

**THE MINISTRY OF ENERGY AND COAL INDUSTRY OF UKRAINE
Project Extractive Industries Transparency
Initiative (EITI) Implementation Support,**

SPECIAL FINANCIAL STATEMENTS

For the period from March 30, 2015
till April 19, 2016

Auditor's Report enclosed

Project Extractive Industries Transparency Initiative (EITI) Implementation Support

SPECIAL FINANCIAL STATEMENTS

For the period from March 30, 2015 till April 19, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Ministry of Energy and Coal Industry of Ukraine

We have audited the special financial statements with regard to the Project Extractive Industries Transparency Initiative (EITI) Implementation Support (further in the text – Project), being financed with funds of Grant No. TF019257 for the period from March 30, 2015 to April 19, 2016. The reports include:

- Summary of sources and application of funds as at April 19, 2016;
- Summary statements of expenditures for the period from March 30, 2015 till April 19, 2016;
- Special Account Statement for the period from March 30, 2015 till April 19, 2016;
- Description of significant aspects of accounting policies and other explanatory notes.

Responsibility of the Management for Special Financial Statements

Management is responsible for the preparation and fair presentation of these special financial statements in accordance with regulations of the World Bank. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these special financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the special financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the special financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion regarding Special Financial Statements

In our opinion, Special Financial Statements present fairly, in all material aspects, the sources and usage of funds of Grant No. TF019257 concerning the Project Extractive Industries Transparency Initiative (EITI) Implementation Support for the period from March 30, 2015 to April 19, 2016 in accordance with the Bank's regulations.

External funds have been used in compliance with the requirements of the corresponding general conditions, financial agreements, and the Disbursement Letter, paying due attention to efficiency and cost-effectiveness; and have been used only for the corresponding purposes.

Conditions of the Grant Agreement No. TF019257 do not provide for the use of partners' funds.

The services have been purchased in compliance with the corresponding general conditions, financial agreements, and the Disbursement Letter.

Accounting and storing of the necessary interim documents, accounting data and accounts regarding all Project transactions, including those concerning the expenditures disclosed in the Statement of actual expenditures, are performed in a due manner. There is a clear interconnection between accounting data and the financial statements provided to the World Bank.

The prepared special financial statements comply with the requirements of generally accepted accounting principles and practices, and the instructions from the World Bank; and truly and objectively reflect the financial position of the Project as at April 19, 2016 as well as the resources and expenditures for the period from March 30, 2015 till April 19, 2016.

Opinion regarding Statements of Expenditures

In addition, with regard to the expenditures for the period from March 30, 2015 till April 19, 2016 adequate supporting documentation was maintained to confirm applications submitted to the Bank for reimbursement of the expenditures incurred, and that the expenditures stated in the withdrawal applications are to be financed in accordance with the terms and conditions of the Grant No. TF019257.

Opinion regarding Special Account Statements

In our opinion, the special financial statements on the Special account give true and fair view of financial position of the Special Account for the Grant No. TF019257, as at April 19, 2016 and for the period from March 30, 2015 till the date fixed in consistence with the World Bank regulations.

These accounts were conducted according to the provisions of the corresponding general conditions, financial agreements, and the Disbursement Letter.

Explanatory paragraph

We draw your attention to Note 1 to the Special Financial Statements indicating that the date of the Grant closure shall be December 31, 2015.

May 13, 2016

"BDO" LLC

Balchenko S. O.
Managing Partner



SUMMARY OF SOURCES AND USE OF FUNDS

for the period from March 30, 2015 till April 19, 2016
in US dollars

	Actual	
	For the period	Total
Balance at the year beginning		
Special account Ukreximbank - US dollars	-	-
Current account State Treasury of Ukraine - hryvnya	-	-
	<hr/>	<hr/>
	-	-
Fund source:		
Grant of International Bank for Reconstruction and Development	146,790	146,790
Total financing:	146,790	146,790
	<hr/>	<hr/>
Project costs:		
Category 1: Goods, Consultants' Services, including audit, Incremental Operating Costs and Training under the Project	146,790	146,790
Total project expenditures:	146,790	146,790
	<hr/>	<hr/>
Balance at the period end		
Special account Ukreximbank - US dollars	-	-
Current account State Treasury of Ukraine - hryvnya	-	-
	<hr/>	<hr/>
	-	-

Notes on pages 12 - 14 are an integral part of these financial statements.

