# PGNiG Supply & Trading GmbH
# Munich

## Annual Financial Statements as of December 31, 2019 and the Management Report for the Fiscal Year 2019

# PGNiG Supply & Trading GmbH
# Munich

## Annual Financial Statements as of December 31, 2019 and the Management Report for the Fiscal Year 2019



(Translation – the German wording shall prevail)

## INDEPENDENT AUDITOR'S CERTIFICATE

To PGNiG Supply & Trading GmbH, Munich

### Audit opinions

We have audited PGNiG Supply & Trading GmbH's annual financial statements comprising the balance sheet as of December 31, 2019 and the income statement for the fiscal year from January 1 through December 31, 2019 as well as the notes to the annual financial statements, including a presentation of the accounting and valuation methods. In addition, we have audited PGNiG Supply & Trading GmbH's management report for the fiscal year from January 1 through December 31, 2019.

According to our assessment based on the knowledge obtained during the audit

- the attached annual financial statements comply, in all material respects, with the requirements pursuant to German commercial law as applicable for corporations and provide, by taking into account German generally accepted accounting principles, a true and fair view of the Company's assets and financial position as of December 31, 2019 and of its profit situation for the fiscal year from January 1, 2019 through December 31, 2019; and



- the attached management report as a whole provides a true and fair view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of the Company's future development.

Pursuant to Art. 322 Sec. 3 sentence 1 HGB, we declare that our audit has not led to any reservations relating to the annual financial statements' and the management report's legal compliance.

This Document is a respective non-binding English translation of the official signed leading German version.

**Basis for our audit opinions**

We have conducted our audit of the annual financial statements and of the management report in accordance with Art. 317 HGB and in compliance with German Generally Accepted Standards for the Audit of Financial Statements as issued by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer*; "IDW"). Our responsibilities pursuant to these requirements and principles are further described in the section "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" in our audit certificate. We are independent from the Company in accordance with the requirements pursuant to German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe the audit evidence we have obtained is sufficient and appropriate in order to provide a basis for our audit opinions expressed on the annual financial statements and on the management report.

**Legal Representatives' Responsibilities for the Annual Financial Statements and the Management Report**

The legal representatives are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements pursuant German commercial as applicable to corporations and that the annual financial statements, in compliance with German generally accepted accounting principles, provide a true and fair view of the Company's assets, liabilities, financial position, and profit situation. Furthermore, the legal representatives are responsible for such internal controls they have determined, in accordance with German generally accepted accounting principles, as being necessary in order to provide for the preparation of annual financial statements that are free from material misstatements, whether due to fraud or error.

When preparing the annual financial statements, the legal representatives are responsible to assess the Company's ability to continue as a going concern. They also have the responsibility to disclose, as applicable, matters related to the continuation as a going concern. Furthermore, they are responsible for financial reporting based on the going concern principle unless otherwise required due to actual or legal circumstances.

Furthermore, the legal representatives are responsible for the preparation of the management report that, as a whole, provides a true and fair view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of the Company's future development. Furthermore, the legal representatives are responsible for such precautions and measures (systems) they have deemed necessary in order to provide for the preparation of a management report that is in accordance with applicable German legal requirements, and in order to provide sufficiently appropriate evidence for the statements contained in the management report.

The supervisory board is responsible to monitor the Company's financial reporting process for the preparation of the annual financial statements and the management report.

**Auditor's Responsibilities for the Audit of the Annual Financial Statements and the Management Report**

Our objective is to obtain reasonable assurance as to whether the annual financial statements as a whole are free from any material misstatements, whether due to fraud or error, and whether the management report as a whole presents a true and fair view of the Company's position and is, in all material respects, consistent with the annual financial statements and the knowledge obtained during our audit, complies with German legal requirements and appropriately presents the opportunities and risks of the Company's future development, as well as to issue an audit certificate that includes our audit opinions on the annual financial statements and on the management report.



Reasonable assurance is a high level of assurance but is not a guarantee that an audit con-ducted in accordance with Art. 317 HGB and in compliance with German Generally Accepted Standards for the Audit of Financial Statements as issued by the IDW will always detect any material misstatement. Misstatements can arise from fraud or error and are considered material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and the management report.

We exercise professional judgment and maintain professional skepticism throughout the entire audit. We also:

- identify and assess the risks of material misstatements in the annual financial statements and the management report, whether due to fraud or error, plan and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting any material misstatements resulting from fraud is higher than for those resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls;

- obtain an understanding of the internal control system relevant for the audit of the annual financial statements and of precautions and measures relevant for the audit of the management report, in order to plan audit procedures being appropriate under the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems;

- evaluate the appropriateness of accounting methods applied by the legal representatives and the reasonableness of estimates made by the legal representatives as well as the related disclosures;



- draw conclusions on the appropriateness of the going concern principle applied by the legal representatives and, based on the audit evidence obtained, whether there is a material uncertainty in connection with events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that there is a material uncertainty, we are required to draw attention in the audit certificate to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit certificate. However, future events or conditions may cause the Company to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements provide, by taking into account German generally accepted accounting principles, a true and fair view of the Company's assets, liabilities, financial position and profit situation;

- evaluate the management report's consistency with the annual financial statements, its conformity with German law, and its presentation of the Company's position;

- perform audit procedures in connection with the prospective information presented by the legal representatives in the management report. On the basis of sufficiently appropriate audit evidence we evaluate, in particular, the significant assumptions used by the legal representatives as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the underlying assumptions. There is a substantial unavoidable risk that future events will differ significantly from the prospective information.

We discuss with the supervisors, inter alia, the planned scope and timing of the audit as well as significant audit findings, including any deficiencies in the internal control system we identify during our audit.

## OTHER LEGAL AND REGULATORY REQUIREMENTS

### Note on the audit of compliance with the accounting-related requirements pursuant to Art. 6b Sec. 3 EnWG

We have audited compliance with the accounting-related requirements pursuant to Art. 6b Sec. 3 EnwG, according to which separate accounts must be kept for the activities pursuant to Art. 6b Sec. 3 EnwG, for the fiscal year from January 1, 2019 through December 31, 2019.

According to our assessment based on the knowledge obtained during our audit, the accounting-related requirements pursuant to Art. 6b Sec. 3 EnWG, according to which separate accounts must be kept for the activities pursuant to Art. 6b Sec. 3 EnwG, have been met, in all material respects, during the fiscal year from January 1, 2019 through December 31, 2019.

### Basis for our audit opinion



We have conducted our audit in accordance with Art. 6b Sec. 5 EnWG and in compliance with German Generally Accepted Standards for the Audit of Financial Statements as issued by the IDW. Our responsibilities pursuant to these requirements and principles are further described in the section “Auditor’s Responsibilities for the Audit of Compliance with the Accounting-related Requirements pursuant to Art. 6b Sec. 3 EnWG” and in the section “Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report”. We believe the audit evidence we have obtained is sufficient and appropriate in order to provide a basis for our audit opinions expressed in connection herewith.

### Legal Representatives’ responsibilities for accounting pursuant to Art. 6b Sec. 3 EnWG

The legal representatives are responsible for compliance with the accounting-related requirements pursuant to Art. 6b Sec. 3 EnwG and for such precautions and measures (systems) they have deemed necessary in order to comply with these requirements.

**Auditor's Responsibilities for the Audit of Compliance with the Accounting-related Requirements pursuant to Art. 6b Sec. 3 EnWG**

Our objective is to obtain reasonable assurance as to whether the accounting-related requirements pursuant to Art. 6b Sec. 3 EnWG have been complied with in all material respects and to issue a note containing our audit opinions on compliance with the accounting-related requirements pursuant to Art. 6b Sec. 3 EnwG. Our audit includes an assessment as to whether the valuations and allocation of accounts pursuant to Art. 6b Sec. 3 EnWG are appropriate and transparent and whether the principle of consistency has been observed.

Munich, June 5, 2020

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)



| | |
|---|---|
| Hund | Biersack |
| German CPA | German CPA |

(The German authoritative version includes the Auditor's signatures)

This Document is a respective non-binding English translation of the official signed leading German version.

**PGNiG Supply & Trading GmbH, Munich**

**Balance sheet as of December 31, 2019**



## A S S E T S

| | EUR | EUR | Previous year EUR |
|---|---|---|---|
| **A. FIXED ASSETS** | | | |
| **I. Intangible assets** | | | |
| 1. Acquired concessions, industrial property and similar rights and assets as well as licences in such rights and assets | 68,221.00 | | 35,004.00 |
| 2. Prepayments | 969,261.91 | | 584,582.47 |
| | | 1,037,482.91 | 619,586.47 |
| **II. TANGIBLE ASSETS** | | | |
| Other equipment, factory and office equipment | | 281,511.84 | 254,541.27 |
| **III. Financial assets** | | | |
| Shares in affiliated companies | | 1,000,000.00 | 1,000,000.00 |
| | | 2,318,994.75 | 1,874,127.74 |
| **B. CURRENT ASSETS** | | | |
| **I. Inventories** | | | |
| Natural gas reserves | | 13,189,136.05 | 13,208,803.75 |
| **II. Receivables and other assets** | | | |
| 1. Trade receivables | 39,289,690.92 | | 17,814,546.30 |
| 2. Receivables from affiliated companies | 47,318,963.00 | | 135,850,496.98 |
| 3. Other assets | 16,809,954.64 | | 24,034,122.87 |
| including taxes EUR 460.394,09 (previous year: KEUR 0) | | 103,418,608.56 | 177,699,166.15 |
| **III. Cash on hand and bank balances** | | 38,627,611.46 | 9,159,972.05 |
| | | 155,235,356.07 | 200,067,941.95 |
| **C. PREPAID EXPENSES AND DEFERRED CHARGES** | | 6,817,633.85 | 2,157,293.26 |
| **D. DEFERRED TAX ASSETS** | | 1,467,180.42 | 1,654,975.36 |
| | | 165,839,165.09 | 205,754,338.31 |

## L I A B I L I T I E S

| | EUR | EUR | Previous year EUR |
|---|---|---|---|
| **A. Equity** | | | |
| **I. Subscribed capital** | | 10,000,000.00 | 10,000,000.00 |
| **II. Currency translation reserves** | | 39,408.57 | 5,657.02 |
| **III. Net loss** | | -2,706,957.09 | -3,130,828.44 |
| | | 7,332,451.48 | 6,874,828.58 |
| **B. ACCRUALS** | | | |
| 1. Tax provisions | 28,970.39 | | 53,548.58 |
| 2. Other provisions | 12,916,463.16 | | 1,836,446.02 |
| | | 12,945,433.55 | 1,889,994.60 |
| **C. ACCOUNTS PAYABLE** | | | |
| 1. Bank loans and overdrafts | 33,413,682.07 | | 38,769,557.98 |
| 2. Trade payables | 27,677,628.63 | | 115,794,572.25 |
| 3. Payables to affiliated companies | 78,376,805.62 | | 26,080,106.78 |
| 4. Other liabilities | 4,897,879.47 | | 3,596,104.08 |
| including taxes EUR 0 (previous year: TEUR 384) | | | |
| | | 144,365,995.79 | 184,240,341.09 |
| **D. DEFERRED INCOME** | | 1,188,353.24 | 12,749,174.04 |
| E. **DEFERRED TAX LIABILITIES** | | 6,931.03 | 0.00 |
| | | 165,839,165.09 | 205,754,338.31 |

This Document is a respective non-binding English translation of the official signed lead-ing German version.

