

Validation of Ukraine

For decision

For discussion

For information

The Validation Committee recommends that the EITI Board agrees that Ukraine has made *meaningful progress* in implementing the 2016 EITI Standard. In accordance with requirement 8.3c, Ukraine will be requested to undertake corrective actions before the second Validation on **<date of Board decision + 128 months>**.

Supporting documentation

Final Validation report [[English](#) | [French](#) | [Ukrainian](#)].

Comments on the draft Validation Report and initial assessment by the MSG [[English](#) | [Ukrainian](#)].

Draft Validation report [[English](#) | [Ukrainian](#)].

Initial assessment by the International Secretariat [[English](#) | [Ukrainian](#)].

Has the EITI competence for any proposed actions been considered?

The Articles of Association mandate the Board to classify implementing countries as candidate countries or compliant countries (Article 5(2)(i)(a)). The EITI Standard ([Requirement 8.3](#)) addresses [EITI Validation deadlines and the consequences](#) following Validation.

Financial implications of any actions

The recommendation implies a second Validation commencing in **late-mid** 2019. The cost of second Validations varies depending on the complexity of the extractive industries and the number of corrective actions. In this case, a second Validation is expected to cost circa 25 000 USD, including staff time and travel (if needed).

Document history

Draft Board Paper reviewed by the Validation Committee	22 May 2018
Validation Committee agreement on a Board Paper	6 June 2018
Submitted to the EITI Board	14 June 2018

Revised Board Paper reviewed by the Validation Committee	28 June 2018
Submitted to the EITI Board	29 June 2018

VALIDATION OF UKRAINE

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Proposed Board decision on the Validation of Ukraine

The Validation Committee recommends that the EITI Board takes the following decision:

Following the conclusion of Ukraine’s Validation, the EITI Board decides that Ukraine has made meaningful progress overall in implementing the EITI Standard.

The Board congratulates the Government of Ukraine and the Multi-Stakeholder Group (MSG) on the progress made in strengthening the governance of the extractive industries. The EITI has helped ensure timely information on the revenues from mining, oil and gas, including from transportation, is provided to the public, most notably civil society, media and affected communities. The Board welcomes the extension of EITI implementation to a larger group of companies and to new sectors including coal, manganese, titanium mining and hydrocarbons transportation. Ukraine’s EITI implementation has helped drive broader economic, financial and institutional reforms by supporting the adoption of a law on “Transparency in the Extractive Industries”, and amendments to the laws on “State Registration of Legal Entities and Individual Entrepreneurs” and on the “Budget Code”.

The EITI has also provided a mechanism for civil society to raise concerns with government and industry stakeholders, leveraging active dissemination and outreach efforts and by providing a platform for public debate and informing policy-making. Civil society has played a central role in driving EITI follow-up on reforms and by building its own capacity to improve accountability in the government’s management of the extractive industries. The Board encourages the government and MSG to pursue discussions on transparency in contracts and project-level reporting, and to enhance efforts to improve the transparency of the state-owned enterprises.

The Board recognises Ukraine’s efforts to go beyond the requirements of the EITI Standard related to the engagement of civil society (1.3), beneficial ownership transparency (2.5), distribution of revenues (5.1), social expenditures (6.1) and public debate (7.1). The Board welcomes the government’s commitment to entrench an enabling environment for EITI implementation in sector policies and legislations, and encourages the MSG’s efforts to move towards systematic disclosures of EITI data through government and company systems.

*The Board has determined that Ukraine will have 128 months, i.e. until **<date of Board decision***

~~+ 12 months~~~~18 months~~, before a second Validation to carry out corrective actions regarding the requirements relating to state-participation (2.6), ~~production data (3.2), comprehensiveness (4.1), transportation (4.4), SOE transactions (4.5), data quality (4.9) and SOE quasi-fiscal expenditures (6.2) and economic contribution (6.3)~~. Failure to achieve meaningful progress with considerable improvements across several individual requirements in the second Validation will result in suspension in accordance with the EITI Standard. In accordance with the EITI Standard, Ukraine's MSG may request an extension of this timeframe, or request that Validation commences earlier than scheduled.