SCHEDULE OF WITHDRAWALS FROM THE GRANT ACCOUNT
for the period from March 30, 2015 till April 19, 2016
in US dollars

<i>Application number</i>	<i>Category</i>	<i>Date of withdrawal</i>	<i>Payment</i>		<i>USD</i>
			<i>Currency</i>	<i>Amount</i>	<i>equivalent</i>
1	DA-A	31.07.2015	USD	22,600	22,600
2	DA-A	17.08.2015	USD	23,000	23,000
3	1	21.09.2015	UAH	683,500	31,498
4	DA-A	23.10.2015	USD	9,900	9,900
7	1	15.12.2015	UAH	1,729,306	74,411
-	Refund	04.03.2016	USD	-23,809	-23,809
11	1	19.04.2016	UAH	231,600	9,190
Total:					146,790

Summary schedule by categories:	
Category 1 total	115,099
DA-A total	55,500
Refund to the Special Account	-23,809
Total:	146,790

Notes on pages 12 - 14 are an integral part of these financial statements.

STATEMENT OF WITHDRAWALS THROUGH THE SUMMARY OF STATEMENTS OF EXPENDITURES
for the period from March 30, 2015 till April 19, 2016
in US dollars

<i>Application number</i>	<i>Category 1</i>	<i>Total</i>
1. Applications submitted to the World Bank and reimbursed for the period from March 30, 2015 to April 19,2016		
3	31,498	31,498
4	9,331	9,331
5	2,421	2,421
6	4,288	4,288
7	74,411	74,411
8	883	883
9	14,738	14,738
10	29	29
11	9,190	9,190
Total	146,790	146,790

2. Costs actually incurred for the period from March 30, 2015 to April 19,2016

From the Grant's account	115,099	115,099
From special account	91	91
From current account in national currency	31,600	31,600
Total	146,790	146,790

3. Table of differences in Project costs between the World Bank records and PMT for the period from March 30, 2015 to April 19,2016

Reimbursed according to IBRD' information	146,790	146,790
Amount of costs not provided for reimbursement as at April 19, 2016	-	-
According to the data of PMT	146,790	146,790

Notes on pages 12 - 14 are an integral part of these financial statements.

REPORT OF CASH WITHDRAWAL FROM SPECIAL ACCOUNT

for the period from March 30, 2015 till April 19, 2016
in US dollars

Acc. №25302020057483 " Ukreximbank"

<i>Category</i>	<i>Date of withdrawal</i>	<i>Withdrawals</i>		<i>USD</i>
		<i>Currency</i>	<i>Equivalent amount</i>	<i>Equivalent amount</i>
Sub_account	05.08.2015	USD	22,600	22,600
Sub_account	28.10.2015	USD	900	900
Sub_account	15.12.2015	USD	7,200	7,200
Sub_account	21.12.2015	USD	900	900
Total:				31,600

Summary by categories	
Sub_account total	31,600
Total:	31,600

Notes on pages 12 - 14 are an integral part of these financial statements.

SPECIAL ACCOUNT STATEMENT

for the period from March 30, 2015 till April 19, 2016
in US dollars

Deposit bank	Ukreximbank
Grant No.	TF019257
Currency	US dollars
	Acc. № 25302020057483
BALANCE AT THE PERIOD BEGINNING	-
Revenues: Funds received	55,500
Interest accrued	
TOTAL FUNDS RECEIVED	55,500
Maintenance: costs	
Transfer of funds in national currency	31,600
Direct payments from special account	-
Payment for bank services	-
TOTAL COSTS	31,600
Return to the account of the bank	23,900
Including payment for banking services	91
BALANCE AT THE PERIOD END	-

Notes on pages 12 - 14 are an integral part of these financial statements.

