

Strategy for preventing, detecting and countering corruption in Joint Stock Company "Ukrainian Defense Industry" for 2025-2027

I. Introduction

As the result of the approval in 2023 of the "Strategy for Prevention, Detection and Countering Corruption in Joint Stock Company "Ukrainian Defense Industry" for 2023-2024" by Joint Stock Company "Ukrainian Defense Industry" (hereinafter – UDI) and state-owned enterprises (including state-founded enterprises), for which UDI is the authorized managing entity of state-owned objects, as well as business companies, 100% of the shares (stakes in the charter capital) of which are owned or managed by UDI (owned or managed by the State Corporation "Ukroboronprom" at the time of the termination of the Corporation) (hereinafter – the Enterprises), active work began on the development of anti-corruption infrastructure, which is one of the integral elements of the model of proper corporate management of state-owned objects in the defense-industrial complex of Ukraine. The implementation of these changes took place in accordance with the recommendations on corporate governance of business entities of the Organization for Economic Cooperation and Development (hereinafter – OECD) to ensure effective and sustainable development on the principles of integrity, responsibility and zero tolerance for manifestations of corruption.

The measures of the "Strategy for the Prevention, Detection and Countering Corruption in Joint Stock Company "Ukrainian Defense Industry" for 2023-2024" were mainly based on the implementation of the fundamental foundations of the proper functioning of the system for the prevention, detection and countering corruption, as well as the study of the processes and functions of UDI and Enterprises, in which discretionary powers and resources are concentrated, the distribution of which usually determines the corruption component. Having analyzed the results obtained, we can plan and shape anti-corruption activities for the next period more purposefully in order to increase the effectiveness of our actions.

Our aim to create a culture in which every employee of the public sector of the defense-industrial complex (hereinafter – defense industry), including management, acts with integrity, responsibility and adheres to the highest business standards, while business processes are built in such a way that decisions are made according to established clear rules and corruption and abuse are impossible per se, remains an unchanging guideline in the preparation of this Strategy for the Prevention, Detection and Countering Corruption in Joint Stock Company "Ukrainian Defense Industry" for 2025-2027.

II. Achievements and developments

As of December 2024, UDI has already implemented more than 98% of the measures of the "Strategy for Prevention, Detection and Countering Corruption in JSC "Ukrainian Defense Industry" for 2023-2024" regarding effective prevention and immediate response to existing corruption risks in the activities of UDI and Enterprises.

During this period, in order to lay the foundations for the formation of a long-term policy of preventing corruption in UDI and at the Enterprises, the following measures were taken:

In order to form a long-term policy for corruption prevention:

- the results of external studies of corruption risks in the activities of the State Corporation "Ukroboronprom" (from the National Anti-Corruption Commission, Statewatch and the "Together Against Corruption" NGO), conducted in 2020-2021, were updated, a consolidated report was prepared, as well as an action plan to minimize them for all process owners in UDI and at the Enterprises. In total, based on the results of the analysis of corruption risks, 144 measures were planned for 2024-2025, of which 78 measures were implemented as of November 1, 2024 (54.2% of the planned ones);
- a self-assessment of corruption risks was conducted and action plans were developed to minimize them for 45% of Enterprises identified by the Strategy;
- corruption risk management has been initiated in business processes with high corruption risks (appointment of managers, disposal of property, verification of counterparties and prevention of corruption in procurement);
- policies and procedures of the target compliance model have been developed, approved and started to be implemented in UDI and at the Enterprises, namely: Policy for preventing and resolving conflicts of interest, Code of Business Ethical Conduct, Anti-Corruption Program, Supplier Code of Conduct and Assurance of Integrity, Policy for the functioning of channels for reporting violations, Incident Investigation Policy, Compliance Policy, Sanctions Policy, Anti-Corruption Policy, Compliance Onboarding pack.

In order to increase the efficiency and effectiveness of the institution of Anti-corruption Officers:

- Officer profile, activity plan and reporting form, his/her performance indicators and other measures to unify professional responsibilities have been approved and implemented;
- Officer network has been formed, which as of November 2024 has 72% of the staff hired at the Enterprises;
- anti-corruption part of the target compliance model was developed and implemented.

In order to create a culture of integrity and non-tolerance of corruption:

- measures were taken to implement the tone at the top principle by forming the leadership position of the managers of UDI and the Enterprises: quarterly communication with managers regarding the role of the leader in building a culture of integrity was introduced, key performance indicators in the field of integrity were introduced for managers;
- a direct channel has been introduced for seeking advice in case of doubts about the legality and integrity of decisions, actions and behavior, both directly to the Director of the Compliance and Risk Management Department and to the Department on a confidential basis;
- a section with answers to frequently asked questions about compliance and risk management has been created on the official website.

