PGNiG Supply & Trading GmbH
Munich

Annual Financial Statement as of December 31, 2020 and the Management Report for the Fiscal Year 2020

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(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, 2020 and the income statement for the fiscal year from January 1 through December 31, 2020 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, 2020.

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, 2020 and of its profit situation for the fiscal year from January 1, 2020 through December 31, 2020; 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.

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' 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 law 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 net assets, 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.

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 conducted 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, 2020 through December 31, 2020.

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, 2020 through December 31, 2020.

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 15, 2021

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)

Hund	Biersack
German CPA	German CPA

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

PGNiG Supply & Trading GmbH, München

Balance sheet as of December 31, 2020

A S S E T S

		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	38.962,00		68.221,00
2. Prepayments	1.346.594,15		969.261,91
		1.385.556,15	1.037.482,91
II. TANGIBLE ASSETS			
Other equipment, factory and office equipment		314.744,36	281.511,84
III. Financial assets			
Shares in affiliated companies		298.921,66	1.000.000,00
		1.999.222,17	2.318.994,75
B. CURRENT ASSETS			
I. Inventories			
Natural gas reserves		831.251,50	13.189.136,05
II. Receivables and other assets			
1. Trade receivables	43.145.864,74		39.289.690,92
2. Receivables from affiliated companies	71.020.945,71		47.318.963,00
3. Other assets	22.896.723,35		16.809.954,64
incl. from taxes EUR 460,0 (previous year: KEUR 460)		137.063.533,80	103.418.608,56
III. Cash on hand and bank balances		9.495.050,41	38.627.611,46
		147.389.835,71	155.235.356,07
C. PREPAID EXPENSES AND DEFERRED CHARGES		1.364.601,00	6.817.633,85
D. DEFERRED TAX ASSETS		3.189.982,65	1.467.180,42
		153.943.641,53	165.839.165,09

L I A B I L I T I E S

		EUR	Previous year EUR
A. EQUITY			
I. Subscribed capital		10.000.000,00	10.000.000,00
II. Currency translation reserves		16.569,84	39.408,57
III. Net loss		-5.246.423,20	-2.706.957,09
		4.770.146,64	7.332.451,48
B. PROVISIONS			
1. Tax provisions	106.853,53		28.970,39
2. Other provisions	5.959.964,19		12.916.463,16
		6.066.817,72	12.945.433,55
C. ACCOUNTS PAYABLE			
1. Bank loans and overdrafts	44.585.566,50		33.413.682,07
2. Payments received on account	21.052,58		0,00
3. Trade payables	53.405.034,77		27.677.628,63
4. Payables to affiliated companies	35.879.621,05		78.376.805,62
5. Other liabilities	4.967.407,64		4.897.879,47
incl. from taxes EUR 736.399.32 (previous year: KEUR 0)		138.858.682,54	144.365.995,79
D. DEFERRED INCOME		4.246.993,10	1.188.353,24
E. DEFERRED TAX LIABILITIES		1.001,53	6.931,03
		153.943.641,53	165.839.165,09

PGNiG Supply & Trading GmbH, München

Income statement
for the fiscal year 2020

				Vorjahr
		EUR		EUR
1.	Sales revenue		1.017.424.377,42	1.640.270.605,01
2.	Other operating income including from curency translation: EUR 411.551,71 (previous year: EUR 244.949,50)		961.372,52	575.743,92
3.	Cost of materials			
a)	Cost of raw materials, supplies and merchandise	-903.458.243,11		-1.591.034.827,23
b)	Cost of purchased services	-99.150.735,50		-29.492.732,66
			-1.002.608.978,61	-1.620.527.559,89
4.	Personnel expenses			
a)	Wages and salaries	-4.246.238,66		-3.926.315,86
b)	Social security, pension and other benefits including for pension: EUR 209,52 (previous year: EUR 306,51)	-508.568,17		-598.760,50
			-4.754.806,83	-4.525.076,36
5.	Depreciation of fixed intangible and tangible assets		-187.357,63	-142.145,83
6.	Other operating expenses including from currency translation: EUR 1.888.337,53 (previous year: EUR 345.805,75)		-10.374.305,46	-10.367.076,67
			460.301,41	5.284.490,18
7.	Losses absorbed due to a profit-and-loss transfer agreement		-1.959.619,56	-2.356.639,37
8.	Other interest and similar income	181.472,27		168.149,75
9.	Depreciations of financial assets and securities held as current assets	-701.078,34		0,00
10.	Interest and similar expenses	-1.966.791,62		-1.771.491,50
			-2.486.397,69	-1.603.341,75
11.	Taxes on income including income from deferred tax assets EUR 1.781.698,43 (previous year income: EUR 200.763,37)		1.446.485,73	-900.065,71
12.	Earnings after taxes		-2.539.230,11	424.443,35
13.	Other taxes		-236,00	-572,00
14.	Annual net loss (previous year annual net profit)		-2.539.466,11	423.871,35
15.	Loss carryforward		-2.706.957,09	-3.130.828,44
16.	Net income/annual loss		-5.246.423,20	-2.706.957,09

PGNiG Supply & Trading GmbH, Munich

Notes for the fiscal year from January 1 through December 31, 2020

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 March 2019.

