

Brief for the position of  
Supervisory Board Member  
Naftogaz  
January 2016



## Executive Summary

Naftogaz is the largest of over 3,000 State Owned Enterprises within Ukraine. The company, under new leadership, sees itself as having a new mission to be the driving force behind reform of the Ukrainian gas market with the objective of creating a competitive business environment based on European best practices. Naftogaz will look to be a driver of change in Ukraine's gas sector, working to replace the old corruption prone regulated environment with modern competitive rules across the gas value chain; resulting in the inevitable reduction of the company's role from state monopoly to regular market participant.

As a part of this wholesale reform, the Ministry of Economic Development and Trade is looking to appoint three independent directors to the Supervisory Board. The directors will hold responsibility for the strategy, performance and public service obligations of Naftogaz.

### The Company

Naftogaz is a vertically integrated oil and gas group engaged in the full cycle of exploration and development, production, transportation and storage; as well as supply of natural gas and LPG to customers. The company had operating revenues of \$3.2bn in 2014, of which 90% is from gas transportation, storage, production and trading. The producing business units account for over 90% of the total of hydrocarbons produced in Ukraine.

With a new management team and the stated objective of reform, Naftogaz states five key strategic objectives:

- Creating an effective gas market based on European best practice – unbundling Naftogaz, creating an independent gas transmission system operator and ensuring equal access to all market participants;
- Assisting in implementing the public service obligation (PSO) mechanism; and ordering payables and receivables;
- Security of supply: diversification, integration with the EU and redefined relationships with Gazprom;
- Operational efficiency: raising transparency, curbing corruption, improving financial position; and
- Gas independence: maintain current and invest in future gas production, facilitate greater energy efficiency within and outside of the company.

## Corporate Governance Structure

The people of Ukraine are the ultimate owners of Naftogaz and the company is guided in its activities by both the strategic long-term and tactical short-term interests of the Ukrainian society as a whole. The Cabinet of Ministers and the Ministry of Economic Development and Trade are the government agencies responsible for furthering and protecting the citizens' interests in the company. These two public bodies, on behalf of the owners of Naftogaz and, for the management of Naftogaz, act as its direct superiors.

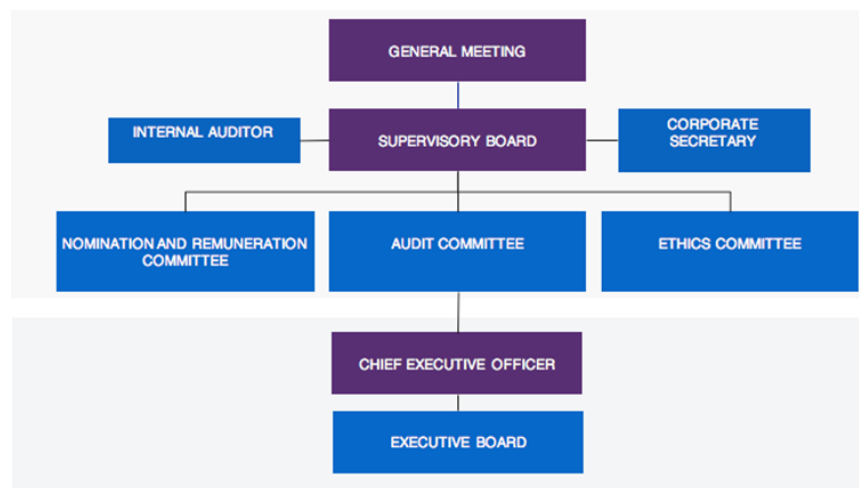
The target Corporate Governance structure of Naftogaz will follow key principles set by the Organization for Economic Cooperation and Development (*OECD Principles of Corporate Governance, 2015*).

The General Meeting (GM) of shareholders is responsible for approving the strategy of Naftogaz, appointing and dismissing board members and management, as well as approving the annual report and budget of the company. In practice, the Ministry of Economic Development and Trade performs the functions of the GM.

The function of monitoring the activities of Naftogaz is assigned to the Supervisory Board. The Supervisory Board is responsible for overseeing Naftogaz's strategy agreed with the Cabinet of Ministers of Ukraine as the representative of the company's ultimate owners.