STATEMENT OF FACTUAL EXPENDITURES IN NATIONAL CURRENCY
for the period from March 30, 2015 till April 19, 2016
in US dollars

	<u>----- Payment -----</u>		USD
	<i>Currency</i>	<i>Amount</i>	<i>Equivalent amount</i>
Category 1: Goods, Consultants' Services, including audit, Incremental Operating Costs and Training under the Project	UAH	694,506	31,600
Total expenditures of the period		694,506	31,600

Notes on pages 12 - 14 are an integral part of these financial statements.

RECONCILIATION BETWEEN RECORDS OF PIU AND THE BANK
for the period from March 30, 2015 till April 19, 2016
in US dollars

Amount of the Grant		190,000
Subtract:		
Project costs:		
Category 1: Goods, Consultants' Services, including audit, Incremental Operating Costs and Training under the Project	146,790	
Total:		<u>(146,790)</u>
Special account Ukreximbank - US dollars	-	
Current account State Treasury of Ukraine - hryvnya	-	
Total funds available		<u>-</u>
Total withdrawal:		<u>(146,790)</u>
Balance as at April 19, 2016		<u>43,210</u>

Notes on pages 12 - 14 are an integral part of these financial statements.

NOTES TO SPECIAL FINANCIAL STATEMENTS

for the period from March 30, 2015 till April 19, 2016
in US dollars

1. Project description

Extractive Industries Transparency Initiative (EITI) is an independent and voluntarily supported at the international level standard of transparency, which is being implemented in 49 countries. The purpose of EITI implementation in Ukraine is transparency in the management of natural resources and the disclosure of government revenues from the mining sector, primarily for the oil and gas sector companies. The mechanism of the standard is that mining companies publish information about payments to the budget and state authorities and the Government makes public the amount of revenues from extractive companies. The data are compared each year in the National EITI report and accompanied by the international expert assessment. This process is controlled by a multi-stakeholder group consisting of representatives from the government, the private sector and the public. The Ministry of Energy and Coal Mining is the body that implements the EITI in Ukraine.

In December 2015 the first National EITI report of Ukraine for 2013 was published, covering the oil and gas companies. The EITI report consists of two parts: contextual information and information on payments reconciliation. This document includes the following contextual information: general information about the industry, the largest oil and gas fields in Ukraine, the volume of hydrocarbon production, figures for 2013 and historical information, data on major hydrocarbon reserves in Ukraine, substantial work on the exploration conducted in 2013, transportation of oil and gas extracted in Ukraine, monitoring of subsoil, for which special permits were provided, oil and gas sector role in the economy of Ukraine, regulatory and fiscal regulation of oil and gas industry in Ukraine in 2013, the functions and powers of public authorities, etc. Information regarding the reconciliation of payments includes a reconciliation of corporate income tax, individual income tax and a number of other material payments. In January 2016 the preparation of the second EITI report will begin, also covering the coal and iron ore production sectors, our country has a formal commitment to prepare the EITI report by October 2016. In October 2016, our country will be validated..

It should be noted that the implementation of the EITI is a prerequisite for granting Ukraine macro-financial assistance, as well as one of the international commitments of our country. It is expected that the successful implementation of the EITI will increase the transparency of the production and transportation of hydrocarbons sector, and significantly improve the international image of Ukraine.

In accordance with the Letter of agreement dated 30 March 2015, the International Bank for Reconstruction and Development and International Development Association (“World Bank”), acting as administrator of grant funds under the USAID Trust Fund, extended to the Ukrainian government a grant to support the implementation of the Extractive Industries Transparency Initiative (“Grant”) in the amount not to exceed one hundred ninety thousand United States Dollars (190 000 USD). The Grant’s Executor is the Ministry of Energy and Coal Mining of Ukraine.

The Project consists of the following parts:

Part I: EITI Implementation Support

Provision of consultants’ services for the preparation of the first EITI report and analytical work to support EITI implementation, including technical studies. Support for the establishment of the National EITI Secretariat, including provision of office furniture and IT equipment.

Part II: Communication and Outreach

Provision of consultants’ services to support the implementation of the EITI Communication Plan, including print and visual media outreach campaigns, Training and awareness raising events, internet and social media activities.

Part III: Project Management

Provision for operational costs of the National EITI Secretariat once established, including office supply, travel costs (including for Multi-Stakeholder Group), office maintenance, internet, phone and bank charges.

