.65)	3,420,709.74	3,038.09
Oil and gas			
Reported by SFS	33,931,398.36	0.00	33,931,398.36
Reported by companies	33,980,489.74	(47,234.18)	33,933,255.56
Discrepancy	(49,091.38)	47,234.18	(1,857.20)
Coal			
Reported by SFS	831,135.26	0.00	831,135.26
Reported by companies	814,872.90	11,398.29	826,271.19
Discrepancy	16,262.36	(11,398.29)	4,864.07
Metal ores			
Reported by SFS	32.36	0.00	32.36
Reported by companies	3,384,875.00	(3,384,873.85)	1.15
Discrepancy	(3,384,842.64)	3,384,873.85	31.21

Due to the lack of detailed disaggregated information about the value added tax (VAT) on goods imported in the territory of Ukraine (14070000), it was not possible to reconcile the respective payments. The information on payments of VAT on goods imported in the territory of Ukraine by individual extractive companies in 2016 is presented in the table below.

Table 7-13: Information on VAT paid during the customs clearance of goods when they were imported in the customs territory of Ukraine in 2016 according to the data of extractive companies, UAH thousand

The company	VAT on goods imported in the territory of Ukraine
Natural resources PrJSC	28,426.91
East Geological Union LLC	1,414.36
ArcelorMittal Kryvyi Rih PJSC	3,384,875.00
Zakhidnadraserervis LLC	548.76

Due to the lack of detailed disaggregated information on VAT refunds, as well as the refusal of certain extractive companies to provide information for the purposes of reconciliation and preparation of this Report, it was not possible to reconcile the VAT refunds to taxpayers. The information on VAT refunds to individual extractive companies in 2016 is presented in the table below.

Table 7-14: Information on VAT refunds in 2016 according to the data of extractive companies, UAH thousand

The company	Budget refunds of VAT in cash
Krivoj Rog`s iron-ore combine PJSC	(84,366.00)
Ferrexpo Poltava mining PrJSC	(2,766,030.00)
ArcelorMittal Kryvyi Rih PJSC	(8,029,169.00)
Northern Iron Ore Enrichment Works PrJSC	(37,791.00)
Ingulets Iron Ore Enrichment Works PrJSC	(611,541.00)
Central Iron Ore Enrichment Works PrJSC	(500,656.00)
United Mining and Chemical Company SE	(100,877.00)
Southern mining factory PJSC	(827,186.00)
Total	(12,957,616.00)

7.4.5 Land fee

As the result of reconciliation, the amount of receipts of land fee from extractive companies, according to the SFS was UAH 959,030.81 thousand and according to extractive companies - UAH 958,786.75 thousand in 2016. Total discrepancy between these companies' and SFS' data, based on the initial request was UAH 63,893.51 thousand. The discrepancy after reconciliation was - UAH 244.06 thousand.

Table 7-15: Reconciliation of revenues from land fee in 2016, UAH thousand

Land fee	Initial data	Adjustments	Final data after reconciliation
Extractive industries, total			
Reported by SFS	959,030.81	0.00	959,030.81
Reported by companies	895,137.30	63,649.45	958,786.75
Discrepancy	63,893.51	(63,649.45)	244.06
Oil and gas			
Reported by SFS	208,429.99	0.00	208,429.99
Reported by companies	204,989.60	3,184.50	208,174.10
Discrepancy	3,440.39	(3,184.50)	255.89
Coal			
Reported by SFS	39,186.91	0.00	39,186.91
Reported by companies	39,325.80	(124.75)	39,201.05
Discrepancy	(138.89)	124.75	(14.14)
Metal ores			
Reported by SFS	711,413.91	0.00	711,413.91
Reported by companies	650,821.90	60,589.70	711,411.60
Discrepancy	60,592.01	(60,589.70)	2.31

7.4.6 Environmental tax

As the result of reconciliation, the amount of receipts of environmental tax from extractive companies, according to the SFS was UAH 545,421.36 thousand and according to extractive companies - UAH 544,938.18 thousand in 2016. Total discrepancy between these companies' and SFS' data, based on the initial request was UAH (349.75) thousand. The discrepancy after reconciliation was - UAH 483.18 thousand.

Table 7-16: Reconciliation of revenues from environmental tax in 2016, UAH thousand

Environmental tax	Initial data	Adjustments	Final data after reconciliation
Extractive industries, total			
Reported by SFS	545,421.36	0.00	545,421.36
Reported by companies	545,771.11	(832.93)	544,938.18
Discrepancy	(349.75)	832.93	483.18
Oil and gas			
Reported by SFS	35,977.87	0.00	35,977.87
Reported by companies	36,725.36	(745.38)	35,979.98
Discrepancy	(747.49)	745.38	(2.11)
Coal			
Reported by SFS	42,106.03	0.00	42,106.03
Reported by companies	41,761.20	(39.55)	41,721.65
Discrepancy	344.83	39.55	384.38
Metal ores			
Reported by SFS	467,337.46	0.00	467,337.46
Reported by companies	467,284.55	(48.00)	467,236.55
Discrepancy	52.91	48.00	100.91

7.5. Reconciliation of non-tax payments

7.5.1 Dividends and payment of a share of net profit

As the result of reconciliation, the amount of receipts of dividends and payment of a share of net profit from extractive companies, according to the SFS was UAH 152,000.00 thousand and according to extractive companies - UAH 152,000.00 thousand in 2016. Total discrepancy between these companies' and SFS' data, based on the initial request was UAH (23,300.00) thousand. The discrepancy after reconciliation was - UAH 0.00 thousand.

Table 7-17: Reconciliation of revenues from dividends and payment of a share of net profit in 2016, UAH thousand

Dividends and payment of a share of net profit	Initial data	Adjustments	Final data after reconciliation
Extractive industries, total			
Reported by SFS	152,000.00	0.00	152,000.00
Reported by companies	175,300.00	(23,300.00)	152,000.00
Discrepancy	(23,300.00)	23,300.00	0.00
Oil and gas			
Reported by SFS	0.00	0.00	0.00
Reported by companies	23,300.00	(23,300.00)	0.00
Discrepancy	(23,300.00)	23,300.00	0.00
Coal			
Reported by SFS	0.00	0.00	0.00
Reported by companies	0.00	0.00	0.00
Discrepancy	0.00	0.00	0.00
Metal ores			
Reported by SFS	152,000.00	0.00	152,000.00
Reported by companies	152,000.00	0.00	152,000.00
Discrepancy	0.00	0.00	0.00

7.5.2 Unified social contribution



As the result of reconciliation, the amount of receipts of unified social contribution from extractive companies, according to the SFS was UAH 5,187,973.05 thousand and according to extractive companies - UAH 5,184,005.79 thousand in 2016. Total discrepancy between these companies' and SFS' data, based on the initial request was UAH (65,316.44) thousand. The discrepancy after reconciliation is - UAH 3,967.26 thousand.



Table 7-18: Reconciliation of revenues from unified social contribution in 2016, UAH thousand

Unified social contribution	Initial data	Adjustments	Final data after reconciliation
Extractive industries, total			
Reported by SFS	5,187,973.05	0.00	5,187,973.05
Reported by companies	5,253,289.49	(69,283.70)	5,184,005.79
Discrepancy	(65,316.44)	69,283.70	3,967.26
Oil and gas			
Reported by SFS	1,919,681.36	0.00	1,919,681.36
Reported by companies	1,866,067.89	51,794.38	1,917,862.27
Discrepancy	53,613.47	(51,794.38)	1,819.09
Coal			
Reported by SFS	1,725,253.14	0.00	1,725,253.14
Reported by companies	1,847,179.80	(121,078.08)	1,726,101.72
Discrepancy	(121,926.66)	121,078.08	(848.58)
Metal ores			
Reported by SFS	1,543,038.55	0.00	1,543,038.55
Reported by companies	1,540,041.80	0.00	1,540,041.80
Discrepancy	2,996.75	0.00	2,996.75



8 Recommendations for improving the EITI reporting process


Recommendation	Level of importance	Comments
<p>Improvement of the EITI regulatory support:</p> <ul style="list-style-type: none"> ▶ Amend or adopt a new law in the field of Extractive Industries Transparency ▶ Amend the regulations (CMU's Resolutions) to detail the process of the collection of information for the EITI Report and specify the responsible persons of the government authorities and reporting organizations 	<p style="text-align: center;">● High</p>	<p>The effective legal framework is focused primarily on oil and gas industry and leaves out of account the specifics of other extractive industries (extraction of coal, iron, titanium and manganese ores). In addition, the wording of the effective legal framework is too broad and brief, which make it possible for the reporting organizations to justify their refusal to submit the information required.</p>
<p>Introduce specific sanction against reporting organizations in case of non-submission or late submission of the information for the EITI Report.</p>	<p style="text-align: center;">● High</p>	<p>The lack of any sanctions allows certain companies to ignore official letters with demands and requests for information for the preparation of the EITI Report. This occurs even given the existence of the law on the implementation of EITI in Ukraine.</p>
<p>Simplification of access to (disclosure of) the information about the EITI key aspects:</p> <ul style="list-style-type: none"> ▶ Technical information about mineral resource reserves, specifically on titanite iron ores; ▶ Contracts, agreements and any other documents (including JAA) concluded between the Government (either directly, or via a government authority or a state-owned enterprise) and any legal entity, if they relate to the production of mineral resources in Ukraine. 	<p style="text-align: center;">● High</p>	<p>As of the date of preparation of this Report, all the information listed here was classified as confidential or state secret, or was subject to other restrictions preventing it from being disclosed in the EITI Report.</p> <p>This situation limits the opportunities for the transparency and disclosure of essential aspects, including payments related to the production of mineral resources in Ukraine.</p>
<p>Implementation of an efficient system for planning and managing the process of the development of subsequent EITI Reports, specifically:</p> <ul style="list-style-type: none"> ▶ Search for, and the allocation of, financial and human resources for the Report preparation by the end of the 1st quarter of the current year at the latest 	<p style="text-align: center;">● High</p>	<p>The major issue during the preparation of the 2016 EITI Report was the lack of time for organizing an efficient collection of information, ensuring its completeness and accuracy, analyzing and reconciling the payment data. The above recommendations are expected to address this issue.</p> <p>It would be optimal to establish clear deadlines for the completion of each</p>

Recommendation	Level of importance	Comments
<ul style="list-style-type: none"> ▶ Approval of the scope and the terms of reference for the preparation of the future EITI Report by the end of the 1st quarter of the current year at the latest ▶ Holding a tender and selecting an Independent Administrator by the end of the 2nd quarter of the current year at the latest. 		<p>Report preparation stage (determining the scope, approving the terms of reference, entering into a contract with the Independent Administrator, etc.). It is necessary to allocate not less than six months for the process of preparing the EITI Report.</p>
<p>Establish an effective system which would enable obtaining latest updated information from the SFS, clarification of individual figures and comments of discrepancies</p>	 High	<p>The Independent Administrator has no opportunity to apply to the SFS for clarification of information on payment of taxes and other payments in favor of the state. Because of this, much of the discrepancies found remain unclear.</p>
<p>Implementation of a unified methodology for the evaluation of mineral resources, which will be harmonized with the best international practices, for instance, based on the international reporting template upon the results of exploration works, evaluation of mineral resources and reserves (CRIRSCO Template). This, in its turn, will improve transparency of data on the status of reserves, make it possible to estimate reliably the data on mineral and raw material assets of enterprises of extractive industries during the public offering, obtaining bank guarantees and lending and, eventually, increase the investment attractiveness of the extractive industries in Ukraine.</p>	 High	<p>In terms of the investment attractiveness, the key factors for successful projects on exploration and development of mineral resource fields include high resource potential and low investment risks. One of the main risks for investors is the risk of non-confirmation of the results of exploration works, evaluation of resources and reserves stated by the subsurface resources users in the public reports.</p> <p>To reduce this investment risk, there is a world practice to use widely the international standards for public reporting on the results of exploration works, mineral resources and mineral reserves compliant with CRIRSCO Template. CRIRSCO Template is based on the best reporting standards of countries and regions, such as JORC (Australasia), SAMREC (South Africa), PERC Reporting Standards (Europe), CIM Guide (Canada), SME Guide (USA) Certification Code (Chile). These public reporting standards are recognized and accepted in all world's capital markets.</p> <p>An important issued during the preparation of the 2016 EITI Report was the use of different reserve classification systems by the companies of certain extractive industries, which leads to the lack of reliable estimates in the specified area.</p>

Recommendation	Level of importance	Comments
		<p>According to the estimates of the SRC⁴⁰¹, the resource classification currently used in Ukraine is compliant with CRIRSCO and UNFC-2009 classification, but is less detailed. Specifically, some detailed classes of off-balance sheet reserves in the Ukrainian classification fall under the larger category of “Mineral Resources”.</p> <p>The implementation of a universal system of mineral resources evaluation and public reporting thereon in Ukraine, which would be compliant with international standards, would significantly increase the investment attractiveness of the extractive industries of Ukraine.</p>
<p>Start preparing for transition to project-based reporting within the EITI Standard</p>	<p> Medium</p>	<p>The decision of the International Secretariat started the process of gradual transition of all countries applying the EITI Standard to the disclosure of information that is disaggregated by individual projects in their EITI annual reports. Extractive companies in Ukraine and government agencies are not yet ready to disclose such detailed information.</p> <p>Consultations should be launched with representatives of the business environment, non-governmental organizations and government agencies to develop a plan for transition to project-based reporting under the EITI.</p> <p>The result of such consultations should be recommendations for making changes to the Ukrainian legal framework related to EITI.</p>
<p>Reconciliation of the amounts of taxes paid.</p>	<p> Medium</p>	<p>We recommend that the management of reporting organizations introduces the procedures for the regular reconciliation (at least, as at the year-end) of amounts and types of taxes accrued and declared with the relevant amounts and types of taxes stated in accordance with data of the</p>

⁴⁰¹ National classification of reserves and mineral resources of the state fund of subsurface resources of Ukraine and the possibility of its harmonization with the oil industry standards on audit of the reserves and their market evaluation National Joint-Stock Company Nadra Ukrainy PJSC Presentation, 2013

Recommendation	Level of importance	Comments
		SFS. This practice is quite widely spread in the Ukrainian business environment.
<p>Consider the possibility of introduction of relevant regulatory amendments to the budget system of Ukraine in order to monitor the movement of payments from extractive companies (both towards the state budget and at the stage of reallocation via inter-budget transfers to local budgets).</p>	 Medium	<p>The goal is to make available to the public the information on the share in the total revenues of local budgets (including via transfers), which accounts for payments from extractive companies actually operating in the region.</p> <p>The possibility to monitor revenues to local budgets actually received from the extractive companies operating in the region will improve transparency and efficiency of funds use by the regions.</p>
<p>Consider the possibility of implementation by the relevant government authorities under the EITI in Ukraine of an information system, which would allow the companies and government authorities to provide EITI Reports in an electronic form.</p>	 Medium	<p>The availability of such system would not only simplify the process of information collecting and analyzing, but also potentially can become the basis for formation of a web portal with the open data on the activities in the field of production of mineral resources in Ukraine.</p> <p>At the initial stage, the examples of such information system can be Excel forms filled in under the uniform template approved well in advance and provided by the EITI National Secretariat or the Ministry of Energy and Coal Industry of Ukraine; or a specialized IT-system with online access, to which the companies and government authorities can enter their data for the EITI reporting.</p> <p>Such system exists, for example, in Kazakhstan, which has been preparing the EITI Reports for more than 11 years already.</p> <p>It is important to note that it is necessary to regulate clearly the mechanism of providing assurance on the reliability of information provided by the reporting organizations. One of the measures of providing assurance can be the provision of scanned copy of the respective letter signed by the Director and sealed by the company/government authority. In addition, the scanned copy of the auditor's report on the company's financial statements can be provided.</p>

Recommendation	Level of importance	Comments
Unify and simplify access to information on mining volumes	 Medium	<p>The information on volumes of extracted minerals is accumulated by at least two state bodies - the State Statistics Service of Ukraine and the Geology Service. Similar information can also be collected by the relevant ministry (Ministry of Energy and Coal Industry or the Ministry of Economic Development and Trade) and the SFS. However, only a part of the information available with the state agencies is publicly accessible. Such publicly available information is usually highly aggregated (total production in the country for a calendar year). In addition, there may be significant discrepancies between information from different authorities (for example, coal production in 2016).</p> <p>The methodology and approaches to determine the volume of extraction should be unified and free access to detailed information on the volumes of extraction in Ukraine, including by region should be provided.</p>

9 Annex 1. List of state authorities and institutions surveyed within the scope of EITI Report 2016

Central executive bodies

1. Ministry of Finance of Ukraine;
2. Ministry of Energy and Coal Industry of Ukraine;
3. State Fiscal Service of Ukraine;
4. State Service for Geology and Mineral Resources of Ukraine;

The only source of information on payments from extractive companies is the State Fiscal Service of Ukraine.

10 Annex 2. List of extractive companies included into the scope of EITI Report

No	Companies/Taxpayers	Sector
1	Ukrgezvydobuvannia PJSC	Oil and gas
2	Naftogaz of Ukraine NJSC	Oil and gas
3	Ukrnafta PJSC	Oil and gas
4	Naftogazvydobuvannia Pr JSC	Oil and gas
5	Joint activity agreement of 10/06/2002 No 3 - authorized entity Karpatygaz LLC 30162340	Oil and gas
6	Energy Service Company Esco-Pivnich LLC	Oil and gas
7	Vydobuvna kompaniia Ukrnaftoburinnia PrJSC	Oil and gas
8	Natural resources PrJSC	Oil and gas
9	Poltava Petroleum Company JV	Oil and gas
10	Kub-gaz LLC	Oil and gas
11	Joint activity agreement of 28/11/2000 No 1-Д21/008/2000 - authorized entity Poltava branch of Devon CJSC 26002442	Oil and gas
12	Persha ukraiinska gazonaftova kompaniia LLC	Oil and gas
13	Ukrgezvydobutok PrJSC	Oil and gas
14	Energiia-95 LLC	Oil and gas
15	Representative Office Regal Petroleum Corporation Limited (without legal entity right)	Oil and gas
16	Nadra-Geoinvest LLC	Oil and gas
17	Joint activity agreement of 24/03/2004 No 493 - authorized entity Karpatygaz LLC 30162340	Oil and gas
18	Joint activity agreement of 24/12/1997 No 999/97 - authorized entity Naftogazovydobuvne upravlinnia Poltavanaftogaz of Ukrnafta PJSC 22525915	Oil and gas
19	Systemoilingenerynng LLC	Oil and gas
20	Prom-Energo Product LLC	Oil and gas
21	Boryslavska Naftova Kompaniia LLC JV	Oil and gas
22	Kashtan Petroleum LTD JV	Oil and gas
23	Joint activity agreement of 21/07/1997 No 23-3/97-84Б-97 - authorized entity Gaz-MDS LLC 24253556	Oil and gas
24	Joint activity agreement of 19/01/1999 No 35/4 - authorized entity Ukrnafta PJSC 135390	Oil and gas
25	Pari LLC	Oil and gas
26	East Geological Union LLC	Oil and gas
27	ArcelorMittal Kryvyi Rih PJSC	Iron ores
28	Southern mining factory PJSC	Iron ores
29	Krivoj Rog`s iron-ore combine PJSC	Iron ores
30	Northern Iron Ore Enrichment Works PrJSC	Iron ores
31	The foreign investment enterprise in the form of PrJSC Zaporizhzhia iron ore industrial complex	Iron ores
32	Sukha Balka PrJSC	Iron ores
33	Central Iron Ore Enrichment Works PrJSC	Iron ores
34	Ferrexpo Yeristovo mining LLC	Iron ores
35	Ferrexpo Poltava mining PrJSC	Iron ores
36	Ingulets Iron Ore Enrichment Works PrJSC	Iron ores
37	DTEK Pavlogradugol PrJSC	Coal

No	Companies/Taxpayers	Sector
38	DTEK Sverdlovanthracite LLC	Coal
39	DTEK Rovenkyanthracite LLC	Coal
40	Shakhtoupravlinnia Pokrovske PJSC	Coal
41	Krasnodonvuhillia PrJSC	Coal
42	DTEK Dobropolyeugol LLC	Coal
43	DTEK Mine Komsomolets Donbassa PrJSC	Coal
44	Selydivvuhillia SE	Coal
45	Lvivvuhillia SE	Coal
46	Vuhilna kompaniia Krasnolymanska SE	Coal
47	Myrnohradvuhillia SE	Coal
48	Mine named after O.F. Zaciadko PJSC	Coal
49	Lysychanskvuhillia PJSC	Coal
50	Pervomaiskvuhillia SE	Coal
51	Shakhtoupravlinnia Pivdenodonbaske No 1 SE	Coal
52	Toretskvuhillia SE	Coal
53	Volynvuhillia SE	Coal
54	Mine Bilozerska ALC	Coal
55	Mine named after M. S. Surgaia SE	Coal
56	United Mining and Chemical Company SE	Titanium ores
57	Pokrovskiy GZK PJSC	Manganese ores
58	Marganets GZK PJSC	Manganese ores
59	Ukrtransgaz PJSC	Transportation
60	Ukrtransnafta PJSC	Transportation

11 Annex 3. Questionnaire for extractive companies

Extractive industries Transparency Initiative (EITI)

QUESTIONNAIRE

FOR THE COMPANIES OF OIL AND GAS INDUSTRY

(including transportation of oil and gas)

1. Background information

Full name of the Company:	
EDRPOU Code	
Location (Legal address):	
Types of economic activities according to NACE: <i>(remove odds from the list and/or add new types of economic activity):</i>	06.10 - Extraction of crude petroleum 06.20 - Extraction of natural gas 19.20 - Manufacture of refined petroleum products 46.12 - Agents involved in the sale of fuels, ores, metals and industrial chemicals 35.23 - Trade in gas through mains 49.50 - Transportation via pipelines Other - specify
Please, file an electronic version of the financial statements for the reporting period	
Have you had an independent audit of your company's financial statements conducted? If so, provide an electronic version of the audit report	
Contact information of responsible person, who filled this questionnaire in (full name, job title, contact number, e-mail):	

Explanation: If there were changes in the company name, address, etc. during the reporting period, it is necessary to specify the previous and current data.

2. Legal information

Item	Information
The list of founders (participants) of a legal entity	
<p>Information on the ultimate beneficial owner (controller) of the legal entity, including the ultimate beneficiary (controller) of its founder (participant), if the founder (participant) is a legal entity - indicate the participation interest (share) of the beneficiary owner in the legal entity's capital. For each beneficial owner it is necessary to specify:</p> <ul style="list-style-type: none"> - full name - nationality (citizenship) - country of residence - indication of whether the person is a national / foreign public official - national identification (tax) number - national identification number - date of birth - address of residence or work - contact details (telephone number, e-mail address) <p>Public joint stock companies and their subsidiaries, the securities of which are included in the stock exchange register, must provide information about the name of the stock exchange and include a link to a site of stock exchanges, on which they are registered</p>	
Share of the state (including through state-owned enterprises) in the authorized capital of the company at the beginning of the reporting period	
Share of the state (including through state enterprises) in the authorized capital of the company at the end of the reporting period	
The name of the legal entity or state authority through which the state holds its share the authorized capital	
Have any changes in the state (including through state-owned enterprises) share of the company authorized capital occurred during the reporting period? If so, please indicate the date and nature of such changes	

3. Special permit for the use of subsoil and mining allotments (license), in the territory of Ukraine

Item	Information
The numbers of special permits valid at the end of the reporting period	
The numbers of special permits issued during the reporting period. For special permits issued without tender, provide the grounds for granting them without tender (the relevant clause of paragraph 8 of the Procedure for granting special permits for use of subsoil, approved by the Resolution of the Cabinet of Ministers of Ukraine # 615 dated May 30, 2011)	
The numbers of special permits the validity of which has expired during the reporting period and has not been prolonged	
The numbers of special permits which have been cancelled during the reporting period	
The numbers of special permits, suspended as of the end of the reporting period	
Information on any significant deviations from the procedure established by law for the provision of special permits for the use of subsoil	
Information on mining allotments: the location of the mining allotment, its area, the issue date and the validity of the act of granting the mining allotment	

4. Mineral deposits (total across the companies in the territory of Ukraine)

Indicator	Figure as of January 1 of the year following the reporting year
Crude oil (thousand tonnes), including:	
Balance sheet (extractive) reserves (111+121+122) (thousand tonnes)	
Conditionally balance sheet and off-balance sheet reserves (211+221+222) (thousand tonnes)	
Reserves with indeterminate industrial purpose (331+332) (thousand tonnes)	
Reserves with indeterminate industrial purpose (333+334) (thousand tonnes)	
Gas condensate (thousand tonnes), including:	
Balance sheet (extractive) reserves (111+121+122) (thousand tonnes)	
Conditionally balance sheet and off-balance sheet reserves (211+221+222) (thousand tonnes)	
Reserves with indeterminate industrial purpose (331+332) (thousand tonnes)	
Reserves with indeterminate industrial purpose (333+334) (thousand tonnes)	
Natural gas (free and dissolved) (mcm), including:	
Balance sheet (extractive) reserves (111+121+122) (mcm)	
Conditionally balance sheet and off-balance sheet reserves (211+221+222) (mcm)	
Reserves with indeterminate industrial purpose (331+332) (mcm)	
Reserves with indeterminate industrial purpose (333+334) (mcm)	
Other (specify if necessary)	

Note: Information on the reserves shall be filled in according to the reporting form No. 6-gr submitted by the company (oil, oil bitumen, natural gas, condensate, ethane, propane, butane, helium, nitrogen) (annual) "Reporting Balance Sheet of Mineral Reserves for the year 20__".