The Board is made up of five directors, three of whom are independent directors. The members of Naftogaz's Supervisory Board share collective responsibility for effective delivery of the strategy, performance, and public service obligations of Naftogaz. The Board's activities will be supported by the Corporate Secretary and Internal Audit functions to help manage and improve corporate governance, internal controls and risk management issues.

The executive bodies, including the CEO and the Executive Board, manage the day-to-day activities of the Company.



## Board Committees

The Supervisory Board will elect a Chairperson and a Deputy Chairperson among its members in accordance with the provisions of the Charter. Members of the three committees and their chairpersons will be elected at the first Supervisory Board meeting.

The Supervisory Board of Naftogaz will have three committees:

- Audit Committee;
- Nomination and Remuneration Committee;
- Ethics Committee;

## Requirements of the Role

An essential part of the Supervisory Board's (SB) success is the right combination of skills, experience, integrity and independence among Board members. In adherence to the recommendations by the OECD Principles and the current strategy of Naftogaz, a specific mix of skills and competencies is required:

- Strategy and business development (Chairperson only);

- Operational excellence;
- Risk management;
- Finance and audit;
- Legal.

*You can find detailed description of the Supervisory Board members' functions and competences in Appendix 1.*

Due to the OECD Principles of Corporate Governance each Supervisory Board member will be required to:

- constructively challenge and help develop proposals on strategy;
- scrutinise performance of management in meeting agreed goals and objectives and monitor the reporting of performance;
- satisfy themselves of the integrity of financial information and that financial controls and systems of risk management are robust and defensible;
- determine appropriate levels of remuneration of executives and have a prime role in appointing and, where necessary, removing executives, and in succession planning;
- devote time to developing and refreshing personal knowledge and skills;
- uphold high standards of integrity and probity and support the other Supervisory Board members in instilling the appropriate culture, values and behaviours in the boardroom and beyond;
- insist on receiving high-quality information sufficiently in advance of board meetings; and
- take into account the views of shareholders and other stakeholders where appropriate.

All board members must possess the knowledge, education, professional skills, and functional and international expertise and experience required to perform their duties.

### **Availability**

All Supervisory Board members must ensure they dedicate enough time to exercise their mandates. Each Supervisory Board member is expected to give no less than 20% of his/her time to the responsibilities as a Board member of Naftogaz.

In particular, each Supervisory Board member will commit to devote such time as is necessary for the proper performance of the duties and should be prepared to spend at least 50 days per year on company business after the induction phase. This is based on preparation for and attendance at:

- scheduled Board meetings;
- scheduled Board committee meetings;
- the annual Board strategy away-day(s);
- the General Shareholders Meeting;
- site visits;
- meetings with the directors of subsidiaries;
- updating meetings/training;
- meetings as part of the Board evaluation process

Any Board member who also sits on the board of another company will not exercise more than a total of four (4) board mandates in other companies.

### **Diversity**

It is also generally desirable that the Supervisory Board should be diverse in terms of demographic characteristics, such as age and gender. To promote gender diversity at

Naftogaz, whenever the Nominating Committee considers two available candidates equally fit for the position of the board member, preference will be given to the candidate of the less represented gender.

### Eligibility Criteria

- **Transparent Election:** Candidates for this position will be required to undergo a thorough selection process set by the Nominating Committee of the Ministry of Economic Development and Trade.
- **No Conflict of Interest:** Candidates may not be involved in management, a supervisory board (board of directors), committee work, or act as an advisor for any Ukrainian oil/gas company. Board directors cannot have criminal record.
- **Independence:** (see independence criteria in Appendix 2).
- **Diversity:** Ministry of Economic Development and Trade pursues an equal opportunity policy and welcomes the applications of all qualified candidates, irrespective of their racial or ethnic origin, opinions or beliefs, gender, sexual orientation, health, or disabilities.