**PGNiG Supply & Trading GmbH, Munich**

**Income statement**
**for the 2019 financial year**

| | | | EUR | Previous year EUR |
|---|---|---|---|---|
| 1. | Sales revenue | | 1,640,270,605.01 | 1,487,889,683.49 |
| 2. | Other operating income<br>including from curency translation:<br>EUR 244.949,50 (previous year: EUR 103.752,75) | | 575,743.92 | 327,890.79 |
| 3. | Cost of materials | | | |
| a) | Cost of raw materials, supplies and merchandise | -1,591,034,827.23 | | -1,476,499,813.26 |
| b) | Cost of purchased services | -29,492,732.66 | | -2,967,599.74 |
| | | | -1,620,527,559.89 | -1,479,467,413.00 |
| 4. | Personnel expenses | | | |
| a) | Wages and salaries | -3,926,315.86 | | -3,763,142.33 |
| b) | Social security, pension and other benefits<br>including for pension: EUR 306,51<br>(previous year: EUR 182,16) | -598,760.50 | | -513,185.75 |
| | | | -4,525,076.36 | -4,276,328.08 |
| 5. | Depreciation of fixed intangible and tangible assets | | -142,145.83 | -105,505.14 |
| 6. | Other operating expenses<br>including from currency translation:<br>EUR 345.805,75 (previous year: EUR 166.845,90) | | -10,367,076.67 | -4,308,888.42 |
| | | | 5,284,490.18 | 59,439.64 |
| 7. | Losses absorbed due to a profit-and-loss transfer agreement | | -2,356,639.37 | -1,042,356.82 |
| 8. | Other interest and similar income | 168,149.75 | | 82,891.35 |
| 9. | Interest and similar expenses | -1,771,491.50 | | -1,284,156.49 |
| | | | -1,603,341.75 | -1,201,265.14 |
| | Taxes on income<br>including income from deferred tax assets<br>EUR 822.089,09 (previous year income: EUR 769.734,42) | | -900,065.71 | 740,769.11 |
| 10. | Earnings after taxes | | 424,443.35 | -1,443,413.21 |
| 11. | Other taxes | | 572.00 | 334.00 |
| 12. | Net income/annual loss | | 423,871.35 | -1,443,747.21 |



This Document is a respective non-binding English translation of the official signed lead-ing German version.

# PGNiG Supply & Trading GmbH, Munich

# Notes for the fiscal year from January 1 through December 31, 2019

---

## General notes

The present annual financial statements of PGNiG Supply & Trading GmbH, Munich (HRB 190424, Munich Local Court) have been prepared in accordance with Art. 242 et seq. and Art. 264 et seq. HGB (German Commercial Code) as well as the applicable requirements pursuant to GmbHG (German Limited Liability Company Act).

The Company is a large corporation pursuant to Art. 267 Sec. 3 and 4 HGB.

The income statement has been prepared according to the total cost method.

The Company is a wholly-owned subsidiary of Polskie Górnictwo Naftowe i Gazownictwo Spólka Akcyjna, Warsaw, Poland, a vertically integrated energy company in the sector of gas production and gas supply. Therefore, the Company is part of a group of companies which are affiliated with each other pursuant to Art. 3 Sec. 2 of the Council Regulation (EC) No. 139/2004 of 20 January 2004 on the control of concentrations between undertakings (the EC Merger Regulation) and which operate in the electricity or gas sector within the European Union. Therefore, the Company is a vertically integrated company pursuant to Art. 3 No. 38 EnWG (German Energy Industry Act). The EnWG's regulations apply.

The Company has a profit-and-loss transfer agreement with its wholly-owned subsidiary, PST Europe Sales GmbH. Such agreement has been effective since January 1, 2017 and has a term until December 31, 2022. It was entered into the commercial register on January 5, 2017.

Since 2017, the Company has been holding a productive permanent establishment ("PE") in London, Great Britain.

In 2018, PST established a new PE in Warsaw which has started operations in 2019.

## Accounting and valuation methods

The preparation of the annual financial statements was based on the following accounting and valuation methods:

Acquired **intangible assets** have been recognized at acquisition costs and are depreciated, to the extent they are subject to wear and tear, according to schedule over their useful life by using the straight-line method. Depreciations of additions during the fiscal year are made on a pro rata temporis basis. The underlying useful lives amount to 1 to 5 years.

**Tangible assets** have been recognized at acquisition costs and are depreciated, to the extent they are subject to wear and tear, according to schedule over their expected useful life by using the straight-line method. Depreciations of additions to tangible fixed assets during the business year are made on a pro rata temporis basis. The tangible fixed assets' useful lives are between 3 and 23 years. Low-value assets with acquisition costs up to EUR 250.00 are fully depreciated in the year of acquisition and over five years (pooling) in case of acquisition costs between EUR 250.00 and EUR 1,000.00.

**Financial assets** have been recognized at acquisition costs.

In case of a permanent impairment of **fixed assets**, such assets are subject to unscheduled depreciations to the lower fair value pursuant to Art. 253 Sec. 3 sentence 5 and 6 HGB.

With regard to the recognition of **inventories**, capacity costs related with the storage of gas have been taken into account besides the mere gas acquisition costs. Consequently, gas acquisition costs increased by additional ancillary costs are expensed when withdrawing the gas. The valuation is based on the moving average.



**Receivables and other assets** have been recognized at nominal value; identifiable risks have been taken into account by means of value adjustments.

**Prepaid expenses** are recognized on the assets side as expenses if they constitute expenses relating to a certain period after the balance sheet date.

**Cash on hand** and **bank balances** have been recognized at nominal value.

**Foreign currencies** have been converted at the rate applicable on the transaction date. Assets and debts denominated in foreign currencies have been converted at the average spot exchange rate as of the balance sheet date.

This also applies to the foreign PE's balance sheet items. The income statement's items, however, are converted at the fiscal year's average spot exchange rate. Any difference resulting therefrom is recognized in the currency translation reserve without affecting net income.

The calculation of **deferred taxes** is based on tax loss carryforwards and temporary differences between the valuation of assets, debts and deferred charges/deferred income according to commercial law and their valuation according to tax law. The resulting tax burden/relief is valued with the company's individual tax rates at the date of the differences' elimination and is not discounted. The calculation of deferred taxes results in a tax relief. The company exercised its option right for deferred tax assets pursuant to Art. 274 Sec. 1 sentence 2 HGB.

**Subscribed capital** has been recognized at nominal value.

**Tax provisions** and **other provisions** take into account all identifiable risks and uncertain liabilities. They have been assessed with the settlement value required pursuant to prudent commercial assessment. Long-term provisions have been discounted with the market interest rate appropriate for the remaining term (Art. 253 Sec. 2 HGB).

**Liabilities** have been assessed with their settlement value.

**Deferred income** has been recognized on the liabilities side as income if it constitutes income relating to certain periods after the balance sheet date.

## Notes on the balance sheet

### Fixed assets

The fixed assets' individual items' development is presented in the assets analysis indicating the business year's depreciations.

Financial assets include PST Europe Sales GmbH. With such company, there has been a profit-and-loss transfer agreement since January 1, 2017.

| | shareholding | Subscribed equity | Business year | Result |
|---|---|---|---|---|
| PST Europe Sales GmbH, München | 100% | 1,000,000.00 | 01.01.2019 - 31.12.2019 | 0.00 |

Due to the profit-and-loss transfer agreement, the Company must assume losses in the amount of EUR 2,356,639.37.

### Inventories

Inventories include the gas stored in the rented storage space in the amount of EUR 13,189,136.05 (previous year EUR 13,208,803.75).

**Receivables and other assets**

| | 31.12.2019 EUR | 31.12.2018 EUR |
|---|---|---|
| Trade receivables | 39,289,690.92 | 17,814,546.30 |
| thereof, with a maturity of more than 1 year | 0.00 | 0.00 |
| Receivables from affiliated companies | 47,318,963.00 | 135,850,496.98 |
| thereof, with a maturity of more than 1 year | 0.00 | 0.00 |
| Other assets | 16,809,954.64 | 24,034,122.87 |
| thereof, with a maturity of more than 1 year | 0.00 | 0.00 |
| | 103,418,608.56 | 177,699,166.15 |

During the fiscal year 2019, trade receivables only include receivables from trading partners for the delivery period of December 2019.

| | 31.12.2019 EUR | 31.12.2018 EUR |
|---|---|---|
| Polskie Górnictwo Naftowe i Gazownictwo Spólka Akcyjna, Warschau, Polen | 32,020,649.97 | 120,457,896.42 |
| PST Europe Sales GmbH, Munich | 14,822,120.74 | 14,219,099.22 |
| XOOL GmbH, Munich | 476,192.29 | 1,173,501.34 |
| | 47.318.963.00 | 135.850.496.98 |



Receivables from affiliated companies mainly result from trade receivables from the shareholder PGNiG SA., Warsaw. The receivables from PST Europe Sales GmbH mainly comprise a loan in the amount of EUR 7,540,457.31 (previous year EUR 8,213,991.69) as well as trade receivables in the amount of EUR 5,306,299.15 (previous year EUR 4,485,051.64). Receivables from XOOL comprise trade receivables in the amount of EUR 397,736.94 (previous year EUR 917,593.36). The remaining amount results from XOOL GmbH’s and PST Europe Sales GmbH’s share in payable VAT.

Besides of paid securities, other assets include margin payments (“initial and variation margin”) for gas and electricity futures for delivery periods after December 31, 2019 in the total amount of EUR 10,347,266.84 (previous year EUR 16,696,577.81).

**Cash on hand and bank balances**

Liquid funds consist of bank balances, of which an amount of EUR 676,900.00 (previous year EUR 2,741,460.80) is limited in terms of use. The decrease compared to the previous year is due to the reduction in cash deposits, which are no longer required as collateral for bank guarantees after the underlying transaction was discontinued.

**Prepaid expenses**

Prepaid expenses mainly include expenses from the cascading of gas and electricity futures (with a delivery start as of January 1, 2020). With regard hereto, the net cascading effect is recognized under such item irrespective of whether or not the transaction constitutes a future physical delivery or a financial close out.