The Board's decision followed a Validation that commenced on 1 July 2017. In accordance with the 2016 EITI Standard, an initial assessment was undertaken by the International Secretariat. The findings were reviewed by an Independent Validator, who submitted a draft Validation report to the MSG for comment. The MSG's comments on the report were taken into consideration by the independent Validator in finalising the Validation report and the independent Validator responded to the MSG's comments. [At the request of the MSG (see Annex 1), the EITI Board agreed to exercise its discretion to consider work undertaken after the commencement of Validation regarding the 2016 EITI Report. The Board noted improvements in the coverage of production data (3.2), comprehensiveness (4.1), transportation (4.4) and economic contribution (6.3). Progress on other aspects, such as state-participation (2.6), SOE transactions (4.5), data quality (4.9) and quasi-fiscal expenditures (6.2) required more detailed investigation in the next Validation.] The final decision was taken by the EITI Board.

Background

The government of Ukraine committed to implement the EITI on 30 September 2009. The Multi-Stakeholder Group was formed on 10 October 2012. The country was accepted as an EITI Candidate on 17 October 2013 at the EITI Board's meeting in Abidjan.

The Validation process commenced on 1 July 2017. In accordance with the Validation procedures, an initial assessment [\[English | Ukrainian\]](#) was prepared by the International Secretariat. The Independent Validator reviewed the findings and wrote a draft Validation report [\[English | Ukrainian\]](#). Comments from the MSG [\[English | Ukrainian\]](#) were received on 17 May 2018. The Independent Validator reviewed the comments, provided response to the MSG and finalised the Validation report [\[English | French | Ukrainian\]](#) on 24 May 2018. According to the Independent Validator, the majority of the MSG's comments on the draft Validation report related to new information in the most recent EITI Report covering 2016, which was published after the commencement of Validation on 22 May 2018. The Validator noted these developments but noted that only the EITI Board had the mandate to take this updated information into account.

The Validation Committee reviewed the case on 26 April and 6 June 2018. [In addition, on 28 June, the Validation Committee considered whether the Board should exercise its discretion to consider work undertaken after the commencement of Validation regarding the 2016 EITI Report [\[English | Ukrainian\]](#), as requested by the MSG. The Committee took note of precedents established in other cases, such as the

Validation of Senegal¹. The Committee noted that some flexibility was needed, so that the Board did not set corrective actions that would be redundant. However, it was important that any new information be subject to proper scrutiny. In other cases, the Committee had differentiated between progress that could be quickly and objectively verified, and more complex issues that would need to be studied thoroughly in a subsequent validation].

The Committee reviewed the following updates from the International Secretariat:

- Regarding Requirement 2.6, the Validation report concluded that Ukraine has made “inadequate progress” given the lack of information regarding rules between SOEs and central government and questions over the comprehensiveness of disclosures. The 2016 EITI Report defines the main types of SOEs that were considered material for EITI reporting. The report discloses the ownership interests of the government and SOEs (including their subsidiaries) in oil and gas companies (pp.37-39) and confirms no changes in the state’s interests in oil and gas companies in 2016 (p.37). In mining, the report confirms the state’s ownership in PJSC United Mining and Chemical Company, a titanium mining company (p.80), but does not clarify the structure of state ownership in the SOE. While the report confirms that the Ministry of Energy and Coal Industry owned interests in 216 coal mining enterprises in 2016, with three new state-owned enterprises established by 1 January 2017 (p.24), it does not provide the names of these companies or the specific state interest in each. Although it states that 131 of these 219 mining companies are located in the eastern territories beyond the government’s control (p.24), which are covered by Ukraine’s adapted implementation, the report does not provide information on the remaining 88 mining companies that are not located in the eastern territories. While the report provides some information on the financial relations between the three types of SOEs described in the report and the government (pp.145-155), there are outstanding gaps in the description of statutory financial relations (for instance related to the ability to raise third-party funding). The report also provides details of loan guarantees provided by the government to extractives companies (pp.25-26,40-41). The International Secretariat’s assessment is that, while certain gaps remain outstanding with regards to Requirement 2.6, the MSG had undertaken considerable work on Requirement 2.6 in the 2016 EITI Report, with significant progress on parts of the related corrective action. On this basis, the Secretariat recommends upgrading the assessment of Requirement 2.6 from “inadequate progress” to “meaningful progress”.
- Regarding Requirement 3.2, the Validation report concluded that Ukraine had made “meaningful progress” given the lack of production values for all commodities. The 2016 EITI Report provides production volumes and values for five extractives commodities produced in 2016 (pp.108-109). For production values of oil, gas and coal, the report sources data from the State Statistical Service. For production values of iron, manganese and titanium ores, the report highlights the lack of government data for metal ore production and instead provides estimates of production values based on reporting by material companies and average annual prices (p.109). The International Secretariat’s assessment is that the 2016 EITI Report adequately highlights constraints in the provision of official production data and provides estimates of production volumes and values for each of the five extractives commodities produced in 2016. On this basis,