5. Production volumes for the reporting period

	Crude oil (thousand tonnes)	Gas condensate (thousand tonnes)	Natural gas (mcm)	Other (specify if needed)
Autonomous Republic of Crimea				
Vinnytsia region				
Volyn region				
Dnipropetrovsk region				
Donetsk region				
including in the temporarily occupied territory				
Zhytomyr region				
Zakarpattia region				
Zaporizhzhia region				
Ivano-Frankivsk region				
Kyiv region				
Kirovograd region				
Luhansk region				
including in the temporarily occupied territory				
Lviv region				
Mykolaiv region				
Odesa region				
Poltava region				
Rivne region				
Sumy region				
Ternopil region				
Kharkiv region				
Kherson region				
Khmelnyskyi region				
Cherkasy region				
Chernivtsi region				
Chernihiv region				
TOTAL IN UKRAINE				

6. Employment

Indicator	Number, persons
Number of fulltime employees at the end of the reporting period, persons	
Average number of fulltime employees at the end of the reporting period, persons	

7. Total revenue and sales volume of marketable products in the reporting period

7.1 Total revenue and sales volumes of natural gas

Indicator	Volume, tcm	Total revenue, UAH thousand	
		Including VAT	Without VAT
Volume of natural gas sold within the territory of Ukraine (total), tcm, including to:			
industrial consumers and other entities			
institutions and organizations financed from state and local budgets			
households and heat energy producers for the needs of households			
religious organizations and producers of heat energy for the needs of religious organizations			
producers of heat energy and electricity for needs not mentioned above			
operators of the gas transportation system (GTS) to meet production technological needs, own needs and balancing			
the operator of the gas distribution network (GDNs) to meet production and technological needs and their own needs			
suppliers with unidentified purpose			
other consumers / for other needs (please specify)			

7.2 Total revenue and sales volumes of oil and gas condensate

Indicator	Volume	Total revenue, UAH thousand	
		Including VAT	Without VAT
Sold within the territory of Ukraine, including:			
crude oil, thousand tonnes			
gas condensate, thousand tonnes			
other (specify if necessary)			
Exported, including:			
crude oil, thousand tonnes			
gas condensate, thousand tonnes			
other (specify if necessary)			

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

8. State subsidies

Indicator	Amount, UAH thousand	Note
Information on subsidies and any other financial support from public authorities received during the reporting period. For each type of support, please specify the amount and the name of the budget program that provides funding (in the field for notes)		

9. Agreements related to mining activity

№	Indicator	Information
1	Information on any joint venture agreement (JVA) For each joint venture agreement please indicate: <ul style="list-style-type: none"> - number, date of conclusion and duration of the JVA; - the name and the EDRPOU code (if any) of all parties of the JVA; - the authorized taxpayer (operator) and his/her tax ID number under the JVA; - the number of a special permit and the date of its granting under which JVA is operating - the share of manufactured products (its monetary equivalent), extracted under the JVA, owned by enterprises of state and communal ownership. 	
2	Information on any barter agreement with the state (state body or enterprise) according to which the company transferred (or received from the state or state enterprises) goods and services, loans, carried out infrastructure works, etc., in exchange for the minerals or possibility (right) to explore and / or extract the minerals. For each agreement please specify: <ul style="list-style-type: none"> - the date of the conclusion; - the term of the agreement; - full name of the counterparty, legal entity, under the given agreement; - the value of the whole agreement; - the costs (gains) incurred (for the state enterprises, indicate the incurred costs and received gains, if any) under the agreement in the reporting period; - the nature of barter costs / gains (list of goods, services, works, etc.) incurred (for the state enterprises, indicate the costs incurred and gains received, if any) under the agreement in the reporting period 	
3	Information on the concession of the state owned objects of the fuel and energy complex: <ul style="list-style-type: none"> - number, date and maturity of the agreement; - the parties of the agreement; - types of activities, work, services performed under the terms of the agreement; - the object of the concession; - the amount of concession and other obligatory payments stipulated by the concession agreement; - information on all special permits obtained without a tender related to the concession of the objects of the fuel and energy complex (if any), namely: the number, date of receipt and renewal, term of validity 	
4	Did the state and / or state enterprises provide loans and / or guarantees for loans to your company during the reporting period? If so, please indicate the amount of such loans / guarantees, the terms and conditions of their provision, such as: interest rate, security and its amount, repayment period, repayment schedule	

10. Social and charity payments

No	indicator	Amount, UAH thousand		Purpose	Note
		incl. VAT	without VAT		
1	Social expenses (in cash and in kind) required from your company in accordance with the legislation, product sharing agreements, subsoil use agreements, investment obligations, concession contracts, state purchase and sale contracts, or any other obligations to the state, central and local authorities, which are binding under the regulations or contracts related to extractive activities. For each payment, please specify the name of the payee as well as the recipient's region or settlement in the note field			Health care	
				Education and Science	
				Environment	
				Support to local communities	
				Other	
2	Information on any costs for social purposes, which the company made voluntarily. For each payment, , please specify the name of the payee as well as the recipient's region or settlement in the note field			Health care	
				Education and Science	
				Environment	
				Support to local communities	
				Other	
3	The cost of goods, works, services provided free of charge by your company to state enterprises, institutions and organizations, public authorities and local governments, or other recipients. For each payment, please specify the name of the payee and the recipient's region or settlement in the note field			Health care	
				Education and Science	
				Environment	
				Support to local communities	
				Other	
4	Charitable contributions and donations (in the meaning of the Law of Ukraine "On Charity and Charitable Organizations") granted by your company to state enterprises, institutions and organizations, state authorities and local self-government bodies or other recipients. For each payment, please specify the name of the payee and the recipient's region or settlement in the note field			Health care	
				Education and Science	
				Environment	
				Support to local communities	
				Other	

11. Transportation costs during the reporting period⁴⁰²

Indicator	Information
Gross physical volume of transportation of the oil produced by the company, thousand tonnes	
The total transportation costs of the oil produced by the company, UAH thousand (without VAT)	
Name of the company that provides transportation services	
Major transportation routes	
Tariffs for transportation of the oil produced by the company	
Any other payments to PJSC Ukrtransnafta (amount and purpose)	
Gross physical volume of transportation of the natural gas produced by the company, mcm	
The total transportation costs of the natural gas produced by the company, UAH thousand (without VAT)	
Name of the company that provides transportation services	
Major transportation routes	
Tariffs for transportation of the natural gas produced by the company	
Tariffs for injection, storage and withdrawal from natural gas storage facilities	
Any other payments to PJSC Ukrtransgaz (amount and purpose)	

12. Revenues from oil and natural gas transportation during the reporting period⁴⁰³

Indicator	Information
Revenues received from the transportation of gas (including pumping, storage and extraction from the underground and ground reservoirs/storages) produced in the territory of Ukraine, per companies (legal entities) which provided gas for transportation	
The physical volume and route of the transportation of gas produced in the territory of Ukraine, per companies (legal entities) which provided gas for transportation	
Tariffs for transportation of natural gas produced in the territory of Ukraine, and a list of regulatory documents that determine the methodology of their calculation	
Tariffs for pumping, storage and extraction of natural gas from the underground and ground reservoirs/storages, as well as a list of regulatory documents that determine the methodology of their calculation	
Revenues received from the transportation of oil (including pumping, storage and extraction from the underground and ground reservoirs/storages) produced in the territory of Ukraine by companies (legal entities) which provided oil for transportation.	
The physical volume and route of the transportation of oil produced in the territory of Ukraine by each company (legal entities) which provided oil for transportation	
Tariffs for transportation of oil produced in the territory of Ukraine, and the list of regulatory documents that determine their calculation	
Tariffs for pumping, storage and extraction of oil from the underground and ground reservoirs/storages and the list of regulatory documents that determine the methodology of their calculation	

⁴⁰² Shall be filled in by all oil and gas companies, regardless of ownership

⁴⁰³ Shall be only filled in by Ukrtransgaz PJSC and Ukrtransnafta PJSC

Extractive industries Transparency Initiative (EITI)

QUESTIONNAIRE

FOR THE COMPANIES OF COAL INDUSTRY

1. Background information

Full name of the Company:	
EDRPOU Code	
Location (Legal address):	
Types of economic activities according to NACE: <i>(remove odds from the list and/or add new types of economic activity):</i>	05.1 - Mining of hard coal 05.2 - Mining of lignite 09.9 - Support activities for other mining and quarrying 46.12 - <u>Agents involved in the sale of fuels, ores, metals and industrial chemicals</u> Other - specify
Stamps of coal	<i>A, Б, Д, ДГ, Г1, Г2, ГЖ, Ж, ГЖП, К, ПС, П, other - specify</i>
Please, file an electronic version of the financial statements for the reporting period	
Have you had an independent audit of your company's financial statements conducted? If so, provide an electronic version of the audit report	
Contact information of responsible person, who filled this questionnaire in (full name, job title, contact number, e-mail):	

Explanation: If there were changes in the company name, address, etc. during the reporting period, it is necessary to specify the previous and current data.

2. Legal information

Item	Information
The list of founders (participants) of a legal entity	
<p>Information on the ultimate beneficial owner (controller) of the legal entity, including the ultimate beneficiary (controller) of its founder (participant), if the founder (participant) is a legal entity - indicate the participation interest (share) of the beneficiary owner in the legal entity's capital. For each beneficial owner it is necessary to specify:</p> <ul style="list-style-type: none"> - full name - nationality (citizenship) - country of residence - indication of whether the person is a national / foreign public official - national identification (tax) number - national identification number - date of birth - address of residence or work - contact details (telephone number, e-mail address) <p>Public joint stock companies and their subsidiaries, the securities of which are included in the stock exchange register, must provide information about the name of the stock exchange and include a link to a site of stock exchanges, on which they are registered</p>	
Share of the state (including through state-owned enterprises) in the authorized capital of the company at the beginning of the reporting period	
Share of the state (including through state enterprises) in the authorized capital of the company at the end of the reporting period	
The name of the legal entity or state authority through which the state holds its share the authorized capital	
Have any changes in the state (including through state-owned enterprises) share of the company authorized capital occurred during the reporting period? If so, please indicate the date and nature of such changes	

3. Special permit for the use of subsoil and mining allotments (license), in the territory of Ukraine

Item	Information
The numbers of special permits valid at the end of the reporting period	
The numbers of special permits issued during the reporting period. For special permits issued without tender, provide the grounds for granting them without tender (the relevant clause of paragraph 8 of the Procedure for granting special permits for use of subsoil, approved by the Resolution of the Cabinet of Ministers of Ukraine # 615 dated May 30, 2011)	
The numbers of special permits the validity of which has expired during the reporting period and has not been prolonged	
The numbers of special permits which have been cancelled during the reporting period	
The numbers of special permits, suspended as of the end of the reporting period	
Information on any significant deviations from the procedure established by law for the provision of special permits for the use of subsoil	
Information on mining allotments: the location of the mining allotment, its area, the issue date and the validity of the act of granting the mining allotment	

4. Mineral deposits (total across the companies in the territory of Ukraine)

Indicator	Figure as of January 1 of the year following the reporting year
Coal (thousand tonnes), including:	
Balance (extractable) reserves (A+B+C ₁) (thousand tonnes)	
Conditionally balance sheet and off-balance sheet (C2 category) (thousand tonnes)	
Reserves with indeterminate industrial purpose (thousand tonnes)	
Reserves with indeterminate industrial purpose (thousand tonnes)	
Natural gas of coal mines (mcm), including:	
Balance (extractable) reserves (A+B+C ₁) (mcm)	
Conditionally balance sheet and off-balance sheet (C2 category) (mcm)	
Reserves with indeterminate industrial purpose (mcm)	
Reserves with indeterminate industrial purpose (mcm)	

Note: Information on the reserves is filled in according to the reporting form No. 5-gr submitted by the company (solid combustible, metallic and intangible minerals) (annual) "Reporting Balance Sheet of Mineral Reserves for the year 20__".

5. Production volumes in the territory of Ukraine

Region	Coal (thousand tonnes)				Natural gas of coal mines (mcm)	Other (specify if necessary)
	Gas group (Г, ГЖ, ГЖП, ДГ)	Coking coal (К, Ж)	Anthracite (А)	Other stamps (specify)		
Autonomous Republic of Crimea						
Vinnitsia region						
Volyn region						
Dnipropetrovsk region						
Donetsk region						
including in the temporarily occupied territory						
Zhytomyr region						
Zakarpattia region						
Zaporizhzhia region						
Ivano-Frankivsk region						
Kyiv region						
Kirovograd region						
Luhansk region						
including in the temporarily occupied territory						
Lviv region						
Mykolaiv region						
Odesa region						
Poltava region						
Rivne region						
Sumy region						
Ternopil region						
Kharkiv region						
Kherson region						
Khmelnyskyi region						
Cherkasy region						
Chernivtsi region						
Chernihiv region						
TOTAL IN UKRAINE						

6. Employment

Indicator	Number, persons
Number of fulltime employees at the end of the reporting period, persons	
Average number of fulltime employees at the end of the reporting period, persons	

7. Total revenue and sales volume of marketable products in the reporting period

Indicators of sales, thousand tonnes	The volume							
	Gas group (Г, ГЖ, ГЖП, ДГ)		Coking coal (К, Ж)		Anthracite (А)		Other stamps (specify)	
Total sales in the territory of Ukraine (thousand tonnes), including:								
Raw coal, thousand tonnes								
Enriched coal, thousand tonnes								
Total export of coal (thousand tonnes), including:								
Raw coal, thousand tonnes								
Enriched coal, thousand tonnes								
Revenue from sales, UAH thousand	without VAT	VAT	without VAT	VAT	without VAT	VAT	without VAT	VAT
Total revenue from sales of coal (UAH thousand), including:								
Raw coal, UAH thousand								
Enriched coal, UAH thousand								
Total revenue from export of coal (UAH mln), including:								
Raw coal, UAH thousand								
Enriched coal, UAH thousand								

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

8. State subsidies

Indicator	Amount, UAH thousand	Note
Information on subsidies and any other financial support from public authorities received during the reporting period. For each type of support, please specify the amount and the name of the budget program that provides funding (in the field for notes)		

9. Agreements related to mining activity

№	Indicator	Information
1	Information on any joint venture agreement (JVA) For each joint venture agreement please indicate: <ul style="list-style-type: none"> - number, date of conclusion and duration of the JVA; - the name and the EDRPOU code (if any) of all parties of the JVA; - the authorized taxpayer (operator) and his/her tax ID number under the JVA; - the number of a special permit and the date of its granting under which JVA is operating - the share of manufactured products (its monetary equivalent), extracted under the JVA, owned by enterprises of state and communal ownership. 	
2	Information on any barter agreement with the state (state body or enterprise) according to which the company transferred (or received from the state or state enterprises) goods and services, loans, carried out infrastructure works, etc., in exchange for the minerals or possibility (right) to explore and / or extract the minerals. For each agreement please specify: <ul style="list-style-type: none"> - the date of the conclusion; - the term of the agreement; - full name of the counterparty, legal entity, under the given agreement; - the value of the whole agreement; - the costs (gains) incurred (for the state enterprises, indicate the incurred costs and received gains, if any) under the agreement in the reporting period; - the nature of barter costs / gains (list of goods, services, works, etc.) incurred (for the state enterprises, indicate the costs incurred and gains received, if any) under the agreement in the reporting period 	
3	Information on the concession of the state owned objects of the fuel and energy complex: <ul style="list-style-type: none"> - number, date and maturity of the agreement; - the parties of the agreement; - types of activities, work, services performed under the terms of the agreement; - the object of the concession; - the amount of concession and other obligatory payments stipulated by the concession agreement; - information on all special permits obtained without a tender related to the concession of the objects of the fuel and energy complex (if any), namely: the number, date of receipt and renewal, term of validity 	
4	Did the state and / or state enterprises provide loans and / or guarantees for loans to your company during the reporting period? If so, please indicate the amount of such loans / guarantees, the terms and conditions of their provision, such as: interest rate, security and its amount, repayment period, repayment schedule	

10. Social and charity payments

No	indicator	Amount, UAH thousand		Purpose	Note
		incl. VAT	without VAT		
1	Social expenses (in cash and in kind) required from your company in accordance with the legislation, product sharing agreements, subsoil use agreements, investment obligations, concession contracts, state purchase and sale contracts, or any other obligations to the state, central and local authorities, which are binding under the regulations or contracts related to extractive activities. For each payment, please specify the name of the payee as well as the recipient's region or settlement in the note field			Health care	
				Education and Science	
				Environment	
				Support to local communities	
				Other	
2	Information on any costs for social purposes, which the company made voluntarily. For each payment, , please specify the name of the payee as well as the recipient's region or settlement in the note field			Health care	
				Education and Science	
				Environment	
				Support to local communities	
				Other	
3	The cost of goods, works, services provided free of charge by your company to state enterprises, institutions and organizations, public authorities and local governments, or other recipients. For each payment, please specify the name of the payee and the recipient's region or settlement in the note field			Health care	
				Education and Science	
				Environment	
				Support to local communities	
				Other	
4	Charitable contributions and donations (in the meaning of the Law of Ukraine "On Charity and Charitable Organizations") granted by your company to state enterprises, institutions and organizations, state authorities and local self-government bodies or other recipients. For each payment, please specify the name of the payee and the recipient's region or settlement in the note field			Health care	
				Education and Science	
				Environment	
				Support to local communities	
				Other	

Extractive industries Transparency Initiative (EITI)

QUESTIONNAIRE

FOR THE COMPANIES OF METAL ORES INDUSTRY

1. Background information

Full name of the Company:	
EDRPOU Code	
Location (Legal address):	
Types of economic activities according to NACE: <i>(remove odds from the list and/or add new types of economic activity):</i>	07.1 - Mining of iron ores 07.2 - Mining of non-ferrous metal ores 09.9 - Support activities for other mining and quarrying 46.12 - <u>Agents involved in the sale of fuels, ores, metals and industrial chemicals</u> Other - specify
Types of ores	<i>To specify</i>
Please, file an electronic version of the financial statements for the reporting period	
Have you had an independent audit of your company's financial statements conducted? If so, provide an electronic version of the audit report	
Contact information of responsible person, who filled this questionnaire in (full name, job title, contact number, e-mail):	

Explanation: If there were changes in the company name, address, etc. during the reporting period, it is necessary to specify the previous and current data.

2. Legal information

Item	Information
The list of founders (participants) of a legal entity	
<p>Information on the ultimate beneficial owner (controller) of the legal entity, including the ultimate beneficiary (controller) of its founder (participant), if the founder (participant) is a legal entity - indicate the participation interest (share) of the beneficiary owner in the legal entity's capital. For each beneficial owner it is necessary to specify:</p> <ul style="list-style-type: none"> - full name - nationality (citizenship) - country of residence - indication of whether the person is a national / foreign public official - national identification (tax) number - national identification number - date of birth - address of residence or work - contact details (telephone number, e-mail address) <p>Public joint stock companies and their subsidiaries, the securities of which are included in the stock exchange register, must provide information about the name of the stock exchange and include a link to a site of stock exchanges, on which they are registered</p>	
Share of the state (including through state-owned enterprises) in the authorized capital of the company at the beginning of the reporting period	
Share of the state (including through state enterprises) in the authorized capital of the company at the end of the reporting period	
The name of the legal entity or state authority through which the state holds its share the authorized capital	
Have any changes in the state (including through state-owned enterprises) share of the company authorized capital occurred during the reporting period? If so, please indicate the date and nature of such changes	

3. Special permit for the use of subsoil and mining allotments (license), in the territory of Ukraine

Item	Information
The numbers of special permits valid at the end of the reporting period	
The numbers of special permits issued during the reporting period. For special permits issued without tender, provide the grounds for granting them without tender (the relevant clause of paragraph 8 of the Procedure for granting special permits for use of subsoil, approved by the Resolution of the Cabinet of Ministers of Ukraine # 615 dated May 30, 2011)	
The numbers of special permits the validity of which has expired during the reporting period and has not been prolonged	
The numbers of special permits which have been cancelled during the reporting period	
The numbers of special permits, suspended as of the end of the reporting period	
Information on any significant deviations from the procedure established by law for the provision of special permits for the use of subsoil	
Information on mining allotments: the location of the mining allotment, its area, the issue date and the validity of the act of granting the mining allotment	

4. Mineral deposits (total across the companies in the territory of Ukraine)

Indicator	Figure as of January 1 of the year following the reporting year
Iron ores (thousand tonnes), including:	
Balance (extractable) reserves (A+B+C ₁) (thousand tonnes)	
Conditionally balance sheet and off-balance sheet (C2 category) (thousand tonnes)	
Reserves with indeterminate industrial purpose (thousand tonnes)	
Reserves with indeterminate industrial purpose (thousand tonnes)	
Non-ferrous metal ores (thousand tonnes), including:	
Balance (extractable) reserves (A+B+C ₁) (thousand tonnes)	
Conditionally balance sheet and off-balance sheet (C2 category) (thousand tonnes)	
Reserves with indeterminate industrial purpose (thousand tonnes)	
Reserves with indeterminate industrial purpose (thousand tonnes)	

Note: Information on the reserves is filled in according to the reporting form No. 5-gr submitted by the company (solid combustible, metallic and intangible minerals) (annual) "Reporting Balance Sheet of Mineral Reserves for the year 20__".

