

# CORPORATE GOVERNANCE ACTION PLAN FOR NAFTOGAZ

Please refer to the Legal Report and CG Report enclosed to this plan for an explanation of the Corporate Governance Reform background, fundamentals, implications and sequencing

## LEGEND:

"CG Report"	Corporate Governance report dated 9 August 2015 (version 2.2).
"CMU"	Cabinet of Ministers of Ukraine.
"Naftogaz"	Public Joint-Stock Company "National Joint-Stock Company "Naftogaz".
"Legal Report"	Legal Review of Corporate Governance of NAK and UTG dated 18 August 2015 (2nd Draft).
"OECD"	Organization for Economic Co-operation and Development.
"TSO"	A company performing functions of transmission system operator following unbundling according to the Third Energy Package.
"Ministry of Economy"	Ministry of Economic Development and Trade.
"Ministry of Energy"	Ministry of Energy and Coal Industry.

 actions at the State level

 actions at the level of Naftogaz

No	Goal/Why	Action/ What	Means/How	Condition Precedent	Drafts Required to Achieve the Goal	Responsible/Signatory	Due Date	Status	
<b>PHASE I: QUICK WINS</b>									
<i>Please refer to page 26 of the CG Report for an explanation on sequencing/stages of the Corporate Governance Reform</i>									
1.	Ensure an effective legal and regulatory framework for corporate governance at the level of Naftogaz (based on an operational board and basic adherence to OECD Principles of Corporate Governance and OECD Guidelines of Corporate Governance of State Owned Enterprises)	1.1. Identify the Ministry of Economy as the entity to act as shareholder of Naftogaz in line with unbundling strategy and transfer Naftogaz into management of the Ministry of Economy.	Approve relevant decision to transfer Naftogaz into the management of the Ministry of Economy and to transfer the shares from Ministry of Energy to the Ministry of Economy.	CMU opening account in securities	1. See items 1 and 2 of the <b>1st CMU Resolution</b> directing the Ministry of Energy to transfer Naftogaz into management of the CMU and to transfer its shares to the account in securities of the CMU.	CMU	5 Dec 2015	<b>DONE</b>	
					2. <i>standard form</i> Transfer order with respect to the shares in Naftogaz.	Ministry of Energy; CMU	15 Dec 2015	<b>DONE</b>	
					1. See item 3 of the <b>1st CMU Resolution</b> approving the <i>transition</i> Charter and <i>target</i> Charter.	CMU	5 Dec 2015	<b>PARTIALLY DONE</b> , 1.2.(iv) will be implemented within amendments to the law pursuant to 3.1. hereof	
					2. See Draft <i>transition</i> and <i>target</i> Charters in Schedules 1 and 2 to 1st CMU Resolution.				
		1.2. Define the Ministry of Economy as the sole shareholder of Naftogaz.	Approve the restated Charters (чартери) of Naftogaz ("transition Charter" and "target" Charter) to remove ambiguity of who is acting as the sole shareholder of record and clearly define the Ministry of Economy as the sole shareholder of record of Naftogaz.	CMU identified as the shareholder of Naftogaz <u>Ref: item 1.1. above</u>	1. See item 3 of the <b>1st CMU Resolution</b> approving the <i>transition</i> Charter and <i>target</i> Charter.				
			The transition Charter shall also:		2. See Draft <i>transition</i> and <i>target</i> Charters in Schedules 1 and 2 to 1st CMU Resolution.				
			i. eliminate the role of the Ministry of Energy as shareholder;		3. See in item 1 of the Schedule 8 to the 1st CMU Resolution the relevant amendments to CMU Resolution "On the Establishment of National Joint Stock Company "Naftogaz of Ukraine" dated 25 May 1998 No. 747/ Постанова КМУ "Про утворення Національної акціонерної компанії "Нафтогаз України" від 25.05.1998 №747 <a href="http://zakon4.rada.gov.ua/laws/show/747-98-%D0%BF">http://zakon4.rada.gov.ua/laws/show/747-98-%D0%BF</a>				
			ii. define the role of the shareholder and the status of its resolutions;						
			iii. state the role of the Supervisory Board as a governance body, but with a transitional scope of authorities (e.g., CEO being appointed by the Shareholder's resolution) - see more details in Action immediately below; and						
			iv. clarify the status of the property of Naftogaz.						
			State register the <i>transition</i> Charter.	Transition Charter approved by the CMU. <u>Ref: item 1.2. above</u>	1. <i>Standard</i> registration form.	Chairman of the Executive Board of Naftogaz	11 Dec 2015	<b>DONE</b>	
					2. Two originals of the <i>transition</i> Charter				
					3. Relevant PoA for registration actions.				
			Make the Corporate Governance Action Plan for Naftogaz and TSO public.		Corporate Governance Action Plan	the Executive Board of Naftogaz	December 2015	<b>DONE</b>	