## Candidate Profile

The Ministry of Economic Development and Trade is seeking a candidate who demonstrates commitment to Naftogaz's mission and can evidence the following:

- Proven strategic management and executive experience gained within a major oil and gas or energy organisation that is largely based outside of Ukraine, or operates within and outside Ukraine;
- A strong competence in one of several of the following areas: strategic management, business development and international business, operations management, energy and climate issues, financial planning, investment banking, legal advice, risk management, corporate governance, board directorship experience, audit, and internal control and compliance
- Leadership of a large oil and gas or energy organisation, including international industry experience, with a proven ability to shape and develop a culture which encourages success through periods of significant change, such as transformation from a monopoly to a competitive organisation;
- Significant experience of sitting on commercial and/or public sector boards of large organisations;
- Ability to bring a unique perspective and new thinking to the discussion of strategic issues facing Naftogaz;
- Excellent communication skills, with the confidence and ability to challenge accepted wisdom with tact and discretion;
- Excellent English language skills. Knowledge of Ukrainian/Russian would be desirable but not mandatory.

Board directorship experience will be desired, but it will not be required by the Nominating Committee.

### Duration

The board membership will begin as soon as approved at the General Shareholders Meeting. Appointments for Supervisory Board members are for a term of one year, with the possibility of renewal after a successful independent evaluation.

Candidate Brief, January 2016  
Supervisory Board Member, Naftogaz

## Contact

Please contact Peter Roberts on 0044 (0)207 529 6350 or via email [56473@odgersberndtson.com](mailto:56473@odgersberndtson.com) if you would like to discuss this role.

## Application closing date

15-00 Kiev time, 10 February 2016

## Appendix 1 – Board Functions and Competencies

| BOARD FUNCTIONS  | SKILLS REQUIRED   |
|--|---|
| <b>STRATEGY AND BUSINESS DEVELOPMENT</b>   |   |
| <p>The SB will review and approve the corporate strategy of <i>Naftogaz</i>:</p> <ul style="list-style-type: none"> <li>■ the company’s major plans of action and business plans;</li> <li>■ The company’s risk appetite (i.e., the amount and type of risks that the company is willing and prepared to take in order to meet its strategic objectives); and</li> <li>■ the annual and multi-year budget.</li> </ul> <p>The SB shall also set the performance objectives of <i>Naftogaz</i> for approval by the General Shareholders Meeting, as well as monitor the strategy implementation and corporate performance.</p> <p>The board will oversee major capital expenditures, acquisitions and divestitures all subject to the limitations of the Ukrainian Law and the Charter of <i>Naftogaz</i>.</p> <p><b>Responsibility:</b></p> <ul style="list-style-type: none"> <li>■ Contribute to the development of effective strategy and organisational change, in line with the State Ownership Policy.</li> <li>■ Overall leadership of the company and setting the company's values and standards;</li> <li>■ Approval of the group’s strategic aims and objectives;</li> <li>■ Approvals of the annual operating and capital expenditure budgets and any material changes to them;</li> <li>■ Oversight of the group’s operations ensuring: competent and prudent management; sound planning; maintenance of sound management and internal control systems; adequate accounting and other records; and compliance with statutory and regulatory obligations;</li> <li>■ Review of performance in the light of the group’s strategic aims, objectives, business plans and budgets and ensuring that any necessary corrective action is taken.</li> <li>■ Any decision [proposal to shareholders] to extend the group’s activities into new business or geographic areas.</li> <li>■ Any decision [proposal to shareholders] to cease to operate all or any material part of the group’s business.</li> </ul> | <p>Oil and gas business, including international industry experience</p> <p>Operations management</p> <p>Strategic management</p> <p>Energy and climate issues</p> <p>Financial planning</p> <p>Investment banking</p> <p>Legal</p> <p>Risk management</p> <p>Business development and international business</p> |

**This includes reviewing and guiding corporate strategy of Naftogaz, its major plans of action, risk management policies and procedures, annual budgets and business plans, setting performance objectives of Naftogaz; monitoring implementation and corporate performance; as well as overseeing major capital expenditures, acquisitions and divestitures.**

#### **CORPORATE GOVERNANCE**

**The SB will monitor the effectiveness of Naftogaz's governance practices and make changes as needed / propose such changes for approval by the General Shareholders Meeting and other relevant Ukrainian authorities.**

