

Letterhead of the Ministry of Energy and Coal Industry of Ukraine

To: Mr.Fredrik Reinfeldt, Chair of the Board

Re: Request to consider the 2016 EITI Report of Ukraine in Validation process

Dear Mr.Reinfeldt,

Let me approach you on behalf of the EITI Multi-stakeholder group of Ukraine regarding the Validation of Ukraine, results of which are expected to be announced at the upcoming Board meeting in Berlin. We believe that Validation is an important process that allows the countries to improve their implementation and respectively the EITI process in general. The MSG welcomed the possibility to review the initial assessment and Validation Report and provided its respective feedback to the EITI International Secretariat, which we hope can be taken into account when identifying the level of the county's progress.

After consideration of the initial assessment and Validation Report, the MSG undertook extensive work to address the existing weaknesses of the EITI reporting and asks the EITI Board to consider the 2016 EITI Report, published on May 22, 2018. Therefore, kindly consider the detailed information provided below.

1. Requirement 2.6 on state participation is addressed in section 6.4 of the 2016 EITI Report. In particular, we've added missing information on overview of state-owned enterprises (p 145), explanation of the prevailing rules and practices related to SOEs' transactions (p.149, 151, 153), change of government ownership in SOEs (p.152). List of loans or loan guarantees extended by the state or SOEs to mining, oil, and gas companies may be found on p.152 and additionally 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.
2. In accordance with Requirement 4.1.c, the MSG ensured that the materiality of payments from each non-reporting entity and the nature of discrepancies are clearly assessed to support the IA's overall assessment of the comprehensiveness of reconciliation. The IA's assessment is available on p. 200.
3. Requirement 4.4, according to which the MSG should ensure that the next EITI Report disaggregates the transportation revenues by pipeline/route and by paying company, is addressed on pp. 56, 62-64 and 68.
4. In accordance with Requirement 4.5, the MSG should engage relevant government entities and SOEs with the view to ensure that the reporting process comprehensively addresses the role of state-owned enterprises (SOEs), including material payments to SOEs from oil, gas and mining companies, and transfers between SOEs and other government agencies. The MSG addressed the aforementioned requirement in section 6.4.3 of the 2016 Report, on pp. 149, 153, 221, 319 and 347.
5. Information required according to Requirement 4.9 has been addressed as follows below:
 - Requirement 4.9.a requires an assessment of whether the payments and revenues are subject to credible, independent audit, applying international auditing standards. The Independent administrator provided respective information on p. 21 and in section 7 of the 2016 EITI Report.
 - Requirement 4.9.iii a) foresees that the Independent administrator should examine the audit and assurance procedures in companies and government entities participating in the EITI reporting process, and based on this examination, agree what information participating companies and government entities are required to provide to the Independent Administrator in order to assure the credibility of the data in accordance

with Requirement 4.9. The Independent Administrator should exercise judgement and apply appropriate international professional standards in developing a procedure that provide a sufficient basis for a comprehensive and reliable EITI Report. The Independent Administrator should employ his/her professional judgement to determine the extent to which reliance can be placed on the existing controls and audit frameworks of the companies and governments. The Independent Administrator's inception report should document the options considered and the rationale for the assurances to be provided. Respective information is given in the Inception Report (attached) on page 14 and further.

- According to Requirement 4.9. iii b) the Independent Administrator provides an assessment of comprehensiveness and reliability of the (financial) data presented, including an informative summary of the work performed by the Independent Administrator and the limitations of the assessment provided. The information covering this Requirement of the Standard is given on p. 194 of the 2016 Report and further.
 - According to Requirement 4.9. iii c) the Independent Administrator provides an assessment of whether all companies and government entities within the agreed scope of the EITI reporting process provided the requested information. Any gaps or weaknesses in reporting to the Independent Administrator must be disclosed in the EITI Report, including naming any entities that failed to comply with the agreed procedures, and an assessment of whether this is likely to have had material impact on the comprehensiveness and reliability of the report. The information on the above is given on pp. 200 and 207 of the 2016 EITI Report, not reporting entities are also named on p. 78 of the abbreviated version of the Report.
6. Previous EITI Reports lacked information related to quasi-fiscal expenditures by SOEs as required by the Requirement 6.3. The MSG has addressed the requirement in the 2016 EITI Report on pp. 117-123.
 7. In accordance with Requirement 6.3, the MSG clarified the estimates of informal extractives activities on p. 113 of the 2016 EITI Report.

We hope that EITI Board will consider our request favorably. At the same time, let us assure you that the MSG will work closely with all stakeholders engaged in the EITI implementation process to make sure that EITI process in Ukraine fully addresses the EITI Standard and international best practices.

Best regards,

Deputy Minister for European integration Natalya Boyko