Accounting and valuation methods

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

Acquired **intangible fixed 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 fixed 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 recognized 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 (EUR)	Business year	Result [EUR)
PST Europe Sales GmbH, Munich	100%	1.000.000,00	01.01.2020 - 31.12.2020	0,00

Due to the profit-and-loss transfer agreement, the Company has to assume losses in the amount of EUR 1,959,619.56.

Inventories

Inventories include so-called “White Certificates” (Polish CO^2 certificates of the Warsaw PE) in the amount of EUR 831,251.50 (previous year EUR 0.00). As of December 31, 2020, there was no gas stored in the rented storage space (previous year EUR 13,189,136.05).

Receivables and other assets

	31.12.2020 EUR	31.12.2019 EUR
Trade receivables	43,145,864.74	39,289,690.92
thereof, with a maturity of more than 1 year	0,00	0.00
Receivables from affiliated companies	71,020,945.71	47,318,963.00
thereof, with a maturity of more than 1 year	0.00	0.00
Other assets	22,896,723.35	16,809,954.64
thereof, with a maturity of more than 1 year	0.00	0.00
	137,063,533.80	103,418,608.56

During the fiscal year 2020, trade receivables mainly include receivables from trading partners for the delivery period of December 2020.

	31.12.2020 EUR	31.12.2019 EUR
Polskie Górnictwo Naftowe i Gazownictwo Spólka Akcyjna, Warschau, Polen	60,544,432.25	32,020,649.97
PST Europe Sales GmbH, Munich	10,319,329.83	14,822,120.74
XOOL GmbH, Munich	160,183.63	476,192.29
	71,020,945.71	47,318,963.00

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 8,582,087.08 (previous year EUR 7,540,457.31) as well as trade receivables in the amount of EUR 1,734,242.75 (previous year EUR 5,306,299.15). Receivables from XOOL comprise trade receivables in the amount of EUR 160,183.63 (previous year EUR 397,736.94).

Besides of paid securities, other assets include margin payments ("initial and variation margin") for gas and electricity futures for delivery periods after December 31, 2020 in the total amount of EUR 18,291,795.87 (previous year EUR 10,347,266.84).

Cash on hand and bank balances

Liquid funds consist of bank balances, of which an amount of EUR 776,900.00 (previous year EUR 676,900.00) 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, 2021). 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:

	31.12.2020 EUR	31.12.2019 EUR
Deferred tax assets on tax loss carryforwards	2,197,798.67	832,886.27
Deferred taxes from local differences of the Polish PE	992,183.98	634,294.15
	3,189,982.65	1,467,180.42

The calculation of deferred taxes on tax loss carryforwards was based on an unchanged tax rate of 32.975%. Deferred tax assets were recognized on tax loss carryforwards in the total amount of EUR 6,665,045.25. The deferred tax assets on the loss carryforwards were recognized on the assumption that the Company will generate positive taxable income in future.

The calculation of deferred taxes from local differences of the permanent establishment in Poland was based on a tax rate of 19.00%. Accounting was based on the assumption of temporary offsetting.

The amount of deferred tax assets recognized is subject to a distribution restriction, as there are no freely available equity shares 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 disbursement as there are no freely available equity shares as of the balance sheet date.

Tax provisions

The stated tax provisions relate to the fiscal year 2019 and 2020.

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 fiscal year, the Company had to form provisions for contingent losses for the trading business in the amount of EUR 161,657.21 (previous year EUR 463,500.28). 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	44.585.566,50	44.585.566,50
(previous year)	(33.413.682,07)	(33.413.682,07)
Payments received on account	21.052,58	21.052,58
(previous year)	(0,00)	(0,00)
Trade payables	53.405.034,77	53.405.034,77
(previous year)	(27.677.628,63)	(27.677.628,63)
Payables to affiliated companies	35.879.621,05	35.879.621,05
(previous year)	(78.376.805,62)	(78.376.805,62)
Other liabilities	4.967.407,64	4.967.407,64
(previous year)	(4.897.879,47)	(4.897.879,47)
	138.858.682,54	138.858.682,54
	(144.365.995,79)	(144.365.995,79)

Trade payables mainly relate to costs for the energy procurement.