**CORPORATE GOVERNANCE ACTION PLAN FOR NAFTOGAZ**

No	Goal/Why	Action/ What	Means/How	Condition Precedent	Drafts Required to Achieve the Goal	Responsible/Signatory	Due Date	Status
		1.3. Restore operational Supervisory Board at <i>Naftogaz</i> with limited supervisory functions but transparent decision making.	1. In the <i>transition</i> Charter, re-define Supervisory Board as governance body of <i>Naftogaz</i> and define its composition and status of the Supervisory Board committees in line with best corporate practices, including: <ul style="list-style-type: none"> <li>i. stating the role of the Supervisory Board as a governance body, but with a transitional scope of authorities (e.g., CEO being appointed by the Shareholder's resolution);</li> <li>ii. providing for appointment of independent directors to the Supervisory Board and stating additional requirements to these independent directors;</li> <li>iii. providing for establishment of Supervisory Board committees, their composition and status; and</li> <li>iv. stating that the directors shall act in the interest of <i>Naftogaz</i>, not the shareholder.</li> </ul>	CMU identified as the shareholder of <i>Naftogaz</i> . <u>Ref: item 1.1. above</u>	1. See item 3 of the <b>1st CMU Resolution</b> approving the <i>transition</i> Charter. 2. Draft <i>transition</i> Charter in Schedule 1 to 1st CMU Resolution. 3. See item 5 of the 1st CMU Resolution.	CMU	5 Dec 2015	<b>DONE</b>
			2. Approve the two <i>restated</i> Rules of Procedure for the Supervisory Board in line with best corporate practices defining: <ul style="list-style-type: none"> <li>i. roles and responsibilities of the Chair;</li> <li>ii. the Chair as a liaison with the ownership entity; and</li> <li>iii. responsibilities of the board committees and corporate secretary.</li> </ul>	Transition Charter approved by CMU. <u>Ref: item 1.2. above</u>	1. See item 6 of the <b>1st CMU Resolution</b> approving the two <i>restated</i> Rules of Procedure. 2. Draft <i>transition</i> Rules of Procedure for the Supervisory Board in Schedules 3 to the <b>1st CMU Resolution</b> .	CMU	5 Dec 2015	<b>DONE</b>
			3. Approve <i>transition</i> Rules of Procedure for the Executive Board in line with best corporate practices.	Transition Charter approved by CMU. <u>Ref: item 1.2. above</u>	1. See item 7 of the <b>1st CMU Resolution</b> approving the <i>transition</i> Rules of Procedure. 2. Draft <i>transition</i> Rules of Procedure for the Executive Board in Schedules 5 to the <b>1st CMU Resolution</b> .	CMU	5 Dec 2015	<b>DONE</b>
			4. Issue the State Ownership Policy setting the main lines on which the strategy of <i>Naftogaz</i> will be based for the transitional period (until formalized by law), in the form of a generic voting instruction to members of the Supervisory Board.	CMU as the shareholder of <i>Naftogaz</i> <u>Ref: item 1.1. above</u>	1. See item 8 of the <b>1st CMU Resolution</b> approving the generic instruction for voting to members of the Supervisory Board. The generic instruction for voting shall not be amended or cancelled for the whole plan. 2. See Schedule 7 the <b>1st CMU Resolution</b> setting forth the generic instruction.	Ministry of Economy / CMU	31 Dec 2016	Draft document being elaborated by the Ministry of Economy together with consultants of EBRD
			5. Amend the relevant secondary legislation to allow <i>Naftogaz</i> to act as a commercial company, by abolishing the requirement to issue a voting instruction for each meeting of the Supervisory Board. [List of resolutions and orders to be amended] <u>Rationale for amendment: see Sections 2.1.6, and 3.2.9 of the Legal Report</u>	Approval of State Ownership Policy <u>Ref: cl. 1.4 above</u>	1. See item 9 of the <b>1st CMU Resolution</b> approving amendments to various existing CMU Resolution. 2. See in item 2 of Schedule 8 to the 1st CMU Resolution the relevant amendments to CMU Resolution "On Certain Issues of State Corporate Rights Governance" dated 30 Oct 2014 No. 678/ <i>Постанова КМУ "Про деякі питання управління корпоративними правами держави" від 30.10.2014 №678:</i> <a href="http://zakon2.rada.gov.ua/laws/show/678-2014-%D0%BF">http://zakon2.rada.gov.ua/laws/show/678-2014-%D0%BF</a> .	CMU	5 Dec 2015	<b>DONE</b>