**Deferred taxes**

Deferred tax assets result from the following facts:



| | 31.12.2019<br>EUR | 31.12.2018<br>EUR |
|---|---|---|
| Deferred tax assets on tax loss carryforwards | 832,886.27 | 1,654,975.36 |
| Deferred taxes from local differences branch Poland | 634,294.15 | 0.00 |
| | 1,467,180.42 | 1,654,975.36 |

The calculation was based on an unchanged tax rate of 32.975 %. Deferred tax assets were taken into account with respect to loss carryforwards in the amount of EUR 2,525,811.29. Deferred tax assets on tax loss carryforwards were capitalized under the assumption that the Company will earn positive tax results in the future. The amount is blocked from payout as there is no freely available equity as of the balance sheet date.

The calculation of deferred taxes from local differences of the polish branch was based on a tax rate of 19.00%. The accounting was carried out on the assumption of temporary imbalances.

A pay-out block is formed to the amount of the deferred tax assets, since there are no freely available equity components as of the balance sheet date.

**Subscribed capital**

The subscribed capital in the amount of KEUR 10,000,000.00 is fully held by the sole shareholder, Polskie Górnictwo Naftowe i Gazownictwo Spólka Akcyjna, Warsaw, Poland.

An amount corresponding to recognized active deferred tax assets is blocked from payout as there is no freely available equity as of the balance sheet date.

**Tax provisions**

The stated tax provisions relate to the business year 2019.

**Other provisions**

Other provisions have been mainly created for outstanding invoices (here in particular for missing invoices of gas supplies), for bonus and vacation obligations concerning human resources and furthermore for fees for the preparation and audit of the annual financial statements, as well as fees for the tax returns' preparation.

During the business year, the Company had to form provisions for contingent losses for the trading business in the amount of EUR 463,500.28 (previous year EUR 315,840.00). Such provisions were discounted depending on the respective delivery period.

**Liabilities**

The classification of liabilities as well as their terms are presented in the following schedule of liabilities:

| | Total amount EUR | Maturity up to 1 year EUR |
|---|---|---|
| Bank loans and overdrafts | 33,413,682.07 | 33,413,682.07 |
| (previous year) | (38,769,557.98) | (38,769,557.98) |
| Trade payables | 27,677,628.63 | 27,677,628.63 |
| (previous year) | (115,794,572.25) | (115,794,572.25) |
| Payables to affiliated companies | 78,376,805.62 | 78,376,805.62 |
| (previous year) | (26,080,106.78) | (26,080,106.78) |
| Other liabilities | 4,897,879.47 | 4,897,879.47 |
| (previous year) | (3,596,104.08) | (3,596,104.08) |
| | 144,365,995.79 | 144,365,995.79 |
| | (184,240,341.09) | (184,240,341.09) |

Trade payables are mainly related with costs for the energy procurement.

Payables to affiliated companies include trade payables in the amount of EUR 4,291,447.43 (previous year EUR 12,307,951.73) to the affiliate PGNiG Upstream SA, Stavanger, Norway. In addition to trade payables in the amount of EUR 2,616,978.38 (previous year: EUR 0.00), there were liabilities to the sole shareholder Polskie Górnictwo Naftowe i Gazownictwo Spólka Akcyjna, Warsaw, Poland, in the amount of EUR 10,268,685.81 (previous year: EUR 10,028,296.81) resulting from the utilization of the shareholder loan (including interest). Payables to XOOL GmbH in the amount of EUR 7,779.56 (previous year EUR 2,701,501.42) result from cash pooling within the PST Group. Due to the existing profit-and-loss transfer agreement, liabilities from the loss transfer PST ES in the amount of EUR 2,356,639.37 (previous year EUR 1,042,356.82) have been reported as well.

Other liabilities mainly include security deposits in the form of margin obligations for gas and electricity futures for delivery periods after December 31, 2019 in the total amount of EUR 2,978,647.17 (previous year EUR 2,837,626.11).

Deferred income mainly includes the effect from the cascading of gas and electricity futures (with a delivery start as of January 1, 2020). With regard hereto, the net cascading effect is recognized under such item irrespective of whether or not the transaction constitutes a future physical delivery or a financial close out.

## Contingent liabilities

### Contingent liabilities arising from warranty agreements

At the balance sheet date, there were contingent liabilities from warranty agreements to the sole shareholder, Polskie Górnictwo Naftowe i Gazownictwo Spólka Akcyjna, Warsaw, Poland, at a maximum amount of EUR 240.0 million. The warranty agreement of December 23, 2011 (with a supplement dated November 17, 2017) was concluded due to the fact that the sole shareholder had signed guarantee agreements with PGNiG Supply & Trading GmbH's and PST Europe Sales GmbH's external suppliers in order to hedge the participation's non-payment. In the event of utilization by an external supplier, the sole shareholder would be entitled to reclaim the money from the subsidiary. The shareholder guarantees in the maximum amount of EUR 240.0 million relate to individual transactions between the Company and external suppliers. Each guarantee arrangement concluded within the scope of the warranty agreement is subject to the condition subsequent that the receivable to be secured has been settled by the external suppliers or that the term of the respective guarantee expires.

At the balance sheet date, the Company had outstanding payables to external suppliers and, consequently, payment guarantees by the parent company, in the amount of EUR 27.7 million; therefore, utilization at the same amount would be possible at the balance sheet date. Since the Company has sufficient liquid funds and meets all its payment obligations, utilization of the parent company's warranty obligation by external suppliers and thus utilization of the Company's warranty obligation by the parent company is unlikely. The risk is considered as minor.

### Contingent liabilities from the provision of collateral for third-party liabilities

In connection with the marketing of electricity, the Company has contingent liabilities from the provision of securities for external liabilities in the amount of EUR 0.00 (previous year EUR 2,226,560.80) as of December 31, 2019, which are collateralized by means of cash deposits. Based on our knowledge gained until the date of these financial statements' preparation, it is not likely that these contingent liabilities will be utilized; the risk is considered as being low.

## Other financial obligations

The following other financial obligations were reported as of December 31, 2019:

| 2019<br>EUR | 2020<br>EUR | 2021<br>EUR | 2022<br>EUR | Gesamt<br>EUR |
|---|---|---|---|---|
| 467,914,956.45 | 69,782,894.32 | 21,990,604.96 | 853,052.93 | 560,541,508.66 |

The obligations mainly relate to pending gas and electricity futures transactions (procurement) with third parties.

## Notes on the income statement

### Sales revenues

The main reasons for the rise in sales revenues are the significant increase in sales at the London branch (almost 2.5 times as much as in 2018), as well as the sales at the new PE in Warsaw opened in 2019.

The Company`s main task is still to guarantee the “Security of Supply” for Poland. Therefore, the sole shareholder Polskie Górnictwo Naftowe i Gazownictwo Spólka Akcyjna, Warsaw, Poland, is the most important trading partner. Sales revenues are distributed in terms of regions and commodities as follows:

| | Within Germany | Outside Germany | Total |
|---|---|---|---|
| | EUR | EUR | EUR |
| Sales revenues | 824,901,027.42 | 815,369,577.59 | 1,640,270,605.01 |
| *(previous year)* | (943,851,573.85) | (544,038,109.64) | (1,487,889,683.49) |



Sales revenues are distributed to commodities as follows:

| | Gas | Electricity | Oil | Total |
|---|---|---|---|---|
| | EUR | EUR | EUR | EUR |
| Sales revenues | 1,550,354,051.01 | 89,617,979.89 | 298,574.11 | 1,640,270,605.01 |
| (previous year) | (1,366,090,199.92) | (121,792,875.14) | (6,608.43) | (1,487,889,683.49) |

### Cost of materials

Cost of materials includes the cost of raw materials and supplies as well as the cost of purchased services. Similar to sales revenues, the major part of such costs is attributable to gas procurement costs. The increase compared to the previous year corresponds to the increase in sales revenues and results from an increased procurement volume for the foreign PEs.

**Depreciation**

Only scheduled depreciations of tangible and intangible fixed assets have been made.

**Other operating income and other operating expenses**

Other operating income mainly includes income from the reversal of provisions (EUR 299,252.02; previous year EUR 203,826.20), as well as income from currency translations which amounted to EUR 244,949.50 in the fiscal year 2019 (previous year EUR 103,752.75).

Other operating expenses include expenses from currency translations in the amount of EUR 345,805.75 (previous year EUR 166,845.90). Apart from that, other operating expenses include expenses for third-party services, consulting fees and expenses for the Company's infrastructure.

**Other interest and similar income**

Other interest and similar income in the amount of EUR 168,149.75 (previous year EUR 82,891.35) include interest due to PST Europe Sales GmbH in the amount of EUR 40,457.31 (previous year EUR 80,377.31).



**Interest and similar expenses**

Interest and similar expenses mainly include guarantee commissions to the parent company in the total amount of EUR 1,067,914.24 (previous year EUR 980,082.73) and interest expenses to the parent company of EUR 429,489.40 (previous year EUR 9,232.95). The increase in interest expenses is mainly due to the costs of the cash pooling system established between the Warsaw branch and PGNiG SA during the financial year.

**Taxes on income**

Taxes on income result from expenses from the reversal of deferred taxes on loss carryforwards in the amount of EUR 200,763.42 (previous year: income of EUR 769,734.42) and from the formation of tax provisions (primarily for the Warsaw branch) in the total amount of EUR 684,235.05 (prior year: EUR 33,586.39).

## Other notes

### Major transactions with affiliated or associated companies pursuant to Art. 6b Sec. 2 EnWG

During the business year, the Company sold 37,590 GWh of natural gas (pipeline gas and LNG) to its sole shareholder Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna, Warsaw, Poland, thereby generating sales revenues (incl. capacities) in the amount of ca. EUR 670.7 million. With regard to its PST ES shareholding, the Company generated ca. EUR 14.0 million or 516 GWh (gas and electricity), with regard to XOOL GmbH EUR 3.0 million or 114 GWh (gas).

On behalf of PGNiG Upstream Norway SA, the Company marketed the part of the gas produced in the Norwegian gas fields Skarv, Morvin, Vale, Gina Krog, which is attributable to the affiliate. Procurement costs amounted to EUR-74 million (5,281 GWh).

There is a Revolving Loan Agreement between PST and PGNiG SA with a term until December 31, 2021. Of such loan, an amount of EUR 10 million has been utilized by December 31, 2019. Furthermore, reciprocal loan agreements have been concluded within the PST Group for cash pooling. In 2019, PST Europe Sales GmbH took up a shareholder loan in the amount of EUR 7.5 million. For settlement with the clearing bank in Poland, the Warsaw branch is included in a cash pooling agreement with PGNiG SA.

### Activities pursuant to Art. 6b Sec. 3 EnWG

In the fiscal year 2019, the Company conducted other activities within the gas industry as well as other activities within the electricity sector. Therefore, the Company keeps separate accounts for such activities.

