

Report on the Compliance of the Ministry of Defense of Ukraine, the National Guard of Ukraine, the State Service of Special Communications and Information Protection of Ukraine, the State Emergency Service of Ukraine, the National Security and Defense Council of Ukraine, the State Special Transport Service of Ukraine, the Security Service of Ukraine with the Requirements of the Procedure for Using Official Accounts for Donations in Support of Ukraine "United24" for the period from 1 January 2023 to 30 June 2023

MINISTRY OF DEFENSE OF UKRAINE, THE NATIONAL GUARD OF UKRAINE, THE STATE SERVICE OF SPECIAL COMMUNICATIONS AND INFORMATION PROTECTION OF UKRAINE, THE STATE EMERGENCY SERVICE OF UKRAINE, THE NATIONAL SECURITY AND DEFENSE COUNCIL OF UKRAINE, THE STATE SPECIAL TRANSPORT SERVICE OF UKRAINE, THE SECURITY SERVICE OF UKRAINE

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INDEPENDENT REASONABLE ASSURANCE REPORT

To management of the Ministry of Defense of Ukraine, the National Guard of Ukraine, the State Service of Special Communications and Information Protection of Ukraine, the State Emergency Service of Ukraine, the National Security and Defense Council of Ukraine, the State Special Transport Service of Ukraine, the Security Service of Ukraine:

Introduction

We have performed an independent reasonable assurance engagement to report on the compliance of the Ministry of Defense of Ukraine, the National Guard of Ukraine, the State Service of Special Communications and Information Protection of Ukraine, the State Emergency Service of Ukraine, the National Security and Defense Council of Ukraine, the State Special Transport Service of Ukraine, the Security Service of Ukraine (hereinafter – "Armed Forces") with the requirements of the Procedure for Using Official Accounts for Donations in Support of Ukraine "United24" (the "Procedure") for the period from 1 January 2023 till 30 June 2023, insofar as they relate to the use of the funds coming to the official accounts for donations in support of Ukraine "United24".

Management's Responsibility for the Subject Matter

Management of the Armed Forces (hereinafter – "Management") is responsible for compliance with the Procedure, in particular, in relation to compliance with the requirements of the Procedure in respect of using the funds coming to the official accounts for donations in support of Ukraine "United24". Management is also responsible for such internal control as management determines is necessary to ensure the compliance with the terms and conditions of the Procedure, insofar as they relate to the use of the funds coming to the official accounts for donations in support of Ukraine "United24".

Scope of Reasonable Assurance Engagement

Our responsibility is to carry out a reasonable assurance engagement in order to express a conclusion based on the work performed. We conducted our engagement in accordance with International Standard on Assurance Engagements ("ISAE") 3000 (Revised) applicable to assurance engagements. The firm applies International Standard on Quality Management ("ISQM 1") and, accordingly, maintains a comprehensive system of quality management including documented policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, together with the ethical and independence requirements that are relevant to our engagement in Ukraine, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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The procedures performed have been based on our professional judgement and have included inquiries, primarily with the management's personnel responsible for the preparation of information included in Report on the compliance of the Armed Forces with the requirements of the Procedure for Using Official Accounts for Donations in Support of Ukraine "United24" (hereinafter, the "Compliance report"), analysis of documents, and other procedures aimed to obtain evidence as appropriate.

Specifically we carried out the following procedures:

- Interviewing the Armed Forces' management and employees responsible for procurement process under the Procedure;
- Verifying on a sample basis that disbursements made complied with the requirements of the Procedure;
- Inspecting supporting documentation on a sample basis, namely bank statements, or obtaining confirmation from National Bank of Ukraine, to check receipts on the official accounts of the Armed Forces for donations in support of Ukraine "United24" reported in the accompanying Compliance report and disbursements to suppliers to confirm the correctness of amounts, dates and purposes;
- Inspecting supporting documentation on a sample basis, namely agreements, acts of acceptances, bank statements as a valid basis for respective disbursements under the Procedure and to confirm the correctness of classification of expenditures of the Armed Forces (specifically – correctness of amounts, nomenclatures and dates) as reported in the accompanying Compliance report.