**CORPORATE GOVERNANCE ACTION PLAN FOR NAFTOGAZ**

No	Goal/Why	Action/ What	Means/How	Condition Precedent	Drafts Required to Achieve the Goal	Responsible/Signatory	Due Date	Status
2.	<b>Naftogaz's new role of corporate centre</b>	2.1. Abolish requirement to issue voting instructions for <i>Naftogaz</i> to vote at the GSMs of its subsidiaries.	6. Approve and make public the Nomination policy for the Supervisory Board of <i>Naftogaz</i> and the criteria for Supervisory Board Members; authorize committee created by the Ministry of Economic Development and Trade to be used as a nominating committee for the candidates for the Supervisory Board of <i>Naftogaz</i> and to request it to select candidates before 16 November 2015.	CMU identified as the shareholder of <i>Naftogaz</i> <u>Ref: item 1.1. above</u>	1. See item 13 of the <b>1st CMU Resolution</b> authorizing the nominating committee to proceed with the nomination process according to the established procedure and approved criteria.  2. See Schedule 10 to <b>1st CMU Resolution</b> setting forth the criteria for the Supervisory Board members.	CMU	5 Dec 2015	<b>DONE</b>
			7. Search by nominating committee of the candidates for the Supervisory Board of <i>Naftogaz</i> , matching their CVs with the relevant criteria and job descriptions and preparing statements recommending each particular candidate and publishing the statements on the internet.	Job descriptions for members of the Supervisory Board.	Statement recommending each candidate.	Nominating Committee	20 Apr 2015	<b>DONE</b> (except publishing the statements on the internet)
			8. Approve the Shareholder's Resolution in order to (i) elect the Supervisory Board members of <i>Naftogaz</i> , nominated according to the approved Nomination Policy, consisting of 7 members with 4 members being independent directors; (ii) approve terms and conditions of agreements to be entered with each member; (iii) elect a person to sign the agreements on behalf of the shareholder.	Nominating committee submitting candidates by 2 Oct 2015 <u>Ref: items 1.7 above</u>	1. Resolution of Shareholder in the form of Order ( <i>наказ</i> ) of the Ministry of Economy.  2. Agreements with Supervisory Board members	Ministry of Economy	20 Apr 2016	<b>DONE</b>
			9. Approve performance expectations for the Supervisory Board.	Transition Charter approved by CMU. <u>Ref: item 1.2. above</u>	3. Resolution of Shareholder in the form of resolution of CMU.	Ministry of Economy / CMU	31 Jan 2017	Draft document being elaborated by the Ministry of Economy
			10. Approve the Shareholder's Resolution approving guidelines for external reporting requiring to disclose resolutions of the Supervisory Board.		4. Guidelines for external reporting (projections, separate reporting for regulated activities, etc.)			Draft document being elaborated by the Ministry of Economy
			1. Amend Resolution of CMU "Certain matters of activities of the National JSC <i>Naftogaz</i> of Ukraine dated 2.12. 2009 N 1354 / <i>Постанова КМУ "Деякі питання діяльності Національної акціонерної компанії "Нафтогаз України" від 2.12. 2009 N 1354</i> : <a href="http://zakon4.rada.gov.ua/laws/show/1354-2009-%D0%BF">http://zakon4.rada.gov.ua/laws/show/1354-2009-%D0%BF</a> <u>Rationale for amendment: see Sections 2.1.6. and 3.2.8 of the Legal Report</u>	Approval of State Ownership Policy <u>Ref: cl. 1.4 above</u>	See in item 3 of Schedule 8 to the <b>1st CMU Resolution</b> the relevant amendments.	CMU	5 Dec 2015	<b>DONE</b>
			2. Amend Order of CMU "On the Reorganization of Subsidiary Companies of National Joint Stock Company "Naftogaz of Ukraine" dated 13 June 2012 No. 360-p / <i>Розпорядження КМУ "Про реорганізацію дочірніх компаній Національної акціонерної компанії "Нафтогаз України" від 13.06.2012 № 360-p</i> : <a href="http://zakon4.rada.gov.ua/laws/show/360-2012-%D1%80">http://zakon4.rada.gov.ua/laws/show/360-2012-%D1%80</a> <u>Rationale for amendment: see Section 3.2.15 of the Legal Report</u>	Approval of State Ownership Policy <u>Ref: cl.1. 4 above</u>	See in item 5 of Schedule 8 to the <b>1st CMU Resolution</b> the relevant amendments.	CMU	5 Dec 2015	<b>DONE</b>
			3. Amend order of the Ministry of Energy "On normative and legal regulation of matters related to state property management" dated 25 Oct 2006 No.407 / <i>Наказ Міністерства палива та енергетики "Про</i>	Approval of State Ownership Policy <u>Ref: cl. 4 of item 1.3. above</u>	Order of the Ministry of Energy	Ministry of Energy	5 Dec 2015	<b>Draft prepared</b>