### Valuation units

With regard to pending transactions, the Company forms – separated according to the respective business purpose – valuation units pursuant to IDW RS ÖFA 3 in the form of Macro hedges. The related hedging transactions are used for hedging the price change risks resulting from market price fluctuations. The valuation units are effective due to the congruence of type, quantity and maturity of the underlying and corresponding hedging transaction(s). The effectiveness is documented within the scope of the existing risk management system by means of a “critical-terms match” and regression analyses. If an annual analysis reveals negative mark-to-market valuations for a valuation unit, a provision for contingent losses is created. Due to the creation of valuation units, risks arising from individual transactions in the amount of KEUR 148,890 are hedged. The volume of hedged underlying transactions amounts to TWh 24.9 and relates to monthly invoicing periods until the end of the year 2023.

**Management**

In the financial year 2019

- Mr. Uwe Bode, Bankkaufmann, Baldham (until July 28, 2019)

- Olgierd Hurka, a graduate of the Faculty of Economics with a specialization in foreign trade at the University of Gdansk and holding an MBA from Manchester Business School in the UK (since July 29, 2019)

- Bartłomiej Korzeniewski, Graduate of the Faculty of Mathematics, Informatics and Mechanics at the University of Warsaw and PhD from the Department of Finance and Management at the Warsaw School of Economics (since July 29, 2019)

were PGNiG Supply & Trading GmbH's managing directors.

Mr. Uwe Bode, Olgierd Hurka and Bartłomiej Korzeniewski are exempt from the restrictions pursuant to Art. 181 BGB (German Civil Code).



**Supervisory board**

In the financial year 2019:

- Dariusz Hryniow (member and chairman until October 30, 2019)
- Beata Stepniak
- Rafael Swiader
- Łukasz Kroplewski

were members of PGNiG Supply & Trading GmbH's supervisory board.

**Remuneration of active board members**

With regard to the management board's total remuneration, the Company utilized the protection clause pursuant to Art. 286 Sec. 4 HGB.

For their activities during the fiscal year, the supervisory board members received remuneration in the amount of EUR 81,279.80 (previous year: EUR 90,205.74).

**Employees**

During the financial year from January 1, 2019 through December 31, 2019, the Company employed an average staff of 44 (previous year: 39). The employees are classified as follows:

• Employees: 40
• Executive staff: 4

**Group relationships**

The annual financial statements are included into Polskie Górnictwo Naftowe i Gazownictwo Spólka Akcyjna, Warsaw, Poland's consolidated financial statements (largest consolidation group) which are available at the parent company's headquarters. The Company is required to prepare consolidated financial statements and a group management report pursuant to Art. 290 HGB (smallest consolidation group). PST Europe Sales GmbH and XOOL GmbH are included into such consolidated financial statements. The Company and both companies build a VAT and income tax group.



**Auditor's fees**

With regard to the auditor's fees, we refer to the information in PST's consolidated financial statements as of December 31, 2019 (Art. 285 No. 17 HGB).

**Transactions with related parties**

There are no transactions with related parties which do not comply with the arm's-length principle.

**Subsequent report**

Coronavirus pandemic:
PST expects operational challenges in connection with possible employee sick leaves or the need to work from home. PST is well prepared for these challenges and sees no risk of business interruption. The full effect of the Corona crisis will have a strong negative impact on demand in the second and third quarters and will probably lead to lower prices. Most traders work from their home office, which will reduce liquidity and the number of speculative positions in the market, which in turn could lead to higher volatility and random price fluctuations.

Besides that, no value-adjusting transactions subject to reporting have occurred after the end of the financial year.

This Document is a respective non-binding English translation of the official signed leading German version.

**Appropriation of profits**

Management proposes to offset the 2019 net profit in the amount of EUR 423,871.35 with the existing net loss and to carry it forward to new account.

Munich, March 31, 2020

Management

**PGNiG Supply & Trading GmbH, Munich**

**Development of fixed assets in the 2019 financial year**

| | Acquisition and manufacturing costs | | | | Accumulated depreciation | | | | Book value | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1.1.2019 EUR | Additions EUR | Disposals EUR | 31.12.2019 EUR | 1.1.2019 EUR | Additions EUR | Disposals EUR | 31.12.2019 EUR | 31.12.2019 EUR | 31.12.2018 EUR |
| **I. Intangible assets** | | | | | | | | | | |
| 1. Acquired concessions, industrial property and similar rights and assets as well as licences in such rights and assets | 2,131,900.26 | 56,569.88 | 0.00 | 2,188,470.14 | 2,096,896.26 | 23,352.88 | 0.00 | 2,120,249.14 | 68,221.00 | 35,004.00 |
| 2. Prepayments | 584,582.47 | 384,679.44 | 0.00 | 969,261.91 | 0.00 | 0.00 | 0.00 | 0.00 | 969,261.91 | 584,582.47 |
| | 2,716,482.73 | 441,249.32 | 0.00 | 3,157,732.05 | 2,096,896.26 | 23,352.88 | 0.00 | 2,120,249.14 | 1,037,482.91 | 619,586.47 |
| **II. Tangible assets** | | | | | | | | | | |
| Other equipment, factory and office equipment | 805,113.16 | 145,763.52 | 0.00 | 950,876.68 | 550,571.89 | 118,792.95 | 0.00 | 669,364.84 | 281,511.84 | 254,541.27 |
| **III. Financial assets** | | | | | | | | | | |
| Shares in affiliated companies | 1,000,000.00 | 2,564,852.27 | 2,564,852.27 | 1,000,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,000,000.00 | 1,000,000.00 |
| | 4,521,595.89 | 3,048,097.45 | 2,667,852.27 | 5,108,608.73 | 2,647,468.15 | 142,145.83 | 0.00 | 2,789,613.98 | 2,318,994.75 | 1,874,127.74 |

# Management report of PGNiG Supply & Trading GmbH, Munich,

# for the fiscal year 2019

**Content**



## I. Basic principles of the Company



Within the PGNiG group, PGNiG Supply & Trading GmbH (hereinafter "PST" or "Company"), Munich, is the hub of international gas trading outside of Poland. PST's sole shareholder is the Polish listed Polskie Górnictwo Naftowe i Gazownictwo S.A. (hereinafter referred to as "PGNiG SA"), Warsaw/Poland.

PST is managed through its business divisions.

Business division Trading:

With its business, PST has an important function within the PGNiG SA group. Besides the procurement of natural gas for the parent company (which still accounts for the largest share in PST's business volume), the Company markets the natural gas produced by its Norwegian affiliate PGNiG Upstream Norway AS in the Norwegian shelf.

In the year 2019 PST has signed a Gas Sales Agreement with new counterparty to offtake the gas production from their fields in the Norwegian Shelf. To be able to book the required capacities and to transport the gas from the field to the German Hub, PST has become shipper in the Norwegian Gassled System. The offtake started on October 1st and is a further step in the increased activities of PST in the Norwegian Shelf.

Trade with electricity, gas and oil contracts on its own account is a further part of the wholesale business.

Business division LNG

The branch office in London, Great Britain, started its operations 2017. London Branch is developing trading activities on global LNG market.

Business division Poland

Additionally, in 2018 PST founded a branch in Poland in order to establish relations with customers with large industrial gas consumption and re-sellers active on Polish market. The middle-term aim is to build on established relations with branches of international companies to present PST offers for energy supplies in Poland and Europe-wide.

In the fiscal year, the Company has a non-operating branch office in Prague, Czech Republic.

In the fiscal year 2019, the Company performed other services within the gas sector and the electricity sector.



## II. Economic report

### 1. General conditions

### a. Development of the general economic conditions

*Review of the year 2019*

*Development of global economy*

According to the International Monetary Fund (IMF), last year's global economic growth increased by 2.9 percent and was on a high level again. For the full year, however, this is still 0.6 percentage points below the figure forecasted at the beginning of the year.

In the past year 2019, US GDP increased by 2.3 percent despite the protectionist US economic policy. China's growth rate amounted to 6.1 %.

*Eurozone and Germany*

In the course of 2019, trade conflicts with the US, punitive tariffs resulted in a slowdown of growth, which had been stable for many years. The Eurozone's economy increased, instead of the forecasted 1.6 percent, by only 1.2 percent.

In Germany slowdown in foreign demand, the continuing skills shortage, as well as first uncertainties in connection with Brexit negotiations resulted in a decline of the gross domestic product (GDP). Instead of the 1.3 percent expected in spring, the national economy of Germany grew only by 0.5 percent.

*<u>Economic outlook 2020</u>*

*Development of global economy*

According to the IMF's projection from World Economic Outlook (WEO) published in January 2020, the global economy and the most important trade areas are forecasted to grow in the next year; however, at a slower pace compared to the status of the October's WEO. According to current forecasts, global economy's surplus ranges between 3.3 and 3.4 percent for the years 2020 and 2021. Further escalation of US-China trade conflict and Brexit bring high economic and political risks to the future economy growth. Irrespective of that, the US GDP can expect a growth of 2.0 percent in 2020, whereas China's GDP is expected to grow about 6.0 percent 2020.



*Eurozone and Germany*

The Eurozone's economy is expected to grow about 1.3 percent in 2020, that is 0,1 percent lower than WEO projection for 2020 from October 2019, but still slightly higher than forecasted 2019.

For Germany, a weaker but solid growth is expected. Due to a slowdown in exports and decreased industrial production resulting therefrom, the risks for the export-oriented German economy are increasing. Nevertheless, the GDP growth rate is expected to reach about 1.1%.

*Possible impact of corona virus pandemic*

At the time of this report the final impact of coronavirus on the global and local economy is not known. However, initial forecasts are assuming a decline in economic output. The Paris-based Organisation for Economic Cooperation and Development (OECD) predicts that instead of global GDP growth of 2.9% before the outbreak of the virus, GDP is now expected to fall by 6.0% or 7.6%, depending on whether one or two waves of infection occur. For the euro zone, the experts expect a decline of 9.1% or 11.5%, while a decline of 6.6% or 8.8% is expected for Germany.

**b. Overview of the energy markets**

*Gas markets*

*Pipeline gas*

The first half of 2019 has been almost the exact opposite to the first half of 2018. In 2018 the market experienced record high prices through a combination of low storages, cold weather and low LNG inflow. This year warm weather in combination with high LNG inflows and well filled storages has pushed European gas prices into a falling trend. Especially the spot market has been weak, with DA prices reaching a new 10-year low in the end of June trading at 8,70 €/MWh on TTF.

In Asia, JKM price fell from 9,50 $/MMBTU in November 2018 to trade at the turn of the H1/H2'2019 at 4,35 $/MMBTU. The increase in production – mainly from the US – and the low prices in Asia have increased the LNG inflow to Europe massively. In addition, the gas consumption in Europe has been well below normal levels, due to the warm winter, forcing producers and storage operators to sell out their gas to low prices.