5. Production volumes in the territory of Ukraine

	Iron ores (thousand tonnes)	Titanium ores (thousand tonnes)	Manganese ores (thousand tonnes)	Other (specify)
Autonomous Republic of Crimea				
Vinnytsia region				
Volyn region				
Dnipropetrovsk region				
Donetsk region				
including in the temporarily occupied territory				
Zhytomyr region				
Zakarpattia region				
Zaporizhzhia region				
Ivano-Frankivsk region				
Kyiv region				
Kirovograd region				
Luhansk region				
including in the temporarily occupied territory				
Lviv region				
Mykolaiv region				
Odesa region				
Poltava region				
Rivne region				
Sumy region				
Ternopil region				
Kharkiv region				
Kherson region				
Khmelnyskyi region				
Cherkasy region				
Chernivtsi region				
Chernihiv region				
TOTAL IN UKRAINE				

6. Employment

Indicator	Number, persons
Number of fulltime employees at the end of the reporting period, persons	
Average number of fulltime employees at the end of the reporting period, persons	

7. Total revenue and sales volume of marketable products in the reporting period

Indicator	Volume, thousand tonnes	Total revenue, UAH thousand	
		Including VAT	Without VAT
Sold within the territory of Ukraine, including:			
Unenriched ore			
Iron ore concentrate			
Pellets			
Manganese concentrate			
Titanium concentrate			
Exported, including:			
Unenriched ore			
Iron ore concentrate			
Pellets			
Manganese concentrate			
Titanium concentrate			
Other (<i>specify</i>)			

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

8. State subsidies

Indicator	Amount, UAH thousand	Note
Information on subsidies and any other financial support from public authorities received during the reporting period. For each type of support, please specify the amount and the name of the budget program that provides funding (in the field for notes)		

9. Agreements related to mining activity

№	Indicator	Information
1	Information on any joint venture agreement (JVA) For each joint venture agreement please indicate: <ul style="list-style-type: none"> - number, date of conclusion and duration of the JVA; - the name and the EDRPOU code (if any) of all parties of the JVA; - the authorized taxpayer (operator) and his/her tax ID number under the JVA; - the number of a special permit and the date of its granting under which JVA is operating - the share of manufactured products (its monetary equivalent), extracted under the JVA, owned by enterprises of state and communal ownership. 	
2	Information on any barter agreement with the state (state body or enterprise) according to which the company transferred (or received from the state or state enterprises) goods and services, loans, carried out infrastructure works, etc., in exchange for the minerals or possibility (right) to explore and / or extract the minerals. For each agreement please specify: <ul style="list-style-type: none"> - the date of the conclusion; - the term of the agreement; - full name of the counterparty, legal entity, under the given agreement; - the value of the whole agreement; - the costs (gains) incurred (for the state enterprises, indicate the incurred costs and received gains, if any) under the agreement in the reporting period; - the nature of barter costs / gains (list of goods, services, works, etc.) incurred (for the state enterprises, indicate the costs incurred and gains received, if any) under the agreement in the reporting period 	
3	Information on the concession of the state owned objects of the fuel and energy complex: <ul style="list-style-type: none"> - number, date and maturity of the agreement; - the parties of the agreement; - types of activities, work, services performed under the terms of the agreement; - the object of the concession; - the amount of concession and other obligatory payments stipulated by the concession agreement; - information on all special permits obtained without a tender related to the concession of the objects of the fuel and energy complex (if any), namely: the number, date of receipt and renewal, term of validity 	
4	Did the state and / or state enterprises provide loans and / or guarantees for loans to your company during the reporting period? If so, please indicate the amount of such loans / guarantees, the terms and conditions of their provision, such as: interest rate, security and its amount, repayment period, repayment schedule	

10. Social and charity payments

No	indicator	Amount, UAH thousand		Purpose	Note
		incl. VAT	without VAT		
1	Social expenses (in cash and in kind) required from your company in accordance with the legislation, product sharing agreements, subsoil use agreements, investment obligations, concession contracts, state purchase and sale contracts, or any other obligations to the state, central and local authorities, which are binding under the regulations or contracts related to extractive activities. For each payment, please specify the name of the payee as well as the recipient's region or settlement in the note field			Health care	
				Education and Science	
				Environment	
				Support to local communities	
				Other	
2	Information on any costs for social purposes, which the company made voluntarily. For each payment, please specify the name of the payee as well as the recipient's region or settlement in the note field			Health care	
				Education and Science	
				Environment	
				Support to local communities	
				Other	
3	The cost of goods, works, services provided free of charge by your company to state enterprises, institutions and organizations, public authorities and local governments, or other recipients. For each payment, please specify the name of the payee and the recipient's region or settlement in the note field			Health care	
				Education and Science	
				Environment	
				Support to local communities	
				Other	
4	Charitable contributions and donations (in the meaning of the Law of Ukraine "On Charity and Charitable Organizations") granted by your company to state enterprises, institutions and organizations, state authorities and local self-government bodies or other recipients. For each payment, please specify the name of the payee and the recipient's region or settlement in the note field			Health care	
				Education and Science	
				Environment	
				Support to local communities	
				Other	



12 Annex 4. Annual report on tax and other payments for extractive companies

ANNUAL REPORT ON TAX AND OTHER PAYMENTS FOR EXTRACTIVE COMPANIES

for 2016

Submitted by:	Term for submission:
Legal entities, separated subdivisions of legal entities, which carry out industrial activities	not later _____ 2018

Respondent:	
Full name:	_____
Identification code EDRPOU (for JAA - tax number)	_____
Location (legal address)	_____
	<i>(Post code, region, district, city/town/ street/lane, square, etc.)</i>

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

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

State/local budget	Budget classification code (CCBR)	Payment	Information on accruals for the reporting period, thous UAH			Payment in the reporting year, thous UAH	
			Tax basis	Tax rate	Incurred for the reporting year	Paid in the reporting year, total	Including for the previous years
		Taxes					
	11010000	<i>Personal income tax</i>					
SB/LB	11010100-11010900	Personal income tax, extraction activities					
SB/LB	11010100-11010900	Personal income tax, other types of activities					
	11020000	<i>Corporate income tax</i>					
SB/LB	11020100 - 11022200	Corporate income tax, extraction activities					
SB/LB	11020100 - 11022200	Corporate income tax, other types of activities					
	13030000	<i>Production royalty</i>					
SB/LB	13030100	Production royalty for mineral resources of national significance					
SB	13030700	Production royalty for oil					
SB	13030800	Production royalty for natural gas					
SB	13030900	Production royalty for gas condensate					
	14010000	<i>VAT</i>					
SB	14010100, 14010300 - 14010600	VAT, extraction activities					
SB	14010100, 14010300 - 14010600	VAT, other types of activities					
SB	14010200	VAT refund from the budget in cash					



	18010500	Land fee					
LB	18010500	Land fee for legal entities, extraction activities					
LB	18010500	Land fee for legal entities, other types of activities					
LB	18010600	Land rent fee for legal entities, extraction activities					
LB	18010600	Land rent fee for legal entities, other types of activities					
	19010000	Environmental tax					
LB/SB	19010100 -	Environmental tax, extraction activities					
SB	19010100 -	Environmental tax, other types of activities					
	19010900						
		Non-tax receipts/payments					
	21000000	Dividends and payment of a share of net profit					
SB	21010000- 21010900	Part of net profit (income) of the state-owned or communal unitary enterprises and their associations transferred to the respective budget, production activities					
SB	21010000- 21010900	Part of net profit (income) of the state-owned or communal unitary enterprises and their associations transferred to the respective budget, other types of activities					
SB	21010000- 21010900	Dividends (income) accrued on shares of business entities with the state share in the authorized capital, production activities					
SB	21010000- 21010900	Dividends (revenue) accrued on shares of business entities with the state share in the authorized capital, other types of activities					
		Unified social contribution					
		Unified social contribution, extraction activities					
		Unified social contribution, other types of activities					
		Fines					
SB/LB		Fines, penalties, confiscation, extraction activities					
SB/LB		Fines, penalties, confiscation, other types of activities					
		Other					
LB		Other taxes and duties paid directly to local budgets, extraction activities					
SB		Other taxes and duties paid directly to the state budget, extraction					



		activities					
		Total paid <i>to the state budget</i> <i>to the local budget</i>					

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

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

 (Full name)

 (Full name)

telephone: _____

fax: _____

e-mail: _____

Instruction on the procedure for filling in the Annual report on taxes and other payments for extractive companies

1. Background

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

Report of Payments/Proceeds shall be filled in for 2016 by the oil and gas companies (including operators of oil and gas pipelines), metal ores and coal companies.

2. Instruction on filling in

1. If the Payer has branches and representative offices, the Report shall be filled in for each business entity.
2. Information on Payments / Proceeds shall be filled in by the Payer/Recipient as per the Classification of Codes of Budget Revenues (CCBR) in accordance with the Unified Budget Classification of Ukraine approved by Order #11 of the Ministry of Finance of Ukraine "On Budget Classification" of 14.01.2011., valid as of 31.12.2015.
3. The Report shall provide the amounts of payments actually made in the reporting period, including Payments made against debt repayment for the previous period, including against payment surplus specified in the Report. Amounts of Payments accrued but not paid in the reporting period shall not be included to this Report.
4. Amounts of Payments shall be stated by the Payer in accordance with accounting data and approved by the Auditor which audits the Payer's activities. In case of absence of Auditor's Opinion or assurance on tax amounts made by the Payer, such payer shall provide explanations concerning the reasons of absence of audit/assurance by the auditor of tax amounts. VAT refund amounts shall be put with minus.
5. When obtaining from the Company a reconciliation request in respect of erroneous or incomplete data, as well as in respect of differences between the Payer and the Recipient data:
 - the Recipient shall provide statements of Payer's account in respect of which there is a difference for the respective period;
 - the Payer shall provide documents supporting the amount of made payment in respect of which there is a difference, such as bank statements, personal account which confirms tax payment through netting off against other taxes, etc.
6. If it is necessary, the Payers/Recipients may address the Company on reconciliation for explanations in respect of the Report preparation.
7. The dashes shall be inserted if there are no specific indexes.
8. The Report shall be approved by the Director of the Payer/Recipient or his/her authorized representative responsible for quality and fairness of information.
9. If the total income of non-core segments of the Enterprise (other than production and transportation) from the sale of products (goods, works and services)

to external buyers and according to intra-company settlements of the Enterprise is less than 10% of total income from sale to external buyers and according to intra-company settlements of all segments of specific type (economic or geographic, respectively), the Enterprise not allocate tax payment between extractive industry and other types of activities. The tax payment shall be considered to be related to the extractive industry only.

10. If the total income of non-core segments of the Enterprise (other than production and transportation) from the sale of products (goods, works and services) to external buyers and according to intra-company settlements of the Enterprise is not less than 10% of total income from sale to external buyers and according to intra-company settlements of all segments of specific type, the Enterprise shall allocate tax payment between extractive industry and other types of activities. The allocation shall be made pro rata the total income of core and non-core economic segments.
11. The Report shall be prepared in hard and soft copies and sent to the Ministry of Energy and Coal Industry of Ukraine within the term and to the address, specified in the Order of the Ministry of Energy and Coal Industry of Ukraine.

3. Contents of filling in template

State/local budget	Identifies to which budget the tax shall be paid (ST - state budget, LB - local budget). This identifier shows the budget to which payer actually pays the tax, and does not reflect the budget, to which such payment may be transferred.
CCBR	CCBR, according to which the payments are credited
Payment	List of tax and non-tax proceeds/payments
Tax basis	Basis from which the proceeds of respective tax is accrued, thous UAH
Tax rate	Effective rate for respective tax
Accrued for the reporting year	Tax amount accrued for the reporting year
Paid in the reporting year, total	Amount of Payment/Proceeds specified in the column Name of payment, actually made/received as per CCBR as specified in the column CCBR, thous UAH
Including for the previous years	Amount of Payment/Proceeds, actually made/received in the reporting year but for the previous periods specified in the column Name of payment, actually made/received as per CCBR as specified in the column CCBR, thous UAH

13 Annex 5. Powers of state authorities of Ukraine in the field of mineral resource production

State authority	Main functions/powers in mineral resource production sector	Subordination to the state authority	Laws and regulations
Verkhovna Rada (Parliament) of Ukraine	<ol style="list-style-type: none"> 1) Adopting the laws⁴⁰⁴ 2) Setting out the main lines of state policy⁴⁰⁵ 3) Approving the national programs for development of extractive industries⁴⁰⁶ 	Elected body	Constitution of Ukraine Law of Ukraine "On Rules of Parliamentary Procedure of the Verkhovna Rada of Ukraine" ⁴⁰⁷ Subsoil Code Mining Law
President of Ukraine ⁴⁰⁸	<ol style="list-style-type: none"> 1) Participating in the legislative process (legislative initiative right, signing / veto of laws adopted by the Parliament); 2) Issuing decrees and orders that are mandatory on the territory of Ukraine. 	Elected body	Constitution of Ukraine
Cabinet of Ministers of Ukraine	<ol style="list-style-type: none"> 1) Procuring financial, pricing, investment and tax policy, as well as policy in the areas of environmental safety and use of natural resources; 2) Directing and coordinating the work of ministries and other executive bodies; 3) Adopting decisions on establishment, reorganization and liquidation of ministries and other central state authorities upon request of the Prime Minister of Ukraine; 	Accountable to the President of Ukraine and Verkhovna Rada of Ukraine; is controlled by and reports to the Verkhovna Rada of Ukraine	Constitution of Ukraine Law of Ukraine "On the Cabinet of Ministers of Ukraine" ⁴⁰⁹ Subsoil Code Mining Law Law on Oil and Gas Law of Ukraine "On the Natural Gas Market"

⁴⁰⁴ According to paragraph 5 of part 1 of Article 92 of the Constitution of Ukraine, the principles of the use of natural resources may only be set out by laws of Ukraine. Apart from the Constitution of Ukraine, the main laws governing oil and gas production sector are Subsoil Code of Ukraine No. 132/94-BP of 27 July 1994, Law of Ukraine "On Oil and Gas" No. 2665-III of 12 July 2001, Mining Law of Ukraine No. 1127-XIV of 6 October 1999, Law of Ukraine "On Production Sharing Agreements" No. 1039-XIV of 14 September 1999, and other laws.

⁴⁰⁵ Resolution of the Verkhovna Rada of Ukraine "On Main Tasks of the State Policy of Ukraine on Environmental Protection, Use of Natural Resources and Ensuring Ecological Safety" No. 188/98-BP of 5 March 1998, available at: <http://zakon3.rada.gov.ua/laws/show/188/98-%D0%B2%D1%80>.

⁴⁰⁶ Law of Ukraine "On Approval of the National Program for Development of the *Mineral Resources* Base of Ukraine for the Period until 2030" No. 3268-VI of 21 April 2011.

⁴⁰⁷ Law of Ukraine "On Rules of Parliamentary Procedure of the Verkhovna Rada of Ukraine" No. 1861-VI of 10 February 2010.

⁴⁰⁸ The President of Ukraine does not formally belong to any branch of government (legislative, executive, judicial).

⁴⁰⁹ Law of Ukraine "On the Cabinet of Ministers of Ukraine" No. 2591-VI of 7 October 2010, available at: <http://zakon3.rada.gov.ua/laws/show/794-18>.

State authority	Main functions/powers in mineral resource production sector	Subordination to the state authority	Laws and regulations
	4) Issuing mandatory resolutions and orders; 5) Participating in the legislative process (legislative initiative right); 6) Implementing state policy in the oil and gas industry 7) Adopting decisions regarding Imposing special obligations onto the natural gas market players in order to ensure public interests in the natural gas market; 8) Performing state management in the field of geological exploration, use and protection of mineral resources; 9) Performing state regulation of mining.		
Ministry of Ecology and Natural Resources of Ukraine (Ministry of Ecology)	1) Ensuring development and implementation of state policy in the field of environmental protection, reproduction and protection of natural resources; 2) Setting regulatory framework for a range of issues including monitoring of the subsoil examination works, accounting for the volumes of produced minerals, depleted deposits, and the mining losses, accounting for oil and gas wells, procedure of releasing the subsoil resources into use; 3) Consenting to the issuance of the license; 4) Registering the first and final drafts of production sharing agreements and performing	Directed and coordinated by the CMU (the Ministry is a central executive body responsible for development and implementation of state policy in the field of environmental protection and environmental security	Law of Ukraine "On Environmental Protection" Regulation on the Ministry of Ecology and Natural Resources of Ukraine ⁴¹⁰ Procedure for Registration of Drafts of the Production Sharing Agreement and State Registration of the Production Sharing Agreement ⁴¹¹

⁴¹⁰ Resolution of the CMU "On approval of the Regulation of the Ministry of Ecology and Natural Resources of Ukraine" No. 32 dated 21 January 2015, available at: <http://zakon0.rada.gov.ua/laws/show/32-2015-%D0%BF>.

⁴¹¹ Order of the Ministry of Ecology and Natural Resources of Ukraine "On Approval of the Procedure for Registration of Drafts of the Production Sharing Agreement and State Registration of the Production Sharing Agreement" No. 40 of 5 February 2013, available at: <http://zakon4.rada.gov.ua/laws/show/z0299-13>.

State authority	Main functions/powers in mineral resource production sector	Subordination to the state authority	Laws and regulations
	state registration of such agreements.		
Ministry of Energy and Coal Industry of Ukraine (Ministry of Energy)	<ol style="list-style-type: none"> 1) Setting out main tasks of development of fuel and energy sector; 2) Regulating the fuel and energy complex, in particular, issuing binding orders; 3) Monitoring the oil and gas market; 4) Approving project technical documents for development of oil and gas deposits; 5) Adopting decisions on commencement of pilot and commercial development of an oil and gas field or deposit; 6) Approving projects for conservation or liquidation of coal extracting companies under the Ministry's control; 7) Accounting for the state-owned property under its management and exercising control over the efficient use and preservation of such property; 8) Accounting for the accidents that have occurred at fuel and energy enterprises, approving measures for their prevention; 9) Developing and implementing measures in the fields of energy supervision and compliance with quality standards for coal products; 10) Participating in development of procedures and conditions for privatization of fuel and energy enterprises; 	<p>Directed and coordinated by the CMU</p> <p>(the Ministry is a central executive body responsible for development and implementation of state policy in energy, nuclear industry, coal, peat, and oil and gas sectors)</p>	<p>Regulation on the Ministry of Energy and Coal Industry of Ukraine⁴¹²</p> <p>Law on Oil and Gas</p> <p>Law of Ukraine "On the Natural Gas Market"</p>

⁴¹²Decree of the President of Ukraine "On Regulation of the Ministry of Energy and Coal Industry of Ukraine" No. 382/2011 of 6 April 2011, available at: <http://zakon2.rada.gov.ua/laws/show/382/2011>. In 2017, a new Regulation of the Ministry of Energy and Coal Industry of Ukraine was approved by the resolution of the CMU No. 208 dated 29 March 2017.

State authority	Main functions/powers in mineral resource production sector	Subordination to the state authority	Laws and regulations
	1) Approving the National Action Plan; 2) Developing and approving rules for the safety of supply of natural gas		
State Fiscal Service of Ukraine (SFS)	1) Collection, recording, and control over the payment of taxes, duties, and customs payments (in particular, the license fee for subsoil use) 2) Issuing binding orders and exercising control over their implementation; 3) Providing information upon request of the Geology Service on the existence of an outstanding debt for payment of state taxes and fees for the purpose of granting a license.	Directed and coordinated by the CMU through the Minister of Finance (the Service is a central executive body responsible for development and implementation of state tax and customs policy)	Tax Code of Ukraine ⁴¹³ Regulation on the State Fiscal Service of Ukraine ⁴¹⁴ Procedure for granting licenses
State Service for Geology and Mineral Resources of Ukraine (Geology Service)	1) Implementing state policy on geological exploration and rational use of subsoil resources; 2) Exercising state control over geological exploration of subsoil (state geological control) and its rational and efficient use, in particular, over the accounting of oil, gas and related components; 3) Registering and accounting for works and researches related to geological exploration of subsoil; 4) Issuing, cancelling, suspending, and renewing the licenses; 5) Publishing information on	Directed and coordinated by the CMU through the Minister of Ecology and Natural Resources of Ukraine (central executive body responsible for implementation of state policy in geological exploration of subsoil and its rational and efficient use)	Subsoil Code Law of Ukraine "On the State Geological Service of Ukraine" ⁴¹⁵ Regulation on the State Service for Geology and Mineral Resources of Ukraine ⁴¹⁶ The Procedure for Granting Licenses ⁴¹⁷

⁴¹³ Tax Code of Ukraine.

⁴¹⁴ Resolution of the CMU "On the State Fiscal Service of Ukraine" No 236 of 21 May 2014.

⁴¹⁵ Law of Ukraine "On the State Geological Service of Ukraine" No. 1216-VII of 4 November 1999, available at <http://zakon5.rada.gov.ua/laws/show/1216-14>.

⁴¹⁶ Resolution of the CMU "On approval of the Regulation of the State Service for Geology and Mineral Resources of Ukraine" No. 1174 dated 30 December 2015, available at <http://zakon5.rada.gov.ua/laws/show/1174-2015-%D0%BF>.

⁴¹⁷ Resolution of the CMU "On Approving the Procedure for Issuing Special Subsoil Use Permits" No. 615 of 30 May 2011.

State authority	Main functions/powers in mineral resource production sector	Subordination to the state authority	Laws and regulations
	<p>certain procedural steps related to granting licences;</p> <p>6) Supervising compliance with the norms, standards, and other requirements for the geological exploration and use of subsoil, the conditions of licenses, the conditions of licenses and the subsoil use agreements.</p>		
State Ecological Inspection of Ukraine	<p>1) Performing state supervision over compliance with regulations on environmental safety</p> <p>2) Performing supervision and control over compliance with the terms and conditions of licenses.</p>	<p>Directed and coordinated by the CMU through the Minister of Ecology and Natural Resources of Ukraine</p> <p>(central state authority responsible for implementation of state policy in supervision (control) in the sphere of environmental protection, rational and efficient use, restoration and protection of mineral resources)</p>	<p>Law of Ukraine "On Environmental Protection"</p> <p>Regulation on the State Ecological Inspection of Ukraine⁴¹⁸⁴¹⁹</p> <p>The Procedure for Granting Licenses</p>
State Labor Service	<p>1) Granting the mining allotments;</p> <p>2) Performing state mining supervision of safe mining works; of coal, oil and gas, ore, and non-ore mining enterprises during construction, operation, liquidation, and conservation of mining objects and</p>	<p>Directed and coordinated by the CMU through the Minister of Social Security of Ukraine</p> <p>(Service is a central state authority responsible for implementation of state policy in supervision and control</p>	<p>Subsoil Code of Ukraine</p> <p>Regulation on the State Labor Service⁴²¹</p> <p>Regulation on the Procedure for State Mining Supervision⁴²²</p> <p>Regulation on the Procedure for Granting Mining Allotments⁴²³</p>

⁴¹⁸ Decree of the President of Ukraine "On the Regulation on the State Ecological Inspection of Ukraine" No. 454/2011 of 13 April 2011, available at: <http://zakon3.rada.gov.ua/laws/show/454/2011>.

⁴¹⁹ On 19 April 2017, the CMU adopted a resolution "On Approval of the Regulation on the State Ecological Inspection of Ukraine" No. 275 dated 19 April 2017, available at: <http://zakon2.rada.gov.ua/laws/show/275-2017-%D0%BF>.

⁴²¹ Resolution of the CMU "On approval of the Regulation of the State Labor Service of Ukraine" No. 96 dated 11 February 2015, available at: <http://zakon2.rada.gov.ua/laws/show/96-2015-%D0%BF/print1443083481646335>.

⁴²² Resolution of the CMU "On Approval of the Regulation on the Procedure for State Mining Supervision" No. 134 dated 21 February 1995, available at: <http://zakon0.rada.gov.ua/laws/show/134-95-%D0%BF>.

⁴²³ Resolution of the CMU "On Approval of the Regulation on the Procedure for Issuing of Mining Allotments" No. 59 of 27 January 1995.

State authority	Main functions/powers in mineral resource production sector	Subordination to the state authority	Laws and regulations
	<p>enterprises⁴²⁰;</p> <p>3) Supervising (controlling) compliance with requirements of special subsoil use permits concerning state mining supervision;</p> <p>4) Organizing the state technical expert examination of safety of mining operations;</p> <p>5) Conducting selective checks of the availability and performance of the projects and plans of geological exploration of minerals, development of mineral resources deposits;</p> <p>6) Terminating the subsoil use related works in case of violations of geological exploration of mineral resources.</p>	<p>over environmental protection, efficient use, replenishment, and protection of mineral resources)</p>	<p>The Procedure for Granting Licenses</p>
<p>Ministry of Economic Development and Trade (Ministry of Economy)</p>	<p>1) Developing and ensuring implementation of state policy in state-owned property management and state industrial policy;</p> <p>2) Preparing and reporting to the CMU of a draft list of state-owned property that can be transferred into concession;</p> <p>3) Providing methodological and legislative support related to the issues of state-owned property management;</p> <p>4) Developing proposals regarding the formation and implementation of state</p>	<p>Directed and coordinated by the CMU (central executive body responsible for development and implementation of state policies in economic, social development and trade fields, in industrial and investment aspects, in cross-border economic activities regulation, in technical regulation, in standardization and metrology, in state-owned property management, in</p>	<p>Resolution of the CMU "On the issues of Ministry of Economic Development and Trade"⁴²⁴</p> <p>Law of Ukraine "On Public-Private Partnership"⁴²⁵</p> <p>Law of Ukraine "On Management of State-owned Property"</p>

⁴²⁰ State mining supervision is the supervision over companies', organizations', and citizens' compliance with laws, rules and regulations, applicable to works related to geological exploration, use and protection of subsoil resources, and also the use and processing of raw minerals (paragraph 1 of the Regulation on the Procedure for State Mining Supervision).

⁴²⁴ Resolution of the CMU "On issues of the Ministry of Economic Development and Trade" No. 459 of 20 August 2014, available at: <http://zakon2.rada.gov.ua/laws/show/459-2014-%D0%BF>.

⁴²⁵ Law of Ukraine "On Public-Private Partnership" No 2404-VI of 1 July 2010.

State authority	Main functions/powers in mineral resource production sector	Subordination to the state authority	Laws and regulations
	pricing policy.	stimulating the entrepreneurship)	
National Energy and Utilities State Regulation Commission	<ol style="list-style-type: none"> 1) Approving the methodology of setting transportation tariffs for natural gas, for entry and exit points, of the services on distribution, storage (injection, withdrawal) of natural gas in relation to the gas storage facilities to which the regulated access regime is applied, of the LNG installation services; as well as setting tariffs that must ensure the necessary investments into gas transportation and distribution systems, gas storage facilities, and LNG facility; 2) Setting tariffs for transportation of natural gas through transboundary gas pipelines; 3) Approving rules for supply of natural gas; 4) Certifying operators of the transmission system and the gas transportation system; 5) Licensing of activities related to transportation, distribution, storage, supply of natural gas and provision of LNG facility services; 6) Approving rules for the "last hope" supplier as part of the rules for natural gas supply, including rules for determination of the price of natural gas supplied by such a supplier; 7) Monitoring the level of 	Accountable to the President of Ukraine; reporting to the Verkhovna Rada of Ukraine (independent state collegial body the purpose of which is state regulation, monitoring and control over the activities of business entities in energy and utility sector)	Law of Ukraine "On Commission for State Regulation of Energy Sector and Utilities" ⁴²⁶ Regulation on the National Energy and Utilities State Regulation Commission ⁴²⁷ Law of Ukraine "On Natural Gas Market"

⁴²⁶ Law of Ukraine "On the National Commission for State Regulation of Energy Sector and Utilities" No. 1540-VIII dated 11 September 2017, available at: <http://zakon3.rada.gov.ua/laws/show/1540-19/print1452596252458519>.

⁴²⁷ Decree of the President of Ukraine "On Approving Regulation on National Energy and Utilities State Regulation Commission" No. 715/2014 of 10 September 2014 available at: <http://zakon0.rada.gov.ua/laws/show/715/2014>.