**CORPORATE GOVERNANCE ACTION PLAN FOR NAFTOGAZ**

No	Goal/Why	Action/ What	Means/How	Condition Precedent	Drafts Required to Achieve the Goal	Responsible/Signatory	Due Date	Status
			нормативно-правове регулювання питань управління об'єктами державної власності" №407 від 25.10.2006 року					
2.2.	Abolish the applicability of restrictions on expenditures to Naftogaz and its subsidiaries (to enter into force when the internal control framework of Naftogaz is fully operational) .	4. Amend CMU Resolution "On the Procedure for Making the Expenditures by Business Entities in State Sector of Economy in Case the Annual Financial Plans have not been Approved pursuant to the Established Procedure" dated 03 Oct 2012 No. 899/ <i>Постанова КМУ "Про порядок здійснення витрат суб'єктами господарювання державного сектору економіки у разі незатвердження (непогодження) річних фінансових планів у встановленому порядку" від 03.10.2012 №899</i> <a href="http://zakon2.rada.gov.ua/laws/show/899-2012-%D0%BF">http://zakon2.rada.gov.ua/laws/show/899-2012-%D0%BF</a> <u>Rationale for amendment: see Sections 3.2.10 and 3.2.15 of the Legal Report</u>	The internal control framework of Naftogaz is fully operational; and Approval of State Ownership Policy <u>Ref: cl. 1. 4 above</u>	See in item 4 of Schedule 8 to the <b>1st CMU Resolution</b> the relevant amendments.	CMU	5 Dec 2015	<b>DONE</b>	
2.3.	Abolish the requirement to have financial plans approved by the Ministry of Finance for wholly owned subsidiaries of Naftogaz so as to allow them to act as commercial companies (to enter into force when the internal control framework of Naftogaz is fully operational).	5. Amend Order of Ministry of Economy "On Approval of Procedure for Preparation, Approval and Control Over the Performance of Financial Plan of Business Entity in Public Sector of Economy" dated 02 March 2015 No. 205/ <i>Наказ МЕ "Про затвердження Порядку складання, затвердження та контролю виконання фінансового плану суб'єкта господарювання державного сектору економіки від 02.03.2015 №205</i> <a href="http://zakon2.rada.gov.ua/laws/show/z0300-15">http://zakon2.rada.gov.ua/laws/show/z0300-15</a> <u>Rationale for amendment: see Section 3.2.15 of the Legal Report</u>	The internal control framework of Naftogaz is fully operational; and Approval of State Ownership Policy <u>Ref: cl. 1. 4 above</u>	Order of Ministry of Economy.	Ministry of Economy	Within 2 months after approval of amendments to the law pursuant to cl.3.1 hereof	<i>Draft will be prepared by the Ministry of Economy after elaboration of the draft law pursuant to cl.3.1. hereof</i>	
2.4.	Clarify status of corporate rights of Naftogaz in its subsidiaries	6. Establish that <i>Naftogaz</i> is the owner of shares in PJSC Ukrtransgaz, PJSC Ukgazvydobuvannia, PJSC Uktansnafa and corporate rights of Subsidiary Enterprise Gaz Ukraine by amending the CMU Resolution "On approval of the list of state property objects which have strategic importance for the economy and security of the state" dated 04 March 2015 No. 83/ <i>Постанова КМУ "Про затвердження переліку об'єктів державної власності, що мають стратегічне значення для економіки і безпеки держави" від 04.03. 2015 No 83:</i> <a href="http://zakon4.rada.gov.ua/laws/show/83-2015-%D0%BF">http://zakon4.rada.gov.ua/laws/show/83-2015-%D0%BF</a>	Approval of State Ownership Policy <u>Ref: cl. 1.4 above</u>	See in item 6 of Schedule 8 to the 1 <sup>st</sup> CMU Resolution	Ministry of Economy / CMU	Within 2 months after approval of amendments to the law pursuant to cl.3.1 hereof	<i>Draft will be prepared by the Ministry of Economy after elaboration of the draft law pursuant to cl.3.1. hereof</i>	
		7. Amend Order of the CMU "On establishment of OJSC Ukrtransnafa" dated 23 June 2001 No. 256-p/ <i>Розпорядження КМУ «Про утворення ВАТ «Укртранснafa» від 23.06.2001 No. 256-p:</i> <a href="http://zakon4.rada.gov.ua/laws/show/256-2001-%D1%80">http://zakon4.rada.gov.ua/laws/show/256-2001-%D1%80</a>	Approval of State Ownership Policy <u>Ref: cl. 1.4 above</u>	See in item 7 of Schedule 8 to the 1 <sup>st</sup> CMU Resolution.	Ministry of Economy / CMU	Within 2 months after approval of amendments to the law pursuant to	<i>Draft will be prepared by the Ministry of Economy after elaboration of the draft law pursuant to cl.3.1. hereof</i>	

## CORPORATE GOVERNANCE ACTION PLAN FOR NAFTOGAZ

No	Goal/Why	Action/ What	Means/How	Condition Precedent	Drafts Required to Achieve the Goal	Responsible/Signatory	Due Date	Status
		8. Amend Order of the CMU "On increase of capital of PJSC Ukrspetstransgaz" dated 28 Dec 2011 No. 1357-p / Розпорядження КМУ «Про збільшення статутного капіталу публічного акціонерного товариства «Укрспецтрансгаз» від 28.12. 2011 No. 1357-p: <a href="http://zakon4.rada.gov.ua/laws/show/1357-2011-%D1%80">http://zakon4.rada.gov.ua/laws/show/1357-2011-%D1%80</a>		Approval of State Ownership Policy Ref: cl. 1.4 above	See in item 8 of Schedule 8 to the 1 <sup>st</sup> CMU Resolution..		cl.3.1 hereof Within 2 months after approval of amendments to the law pursuant to cl.3.1 hereof	<i>Draft will be prepared by the Ministry of Economy after elaboration of the draft law pursuant to cl.3.1. hereof</i>