On the German hub GASPOOL the average Day-Ahead settlement price for natural gas in H1 2019 amounted to 15,93 €/MWh, compared to an average of 20,84 €/MWh in H1 2018. January was the month with the highest settlement prices averaging 21,72 €/MWh. The lowest Day-ahead settlement price of the year was 9,129 €/MWh on June 30th, the highest Day-Ahead settlement was fixed at 22,832 €/MWh on January 19th.

The forward market was in a falling trend until middle of March. The Dutch contract for the calendar year 2020 ("Cal 20 TTF") started the year at 19,80 €/MWh and traded down to a low of 17,8 €/MWh in the middle of March. Thereafter the market corrected upwards until the mid of April, mainly due to rising emissions and oil prices (US/Iran conflict). Cal 20 TTF reached a high of 20,90 €/MWh on April 10th, before it was dragged down again due to much lower Day Ahead prices. The falling market continued until the end of H1 2019, and Cal 20 TTF reached a low 17,70 €/MWh on the last day of the period.

In the second half of the year 2019, gas prices fell relatively sharply. High LNG inflows, in combination with high and stable flows from Russia and Norway pushed continental gas prices down. Toward the end of August and beginning of September DA-prices fell below the SRMC (short run marginal cost) for several days. The SRMC, which is estimated to be ca 8,00 €/MWh for Russian production and approx. 7,50 €/MWh for North Sea production, is considered to be the floor for gas prices. If prices drop below this level for a longer period, producers will shut down production facilities.

In Asia, JKM (Japan Korean Marker) prices have also been in a bearish trend throughout the year. A mild winter and high US production led to a decline in JKM prices from 9,05 $/MMBTu at the beginning of the year to 4,13 $/MMBTu at the end of 2019 – a decline of more than 50 %. This heavy fall directed more and more LNG toward Europe, making LNG competing with pipeline gas and hence driving prices in Europe lower.

On the German hub GASPOOL the average Day-Ahead settlement price for natural gas in 2019 amounted to 13,65 €/MWh, compared to an average of 22,80 €/MWh in 2018. January was the month with the highest settlement prices averaging 21,72 €/MWh. The lowest Day-ahead settlement price of the year was 7,14 €/MWh on September 5th and the highest Day-Ahead settlement was fixed at 22,832 €/MWh on January 19th.

The forward market was in a bearish trend until middle of March. The Dutch contract for the calendar year 2020 (“Cal 20 TTF”) started the year at 19,80 €/MWh and traded down to a low of 17,8 €/MWh in the middle of March. Thereafter the market corrected upwards until the mid of April, mainly due to rising emissions and oil prices (US/Iran conflict). Cal 20 TTF reached a high of 20,90 €/MWh on April 10th, before it was dragged down again due to lower spot prices. The bearish trend continued throughout the rest of the year, with the uncertainty about gas transit agreement between Russia and Ukraine keeping a risk premium on Cal 20 prices in Europe. After the gas transit agreement between Russia and Ukraine was finally sealed the Cal 20 TTF closed out in December at an all-time low at 13,134 €/MWh.

The key drivers for the European natural gas market in the upcoming year will be:

- Pipeline flows from Russia and Norway (Russian and Norwegian flows have stayed at high levels throughout 2019)
- Further development of the emission prices –analysts predict higher EUA prices in the second half of the year (resulting in higher gas demand versus coal fired power generation).

- Temperatures/Filling degrees in continental gas storages – so far, the winter has been record warm, which leads to lower consumption and even lower prices. If the rest of the winter remains above normal levels – Europe will get a massive storage overhang at the end of the winter. Currently 216 TWh above last year's levels.
- Gazprom online sales – Last month Gazprom sold 90 mcm per day over their electronic sales platform. If they continue to deliver these volumes in 2020 it will be a further bearish sign as they follow a volume over price strategy. North Stream 2 is expected to be delayed until first quarter 2021.
- Geopolitical tensions (US/Iran, US/Russia) – generally supportive for commodity prices in general, and energy prices - mainly oil – in particular.
- Economy – with US/China tensions waning the global economy may develop better than forecasted resulting in a higher demand for LNG especially in Asia
- LNG Inflows – low Asian demand would result in Europe being the sink for Atlantic based LNG production
- The share of gas in European power production
    - Nuclear power plant availability in France and Belgium
    - Hydro levels in the Alps and in the rivers (important for power prices)
    - Fuel switch from coal to gas fired power plants



The market balance in 2020 is even more comfortable than it was last year. Continental gas storages have a record high filling degree for the time of the year (216 TWh more gas in the storage year), and storages might be filled already by the end of July 2020. Two months earlier than in 2019. However, the absolute price levels are low, making the market vulnerable on the upside for unplanned outages or pipeline interruptions.

The full effect of the corona crisis will hit demand badly in Q2 and Q3, and probably lead to lower prices. Most energy traders are already working from home office, which will reduce the liquidity and number of speculative positions in the market, which again might lead to higher volatility and random price swings.

*LNG markets*

LNG is currently considered as the fastest growing future energy source and will play a growing role in the transition to a lower-carbon energy system. The global demand for liquefied natural gas (LNG) grew by 12.5% to 359 million tons in 2019. Europe absorbed the majority of the supply growth in 2019 as LNG competed successfully against pipeline gas combined with an increase of in gas demand from coal-to-gas switching in the power sector. However, Asia remains the growth region for LNG in the future. By 2040, LNG demand is supposed to double to 700 million tons globally.

The question as to whether liquefied gas is suited for Germany in order to reduce dependence on Russian natural gas at reasonable costs and whether Germany will need its own LNG terminal has not been finally answered but the discussion about LNG regasification terminals has started. Brunsbüttel and Wilhelmshaven are considered as the two favoured sites for a terminal; when starting constructions in 2020, the Brunsbüttel terminal could start operations already in 2022. Both the German Chancellor, Angela Merkel, and the Federal Minister of Economics, Peter Altmaier, took a positive view on the development of the LNG infrastructure in Germany.

Thanks to the International Maritime Organization's requirements for the reduction of Sulphur oxide emissions as of 2020, LNG has the largest potential in shipping and road transport. LNG is considered as more climate friendly alternative to diesel. However, it requires high investments in the LNG value chain with liquefaction, maritime transport and regasification as well as the infrastructure being required in order to establish LNG in the transportation sector.

In the last year, Poland already took the next step and further strengthened its position as European LNG hub. The Polish energy group PGNiG entered with several US companies into contracts for the supply of liquefied gas. After the expiry of Russian natural gas supplies in 2022, Poland intends to purchase 6.7 billion cubic meters LNG per year from the US. In addition, there are LNG volumes delivered from Qatar. Poland's regasification terminal in Świnoujście is planned to be expanded to 7.5 billion cubic meters / year by 2022.

Number of countries, various ports and international maritime organisations published detail measures put in place in order to reduce risk of coronavirus outbreak, such as 14-day quarantine period for carriers before entering the port, temperature screenings or suspended sea links from Wuhan. Decrease of China's demand at the beginning of the year, that is the fastest growing market for LNG imports, had a significant impact on the market, that resulted in record low Asian spot LNG prices LNG-AS of $2.70/MMBtu in February 2020. The impact of Corona crisis is still unknown, but further decrease of scale of operations and additional restrictions are foreseen in the upcoming months.

*Power Market*

The last settlement price for Cal 19 baseload was 54,44 €/MWh on 28th December 2018. However, the average spot price for the year turned out to be 37,66 €/MWh. The reasons for the low prices throughout the year were the warm winter, increased nuclear utilization, in addition to an improved hydrological balance in the Alps.

The highest spot price was 85,80 €/MWh on the 24th January 2019, and the lowest was – 42,24 €/MWh on the 8th June 2019.

The outlook for next year is bearish, due to the Corona crisis and weak economic outlook. In addition, the hydrological balance remains good, and industrial demand is set to be low for the upcoming year.



### c. Legal framework

Compared to the previous year 2018, the direct energy law related framework conditions remained essentially unchanged. However, the introduction of the electronic market communication in 2020 (short: "MaKo 2020") will have a major impact in the electricity sector. The new regulations on market communication entered into force on December 1, 2019. The regulation implements the law on digitization of the energy transition, which came into force in 2016, in particular the law on metering point operation.

## 2. Business development

In the past year, our energy trading activities focused on laying the foundations for the development and further diversification of trading activities in Europe. In particular, we were able to successfully expand our positioning in the European LNG trade. Moreover, the new PST Branch in Poland is a further step to consolidate the position of PST as a trading partner for Polish and foreign contractors.

Developments in the trading division

*Pipeline gas*

In the business of natural gas trading, we significantly expanded our activities in 2019. This applies to the traded and delivered natural gas volumes and to the number of our trading partners.

Inter alia, we stabilized the natural gas volumes delivered to Poland on a high level. We are going to further expand our deliveries to Poland in the winter of 2019/2020, thus significantly contributing to our neighbouring country's security of supply.

We continuously increase our portfolio of trading partners from the public utility and distribution sector on the German energy market.

Besides wholesale markets and commodity exchanges, we can, with regard to gas procurement, also rely on gas volumes from the four Norwegian fields in which our Polish affiliate PGNiG Upstream Norway holds a share. In addition, starting from 2019 we procure gas from a new counterpart operating on Norwegian Shelf.



In 2019, we started entering the French market and entered into first trade partnerships. France is a potential key market for European LNG trade. In particular the option to regasify LNG and place it on the French market is an interesting trade opportunity.

*LNG trading*

In the past year, LNG trade developed positively. Through our London branch we could expand both the number of contracts and trading volumes. At the end of 2017, we entered into a five-year delivery contract with the British company Centrica which started at the beginning of 2017. By means of the agreed supplies, which mainly come from the US, we could significantly expand the LNG volumes compared to 2017.

Furthermore, due to competitive prices we increased our LNG spot deliveries to Poland in 2019 substantially. Thus, we have proven that we are able to react in an efficient and appropriate manner to any movements also on the international LNG market.

Company started to establish financial trading of Henry Hub gas futures in 2018. The Henry Hub is an important natural gas distribution hub in the US; the prices set by the Henry Hub serve as a price basis for LNG trades. Furthermore In 2019 PST has signed a Heads of Agreement (HoA) with PGNiG S.A. to manage and optimize the long-term

LNG contracts entered by PGNiG with US based counterparties. These contracts are FOB based (“Free – on – Board” – loading at the liquefaction facility in US) and first deliveries shall take place as of end of 2022. In order to fulfil its obligations resulting from signed HoA, PST initiated a tender for chartering first two LNG vessels, to be able to pick-up and transport LNG volumes. The tender should be finalized as of the end of Q2 2020.

*Electricity trading*

Electricity trading activities are based on a risk-averse procurement strategy. We perform proprietary trading only to a limited extent; with regard to procurement, we focus on the quantities required for our trading partners and our own sales activities.