¹ <https://eiti.org/document/senegal-validation-2017>

the Secretariat recommends upgrading the assessment of Requirement 3.2 from “meaningful progress” to “satisfactory progress”.

- Regarding Requirement 4.1, the Validation report concluded that Ukraine had made “meaningful progress” given the lack of confirmation of the level of material government entities’ reporting, the lack of assessment of the materiality of reporting omissions, a lack of explanation of discrepancies and the lack of assessment by the Independent Administrator of the comprehensiveness of reconciled financial data. The 2016 EITI Report confirms that all material government entities reported (p.228). In terms of assessing the materiality of company omissions, the report provides the number of material companies that did not report (15 of 60) (pp.207,331-335), and provides an estimate of the aggregate value of payments from non-reporting companies (pp.207-209). Data published separately on Ukraine’s EITI website provides unilateral government disclosure for payments from each of the non-reporting companies.² Additionally, the report provides an assessment of reporting omissions by private and state-owned companies and by extractive sectors (pp.208-209). In terms of assessing the comprehensiveness of the disclosure, the Independent Administrator concludes that the completeness of reconciliation has enhanced compared to previous years, but defines non-reporting by the 15 material companies as a significant omission (pp.207,223-227). In terms of the IA’s explanation of the discrepancies, the report provides the results of investigation of all discrepancies (pp.217-218,336-349). The government’s full unilateral disclosure of revenues from non-material companies is provided in a spreadsheet published separately on Ukraine’s EITI website.³ The International Secretariat’s assessment is that the 2016 EITI Report adequately confirms the level of reporting from material government entities, assesses the materiality of payments from each non-reporting company and the impact on the comprehensiveness of reporting and provides an investigation of discrepancies. The Secretariat has reviewed the data provide for all 657 companies. The reconciliation coverage is 91.5%, with no non-reporting companies accounting for more than 1% of the remainder. On this basis, the Secretariat recommends upgrading the assessment of Requirement 4.1 from “meaningful progress” to “satisfactory progress”.
- Regarding Requirement 4.4, the Validation report concluded that Ukraine had made “meaningful progress” given that transport revenues and associated payment streams were not disaggregated by company or by transport route and revenue stream. The 2016 EITI Report provides a comprehensive description of transportation arrangements for both natural gas and crude oil, including applicable tariffs and volumes transported. Natural gas transportation is disaggregated by paying company and revenue stream (p.63) and oil transportation is disaggregated by each of the two companies (PJSC Ukranafta and PJSC Ukrtatnafta) (p.68). While the report only includes SOEs’ unilateral disclosure of transport revenues received, reconciliation of transport revenues is only encouraged under Requirement 4.4.e. The International Secretariat’s assessment is that the 2016 EITI Report adequately covers transport revenues in accordance with Requirement 4.4. On this basis, the Secretariat recommends upgrading the assessment of Requirement 4.4 from

² Ukraine EITI (May 2018), ‘Ukraine 2016 EITI Report data’, accessed here in June 2018.

³ *Ibid.*

“meaningful progress” to “satisfactory progress”.