**CORPORATE GOVERNANCE ACTION PLAN FOR NAFTOGAZ**

No	Goal/Why	Action/ What	Means/How	Condition Precedent	Drafts Required to Achieve the Goal	Responsible/Signatory	Due Date	Status
<b>PHASE II: TRANSITION PERIOD</b>								
3.	<b>Initial insulation from political meddling and graft</b>	3.1. Develop and submit for approval by the Parliament draft laws ensuring initial insulation from political meddling and graft in line with international standards	<p>1. Law of Ukraine "On Joint Stock Companies" and Law of Ukraine "On Management of State Property" to be amended in line with the OECD Corporate Governance Principles and Guidelines to include among others the following amendments:</p> <ul style="list-style-type: none"> <li>- Abolish the requirement to have a Revision Commission in joint stock companies.</li> <li>- Introduce the requirement to have the external auditor appointed by the GSM of a joint stock company upon nomination by the Supervisory Board.</li> <li>- Introduce the requirement that Supervisory Board members should owe their duties to the company rather than represent the interest of the shareholder (ownership entity).</li> <li>- Introduce the permission for the companies with the state as the sole shareholder not to get listed on a stock exchange.</li> <li>- Abolish authority of the GSM to decide on any matters within the competence of other governing bodies of the company.</li> <li>- Abolish the requirement that a state representative acts as Supervisory Board chair when the state owns more than 50%.</li> <li>- Introduce carve-outs for <i>Naftogaz</i> in relation to the authorities of the CMU and provide that the CMU shall act in accordance with the corporate governance rules of <i>Naftogaz</i>.</li> <li>- Introduce exception for <i>Naftogaz</i> to the requirement for the Supervisory Board members representing the state to vote based on voting instructions and provide that they are forbidden.</li> <li>- Abolish requirement to pay dividends by subsidiaries of state owned enterprises directly to the state budget.</li> <li>- Introduce exceptions for <i>Naftogaz</i> in relation to mandatory dividend pay-out percentage.</li> <li>- Introduce exceptions for <i>Naftogaz</i> in relation to requirements as to the composition of Revision Commission.</li> </ul> <p>Civil Code to be amended in line with international standards. Amendments to include, at minimum:</p> <ul style="list-style-type: none"> <li>- Introduce provision that entities of private law can be also established by an administrative decision and that all commercial companies shall be considered as private law entities [Art. 81]</li> </ul> <p>Commercial Code to be amended in line with international standards. Amendments to include, at minimum:</p> <ul style="list-style-type: none"> <li>- Make more specific the definition of the "company in the public sector of the economy", including a</li> </ul>		<p>Draft law amending the Civil and Commercial Codes of Ukraine, the Law of Ukraine "On Joint Stock Companies", and Law of Ukraine "On Management of State Property"</p> <p>2. Amendments to Resolution of CMU "On Approval of the Procedure for the Development and Implementation of the State Dividend Policy" dated 12 May 2007 No. 702/ <i>Постанова КМУ "Про затвердження Порядку формування та реалізації дивідендної політики держави" від 12.05.2007 №702:</i>  <a href="http://zakon4.rada.gov.ua/laws/show/702-2007-%DO%BF">http://zakon4.rada.gov.ua/laws/show/702-2007-%DO%BF</a>  <i>Rationale for amendment: see Section 3.2.18 of the Legal Report</i></p> <p>3. Order of abolishing Order of the Ministry of Economy "On Approval of the Procedure for Accrual of Penalty on Dividends and State Owned Shares Delayed by Business Company in which the State Owns a Share, or Business Company in which no Less than 50 Percent of Shares are in the Capital of Business Company which is 100% Owned by the State" dated 02 July 2013 No. 725/ <i>Наказ Міністерства Економіки "Про затвердження Порядку нарахування пені на суму дивідендів на державну частку, несвоєчасно сплачених господарським товариством, у статутному капіталі якого є корпоративні права держави, та господарським товариством, 50 і більше відсотків акцій (часток, паїв) якого знаходяться у статутному капіталі господарського товариства, частка держави якого становить 100 відсотків" від 02.07.2013 №725:</i>  <a href="http://zakon4.rada.gov.ua/laws/show/z1830-13">http://zakon4.rada.gov.ua/laws/show/z1830-13</a>  <i>Rationale for amendment: see Section 3.2.19 of the Legal Report</i></p>	<p>Ministry of Economy / CMU /Parliament</p> <p>Ministry of Economy / CMU</p> <p>Ministry of Economy</p>	<p>15 Jan 2016 (draft law to be submitted to the Parliament)</p> <p>Within 2 months following approval of amendments to the law pursuant to 3.1. hereof</p> <p>Within 2 months following approval of amendments to the law pursuant to 3.1. hereof</p>	<p>Draft being prepared by the Ministry of Economy</p> <p><i>Draft will be prepared by the Ministry of Economy after elaboration of the draft law pursuant to cl.3.1. hereof</i></p> <p><i>Draft will be prepared by the Ministry of Economy after elaboration of the draft law pursuant to cl.3.1. hereof</i></p>

**CORPORATE GOVERNANCE ACTION PLAN FOR NAFTOGAZ**

No	Goal/Why	Action/ What	Means/How	Condition Precedent	Drafts Required to Achieve the Goal	Responsible/Signatory	Due Date	Status
			<p>statement that it does not cover subsidiaries of state-owned companies (Art. 22).</p> <ul style="list-style-type: none"> <li>- Abolish completely the requirement that financial plans of the companies with a state share and their subsidiaries should be approved by the state (Art. 75, 89).</li> <li>- Eliminate intervention by the CMU in <i>Naftogaz's</i> business besides the CMU's ownership function.</li> <li>- Eliminate any intervention by the government agencies that do not perform the ownership function.</li> <li>- Review all reporting requirements from <i>Naftogaz</i> and its subsidiaries to the State and consolidate them to the GSM levels only.</li> <li>- Clarify status of the property transferred to the capital of <i>Naftogaz</i> (not state property, but property of <i>Naftogaz</i>).</li> </ul>		<p>Draft new Law "On preventing state-owned oil and gas businesses from political meddling and graft".  <a href="#">Rationale for this new law: see Section 3.1.5 of the Legal Report</a></p>			
			2.Develop and approve State ownership policy in relation to Naftogaz		1.Draft act of the CMU on approval of the State ownership policy in relation to Naftogaz	Ministry of Economy / CMU	31 Dec 2016	<i>Draft document developed by the Ministry of Economy</i>
4.	<b>Replace inefficient state controls by new controls</b>	4.1. Set up internal control procedures which are used in standard corporate practice to allow <i>Naftogaz</i> to act as a commercial company	<ul style="list-style-type: none"> <li>- Appoint the Chairman of the Supervisory Board from among its independent members and define its functions and responsibilities in line with best international standards, in separate bylaws;</li> <li>- agree and approve on the calendar of Supervisory Board meetings for the next 12 months;</li> <li>- select and appoint a Corporate Secretary and define its functions and responsibilities in line with best international standards, in separate bylaws;</li> <li>- define and approve the Board Remuneration Policy and Board Evaluation Policy in line with best international standards;</li> <li>- approve the Rules of Procedure for the Audit Committee in line with best international standards;</li> <li>- establish the Audit Committee composed of its independent members;</li> <li>- elect the members of the Nomination and Remuneration Committee;</li> <li>- approve the Rules of Procedure for the Nomination and Remuneration Committee in line with best international standards;</li> </ul>	<p>Supervisory Board quorate.  <u>Ref: item 1.3 above</u>                      Rules of Procedure for the Supervisory Board approved.  <u>Ref: item 1.3 above</u></p>	<p>Supervisory Board decision</p> <p>1. Supervisory Board Remuneration policy                      2. Supervisory Board Evaluation policy</p> <p>Rules of Procedure for Audit Committee</p> <p>Supervisory Board decision</p> <p>Supervisory Board decision</p> <p>Rules of Procedure for the Nomination and Remuneration Committee.</p>	Supervisory Board of <i>Naftogaz</i>	13 May 2016	<b>DONE</b>
							31 Dec 2016	<i>Draft prepared</i>
							19-22 Sept 2016	<b>DONE</b>