Corporate governance

Board directorship experience

#### **Responsibility:**

- **Play a key role in ensuring that the Naftogaz maintains the highest standards of corporate governance. This includes monitoring and ensuring the effectiveness of Naftogaz's governance practices.**
- **Undertake a formal and rigorous annual review of its own performance, that of its committees and individual directors, and the division of responsibilities;**
- **Determine the independence of non-executive directors in light of their character, judgment and relationships;**
- **Consider the balance of interests between shareholders, employees, customers and the community;**
- **Review the group's overall corporate governance arrangements;**
- **Authorize conflicts of interest where permitted by the Company's articles of association and/or relevant legislation;**
- **Approve the Company's policies, including: Code of Conduct; Bribery prevention policy; Whistleblowing policy; Health and safety policy; Environment and sustainability policy; Human resources policy; Communications policy; Corporate social responsibility policy; and Charitable donations policy.**
- **Define the system and rules of corporate governance for the Company and the Group and approves the Corporate Governance Report, having first received the opinion of the Audit Committee with regard to the internal control and risk management system.**

#### **NOMINATION AND REMUNERATION**



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| <p><b>The SB will adopt a nomination policy for Naftogaz’s top management (the CEO and Executive Board members), select them and propose them for appointment by the General Shareholder Meeting.</b></p> <p><b>The SB will also adopt a remuneration policy and decide on the compensation of top management. It will monitor and evaluate (and, when necessary, replace) key executives.</b></p> <p><b>The board will oversee succession planning.</b></p> <p><b>Responsibility:</b></p> <ul style="list-style-type: none"> <li>■ <b>Contribute to selecting <i>Naftogaz’s</i> top management (the CEO and Executive Board members) and proposing them for appointment by the General Shareholder Meeting, as represented by the authorized representatives of the state.</b></li> <li>■ <b>This includes deciding on the compensation of top management, monitoring and evaluating (and, when necessary, replacing) key executives, and overseeing succession planning.</b></li> </ul> | <p>Corporate governance</p> <p>Board directorship experience</p>   |
| <b>RISK MANAGEMENT</b>  |  |
| <p><b>The SB will approve the company’s overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment and drawing on financial stability assessments such as those published by relevant industry and regulatory authorities and other authoritative sources that may be relevant for the company’s risk policies owners;</b></p> <p><b>Responsibility:</b></p> <ul style="list-style-type: none"> <li>■ <b>Oversee the current risk exposures of the company and future risk strategy;</b></li> <li>■ <b>Review the company’s capability to identify and manage new risk types;</b></li> </ul>  | <p>Corporate governance</p> <p>Board directorship experience</p> <p>Audit</p> <p>Internal control and compliance</p> |
| <b>ALIGNMENT OF INTEREST</b>  |  |
| <p><b>The SB will will exercise proper oversight over executives and ensure that Naftogaz’s key executive’s remuneration is aligned with the long-term interests of Naftogaz and the people of Ukraine.</b></p> <p><b>The SB will adopt a policy of conflicts of interest and related party transactions, monitor and manage potential conflicts of interest of management, board members and the state, including misuse of corporate assets and abuse in related-party transactions.</b></p> <p><b>Responsibility:</b></p>  | <p>Corporate governance</p> <p>Board directorship experience</p> <p>Internal control and compliance</p>              |

- **Contribute to aligning Naftogaz's key executive's remuneration with the long-term interests of Naftogaz and the people of Ukraine as its ultimate owners.**
- **Approval of the dividend policy;**
- **Contribute to monitoring and managing potential conflicts of interest of management, board members and the state, including misuse of corporate assets and abuse in related-party transactions.**

#### AUDIT AND CONTROL

**The SB will ensure the integrity of the Naftogaz's accounting and financial reporting systems and effectiveness of the internal control system, including the independent audit.**

Audit

Internal control and compliance

**The board will ensure that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, internal audit and compliance with the law and relevant standards.**

**Responsibility:**

- **Contribute to ensuring the integrity of the *Naftogaz's* accounting and financial reporting systems, including the independent audit.**
- **adopt guidelines for the internal control and risk management system so that the main risks that affect the Company and its subsidiaries can be correctly identified and appropriately measured, managed and monitored;**
- **review the assessments performed by management on the main company risks, identified taking into account the characteristics of the activities carried out by the company or its subsidiaries;**
- **evaluate, every six [twelve] months, the adequacy of the internal control and risk management system, taking account of the characteristics of the Company and its risk profile, as well as its effectiveness. To this end, at least once every six months the audit committee reports to the Supervisory Board, on the adequacy of the internal control and risk management system.**
- **Contribute to ensuring that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the legal and regulatory framework within which *Naftogaz* operates, and publicly accounting for the *Naftogaz's* performance.**
- **Ensuring maintenance of a sound system of internal control and risk management including: Approving**

