

## Letter from the President of the Management Board of PGNiG SA



I have the pleasure to invite you to read the Annual Report of the PGNiG Group for 2020. Marked by extraordinary circumstances of the COVID-19 pandemic, this past year was also a period witnessing several landmark events for the Group and Poland's energy security.

March 2020 saw the conclusion of court proceedings in which PGNiG SA had demanded that its Russian supplier of natural gas (Gazprom) revise the pricing formula under the Yamal contract, binding until the end of 2022. The Arbitration Court in Stockholm finally delivered a long-awaited, historic award in favour of PGNiG SA. The pricing formula for natural gas purchased by PGNiG from Russia was amended to bring it into closer alignment with natural gas prices prevailing on European markets. In addition, following the arbitral award, we received a refund of approximately PLN 5.69bn, corresponding to the amount overcharged by our Russian supplier in

the period from 2014 to February 2020. However, it is not so much the refund of the past overpayment, but the revision of the pricing formula under the Yamal contract that will be a key factor underpinning the PGNiG Group's financial performance in 2020 and beyond. The favourable outcome of the arbitration has substantially improved the conditions under which we are trading. The lower cost of gas supplies sourced from across Poland's eastern border has been clearly reflected in the PGNiG Group's financial performance for the recent quarters.

The financial results were record-breaking in many respects, which was a noteworthy achievement in the face of headwinds triggered by pandemic-related restrictions. Despite initial concerns, the introduced restrictions and economic slowdown did not dampen demand for natural gas. The record-high improvements across various performance metrics posted by the PGNiG Group for the six months to June 30th 2020 were the best among those ever reported for an interim period by Polish companies listed on the Warsaw Stock Exchange. Although the pandemic did affect all segments of our business, amid suppressed oil and gas prices and a deteriorating economic climate across the globe, we were able to boast excellent financial results and solid operating performance also after the nine months to September 30th 2020. On the back of the lower cost of gas supplies from Russia, we managed to outperform other Polish companies in terms of both EBIT and EBITDA. We closed the fourth quarter of 2020 with a profit of PLN 1.3bn. The full-year EBITDA more than doubled year on year, to over PLN 13bn, with consolidated net profit coming in at PLN 7.34bn, relative to PLN 1.37bn for 2019.

In 2020, we continued to strategically expand our presence on the Norwegian Continental Shelf. Our E&P specialists from PGNiG Upstream Norway discovered a large natural gas deposit within the Warka prospect on the Norwegian Sea, with resources estimated between 8 and 30 bcm. We also acquired two more fields already in the production phase, which was immediately reflected in our operating results attributable to the Group's Norwegian gas assets. Earlier, in January 2020, we had been awarded three new licences in the APA2019 licensing round. Our goal remains to maximally fill the Baltic Pipe, a new gas transmission link still under construction, with our own gas output from the Norwegian shelf. We have already taken the first steps to fill up the booked pipeline capacity. As the PGNiG Group, we have concluded a contract with the Ørsted Group to purchase significant volumes of natural gas from its North Sea fields, which may flow to Poland via the Baltic Pipe in the future.

Domestically, our Exploration and Production segment kept to the scheduled pace of work, even though the pandemic-induced restrictions were a major setback. Our objective is to sustain domestic gas production at current rates. By deploying digital solutions we have achieved efficiency gains in planning our upstream operations and exploiting our reserves. We have discovered new gas-bearing horizons within the Mirocin field in the Podkarpacie region, which may hold up to 1 bcm of natural gas. In 2020, drilling works were under way in more than 20 locations across Poland.

LNG supplies were another vitally important area, besides our activity on the Norwegian shelf and domestic production, constituting the third pillar of our strategy to diversify gas supply sources and ensure Poland's energy security. Last year, the aggregate volume of gas imported into Poland through the LNG terminal in Świnoujście rose to 3.7 bcm, up almost 10% on 2019. In 2020, liquefied natural gas imported by PGNiG accounted for some 25% of our total imports. An important stepping stone in developing the PGNiG Group's LNG trading capability was the award of contracts to charter two LNG vessels, which will allow us to fulfil the long-term FOB supply contracts with our US-based LNG suppliers. The vessels will enter service in 2022 and 2023, enabling the PGNiG Group to trade in liquefied natural gas on the global market.

In the Distribution segment, we continued connecting new customers to the gas grid. By the end of 2020, the number of new gas connections provided by Polska Spółka Gazownictwa had exceeded 100 thousand, with the progress in gas grid rollout across Poland at 67%. We launched new LNG regasification stations, bringing the number of such facilities owned by the PGNiG Group in Poland to 56. Our goal is to provide access to natural gas to the broadest possible range of business customers and households. We seek to exploit our potential in this area and expand our reach in smaller communities across Poland, including through an off-grid network based on LNG.

A major milestone for our Generation business was the completion of the CCGT unit project at the Stalowa Wola CHP plant, delivered jointly with Tauron Polska Energia. In Przemysł PGNiG Termika launched the construction of a gas-fired CHP plant, and in Warsaw it continued the construction of a new CCGT unit at the Żerań CHP plant. In the pursuit of our objectives to expand the PGNiG Group's heat generation business, we keep looking closely into various investment options for the Generation segment.

In that extraordinary year, CSR was featuring particularly high on our agenda. Since March 2020, when COVID-19 first reached Poland, PGNiG has allocated nearly PLN 50m to support the fight against the pandemic (corresponding to the value of aid provided externally and to the costs of ensuring staff protection and business continuity at the Group companies). Both financial and non-financial support was channelled mostly to healthcare facilities and other institutionalised care providers. The beneficiaries included hospitals, clinics, nursing homes, hospices and organisations supporting veterans.

In addition to projects designed to support Poland's energy security, we also have plans to contribute more actively to advancing a low-emission economy. Although natural gas is set remain the leading fuel for several decades to come, and will ultimately help bridge the energy transition, the PGNiG Group is already looking to establish a strong foothold in the green energy sector. We are engaged in intensive preparations to build a biomethane market in Poland, running research and pilot projects into hydrogen distribution and storage. Other plans are to develop PGNiG's capabilities in electricity generation from renewable sources.

A key factor behind the future delivery of our strategic goals will be whether the planned acquisition of the PGNiG Group by PKN Orlen is eventually carried through. We are confident that the intentions of PGNiG's majority owner in this regard will allow us to leverage the Group's potential and achieve relevant synergies, to the benefit of our shareholders. Ours is already a close working relationship with the Orlen Group, related to the gas-fired power plant project in Ostrołęka and long-term natural gas supplies.

In concluding my letter, I would like to thank the Management Board, the Supervisory Board and all employees of PGNiG SA for their hard work in 2020, which was so extremely challenging to everyone.

Yours faithfully,

Paweł Majewski

President of the Management Board of PGNiG SA