**CORPORATE GOVERNANCE ACTION PLAN FOR NAFTOGAZ**

No	Goal/Why	Action/ What	Means/How	Condition Precedent	Drafts Required to Achieve the Goal	Responsible/Signatory	Due Date	Status
	4.2. Abolish Supervisory Boards at the level of <i>Naftogaz</i> wholly owned subsidiaries	Amend charters of wholly owned subsidiaries to abolish their Supervisory Boards.		Supervisory Board quorate. <u>Ref: item 1.3 above</u>	1. Resolution of the Executive Board of <i>Naftogaz</i> (generic and re daughter companies) 2. Order of the sole shareholder of subsidiaries which are JSCs 3. Minutes of the General Participants Meeting of subsidiaries which are LLCs (unless the law changes) 4. Draft restated charters of <i>Naftogaz</i> wholly owned subsidiaries as Schedules to the Resolution of the Supervisory Board of <i>Naftogaz</i> .	Executive Board of <i>Naftogaz</i>	2016	<b>PARTIALLY DONE</b> (current Charter of PJSC "UKRTRANSGAZ" envisages establishment of supervisory board)
	4.3. Make the Audit Committee operational	- appoint its Chairman among its members (Independent director); - agree on a calendar of its meetings; - appoint the Chief Audit Executive; - appoint a Compliance Officer.		Audit Committee established <u>Ref: item 4.1 above</u>	Decision of the Audit Committee.	Audit Committee of <i>Naftogaz</i>	13 May 2016	<b>DONE</b>
	4.4. Make the Nomination and Remuneration Committee operational	- appoint its Chairman among its members (Independent director); - agree on a calendar of its meetings; - adopt a Remuneration Policy in line with best international standards, for key executives.		Nomination and Remuneration Committee established <u>Ref: item 4.1 above</u>	Decision of Nomination and Remuneration Committee.	Nomination and Remuneration Committee of <i>Naftogaz</i>	13 May 2016  31 Dec 2016	<b>DONE</b>
	4.5. Map key functions and businesses	Develop, approve and submit to the Supervisory Board a detailed mapping of key functions and businesses (process flow chart) within <i>Naftogaz</i> and its subsidiaries and establish clear reporting and accountability lines between them. The mapping shall establish the situation as it is and a strategy for reform with clear milestones.		Amend charters of <i>Naftogaz</i> wholly owned subsidiaries <u>Ref.: item 4.2. above</u>	Decision of the Executive Board.	Executive Board of <i>Naftogaz</i>	2016	<b>DONE</b>
	4.6. Appoint executives	In line with strategic vision of approved key functions and businesses fill in vacancies for key executives: - Chief Risk Officer; - Chief Communication Officer , etc		Mapping of key functions and businesses is approved <u>Ref. item 4.5 above</u>	Decision of the Supervisory Board (re Chief Risk Officer) and of the Executive Board. (re Chief Communications Officer).	Executive Board and of <i>Naftogaz</i>	4-7 Nov 2016 (Chief Risk Officer)  1 June 2016 (Chief Communication Officer)	<b>DONE</b>
	4.7. Make internal control operational	Develop in line with best international standards, and propose to the Supervisory Board for approval: - a structure for the Financial Controls and Compliance Group Function; - internal control and compliance policy; - a Whistleblowing Process and System; - a Code of Conduct and Code of Ethics; - necessary budget for the internal control and compliance.		Compliance Officer appointed <u>Ref: item 4.3 above</u>	1. Decision of the Supervisory Board; 2. Whistleblowing policy; 3. Budget. 4. Code of Ethics and Code of Conduct 5. Internal control and compliance policy	Compliance Officer of <i>Naftogaz</i> / Supervisory Board	31 March 2017	<i>To be developed</i>
	4.8. Make Internal Audit department operational	- develop in line with best international standards, and propose a structure for the Internal Audit department, IA strategy and IA Policy to the Audit Committee for approval; - perform comprehensive risk assessment and		Chief Audit Executive is appointed <u>Ref: item 4.3 above</u>	Decision of the Audit Committee.	Internal Audit department of <i>Naftogaz</i> / Audit Committee	31 March 2017	<i>To be developed</i>