Payables to affiliated companies relate inter alia to trade payables in the amount of EUR 12,358,172.44 (previous year EUR 4,291,447.43) to the affiliate PGNiG Upstream SA, Stavanger, Norway. In addition to trade payables in the amount of EUR 726,237.34 (previous year: EUR 2,616,978.38), there were payables to the sole shareholder Polskie Górnictwo Naftowe i Gazownictwo Spólka Akcyjna, Warsaw, Poland, in the amount of EUR 282,744.29 (previous year: EUR 10,268,685.81) resulting from the utilization of the shareholder loan (including interest). The item also includes a payable from a cash pool between the sole shareholder and the Warsaw branch in the amount of EUR 19,551,897.42 (previous year EUR 58,835,275.07). Payables to XOOL GmbH in the amount of EUR 1,000,950.00 (previous year EUR 7,779.56) result from cash pooling within PST Group. Due to the existing profit-and-loss transfer agreement, liabilities from the loss transfer PST ES in the amount of EUR 1,959,619.56 (previous year EUR 2,356,639.37) 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, 20120 in the total amount of EUR 3,720,344.23 (previous year EUR 2,978,647.17).

Deferred income mainly includes the effect from the cascading of gas and electricity futures (with a delivery start as of January 1, 2021). 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

As of the balance sheet date, there were contingent liabilities from warranties amounting to a maximum of EUR 369.0 million, USD 380.5 million and PLN 600 million towards the sole shareholder Polskie Górnictwo Naftowe i Gazownictwo Spólka Akcyjna, Warsaw, Poland. For this purpose, guarantee agreements were concluded for the various business areas of the Group against the background that the sole shareholder, for its part, has issued payment guarantees to external suppliers of PGNiG Supply & Trading GmbH in order to hedge the risk of a payment default by the subsidiary. In the event of a claim by an external supplier, the sole shareholder would be entitled to reclaim the money from the subsidiary. The shareholder guarantees relate to individual transactions between the Company and external suppliers. Each individual guarantee agreement under the warranty contract is subject to the resolutory condition that the receivable to be secured is settled by the external suppliers or that the term of the respective guarantee ends.

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 53.4 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

As of the balance sheet date, there were no contingent liabilities from the granting of guarantees for third-party liabilities.

Other financial obligations

The following other financial obligations were reported as of December 31, 2020:

2021 EUR	2022 EUR	2023 EUR	2024 EUR	Total EUR
828,833,895.37	142,391,959.64	59,446,374.14	1,191,274.02	1,031,863,503.16

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

However, they also include pending procurements from the Norwegian affiliate in the amount of EUR 159,947,825.70.

Notes on the income statement

Sales revenues

While the Warsaw PE's sales tripled compared to 2019, the London PE's sales decreased by just under 30 percent and those at the headquarters by almost 50 percent. In both cases, this is due to the significantly lower commodity prices compared to the previous year. For the head office, this development was exacerbated by significantly lower demand from the parent company compared to the previous year (from 27.2 TWh in 2019 to now 23.1 TWh).

Sales revenues are distributed in terms of regions and commodities as follows:

	Within Germany EUR	Outside Germany EUR	Total EUR
Sales revenues	313.642.220,68	703.782.156,74	1.017.424.377,42
(previous year)	(824.901.027,42)	(815.369.577,59)	(1.640.270.605,01)

Sales revenues are distributed to commodities as follows:

	Gas EUR	Electricity EUR	Oil EUR	Total EUR
Sales revenues	962.304.412,20	55.044.651,15	75.314,07	1.017.424.377,42
(previous year)	(1.550.354.051,01)	(89.617.979,89)	(298.574,11)	(1.640.270.605,01)

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 reduction compared to the previous year corresponds to the decline in sales revenues and results from a decreased procurement volume and a general price decline.

Depreciations

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 514,348.72; previous year EUR 299,252.02), as well as income from currency translations which amounted to EUR 411,551.71 in the fiscal year 2020 (previous year EUR 244,949.50).

Other operating expenses include expenses from currency translations in the amount of EUR 1,888,337.53 (previous year EUR 345,805.75). 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 181,472.27 (previous year EUR 168,149.75) include interest due to PST Europe Sales GmbH in the amount of EUR 32,087.08 (previous year EUR 40,457.31).

Interest and similar expenses

Interest and similar expenses mainly include guarantee commissions to the parent company in the total amount of EUR 1,035,711.93 (previous year EUR 1,067,914.24) and interest expenses to the parent company of EUR 390,503.58 (previous year EUR 429,489.40). The increase in interest expenses is mainly due to the higher utilization of available credit lines.