- Regarding requirement 4.5, the Validation report concluded that Ukraine had made “inadequate progress” given the lack of comprehensive disclosure of SOE transactions. The 2016 EITI Report provides a reconciliation of SOE taxes and dividends (pp.149-150). While the report discloses budget transfers from the budget to SOEs (pp.150-152), an assessment of the comprehensiveness of the reconciliations of such budgeted transfers would require more investigations. Finally, while the report includes SOEs’ unilateral disclosures of transport payments from companies, these have not been reconciled with company payments (see Requirement 4.4). The International Secretariat’s assessment is that the 2016 EITI Report reflects significant improvements in the disclosure of company payments to SOEs and SOE transactions with government, although transactions involving SOEs have not been comprehensively reconciled. On this basis, the Secretariat recommends upgrading the assessment of Requirement 4.5 from “inadequate progress” to “meaningful progress”.
- Regarding Requirement 4.9, the Validation report concluded that Ukraine had made “meaningful progress” given the lack of assessment of the significance of reporting from entities that did not comply with the agreed quality assurance procedures and the lack of assessment of the comprehensiveness of reconciled financial data. The 2016 EITI Report includes the Independent Administrator’s clear assessment of the reliability and comprehensiveness of reconciled financial data (pp.21-22). While the report lists the 12 reporting companies that did not provide the required quality assurances (pp.331-335), the materiality of payments from each of the non-complying companies is not provided. It is also unclear whether the government provided the required quality assurances. The International Secretariat’s assessment is that the 2016 EITI Report marks significant improvements, not least in the provision of the Independent Administrator’s clear assessment of the reliability and comprehensiveness of reconciled financial data; however gaps in the assessment of the materiality of payments from non-complying companies remain unaddressed. On this basis, the Secretariat recommends maintaining the assessment of Requirement 4.9 as “meaningful progress”.
- Regarding Requirement 6.2, the Validation report concluded that Ukraine had made “inadequate progress” given the lack of clarity over whether subsidies and transactions between SOEs and other entities represented quasi-fiscal expenditures. The 2016 EITI Report confirms the MSG’s decision to cover quasi-fiscal expenditures in the gas and coal sectors (p.117). The report covers two types of quasi-fiscal expenditures. The first, subsidised natural gas sales by Naftogaz, is comprehensively described and the report includes estimates of the quasi-fiscal component of natural gas subsidies (pp.118-119). The second, the implicit subsidy on thermal coal sold to domestic power plants, is comprehensively described and the report provides estimates of the implicit quasi-fiscal component of the subsidy (pp.120-123). Minutes from the MSG’s 18 January 2018 meeting confirm that the MSG took SOEs’ social expenditures into consideration, but decided to disclose these payment as voluntary social expenditures (pp.114-116). While an assessment of the comprehensiveness of reporting of quasi-fiscal expenditures would require further investigations, the International Secretariat’s assessment is that the 2016 EITI Report marks significant improvements in the coverage of quasi-fiscal expenditures. On this basis, the Secretariat recommends upgrading the assessment of Requirement 6.2 from “inadequate progress” to “meaningful progress”.

- Regarding Requirement 6.3, the Validation report concluded that Ukraine had made “meaningful progress” given the lack of information on the informal extractives sector, even if all other required information on the contribution of the extractive industries to the economy had been adequately disclosed. The 2016 EITI Report provides the extractive industries’ contribution, in absolute and relative terms, to GDP (p.108), government revenues (pp.110-111), exports (p.110) and employment (pp.112-113). The report explains that the MSG considered different sources of information on artisanal and small-scale mining but decided to not include estimates of informal activities given the lack of reliable information on the topic (p.17). The International Secretariat’s assessment is that the 2016 EITI Report has adequately described the MSG’s approach to sourcing information on informal extractives activities and explained constraints on the publication of reliable information on the issue. Given that Requirement 6.3 requires publication of such information “where available”, the Secretariat recommends upgrading the assessment of Requirement 6.3 from “meaningful progress” to “satisfactory progress”.

[The Validation Committee agreed to amend the assessment card accordingly.]

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Based on the findings above, the Validation Committee agreed to recommend the assessment card and corrective actions outlined below.

The Committee also agreed to recommend an overall assessment of “meaningful progress” in implementing the 2016 EITI Standard. Requirement 8.3.c. of the EITI Standard states that:

- ii. Overall assessments. Pursuant to the Validation Process, the EITI Board will make an assessment of overall compliance with all requirements in the EITI Standard.
- ...
- iv. **Meaningful progress.** The country will be considered an EITI candidate and requested to undertake corrective actions until the second Validation.

The Validation Committee agreed to recommend a period of 12~~8~~ months to undertake the corrective actions. This recommendation takes into account that the challenges identified are relatively significant and seeks to align the Validation deadline with the timetable for Ukraine’s 2016 and 2017 EITI Reports.