State authority	Main functions/powers in mineral resource production sector	Subordination to the state authority	Laws and regulations
	<p>transparency in the activities of natural gas market players, in particular, the level of wholesale natural gas prices, as well as ensuring compliance of the natural gas market players (except for consumers) with the obligations to publish information;</p> <p>8) Developing and approving codes on transmission and distribution systems of electric energy, gas transportation and distribution systems, codes on gas storage and LNG facilities;</p> <p>9) Establishing the minimum standards and quality requirements to consumer services and natural gas supply.</p>		
State Architectural and Construction Inspection of Ukraine	<p>1) Issuing and withdrawing permits for carrying out construction works;</p> <p>2) Checking the completed works' compliance with requirements of state construction regulations, standards, and rules;</p> <p>3) Issuing binding notifications, particularly concerning cease of preparatory and construction works if those are not carried out in compliance with statutory requirements.</p>	Directed and coordinated by the CMU through the Vice-Prime-Minister of Ukraine - Minister of Regional Development, Construction, and Public Housing and Utility Services (central executive body responsible for implementation of state policy in state architectural and construction control and supervision)	<p>Regulation on the State Architectural and Construction Inspection of Ukraine⁴²⁸</p> <p>Procedure of Exercising State Architectural and Construction Control⁴²⁹</p> <p>Procedure for Exercising State Architectural and Construction Supervision⁴³⁰</p>
State Emergency	1) Filing with the Minister of	Directed and	Law of Ukraine "On

⁴²⁸ Resolution of the CMU "On Approving Regulation on State Architectural and Construction Inspection of Ukraine" No. 294 of 9 July 2014, available at: <http://zakon0.rada.gov.ua/laws/show/294-2014-%D0%BF>; Decree of the President of Ukraine "On Regulation on State Architectural and Construction Inspection of Ukraine" No. 439/2011 of 8 April 2011, available at: <http://zakon0.rada.gov.ua/laws/show/439/2011>

⁴²⁹ Resolution of the CMU "On Approving the Procedure of Performing State Architectural and Construction Control" No. 553 of 23 May 2011., available at: <http://zakon2.rada.gov.ua/laws/show/553-2011-%D0%BF/ed20151006>.

⁴³⁰ Resolution of the CMU "On Approving the Procedure of Performing State Architectural and Construction Supervision" No. 698 of 19 August 2015, available at: <http://zakon3.rada.gov.ua/laws/show/en/698-2015-%D0%BF/ed20150819>.

State authority	Main functions/powers in mineral resource production sector	Subordination to the state authority	Laws and regulations
Service of Ukraine	<p>internal affairs proposals concerning list of enterprises, branches of economy and territories subject to continuous and statutory rescue maintenance, as well as procedures of performing such maintenance;</p> <p>2) Organizing and providing protection against fires for companies, institutions, organizations, and other objects on the basis of the agreements.</p>	<p>coordinated by the CMU through the Minister of Internal Affairs (central executive body responsible for implementation of state policy in civic protection, protection of civilians and territories from emergency situations and prevention of their occurrence, liquidation of consequences of emergency situations, rescue activity, firefighting, fire and technogenic safety, activity of rescue services, and hydrometeorological activities)</p>	<p>High-Hazard Objects"⁴³¹</p> <p>Regulation on the State Emergency Service of Ukraine"⁴³²</p>
Verkhovna Rada (Parliament) of the Autonomous Republic of Crimea	<p>1) Distributing subsoil use royalty between the relevant local budgets;</p> <p>2) Developing, approving, and executing local programs of the development of the mineral resources base, rational use and protection of subsoil.</p>	<p>Elected body of the Autonomous Republic of Crimea</p>	<p>Constitution of Ukraine</p> <p>Law of Ukraine "On Approval of the Constitution of the Autonomous Republic of Crimea"⁴³³</p> <p>Law of Ukraine "On the Verkhovna Rada of the Autonomous Republic of Crimea"⁴³⁴</p> <p>Subsoil Code</p>
Council of Ministers of the Autonomous Republic of Crimea	<p>1) Providing mineral resources into use for development of mineral deposits of local importance;</p> <p>2) Issuing mining allotments</p>	<p>Government of the Autonomous Republic of Crimea</p>	<p>Constitution of Ukraine</p> <p>Law of Ukraine "On Approval of the Constitution of the Autonomous Republic</p>

⁴³¹ Law of Ukraine "On Objects of High Hazard" No 2245-III of 18 January 2001, available at: <http://zakon3.rada.gov.ua/laws/show/2245-14>.

⁴³² Resolution of the CMU "On approving Regulation on the State Emergency Service of Ukraine" No. 1052 of 16 December 2015, available at: <http://zakon2.rada.gov.ua/laws/show/1052-2015-%D0%BF/ed20151216>.

⁴³³ Law of Ukraine "On Approval of the Constitution of the Autonomous Republic of Crimea" No. 350-XIV of 23 December 1998, available at: <http://zakon3.rada.gov.ua/laws/show/350-14>.

⁴³⁴ Law of Ukraine "On the Verkhovna Rada of the Autonomous Republic of Crimea" No. 90/98-BP of 10 February 1998, available at: <http://zakon2.rada.gov.ua/laws/show/90/98-%D0%B2%D1%80>.

State authority	Main functions/powers in mineral resource production sector	Subordination to the state authority	Laws and regulations
	<p>(for development of mineral deposits of local importance in the territory of the Autonomous Republic of Crimea);</p> <p>3) Directing, coordinating, and controlling the activities of executive authorities of the Autonomous Republic of Crimea;</p> <p>4) Being consulted with respect to applications for providing subsoil resources into use for geological exploration, production of mineral deposits of national importance, and other purposes unrelated to production of mineral resources (except for providing the subsoil resources into use under a PSA);</p> <p>5) Terminating the right to use a subsoil block.</p>		<p>of Crimea”</p> <p>Law of Ukraine “On the Council of Ministers of the Autonomous Republic of Crimea”⁴³⁵</p> <p>Subsoil Code</p> <p>The Procedure for Granting Licenses</p> <p>Regulation on the Procedure for Granting Mining Allotments</p>
<p>Oblast (region), Kyiv, and Sevastopol city state administrations</p>	<p>1) Issuing special water use permits (water objects of state importance) (required for carrying out certain activities in the oil and gas production sector);</p> <p>2) Controlling over the use and protection of subsoil;</p> <p>3) Approving the production of mineral resources of local importance and peat with special technical means.</p>	<p>Local state administrations and their heads are accountable to the President of Ukraine and the CMU, and are controlled by and report to the CMU.</p> <p>Local state administrations are controlled by and report to the relevant district and oblast (region) councils with regard to the powers</p>	<p>Constitution of Ukraine</p> <p>Law of Ukraine “On Local State Administrations”⁴³⁶</p> <p>Subsoil Code</p> <p>The Law of Ukraine “On the Capital of Ukraine - the Hero City of Kyiv”⁴³⁷</p> <p>Procedure for Approval and Granting of Special Water Use Permits⁴³⁸</p>

⁴³⁵ Law of Ukraine “On the Council of Ministers of the Autonomous Republic of Crimea” No. 3530-VI of 16 June 2011, available at: <http://zakon5.rada.gov.ua/laws/show/3530-17>

⁴³⁶ Law of Ukraine “On Local State Administrations” No. 586-XIV of 9 April 1999, available at: <http://zakon2.rada.gov.ua/laws/show/586-14>

⁴³⁷ Law of Ukraine “On the Capital of Ukraine - the Hero City of Kyiv” No. 401-XIV of 15 January 1999, available at: <http://zakon2.rada.gov.ua/laws/show/586-14>

⁴³⁸ Resolution of the CMU “On Approval of the Procedure for Approval and Issuance of Special Water Use Permits and Amendments to Resolution of the CMU of 10 August 1992 No. 459” No. 321 of 13 March 2002, available at: <http://zakon3.rada.gov.ua/laws/show/321-2002-%D0%BF/ed20120119>.

State authority	Main functions/powers in mineral resource production sector	Subordination to the state authority	Laws and regulations
		<p>delegated to them by relevant district and oblast (region) councils, and with regard to execution of the decisions of the councils on these matters.</p> <p>The Mayor of Kyiv as the head of the Kyiv City State Administration when exercising his/her executive powers is accountable to the President of Ukraine and the CMU, and is controlled by and reports to the CMU.</p>	
Oblast (region), Kyiv, and Sevastopol city councils	<ol style="list-style-type: none"> 1) Providing mineral resources into use for the development of minerals of local importance; 2) Approving the provision of subsoil resources into use for the purposes of geological exploration and production of mineral resources deposits of state importance and for the purposes unrelated to production of mineral resources; 3) Distributing royalties for subsoil resource use among the relevant local budgets; 4) Issuing mining allotments (for development of mineral fields of local importance); 5) Issuing special water use permits (required for carrying out certain activities in the oil and gas production sector); 6) Developing, approving, and executing local programs for 	<p>The authorities and officials of local self-government bodies report to, and are controlled by and accountable to the territorial communities.</p> <p>When exercising powers of local self-government, the Kyiv City State Administration is, as an executive body, controlled by, accountable to, and reports to the Kyiv City Council.</p>	<p>Constitution of Ukraine</p> <p>Law of Ukraine "On the Local Self-Governance in Ukraine"⁴³⁹</p> <p>Law of Ukraine "On the Capital of Ukraine - the Hero City of Kyiv"</p> <p>Subsoil Code</p> <p>Procedure for Approval and Granting of Special Water Use Permits</p>

⁴³⁹ Law of Ukraine "On the Local Governments in Ukraine" No. 280/97-BP of 21 May 1997, available at: <http://zakon3.rada.gov.ua/laws/show/280/97-%D0%B2%D1%80>.

State authority	Main functions/powers in mineral resource production sector	Subordination to the state authority	Laws and regulations
	<p>the development of mineral resources base, rational use and protection of the subsoil resources;</p> <p>7) Exercising control over the use and protection of subsoil resources.</p>		
Village, rural settlement, city, and district councils	<ol style="list-style-type: none"> 1) Approving allocation of rights to use subsoil for the purposes of geological exploration and production of mineral deposits of local importance; 2) Carrying out local programs for the development of mineral resources base, efficient use and protection of the subsoil resources; 3) Exercising control over the use and protection of subsoil. 	<p>The authorities of local self-government bodies report to, and are controlled by and accountable to the territorial communities.</p> <p>The executive authorities of village, rural settlement, city, and city district councils are controlled by and report to the relevant councils; they are controlled by the relevant executive authorities when exercising powers delegated by executive authorities.</p>	<p>Constitution of Ukraine</p> <p>Law of Ukraine "On the Local Self-Government in Ukraine"</p> <p>Subsoil Code</p> <p>Law of Ukraine on Oil and Gas</p> <p>Mining Law</p>

14 Annex 6. Ultimate Beneficial Owners of reporting entities according to the information from Unified State Registry

Notes

- ▶ The information below corresponds to the information from the Unified State Registry (USR) as of 13 December 2017;
- ▶ The USR does not provide for ultimate beneficial owners of state and municipal enterprises. Instead, the USR provides information on founders (participants) of such legal entities, including state executive bodies managing those. The USR provides rather inconsistent information on ultimate beneficial owners of state and municipal enterprises. For example, there might be cases where it is indicated that an ultimate beneficial owner is absent, whereas there are also cases where no information is ever indicated with respect to a beneficial owner. The table contains information precisely as published on the USR official website as of the date above.
- ▶ A statement “No information in the USR” means that the information on ultimate beneficial owner of the respective entity is not indicated in the USR (including such in respect of state enterprises).
- ▶ This section does not contain information about the owners of substantial shareholding in the companies.
- ▶ This section also includes the persons designated as beneficial owners of the company's founders.

Nº	Code EDRPOU	Name	Ultimate beneficial owner of the company
1.	135390	Ukrnafta PJSC	No ultimate beneficial owner
2.	20041662	Poltava Petroleum Company JV	JKX Oil & Gas Plc, London, 3050645, UK ⁴⁴⁰
3.	20077720	Naftogaz of Ukraine NJSC	No ultimate beneficial owner
4.	22402928	Boryslavska Naftova Kompaniia LLC JV	No information available on USR
5.	24186185	Energiia-95 LLC	Vitalii Danilov, Ukraine Ihor Kotvitskyi, Ukraine
6.	25635581	Ukrgezvydobutok PrJSC	Private limited company Smart Energy BV, Vadym Novynskyy, Ukraine
7.	26333503	Representative Office Regal Petroleum Corporation Limited (without legal entity right)	Regal Petroleum (Jersey) Limited, Vadym Novynskyy, Ukraine
8.	30019775	Ukrgezvydobuvannia PJSC	No ultimate beneficial owner
9.	30019801	Ukrtransgaz PJSC	No ultimate beneficial owner

⁴⁴⁰ Information was provided by Poltava Petroleum Company JV.

№	Code EDRPOU	Name	Ultimate beneficial owner of the company
10.	30694895	Kub-gaz LLC	No ultimate beneficial owner
11.	30732144	Energy Service Company Esco-Pivnich LLC	Brositi Investment Limited, Mykola Zlochevskiy, Ukraine
12.	31037994	Pari LLC	Mykola Zlochevskiy, Ukraine
13.	31570412	Ukrtransnafta PJSC	No ultimate beneficial owner
14.	31747429	Prom-Energo Product LLC	Vadym Novynskyy, Ukraine
15.	32377038	Naftogazvydobuvannia PrJSC	DTEK OIL GAZ B.V., Rinat Akhmetov, Ukraine
16.	32426289	East Geological Union LLC	No ultimate beneficial owner
17.	33100376	Natural resources PrJSC	No ultimate beneficial owner
18.	33152471	Vydobuvna kompaniia Ukrnaftoburinnia PrJSC	No ultimate beneficial owner
19.	36050166	Persha ukraiinska gazonaftova kompaniia LLC	Mykola Zlochevskiy, Ukraine
20.	23703371	Kashtan Petroleum LTD JV	No information available on USR
21.	337504782	Joint activity agreement of 10 June 2002 No. 3 - authorized entity Karpatygaz LLC 30162340	No information available on USR
22.	403739509	Joint activity agreement of 24/12/1997 No 999/97 - authorized entity Naftogazovydobuvne upravlinnia Poltavanaftogaz of Ukrnafta PJSC 22525915	See information on Ukrnafta PJSC
23.	403742858	Joint activity agreement of 28 November 2000 No. 1-Д21/008/2000 - authorized entity Poltava branch of Devon CJSC 26002442	No information available on USR
24.	455860319	Joint activity agreement of 24 March 2004 No. 493 - authorized entity Karpatygaz LLC 30162340	No information available on USR
25.	534663345	Joint activity agreement of 19 January 1999 No. 35/4 - authorized entity Ukrnafta PJSC 135390	See information on Ukrnafta PJSC
26.	536507917	Joint activity agreement of 21 July 1997 No. 23-3/97-84Б-97 - authorized entity Gaz-MDS LLC 24253556	Havrysh Andrii, Ukraine

№	Code EDRPOU	Name	Ultimate beneficial owner of the company
27.	190905	Ingulets Iron Ore Enrichment Works PrJSC	Akhmetov Rinat, Ukraine
28.	190977	Central GZK PrJSC	Akhmetov Rinat, Ukraine
29.	191000	Southern GZK PJSC	Akhmetov Rinat, Ukraine
30.	191023	Northern GZK PrJSC	Akhmetov Rinat, Ukraine
31.	191218	The foreign investment enterprise in the form of PrJSC Zaporizhzhia iron ore industrial complex	Akhmetov Rinat, Ukraine Moder Ian, Slovakia Hrnek Tomas, Slovakia Balko Evzhen, Slovakia Blashkova Mary, Slovakia
32.	191282	Poltavsky GZK PrJSC	Ferrexpo PLC, 05432915, st. King p IT 2-4, London, SW1Y6QL, United Kingdom
33.	191307	Kryvyi Rih iron ore industrial complex PJSC	Akhmetov Rinat, Ukraine Mihalakis Zizekkos, Cyprus
34.	191329	Sukha Balka PrJSC	Abramovich Roman, the Russian Federation
35.	24432974	ArcelorMittal Kryvyi Rih PJSC	Lakshmi Niwas Mittal, India
36.	35713283	Yerystivskyi GZK LLC	Ferrexpo PLC, st. King p IT 2-4, London, SW1Y6QL, United Kingdom
37.	190928	Ordzhonikidze GZK PJSC	No ultimate beneficial owner
38.	190911	Marganets GZK PJSC	No ultimate beneficial owner
39.	36716128	United mining and chemical company PJSC	No information available on USR
40.	174846	Mine named after O.F. Zaciadko PJSC	No information available on USR
41.	178353	DTEK Pavlogradugol PrJSC	Akhmetov Rinat, Ukraine
42.	5508186	DTEK Mine Komsomolets Donbassa PrJSC	Akhmetov Rinat, Ukraine
43.	13498562	Shakhtoupravlinnia Pokrovske PJSC	Paspalides Dinos, Cyprus
44.	31599557	Vuhilna kompaniia Krasnolymanska SE	No information available on USR
45.	32087941	Krasnoarmiiskvuhillia State Enterprise	No information available on USR

№	Code EDRPOU	Name	Ultimate beneficial owner of the company
46.	32323256	Lvivvuhillia SE	No information available on USR
47.	32359108	Lysychanskvuhillia PJSC	No information available on USR
48.	32363486	Krasnodonvuhillia PrJSC	Akhmetov Rinat, Ukraine
49.	33426253	Selydivvuhillia SE	No information available on USR
50.	33839013	Toretskvuhillia SE	No information available on USR
51.	34032208	Shakhtoupravlinnia Pivdennodonbaske No. 1 State Enterprise	No information available on USR
52.	36028628	Mine Bilozerska ALC	Akhmetov Rinat, Ukraine
53.	37014600	DTEK Dobropolyeugol LLC	Akhmetov Rinat, Ukraine
54.	37596090	DTEK Sverdlovanthracite LLC	Akhmetov Rinat, Ukraine
55.	37713861	DTEK Rovenkyanthracite LLC	Akhmetov Rinat, Ukraine
56.	33577404	Division of Mine Pivdennodonbaska No 3 named after M. S. Surgaia of the Donetska Vuhilna Enerhetychna Kompaniia State Enterprise	No information available on USR
57.	35602704	Nadra-Heoinvest LLC	Alfred Victor Brewster, Republic of Seychelles
58.	38203132	Systemoilzhenerinh LLC	Mykola Zlochevskyi, Ukraine
59.	32320594	Pervomaiskvuhillia SE	No information available on USR
60.	32365965	Volynvuhillia SE	No information available on USR

15 Annex 7. Essential terms and conditions of PSA

The PSA should define a list of investor's activities and a program of mandatory works, specifying performance deadlines, scope and types of financing, technological equipment and other factors that cannot be lower than the investor has indicated in its bidding application, as well as the other essential terms and conditions.⁴⁴¹

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

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

⁴⁴¹ The Law of Ukraine "On Production Sharing Agreements" No. 1039-XIV dated 14 September 1999, available at: <http://zakon0.rada.gov.ua/laws/show/1039-14>.

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

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

- ▶ annual declaration of extractive characteristics;
- ▶ procedure for use of geological, geophysical and other information;
- ▶ procedure and specifics of accounting for industrial and technological costs;
- ▶ procedure for and terms of assessing the level of pollution in the area of operation the subsoil block (the land plot provided for subsoil use) at the time of concluding the PSA;
- ▶ amount and terms of environmental protection actions;
- ▶ procedure for negotiating and approving the work programs, including programs for petroleum operations;
- ▶ terms of custody over the state portion of extracted minerals before their transfer to the state;
- ▶ terms of insuring the property risks, including the loss of extracted minerals due to flood, or fire;
- ▶ conditions of exclusive risk during field development.

16 Annex 8. Essential terms and conditions of concession contract

Essential terms and conditions of concession contract are:

- 1) the parties to the contract
- 2) types of activities, works, services which are provided under the contract
- 3) the object of concession (breakdown and value of property or technical and financial conditions for the construction of the concession object)
- 4) the terms of granting a land plot, if it necessary to carry on activities under the concession arrangement
- 5) a list of activities that are subject to licensing
- 6) conditions for setting or changing the prices (tariffs) for goods (works, services) produced (performed, provided) by the concessionaire
- 7) duration of the concession contract, terms of employment of workers that are citizens of Ukraine
- 8) conditions for use of Ukrainian-source materials
- 9) the terms and scope for the improvement of the concession object and terms of compensating these improvements
- 10) terms, amounts and payment conditions of concession fee (except concessions for the creation (construction) of a new facility at the expense of the concessionaire)⁴⁴²;
- 11) procedures for utilizing depreciation charges
- 12) restoration of the concession object and the conditions for its return to the owner
- 13) liability for failure or improper performance of obligations under the concession contract
- 14) insurance the concession objects to be arranged for by the concessionaire
- 15) the procedure for introducing the amendments and terminating the contract
- 16) the procedure for dispute resolution
- 17) the right to obtain information and review the performance of the contract
- 18) procedure and terms for the assignment of rights and obligations under the concession contract, including terms on provision of guarantees
- 19) conditions for the use of intellectual property.

The parties to the concession contract may agree upon the other conditions including those envisaged by special legislation regulating concession activities in certain industries.

Law "On Peculiarities of Lease or Concession of Fuel and Energy Industry Objects" provides additional list of essential terms for the concession contract of a fuel and energy industry object:

- in terms of operations:

⁴⁴² Clarification on concessions for the creation of an object at the expense of the concessionaire was introduced by the Law of Ukraine dated 24 November 2015 No. 817-VIII and is valid starting from 24 May 2016.

- 1) the procedure and conditions of the restoration of the concession object and the conditions for its return to the owner
 - 2) the procedure and conditions for writing off assets being a part to the lease or concession object
 - 3) obligations of the contracting parties to keep the lease or concession object well-maintained
 - 4) responsibilities for the maintenance of lease or concession object in compliance with the requirements of state standards, rules and regulations of the relevant activities
 - 5) duties of the lessee or concessionaire to use the lease or concession object for a designated purpose in accordance with the core production profile of an enterprise that previously operated such facility concerning the extraction of coal and lignite (brown coal), its processing in guaranteed quantities and of proper quality
 - 6) the procedure of exercising control over the lease object by both the State Property Fund of Ukraine and an authorized state executive body
 - 7) procedure of performing control over concession object by an authorized state executive body
 - 8) liability of the parties, including lessee's or concessionaire's duties for preserving safety of the object during operation
 - 9) ensure manufacturing of products in the reasonably expected volumes and in compliance with quality standards
 - 10) ensuring the use of rational, environmentally safe and harmless technologies
 - 11) ensure the implementation of measures for the integrated use of mineral resources
 - 12) preventing the selective mining of resources, abnormal losses of fuel and energy resources
 - 13) preservation and keeping the record of materials and production waste that are needed but currently not used
 - 14) ensuring that lessee or commissionaire undertakes proper restoration of land plots before returning those to the owner, as prescribed by the Land Code of Ukraine
 - 15) taking measures to prevent possible harmful effects of accidents and natural disasters arising at the lease or concession object
 - 16) compliance with established mobilization tasks
 - 17) ensure compliance with environmental standards and other requirements set forth by the environmental legislation, and handling the environmental and hydrogeological issues that occur during the operation of lease or concession object
 - 18) ensuring continuous monitoring of the ecological condition of the environment
- in financial aspects:**
- 1) ensuring the reduction of accounts receivable and accounts payable
 - 2) ensuring the timely settlements of taxes, duties, and insurance premiums
 - 3) providing a monthly payment of salaries as stipulated in a relevant collective agreement
 - 4) increasing the staff's wages in line with inflationary trends and in accordance with the provisions of a relevant sectoral agreement

- 5) settling salary arrears existing at the time of transferring the object into lease or concession
- 6) insuring the lease or concession object and the investment commitments at lessee's or concessionaire's cost
- 7) amounts of investing the lease or concession objects to be done by the lessee or concessionaire
- 8) the scope of works to be funded (completed) by the concessionaire and / or a list of property to be produced by the concessionaire

- in social activities:

- 1) ensuring an adequate level of safety of work
- 2) ensuring the adequate health and sanitary servicing for the employees
- 3) ensuring the number of workplaces to be as envisaged by the relevant collective agreement
- 4) ensure compliance with the sectoral agreements and company collective agreement.

If the lease or concession object is an integrated property group, sets of integrated property groups that are designed for and are self-sufficient in terms of business activities of black or brown coal mining and processing, additional essential terms of the concession contract are as follows:

- 1) prevention of damages to the deposits being developed and the adjacent ones that may result from mining works; ensuring the preservation of coal deposits that are under conservation;
- 2) ensuring that the information on coal production, the state of reserves, and the losses of coal in coalbeds, conditions and dimensions of mines, is duly reported and filed with the state statistics authorities;
- 3) carry annual settlements and negotiations on the amount of subsidies, as set by the CMU
- 4) securing a financial reserve for the closure of coal mining enterprises as set by the CMU
- 5) ensuring that the employees and pensioners are provided with free coal for domestic needs.