**CORPORATE GOVERNANCE ACTION PLAN FOR NAFTOGAZ**

No	Goal/Why	Action/ What	Means/How	Condition Precedent	Drafts Required to Achieve the Goal	Responsible/Signatory	Due Date	Status
			<ul style="list-style-type: none"> <li>- develop the audit plan;</li> <li>- present an Audit Plan to the Audit Committee;</li> <li>- proposes a necessary budget for the Internal Audit department.</li> </ul>					
4.9.	Approve remuneration policy and succession planning	<ul style="list-style-type: none"> <li>- Submit to the Supervisory Board for approval:</li> <li>- Remuneration Policy based on holistic evaluation of management's contribution (relying, <i>inter alia</i>, on pre-set KPIs as guidelines and Supervisory Board's final judgment in determining the level of managerial compensation);</li> <li>- a succession planning with clear indication of the candidates to be nominated for key functions holders.</li> </ul>	<ul style="list-style-type: none"> <li>- Nomination and Remuneration Committee of the Supervisory Board appointed</li> </ul> <p><u>Ref: item 4.1 above</u></p>	Decision of the Supervisory Board.	Nomination and Remuneration Committee of the Supervisory Board	<ul style="list-style-type: none"> <li>- 31 March 2017 (approval)</li> <li>- 31 Dec 2017 (implementation)</li> </ul>	<i>To be developed</i>	
4.10.	Organise and implement induction	Organise induction for members of the Supervisory Board, to meet all executives and key functions holders within the group.	<ul style="list-style-type: none"> <li>- Mapping of key functions and businesses approved</li> </ul> <p><u>Ref: item 4.5 above</u></p>		Corporate Secretary	2016	<b>DONE</b>	
4.11.	Make the risk management function operational	Submit a structure of Risk Management Function within <i>Naftogaz</i> and the group to the Supervisory Board for approval along with a risk management methodology.	<ul style="list-style-type: none"> <li>- Chief Risk Officer appointed</li> </ul> <p><u>Ref: item 4.6 above</u></p>	Decision of the Supervisory Board.	Chief Risk Officer → Supervisory Board	31 March 2017	<i>To be developed</i>	
4.12.	Implement disclosure and transparency	<ul style="list-style-type: none"> <li>- submit a Disclosure and Transparency Policy to the Executive Board for approval;</li> <li>- develop detailed disclosure plan;</li> <li>- maintain and perform disclosure obligations.</li> </ul>	<ul style="list-style-type: none"> <li>- Chief Communications Officer appointed</li> </ul> <p><u>Ref: item 4.6 above</u></p>	Decision of the Executive Board.	Chief Communications Officer → Executive Board	19-22 Sept 2016	<b>DONE</b>	
4.13.	Approve the strategy, budgets, key policies, and key functions.	<ul style="list-style-type: none"> <li>- approve the strategy for <i>Naftogaz</i> and the group,</li> <li>- approve the budget for <i>Naftogaz</i> (budget to include funds for the Financial Controls and Compliance Group Function, Internal Audit Function, Risk Management Function , etc.).</li> </ul>	<ul style="list-style-type: none"> <li>- Strategy, budgets, key policies, and key functions developed, as described above.</li> </ul> <p><u>Ref: items 4.5 – 4.12 above</u></p>	Resolution of Shareholder in the form of Order of the CMU.	CMU	31 March 2017	<i>To be developed</i>	
		<ul style="list-style-type: none"> <li>- endorse the mapping of key functions and businesses and the strategy for reform;</li> <li>- define expectations for each company executive and key function holders;</li> <li>- approve internal control and compliance policy;</li> <li>- approve Internal Audit policy;</li> <li>- endorse the structure of the new risk management function and approve the risk analysis/appetite for <i>Naftogaz</i> and the group,</li> <li>- endorse the disclosure and transparency policy;</li> </ul>		Decision of the Supervisory Board.	Supervisory Board	31 March 2017	<i>To be developed</i>	
		<ul style="list-style-type: none"> <li>- approve the budget for the wholly owned subsidiaries of <i>Naftogaz</i>.</li> </ul>		Decision of the Executive Board.	Executive Board	31 Dec 2016	<i>To be developed</i>	
4.14.	Implement the Internal Audit function	<ul style="list-style-type: none"> <li>- select and appoint the key personnel for the Internal Audit function;</li> <li>- start implementing the Audit Plan and report progresses on a monthly basis to the chair of the Audit Committee and on a quarterly basis to the</li> </ul>	<ul style="list-style-type: none"> <li>- Internal Audit policy and function approved.</li> </ul> <p><u>Ref: item 4.7 above</u></p>		Chief Audit Executive	31 March 2017	<i>To be developed</i>	