Basis for Qualified Conclusion

During the period from 1 January 2023 till 30 June 2023, the Armed Forces made the following Disbursements from official accounts of the Armed Forces for the purpose of acquisition of ATGM systems in the amount of 128,800,000 Ukrainian Hryvnias ("UAH"), UAVs complexes in the amount of UAH 88,396,000 and Special cars in the amount of UAH 40,000,000. We were unable to obtain sufficient appropriate evidence about the amounts, timing and nature of these disbursements from official accounts of the Armed Forces because we were denied access to the supporting documentation which have the character of a state secret. Consequently, we were unable to determine whether these disbursements were made in compliance, in all material respects, with the requirements of the Procedure, insofar as they relate to the use of the funds coming to the official accounts for donations in support of Ukraine "United24".

Qualified Conclusion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Conclusion section of our report, during the period from 1 January 2023 till 30 June 2023, the Armed Forces have complied, in all material respects, with the requirements of the Procedure, insofar as they relate to the use of the funds coming to the official accounts for donations in support of Ukraine "United24".

LLC „Deloitte & Touche USC“

27 December 2023

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REPORT ON MANAGEMENT'S COMPLIANCE WITH THE PROCEDURE FOR USING THE OFFICIAL ACCOUNTS FOR DONATIONS IN SUPPORT OF UKRAINE "UNITED24" FOR THE PERIOD FROM 1 JANUARY 2023 TILL 30 JUNE 2023 (in Ukrainian Hryvnias)

	For the period from 1 January to 30 June 2023
Receipts:	
Receipts on the official accounts of the Armed Forces for donations in support of Ukraine "United24"	3,505,989,846
Total receipts	3,505,989,846
Disbursements from official accounts of the Armed Forces for the purpose of acquisition:	
Helmets	(16,339,050)
Sets of uniforms	(16,404,653)
Demining machine	(26,448)
UAVs/UAVs complex	(1,316,527,511)
Naval drones	(112,320,000)
Anti-drone system	(33,481,472)
Special cars	(73,009,237)
Construction of temporary bridges on liberated territories	(29,110,043)
Special-purpose military equipment	(70,676,000)
Data processing center	(866,073)
Center for Mine Action	(4,812,689)
ATGM system	(128,800,000)
Man-portable air-defense system	(666,233,333)
Help the lifeguards fundraiser	(35,405,544)
Spare Parts and Components	(73,550,036)
Total expenditures	(2,577,562,089)

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NOTES TO THE REPORT ON MANAGEMENT'S COMPLIANCE WITH THE PROCEDURE FOR USING THE OFFICIAL ACCOUNTS FOR DONATIONS IN SUPPORT OF UKRAINE "UNITED24" FOR THE PERIOD FROM 1 January 2023 TILL 30 June 2023 (in Ukrainian Hryvnias)

1. BACKGROUND

On 19 April 2022, the Cabinet of Ministers of Ukraine adopted Resolution No. 472 "Certain Issues on the Use of the Funds Coming to the Official Accounts for Donations in Support of Ukraine" and Procedure for Using the Funds Coming to the Official Accounts for Donations in Support of Ukraine "United24" (hereinafter, the "Procedure").

During the period from 1 January 2023 till 30 June 2023, the National Bank of Ukraine in accordance with the Procedure made transfers from the Official Accounts for Donations in Support of Ukraine "United24" to the official accounts of Ministry of Defense of Ukraine, the National Guard of Ukraine, the State Service of Special Communications and Information Protection of Ukraine, the State Emergency Service of Ukraine, the National Security and Defense Council of Ukraine, the State Special Transport Service of Ukraine, the Security Service of Ukraine (hereinafter – "Armed Forces"). Armed Forces used those funds in accordance with the Procedure by purchasing the respective facilities and services.