17 Annex 9. Information on mineral reserves classification

In practice, two classifications of mineral reserves are used in the extractive Industries:

1) Classification by the extent of feasibility study (according to the Classification of inventories and resources of minerals of the state fund of subsoil approved by the Resolution of the Cabinet of Ministers of Ukraine of May 5, 1997 No. 432, Instruction for application of Classification of inventories and resources of minerals of the state fund of subsoil to geological economically studying of resources of perspective sites and inventories of oil and gas deposits" approved by the Order of State commission of Ukraine on inventories of minerals of July 10, 1998 No. 46)

- Balance sheet (extractable) reserves, production of which is feasible and they should meet the specifications established at the time of calculation of reserves in the subsoil;
- Conditionally balance sheet and off-balance sheet reserves, the effectiveness of production of which at the moment of evaluation cannot be precisely established or production and use of which at the moment of evaluation is not feasible;
- Indivisible balance reserves, the initial geo-economical assessment of which is provided with the use of the assumed technological and economical data.

2) Classification by the extent of geological study

- Classification of the reserves of hard formations by the extent of exploration (according to the Instruction on How to use the Classification of reserves and mineral resources of the State Fund of Deposits to coal, iron ore, and other fields)):
 - A, B and C1 (explored and studied at different level of details)
 - C2 (estimated)
- Classification of oil and gas reserves by the extent of exploration (according to the Instruction on How to use the Classification of reserves and mineral resources of the State Fund of Deposits to geological and economic study of potential resource sites and oil and gas reserves, approved by the Resolution of the State Commission for Mineral Resources No 46 dated 10.07.1998):
 - Proven resources - A (fully explored), B (studied on the basis of industrial inflows of oil or gas), C1 (studied based on the results of pilot development and testing);
 - Prospective resources - C2 (studied based on the results of wells testing and exploration), C3 (their specific mineral-yield of a seam is estimated based on the available information about the fields in the area);
 - Inferred resources - D1 (inferred resources within large regional structures with proven oil and gas presence), D2 (inferred resources, with oil and gas presence not yet proven.
- United Nations framework classification
 - Code 111 (Proved Mineral Reserves) - reasonably assured resources with feasible production;

- Codes 121 + 122 (Probable Mineral Reserves) - probable and pre-feasibility mineral resources;
- Codes 211, 221 + 222 - Feasibility and Pre-Feasibility Mineral Resources and according to the Classification by the industrial purpose;
- Codes 331, 332, 333, 334 - measured, indicated, inferred and reconnaissance mineral resources assigned to reserves with indeterminate industrial purpose

18 Annex 10. Auctions for the sale of special permits for subsoil use in 2016⁴⁴³

The results of auctions for the sale of special permits for the use of subsoil (hereinafter - tenders), which took place in 2016 (according to the Geology Service)

No	Object of subsoil use				Bidders (list of bidders)	The winning bidder
	Name of subsoil area	Type of minerals	Type of deposit usage	Location of subsoil area		
The results of the first auction held on 22.03.2016						
1.	Pydhyrtsivska area	oil, natural gas, condensate, shale gas	Geological exploration of oil-and-gas bearing field including pilot commercial works with the further oil and gas extraction (commercial exploration of the deposit)	Lviv region, Stryi district	1) Strynaftogas LLC 2) Zakhidnadraserisv LLC 3) Prompostach PC 4) Geo-Topo-Kadastr PC 5) GeoAlliansBokhanivske LLC	Geo-Topo-Kadastr PC
2.	Dobrivlyanska area	oil, natural gas, condensate	Geological exploration including pilot commercial works	Lviv region, Stryi district	1) Strynaftogaz LLC 2) Geo-Topo-Cadastre PC	Strynaftogaz LLC
3.	Myrafynska area	shale gas	Geological exploration including pilot commercial works	Kharkiv region, Bohoduhivskiyi and Krasnokutskiyi districts	1) Nafta I Gaz Company LLC 2) Naftogazenergoprom LLC	Naftogazenergo-prom LLC
4.	Pivdenno-Kysivskaarea	oil, natural gas	Geological exploration of oil-and-gas bearing field including pilot commercial works with the	Kharkiv region, Kolomatskiy district	1) Ukgazdob LLC 2) Naftogazenergoprom LLC	Ukgazdob LLC

⁴⁴³ According to the Derzggeonadra. The table includes information only for the types of minerals within the scope of the Report

No	Object of subsoil use				Bidders (list of bidders)	The winning bidder
	Name of subsoil area	Type of minerals	Type of deposit usage	Location of subsoil area		
			further oil and gas extraction (commercial exploration of the deposit)			
5.	Bystrytska area	oil, natural gas, condensate	Geological exploration of oil-and-gas bearing field including pilot commercial works with the further oil and gas extraction (commercial exploration of the deposit)	Lviv region, Drogobych district	1) TD Atlanta Plus PC 2) Zakhidnadraservis LLC 3) Prompostach PC 4) NT-Exploration LLC 5) GeoAlliansBokhanivske LLC 6) Ukrainska Nezalezhna Geolohichna grupa LLC	Zakhidnadraservis LLC
The results of the second auction, held on 20.12.2016						
1.	Tereblyanska area	oil, natural gas, condensate	Geological exploration including pilot commercial works	Zakarpattya region, Tyachivskyi district	1) Eko-Investgroup LLC 2) Spetsenergobud LLC	Eko-Investgroup LLC

19 Annex 11. Information on selected indicators of interbudgetary transfers (other subventions) from the State budget to local budgets of Ukraine in 2016

Budget code	Local budget	Subvention for provision subsidies for electricity, natural gas, heat, water supply and drainage, rent (maintenance of houses, buildings and houses adjoining areas), removal of solid household waste and liquid sewage	
		approved by Verkhovna Rada for reporting period, with changes	completed for reporting period (year)
0210000000	Budget of Vinnytsia region	2,459,394,200.00	2,253,335,281.29
0310000000	Budget of Volyn region	1,138,168,400.00	1,138,015,540.59
0410000000	Budget of Dnipropetrovsk region	3,211,730,300.00	2,897,232,897.05
0510000000	Budget of Donetsk region	2,194,765,700.00	2,194,643,413.12
0610000000	Budget of Zhytomyr region	1,919,848,600.00	1,733,109,935.17
0710000000	Budget of Zakarpattia region	909,721,000.00	906,540,239.12
0810000000	Budget of Zaporizhzhia region	1,633,144,200.00	1,632,902,762.73
0910000000	Budget of Ivano-Frankivsk region	2,011,339,900.00	1,975,982,010.40
1010000000	Budget of Kyiv region	2,270,755,100.00	2,017,121,660.98
1110000000	Budget of Kirovohrad region	1,341,969,000.00	1,214,155,268.90
1210000000	Budget of Luhansk region	1,064,020,400.00	1,063,956,757.48
1310000000	Budget of Lviv region	3,309,102,700.00	3,158,980,181.56
1410000000	Budget of Mykolaiv region	953,633,800.00	953,409,350.29
1510000000	Budget of Odesa region	957,186,200.00	955,360,709.73
1610000000	Budget of Poltava region	2,851,276,500.00	2,712,624,599.21
1710000000	Budget of Rivne region	1,642,502,400.00	1,414,195,191.96
1810000000	Budget of Sumy region	2,752,201,600.00	2,282,171,300.02
1910000000	Budget of Ternopil region	2,159,517,700.00	2,066,824,743.05
2010000000	Budget of Kharkiv region	3,134,909,300.00	2,963,003,348.09

Budget code	Local budget	Subvention for provision subsidies for electricity, natural gas, heat, water supply and drainage, rent (maintenance of houses, buildings and houses adjoining areas), removal of solid household waste and liquid sewage	
		approved by Verkhovna Rada for reporting period, with changes	completed for reporting period (year)
21100000000	Budget of Kherson region	859,337,100.00	857,705,835.00
22100000000	Budget of Khmelnytsky region	2,005,170,300.00	1,787,698,769.80
23100000000	Budget of Cherkasy region	2,327,853,100.00	2,077,721,257.00
24100000000	Budget of Chernivtsi region	887,698,100.00	887,454,880.89
25100000000	Budget of Chernihiv region	1,620,005,700.00	1,510,591,641.08
26000000000	Budget of City of Kyiv budget	1,465,368,100.00	1,465,368,100.00
Total:		47,080,619,400.00	44,120,105,674.51

20 Annex 12. Consolidated database on tax and other payments by large enterprises belonging to extractive industries, which provided information for EITI Report

20.1 Personal income tax

Reconciliation of revenues from personal income tax in 2016 (oil and natural gas extraction, including transportation), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Kub-gaz LLC	9,153.25	9,141.49	11.76	9,153.25	9,141.49	11.76
Ukrgezvydobutok PrJSC	3,698.28	3,700.00	(1.72)	3,698.28	3,700.00	(1.72)
Joint activity agreement of 21/07/1997 No 23-3/97-84Б-97 - authorized entity Gaz-MDS LLC 24253556	-	-	-	-	-	-
Prom-Energo Product LLC	1,671.40	1,671.40	(0.00)	1,671.40	1,671.40	(0.00)
Representative Office Regal Petroleum Corporation Limited (without legal entity right)	10,507.57	10,508.00	(0.43)	10,507.57	10,508.00	(0.43)
Nadra-Geoinvest LLC	69.00	69.00	0.00	69.00	69.00	0.00
Kashtan Petroleum LTD JV	508.67	508.20	0.47	508.67	508.20	0.47
Poltava Petroleum Company JV	22,463.79	22,457.90	5.89	22,463.79	22,457.90	5.89
Systemoilengineering LLC	1,022.61	1,022.60	0.01	1,022.61	1,022.60	0.01
Persha ukraiinska gazonaftova kompaniia LLC	1,231.49	1,231.00	0.49	1,231.49	1,231.00	0.49

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Pari LLC	1,158.17	1,158.20	(0.03)	1,158.17	1,158.20	(0.03)
Energia-95 LLC	17.54	13.10	4.44	17.54	17.50	0.04
Energy Service Company Esco-Pivnich LLC	6,687.37	6,686.80	0.57	6,687.37	6,686.80	0.57
Naftogaz of Ukraine NJSC	85,388.14	85,388.00	0.14	85,388.14	85,388.00	0.14
Ukrtransnafta PJSC	122,316.82	122,877.00	(560.18)	122,316.82	122,877.00	(560.18)
Joint activity agreement of 19/01/1999 No 35/4 - authorized entity Ukrnafta PJSC 135390	179.96	179.45	0.51	179.96	179.45	0.51
Naftogazvydobuvannia PrJSC	16,904.51	16,942.94	(38.43)	16,904.51	16,942.94	(38.43)
Ukrtransgaz PJSC	569,200.72	569,231.87	(31.16)	569,200.72	569,231.02	(30.31)
Ukrnafta PJSC	427,273.26	427,597.00	(323.74)	427,273.26	427,597.00	(323.74)
Ukrgezvydobuvannia PJSC	489,585.05	489,622.20	(37.15)	489,585.05	489,622.20	(37.15)
Vydobuvna kompaniia Ukrnaftoburinnia PrJSC	6,561.96	6,559.95	2.01	6,561.96	6,559.95	2.01
Natural resources PrJSC	12,459.38	12,462.50	(3.12)	12,459.38	12,462.50	(3.12)
East Geological Union LLC	4,424.46	4,424.50	(0.04)	4,424.46	4,424.50	(0.04)
Total	1,792,483.39	1,793,453.10	(969.71)	1,792,483.39	1,793,456.65	(973.26)

Reconciliation of revenues from personal income tax in 2016 (oil and natural gas extraction, including transportation) for companies that voluntarily provided information for reconciliation, UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Joint Venture Ukrkarpatoil LLC	165.30	171.00	(5.70)	165.30	171.00	(5.70)
Zakhidnadaservis LLC	789.30	789.30	0.00	789.30	789.30	0.00
Nordik Private Enterprise	1,115.80	1,115.20	0.60	1,115.80	1,115.20	0.60
Zakhidgazinvest LLC	1,728.82	1,728.80	0.02	1,728.82	1,728.80	0.02
Joint activity agreement of 07/09/2001 No 4 - authorized entity Gals-K PrJSC 31566427	199.23	199.23	0.00	199.23	199.23	0.00
Joint activity agreement of 11/11/1999 No №35/176 - authorized entity Naftogazovydobuvne upravlinnia Okhtyrkanaftogaz of Ukrnafta PJSC 5398533	0.00	0.00	0.00	0.00	0.00	0.00
Total	3,998.46	4,003.53	(5.07)	3,998.46	4,003.53	(5.07)

Reconciliation of revenues from personal income tax in 2016 (coal mining), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Mine named after M. S. Surgaia SE	41,957.37	42,022.00	(64.63)	41,957.37	42,022.00	(64.63)
Lvivvuhillia SE	135,545.56	135,700.00	(154.44)	135,545.56	135,700.00	(154.44)
Myrnohradvuhillia SE	73,783.09	73,785.00	(1.91)	73,783.09	73,785.00	(1.91)
Lysychanskvuhillia PJSC	62,652.47	62,651.00	1.47	62,652.47	62,651.00	1.47
Toretskvuhillia SE	42,665.67	42,665.00	0.67	42,665.67	42,665.00	0.67
Vuhilna kompaniia Krasnolymanska SE	85,214.22	85,214.00	0.22	85,214.22	85,214.00	0.22
Shakhtoupravlinnia Pivdenodonbaske No 1 SE	44,891.23	44,890.00	1.23	44,891.23	44,890.00	1.23
DTEK Dobropolyeugol LLC	118,385.50	107,403.50	10,982.00	118,385.50	118,385.50	0
DTEK Pavlogradugol PrJSC	490,638.19	631,083.60	(140,445.41)	490,638.19	507,894.80	(17,256.61)
Mine Bilozerska ALC	24,695.02	24,695.00	0.02	24,695.02	24,695.00	0.02
Volynvuhillia SE	27,497.51	27,558.00	(60.49)	27,497.51	27,558.00	(60.49)
Selydivvuhillia SE	140,173.82	140,813.00	(639.18)	140,173.82	140,813.00	(639.18)
Total	1,288,099.65	1,418,480.10	(130,380.45)	1,288,099.65	1,306,273.30	(18,173.65)

Reconciliation of revenues from personal income tax in 2016 (metal ores mining), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Ferrexpo Yeristovo mining LLC	25,098.89	25,098.90	(0.01)	25,098.89	25,098.90	(0.01)
Krivoj Rog`s iron-ore combine PJSC	149,144.86	149,767.00	(622.14)	149,144.86	149,767.00	(622.14)
Ferrexpo Poltava mining PrJSC	126,232.20	126,232.00	0.20	126,232.20	126,232.00	0.20
ArcelorMittal Kryvyi Rih PJSC	464,845.94	464,845.00	0.94	464,845.94	464,845.00	0.94
Northern Iron Ore Enrichment Works PrJSC	109,378.71	109,372.00	6.71	109,378.71	109,372.00	6.71
Ingulets Iron Ore Enrichment Works PrJSC	93,548.26	93,548.00	0.26	93,548.26	93,548.00	0.26
Marganets GZK PJSC	48,899.94	48,899.90	0.04	48,899.94	48,899.90	0.04
Central Iron Ore Enrichment Works PrJSC	86,710.30	86,712.00	(1.70)	86,710.30	86,712.00	(1.70)
United Mining and Chemical Company SE	67,362.24	67,363.00	(0.76)	67,362.24	67,363.00	(0.76)
Southern mining factory PJSC	122,464.64	122,465.00	(0.36)	122,464.64	122,465.00	(0.36)
Total	1,293,685.97	1,294,302.80	(616.83)	1,293,685.97	1,294,302.80	(616.83)

20.2 Corporate income tax

Reconciliation of revenues from corporate income tax in 2016 (oil and natural gas extraction, including transportation), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Kub-gaz LLC	59,916.58	59,916.58	0.00	59,916.58	59,916.58	0.00
Ukrgezvydobutok PrJSC	41,499.37	41,499.00	0.36	41,499.37	41,499.00	0.36
Joint activity agreement of 21/07/1997 No 23-3/97-84B-97 - authorized entity Gaz-MDS LLC 24253556	0.00	0.00	0.00	0.00	0.00	0.00
Prom-Energo Product LLC	17,450.52	17,450.52	0.00	17,450.52	17,450.52	0.00
Representative Office Regal Petroleum Corporation Limited (without legal entity right)	50,942.44	50,466.00	476.44	50,942.44	50,466.00	476.44
Nadra-Geoinvest LLC	0.00	0.00	0.00	0.00	0.00	0.00
Kashtan Petroleum LTD JV	3,034.23	1,529.20	1,505.03	3,034.23	3,034.20	0.03
Poltava Petroleum Company JV	(19.64)	0.00	(19.64)	(19.64)	(19.64)	0.00
Systemoilengineering LLC	23,306.74	23,306.70	0.04	23,306.74	23,306.70	0.04
Persha ukraiinska gazonaftova kompaniia LLC	129,591.20	129,591.20	0.00	129,591.20	129,591.20	0.00
Pari LLC	1,644.74	898.60	746.14	1,644.74	1,644.70	0.04
Energija-95 LLC	20,421.32	20,419.80	1.52	20,421.32	20,419.80	1.52
Energy Service Company Esco-Pivnich LLC	189,682.65	164,459.30	25,223.35	189,682.65	189,682.70	(0.05)

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Naftogaz of Ukraine NJSC	241,975.27	0.00	241,975.27	241,975.27	241,975.00	0.27
Ukrtransnafta PJSC	662,151.51	662,151.00	0.51	662,151.51	662,151.00	0.51
Joint activity agreement of 19/01/1999 No 35/4 - authorized entity Ukrnafta PJSC 135390	0.00	0.00	0.00	0.00	0.00	0.00
Naftogazvydobuvannia PrJSC	1,435,553.98	1,155,627.52	279,926.46	1,435,553.98	1,435,553.98	0.00
Ukrtransgaz PJSC	3,255,922.04	3,207,056.72	48,865.33	3,255,922.04	3,255,922.03	0.02
Ukrnafta PJSC	58,426.98	46,400.00	12,026.98	58,426.98	58,426.98	0.00
Ukrgazvydobuvannia PJSC	3,726,687.84	3,487,352.00	239,335.84	3,726,687.84	3,726,687.00	0.84
Vydobuvna kompaniia Ukrnaftoburinnia PrJSC	198,263.80	198,263.80	0.00	198,263.80	198,263.80	0.00
Natural resources PrJSC	201,024.83	171,864.10	29,160.73	201,024.83	201,024.83	0.00
East Geological Union LLC	3,575.90	0.00	3,575.90	3,575.90	3,575.70	0.20
Total	10,321,052.28	9,438,252.04	882,800.24	10,321,052.28	10,320,572.07	480.21

Reconciliation of revenues from corporate income tax in 2016 (oil and natural gas extraction, including transportation) for companies that voluntarily provided information for reconciliation, UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Joint Venture Ukrkarpatoil LLC	74.02	0.00	74.02	74.02	0.00	74.02
Zakhidnadaservis LLC	9,065.22	9,065.22	0.00	9,065.22	9,065.22	0.00
Nordik Private Enterprise	0.00	0.00	0.00	0.00	0.00	0.00
Zakhidgazinvest LLC	0.00	0.00	0.00	0.00	0.00	0.00
Joint activity agreement of 07/09/2001 No 4 - authorized entity Gals-K PrJSC 31566427	0.00	0.00	0.00	0.00	0.00	0.00
Joint activity agreement of 11/11/1999 No №35/176 - authorized entity Naftogazovydobuvne upravlinnia Okhtyrkanaftogaz of Ukrnafta PJSC 5398533	0.00	0.00	0.00	0.00	0.00	0.00
Total	9,139.24	9,065.22	74.02	9,139.24	9,065.22	74.02

Reconciliation of revenues from corporate income tax in 2016 (coal mining), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Mine named after M. S. Surgaia SE	166.86	994.00	(827.14)	166.86	0.00	166.86
Lvivvuhillia SE	827.49	994.00	(166.51)	827.49	0.00	827.49
Myrnohradvuhillia SE	994.35	994.00	0.35	994.35	994.00	0.35
Lysychanskvuhillia PJSC	949.65	770.00	179.65	949.65	949.65	0.00
Toretskvuhillia SE	0.00	0.00	0.00	0.00	0.00	0.00
Vuhilna kompaniia Krasnolymanska SE	0.00	1.00	(1.00)	0.00	1.00	(1.00)
Shakhtoupravlinnia Pivdenodonbaske No 1 SE	80.07	0.00	80.07	80.07	80.07	0.00
DTEK Dobropolyeugol LLC	110.74	97.00	13.74	110.74	97.00	13.74
DTEK Pavlogradugol PrJSC	0.00	0.00	0.00	0.00	0.00	0.00
Mine Bilozerska ALC	0.00	0.00	0.00	0.00	0.00	0.00
Volynvuhillia SE	587,865.08	587,865.10	(0.02)	587,865.08	587,865.10	(0.02)
Selydivvuhillia SE	0.00	0.00	0.00	0.00	0.00	0.00
Total	590,959.95	590,692.10	267.85	590,959.95	590,951.82	8.13

Reconciliation of revenues from corporate income tax in 2016 (metal ores mining), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Ferrexpo Yeristovo mining LLC	47.91	0.00	47.91	47.91	0.00	47.91
Krivoj Rog`s iron-ore combine PJSC	132,759.40	132,320.00	439.40	132,759.40	132,320.00	439.40
Ferrexpo Poltava mining PrJSC	(699,934.83)	0.00	(699,934.83)	(699,934.83)	(699,934.83)	0.00
ArcelorMittal Kryvyi Rih PJSC	726,302.91	613,978.00	112,324.91	726,302.91	726,302.91	0.00
Northern Iron Ore Enrichment Works PrJSC	(296,715.63)	(296,729.00)	13.37	(296,715.63)	(296,729.00)	13.37
Ingulets Iron Ore Enrichment Works PrJSC	(885,000.00)	0.00	(885,000.00)	(885,000.00)	(885,000.00)	0.00
Marganets GZK PJSC	(31.05)	0.00	(31.05)	(31.05)	0.00	(31.05)
Central Iron Ore Enrichment Works PrJSC	(326,000.00)	(326,000.00)	0.00	(326,000.00)	(326,000.00)	0.00
United Mining and Chemical Company SE	334,930.36	334,930.00	0.36	334,930.36	334,930.00	0.36
Southern mining factory PJSC	421,839.51	421,840.00	(0.49)	421,839.51	421,840.00	(0.49)
Total	(591,801.43)	880,339.00	(1,472,140.43)	(591,801.43)	(592,270.92)	469.49

20.3 Production royalty

Reconciliation of revenues from production royalty in 2016 (oil and natural gas extraction, including transportation), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Kub-gaz LLC	345,287.66	345,287.66	0.00	345,287.66	345,287.66	0.00
Ukrgezvydobutok PrJSC	213,830.23	213,831.00	(0.77)	213,830.23	213,831.00	(0.77)
Joint activity agreement of 21/07/1997 No 23-3/97-84B-97 - authorized entity Gaz-MDS LLC 24253556	61,383.53	61,382.40	1.13	61,383.53	61,382.40	1.13
Prom-Energo Product LLC	59,003.17	59,003.17	0.00	59,003.17	59,003.17	0.00
Representative Office Regal Petroleum Corporation Limited (without legal entity right)	95,119.62	11.00	95,108.62	95,119.62	95,119.63	(0.00)
Nadra-Geoinvest LLC	160,820.80	160,820.80	(0.00)	160,820.80	160,820.80	(0.00)
Kashtan Petroleum LTD JV	73,568.65	70,357.90	3,210.75	73,568.65	73,568.62	0.03
Poltava Petroleum Company JV	349,997.06	349,997.10	(0.04)	349,997.06	349,997.10	(0.04)
Systemoilengineering LLC	59,671.32	59,673.30	(1.98)	59,671.32	59,673.30	(1.98)
Persha ukraiinska gazonaftova kompaniia LLC	194,564.81	194,562.00	2.81	194,564.81	194,562.00	2.81
Pari LLC	26,514.70	26,515.70	(1.00)	26,514.70	26,515.70	(1.00)
Energija-95 LLC	184,290.85	184,290.90	(0.05)	184,290.85	184,290.90	(0.05)
Energy Service Company Esco-Pivnich LLC	1,037,532.10	1,037,532.10	0.00	1,037,532.10	1,037,532.10	0.00