Depreciation of financial assets

Since the end of the 2020 financial year, the PST ES shareholding has no longer supplied end customers with energy. The customer portfolio was spun off and sold to a competitor. Due to the lack of future income from the sales business, the carrying amount of the investment had to be adjusted from the acquisition cost to the remaining equity of PST ES.

Taxes on income

Income taxes result from income from the addition of deferred taxes on loss carryforwards in the amount of EUR 1,781,698.43 (previous year: expense of EUR 200,763.42) and from the formation of tax provisions and current tax payments (mainly for the branches in Warsaw and London) in the total amount of EUR 318,236.96 (previous year: EUR 684,235.05).

Other notes

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

During the business year, the Company sold 23,081 GWh of natural gas (pipeline gas and LNG) to its sole shareholder Polskie Górnictwo Naftowe i Gazownictwo Spólka Akcyjna, Warsaw, Poland, thereby generating sales revenues (incl. capacities) in the amount of ca. EUR 343.3 million. With regard to its PST ES shareholding, the Company generated ca. EUR 7.3 million or 281 GWh (gas and electricity), with regard to XOOL GmbH EUR 1.4 million or 60 GWh (gas).

On behalf of PGNiG Upstream Norway SA, the Company marketed the part of the gas produced in various Norwegian gas fields which is attributable to the affiliate. Procurement costs amounted to EUR-52.8 million (5,478 GWh).

There is a Revolving Loan Agreement between PST and PGNiG SA with a term until December 31, 2021. The loan has not been utilized as of December 31, 2020. Furthermore, reciprocal loan agreements have been concluded within the PST Group for cash pooling purposes. In 2020, PST Europe Sales GmbH took up a shareholder loan in the amount of EUR 8.6 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 2020, the Company performed 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 73,655 are hedged. The volume of hedged underlying transactions amounts to TWh 20.2 and relates to monthly invoicing periods until the end of the year 2023.

Management

In the financial year 2020

- 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)

- Olgierd Hurka, 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)

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

were PGNiG Supply & Trading GmbH's managing directors.

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

Supervisory board

In the financial year 2020:

- Jacek Polańczyk (member and chairman since August 27, 2020)
- Aneta Krasuń (since August 27, 2020)
- Mariusz Bartosewicz (since August 27, 2020
- Beata Stepniak (until August 26, 2020)
- Rafael Swiader (until August 26, 2020)
- Łukasz Kroplewski (until January 10, 2020)

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 42,282.59 (previous year: EUR 81,279.80).

Employees

During the financial year from January 1, 2020 through December 31, 2020, the Company employed an average staff of 42 (previous year: 44). The employees are classified as follows:

- Employees: 38
- 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 group of consolidated companies) which are available at the parent company's registered office. The Company is required to prepare consolidated financial statements and a group management report pursuant to Art. 290 HGB (smallest group of consolidated companies). 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, 2020 (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 anticipates operational challenges related to potential employee sick leave or the need to work from home offices. PST is well prepared for these challenges and does not foresee any risk of business interruption, as last year has already shown. The effect of the Corona crisis will continue to severely impact demand into the second half of 2021 and have an impact on market prices. Most traders work from home offices, 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.

Appropriation of profits

Management proposes to carry forward the 2020 net loss in the amount of EUR 2,539,466.11 together with the existing net loss to new account.

Munich, March 31, 2021

Management

PGNiG Supply & Trading GmbH, München

Development of fixed assets in the 2020 financial year

	Acquisition and manufacturing costs				Accumulated depreciation				Book value	
	1.1.2020 EUR	Additions EUR	Disposals EUR	31.12.2020 EUR	1.1.2020 EUR	Additions EUR	Disposals EUR	31.12.2020 EUR	31.12.2020 EUR	31.12.2019 EUR
I. Intangible assets										
1. Acquired concessions, industrial property and similar rights and assets as well as licences in such rights and assets	2.188.470,14	3.415,12	0,00	2.191.885,26	2.120.249,14	32.674,12	0,00	2.152.923,26	38.962,00	68.221,00
2. Prepayments	969.261,91	377.332,24	0,00	1.346.594,15	0,00	0,00	0,00	0,00	1.346.594,15	969.261,91
	3.157.732,05	380.747,36	0,00	3.538.479,41	2.120.249,14	32.674,12	0,00	2.152.923,26	1.385.556,15	1.037.482,91
II. Tangible assets										
Other equipment, factory and office equipment	950.876,68	187.916,03	0,00	1.138.792,71	669.364,84	154.683,51	0,00	824.048,35	314.744,36	281.511,84
III. Financial assets										
Shares in affiliated companies	1.000.000,00	0,00	0,00	1.000.000,00	0,00	701.078,34	0,00	701.078,34	298.921,66	1.000.000,00
	5.108.608,73	568.663,39	0,00	5.677.272,12	2.789.613,98	888.435,97	0,00	3.678.049,95	1.999.222,17	2.318.994,75