2. OPERATING ENVIRONMENT

In February 2022, the Russian Federation recognized the temporarily occupied territories in Luhanska and Donetska regions as independent republics and started its military invasion of Ukraine resulting in a full-scale war across the Ukrainian state. On 4 October 2022, the President of the Russian Federation signed laws on annexation of parts of Luhanska, Donetska, Zaporizka, and Khersonska regions that had been previously ratified by the country's Parliament.

The ongoing military attack has led to significant damage to infrastructure, dislocation of the population, and disruption to economic activities in Ukraine. By August 2022, all ports in the Black Sea area stopped working, which resulted in complete suspension of exports and imports made via seaports. Airports, many roads, and bridges were closed, damaged, or destroyed, further crippling transportation and logistics. Transportation of goods inbound and outbound was performed by railway and trucks, as well with involvement of European carriers, which made it possible for most companies in Ukraine, effective from May-June 2022, to restore and arrange transportation and logistics of their products.

On 22 July 2022, in Istanbul, representatives of Ukraine signed an agreement with Turkey and the United Nations on unblocking of ports and resumption of grain exports effective from 1 August 2022, which had been blocked in the Black Sea ports due to the war. The Russian Federation also signed a "mirror agreement" with Turkey and the United Nations. During 2022, the parties agreed on the extension of the "grain agreement", which made it possible to export more than 33 million tons of agricultural produce from the ports of Ukraine from the beginning of the agreement until 17 July 2023. Effective from 17 July 2023, Russia has officially withdrawn from the "grain agreement", which creates difficulties for the exports of agricultural produce.

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In late April 2022, Ukraine also encountered a significant lack of fuel due to the need to create new logistics supply routes from Europe; the problem was resolved during May-June 2022. In October-December 2022, Ukraine witnessed massive power outages for the population and businesses due to a significant damage to power grids caused by missile attacks and shelling from the Russian Federation, which also caused problems with water and heat supply. The Government introduced a range of emergency measures to resolve those challenges and stabilize the economy. Effective from February 2023, the situation in the energy system of Ukraine improved and stabilized.

In June 2023, the Russian troops blew up the dam of the Kakhovka Hydropower Station, which led to draining of the water reservoir. This caused negative environmental, humanitarian, and economic consequences for Khersonska and neighboring regions, in particular, for agriculture in the region.

As a result of the military invasion of the Russian Federation and the start of the full-scale war, the economy of Ukraine suffered serious consequences. In 2022, the drop in Ukraine's GDP reached 30.3% (in 2021, real GDP grew by 3.2%). Starting from February 2022, the inflation rate increased in annual terms and reached 26.6% by the end of the year (2021: 10.0%) because of the disruption of supply chains and production processes, uneven demand, increased business costs, increased global prices, limited supply of certain commodities, as well as physical destruction of assets of a range of companies caused by the Russian attack on Ukraine. The national currency devalued, according to the official exchange rates at the end of 2022, by 34% against USD and by 26% against EUR comparing to the averages at the end of 2021. In 2023, the inflation rate decreased to 10% annualized as of August 2023.

From the onset of the full-scale war, the National Bank of Ukraine (the "NBU") has introduced a range of temporary protective measures, such as restriction of cross-border payments in foreign currency, fixing the official exchange rate for major currencies (on 21 July 2022, the NBU adjusted the official UAH/USD exchange rate by 25% to UAH 36.5686 per USD 1). Despite the increase in the official exchange rate of USD, the disparity between the official and market exchange rates remains. From the beginning of the war, the NBU fixed the discount rate at the level of 10% due to the forced administrative restrictions, however, later, in June, it increased it to the level of 25%. In July 2023, the NBU decreased the rate to 22%, in September 2023, to 20%, and in October 2023, to 16%. In 2023, the NBU additionally tightened the requirements to obligatory reserves of banks. In October 2023, the NBU introduced a regime of managed flexibility of the exchange rate.