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Naftogaz of Ukraine NJSC	0.00	0.00	0.00	0.00	0.00	0.00
Ukrtransnafta PJSC	13.28	13.00	0.28	13.28	13.00	0.28
Pivdenni Main Pipelines Branch of Ukrtransnafta PJSC	0.00	5.00	(5.00)	0.00	0.00	0.00
Druzhba Main Oil Pipelines Branch of Ukrtransnafta PJSC	0.00	69.00	(69.00)	0.00	0.00	0.00
Prydniprovski Main Oil Pipelines Branch of Ukrtransnafta PJSC	0.00	23.00	(23.00)	0.00	0.00	0.00
Joint activity agreement of 19/01/1999 No 35/4 - authorized entity Ukrnafta PJSC 135390	10,385.96	10,386.00	(0.04)	10,385.96	10,386.00	(0.04)
Naftogazvydobuvannia PrJSC	1,441,676.58	1,441,676.58	(0.00)	1,441,676.58	1,441,676.58	(0.00)
Ukrtransgaz PJSC	288.41	0.00	288.41	288.41	288.41	(0.00)
Pipeline operator Kyivtransgaz Branch of Ukrtransgaz PJSC	0.00	59.90	(59.90)	0.00	0.00	0.00
Pipeline operator Lvivtransgaz Branch of Ukrtransgaz PJSC	0.00	144.50	(144.50)	0.00	0.00	0.00
Pipeline operator Prykarpatttransgaz Branch of Ukrtransgaz PJSC	0.00	48.10	(48.10)	0.00	0.00	0.00
Pipeline operator Kharkivtransgaz Branch of Ukrtransgaz PJSC	19.41	23.90	(4.49)	19.41	19.41	(0.00)
Pipeline operator Cherkasytransgaz Branch	0.00	25.00	(25.00)	0.00	0.00	0.00

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
of Ukrtransgaz PJSC						
Budivelno-montazhna firma Ukrgazprombud Branch of Ukrtransgaz PJSC	0.75	0.70	0.05	0.75	0.70	0.05
Vyrobnyche remontno-tehnichne pidpriemstvo Ukgazenergoservis Branch of Ukrtransgaz PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Upravlinnia Ukgaztehzviazok Branch of Ukrtransgaz PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Naukovo-vyrobnychi tsestr tehnicnoii diagnostyky Tehdiaz Branch of Ukrtransgaz PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Naukovo-doslidnyi instytut transportu gazu Branch of Ukrtransgaz PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Dyrektsiia z budivnytstva ta rekonstruktsii GTS Branch of Ukrtransgaz PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Agrogaz Branch of Ukrtransgaz PJSC	7.65	10.86	(3.21)	7.65	7.65	0.00
Pipeline operator Donbastransgaz Branch of Ukrtransgaz PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Upravlinnia servisnogo obslugovuvannia ta remontu importnoii avtotraktornoi spetstechniky	0.00	0.00	0.00	0.00	0.00	0.00

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Siat Branch of Ukrtransgaz PJSC						
Ukrnafta PJSC	4,468,712.38	4,553,317.00	(84,604.62)	4,468,712.38	4,468,712.38	0.00
Ukrgezvydobuvannia PJSC	23,359,897.27	26,838,261.00	(3,478,363.73)	23,359,897.27	23,359,897.00	0.27
LvivGasVydobuvannya Gas Production Division Branch of Ukrgezvydobuvannia PJSC	0.00	0.00	0.00	0.00	0.00	0.00
PoltavaGasVydobuvannya Gas Production Division Branch of Ukrgezvydobuvannia PJSC	0.00	0.00	0.00	0.00	0.00	0.00
ShebelynkaGasVydobuvannya Gas Production Division Branch of Ukrgezvydobuvannia PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Gas and Gas Condensate Processing Division Branch of Ukrgezvydobuvannia PJSC	0.00	0.00	0.00	0.00	0.00	0.00
UkrBurGas Drilling Division Branch of Ukrgezvydobuvannia PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Ukrgeospetsbudmontazh Construction and Assembly Division Branch of Ukrgezvydobuvannia PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Ukrgeopromgeofizyka Geophysical Division Branch of Ukrgezvydobuvannia PJSC	0.00	0.00	0.00	0.00	0.00	0.00
UkrNDIGas Branch of Ukrgezvydobuvannia	0.00	0.00	0.00	0.00	0.00	0.00

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
PJSC						
LIKVO Specialized Emergency Rescue (Gas Rescue) Service Branch of Ukgazvydobuvannia PJSC	0.00	0.00	0.00	0.00	0.00	0.00
UGV-SERVICE Branch of Ukgazvydobuvannia PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Chervona Ruta Educational and Health Center Branch of Ukgazvydobuvannia PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Vydobuvna kompaniia Ukrnaftoburinnia PrJSC	487,509.15	487,509.15	0.00	487,509.15	487,509.15	0.00
Natural resources PrJSC	365,549.94	365,547.60	2.34	365,549.94	365,547.60	2.34
East Geological Union LLC	34,497.42	34,497.40	0.02	34,497.42	34,497.40	0.02
Total	33,030,142.71	36,494,882.73	(3,464,740.01)	33,030,142.71	33,030,139.66	3.05

Reconciliation of revenues from production royalty in 2016 (oil and natural gas extraction, including transportation) for companies that voluntarily provided information for reconciliation, UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Joint Venture Ukrkarpatoil LLC	6,847.57	0.00	6,847.57	6,847.57	0.00	6,847.57
Zakhidnadaservis LLC	23,921.10	23,921.10	0.00	23,921.10	23,921.10	0.00
Nordik Private Enterprise	2,633.40	2,633.40	0.00	2,633.40	2,633.40	0.00
Zakhidgazinvest LLC	0.00	0.00	0.00	0.00	0.00	0.00
Joint activity agreement of 07/09/2001 No 4 - authorized entity Gals-K PrJSC 31566427	23,771.64	23,771.64	0.00	23,771.64	23,771.64	0.00
Joint activity agreement of 11/11/1999 No №35/176 - authorized entity Naftogazovydobuvne upravlinnia Okhtyrkanaftogaz of Ukrnafta PJSC 5398533	211.80	211.80	0.00	211.80	211.80	0.00
Total	57,385.52	50,537.94	6,847.58	57,385.52	50,537.94	6,847.58

Reconciliation of revenues from production royalty in 2016 (coal mining), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Mine named after M. S. Surgaia SE	243.55	243.00	0.55	243.55	243.00	0.55
Lvivvuhillia SE	3,648.07	2,918.00	730.07	3,648.07	3,648.07	0.00
Myrnohradvuhillia SE	582.93	404.00	178.93	582.93	584.00	(1.07)
Lysychanskvuhillia PJSC	379.47	380.00	(0.53)	379.47	380.00	(0.53)
Toretskvuhillia SE	1.50	2.00	(0.50)	1.50	2.00	(0.50)
Vuhilna kompaniia Krasnolymanska SE	17,429.47	11,682.00	5,747.47	17,429.47	11,682.00	5,747.47
Shakhtoupravlinnia Pivdenodonbaske No 1 SE	735.50	722.00	13.50	735.50	722.00	13.50
DTEK Dobropolyeugol LLC	21,334.80	21,334.80	(0.00)	21,334.80	21,334.80	(0.00)
DTEK Pavlogradugol PrJSC	140,515.96	140,516.00	(0.04)	140,515.96	140,516.00	(0.04)
Mine Bilozerska ALC	3,904.26	3,904.30	(0.04)	3,904.26	3,904.30	(0.04)
Volynvuhillia SE	233.85	245.00	(11.15)	233.85	245.00	(11.15)
Selydivvuhillia SE	3,794.76	3,796.00	(1.24)	3,794.76	3,796.00	(1.24)
Total	192,804.12	186,147.10	6,657.02	192,804.12	187,057.17	5,746.95

Reconciliation of revenues from production royalty in 2016 (metal ores mining), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Ferrexpo Yeristovo mining LLC	110,488.73	110,530.50	(41.77)	110,488.73	110,530.50	(41.77)
Krivoy Rog`s iron-ore combine PJSC	245,009.22	245,009.00	0.22	245,009.22	245,009.00	0.22
Ferrexpo Poltava mining PrJSC	245,023.53	240,655.15	4,368.38	245,023.53	245,023.53	0.00
ArcelorMittal Kryvyi Rih PJSC	619,340.84	619,341.00	(0.16)	619,340.84	619,341.00	(0.16)
Northern Iron Ore Enrichment Works PrJSC	366,782.51	366,783.00	(0.49)	366,782.51	366,783.00	(0.49)
Ingulets Iron Ore Enrichment Works PrJSC	276,140.00	276,140.00	(0.00)	276,140.00	276,140.00	(0.00)
Marganets GZK PJSC	21,709.66	21,713.10	(3.44)	21,709.66	21,713.10	(3.44)
Central Iron Ore Enrichment Works PrJSC	215,284.79	215,285.00	(0.21)	215,284.79	215,285.00	(0.21)
United Mining and Chemical Company SE	129,615.70	129,761.00	(145.30)	129,615.70	129,761.00	(145.30)
Southern mining factory PJSC	164,706.78	164,707.00	(0.22)	164,706.78	164,707.00	(0.22)
Total	2,394,101.75	2,389,924.75	4,177.00	2,394,101.75	2,394,293.13	(191.38)

20.4 Value added tax

Reconciliation of revenues from value added tax in 2016 (oil and natural gas extraction, including transportation), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Kub-gaz LLC	206,323.40	206,658.47	(335.07)	206,323.40	206,658.47	(335.07)
Ukrgazvydobutok PrJSC	116,111.75	116,112.00	(0.25)	116,111.75	116,112.00	(0.25)
Joint activity agreement of 21/07/1997 No 23-3/97-84Б-97 - authorized entity Gaz-MDS LLC 24253556	18,336.85	17,754.50	582.35	18,336.85	17,754.50	582.35
Prom-Energo Product LLC	32,468.19	32,468.19	(0.00)	32,468.19	32,468.19	(0.00)
Representative Office Regal Petroleum Corporation Limited (without legal entity right)	65,432.68	65,433.00	(0.32)	65,432.68	65,433.00	(0.32)
Nadra-Geoinvest LLC	38,120.90	38,424.10	(303.20)	38,120.90	38,424.10	(303.20)
Kashtan Petroleum LTD JV	10,341.08	10,070.10	270.98	10,341.08	10,070.10	270.98
Poltava Petroleum Company JV	260,835.99	260,816.00	19.99	260,835.99	260,816.00	19.99
Systemoilengineering LLC	48,698.27	48,259.40	438.87	48,698.27	48,259.40	438.87
Persha ukraiinska gazonaftova kompaniia LLC	105,581.51	105,581.50	0.01	105,581.51	105,581.50	0.01
Pari LLC	39,335.61	43,623.60	(4,287.99)	39,335.61	38,612.54	723.07
Energija-95 LLC	52,274.12	52,270.10	4.02	52,274.12	52,270.10	4.02
Energy Service Company Esco-Pivnich LLC	446,517.63	446,573.90	(56.27)	446,517.63	446,573.90	(56.27)
Naftogaz of Ukraine NJSC	15,769,607.30	15,769,607.00	0.30	15,769,607.30	15,769,607.00	0.30

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Ukrtransnafta PJSC	14,545.77	14,546.00	(0.23)	14,545.77	14,546.00	(0.23)
Joint activity agreement of 19/01/1999 No 35/4 - authorized entity Ukrnafta PJSC 135390	68,391.33	68,391.30	0.02	68,391.33	68,391.30	0.02
Naftogazvydobuvannia PrJSC	2,029,109.22	1,935,487.00	93,622.22	2,029,109.22	2,029,109.22	(0.00)
Ukrtransgaz PJSC	2,553,123.99	2,554,288.12	(1,164.13)	2,553,123.99	2,553,123.99	0.00
Ukrnafta PJSC	2,392,420.06	2,501,095.00	(108,674.94)	2,392,420.06	2,392,420.06	0.00
Ukr gazvydobuvannia PJSC	9,252,972.83	9,249,138.00	3,834.83	9,252,972.83	9,252,973.00	(0.17)
Vydobuvna kompaniia Ukrnaftoburinnia PrJSC	181,968.76	185,170.06	(3,201.30)	181,968.76	185,170.06	(3,201.30)
Natural resources PrJSC	208,871.69	237,298.60	(28,426.91)	208,871.69	208,871.69	0.00
East Geological Union LLC	20,009.44	21,423.80	(1,414.36)	20,009.44	20,009.44	0.00
Total	33,931,398.36	33,980,489.74	(49,091.38)	33,931,398.36	33,933,255.56	(1,857.20)

Reconciliation of revenues from value added tax in 2016 (oil and natural gas extraction, including transportation) for companies that voluntarily provided information for reconciliation, UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Joint Venture Ukrkarpatoil LLC	0.00	0.00	0.00	0.00	0.00	0.00
Zakhidnadaservis LLC	6,554.23	7,102.99	(548.76)	6,554.23	7,102.99	(548.76)
Nordik Private Enterprise	467.17	467.20	(0.03)	467.17	467.20	(0.03)
Zakhidgazinvest LLC	0.00	0.00	0.00	0.00	0.00	0.00
Joint activity agreement of 07/09/2001 No 4 - authorized entity Gals-K PrJSC 31566427	10,224.08	10,224.08	0.00	10,224.08	10,224.08	0.00
Joint activity agreement of 11/11/1999 No №35/176 - authorized entity Naftogazovydobuvne upravlinnia Okhtyrkanaftogaz of Ukrnafta PJSC 5398533	0.00	0.00	0.00	0.00	0.00	0.00
Total	17,245.48	17,794.27	(548.79)	17,245.48	17,794.27	(548.79)

Reconciliation of revenues from value added tax in 2016 (coal mining), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Mine named after M. S. Surgaia SE	1,025.00	1,025.00	0.00	1,025.00	1,025.00	0.00
Lvivvuhillia SE	6,114.71	6,344.00	(229.29)	6,114.71	6,344.00	(229.29)
Myrnohradvuhillia SE	501.63	501.00	0.63	501.63	501.00	0.63
Lysychanskvuhillia PJSC	894.18	894.00	0.18	894.18	894.00	0.18
Toretskvuhillia SE	1.49	0.00	1.49	1.49	1.49	(0.00)
Vuhilna kompaniia Krasnolymanska SE	26,478.81	21,290.00	5,188.81	26,478.81	21,290.00	5,188.81
Shakhtoupravlinnia Pivdenodonbaske No 1 SE	2,588.90	2,651.00	(62.10)	2,588.90	2,651.00	(62.10)
DTEK Dobropolyeugol LLC	128,384.34	116,987.50	11,396.84	128,384.34	128,384.30	0.04
DTEK Pavlogradugol PrJSC	660,556.28	660,556.30	(0.02)	660,556.28	660,556.30	(0.02)
Mine Bilozerska ALC	2,566.05	2,598.10	(32.05)	2,566.05	2,598.10	(32.05)
Volynvuhillia SE	1,638.13	1,638.00	0.13	1,638.13	1,638.00	0.13
Selydivvuhillia SE	385.75	388.00	(2.25)	385.75	388.00	(2.25)
Total	831,135.26	814,872.90	16,262.36	831,135.26	826,271.19	4,864.07

Reconciliation of revenues from value added tax in 2016 (metal ores mining), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Ferrexpo Yeristovo mining LLC	0.00	0.00	0.00	0.00	0.00	0.00
Krivoj Rog`s iron-ore combine PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Ferrexpo Poltava mining PrJSC	1.15	0.00	1.15	1.15	1.15	0.00
ArcelorMittal Kryvyi Rih PJSC	0.00	3,384,875.00	(3,384,875.00)	0.00	0.00	0.00
Northern Iron Ore Enrichment Works PrJSC	0.00	0.00	0.00	0.00	0.00	0.00
Ingulets Iron Ore Enrichment Works PrJSC	0.00	0.00	0.00	0.00	0.00	0.00
Marganets GZK PJSC	31.05	0.00	31.05	31.05	0.00	31.05
Central Iron Ore Enrichment Works PrJSC	0.00	0.00	0.00	0.00	0.00	0.00
United Mining and Chemical Company SE	0.16	0.00	0.16	0.16	0.00	0.16
Southern mining factory PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Total	32.36	3,384,875.00	(3,384,842.64)	32.36	1.15	31.21

20.5 Land fee

Reconciliation of revenues from land fee in 2016 (oil and natural gas extraction, including transportation), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Kub-gaz LLC	722.88	747.24	(24.36)	722.88	747.24	(24.36)
Ukrgezvydobutok PrJSC	0.64	0.00	0.64	0.64	0.64	0.00
Joint activity agreement of 21/07/1997 No 23-3/97-84Б-97 - authorized entity Gaz-MDS LLC 24253556	0.00	0.00	0.00	0.00	0.00	0.00
Prom-Energo Product LLC	51.66	0.00	51.66	51.66	51.66	0.00
Representative Office Regal Petroleum Corporation Limited (without legal entity right)	185.98	0.00	185.98	185.98	185.98	0.00
Nadra-Geoinvest LLC	8.60	8.60	(0.00)	8.60	8.60	(0.00)
Kashtan Petroleum LTD JV	78.96	83.00	(4.04)	78.96	78.96	0.00
Poltava Petroleum Company JV	632.13	632.10	0.03	632.13	632.10	0.03
Systemoilingenering LLC	8.10	0.00	8.10	8.10	0.00	8.10
Persha ukraiinska gazonaftova kompaniia LLC	2.42	2.40	0.02	2.42	2.40	0.02
Pari LLC	67.16	67.20	(0.04)	67.16	67.20	(0.04)
Energia-95 LLC	0.00	0.00	0.00	0.00	0.00	0.00
Energy Service Company Esco-Pivnich LLC	186.22	186.20	0.02	186.22	186.20	0.02
Naftogaz of Ukraine NJSC	10,802.32	10,802.00	0.32	10,802.32	10,802.00	0.32
Ukrtransnafta PJSC	7,085.73	7,048.00	37.73	7,085.73	7,048.00	37.73

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Joint activity agreement of 19/01/1999 No 35/4 - authorized entity Ukrnafta PJSC 135390	0.00	0.00	0.00	0.00	0.00	0.00
Naftogazvydobuvannia PrJSC	919.67	770.11	149.56	919.67	919.67	0.00
Ukrtransgaz PJSC	39,771.09	36,741.00	3,030.08	39,771.09	39,541.71	229.38
Ukrnafta PJSC	124,910.98	124,915.00	(4.02)	124,910.98	124,915.00	(4.02)
Ukrgazvydobuvannia PJSC	21,874.00	21,865.30	8.70	21,874.00	21,865.30	8.70
Vydobuvna kompaniia Ukrnaftoburinnia PrJSC	6.54	6.54	(0.00)	6.54	6.54	(0.00)
Natural resources PrJSC	360.16	360.20	(0.04)	360.16	360.20	(0.04)
East Geological Union LLC	754.75	754.70	0.05	754.75	754.70	0.05
Total	208,429.99	204,989.60	3,440.39	208,429.99	208,174.10	255.89

Reconciliation of revenues from land fee in 2016 (oil and natural gas extraction, including transportation) for companies that voluntarily provided information for reconciliation, UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Joint Venture Ukrkarpatoil LLC	11.31	11.00	0.31	11.31	11.00	0.31
Zakhidnadraserbis LLC	44.26	44.26	(0.00)	44.26	44.26	(0.00)
Nordik Private Enterprise	0.00	0.00	0.00	0.00	0.00	0.00
Zakhidgazinvest LLC	12.78	0.00	12.78	12.78	0.00	12.78
Joint activity agreement of 07/09/2001 No 4 - authorized entity Gals-K PrJSC 31566427	0.00	0.00	0.00	0.00	0.00	0.00
Joint activity agreement of 11/11/1999 No №35/176 - authorized entity Naftogazovydobuvne upravlinnia Okhtyrkanaftogaz of Ukrnafta PJSC 5398533	0.00	0.00	0.00	0.00	0.00	0.00
Total	68.34	55.26	13.08	68.34	55.26	13.08

Reconciliation of revenues from land fee in 2016 (coal mining), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Mine named after M. S. Surgaia SE	252.00	252.00	0.00	252.00	252.00	0.00
Lvivvuhillia SE	693.75	753.00	(59.25)	693.75	693.75	(0.00)
Myrnohradvuhillia SE	101.90	103.00	(1.10)	101.90	103.00	(1.10)
Lysychanskvuhillia PJSC	208.78	209.00	(0.22)	208.78	209.00	(0.22)
Toretskvuhillia SE	0.71	1.00	(0.29)	0.71	1.00	(0.29)
Vuhilna kompaniia Krasnolymanska SE	467.14	469.00	(1.86)	467.14	469.00	(1.86)
Shakhtoupravlinnia Pivdenodonbaske No 1 SE	344.10	344.00	0.10	344.10	344.00	0.10
DTEK Dobropolyeugol LLC	7,229.91	7,229.90	0.01	7,229.91	7,229.90	0.01
DTEK Pavlogradugol PrJSC	28,664.29	28,730.30	(66.01)	28,664.29	28,664.80	(0.51)
Mine Bilozerska ALC	674.51	674.60	(0.09)	674.51	674.60	(0.09)
Volynvuhillia SE	327.20	327.00	0.20	327.20	327.00	0.20
Selydivvuhillia SE	222.63	233.00	(10.37)	222.63	233.00	(10.37)
Total	39,186.91	39,325.80	(138.89)	39,186.91	39,201.05	(14.14)

Reconciliation of revenues from land fee in 2016 (metal ores mining), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Ferrexpo Yeristovo mining LLC	1,113.34	1,113.30	0.04	1,113.34	1,113.30	0.04
Krivoy Rog`s iron-ore combine PJSC	39,441.52	39,441.00	0.52	39,441.52	39,441.00	0.52
Ferrexpo Poltava mining PrJSC	60,589.70	0.00	60,589.70	60,589.70	60,589.70	0.00
ArcelorMittal Kryvyi Rih PJSC	312,800.82	312,801.00	(0.18)	312,800.82	312,801.00	(0.18)
Northern Iron Ore Enrichment Works PrJSC	98,384.63	98,385.00	(0.37)	98,384.63	98,385.00	(0.37)
Ingulets Iron Ore Enrichment Works PrJSC	39,672.63	39,672.00	0.63	39,672.63	39,672.00	0.63
Marganets GZK PJSC	8,242.62	8,242.60	0.02	8,242.62	8,242.60	0.02
Central Iron Ore Enrichment Works PrJSC	75,539.35	75,538.00	1.35	75,539.35	75,538.00	1.35
United Mining and Chemical Company SE	2,816.85	2,817.00	(0.15)	2,816.85	2,817.00	(0.15)
Southern mining factory PJSC	72,812.46	72,812.00	0.46	72,812.46	72,812.00	0.46
Total	711,413.91	650,821.90	60,592.01	711,413.91	711,411.60	2.31

20.6 Environmental tax

Reconciliation of revenues from environmental tax in 2016 (oil and natural gas extraction, including transportation), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Kub-gaz LLC	61.02	61.02	0.00	61.02	61.02	0.00
Ukrgezvydobutok Pr JSC	8.48	9.00	(0.52)	8.48	9.00	(0.52)
Joint activity agreement of 21/07/1997 No 23-3/97-84Б-97 - authorized entity Gaz-MDS LLC 24253556	0.00	0.00	0.00	0.00	0.00	0.00
Prom-Energo Product LLC	3.62	3.62	(0.00)	3.62	3.62	(0.00)
Representative Office Regal Petroleum Corporation Limited (without legal entity right)	41.39	41.00	0.39	41.39	41.00	0.39
Nadra-Geoinvest LLC	0.00	0.00	0.00	0.00	0.00	0.00
Kashtan Petroleum LTD JV	0.00	0.00	0.00	0.00	0.00	0.00
Poltava Petroleum Company JV	324.20	326.50	(2.30)	324.20	326.50	(2.30)
Systemoilengineering LLC	4.04	4.00	0.04	4.04	4.00	0.04
Persha ukraiinska gazonaftova kompaniia LLC	35.97	36.00	(0.03)	35.97	36.00	(0.03)
Pari LLC	0.00	0.00	0.00	0.00	0.00	0.00
Energija-95 LLC	0.00	0.00	0.00	0.00	0.00	0.00
Energy Service Company Esco-Pivnich LLC	23.04	23.00	0.04	23.04	23.00	0.04
Naftogaz of Ukraine NJSC	0.00	0.00	0.00	0.00	0.00	0.00



Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Ukrtransnafta PJSC	240.04	240.00	0.04	240.04	240.00	0.04
Joint activity agreement of 19/01/1999 No 35/4 - authorized entity Ukrnafta PJSC 135390	0.00	0.00	0.00	0.00	0.00	0.00
Naftogazvydobuvannia PrJSC	20.86	20.86	(0.00)	20.86	20.86	(0.00)
Ukrtransgaz PJSC	19,082.92	19,117.61	(34.69)	19,082.92	19,083.73	(0.81)
Ukrnafta PJSC	8,477.93	8,477.00	0.93	8,477.93	8,477.00	0.93
Ukr gazvydobuvannia PJSC	7,561.52	8,272.90	(711.38)	7,561.52	7,561.40	0.12
Vydobuvna kompaniia Ukrnaftoburinnia PrJSC	46.76	46.76	0.00	46.76	46.76	0.00
Natural resources PrJSC	41.64	41.60	0.04	41.64	41.60	0.04
East Geological Union LLC	4.46	4.50	(0.04)	4.46	4.50	(0.04)
Total	35,977.87	36,725.36	(747.49)	35,977.87	35,979.98	(2.11)