In order to form an effective system of corruption reporting channels:

- an analysis of the effectiveness of corruption reporting channels and the status of protection of whistleblowers' rights in UDI and at the Enterprises was conducted, on the basis of which the Procedure for considering reports of violations and manifestations of corruption was developed and approved;
- centralized protected channels for reporting violations were created (hotline, form on the website, e-mail and postal address); information and training on their functioning were provided to employees of UDI and Enterprises;

In order to ensure the inevitability of liability for corruption:

- amendments regarding liability for corruption have been introduced into employment contracts, internal labor regulations, and job descriptions;
- amendments (good faith conditions) have been made to contracts with third parties, as well as mechanisms for terminating contracts in the event of evidence of dishonest behavior by third parties;
- procedures for integrity checks of third parties have been introduced and their risk criteria have been established.

In order to build a dialogue with external stakeholders:

- a list of external stakeholders for UDI and Enterprises has been formed - the State, the Armed Forces of Ukraine, Partners and Society, and specific measures have been developed to maintain their proper awareness of the state of development of anti-corruption infrastructure in the public sector of the defense industry;
- individual stakeholders, with their consent, were involved in the development of internal regulatory documents of UDI, public discussion of the status of corporate reform, etc.;
- regular reporting has been introduced on the official website of UDI.

In order to properly inform all stakeholders about the development of anti-corruption infrastructure in UDI and at the Enterprises, quarterly public reporting is conducted on the official website of UDI on the status of implementation of all measures provided for in the Implementation Plan of the Strategy for Preventing, Detecting and Countering Corruption of UDI for 2023-2024.

III. Corruption risks

When developing the “Strategy for Preventing, Detecting and Countering Corruption in Joint Stock Company “Ukrainian Defense Industry” for 2023-2024”, the main measures of its implementation plan were formed on the basis of corruption risks identified by external stakeholders in the period up to 2022. However, after the events of February 24, 2022, the tasks and functions of UDI and our Enterprises have undergone changes: the scale of production has increased, the processes of the Enterprises have diversified, and relationships have strengthened both within the corporation and with external counterparties and stakeholders. Therefore, it was decided to update the previous results of the external assessment and conduct a self-assessment of corruption risks in 2024. In order to ensure the quality of such an assessment, a special methodology was developed that considered both the approaches and requirements of the National Agency for Corruption Prevention (hereinafter – NACP), as well as the best international practices and experience, as well as already identified corruption risks defined in the reports of external corruption risk studies. During 2024, the Enterprises identified hundreds of corruption risks that arise in the process of their activities. Thus, when developing this Strategy for the Prevention, Detection and Countering Corruption in Joint Stock Company "Ukrainian Defense Industry" for 2025-2027 (hereinafter – Anti-Corruption Strategy), we are already relying on our own empirical data on those corruption risks that are inherent in our Enterprises, considering the specifics of the defense industry.

It was determined that the main sources of corruption risks for the public sector of the defense industry are in the following processes:

- Procurements that, given the specifics of the defense industry sector, require a certain level of secrecy, as well as a significantly increased scale of activity, and therefore are a priority area for preventing, detecting and countering corruption;
- Property management, which considers a complex of matters related to the write-off, disposal, and sale of both movable and immovable property of Enterprises. Emphasis on efforts to prevent, detect, and counter corruption in property management processes is justified by the expansion of the activities of Enterprises, technical re-equipment, the urgent need to diversify production, as well as the forced necessity of taking corrective measures due to the massive attacks on the territory of Ukraine by Russia.
- Personnel management (HR), which in a full-scale war and, accordingly, the draft of the male population of Ukraine, the relocation of citizens abroad, has

become an area of activity that is experiencing a significant advantage of employer demand over supply among job seekers. It is no secret that the state sector of the defense industry and our Enterprises in particular are significantly expanding their activities, which requires an increase in the number of employees. Given the increased payroll and the option of draft exemption for employees, HR processes, in particular, search, recruitment, promotion and motivation, require close attention in order to ensure a fair distribution of resources. It is the employees of the Enterprises who are the bearers of corporate culture, therefore the level of non-tolerance of corruption by employees and countering other violations and injustice are supporting factors in building an environment of integrity and mutual respect.