Management report of PGNiG Supply & Trading GmbH, Munich,

for the fiscal year 2020

<u>Content</u>

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 underwent an organizational restructuring in 2020 aimed to separate general management functions and trading functions. Currently PST operates through three branches in charge of different business areas and its organizational structure looks as follows:

Additionally, to the above restructuring, sales of gas and electricity to end customers carried out through PST's subsidiaries - PST Europe Sales GmbH and XOOL GmbH has been divested, following the change in the strategic goals of the organization. Since March 2020 acquisition of new customers have been stopped and portfolio of end customers was sold outside the PGNiG Group. Final settlement of transaction took place in December 2020. More information on transaction is presented in the section II. 2. Business development.

Business division Trading:

Business division Trading has been set up to trade mainly natural gas and other energy products on widely understood European markets.

PST has an important function within the PGNiG SA group. Besides the procurement of natural gas for the parent company, PST markets the natural gas produced by its Norwegian affiliate PGNiG Upstream Norway AS in the Norwegian shelf.

In year 2020 PST concentrated on developing its activities as gas off-taker on Norwegian Continental Shelf (NCS) and Danish Continental Shelf (DCS) by entering into multiple short and medium-term gas sales agreement with various counterparties.

Parallelly, PST has set up its activities in the CEE markets like Slovakia and Hungary with main goal to achieve operational ability to transport gas from and to Ukraine from main European gas hubs. 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 the global LNG market.

Business division Poland

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 branch started its operations in 2019 and 2020 was the first year, when operations were executed throughout the whole year.

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

II. Economic report

1. General overview

a. Development of the general economic overview

Review of the year 2020

Development of global economy

Last year, the COVID-19 pandemic was the dominant topic. The crisis not only had a massive impact on political decisions, but also on the economic development of individual states, as well as that of the global economy.

The medium- and long-term effects of the lockdown imposed in many states on the economic performance of individual countries and economic regions are discussed differently among economists.

Some experts believe that the weakness of pandemic-related economic growth will not be as severe as originally feared and that the economic recovery will begin quickly. Other experts estimate that the crisis will leave severe economic damage that will have long-term repercussions despite massive state economic aid.

The crucial factor will be whether the corona wave in winter 2020/21 will have a similar economic impact as that in spring and summer 2020. The International Monetary Fund (IMF) expects the global economy to decrease by around 4.4 percent in the year 2020.

Eurozone and Germany

According to the IMF calculation, the Eurozone economy will shrink by about 8.3 percent in 2020 and by 6.0 percent in Germany. Thanks to the economic stimulus programs, the decline is not as severe as feared in the middle of last year.

Despite government aid programs and the temporary reduction in sales tax, the German economy went through a period of weakness. This is also reflected in a 6.9 percent drop in investment activity. Unemployment rose to around 6 percent despite emergency aid and short-time work, which is roughly one percent higher than in 2019. According to the Federal Statistical Office, the rate of inflation last year was by 0.9 percent lower than in the prior year.

<u>Economic outlook 2021</u>

Development of global economy

The pandemic has led to the most severe recessions of the post-war period in all economies. According to the IMF’s projection from World Economic Outlook (WEO) published in January 2021, the global economy and the most important trade areas are forecasted to recover in the year 2021, as a result of increased expectation related to vaccination and additional policy support. According to current forecasts, global economy’s growth is projected to be 5.5 percent in 2021 and 4.2 percent in 2022.

Eurozone and Germany

European Commission assumes Europe-wide growth of 4.2 percent in 2021 and rising unemployment in the euro area from 8.3 percent in 2020 to 9.4 percent in 2021. According to this forecast, the European Union's GDP will increase by 4.1% in 2021, while inflation is expected to be 1.1%.

Due to the renewed rise in infection figures in the fall of 2020, also in Germany and the subsequent "hard lockdown" over the turn of the year 2020/21, the German Council of Economic Experts estimates that the situation will remain fragile in 2021. The economic momentum that picked up in the third quarter of 2020 will stagnate into the spring, leading the economic experts to assume German GDP growth of around 3.7 percent in 2021. They see the unemployment rate in Germany at around 6 percent and consumer price inflation at 1.7 percent in 2021.

Possible impact of corona virus pandemic

The consensus among all forecasters is that the key to overcoming the recession will be when a vaccine becomes available and how quickly a sufficient vaccination of the population can push back the COVID-19 pandemic.

b. Overview of the energy markets

The corona crisis has also left its mark on the energy markets. Due to the extensive shutdown of public life in the spring, the global decline in economic demand and the resulting recession, energy consumption last year was lower than in prior years. According to estimates by the Working Group on Energy Balances (AG Energiebilanzen), it was 11,920 petajoules (PJ) in Germany, just under 7 percent below the prior year's level.