Reconciliation of revenues from environmental tax in 2016 (oil and natural gas extraction, including transportation) for companies that voluntarily provided information for reconciliation, UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Joint Venture Ukrkarpatoil LLC	0.00	0.00	0.00	0.00	0.00	0.00
Zakhidnadraseris LLC	0.06	0.06	0.00	0.06	0.06	0.00
Nordik Private Enterprise	0.00	0.00	0.00	0.00	0.00	0.00
Zakhidgazinvest LLC	0.00	0.00	0.00	0.00	0.00	0.00
Joint activity agreement of 07/09/2001 No 4 - authorized entity Gals-K PrJSC 31566427	0.00	0.00	0.00	0.00	0.00	0.00
Joint activity agreement of 11/11/1999 No №35/176 - authorized entity Naftogazovydobuvne upravlinnia Okhtyrkanaftogaz of Ukrnafta PJSC 5398533	0.00	0.00	0.00	0.00	0.00	0.00
Total	0.06	0.06	0.00	0.06	0.06	0.00

Reconciliation of revenues from environmental tax in 2016 (coal mining), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Mine named after M. S. Surgaia SE	3.99	4.00	(0.01)	3.99	4.00	(0.01)
Lvivvuhillia SE	0.00	17.00	(17.00)	0.00	0.00	0.00
Myrnohradvuhillia SE	584.72	584.00	0.72	584.72	584.00	0.72
Lysychanskvuhillia PJSC	122.29	135.00	(12.71)	122.29	122.29	(0.00)
Toretskvuhillia SE	0.00	0.00	0.00	0.00	0.00	0.00
Vuhilna kompaniia Krasnolymanska SE	4,103.68	3,720.00	383.68	4,103.68	3,720.00	383.68
Shakhtoupravlinnia Pivdenodonbaske No 1 SE	169.16	179.00	(9.84)	169.16	169.16	(0.00)
DTEK Dobropolyeugol LLC	10,241.29	10,241.30	(0.01)	10,241.29	10,241.30	(0.01)
DTEK Pavlogradugol PrJSC	24,304.98	24,305.00	(0.02)	24,304.98	24,305.00	(0.02)
Mine Bilozerska ALC	2,572.92	2,572.90	0.02	2,572.92	2,572.90	0.02
Volynvuhillia SE	0.00	0.00	0.00	0.00	0.00	0.00
Selydivvuhillia SE	3.00	3.00	0.00	3.00	3.00	0.00
Total	42,106.03	41,761.20	344.83	42,106.03	41,721.65	384.38

Reconciliation of revenues from environmental tax in 2016 (metal ores mining), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Ferrexpo Yeristovo mining LLC	22,421.82	22,421.80	0.02	22,421.82	22,421.80	0.02
Krivoy Rog`s iron-ore combine PJSC	8,411.43	8,412.00	(0.57)	8,411.43	8,412.00	(0.57)
Ferrexpo Poltava mining PrJSC	40,833.27	40,731.45	101.82	40,833.27	40,731.45	101.82
ArcelorMittal Kryvyi Rih PJSC	193,715.66	193,716.00	(0.34)	193,715.66	193,716.00	(0.34)
Northern Iron Ore Enrichment Works PrJSC	68,474.40	68,474.00	0.40	68,474.40	68,474.00	0.40
Ingulets Iron Ore Enrichment Works PrJSC	47,051.92	47,052.00	(0.08)	47,051.92	47,052.00	(0.08)
Marganets GZK PJSC	588.28	588.30	(0.02)	588.28	588.30	(0.02)
Central Iron Ore Enrichment Works PrJSC	41,543.96	41,544.00	(0.04)	41,543.96	41,544.00	(0.04)
United Mining and Chemical Company SE	410.98	459.00	(48.02)	410.98	411.00	(0.02)
Southern mining factory PJSC	43,885.75	43,886.00	(0.25)	43,885.75	43,886.00	(0.25)
Total	467,337.46	467,284.55	52.91	467,337.46	467,236.55	100.91

20.7 Dividends and payment of a share of net profit

Reconciliation of revenues from dividends and payment of a share of net profit in 2016 (oil and natural gas extraction, including transportation), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Kub-gaz LLC	0.00	0.00	0.00	0.00	0.00	0.00
Ukrgezvydobutok PrJSC	0.00	0.00	0.00	0.00	0.00	0.00
Joint activity agreement of 21/07/1997 No 23-3/97-84Б-97 - authorized entity Gaz-MDS LLC 24253556	0.00	0.00	0.00	0.00	0.00	0.00
Prom-Energo Product LLC	0.00	0.00	0.00	0.00	0.00	0.00
Representative Office Regal Petroleum Corporation Limited (without legal entity right)	0.00	0.00	0.00	0.00	0.00	0.00
Nadra-Geoinvest LLC	0.00	0.00	0.00	0.00	0.00	0.00
Kashtan Petroleum LTD JV	0.00	0.00	0.00	0.00	0.00	0.00
Poltava Petroleum Company JV	0.00	0.00	0.00	0.00	0.00	0.00
Systemoilingenerynng LLC	0.00	0.00	0.00	0.00	0.00	0.00
Persha ukraiinska gazonaftova kompaniia LLC	0.00	0.00	0.00	0.00	0.00	0.00
Pari LLC	0.00	0.00	0.00	0.00	0.00	0.00
Energia-95 LLC	0.00	0.00	0.00	0.00	0.00	0.00
Energy Service Company Esco-Pivnich LLC	0.00	0.00	0.00	0.00	0.00	0.00
Naftogaz of Ukraine NJSC	0.00	0.00	0.00	0.00	0.00	0.00
Ukrtransnafta PJSC	0.00	0.00	0.00	0.00	0.00	0.00



Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Joint activity agreement of 19/01/1999 No 35/4 - authorized entity Ukrnafta PJSC 135390	0.00	0.00	0.00	0.00	0.00	0.00
Naftogazvydobuvannia PrJSC	0.00	0.00	0.00	0.00	0.00	0.00
Ukrtransgaz PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Ukrnafta PJSC	0.00	23,300.00	(23,300.00)	0.00	0.00	0.00
Ukrgazvydobuvannia PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Vydobuvna kompaniia Ukrnaftoburinnia PrJSC	0.00	0.00	0.00	0.00	0.00	0.00
Natural resources PrJSC	0.00	0.00	0.00	0.00	0.00	0.00
East Geological Union LLC	0.00	0.00	0.00	0.00	0.00	0.00
Total	0.00	23,300.00	(23,300.00)	0.00	0.00	0.00

Reconciliation of revenues from dividends and payment of a share of net profit in 2016 (oil and natural gas extraction, including transportation) for companies that voluntarily provided information for reconciliation, UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Joint Venture Ukrkarpatoil LLC	0.00	0.00	0.00	0.00	0.00	0.00
Zakhidnadraserbis LLC	0.00	0.00	0.00	0.00	0.00	0.00
Nordik Private Enterprise	0.00	0.00	0.00	0.00	0.00	0.00
Zakhidgazinvest LLC	0.00	0.00	0.00	0.00	0.00	0.00
Joint activity agreement of 07/09/2001 No 4 - authorized entity Gals-K PrJSC 31566427	0.00	0.00	0.00	0.00	0.00	0.00
Joint activity agreement of 11/11/1999 No №35/176 - authorized entity Naftogazovydobuvne upravlinnia Okhtyrkanaftogaz of Ukrnafta PJSC 5398533	0.00	0.00	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00	0.00	0.00

Reconciliation of revenues from dividends and payment of a share of net profit in 2016 (coal mining), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Mine named after M. S. Surgaia SE	0.00	0.00	0.00	0.00	0.00	0.00
Lvivvuhillia SE	0.00	0.00	0.00	0.00	0.00	0.00
Myrnohradvuhillia SE	0.00	0.00	0.00	0.00	0.00	0.00
Lysychanskvuhillia PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Toretskvuhillia SE	0.00	0.00	0.00	0.00	0.00	0.00
Vuhilna kompaniia Krasnolymanska SE	0.00	0.00	0.00	0.00	0.00	0.00
Shakhtoupravlinnia Pivdenodonbaske No 1 SE	0.00	0.00	0.00	0.00	0.00	0.00
DTEK Dobropolyeugol LLC	0.00	0.00	0.00	0.00	0.00	0.00
DTEK Pavlogradugol PrJSC	0.00	0.00	0.00	0.00	0.00	0.00
Mine Bilozerska ALC	0.00	0.00	0.00	0.00	0.00	0.00
Volynvuhillia SE	0.00	0.00	0.00	0.00	0.00	0.00
Selydivvuhillia SE	0.00	0.00	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00	0.00	0.00

Reconciliation of revenues from dividends and payment of a share of net profit in 2016 (metal ores mining), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Ferrexpo Yeristovo mining LLC	0.00	0.00	0.00	0.00	0.00	0.00
Krivoj Rog`s iron-ore combine PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Ferrexpo Poltava mining PrJSC	0.00	0.00	0.00	0.00	0.00	0.00
ArcelorMittal Kryvyi Rih PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Northern Iron Ore Enrichment Works PrJSC	0.00	0.00	0.00	0.00	0.00	0.00
Ingulets Iron Ore Enrichment Works PrJSC	0.00	0.00	0.00	0.00	0.00	0.00
Marganets GZK PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Central Iron Ore Enrichment Works PrJSC	0.00	0.00	0.00	0.00	0.00	0.00
United Mining and Chemical Company SE	152,000.00	152,000.00	0.00	152,000.00	152,000.00	0.00
Southern mining factory PJSC	0.00	0.00	0.00	0.00	0.00	0.00
Total	152,000.00	152,000.00	0.00	152,000.00	152,000.00	0.00

20.8 Unified social contribution

Reconciliation of revenues from unified social contribution in 2016 (oil and natural gas extraction, including transportation), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Kub-gaz LLC	8,284.87	8,449.16	(164.30)	8,284.87	8,449.16	(164.30)
Ukrgezvydobutok PrJSC	3,751.95	3,752.00	(0.05)	3,751.95	3,752.00	(0.05)
Joint activity agreement of 21/07/1997 No 23-3/97-845-97 - authorized entity Gaz-MDS LLC 24253556	0.00	0.00	0.00	0.00	0.00	0.00
Prom-Energo Product LLC	1,851.40	1,851.40	0.00	1,851.40	1,851.40	0.00
Representative Office Regal Petroleum Corporation Limited (without legal entity right)	8,279.72	0.00	8,279.72	8,279.72	8,279.72	0.00
Nadra-Geoinvest LLC	45.53	45.50	0.03	45.53	45.50	0.03
Kashtan Petroleum LTD JV	582.37	582.40	(0.03)	582.37	582.40	(0.03)
Poltava Petroleum Company JV	21,148.78	21,148.70	0.08	21,148.78	21,148.70	0.08
Systemoilingenering LLC	1,150.11	1,150.70	(0.59)	1,150.11	1,150.70	(0.59)
Persha ukraiinska gazonaftova kompaniia LLC	1,304.77	1,304.80	(0.03)	1,304.77	1,304.80	(0.03)
Pari LLC	1,135.19	1,135.20	(0.01)	1,135.19	1,135.20	(0.01)
Energia-95 LLC	18.18	18.20	(0.02)	18.18	18.20	(0.02)
Energy Service Company Esco-Pivnich LLC	4,512.86	4,392.00	120.86	4,512.86	4,392.00	120.86
Naftogaz of Ukraine NJSC	55,433.77	55,434.29	(0.52)	55,433.77	55,434.29	(0.52)
Ukrtransnafta PJSC	127,071.10	129,356.00	(2,284.90)	127,071.10	127,096.00	(24.90)

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Joint activity agreement of 19/01/1999 No 35/4 - authorized entity Ukrnafta PJSC 135390	211.74	211.70	0.04	211.74	211.70	0.04
Naftogazvydobuvannia PrJSC	8,442.67	8,442.67	0.00	8,442.67	8,442.67	0.00
Ukrtransgaz PJSC	641,441.37	641,398.26	43.10	641,441.37	641,398.26	43.10
Ukrnafta PJSC	487,635.66	441,861.00	45,774.66	487,635.66	487,635.66	0.00
Ukrgazvydobuvannia PJSC	530,982.05	529,117.30	1,864.75	530,982.05	529,117.30	1,864.75
Vydobuvna kompaniia Ukrnaftoburinnia PrJSC	5,620.00	5,639.30	(19.30)	5,620.00	5,639.30	(19.30)
Natural resources PrJSC	8,210.30	8,210.30	(0.00)	8,210.30	8,210.30	(0.00)
East Geological Union LLC	2,566.97	2,567.00	(0.03)	2,566.97	2,567.00	(0.03)
Total	1,919,681.36	1,866,067.89	53,613.47	1,919,681.36	1,917,862.27	1,819.09

Reconciliation of revenues from unified social contribution in 2016 (oil and natural gas extraction, including transportation) for companies that voluntarily provided information for reconciliation, UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Joint Venture Ukrkarpatoil LLC	471.74	472.00	(0.26)	471.74	472.00	(0.26)
Zakhidnadraserbis LLC	879.83	879.83	(0.00)	879.83	879.83	(0.00)
Nordik Private Enterprise	1,273.18	1,267.40	5.78	1,273.18	1,267.40	5.78
Zakhidgazinvest LLC	573.20	573.20	(0.00)	573.20	573.20	(0.00)
Joint activity agreement of 07/09/2001 No 4 - authorized entity Gals-K PrJSC 31566427	212.06	212.06	0.00	212.06	212.06	0.00
Joint activity agreement of 11/11/1999 No №35/176 - authorized entity Naftogazovydobuvne upravlinnia Okhtyrkanaftogaz of Ukrnafta PJSC 5398533	0.00	0.00	0.00	0.00	0.00	0.00
Total	3,410.01	3,404.49	5.52	3,410.01	3,404.49	5.52

Reconciliation of revenues from unified social contribution in 2016 (coal mining), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Mine named after M. S. Surgaia SE	63,744.49	63,742.00	2.49	63,744.49	63,742.00	2.49
Lvivvuhillia SE	193,704.82	222,338.00	(28,633.18)	193,704.82	193,704.82	(0.00)
Myrnohradvuhillia SE	108,023.41	109,089.00	(1,065.59)	108,023.41	108,026.00	(2.59)
Lysychanskvuhillia PJSC	89,392.33	89,392.00	0.33	89,392.33	89,392.00	0.33
Toretskvuhillia SE	51,180.10	51,444.00	(263.90)	51,180.10	51,444.00	(263.90)
Vuhilna kompaniia Krasnolymanska SE	116,912.55	116,913.00	(0.45)	116,912.55	116,913.00	(0.45)
Shakhtoupravlinnia Pivdenodonbaske No 1 SE	56,696.48	55,526.00	1,170.48	56,696.48	56,696.00	0.48
DTEK Dobropolyeugol LLC	145,736.70	131,110.30	14,626.40	145,736.70	145,736.70	0.00
DTEK Pavlogradugol PrJSC	624,914.72	732,092.30	(107,177.58)	624,914.72	624,914.00	0.72
Mine Bilozerska ALC	31,332.13	31,048.20	283.93	31,332.13	31,048.20	283.93
Volynvuhillia SE	38,039.88	37,931.00	108.88	38,039.88	37,931.00	108.88
Selydivvuhillia SE	205,575.53	206,554.00	(978.47)	205,575.53	206,554.00	(978.47)
Total	1,725,253.14	1,847,179.80	(121,926.66)	1,725,253.14	1,726,101.72	(848.58)

Reconciliation of revenues from unified social contribution in 2016 (metal ores mining), UAH thousand

Company name	Initial data, UAH thousand			Final data after reconciliation, UAH thousand		
	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies	Reported by SFS	Reported by companies	Discrepancy between data reported by SFS and data reported by companies
Ferrexpo Yeristovo mining LLC	28,789.51	28,617.20	172.31	28,789.51	28,617.20	172.31
Krivoy Rog`s iron-ore combine PJSC	178,419.61	178,419.00	0.61	178,419.61	178,419.00	0.61
Ferrexpo Poltava mining PrJSC	155,104.54	155,105.00	(0.46)	155,104.54	155,105.00	(0.46)
ArcelorMittal Kryvyi Rih PJSC	554,691.73	554,691.00	0.73	554,691.73	554,691.00	0.73
Northern Iron Ore Enrichment Works PrJSC	131,327.32	131,327.00	0.32	131,327.32	131,327.00	0.32
Ingulets Iron Ore Enrichment Works PrJSC	107,316.42	107,316.00	0.42	107,316.42	107,316.00	0.42
Marganets GZK PJSC	61,723.24	59,624.60	2,098.64	61,723.24	59,624.60	2,098.64
Central Iron Ore Enrichment Works PrJSC	102,791.69	102,791.00	0.69	102,791.69	102,791.00	0.69
United Mining and Chemical Company SE	84,321.33	83,598.00	723.33	84,321.33	83,598.00	723.33
Southern mining factory PJSC	138,553.16	138,553.00	0.16	138,553.16	138,553.00	0.16
Total	1,543,038.55	1,540,041.80	2,996.75	1,543,038.55	1,540,041.80	2,996.75

21 Annex 13. Consolidated database on tax and other payments by large enterprises belonging to extractive industries, which did not provide information for EITI Report

Tax and other payments by large companies belonging to extractive industries in 2016, according to information of SFS

Company name	Personal income tax	Corporate income tax	Production royalty	Value added tax	Land fee	Environmental tax	Dividends and payment of a share of net profit	Unified social contribution
Joint activity agreement of 10/06/2002 No 3 - authorized entity Karpatygaz LLC 30162340	685.55	28,466.99	2,493,761.86	619,702.06	0.00	0.00	0.00	0.00
DTEK Sverdlovanthracite LLC	143,148.52	(83,000.00)	92,575.30	380,984.23	0.00	16,813.33	0.00	203,592.15
DTEK Rovenkyanthracite LLC	139,871.09	(9,415.67)	77,609.78	281,104.43	0.00	15,496.05	0.00	190,964.59
Joint activity agreement of 28/11/2000 No 1- Д21/008/2000 - authorized entity Poltava branch of Devon CJSC 26002442	0.00	0.00	456,438.46	133,949.10	0.00	0.00	0.00	0.00
Shakhtoupravlinnia Pokrovske PJSC	146,535.60	(21,770.00)	54,967.45	67,914.69	4,163.88	7,073.98	0.00	191,375.90
Krasnodonvuhillia PrJSC	118,228.46	0.00	27,397.45	0.49	10,507.74	11,238.59	0.00	262,188.81
The foreign investment enterprise in the form of PrJSC Zaporizhzhia iron ore industrial complex	101,982.83	(47,026.79)	222,871.37	2,683.16	16,291.13	202.10	0.00	102,339.02
DTEK Mine Komsomolets Donbassa PrJSC	78,141.82	79,536.41	26,728.40	107,957.38	27.25	20,706.03	0.00	93,292.59



Company name	Personal income tax	Corporate income tax	Production royalty	Value added tax	Land fee	Environmental tax	Dividends and payment of a share of net profit	Unified social contribution
Sukha Balka PrJSC	61,776.82	0.00	138,619.34	0.00	13,515.09	833.35	0.00	73,522.75
Pokrovskiy GZK PJSC	60,095.28	0.00	38,056.58	44.08	64,891.67	2,114.23	0.00	74,809.35
Joint activity agreement of 24/03/2004 No 493 - authorized entity Karpatygaz LLC 30162340	19.89	0.00	151,335.56	37,719.13	0.00	0.00	0.00	0.00
Joint activity agreement of 24/12/1997 No 999/97 - authorized entity Naftogazovydobuvne upravlinnia Poltavanaftogaz of Ukrnafta PJSC 22525915	0.00	0.00	42,700.00	141,806.25	0.00	0.00	0.00	0.00
Mine named after O.F. Zaciadko PJSC	4,578.11	2.21	26,855.54	82,970.03	73.54	1,535.83	0.00	53,537.06
Pervomaiskvuhillia SE	58,254.96	0.00	114.24	169.97	40.11	0.00	0.00	80,931.12
Boryslavska Naftova Kompaniia LLC JV	977.12	34.51	74,192.34	14,333.53	328.77	0.60	0.00	1,136.11
Total	914,296.04	(53,172.33)	3,924,223.68	1,871,338.53	109,839.19	76,014.09	0.00	1,327,689.44

22 Annex 14. Information received from the companies by the requests

Company name	Information on production activity and non-tax payments ⁴⁴⁴	Representation letter ⁴⁴⁵	Annual report on tax payments for 2016	Public financial reporting	Audit of financial reporting (open access)
Ukrnafta PJSC	✓	✓	✓	https://www.ukrnafta.com/data/Page_FINANCIAL%20RESULTS/Docs_for_news/Ukrnafta%20IFRS%20Standalone%202016%20UKR.PDF	https://www.ukrnafta.com/data/Page_FINANCIAL%20RESULTS/Docs_for_news/Ukrnafta%20IFRS%20Standalone%202016%20UKR.PDF
Joint activity agreement of 24/12/1997 No 999/97 - authorized entity Naftogazovydobuvne upravlinnia Poltavanaftogaz of Ukrnafta PJSC 22525915	✗	✗	✗	✗	✗
Joint activity agreement of 19/01/1999 No 35/4 - authorized entity Ukrnafta PJSC 135390	✓	✓	✓	✓	not conducted
Poltava Petroleum Company JV	✓	✓	✓	✓	✗
Naftogaz of Ukraine NJSC	✓	✓	✓	http://www.naftogaz.com/files/Zvity/Naftogaz-16fsu-ISA-sign-ukr.pdf	http://www.naftogaz.com/files/Zvity/Naftogaz-16fsu-ISA-sign-ukr.pdf
Ukrgazvydobuvannia PJSC	✓	✗	✓	✓	✓
Ukrtransgaz PJSC	✓	partially	✓	http://utg.ua/utg/about-company/reports.html	http://utg.ua/utg/about-company/reports.html

⁴⁴⁴ «Partially» means that one or more units of questionnaire were not filled

⁴⁴⁵ «Partially» means that one of the letters (either in answer to the initial request or to the second request) with management signature was not provided

Company name	Information on production activity and non-tax payments ⁴⁴⁴	Representation letter ⁴⁴⁵	Annual report on tax payments for 2016	Public financial reporting	Audit of financial reporting (open access)
Ukrtransnafta PJSC	✓	✓	✓	http://www.ukrtransnafta.com/dokumenti/	http://www.ukrtransnafta.com/dokumenti/
Boryslavska Naftova Kompaniia LLC JV	refused to provide information				
Energiiia-95 LLC	✓	✓	✓	✘	not conducted
Ukrgezvydobutok PrJSC	✓	✓	✓	http://25635581.smida.gov.ua/	http://25635581.smida.gov.ua/
Representative Office Regal Petroleum Corporation Limited (without legal entity right)	✓	✓	✓	http://www.regalpetroleum.co.uk/uploads/annualreport2016webready.pdf	http://www.regalpetroleum.co.uk/uploads/annualreport2016webready.pdf
Prom-Energo Product LLC	✓	✓	✓	інформація не публічна	інформація не публічна
Naftogazvydobuvannia PrJSC	✓	✓	✓	https://smida.gov.ua/db/emitent/report/year/xml/show/94772	https://smida.gov.ua/db/emitent/report/year/xml/show/94772
East Geological Union LLC	✓	✓	✓	✓	✓
Natural resources PrJSC	✓	✓	✓	✓	✓
Vydobuvna kompaniia Ukrnaftoburinnia PrJSC	partially	✘	✓	✘	✘
Nadra-Geoinvest LLC	✓	✓	✓	✓	not conducted
Kub-gaz LLC	✓	✓	✓	✘	not for public use
Energy Service Company Esco-Pivnich LLC	✓	✓	✓	✓	not conducted
Pari LLC	✓	✓	✓	not for public use	not conducted
Persha ukraiinska gazonaftova kompaniia LLC	✓	✓	✓	✘	not conducted
Systemoilingenering LLC	partially	✓	✓	✘	not conducted
Kashtan Petroleum LTD JV	✓	✓	✓	✓	not conducted

Company name	Information on production activity and non-tax payments ⁴⁴⁴	Representation letter ⁴⁴⁵	Annual report on tax payments for 2016	Public financial reporting	Audit of financial reporting (open access)
Joint activity agreement of 28/11/2000 No 1-Д21/008/2000 - authorized entity Poltava branch of Devon CJSC 26002442	refused to provide information due to the termination of production activity				
Joint activity agreement of 10/06/2002 No 3 - authorized entity Karpatygaz LLC 30162340	x	x	x	x	x
Joint activity agreement of 24/03/2004 No 493 - authorized entity Karpatygaz LLC 30162340	x	x	x	x	x
Joint activity agreement of 21/07/1997 No 23-3/97-84Б-97 - authorized entity Gaz-MDS LLC 24253556	✓	✓	✓	x	not conducted
Ingulets Iron Ore Enrichment Works PrJSC	✓	✓	✓	https://ingok.metinvestholding.com/upload/ingok/shareholders/regulyarnaya-informaciya-ingok-2016.pdf	✓
Central Iron Ore Enrichment Works PrJSC	✓	✓	✓	https://cgok.metinvestholding.com/upload/cgok/shareholders/00190977-2016.pdf	✓
Southern mining factory PJSC	✓	✓	✓	x	x
Northern Iron Ore Enrichment Works PrJSC	✓	✓	✓	https://cgok.metinvestholding.com/upload/sevgok/shareholders/pjsc-northern-gok-godovoj_otchet_2016.pdf	✓