At the same time, thanks to the assistance from partners, the NBU's international reserves as at the end of 2022 exceeded the pre-war level and reached USD 28.5 billion. In August 2022, the Ministry of Finance of Ukraine postponed payments on sovereign Eurobonds for two years and amended the terms and conditions for issuing government derivatives by reducing financing needs. In general, the Ukrainian Government continues to service external debt obligations, and the banking system remains operational and maintains stability.

The approved state budget of Ukraine for 2023 presupposes that budget revenues be two times lower than expenditures, and the deficit will be about 21% of GDP (or USD 35.5 billion). It is expected that the budget deficit will be financed through financial assistance from foreign partners in the form of grants and preferential long-term interest-free loans.

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The Ukrainian Government received a significant international support, financing, and donations from international organizations, along with individual countries, and charities to support financial stability, social related payments, and military needs. During 2022, the volumes of declared international financial aid amounted to more than USD 65 billion, whereas the volumes of received international financial aid were at the level of more than USD 32 billion. The volumes of military assistance exceeded USD 16 billion and humanitarian – USD 41 billion. In 2023, international support continued: the volumes of declared international financial aid for the first half of 2023 amounted to more than USD 23 billion.

On 15 March 2022, the Verkhovna Rada of Ukraine introduced some changes to the tax legislation and adopted the Law of Ukraine No. 2120-IX "On Amending the Tax Code of Ukraine and Other Legislative Acts of Ukraine Concerning the Effect of Norms for the Martial Law Period". Exporters face problems and delays in VAT refunds due to the need to conduct tax audits to receive refunds.

In March 2022, the system operator of the Ukrainian electricity network, together with European operators, completed integration of the Ukrainian and European energy systems.

On 23 June 2022, the European Council summit in Brussels decided to provide Ukraine with the candidate status to the European Union. Ukraine is going to become a participant of the EU programs and initiatives opened for candidates.

On 27 September 2022, the Cabinet of Ministers approved resolutions that would allow Ukraine to join the Common Transit Convention and Convention on the Simplification of Formalities in Trade in Goods (the so-called "customs free regime") from 1 October 2022. The resolutions open access to an unlimited range of Ukrainian businesses to authorizations and simplifications of joint transit procedures similar to those available to economic operators in the 35 member states of the Convention.

During 2022, the Government introduced zero quotas on exports of gold and silver (except for bank metals), buckwheat, table salt, fuel oil, and fuel wood. Exports of chicken meat, cattle, cattle meat, eggs, mineral fertilizers, rye, oats, millet, and sugar are subject to licensing. Exports of gas are prohibited.

The war between Ukraine and the Russian Federation is ongoing, resulting in a significant destruction of property and assets in Ukraine and other serious consequences. The consequences of the war are changing day to day, and the long-term implications are unclear. Further impact on the Ukrainian economy depends upon the way the Russian military invasion in Ukraine is resolved and upon the success of the Ukrainian Government in realization of new reforms, recovery strategy after the invasion is stopped, and the transformation of the state to acquire the European Union membership, as well as cooperation with the international funds.

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3. RECEIPTS AND DISBURSEMENTS BASIS OF ACCOUNTING

The Compliance report has been prepared in accordance with the cash basis of accounting. Funding is recognized when received rather than when earned, and disbursements are recognized when paid rather than when incurred.

The reporting currency is Ukrainian Hryvnia ("UAH"). Transactions in other currencies are translated into UAH at the official rates of exchange set on the dates of the transactions.

4. NOTE ON DISBURSEMENTS

As of 30 June 2023 no deliveries were made in respect to the funds disbursed by Armed Forces to the suppliers for the purpose of purchases of facilities in the amount of UAH 955,218,867.