In addition to the pandemic, long-term trends were also responsible for the decline, including further increases in energy efficiency and higher average annual temperatures.

<u>Pipeline gas market</u>

Natural gas is an important energy source in industry and commerce, so the coronavirus-induced decline in the economy and sales was the main reason for the lower consumption. The mild weather at the beginning of the year had also a negative impact on gas demand.

Comparing natural gas prices on the wholesale market on a long-term average, prices in 2020 were at a rather low level. In addition to weaker demand, the still well-filled storage facilities after a relatively mild winter in 2019/2020 were also a contributing factor.

The forward market (TTF Gas Future) for the front year 2021 moved continuously downwards from around € 16.00/MWh to around € 13.00/MWh from the beginning of 2020 to March 2020. The reasons were the warm winter, in combination with high LNG inflows and well-filled storage facilities. The global outbreak of the corona pandemic in mid-February further intensified the downward trend, with demand falling by around 10 percent, causing European gas prices to plunge to new record lows. This also applies to the spot market, where day-ahead prices reached a new all-time low of € 1.70/MWh at the Dutch Gas Hub TTF at the end of May.

Since June, prices have been trending steadily firmer again. The reasons for the price increase were reduced supplies from Russia and Norway, together with lower LNG imports due to higher prices. The Cal 21 TTF contract reached a temporary high of € 14.90/MWh on October 23 before falling again into November, triggered by significantly lower day-ahead prices and high fall-winter temperatures.

Following the economy upturn after the end of the lockdowns in the summer demand for gas picked up again. Very cold weather forecasts at the end of the year gave the markets an additional boost. At the end of the reporting period, Cal21 TTF trades at € 17.10/MWh (annual high).

Outlook:

At the end of 2020, the supply situation was similarly comfortable as in the previous year. Natural gas storage facilities in continental Europe had a record high fill level for this time of year. In addition, there is the possibility of supply from the storage facility in Ukraine, which gives the market additional volumes and flexibility.

In Germany, due to the further shutdown of nuclear power plants and the rising generation costs of coal-fired power plants as a result of further increases in the price of CO2 certificates, the share of natural gas will increase in the medium term.

The key factors for the European natural gas market in 2021 will be:

- Further development of the corona pandemic: The question is whether the stimulus packages worth billions of euro will be able to take effect and lead to a global economic upturn. This will then be reflected in higher energy consumption with rising raw material prices. Conversely, however, further setbacks and a longer lockdown period would lead to a downward spiral.
- Pipeline flows from Russia and Norway: Gas flows are expected to remain at high levels, but due to corona, new fields will not start production until a later date.
- Development of prices: Analysts forecast significantly higher EEA prices in the coming years. These entail higher gas demand due to the switch from coal to gas as a fuel in power generation.
- Temperatures and degrees of filling of continental gas reservoirs: Contrary to expectations, the winter was record warm until early December 2020. In the beginning of 2021 Europe as a whole noted temperature close to the 1991-2020 average, with colder than average temperatures in January and February 2021 over the west and the north of the Europe, especially over Norway, Sweden, Poland and Russia. This is leading to higher consumption and lower levels in storage facilities and thus most probably higher demand in the coming summer.
- LNG inflows: Demand from Asia is driving LNG prices, making delivery to Europe unattractive in terms of price compared to pipeline gas deliveries.

<u>LNG market</u>

The price performance on the international LNG market was similar to that on the pipeline gas market. In Asia, the JKM (“Japan-Korean Marker”) price fell from USD 5.50/MMBTU in December 2019 to USD 1.95/MMBTU, marking an all-time low for LNG in late April 2020. The strict lockdown in Asia, especially in China, abruptly reduced demand for liquefied natural gas, thereby increasing LNG inflows to Europe. LNG prices have rallied since May, reaching USD 12.90/MMBtu on December 15, the highest price level in six years. The extreme price increase is mainly caused by a sharp reduction in supply due to production shortfalls and an impressive recovery of the Asian economy.

According to the European Commission “Study on gas market upgrading and modernisation” from the year 2020 there are 24 existing LNG import terminals operating in Europe and 18 more planned. Worldwide import of LNG increased by 13% between 2018 and 2020 (from 316,8 MT to 358,9 MT) and was stable (1% increase y/y) in 2020 compared to 2019 despite pandemic and global economic downturn.

