

Vienna, 27 September 2022
UA-MC/O/alo/14/27-09-2022

Corporate governance reform of the gas transmission system operator

Excellency,

As you know, the Energy Community Secretariat has been supporting the Government of Ukraine (GoU) to strengthen the corporate governance of state-owned enterprises (SOEs) in the energy sector, including the gas transmission system operator of Ukraine (GTSOU), in line with best international practices and the European rules on unbundling. We have also repeatedly expressed our concerns regarding the two-layer governance structure of the GTSOU and its shareholder MGU, most recently in a letter to You of 18 July 2022. To address these deficiencies, we continuously support Your Government in simplifying the existing structure while maintaining the highest standards for independence and good governance. In view of the most recent developments, ensuring a swift implementation of the agreed GTSOU corporate governance action plan (the Roadmap) is now more important than ever.

We were pleased by the commitment by the GoU to the updated Roadmap and by the intense and productive cooperation with the Ministry of Energy leading the implementation process on behalf of GoU. This cooperation focused so far and resulted in a consolidated GTSOU draft under direct shareholding of the Ministry of Energy. The draft charter, that should be yet consulted with the national energy and utility regulation committee (NEURC), clearly defines the competencies of all governing bodies of the GTSOU. The strongest role is being attributed to a competitively and transparently selected and truly independent supervisory board of the GTSOU, which will mitigate the risks of interventions in the operational management of GTSOU. The draft charter could also serve as model to improve the corporate governance framework of the other energy SOEs.

We are encouraging the GoU to initiate promptly the next key steps in implementing the Roadmap, as follows:

- the transfer of GTSOU shareholding from the MGU to the Ministry of Energy;
- the adoption of the new GTSOU charter, which could be done in parallel;
- the launch of the selection procedure for the members of the Supervisory Board; and
- the selection and appointment of the GTSOU's Management Board by the new GTSOU's Supervisory Board once it is established.

We are confident that the aforementioned key steps would allow completing the GTSOU's corporate governance reform swiftly, targeting the end of October 2022. It should ensure that the GTSOU transmission system operator could perform its duties efficiently and smoothly during the extremely challenging wintertime.

ATTN. H.E. MR. DENYS ANATOLIYOVYCH SHMYHAL
PRIME MINISTER OF UKRAINE

COPY: H.E. MR. GERMAN GALUSHCHENKO
MINISTER OF ENERGY OF UKRAINE

We would like to reiterate that the Roadmap by your Government provides the required framework for the implementation of the GTSOU's corporate governance action plan. We believe that any discussion about additional legislation allegedly needed will only delay the implementation of the Roadmap, which could adversely impact the operational capacity of GTSOU to cope with the upcoming winter and the increasing energy crisis, and thereby severely affect the energy security of Ukraine. A draft law already registered in Parliament seems to be driven by particular interest and would almost certainly entail a delay of the reform process.

We kindly ask for your personal support in promoting the reform process as devised by GoU and in bringing it to a swift implementation. This would be an important step in avoiding recertification of GTSOU under the European energy rules. It would ensure that the newly established corporate governance model of GTSOU builds trust with Ukraine's international partners and attracts the investments so much needed in reconstructing the energy infrastructure. We strongly believe that implementing the corporate governance model without further delays serves the best interest of Ukraine, which is especially important in these challenging times.

We stand with you and the Ukrainian people and look forward to continuing to support you during the war and the subsequent rapid and successful reconstruction and recovery.

Please be assured, Excellency, of my highest consideration.

A handwritten signature in black ink, reading "Artur Lorkowski".

Artur Lorkowski
Director of the Energy Community Secretariat