- Finance management is one of the priority areas, because production is not possible without proper management of investment processes, current liquidity, redistribution of resources between areas and Enterprises, terms of cooperation with counterparties, etc. Since most Enterprises increase profitability indicators, their sales volumes and product costs increase, which requires transparent processes for managing the financial resources of Enterprises.

The risks in the above processes are typical for all Enterprises without exception, however, they are not exhaustive or final, since as a result of corruption risk self-assessment, other risks were identified that can be defined as unique to individual Enterprises.

IV. Strategy objectives

4.1. As stated in the Anti-Corruption Policy, UDI and the Enterprises conduct anti-corruption activities in the following areas:

- corruption prevention;
- corruption detection;
- countering corruption.

Corruption prevention in UDI and at the Enterprises is carried out by ensuring the functioning of the anti-corruption officer network at the Enterprises, as well as providing it with the resources necessary to perform the assigned tasks of building a culture of integrity. The role of the managers of UDI and the Enterprises is important, as they, according to the "tone at the top" principle, demonstrate a model of ethical and honest behavior. The Anti-Corruption Policy also provides for the implementation of clear and understandable rules, standards and procedures in the field of building integrity, including third-party risk management, conducting exercises and training, and developing an internal control system.

Detection of corruption in UDI and at the Enterprises is ensured by conducting an assessment of corruption risks, qualitative and quantitative assessment of the functioning of the system of channels for reporting violations and manifestations of

corruption, proper investigation of reports and ensuring compliance with the rights of whistleblowers.

Countering corruption in UDI and at the Enterprises is carried out by establishing disciplinary liability for violations of internal anti-corruption rules and standards, as well as by reporting to authorities specializing in the field of countering corruption about detected corruption and corruption-related offenses.

4.2. To ensure the implementation of effective and efficient measures in the above-mentioned areas of anti-corruption activity, immediate response to existing corruption risks in the activities of Enterprises, this Anti-Corruption Strategy will be aimed at supporting the initiated systemic reform of corporate governance, in particular in terms of building a culture of integrity.

4.3. The objectives of the Strategy for Preventing, Detecting and Countering Corruption in JSC "Ukrainian Defense Industry" for 2025-2027 are:

I. Development of a culture of integrity, non-tolerance of corruption and strengthening the role of leaders, who must demonstrate by their own example non-tolerance to manifestations of corruption and the inevitability of liability for actions that harm the reputation of UDI and the Enterprises as reliable partners;

II. Improving the institution of anti-corruption officers of Enterprises, including strengthening their independence, developing relevant professional skills, in accordance with the specifics of the defense industry, and increasing efficiency and accountability;

III. Increasing the efficiency of the system of reporting channels for violations and manifestations of corruption, in particular in terms of increasing the level of trust on the part of stakeholders, to ensure the immediate detection of corruption, proper consideration of reports and prosecution;

IV. Improving business processes through the implementation of anti-corruption mechanisms – establishing clear rules, defining responsibilities and regulating discretionary powers;

V. Ensuring the functioning of the internal control system that manages corruption risks, as well as compliance with regulatory requirements and internal standards, contributes to sustainability and viability;

IV. Maintaining responsibility, accountability and transparency in relationships with identified stakeholders.

4.4. The strategy is formed and implemented considering the following requirements, standards and best practices:

- legislation of Ukraine, including but not limited to:
 - Law of Ukraine dated 14.10.2014 No. 1700-VII “On Corruption Prevention”

- Law of Ukraine dated 20.06.2022 No. 2322-IX “On the Principles of State Anti-Corruption Policy for 2021 - 2025”
- Resolution of the Cabinet of Ministers of Ukraine dated 04.03.2023 No. 220 “On Approval of the State Anti-Corruption Program for 2023 - 2025”;
- UN Convention against Corruption;
- The G20/OECD Principles of Corporate Governance/ G20/OECD 2023;
- Guidelines on Corporate Governance of State-Owned Enterprises 2024;
- Guidelines on Anti-Corruption and Integrity in State-Owned Enterprises 2019;
- ISO 37001;
- ISO 37002;
- NATO Integrity Education Policy.

V. Areas of activity

5.1. In order to implement the Strategy for Preventing, Detecting and Countering corruption in Joint Stock Company "Ukrainian Defense Industry" for 2025-2027, UDI and the Enterprises focus available resources and efforts on improving the internal processes of UDI and the Enterprises in terms of ensuring the necessary conditions for minimizing corruption risks and developing the anti-corruption function.