Assessment card

The Validation Committee recommends the following assessment:

EITI Requirements		LEVEL OF PROGRESS				
		No progress	Inadequate	Meaningful	Satisfactory	Beyond
Categories	Requirements					
MSG oversight	Government engagement (#1.1)				█	
	Industry engagement (#1.2)				█	
	Civil society engagement (#1.3)					█
	MSG governance (#1.4)				█	
	Work plan (#1.5)				█	
Licenses and contracts	Legal framework (#2.1)				█	
	License allocations (#2.2)				█	
	License register (#2.3)				█	
	Policy on contract disclosure (#2.4)				█	
	Beneficial ownership (#2.5)					█
	State participation (#2.6)			█		
Monitoring production	Exploration data (#3.1)				█	
	Production data (#3.2)				█	
	Export data (#3.3)				█	
Revenue collection	Comprehensiveness (#4.1)				█	
	In-kind revenues (#4.2)	█	█	█	█	█
	Barter agreements (#4.3)	█	█	█	█	█
	Transportation revenues (#4.4)				█	
	SOE transactions (#4.5)			█		
	Direct subnational payments (#4.6)	█	█	█	█	█
	Disaggregation (#4.7)				█	
	Data timeliness (#4.8)				█	
	Data quality (#4.9)			█		
Revenue allocation	Distribution of revenues (#5.1)					█
	Subnational transfers (#5.2)				█	
	Revenue management and expenditures (#5.3)					█
Socio-economic contribution	Mandatory social expenditures (#6.1)					█
	SOE quasi-fiscal expenditures (#6.2)			█		
	Economic contribution (#6.3)				█	
Outcomes and impact	Public debate (#7.1)					█
	Data accessibility (#7.2)	█	█	█	█	█
	Follow up on recommendations (#7.3)				█	
	Outcomes and impact of implementation (#7.4)				█	

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Legend to the assessment card

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

Corrective actions

The EITI Board agreed the following corrective actions to be undertaken by Ukraine. Progress in addressing these corrective actions will be assessed in a second Validation commencing on **<date of Board decision + 128 months>**:

1. In accordance with requirement 2.6.a, the MSG should provide a comprehensive overview of state-owned enterprises, including an explanation of the prevailing rules and practices related to SOEs' retained earnings, reinvestment and third-party funding. The government should also ensure annual disclosure of any changes in government ownership in SOEs or their subsidiaries, and provide a comprehensive account of any loans or loan guarantees extended by the state or SOEs to mining, oil, and gas companies in line with requirement 2.6.b.
- ~~2. In accordance with Requirement 3.2, the MSG should ensure that future reports disclose the production values for every extractives commodity produced, including crude oil, natural gas and every mineral covered by reports. To strengthen implementation, the MSG may wish to comment on parallel reporting systems for production volumes including regular publication and verification procedures, to ensure consistent, regular and reliable data.~~
- ~~3. In accordance with Requirement 4.1.c, the MSG should ensure that the materiality of payments from each non-reporting entity and the nature of discrepancies are clearly assessed to support the IA's overall assessment of the comprehensiveness of reconciliation. In accordance with Requirement 4.1.d, unless there are significant practical barriers, the government is additionally required to provide full disclosure of material revenues from non-material companies, disaggregated by revenue stream.~~
- ~~4. In accordance with Requirement 4.4, the MSG should ensure that the next EITI Report disaggregates the transportation revenues by pipeline/route and by paying company.~~

2. 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.

5.

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

- a. 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.
- b. ensure that the Independent Administrator provides an assessment of comprehensiveness and reliability of the (financial) data presented, including an informative summary of the work performed by the Independent Administrator and the limitations of the assessment provided.
- c. ensure that the Independent Administrator provides an assessment of whether all companies and government entities within the agreed scope of the EITI reporting process provided the requested information. Any gaps or weaknesses in reporting to the Independent Administrator must be disclosed in the EITI Report, including naming any entities that failed to comply with the agreed procedures, and an assessment of whether this is likely to have had material impact on the comprehensiveness and reliability of the report.

6.

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

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nature using national laws and regulations.

~~8. In accordance with Requirement 6.3, the MSG should clarify the public availability of estimates of informal extractives activities, including but not limited to artisanal and small scale mining.~~

The government and the MSG are encouraged to consider the other recommendations in the Validator's report and the International Secretariat's initial assessment, and to document the MSG's responses to these recommendations in the next annual progress report.

Annex 1. Ukraine's MSG letter to the EITI Board (English translation)

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,

Natalya Boyko

Deputy Minister for European integration