Letter from the President of the Management Board of PGNiG S.A.

When we were dealing with the pandemic shock of 2020 and facing the need to adapt quickly to stay operating among severe pandemic restrictions, all signs suggested 2021 would be a time of returning to business as usual. But last year brought even greater challenges for the Group, resulting primarily from the unprecedented rally in gas prices on European markets.

The reasons were manifold – from the global economic recovery to weather – but the most prominent one were gas supply cuts by the dominant supplier to the European Union market. The resulting surge in gas prices proved to be a burden many trading companies could not bear. Unable to meet their rapidly growing liquidity needs, they either had to exit the market or declare bankruptcy.

The situation had its impact on the PGNiG Group as well. But with sound foundations and timely action, PGNiG was able to secure adequate funding and obtain the working capital necessary to ensure uninterrupted operation of the Group in extreme conditions.

Leaving the liquidity issues aside, I would like to stress that 2021 was a good year for the PGNiG Group in terms of financial performance. The Group generated PLN 15.6bn in EBITDA, an almost 20% increase year on year. EBIT also went up, to PLN 11.57bn. Consolidated revenue reached almost PLN 70bn, having increased 78% year on year. Only the bottom line decreased, by 16% to PLN 6.2bn.

The key performance driver was the Exploration and Production segment, which contributed 87% to EBITDA. This was a combined effect of soaring hydrocarbon prices and increased production volumes, with gas output having reached 5.4 billion cubic meters, an almost 20% rise on 2020. Production increased as the Group made new acquisitions and developed existing assets in line with its consistent strategy to diversify gas supply sources and directions. PGNiG proved it is capable of combining efforts to strengthen Poland's energy security with successful pursuit of its business goals.

On the other hand, volatility and rising gas prices proved a challenge for the Trade and Storage segment, which contributed negatively to EBITDA last year. But given the extreme conditions in which we had to operate, especially in the second half of 2021, the Trading and Storage segment showed great resilience and its negative result was offset by performance delivered by the Distribution and Generation businesses. Once again, we could see the benefits of PGNiG's business diversification.

From an operational perspective, a key event for the PGNiG Group was the acquisition of INEOS E&P Norge assets, which will facilitate delivery of the strategic target volume of 2.5 billion cubic metres of own production on the Norwegian Continental Shelf. The fuel will represent a major proportion of the gas to be sent to Poland through the Baltic Pipe, contributing to further diversification of gas supply sources. It is worth noting the INEOS E&P Norge acquisition has a very favourable financial aspect to it, offering an extremely short payback period.

We continued to drive rapid organic growth in Norway with production launched from the Duva field and the Ærfugl field development completed, and we took formal steps to prepare for production startup in the King Lear and Tommeliten Alpha fields.

Other important acquisitions we made last year were a 25% interest in the Musakhel licence block in Pakistan, which holds estimated resources of approximately 16 billion cubic meters of gas, and a majority interest in Karpatgazvydobuvannya. When the geopolitical situation permits, the latter transaction will enable us to explore for and produce hydrocarbons in western Ukraine as a natural extension of the geological area holding the Przemyśl field, our long-standing production asset.

In Poland, the Exploration and Production segment continued to implement its plans while still dealing with the effects of pandemic restrictions affecting the pace of permitting and approval processes for our upstream operations. Nonetheless, we drilled almost 20 wells, with 19 wells put onstream. All this helped to maintain domestic production at relatively stable levels. At the same time, we continued to implement cutting-edge digital solutions based on artificial intelligence and cloud computing in the upstream, which will help increase domestic recoverable reserves by more than 7 billion cubic meters in the near future.

To secure LNG imports, we increased the volumes of LNG purchased under contracts with U.S. companies of the Venture Global LNG Group. Over 20 years, we will receive annually about 7.4 billion cubic meters of natural gas after regasification from this supplier. Our import portfolio comprises contracts for the supply of liquefied natural gas with a total volume after regasification of approximately 12 billion cubic meters per year. As most deliveries will be Free on Board shipments, the PGNiG Group continued its efforts to secure the necessary transport capacity. Two more ships were contracted last year, which means at least four LNG tankers bearing the Group's logo will be put in service in the coming years.

For the Distribution business, 2021 was a record year, with over 260 thousand grid connection terms issued and some 135 thousand service line installation agreements signed by Polska Spółka Gazownictwa last year. Over 80 LNG regasification stations operated in Poland in 2021, supporting the gas network rollout. Our gas network rollout spending was close to PLN 3.45bn in 2021.

A milestone event for the Generation segment was the start of commercial operation of a CCGT unit at the Żerań plant in Warsaw. With a thermal capacity of 326 MWt and an electrical capacity of 494 MWe, the new unit will produce 3.0 TWh of electricity and 1.9 TWh of heat annually. Using natural gas as a fuel will contribute to a significant reduction in air pollution and CO_2 emissions per unit of energy produced.

We moved forward on other low-carbon economy and energy transition projects. The research projects exploring hydrogen storage in salt caverns entered subsequent phases. In parallel, work is under way to set up a facility to test the possibility of transporting hydrogen and gas blends via the gas network.

Last year, we notified the Office of Competition and Consumer Protection of an intended concentration involving a merger of PGNiG and PKN ORLEN. We are confident the transaction will enhance our potential and generate synergies benefitting the shareholders of both companies. As a member of a multi-utility group, we will contribute existing and developed projects as well as know-how and expertise in the fields of natural gas extraction, trade and distribution and decarbonised gases.

I would like to thank the Management Board, the Supervisory Board and all employees of PGNiG SA for their hard work in what was an extremely challenging and turbulent year. I have the pleasure to invite you to read the Annual Report of the PGNiG Group for 2021.

Yours faithfully,

Paweł Majewski

President of the Management Board of PGNiG S.A.