To that end, we generally procure such volumes which can be covered in the medium-term. We do not aim to develop a long-term portfolio subject to certain risks.

<u>Personnel development</u>



Despite the initiated growth, we did not have to expand our staff due to automation and optimized processes in 2019. We have outsourced a part of our activities to third party service providers.

It is our objective to promote motivated employees, inter alia by means of trainings and continuing education, thereby enabling them to assume more responsibility

### *3. Geographical areas of operations*

**PST** mainly operates with gas and electricity products in the European energy wholesale business. PST’s London Branch is active on global LNG Market. Warsaw Branch is supplying large industrial customers in Poland.

### 4. Performance indicators

### a.) Financial performance indicators

As key performance indicators, the Group uses indicators such as revenue, costs and EBIT or the quantity of customers (divided into gas and electricity customers). These performance indicators are subject to regular reporting and are reported to the management board and the shareholder. The budget approved for the respective financial year forms the basis for the business activities.

## b.) Non-financial performance indicators

Environment and climate friendly organization

Since the fall of 2015, the operations of PST and its sales subsidiaries PST Europe Sales GmbH (“PST ES”) as well as XOOL GmbH have been emission-neutral. After determining the CO2 emissions which are caused by the organizational activities of the PST Group for the year 2019, we procure the required emission rights to operate on an emission-neutral basis.

Ecological and climate-neutral products for SLP customers

Sustainability, emission-neutrality and thus climate protection are important aspects also for our products. Accordingly, we distribute, through our subsidiary PST Europe Sales GmbH, only eco-electricity certified by the TÜV Nord and offer our clients emission-neutral natural gas.



Employees

We have excellent and motivated employees and we do a lot to ensure that this situation remains unchanged. Staff diversity has been an important objective from the beginning of our corporate activities. Accordingly, our workforce is made up of people from various origins.

We strive to ensure our employees continuing development. We therefore offer specific continued education measures for our employees.

At the end of the reporting period, our workforce comprised 44 employees.

## 5. Presentation of financial position

**Cash flow statement for the financial year from 01.01 – 31.12.2019**

| | | 2019 | 2018 |
|---|---|---|---|
| | | **TEUR** | **TEUR** |
| | Annual net loss | 439 | -1,444 |
| +/- | Depreciations/appreciations of fixed asset items | 142 | 106 |
| +/- | Other non-cash expenses/income | 228 | -760 |
| +/- | increase/decrease of provisions without tax provisions | 11,080 | 665 |
| -/+ | increase/decrease of inventories | 20 | -10,286 |
| -/+ | increase/decrease of trade receivables | -21,475 | -6,601 |
| -/+ | increase/decrease of receivables from affiliated companies | 89,205 | -80,510 |
| -/+ | increase/decrease of other assets without receivables, income taxes, incl. prepaid expenses | 2,564 | -2,654 |
| +/- | increase/decrease of trade payables | -88,117 | 78,245 |
| +/- | increase/decrease of payables to affiliated companies | -6,534 | 2,568 |
| +/- | increase/decrease of other liabilities | 1,301 | -6,168 |
| +/- | increase/decrease of deferred income | -11,561 | 6,586 |
| +/- | Interest expenses/ interest income | 1,603 | 1,201 |
| +/- | Income tax expenses/income | -25 | -913 |
| = | **Cash flow from operating activities** | **-21,149** | **-19,966** |
| - | payments for investments in intangible assets | -441 | -619 |
| - | payments for investments in tangible assets | -145 | -160 |
| + | payments due to cash investments due to short-term treasury management | -674 | 9,320 |
| + | Received interest | 168 | 83 |
| = | **Cash flow from investment activities** | **-1,092** | **8,624** |
| + | payments from loan drawdowns | -5,356 | 9,850 |
| + | payments from Cash-pool utilisation from PGNiG | 58,836 | 0 |
| + | payments from Revolving Loan from PGNiG | 0 | 10,008 |
| - | paid interest | -1,771 | -1,284 |
| = | **Cash flow from financing activities** | **51,708** | **18,574** |
| | **Change of cash and cash equivalents** | 29,468 | 7,232 |
| + | Cash and cash equivalents at the beginning of the period | 9,160 | 1,928 |
| = | **Cash and cash equivalents at the end of the period** | **38,628** | **9,160** |



This Document is a respective non-binding English translation of the official signed leading German version.

Financial Statement for the year 2019 includes new methodology of cash flow presentation. Since 2019 operating activities cash flow will no longer include changes of additional financing from the PGNiG Group in form of Revolving Loan or Cash pool account. Above mentioned positions, together with change of bank credit lines' utilisation and interests from all financing sources are presented in cash flow from financing activities. In order to report comparable data for previous period of 2018, presentation of data for this year was adjusted accordingly.

Cash flow from operating activities for twelve months 2019 decreased by EUR 1.2 million EUR compared to previous year due to net effect of lower year-end receivables from the PGNiG Group and higher share of exchange-bought volumes at the end of the year.

The significant decrease in cash flow from investing activities compared to the previous year results from the partial repayment of the shareholder loan to PST ES in 2018 of EUR 9.4 million. The balance of the loan decreased only slightly by EUR 0.7 million in the past financial year



Cash flow from financing activities higher by EUR 33.1 million due to additional financing source from Group Cash-pool account used to cover commodity procurements on the exchange and new operations of PST Branch in Poland.

Higher cash balance by EUR 29.5 million is caused mainly by increase of cash locked as security of exchange transactions entered in Poland. This amount corresponds with increased financing cash flow.

**Assets and its financing sources as of Dec. 31**

| | 2019 | 2018 |
|---|---:|---:|
| | KEUR | KEUR |
| **ASSETS** | **165,839.2** | **205,54.3** |
| Fixed assets | 2,319.0 | 1,874.1 |
| Current assets | 155,235.4 | 200,067.9 |
| Prepaid expenses | 6,817.6 | 2,157.3 |
| Deferred tax assets | 1,467.2 | 1,655.0 |
| **EQUITY AND LIABILITIES** | **165,839.2** | **205,754.3** |
| Equity | 7,332.5 | 6.874.8 |
| Provisions | 12,945.4 | 1,890.0 |
| Accounts payable | 144,366.0 | 184,240.3 |
| Deferred income | 1,188.4 | 12,749.2 |
| Deferred tax liability | 6.9 | 0.0 |

The balance sheet total was decreased by 19.4 percent from EUR 205.8 million in 2018 to the present level of EUR 165.8 million. With regard hereto, the share of current assets in total assets amounts to approx. 93.6 percent in 2019 (previous year: 97.2 percent). The change is mainly due to two factors, the decrease of energy prices in the trade sector at the end of the year and increased volume turnover. Whereas trade receivables from third party companies increased from EUR 17.8 million in 2018 to EUR 39.3 million in the current business year, reported receivables from PGNiG Group significantly decreased from EUR 135.9 million to EUR 47.3 million. The shareholders' loans to PST ES reduced by EUR 0.7 million compared to the previous year. The remaining receivables from affiliated companies increased from EUR 7.2 million in the previous year to EUR 7.8 million in 2019.



Liabilities to affiliated companies increased from EUR 26.1 million in the previous year to currently EUR 78.4 million due to additional financing in form of Cash-pool from the PGNiG SA to finance development of activities in Poland. In contrast to the increase of liabilities from PGNiG Group, trade liabilities to third party companies decreased by 76.1 percent to EUR 27.7 million in the financial year 2019. Besides the decreased commodity prices, this is in particular due to the significantly higher share of exchange-bought volumes for the delivery period of December 2019 vs December 2018, which requires immediate payments.

Additional investments, depreciation and amortization did not influence fixed assets significantly. Fixed assets increased by EUR 0.4 million to EUR 2.3 million. Such increase mainly results from scheduled additions to fixed assets.

The reported other provisions increased compared with 2018 (EUR 12.9 million compared to EUR 1.9 million in the previous year). The equity ratio increased from 3.3 percent (previous year) to 4.4 percent in the financial year. Due to the profit-and-loss transfer agreement which has been in effect since 2017, the Company had to absorb the losses incurred by PST ES, but still the financial year resulted in profit. Consequently, deferred tax assets decreased by EUR 0.2 million to currently EUR 1.5 million.

Two bank credit lines are available for PST Group and the Company can additionally draw on a loan facility provided by PGNiG SA for its business financing. Due to the significant share of procurements through energy exchanges compared to OTC procurement, capital requirements arise from initial and variation margin payments. Credit lines were used to a slightly lower level than in 2018 (13.8 percent less) and now amount, in terms of utilization, to EUR 33.4 million. Revolving loan from PGNiG SA was drowned in value of EUR 10.0 million, same as in 2018. In order to finance growing operations of PST Branch in Poland, especially the purchase of commodity on the Polish Power Exchange (TGE) and associated with this margin payments requirements, the Company signed an agreement for a flexible form of financing with PGNiG SA and has join the Group Cash-Pool. Furthermore, PGNiG SA provides the securities required for the Group's transactions and in order to hedge bank loans in the form of payment guarantees. PST Group's liquidity is secured.



**Performance indicators**

| | **2019**<br>KEUR | **2018**<br>KEUR |
|---|---|---|
| Sales revenues | 1,640,271 | 1,487,890 |
| Costs (offset against other income) | 1,634,986 | 1,487,834 |
| EBIT | 5,284 | 56 |

PST sales revenues consists of gas, electricity and oil sales from trading division. Besides the procurement costs for gas volumes which correlate with sales revenues, cost of material also includes capacity costs for gas deliveries to Poland as well as balancing energy costs.

The increase in trading revenues is due to a higher scale of operations compared to the previous year results in total sales increase by 10.2 percent. The increase of revenues is due to larger volumes sold; nevertheless, it was compensated by the decrease of energy prices compared to the previous year. Moreover, the realized volumes in trading were significantly above the plan. All in all, despite of higher volume sold, the realized sales revenues of KEUR 1,640,271 were significantly below the plan figures for the year 2019 (KEUR 2.199.505 - KEUR 2.688.284).

Last year's costs developed accordingly. Instead of planned costs in the amount of KEUR 2.198.352 – KEUR 2.686.284, costs amounted to KEUR 1,634,986 in 2019. The increase in sales revenues was higher than the increase in costs, which leads to the positive result for the financial year 2019.

## III. Opportunities and risk report



The monitoring and management of opportunities and risks are an integral component of PST's management.

PST has been given a risk framework in the form of limits, in particular stop-loss limits, by the Parent Company. The Company's risk management system operates within these limits.

### 1. Risk report

#### a. Definition of risks

Within the scope of its risk management activities, the Company continuously and systematically monitors the opportunities and risks as well as the development of business transactions. The following risks are listed according to their greatest probability of occurrence. However, no statement is made as to the level of the (individual or cumulated) risks. PST monitors and manages the following risks associated with its business activities in the respective fields of business:

- Operational risks
- Market price risks
- Counterparty default risks / credit risks
- Liquidity risks

Operational risks

Operational risks arise from organizational, process-based, technical or personnel irregularities or unfavourable external influences. For example, risks from faulty processes can have a negative impact on existing controls or decisions to be made in the Company, which then result in additional efforts or higher costs.