Company name	Information on production activity and non-tax payments ⁴⁴⁴	Representation letter ⁴⁴⁵	Annual report on tax payments for 2016	Public financial reporting	Audit of financial reporting (open access)
The foreign investment enterprise in the form of PrJSC Zaporizhzhia iron ore industrial complex	x	x	x	x	x
Ferrexpo Poltava mining PrJSC	✓	✓	✓	✓	✓
Ferrexpo Yeristovo mining LLC	✓	✓	✓	http://ferrexpoyeristovomine.com/wp-content/uploads/2015/09/Финансовый-отчет-2016-рус.-яз..pdf	http://ferrexpoyeristovomine.com/wp-content/uploads/2015/09/Финансовый-отчет-2016-рус.-яз..pdf
Krivoj Rog`s iron-ore combine PJSC	✓	✓	✓	✓	x
Sukha Balka PrJSC	x	x	x	x	x
ArcelorMittal Kryvyi Rih PJSC	✓	✓	✓	✓	✓
Pokrovskiy GZK PJSC	x	x	x	x	x
Marganets GZK PJSC	✓	x	✓	✓	✓
United Mining and Chemical Company SE	✓	✓	✓	https://umcc.com.ua/purchase	https://umcc.com.ua/purchase
Mine named after O.F. Zaciadko PJSC	x	x	x	x	x
DTEK Pavlogradugol PrJSC	partially	x	✓	✓	✓
DTEK Mine Komsomolets Donbassa PrJSC	x	x	x	x	x
Shakhtoupravlinnia Pokrovske PJSC	x	x	x	x	x
Vuhilna kompaniia Krasnolymanska SE	✓	✓	✓	x	not conducted
Myrnohradvuhillia SE	✓	✓	✓	✓	not conducted
Pervomaiskvuhillia SE	x	x	x	x	x
Lvivvuhillia SE	✓	✓	✓	✓	not conducted
Lysychanskvuhillia PJSC	✓	✓	✓	✓	✓



Company name	Information on production activity and non-tax payments ⁴⁴⁴	Representation letter ⁴⁴⁵	Annual report on tax payments for 2016	Public financial reporting	Audit of financial reporting (open access)
Krasnodonvuhillia PrJSC	refused to provide information due to the loss of control over the enterprise				
Volynvuhillia SE	partially	✓	✓	✗	not conducted
Selydivvuhillia SE	✓	✓	✓	✓	not conducted
Toretskvuhillia SE	✓	✓	✓	✓	not conducted
Shakhtoupravlinnia Pivdenodonbaske No 1 SE	✓	✓	✓	✓	not conducted
Mine Bilozerska ALC	partially	✗	✓	✓	not conducted
DTEK Dobropolyeugol LLC	partially	✗	✓	✓	✓
DTEK Sverdlovanthracite LLC	✗	✗	✗	✗	✗
DTEK Rovenkyanthracite LLC	✗	✗	✗	✗	✗
Mine named after M. S. Surgaia SE	✓	✓	✓	✓	not conducted

22 Annex 15 Analysis of discrepancies and payment information adjustments

22.1 Personal income tax

No	Company name	EDRPOU code /tax number	Reported by SFS, UAH thousand	Reported by companies (initial), UAH thousand	Reported by companies (adjusted), UAH thousand	Reason for adjustment
1	Energiiia-95 LLC	24186185	17.54	13.10	17.50	The company agreed with the SFS data, no additional clarifications were provided.
2	DTEK Dobropolyeugol LLC	37014600	118,385.50	107,403.50	118,385.50	The company agreed with the SFS data, since some of its structural units were not included in its initial data.
3	DTEK Pavlogradugol PrJSC	178353	490,638.19	631,083.60	507,894.80	The data have been corrected by the company without further explanation. The differences due to the adjustment were not closed.

22.2 Corporate income tax

No	Company name	EDRPOU code /tax number	Reported by SFS, UAH thousand	Reported by companies (initial), UAH thousand	Reported by companies (adjusted), UAH thousand	Reason for adjustment
1	Ukrnafta PJSC	135390	58,426.98	46,400.00	58,426.98	The company agreed with the SFS data, since it partly included in its initial data the payments of JAA, which were reconciled separately.
2	Naftogaz of Ukraine NJSC	20077720	241,975.27	0.00	241,975.00	The company agreed with the SFS, no additional clarifications were provided. In fact, the adjustment made was inclusion of the foreign entity income tax into the total company income tax.
3	Ukrtransgaz PJSC	30019801	3,255,922.04	3,207,056.72	3,255,922.03	The company agreed with the SFS data. The adjustments made were transferring the advance payments (overpayment) on the income tax of the branches in past periods to the account of the parent company (with a minus sign).
4	Naftogazvydobuvannya PrJSC	32377038	1,435,553.98	1,155,627.52	1,435,553.98	The company agreed with the SFS data. The adjustments made were inclusion of such payments as foreign legal entity income tax, advance payment for 2017, fines and penalties, and interest for the use of installments in the total company total income tax.
5	Energy Service Company Esco-Pivnich LLC	30732144	189,682.65	164,459.30	189,682.70	The company agreed with the SFS, no additional clarifications were provided.
6	Lvivvuhillia SE	32323256	949.65	770.00	949.65	The company agreed with the SFS data. The adjustment made was the inclusion of the penalty for overdue company income tax into the total income tax.
7	Toretskvuhillia SE	33839013	80.07	0.00	80.07	The company agreed with the SFS, no additional clarifications were provided.

No	Company name	EDRPOU code /tax number	Reported by SFS, UAH thousand	Reported by companies (initial), UAH thousand	Reported by companies (adjusted), UAH thousand	Reason for adjustment
8	Kashtan Petroleum LTD JV	23703371	3,034.23	1,529.20	3,034.20	The adjustment made by the company comprised inclusion of such payments as foreign entity income tax and advance payments of dividends in the total company income tax.
9	Pari LLC	31037994	1,644.74	898.60	1,644.70	The adjustment made by the company comprised inclusion of the relevant fines in the total amount of the company income tax.
10	Ferrexpo Poltava mining PrJSC	191282	(699,934.83)	0.00	(699,934.83)	The adjustment comprised the inclusion by the company's such payments as foreign entity income tax and the return of the overpayment of the tax (with a minus sign) in the total amount of the company income tax.
11	Ingulets Iron Ore Enrichment Works PrJSC	190905	(885,000.00)	0.00	(885,000.00)	The adjustment made by the company was the inclusion the return of the overpayment of the tax (with a minus sign) in the total amount of the company income tax).
12	Poltava Petroleum Company JV	20041662	(19.64)	0.00	(19.64)	The company agreed with the SFS data. The adjustment was related to the transfer of the overpayment of the income tax as a penalty for a target surcharge to the current tariff for natural gas for consumers of all forms of ownership in accordance with the tax notice-decision No 0001654107 dated 19.08.2016.
13	Natural resources PrJSC	33100376	201,024.83	171,864.10	201,024.83	The adjustment made by the company comprised the inclusion of the foreign entities income tax into the total company income tax.
14	East Geological Union LLC	32426289	3,575.90	0.00	3,575.70	The adjustment made by the company comprised the inclusion of the foreign entities income tax into the total company income tax.
15	ArcelorMittal Kryvyi Rih PJSC	24432974	726,302.91	613,978.00	726,302.91	The adjustment made by the company comprised the inclusion of the foreign entities income tax into the total company income tax.

No	Company name	EDRPOU code /tax number	Reported by SFS, UAH thousand	Reported by companies (initial), UAH thousand	Reported by companies (adjusted), UAH thousand	Reason for adjustment
16	Ukrgezvydobuvannia PJSC	30019775	3,726,687.84	3,487,352.00	3,726,687.00	The company agreed with the SFS data. The adjustments made were transferring the advance payments (overpayment) on the income tax of the branches in past periods to the account of the parent company (with a minus sign).
17	Ferrexpo Yeristovo mining LLC	35713283	47.91	0.00	0.00	The company did not agree with the SFS data. According to the company's clarifications, it did not pay its company income tax in 2016.
18	Vuhilna kompaniia Krasnolymanska SE	31599557	110.74	97.00	97.00	The company did not respond to a request for clarification of the information.
19	Marganets GZK PJSC	190911	(31.05)	0.00	0.00	The company did not respond to a request for clarification of the information.



22.3 Production royalty

No	Company name	EDRPOU code /tax number	Reported by SFS, UAH thousand	Reported by companies (initial), UAH thousand	Reported by companies (adjusted), UAH thousand	Reason for adjustment
1	Ukrnafta PJSC	135390	4,468,712.38	4,553,317.00	4,468,712.38	The company agreed with the SFS data, since it partly included in its initial data the payments of JAA, which were reconciled separately.
2	Ukrtransgaz PJSC	30019801	316.21	312.96	316.17	The company agreed with the SFS, no additional clarifications were provided.
3	Ukrtransnafta PJSC	31570412	13.28	110.00	13.00	The company agreed with the SFS data. The adjustment was the exclusion by the company from the total rent for the use of the subsoil of erroneously added rent for the special use of water, which is not in the scope of the reconciliation.
4	Lvivvuhillia SE	32323256	3,648.07	2,918.00	3,648.07	The adjustment made was the inclusion by the company of the related fines in the total amount of the rent for use of subsoil.
5	Representative Office Regal Petroleum Corporation Limited (without legal entity right)	26333503	95,119.62	11.00	95,119.63	The adjustment included the correction of a technical error that occurred during the initial provision of information.
6	Kashtan Petroleum LTD JV	23703371	73,568.65	70,357.90	73,568.62	The adjustment made by the company was the inclusion in the total amount of rent for the use of subsoil of such payments as fines and penalties related to the payment of this tax, and interest for the use of tax installments.
7	Ferrexpo Poltava mining PrJSC	191282	245,023.53	240,655.15	245,023.53	The adjustment made was the inclusion by the company of the related fines in the total amount of the rent for use of subsoil.

No	Company name	EDRPOU code /tax number	Reported by SFS, UAH thousand	Reported by companies (initial), UAH thousand	Reported by companies (adjusted), UAH thousand	Reason for adjustment
8	Myrnohradvuhillia SE	32087941	582.93	404.00	584.00	The adjustment was the inclusion in the total amount of the rent for use of subsoil of the amount equal to the value of the company's property in the tax pledge. This amount was recognized in the company's statements for 2017, as the relevant information was received by the company after the end of the financial year 2016.
9	Ukrgezvydobuvannia PJSC	30019775	23,359,897.27	26,838,261.00	23,359,897.00	The company agreed with the SFS, no additional clarifications were provided.
10	Vuhilna kompaniia Krasnolymanska SE	31599557	17,429.47	11,682.00	11,682.00	The company did not respond to a request for clarification of the information.

22.4 Value added tax

No	Company name	EDRPOU code /tax number	Reported by SFS, UAH thousand	Reported by companies (initial), UAH thousand	Reported by companies (adjusted), UAH thousand	Reason for adjustment
1	Ukrnafta PJSC	135390	2,392,420.06	2,501,095.00	2,392,420.06	The company agreed with the SFS data, since it partly included in its initial data the payments of JAA, which were reconciled separately.
2	Ukrtransgaz PJSC	30019801	2,553,123.99	2,554,288.12	2,553,123.99	The adjustment was made by the company was the inclusion of the fines paid off at the expense of the company VAT overpayment in the total VAT.
3	Naftogazvydobuvannia PrJSC	32377038	2,029,109.22	1,935,487.00	2,029,109.22	The adjustment made by the company was the inclusion of interest for the use of tax installments into the total VAT.
4	Mine named after M. S. Surgaia SE	40695853	1,025.00	1,025.00	1,025.00	The adjustment was the inclusion of the VAT paid by the SE Donetsk Coal Energy Company (EDRPOU 33161769), which in 2016 was registered with the SFS as a VAT payer in the total VAT.
5	Toretskvuhillia SE	33839013	1.49	0.00	1.49	The company agreed with the SFS, no additional clarifications were provided.
6	Pari LLC	31037994	39,335.61	43,623.60	38,612.54	The company adjusted the information on VAT payment without any additional clarifications. The difference is insignificant.
7	Ferrexpo Poltava mining PrJSC	191282	245,023.53	240,655.15	245,023.53	The adjustment was the inclusion of the related fines in the total of VAT.
8	Natural resources PrJSC	33100376	208,871.69	237,298.60	208,871.69	The adjustment was the exclusion of VAT on the goods imported into the territory of Ukraine out of the total amount of VAT.

No	Company name	EDRPOU code /tax number	Reported by SFS, UAH thousand	Reported by companies (initial), UAH thousand	Reported by companies (adjusted), UAH thousand	Reason for adjustment
9	East Geological Union LLC	32426289	20,009.44	21,423.80	20,009.44	The adjustment was the exclusion of VAT on the goods imported into the territory of Ukraine out of the total amount of VAT.
10	ArcelorMittal Kryvyi Rih PJSC	24432974	0.00	3,384,875.00	0.00	The adjustment was the exclusion of VAT on the goods imported into the territory of Ukraine out of the total amount of VAT.
11	DTEK Dobropolyeugol LLC	37014600	128,384.34	116,987.50	128,384.30	The company agreed with the SFS data, no additional clarifications regarding this tax were provided.
12	Ukrgezvydobuvannia PJSC	30019775	9,252,972.83	9,249,138.00	9,252,973.00	The company corrected the data, no additional clarifications were provided.
13	Vydobuvna kompaniia Ukrnaftoburinnia PrJSC	33152471	181,968.76	185,170.06	185,170.06	The company did not respond to a request for clarification of the information.
14	Vuhilna kompaniia Krasnolymanska SE	31599557	26,478.81	21,290.00	21,290.00	The company did not respond to a request for clarification of the information.
15	Marganets GZK PJSC	190911	31.05	0.00	0.00	The company did not respond to a request for clarification of the information.

22.5 Land fee

No	Company name	EDRPOU code /tax number	Reported by SFS, UAH thousand	Reported by companies (initial), UAH thousand	Reported by companies (adjusted), UAH thousand	Reason for adjustment
1	Ukrtransgaz PJSC	30019801	39,771.09	36,741.00	39,541.71	The adjustment comprised the inclusion of the amounts of relevant tax (land fee) paid by the branches of the company.
2	Naftogazvydobuvannya PrJSC	32377038	919.67	770.11	919.67	The adjustment comprised the inclusion of payments under servitude agreements.
3	Ukrغازvydobutok PrJSC	25635581	0.64	0.00	0.64	The adjustment was the inclusion of the relevant tax payments, since the initially provided information lacked them (because of rounding).
4	Lvivvuhillia SE	32323256	693.75	753.00	693.75	The company adjusted the amount of the land fee charged from legal entities; no additional clarifications were provided. The amount was adjusted by the penalty related to its payment.
5	Representative Office Regal Petroleum Corporation Limited (without legal entity right)	26333503	185.98	0.00	185.98	The company adjusted the data. The information on land fee was not provided in the initial response due to the change in the form of the Annual Report on payment of taxes and other payments for enterprises related to the extractive industry.
6	Prom-Energo Product LLC	31747429	51.66	0.00	51.66	The company adjusted the data. The information on land fee was not provided in the initial response due to the change in the form of the Annual Report on payment of taxes and other payments for enterprises related to the extractive industry.
7	Kashtan Petroleum LTD JV	23703371	78.96	83.00	78.96	The company adjusted the data. By mistake, the initial response included the amount of the accrued, but not paid rent from the legal entities.

No	Company name	EDRPOU code /tax number	Reported by SFS, UAH thousand	Reported by companies (initial), UAH thousand	Reported by companies (adjusted), UAH thousand	Reason for adjustment
8	Ferrexpo Poltava mining PrJSC	191282	60,589.70	0.00	60,589.70	The company adjusted the data, as the information on the payment for land was mistakenly not included in the initial response. By mistake, the initial response did not include the information on the land fee.
9	Systemoilingenering LLC	38203132	8.10	0.00	0.00	The company did not respond to a request for clarification of the information.

22.6 Environmental tax

No	Company name	EDRPOU code /tax number	Reported by SFS, UAH thousand	Reported by companies (initial), UAH thousand	Reported by companies (adjusted), UAH thousand	Reason for adjustment
1	Ukrtransgaz PJSC	30019801	19,082.92	19,117.61	19,083.73	The adjustment was the inclusion of the amounts of environmental tax paid by the branches of the company.
2	United Mining and Chemical Company SE	36716128	410.98	459.00	411.00	The company adjusted the data. The initially provided information was incorrect because of a technical error.
3	Lvivvuhillia SE	32323256	0.00	17.00	0.00	The company agreed with the SFS data, no additional clarifications were provided.
4	Lysychanskvuhillia PJSC	32359108	122.29	135.00	122.29	The adjustments were the exclusion from the total amount of environmental tax of the amount of environmental pollution charges that was incorrectly added.
5	Shakhtoupravlinnia Pivdennodonbaske No 1 SE	34032208	169.16	179.00	169.16	The adjustments were the exclusion from the total amount of environmental tax of the amount of environmental pollution charges that was incorrectly added.
6	Ukrgezvydobuvannia PJSC	30019775	7,561.52	8,272.90	7,561.40	The company corrected the data, no additional clarifications were provided.
7	Vuhilna kompaniia Krasnolymanska SE	31599557	4,103.68	3,720.00	3,720.00	The company did not respond to a request for clarification of the information.



22.7 Dividends and payment of a share of net profit

No	Company name	EDRPOU code /tax number	Reported by SFS, UAH thousand	Reported by companies (initial), UAH thousand	Reported by companies (adjusted), UAH thousand	Reason for adjustment
1	Ukrnafta PJSC	135390	0.00	23,300.00	0.00	The company corrected the data. The initially provided data were incorrect because of a technical error.

22.8 Unified social contribution

No	Company name	EDRPOU code /tax number	Reported by SFS, UAH thousand	Reported by companies (initial), UAH thousand	Reported by companies (adjusted), UAH thousand	Reason for adjustment
1	Ukrnafta PJSC	135390	487,635.66	441,861.00	487,635.66	The company agreed with the SFS data, since it included in its initial data the payments of JAA, which were reconciled separately.
2	Ukrtransnafta PJSC	31570412	127,071.10	129,356.00	127,096.00	The adjustment was the exclusion from the amount of the SSC during the acquisition of property rights for cars and privileged pensions (in accordance with paragraphs "b" - "z" of Article 13 of the Law of Ukraine "On Pension Provision").
3	Lvivvuhillia SE	32323256	193,704.82	222,338.00	193,704.82	The company agreed with the SFS data, no additional clarifications were provided.
4	Representative Office Regal Petroleum Corporation Limited (without legal entity right)	26333503	8,279.72	0.00	8,279.72	The company agreed with the SFS, no additional clarifications were provided.
5	Shakhtoupravlinnia Pivdenodonbaske No 1 SE	34032208	56,696.48	55,526.00	56,696.00	The adjustment was the inclusion in the total SSC of the personal SSC withhold was mistakenly not specified.
6	Ukr gazvydobuvannia PJSC	30019775	530,982.05	529,117.30	529,117.30	The information on adjustment was provided with significant delay, thus it was not included in the Report.
7	Myrnohradvuhillia SE	32087941	108,023.41	109,089.00	108,026.00	The adjustment was the decrease in the total amount of SSC paid by the company by the amount that was not accounted for in the period of actual payment because of technical reasons.



No	Company name	EDRPOU code /tax number	Reported by SFS, UAH thousand	Reported by companies (initial), UAH thousand	Reported by companies (adjusted), UAH thousand	Reason for adjustment
8	DTEK Dobropolyeugol LLC	37014600	145,736.70	131,110.30	145,736.70	The adjustment is related to the inclusion of payments of individual structural units.
9	DTEK Pavlogradugol PrJSC	178353	624,914.72	732,092.30	624,914.00	The company agreed with the SFS data, no additional clarifications were provided.
10	Marganets GZK PJSC	190911	61,723.24	59,624.60	59,624.60	The company did not respond to a request for clarification of the information.

23 Annex 16. Compliance of the EITI Report of Ukraine with the EITI Standard requirements

EITI Standard requirement	Section of the Report
2.1	The description of legal framework and fiscal regime in the extractive industries as well as the main areas of reform are presented in Section 6 of the Report, namely: <ul style="list-style-type: none"> • Review of the legislation governing the extraction of minerals - section 6.1 • Functions and powers of public authorities - section 6.2, annex 5 • Reforming the regulatory and fiscal regime of the extractive industry in 2016 - section 6.3 • Regulation of state participation in the extractive industries - section 6.4 • Fiscal regime - section 6.5 • Regulatory regime - section 6.6.
2.2	Section 6.6.2 describes the procedure for granting special permits for the use of subsoil. Information on the auctions for the sale of special permits for use of subsoil that took place in 2016 and the winners of the auctions is provided in annex 10.
2.3	The information about the register of special permits for the use of subsoil is presented in section 6.6.1.
2.4	The information on contracts in the extractive industries is included in section 6.6.4. Annexes 7 and 8 include the list of the essential terms of the PSA and concession agreements.
2.5	The information on the government policy on disclosure of ultimate beneficiary owners of the companies in the extractive industries is contained in section 6.6.3. The information about the ultimate beneficial owners of the reporting organizations according to the Single State Register is provided in appendix 6.
2.6	The information on the state participation in the extractive industries is contained in section 6.4 of the Report, namely: <ul style="list-style-type: none"> • Definition of "enterprises in the state ownership" - section 6.4.1 • The state policy in public entities management - section 6.4.2 • Overview of the types of payments of the state-owned enterprises in favor of the state - section 6.4.3 • Overview of the types of the payments by the state in favor of state owned enterprises - section 6.4.4 • Functions of state owned enterprises and payments for the benefit of state owned enterprises - section 6.4.5. In addition, the information on the state participation in the extractive industries is provided in each section devoted to a particular industry, namely: 5.1.1, 5.2.1, 5.3.1, 5.4.1, 5.5.1, 5.6.1, 5.7.1, 5.8.1.
3.1	The Information on the significant explorations is provided in each chapter devoted to a particular industry, namely: 5.1.3, 5.2.3, 5.3.3, 5.4.3, 5.5.3, 5.6.3, 5.7.3, 5.8.3.
3.2	The information on mineral resources is provided in section 5, namely: 5.1.2, 5.2.2, 5.3.2, 5.4.2, 5.5.2, 5.6.2, 5.7.2, 5.8.2. The information on the volumes of extraction (in physical units) of minerals is given in section 5, namely: 5.1.5, 5.2.5, 5.3.5, 5.4.5, 5.5.5, 5.6.5, 5.7.5, 5.8.5.
3.3	The information on exports and imports is provided in section 5, namely: 5.1.6, 5.2.7, 5.3.6, 5.4.6, 5.5.6, 5.6.6, 5.7.6, 5.8.6.
4.1	The information on taxes and other state revenues from extractive industries is presented in section 7, as well as in annexes 12, 13.

EITI Standard requirement	Section of the Report
4.2	In Ukraine, no mechanisms for the transfer of part of the output in favor of the state are used.
4.3	In Ukraine, no mechanisms of barter and infrastructure agreements with the state are used.
4.4	For the information on oil and gas transportation, including transit activity, see section 5.2.6.
4.5	The information on payments by mining companies in favor of state owned enterprises, organizations and institutions is provided in section 7.2.3. The overview of the types of payments of enterprises with state participation in favor of the state - section 6.4.3
4.6	According to the results of the feasibility study and the MSG decisions, the scope of the Report included two sub-national payments, the information on which is provided in the relevant sections, namely: <ul style="list-style-type: none"> • Personal income tax - section 7.4.1 and annex 12 (19.1) and annex 13; • Land fee - section 7.4.5 and annex 12 (19.5) and annex 13; • Environmental tax - section 7.4.6 and annex 12 (19.6) and annex 13. The information on the allocation of tax revenues between the budgets of different levels is provided in section 6.5.
4.7	The Report presents disaggregated information on government revenue from extractive industries by types of payments and by specific companies (annexes 12, 13).
4.9	The information on the audit procedures that provide assurance for the data is presented in section 4.3, as well as in annex 14.
5.1	The information on the allocation of tax revenues between budgets of different levels is provided in section 6.5, section 5.11 and annex 11.
5.2	The information on the allocation of tax revenues between budgets of different levels is provided in section 6.5, section 5.11 and annex 11.
5.3.	The description of the budgetary process in Ukraine is included in section 6.5.
6.1	The information about company expenses for social needs and the types of quasi-fiscal costs of the state owned enterprises can be found in section 6.6.7. The information on the actual social spending of the extractive companies is provided in section 5.9.3
6.2	The information about the companies' social spending and the types of quasi-fiscal costs of the state owned enterprises can be found in section 6.6.7. The information on quasi-fiscal operations of extractive companies is given in section 5.10
6.3	The information on the contribution of the extractive industries in the economy of the country is presented in section 5.9.

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