Improving internal processes includes the following elements:

- embedding anti-corruption safeguards into regulatory documents that define additional control procedures, their frequency and deadlines, and the officials responsible for control;
- formalization of processes and functions through clear regulation:
 - functions and powers of employees and structural units;
 - procedures of interaction, decision-making processes;
 - principles of building an operational (linear) control system;
 - monitoring performance, identifying deviations, proper escalation and reporting;
- distribution of tasks (specific actions) between organizationally separate units, in such a way that it avoids excessive discretion of powers and their concentration, ensures openness, clarity and transparency of processes;
- automation of processes in information systems, following principles of linearity, transparency, and clarity;
- ensuring proper operational control ("four eyes principle", collegial control) for areas of greatest concentration of authority and discretion;
- permanent monitoring of the effectiveness of anti-corruption measures.

Providing adequate resources includes the following elements:

- recruiting employees whose professional competencies meet the requirements of the position, and whose personal qualities resonate with the defined values of UDI and the Enterprises;

- increasing the independence of anti-corruption officers/risk coordinators;
- ensuring proper working conditions and material support for the activities of anti-corruption officers/risk coordinators;
- conducting trainings, exercises, seminars and information campaigns;
- development of leadership positions of managers and formation of a culture of non-tolerance of corruption;
- development of channels for reporting corruption and proper consideration of reports received;
- promoting the tone at the top principle and the principle of collective action to counter corruption.

VI. Planned steps for Strategy implementation

6.1. To achieve the goals of the Strategy, the Company implements the following strategic initiatives:

6.1.1. Development of a culture of integrity, non-tolerance of corruption and strengthening the role of leaders, who must demonstrate by their own model non-tolerance to manifestations of corruption and the inevitability of responsibility for actions that harm the reputation of UDI and the Enterprises as reliable partners:

Strategic initiative	Measures	Results
Strengthening the tone at the top principle	Publication of an annual report with materials on the implementation of measures stipulated by the Anti-Corruption Commitments	Growing understanding of the importance and responsibility for building an anti-corruption culture among employees, namely managers and other top management
	Involving the Supervisory Board in communications based on the tone at the top principle	Regular communication from management on official platforms, including Compliance letter, Anti-Corruption Commitments, etc.
Assessment of corruption risks of the Company and UDI Enterprises	Implementation of the action plan to minimize the risks provided for in the consolidated report of the external corruption risk assessment	Quarterly public reporting on the implementation of the action plan
Managing third-party corruption risks using the PDCA model (Plan-Do-Check-Act)	Minimization or elimination of key risks that may threaten the achievement of the	Implementation of planned measures to minimize risks in procurement

	strategic goals of UDI and UDI Enterprises	Implementation of planned measures to minimize risks in property management Implementation of planned measures to minimize risks in HR
	Applying a single standard in all relationships with third parties	Adoption and implementation of policies stipulated by the target model
Implementation of the action plan for developing the anti-corruption compliance system of UDI Enterprises	Implementation of measures to build anti-corruption compliance, in accordance with the target model, the Anti-Corruption Program and the State Anti-Corruption Program	Automation of compliance processes Increasing the level of maturity of compliance culture, minimizing corruption risks and increasing trust in channels for reporting violations and manifestations of corruption
	Providing resources for the implementation of planned and situational anti-corruption measures	Proper implementation of planned and situational measures that positively affect trust in the activities of the Enterprises by stakeholders

6.1.2. Improving the institution of anti-corruption officers at Enterprises, including strengthening their independence, developing relevant professional skills, in accordance with the specifics of the defense industry, as well as increasing efficiency and accountability:

Strategic initiative	Measures	Results
Implementation of effective mechanisms to increase the efficiency and ensure the independence of the activities anti-corruption officer (hereinafter – ACO)	Determination of UDI as a center of financial control over the results of the activities of the ACOs	Increasing independence and encouraging the quality of performance of assigned tasks by the ACO by improving the constituent and regulatory documents
	Establishing responsibility for poor-quality or formal performance of official duties	Regular reporting to the ACO on actions taken, aggregation of registers
		Random checks of the status of performance of

		official duties and preparation of documents and reports
	Testing ACOs on knowledge of the Law of Ukraine "On Corruption Prevention", provisions of compliance and risk management documents determined by the target model, etc.	Proper performance of one's duties, namely in terms of implementing internal rules and standards of anti-corruption activities

6.1.3. Increasing the efficiency of the system of channels for reporting violations and manifestations of corruption, namely in terms of increasing the level of trust of stakeholders, to ensure proper detection of corruption, proper consideration of reports and bringing to responsibility:

Strategic initiative	Measures	Results
Implementation of an effective mechanism to protect the rights of whistleblowers	ACO training on whistleblower rights	Reducing the number of violations of whistleblower rights in UDI and Enterprises
	Ensuring continuity of the information campaign regarding the rules for reporting violations and protecting the rights of whistleblowers	Improving the quality of reports in terms of ability to guarantee protection or provide whistleblower status for employees who have reported a violation they have discovered
	Ensuring proper protection (anonymity) by automating message channels	Minimizing risks of negligence or other factors when processing messages
Ensuring compliance of local and central reporting channels with NACP Policy and requirements	Verification of compliance of the policies of UDI and Enterprises' channels with the requirements of the legislation and the NACP	Elimination of non-discrepancies, minimization of compliance risks
Automation of the message processing process	Automation of the process of receiving and processing requests	Minimizing the risks of negligence, delays or other violations in message processing
	Accumulation of a database of requests and the results of processing	

6.1.4. Improving business processes through the implementation of anti-corruption mechanisms – establishing clear rules, defining responsibilities and regulating discretionary powers:

Strategic initiative	Measures	Results
Ensuring proper communications on the culture of integrity	Providing information posters and other materials regarding the integrity of UDI and Enterprises	Placing information posters at Enterprises in places with highest employee traffic, distributing other materials on integrity among Enterprise employees
Implementation of international experience and best practices	Training and advanced training of employees responsible for building a culture of integrity in UDI and Enterprises	Conducting internal training
		Conducting training with external subject matter experts
		Participating in external training
Optimization of message channel performance	Expanding reporting opportunities	Creating a message channel using mobile resources and Internet

6.1.5. Operation of an effective internal control system that prevents, detects and mitigates corruption risks, as well as ensures compliance with regulatory requirements and internal standards and promotes sustainability and viability:

Strategic initiative	Measures	Results
Comprehensive process risk assessment	Assessment of corruption risks in individual processes	Description of corruption risks and discretionary points of processes
Preventing and countering corruption in the functioning of processes	Standardization of processes and a list of typical anti-corruption safeguards for processes most prone to corruption	List of documents that regulate processes and identify key anti-corruption safeguards
	Creating a plan for developing documents that regulate processes	Document development schedule
		Schedule compliance control

6.1.5. Maintaining responsibility, accountability and transparency in relationships with identified stakeholders:

Strategic initiative	Measures	Results
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Building an open dialogue with external stakeholders	Ensuring accountability to stakeholders	Quarterly reporting on the implementation of the Anti-Corruption Strategy on official resources
	Involving external stakeholders in cooperation with UDI in terms of building an anti-corruption culture	Creation of working groups with stakeholders to prepare regulatory documents, hold public discussions on the status of implementation of measures, etc.
	Ensuring international cooperation and access to best practices	Cooperation with international organizations and think tanks to integrate international anti-corruption standards into the activities of Enterprises Implementation of best practices to ensure compliance with transparency and integrity standards in the defense industry, including exchange of experience with other countries
	Ensuring the response of UDI and/or Enterprises to complaints about violations from external stakeholders	Providing proper feedback, finding compromise solutions in case of established violations by UDI or Enterprises
Creating fair and equal conditions for all employees of each enterprise of UDI	Increasing awareness of employees of UDI and Enterprises about corruption and its consequences	Increased trust in ACOs, increased number of calls to hotlines, improved quality of the learning and awareness management system
	Forming a culture of collective action to counter corruption	Building a two-way dialogue with employees on measures to minimize corruption risks, improve the reputation of UDI and Enterprises as employers

VII. Reporting

Implementation of this Anti-Corruption Strategy is a common task of all employees of UDI and Enterprises.

The Compliance and Risk Management Department of UDI is responsible for coordinating the implementation of the Anti-Corruption Strategy both at the level of UDI and at the level of the Enterprises.

The Strategy for Preventing, Detecting and Countering Corruption in Joint Stock Company "Ukrainian Defense Industry" for 2025-2027 is subject to publication on the website of UDI.

UDI within 45 days after the adoption of this Strategy develops a plan for its implementation, determining the deadlines for the implementation of the measures specified in section 3 of this Strategy and publishes it on the Company's website.

UDI publishes a report on the implementation of measures on the website quarterly by the 15th day of the month following the reporting quarter. UDI prepares and publishes a final report on the implementation of the Anti-Corruption Strategy no later than March 1, 2028.