The Company effectively manages these operational risks through the implementation of appropriate processes and process automations, redundancies, as well as by applying the double-check principle. An IT emergency concept is in place to address potential IT risks.

The management of operational risk will benefit from the results of the implemented risk management process (recording of events, learning process, key risk indicators, etc.) in coming years.

Market price risks



Market price risks arise when the market price develops differently from the price contracted for the respective product over the course of time. Market price changes primarily result from fluctuations in supply and demand, for example, as a result of temperature changes or supply bottlenecks.

The assessment, monitoring and management of the resulting risks require a consistent risk management system. To this end, trading positions are recorded in the trading system and valued according to current market parameters. The management of market price risks includes both quantity- and loss-related limits at book and strategy level. Market conformity checks are carried out for all transactions. Besides that, the market price risk is significantly limited through a back-to-back strategy, which is to be applied to the majority of trading transactions. Due to these measures, the Company's market price risks are manageable.

Counterparty default risks / credit risks

Counterparty default or credit risks arise when a trading or business partner is not able to make or accept deliveries or to meet its payment obligations. The counterparty default risk is determined on each trading day by means of a summary of existing receivables and potential claims after taking into account received cash collaterals or bank guarantees and netting possibilities per trading partner (= exposure).

The credit risk management mainly includes:

- Credit risk assessment
- Credit limit monitoring
- Collateral management

Trading transactions are concluded on the basis of standardized master agreements. The creditworthiness of potential trading partners and, if applicable, their maximum allowable credit limits are decided on the basis of a credit assessment. Limit utilization is published in the risk report, which is issued on every trading day and made available to the management. The report also contains information on future limit utilizations and business transactions with affected trading partners will be limited, if required. Furthermore, the creditworthiness of existing trading partners is monitored, and the approved limits are reviewed on a regular basis. Thus, these measures implemented by risk management limit the credit risk to a significant extent.

Liquidity risks



The liquidity risk relates to the risk that payment obligations cannot be met upon maturity or that no adequate refinancing possibilities are available.

The management of liquidity risks includes:

- Liquidity budgeting and controlling
- Management and reconciliation of receivables and liabilities within the scope of a standard process
- External financing and ensuring liquidity as described in IV. "Presentation of Financial Position."

In order to determine short-term liquidity requirements, (significant) future liquidity flows are identified and the relevant financing requirement is determined. This is reported on a regular basis. In addition, a medium-term liquidity requirement reporting has been implemented which determines the Company's liquidity requirement also for newly developed business fields. Liquidity analysis and management are the responsibility of PST’s Finance Department. Based on such measures, the risks can be avoided almost entirely.

<u>Legal and regulatory risks</u>

Legal risks may arise in connection with legal procedures, unfavourable or unenforceable contracts as well as compliance. Such risks can be minimized if the legal department manages legal procedures and negotiates and prepares contracts accordingly. Furthermore, we have a compliance management which aims to avoid any non-compliance. Regulatory risks may arise due to amendments of the regulatory and legal framework. The legal department monitors amendments of the regulatory and legal framework applicable to the PST subgroup's business and makes sure, at an early stage, that in case of any amendment the required measures will be established and implemented accordingly.

**b. Risk management organization**

PST has implemented a two-stage risk management system. Whereas operational risk management (i.e. continuous observation, monitoring and reporting of the Company's business development) is the responsibility of risk management, the internal risk committee's task is not only risk management but also the assessment of the opportunities and risks related with the introduction of new products or the entry into new markets. The committee consists of the management board and the division managers. Besides the market and product release, the risk committee also decides on the conclusion of significant transactions with already approved products in approved markets.



**c. Risk management process**

This process includes the identification, assessment, management and monitoring of risks as well as risk reporting. The Company applies customary industry methods for risk assessment and risk management purposes (stop-loss limit, open-position limit and credit exposure). Risks are recorded on a daily basis and are assessed and reported in accordance with standardized criteria.

The Company's risk-aware performance is based on the risk policy which is updated on an ongoing basis. The management is informed about the current risks and opportunities situation on the basis of risk reports which are issued on each trading day. The basic data are derived directly from the trading system. The trading system's risk measurement methods are basic methods subject to continuous development. These daily basic data are prepared on a daily basis and reported directly to PGNiG SA's risk committee by means of weekly and monthly reports. In special cases, information is provided directly to the management or the risk committee, which, in turn, directly notify the Supervisory Board.

The risk management system and the related processes are further developed on a continuous basis in order to accommodate the business's significant growth in recent years as well as the regulatory requirements. The implementation of formalized and demanding solutions shall take account of the Company's increasingly complex business and its further organic growth.

### d. General statement on the risk situation

According to its best knowledge, the management is not aware of any individual risks or general risks that could jeopardize the Company's continued existence as a going concern or that could have a material impact on the Company's net assets, financial position and profit situation. Compared to the previous year, there are no significant changes with regard to the risk situation.

## 2. Opportunities report



The assessment of opportunities is a part of the risk management system (organization and processes) established at PST.

### a. Definition of opportunities

In accordance with the Company's defined risks, the following opportunities arise for PST (sequence arising from the level of influence):

Operational opportunities

Particularly in times when energy supply companies were forced to file for insolvency due to aggressive or unsustainable business models in combination with the market price development, the membership in an established European energy group that emerged more than 150 years ago, provides a solid foundation for customer confidence. Due to PGNiG Group's strategic positioning and orientation, the PST will play an increasingly important role, in particular in terms of trading activities. In addition to the marketing of natural gas from Norway on the German and Central European market, this also includes activities on the international LNG market.

Lean structures and efficient processes in combination with the employee's know-how and longstanding industry experience will help the Company to optimally position itself for future competition.

Liquidity opportunities

The parent company PGNiG SA's financial strength and good credit standing facilitate the fast development of the business, in particular due to the provision of required collaterals that can be used for both external financing and the securing of trading activities.

Market price opportunities

The fact that the Company has been operating on the German and European energy market for only a little more than eight years – without being dependent on long-term agreements concluded in the past – provides the particular opportunity to profit from the price developments on the relevant energy markets through appropriate procurement strategies and the development of suitable products and services.

### b. General statement on the opportunity's situation



Company considers to have a solid foundation for its future competitiveness and to be well positioned. Compared with the previous year, there are no significant changes with regard to the opportunity's situation.

## IV. Forecast report

Outlook and forecast for 2020

As PGNiG Supply & Trading GmbH we are going to stabilize and further expand in the current year our achieved position as renowned and well-established trader for natural gas and LNG on the European market.

Even if the LNG market has significantly grown during the past three years and is going to continue to grow in the following years, natural gas transported through pipelines will continue to play an important role in energy supply, both in terms of power production and on the heating market.

Moreover, we have received a shipper license for the Norwegian natural gas fields which had enabled us to acquire additional volumes from Norwegian producers and to optimally place them on the European natural gas market.

Our know-how in LNG trade developed over the past years serves as a basis for a second trading pillar designed for the long term. We expect for the LNG share in European gas supply to significantly increase in the long term. We aim to position ourselves as established LNG trader in Europe.

We are going to enter new natural gas and LNG markets in future. We continue to place our focus on East European countries, in particular Poland and Ukraine and will, at the same time, enter new markets, as we did in France. Trading Readiness at the Slovakian Hub has been achieved and framework contracts with counterparties in the region are being negotiated. PST obtained a trading license in Hungary in 2019 and executed a test transaction at the Hub. Due to regulatory changes, Clearing House Membership has to be achieved before any additional steps can be changed. This is planned until May 2020. The conclusion of a membership at CEEGEX is planned for the same timeframe.

PST Polish Branch started supply of gas to industrial clients in Poland in March 2019. The process of transferring customers from PGNiG SA OOH to the Polish Branch has been accomplished with last customer transferred in January 2020. In addition branch won several new clients independently. In 2020 branch will operate for whole year with significantly higher volumes delivered.

In order to further develop our processes in accordance with electricity trade’s increasing demands and in order to be able to trade LNG and natural gas through one system, we are going to implement a new energy trade and risk system in 2020. Preparations for such system already started in November 2018.

In 2019, our IT started the ISO 27001 certification procedure. By means of a certified information security management system, we wish to provide our customers with a certificate proving our energy trade and sales-related information’s, data’s and systems’ security. It is expected to finalize the certification procedure in H2’2020.

*Possible impact of corona virus pandemic on PST operations in 2020*

Following the revision of PST operations, we do not see, as of date of this report any direct impact in PST's business operations. We expect however that PST will be influenced by general economic downturn.

PST expects some operational challenges related to possible sick leaves of employees or necessity of remote work. PST is well prepared for these challenges and we do not see any risk of interruption of our operations.

*Summary*

We consider PGNiG Supply & Trading to be well prepared for the upcoming challenges with its energy, natural gas and LNG trading activities. This applies in particular to LNG trade which acts on a global market. In the trading sector, we will continue to assess the arising trading opportunities from a risk-minimizing perspective and act accordingly.



For 2020 we expect a positive corporate result.

The table below shows the economic performance indicators of PST planned for 2020:

| | | 2020 |
|---|---|---|
| Sales revenues | Mio. EUR | 1,638.2 - 2,002.2 |
| costs (offset against other income) | Mio. EUR | 1,635.8 - 1,999.3 |
| EBIT | Mio. EUR | 2.4 – 2.9 |

Munich, March 31, 2020

The Management Board

[Translator's notes are in square brackets]

# General Engagement Terms
## for
## Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften
## [German Public Auditors and Public Audit Firms]
## as of January 1, 2017



### 1. Scope of application

**(1)** These engagement terms apply to contracts between German Public Auditors (*Wirtschaftsprüfer*) or German Public Audit Firms (*Wirtschaftsprüfungsgesellschaften*) – hereinafter collectively referred to as "German Public Auditors" – and their engaging parties for assurance services, tax advisory services, advice on business matters and other engagements except as otherwise agreed in writing or prescribed by a mandatory rule.

**(2)** Third parties may derive claims from contracts between German Public Auditors and engaging parties only when this is expressly agreed or results from mandatory rules prescribed by law. In relation to such claims, these engagement terms also apply to these third parties.

### 2. Scope and execution of the engagement

**(1)** Object of the engagement is the agreed service – not a particular economic result. The engagement will be performed in accordance with the German Principles of Proper Professional Conduct (*Grundsätze ordnungsmäßiger Berufsausübung*). The German Public Auditor does not assume any management functions in connection with his services. The German Public Auditor is not responsible for the use or implementation of the results of his services. The German Public Auditor is entitled to make use of competent persons to conduct the engagement.