For the purposes of the Project the Recipient during the entire Project support the activities of the National EITI Secretariat in Ukraine, performs strategic management of the Project, in a form and with staff, qualification, experience and terms of reference of which satisfy the World Bank.

2. Basic accounting policies.

Basis of preparation

The special financial statements were prepared on the cash basis. Accounting policy was consistently applied throughout the entire period of using the Grant funds.

Reporting period

These statements cover the period of using the funds of Grant from March 30, 2015 to April 19, 2016. The Closing Date shall be December 31, 2015 or such later date as the Bank shall establish.

Reporting currency

In compliance with the World Bank requirements, the reporting currency is USD.

Designated bank account

The project is being implemented by the Ministry of Energy and Coal Industry of Ukraine. The established National EITI Secretariat in Ukraine manages procurements and financial aspects of the Project. The Ministry of Energy and Coal Industry of Ukraine opened a bank account in order to implement the Project in PJSC "State Export-Import Bank of Ukraine".

Recognition of proceeds and expenses

National EITI Secretariat in Ukraine maintains its records and prepares its financial statements on the cash basis. Proceeds are reported when originating from bank accounts supported by advances from the IBRD. Expenses are reported as at the date of funds withdrawal from the account.

The following Disbursement Methods may be used under the Grant:

- Reimbursement;
- Advance;
- Direct Payment.

The Minimum Value of Applications is USD 30,000.

The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, Consultants' Services, including audit, Incremental Operating Costs and Training under the Project	190 000	100%
TOTAL AMOUNT	<u>190 000</u>	

All goods, non-consulting services and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

- ✓ Section I of the "Guidelines: Procurement of Goods, Works and Nonconsulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 and revised July 2014 ("Procurement Guidelines"), in the case of goods and non-consulting services;

- ✓ Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 and revised July 2014 (“Consultant Guidelines”) in the case of consultants’ services.

3. Economic environment

The principal business activities are performed on the territory of Ukraine. Ukrainian economy is in a protracted crisis, complicated by military conflict in eastern Ukraine and unrecognized separation of the Autonomous Republic of Crimea. The stabilization of the situation in Ukraine largely depends upon the government’s actions to address the armed conflict, reforming the financial, administrative, fiscal and legal systems of the country. In order to solve the above problems the government introduces a very stringent and unpopular measures, such as partial mobilization of reservi, introduction of new taxes and fees, restrictions on cash and non-cash foreign currency transactions, and so on.

WORLD BANK AUDIT DOCUMENTATION CHECKLIST

Name of Loan/Credit:	World Bank UKRAINE
Loan/Credit #	TF019257
Audit Report:	Year ended April 19, 2016

	Check if Included	Check if N/A
I. Audit report (Opinion):		
A. Applicable accounting standards noted	<input checked="" type="checkbox"/>	<input type="checkbox"/>
B. Applicable auditing standards noted	<input checked="" type="checkbox"/>	<input type="checkbox"/>
C. Opinion rendered on all forms of withdrawals:		
1. Statement of Expenditures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. Special Account	<input checked="" type="checkbox"/>	<input type="checkbox"/>
D. All sources of financing for the project are noted	<input checked="" type="checkbox"/>	<input type="checkbox"/>
II. Financial Reports:		
A. Revenue Earning Entity (all of the following are required):		
1. Balance sheet	<input type="checkbox"/>	<input checked="" type="checkbox"/>
2. Cash Flow Statement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
3. Income Statement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
B. Non-Revenue Earning Entity (all of the following are required):		
1. Balance sheet	<input type="checkbox"/>	<input checked="" type="checkbox"/>
2. Summary of Sources and Uses of Funds	<input checked="" type="checkbox"/>	<input type="checkbox"/>
C. If applicable (refer to Loan Agreement):		
1. Statement of Expenditure (SOE) Statement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. Special Account Statement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
III. Notes to the Financial Statements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
IV. Reconciliation between World Bank records and project records	<input checked="" type="checkbox"/>	<input type="checkbox"/>
V. Management Letter	<input checked="" type="checkbox"/>	<input type="checkbox"/>