**CORPORATE GOVERNANCE ACTION PLAN FOR NAFTOGAZ**

No	Goal/Why	Action/ What	Means/How	Condition Precedent	Drafts Required to Achieve the Goal	Responsible/Signatory	Due Date	Status
			audit committee.					
		4.15. Implement the internal control function	- select and appoint the key personnel for the Financial Controls and Compliance Group Function.	Internal control policy approved. <u>Ref: item 4.7 above</u>		Compliance Officer	31 March 2017	<i>To be developed</i>
		4.16. Implement risk management function	- select and appoint the key personnel for the Risk Management function; - start risk assessment based on risk management methodology approved	Risk management methodology approved <u>Ref: item 4.11 above</u>		Chief Risk Officer	31 March 2017	<i>To be developed</i>
		4.17. Implement the internal control compliance function	- implement the whistle blowing function.	<u>Ref: item 4.7 above</u>		Compliance Officer	31 March 2017	<i>To be developed</i>
		4.18. Obtain certification by a qualified international advisor that the internal control framework of NAK and its subsidiaries is fully operational.	- certification in line with international standards	<u>Ref: items 2.2.; 2.3.; 4.19; 4.20;</u>		International qualified advisor hired by NAK	30 June 2017	<i>To be developed by the advisor</i>
		4.19. Abolish the applicability of any specific procedures related to joint venture, commission, agency and property management agreements to <i>Naftogaz</i> and its subsidiaries (to enter into force when the internal control framework of <i>Naftogaz</i> is fully operational)	Amend Resolution of CMU "On Approval of the Procedure for the Execution of Joint Venture Agreements, Commission Agreements, Agency and Property Management Agreements by State Enterprises, Institutions, Organizations, as well as Business Entities, the State Share in the Charter Capital of which Exceeds 50 per cent" dated 11 April 2012 No. 296/ <i>Постанова КМУ "Про затвердження Порядку укладення державними підприємствами, установами, організаціями, а також господарськими товариствами, у статутному капіталі яких частка держави перевищує 50 відсотків, договорів про спільну діяльність, договорів комісії, доручення та управління майном" від 11.04.2012 р. №296</i> <a href="http://zakon4.rada.gov.ua/laws/show/296-2012-%D0%BF">http://zakon4.rada.gov.ua/laws/show/296-2012-%D0%BF</a> <u>Rationale for amendment: see Section 3.2.12 of the Legal Report</u>	Internal control procedures developed and approved. <u>Ref: items 4.1 through 4.17 above</u>	Draft CMU Resolution with relevant amendments	Ministry of Economy / CMU	30 June 2017	Draft to be prepared by the Ministry of Economy
		4.20. Abolish the applicability of specific procedures on the approval of loans, guarantees or suretyships to <i>Naftogaz</i> and its subsidiaries (to enter into force when the internal control framework of <i>Naftogaz</i> is fully operational)	Amend Resolution of CMU "On Approval of the Procedure for the Approval of Attraction of Loans, Guarantees or Suretyships under such Obligations by State Enterprises, Including Business Entities (Excluding Banks) the State Share in the Charter Capital of which Equals to or Exceeds 50 per cent" dated 15 June 2011 No. 809/ <i>Постанова КМУ "Про затвердження Порядку погодження залучення державними підприємствами, у тому числі господарськими товариствами (крім банків), у статутному капіталі яких 50 та більше відсотків акцій (часток, паїв) належать державі, кредитів (позик), надання гарантій або поруки за такими зобов'язаннями" від 15.06.2011 № 809</i>	Internal control procedures developed and approved. <u>Ref: items 4.1 through 4.17 above</u>	Draft CMU Resolution with relevant amendments	Ministry of Economy / CMU	30 June 2017	Draft to be prepared by the Ministry of Economy

**CORPORATE GOVERNANCE ACTION PLAN FOR NAFTOGAZ**

No	Goal/Why	Action/ What	Means/How	Condition Precedent	Drafts Required to Achieve the Goal	Responsible/Signatory	Due Date	Status
			<a href="http://zakon2.rada.gov.ua/laws/show/809-2011-%D0%BF">http://zakon2.rada.gov.ua/laws/show/809-2011-%D0%BF</a> Rationale for amendment: see Rationale for amendment: see Section 3.2.13 of the Legal Report					
<b>PHASE III: TARGET</b>								
Ownership should be allocated to a government function (the Ownership Function) that is politically insulated i.e. not under the direct control (or has a significant potential to be) of any particular political faction or individual. This function needs to be stable e.g. not subject to Cabinet or Ministerial reshuffles, such that it can act over time as an independent owner with a clear mandate to ensure that the rights of shareholders (the people of Ukraine) are maintained.								
5.	Independent and fully empowered board for Naftogaz (including – among others – the authority to appoint and remove the CEO and the members of the executive board, approve the strategy, budget and risk appetite)	5.1. Charter of Naftogaz to come into effect	State register the target Charter.	Target Charter approved by the CMU by 1st CMU Resolution. Ref: item 1.2 above.	1. Standard registration form. 2. Two originals of the target Charter 3. Relevant PoA for registration actions.	Chairman of the Executive Board of Naftogaz	1 Apr 2017 8 Apr 2017	Target Charter approved by CMU Resolution 1002 as of 5 Dec 2015
		5.2. Target Supervisory Board and Executive Board Rules of Procedure to come into effects	State register the target Charter.	Target Supervisory Board and Executive Board Rules of Procedure approved by the CMU by 1st CMU Resolution. Ref: item 1.3 above.	Supervisory Board and Executive Board Rules of Procedure	CMU		Target Supervisory Board and Executive Board Rules of Procedure approved by CMU Resolution 1002 as of 5 Dec 2015
		5.3. Appoint board members according to new rules.	Nomination committee to search for board members. GSM of Naftogaz to appoint board members	The target Charter of Naftogaz becomes effective. Contract with Gazprom is re-assigned to the unbundled TSO. Stockholm arbitration decision favourable for Naftogaz. Market liberalisation and independent regulator are in place	Policies and procedures to be developed by the Supervisory Board (beyond the scope of this CGAP)	Nomination committee CMU State Property Fund Parliament	1 Apr 2017	To be developed.
		5.4. Establish Performance Agreement for Supervisory Board	Develop and conclude Performance Agreement between shareholder and Supervisory Board		Draft Performance Agreement	Ministry of Economy / CMU	1 Apr 2017	To be developed