**(2)** Except for assurance engagements (*betriebswirtschaftliche Prüfungen*), the consideration of foreign law requires an express written agreement.

**(3)** If circumstances or the legal situation change subsequent to the release of the final professional statement, the German Public Auditor is not obligated to refer the engaging party to changes or any consequences resulting therefrom.

### 3. The obligations of the engaging party to cooperate

**(1)** The engaging party shall ensure that all documents and further information necessary for the performance of the engagement are provided to the German Public Auditor on a timely basis, and that he is informed of all events and circumstances that may be of significance to the performance of the engagement. This also applies to those documents and further information, events and circumstances that first become known during the German Public Auditor's work. The engaging party will also designate suitable persons to provide information.

**(2)** Upon the request of the German Public Auditor, the engaging party shall confirm the completeness of the documents and further information provided as well as the explanations and statements, in a written statement drafted by the German Public Auditor.

### 4. Ensuring independence

**(1)** The engaging party shall refrain from anything that endangers the independence of the German Public Auditor's staff. This applies throughout the term of the engagement, and in particular to offers of employment or to assume an executive or non-executive role, and to offers to accept engagements on their own behalf.

**(2)** Were the performance of the engagement to impair the independence of the German Public Auditor, of related firms, firms within his network, or such firms associated with him, to which the independence requirements apply in the same way as to the German Public Auditor in other engagement relationships, the German Public Auditor is entitled to terminate the engagement for good cause.

### 5. Reporting and oral information

To the extent that the German Public Auditor is required to present results in writing as part of the work in executing the engagement, only that written work is authoritative. Drafts are non-binding. Except as otherwise agreed, oral statements and explanations by the German Public Auditor are binding only when they are confirmed in writing. Statements and information of the German Public Auditor outside of the engagement are always non-binding.

### 6. Distribution of a German Public Auditor's professional statement

**(1)** The distribution to a third party of professional statements of the German Public Auditor (results of work or extracts of the results of work whether in draft or in a final version) or information about the German Public Auditor acting for the engaging party requires the German Public Auditor's written consent, unless the engaging party is obligated to distribute or inform due to law or a regulatory requirement.

**(2)** The use by the engaging party for promotional purposes of the German Public Auditor's professional statements and of information about the German Public Auditor acting for the engaging party is prohibited.

### 7. Deficiency rectification

**(1)** In case there are any deficiencies, the engaging party is entitled to specific subsequent performance by the German Public Auditor. The engaging party may reduce the fees or cancel the contract for failure of such subsequent performance, for subsequent non-performance or unjustified refusal to perform subsequently, or for unconscionability or impossibility of subsequent performance. If the engagement was not commissioned by a consumer, the engaging party may only cancel the contract due to a deficiency if the service rendered is not relevant to him due to failure of subsequent performance, to subsequent non-performance, to unconscionability or impossibility of subsequent performance. No. 9 applies to the extent that further claims for damages exist.

**(2)** The engaging party must assert a claim for the rectification of deficiencies in writing (*Textform*) [*Translators Note: The German term "Textform" means in written form, but without requiring a signature*] without delay. Claims pursuant to paragraph 1 not arising from an intentional act expire after one year subsequent to the commencement of the time limit under the statute of limitations.

**(3)** Apparent deficiencies, such as clerical errors, arithmetical errors and deficiencies associated with technicalities contained in a German Public Auditor's professional statement (long-form reports, expert opinions etc.) may be corrected – also versus third parties – by the German Public Auditor at any time. Misstatements which may call into question the results contained in a German Public Auditor's professional statement entitle the German Public Auditor to withdraw such statement – also versus third parties. In such cases the German Public Auditor should first hear the engaging party, if practicable.

### 8. Confidentiality towards third parties, and data protection

**(1)** Pursuant to the law (§ [Article] 323 Abs 1 [paragraph 1] HGB [German Commercial Code: *Handelsgesetzbuch*], § 43 WPO [German Law regulating the Profession of Wirtschaftsprüfer: *Wirtschaftsprüferordnung*], § 203 StGB [German Criminal Code: *Strafgesetzbuch*]) the German Public Auditor is obligated to maintain confidentiality regarding facts and circumstances confided to him or of which he becomes aware in the course of his professional work, unless the engaging party releases him from this confidentiality obligation.

**(2)** When processing personal data, the German Public Auditor will observe national and European legal provisions on data protection.

### 9. Liability

**(1)** For legally required services by German Public Auditors, in particular audits, the respective legal limitations of liability, in particular the limitation of liability pursuant to § 323 Abs. 2 HGB, apply.

**(2)** Insofar neither a statutory limitation of liability is applicable, nor an individual contractual limitation of liability exists, the liability of the German Public Auditor for claims for damages of any other kind, except for damages resulting from injury to life, body or health as well as for damages that constitute a duty of replacement by a producer pursuant to § 1 ProdHaftG [German Product Liability Act: *Produkthaftungsgesetz*], for an individual case of damages caused by negligence is limited to € 4 million pursuant to § 54 a Abs. 1 Nr. 2 WPO.

**(3)** The German Public Auditor is entitled to invoke demurs and defenses based on the contractual relationship with the engaging party also towards third parties.

**(4)** When multiple claimants assert a claim for damages arising from an existing contractual relationship with the German Public Auditor due to the German Public Auditor's negligent breach of duty, the maximum amount stipulated in paragraph 2 applies to the respective claims of all claimants collectively.

**(5)** An individual case of damages within the meaning of paragraph 2 also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty regardless of whether the damages occurred in one year or in a number of successive years. In this case, multiple acts or omissions based on the same source of error or on a source of error of an equivalent nature are deemed to be a single breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the German Public Auditor is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

**(6)** A claim for damages expires if a suit is not filed within six months subsequent to the written refusal of acceptance of the indemnity and the engaging party has been informed of this consequence. This does not apply to claims for damages resulting from scienter, a culpable injury to life, body or health as well as for damages that constitute a liability for replacement by a producer pursuant to § 1 ProdHaftG. The right to invoke a plea of the statute of limitations remains unaffected.

## 10. Supplementary provisions for audit engagements

**(1)** If the engaging party subsequently amends the financial statements or management report audited by a German Public Auditor and accompanied by an auditor's report, he may no longer use this auditor's report.

If the German Public Auditor has not issued an auditor's report, a reference to the audit conducted by the German Public Auditor in the management report or any other public reference is permitted only with the German Public Auditor's written consent and with a wording authorized by him.

**(2)** If the German Public Auditor revokes the auditor's report, it may no longer be used. If the engaging party has already made use of the auditor's report, then upon the request of the German Public Auditor he must give notification of the revocation.

**(3)** The engaging party has a right to five official copies of the report. Additional official copies will be charged separately.

## 11. Supplementary provisions for assistance in tax matters

**(1)** When advising on an individual tax issue as well as when providing ongoing tax advice, the German Public Auditor is entitled to use as a correct and complete basis the facts provided by the engaging party – especially numerical disclosures; this also applies to bookkeeping engagements. Nevertheless, he is obligated to indicate to the engaging party any errors he has identified.

**(2)** The tax advisory engagement does not encompass procedures required to observe deadlines, unless the German Public Auditor has explicitly accepted a corresponding engagement. In this case the engaging party must provide the German Public Auditor with all documents required to observe deadlines – in particular tax assessments – on such a timely basis that the German Public Auditor has an appropriate lead time.

**(3)** Except as agreed otherwise in writing, ongoing tax advice encompasses the following work during the contract period:

**a)** preparation of annual tax returns for income tax, corporate tax and business tax, as well as wealth tax returns, namely on the basis of the annual financial statements, and on other schedules and evidence documents required for the taxation, to be provided by the engaging party

**b)** examination of tax assessments in relation to the taxes referred to in (a)

**c)** negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)

**d)** support in tax audits and evaluation of the results of tax audits with respect to the taxes referred to in (a)

**e)** participation in petition or protest and appeal procedures with respect to the taxes mentioned in (a).

In the aforementioned tasks the German Public Auditor takes into account material published legal decisions and administrative interpretations.

**(4)** If the German Public auditor receives a fixed fee for ongoing tax advice, the work mentioned under paragraph 3 (d) and (e) is to be remunerated separately, except as agreed otherwise in writing.

**(5)** Insofar the German Public Auditor is also a German Tax Advisor and the German Tax Advice Remuneration Regulation (*Steuerberatungsvergütungsverordnung*) is to be applied to calculate the remuneration, a greater or lesser remuneration than the legal default remuneration can be agreed in writing (*Textform*).

**(6)** Work relating to special individual issues for income tax, corporate tax, business tax, valuation assessments for property units, wealth tax, as well as all issues in relation to sales tax, payroll tax, other taxes and dues requires a separate engagement. This also applies to:

**a)** work on non-recurring tax matters, e.g. in the field of estate tax, capital transactions tax, and real estate sales tax**;**

**b)** support and representation in proceedings before tax and administrative courts and in criminal tax matters;

**c)** advisory work and work related to expert opinions in connection with changes in legal form and other re-organizations, capital increases and reductions, insolvency related business reorganizations, admission and retirement of owners, sale of a business, liquidations and the like, and

**d)** support in complying with disclosure and documentation obligations.

**(7)** To the extent that the preparation of the annual sales tax return is undertaken as additional work, this includes neither the review of any special accounting prerequisites nor the issue as to whether all potential sales tax allowances have been identified. No guarantee is given for the complete compilation of documents to claim the input tax credit.

## 12. Electronic communication

Communication between the German Public Auditor and the engaging party may be via e-mail. In the event that the engaging party does not wish to communicate via e-mail or sets special security requirements, such as the encryption of e-mails, the engaging party will inform the German Public Auditor in writing (*Textform*) accordingly.

## 13. Remuneration

**(1)** In addition to his claims for fees, the German Public Auditor is entitled to claim reimbursement of his expenses; sales tax will be billed additionally. He may claim appropriate advances on remuneration and reimbursement of expenses and may make the delivery of his services dependent upon the complete satisfaction of his claims. Multiple engaging parties are jointly and severally liable.

**(2)** If the engaging party is not a consumer, then a set-off against the German Public Auditor's claims for remuneration and reimbursement of expenses is admissible only for undisputed claims or claims determined to be legally binding.

## 14. Dispute Settlement

The German Public Auditor is not prepared to participate in dispute settlement procedures before a consumer arbitration board (*Verbraucherschlichtungsstelle*) within the meaning of § 2 of the German Act on Consumer Dispute Settlements (*Verbraucherstreitbeilegungsgesetz*).

## 15. Applicable law

The contract, the performance of the services and all claims resulting therefrom are exclusively governed by German law.

In deviation from the wording of the General Engagement Terms, the limitation of liability pursuant to section 9 (2) up to and including section 9 (6) do not apply for damages caused by gross negligence.

Februar 2017