The LNG market in Germany is still underdeveloped. Due to its transportability and possible use as an emission-reduced fuel in the field of heavy-duty transport, freight transport, and shipping, LNG is an economic bridgehead of the energy transition. In addition, liquefied natural gas imports enable diversification of supply sources and thus a reduction in dependence on Russian natural gas.

Import terminals and regasification plants have not yet progressed beyond planning status in Germany. The planned LNG terminal in Wilhelmshaven has also been on the brink of cancellation since mid-November 2020. Another terminal planned in Brunsbüttel is the subject of a massive legal challenge, including by Deutsche Umwelthilfe. Planning for plants in Stade and Rostock has not yet advanced much.

Outlook:

According to the IEA (International Energy Agency), even the pandemic will not fundamentally change the increasing use and planning of LNG infrastructure worldwide. However, it is expected that investments in LNG will be postponed.

<u>Power Market</u>

The pandemic and lockdown also made themselves felt in electricity prices. In Q2 2020, the forward price of April Baseload slid to its lowest level in 20 years at € 17.35/MWh. At the same time, the number of negative hourly prices in April and May more than doubled compared with prior years: Instead of an average of 31 negative hourly contracts, in 2020 there were 76 hourly values for which power plant operators had to pay money to sell the electricity they generated. In the second half of 2020, forward market prices picked up significantly again, reaching levels of around and above €40/MWh for the monthly ahead contracts, but remaining below the average price in 2019.

According to BDEW (Bundesverband der Energie- und Wasserwirtschaft – German Association of Energy and Water Industries) estimates, electricity consumption in Germany was around 4.4 percent lower than in 2019, at 543.6 TWh. The main reason for the decline in consumption was the drop in industrial production in the second quarter due to the corona pandemic. At times, it was down by up to 12 percent on the same period of the prior year. With almost 46 percent share, industry is the largest consumer of electricity in Germany.

Outlook:

The performance of the electricity market depends on several factors. Key factors for the European electricity market include:

- Corona pandemic: A rapid economic recovery will also be reflected in prices, which tend to rise.
- Regional spot prices: A system similar to that used in Scandinavia is currently being discussed to relieve the strain on the grids. Grid areas would be subdivided across Germany, and transmission constraints would result in different spot prices per grid area. Should the system be applied, suppliers and buyers will face major risk hedging challenges.
- Generation mix: The expansion of renewable electricity production and its share in the electricity mix.
- The further cross-border expansion of distribution networks.

<u>CO_2 pricing and price development CO_2 certificates</u>

In the spring of last year, starting from a level of around 25 euro per ton, prices collapsed rapidly as global industrial production was scaled back in the wake of the corona pandemic: At the end of March, a price below € 15 /t was reached. Prices did not pick up again significantly until mid-May. Price developments remained volatile throughout until the end of 2020, fluctuating in a relatively wide band between €25/t and just below €30/t between the end of June and the end of the year. With the announcement of the EU agreement on the significant tightening of climate targets by 2030, the price of the EEA (European Emission Allowances) broke through the 30-euro barrier for the first time since trading was introduced in 2005, at 31.30 euro per metric ton of emitted CO_2. We expect that prices for CO2 certificates will rise even more in the future in order to achieve the climate targets that have been set.

<u>Crude oil</u>

Developments on the international crude oil market resembled a roller coaster ride last year. The almost 30 percent drop in demand at the beginning of the year due to coronavirus resulted in supply surplus, which caused prices to fall very sharply in the first half of the year. The price of a barrel of U.S. crude oil plunged into negative territory for the first time in history at -USD 37.63, and the price of North Sea Brent crude fell to

USD 17/barrel. It was only with the improvement in the coronavirus situation that prices picked up again in the course of the year. At the end of 2020, the barrel of WTI and Brent was again around USD 50 per barrel.

Experts see crude oil averaging USD 60 – 70 / barrel in 2021, assuming there are no price-driving geopolitical crises. The price of a barrel is not expected to rise above USD 80 again until the end of 2022.

c. Legal framework

There were only minor changes in the legal framework for energy trading. Changes in the sales area resulted in 2020 from the implementation of the market communication “MaKo 2020” and the provisions established thereby. The amended Renewable Energy Sources Act (EEG) was passed at the end of 2020. In the future, the EEG will regulate, among other things, the options for feeding electricity into the grid and using it for one's own purposes, as well as the promotion and marketing of electricity from generation plants that cease to be eligible for EEG subsidies after 20 years.

The position of electricity consumers will be strengthened by the implementation of the ordinances on the Act on the Digitization of the Energy Transition, in particular the Act on Metering Point Operation. In addition to the market role of the basic metering point operator, a competitive metering point operator has also been established. Customers thus have the option of changing not only the supplier but also the metering point operator.