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| <p><b>the company/group's risk appetite statements;</b></p> <ul style="list-style-type: none"><li>■ <b>Receiving reports on, and reviewing the effectiveness of, the group's risk and control processes to support its strategy and objectives;</b></li><li>■ <b>Approving procedures for the detection of fraud and the prevention of bribery;</b></li><li>■ <b>Undertaking an annual assessment of these processes; and approving an appropriate statement for inclusion in the annual report.</b></li></ul>  |  |
| <b>TRANSPARENCY AND DISCLOSURE</b>  |  |
| <p><b>The SB will ensure transparency, overseeing the process of disclosure and communications.</b></p> <p><b>Responsibility:</b></p> <ul style="list-style-type: none"><li>■ <b>Approval of Transparency Policy and contribute to ensuring transparency and overseeing the process of disclosure and communications.</b></li><li>■ <b>Ensuring a satisfactory dialogue with shareholders and stakeholders based on the mutual understanding of objectives;</b></li><li>■ <b>Approval of resolutions and corresponding documentation to be put forward to shareholders at the general meeting.</b></li><li>■ <b>Ensure that the decision-making of the Supervisory Board is informed by the best interests of the people of Ukraine and with appropriate regard to the impact of decisions on the energy market in Ukraine.</b></li><li>■ <b>The independent Supervisory Board members also perform a particular role as members of the Board's committees including the Audit Committee, the Ethics Committee, and the Remuneration and Nominations Committee.</b></li></ul> | <p>Corporate governance</p> <p>Board directorship experience</p> |

## Appendix 2 – Independence Criteria

The board is composed of a majority of independent board members. These are defined in Supervisory Board's Rules of Procedure. Specifically, the independent board member:

- 1** is not, and has not been for the past five years, an officer of the Company (other than its Supervisory Board member), or any legal entity in which the Company holds 50 or more per cent of the shares, or any legal entity in which the State of Ukraine holds 50 or more per cent of shares;
- 2** does not, and has not in the past five years, receive any remuneration from the Company or any legal entity in which the Company holds 50 or more per cent of the shares, other than remuneration received in his/her capacity as a Supervisory Board member, which shall not constitute a significant portion of his/her annual income;
- 3** does not have, and has not had in the past five years, any material business relationship with the Company or any legal entity in which the Company holds 50 or more per cent of the shares, nor is, or has been, an officer of any entity that has or had such a relationship;
- 4** holds no material interest (i.e., 10 per cent or more shares) in the Company, or any legal entity in which the Company holds 50 or more per cent of the shares, as a partner, co-owner or shareholder;
- 5** is not an executive board member of any legal entity in which any of the Company's Executive Board members is a Supervisory Board member;
- 6** is not, and has not been in the past five years, an employee of the current or previous independent auditor of the Company or any legal entity in which the Company holds 50 or more per cent of the shares;
- 7** is not, and has not been in the past five years, a public official in Ukraine;
- 8** is not, and has not been in the past five years, an officer of any non-profit organisation that receives or has received significant funding from the Company or any legal entity in which the Company holds 50 or more per cent of the shares, nor himself/herself receives, or has received in the past five years, any such funding;
- 9** is not member of the family or a closely related person of any Executive Board member or the Chief Executive Officer, or any person described in this clause above, and is not the executor, administrator, guardian, or trustee of any such family member who is deceased or legally incompetent; and
- 10** is identified in the Company's annual report as an independent Supervisory Board member;
- 11** upon appointment, each independent Supervisory Board member shall sign a statement to be included in the Company's annual report and made public on the website, specifying the grounds for his/her eligibility as an independent Supervisory Board member, including a brief summary of his/her activities in the past five years. Such a statement shall be signed by each independent Supervisory Board member at the end of each year after his/her appointment and shall be included in the Company's annual report and made public on its website.