2. Business development

Impact of the COVID-19 pandemic

Year 2020 was heavily influenced by the COVID-19 pandemic. In response to the outbreak of the coronavirus the Management Board of PST decided to implement safety procedures in order to ensure the health and sustainability of the staff. From the very beginning of the pandemic, the company implemented remote work for all employees together with daily reporting on the current health status. Additionally, physical presence in the offices of PST is limited to the minimum and has to be agreed with the HR team beforehand in order to maximize safety standards. All implemented measures are carried out without any disturbances.

Nevertheless, the pandemic and remote work had negative impact on the PST’s operations, partly due to the fact that the trading markets were less active due to decreased information flow between the traders. At the same time the pandemic had an influence on credibility and profitability of the PST’s counterparts, mainly in the manufacturing industry.

<u>Developments in the trading business division</u>

In 2020, we further developed our natural gas business on a sustainable basis. Among other things, we were able to secure additional volumes through our Norwegian upstream sister company, PGNiG Upstream Norway, and other partner companies. In 2020 cooperation with Lotos Norge was further continued. In the third quarter of 2020, we concluded a multi-year contract with Denmark's Ørsted Salg & Service A/S (Ørsted) for the purchase and sale of natural gas with a total volume of around 70 TWh. Contract was signed for the years 2023 - 2028. Also in the fall of 2020, we signed a contract with Aker BP ASA for the purchase and sale of natural gas from the Norwegian continental shelf. The supply of gas already began in October 2020.

In parallel, our upstream sister has started producing natural gas from three additional fields on the Norwegian Continental Shelf. PST’s task is to place the additional volumes on the European market via the pipeline connections of the Netherlands, Belgium and Emden (Germany), as well as the Baltic Pipe running from Denmark through the Baltic Sea. With the agreements entered in 2020, we are continuing our growth and strengthening our position in Northern Europe and on the Danish natural gas wholesale market.

Last year, PST also focused on expanding its business in Eastern Europe. In Hungary, we launched energy trading at the end of 2020, having already obtained the trading license and the stock exchange membership. With the trade relations to Hungary as well as the existing relations for Slovakia, the Czech Republic, Ukraine and Austria, we have a solid and future-oriented foothold also on the Eastern European market.

The corona pandemic did not leave our trading business unscathed; due to introduction of the home-office working model, the speculatively traded natural gas volume has decreased. Therefore, financial performance for the year 2020 was below planned level for business division Trading.

<u>Developments in the LNG business division</u>

In 2020 through our London branch we expanded both the number of contracts and trading volumes. Furthermore, due to competitive prices we increased our LNG spot deliveries to Poland. Thus, we have proven that we are able to react in an efficient and appropriate manner to rapidly changing conditions on the international LNG market.

PST plans to develop LNG operations in the field of FOB (Free-On-Board) supplies, both on the spot market and based on medium-term contracts. Therefore, in 2020 PST has signed the Master Sale and Purchase Agreement (MSPA) with PGNiG S.A. to manage and optimize the long-term LNG contracts entered by PGNiG with US based counterparties. Extending the commercial and logistic competencies in the field of LNG tonnage management will allow for further development of LNG trade within the Group, to create opportunities of long-term contracts optimization starting from Q4'2022. For this purpose, PST completed a tender procedure for the charter of two gas carriers. The milestone for the Company was the signing of charter contracts in Q4'2020 for the vessels that will be able to collect and transport the contracted volume of LNG. The planned date of availability of the first gas carrier is Q4'2022, and the second is the middle of the year 2023. The capacity of one vessel is 3,838,465 MMBtu. In the year 2023 PST plans to collect first FOB loads from the USA under a long-term contract with PGNiG and to execute first FOB transactions on PST's own account. In connection with the long-term FOB contracts signed by the PGNiG Group, the charter of more gas carriers will be required in the coming years to collect and transport LNG volumes from the USA.

Despite market disturbances caused by COVID in the past year, financial performance of the LNG branch has been very positive, with the EBIT result being almost two times higher than budgeted.

Developments in the business division Poland

In the year 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.

As of December 31, 2020, PST supplied gas to 20 customers (41 delivery points in Poland). The customers of the PST Branch in Poland are the largest commercial entities (private capital) from the glass, ceramics, food, and agricultural industries, utilizing gas fuel for their own needs at physical points, and wholesale customers (resellers) purchasing gas fuel at a virtual or physical point for further resale.

Due to the COVID-19 pandemic, the PL branch had to closely monitor the situation on the market in order to ensure uninterrupted gas deliveries for the portfolio with slightly lower than budgeted volumes. The Branch took out multiple measures incl. the temporary extended payment periods to support the customers during the difficult period of hard downtime for the entire economy. Only one customer has defaulted and is currently undergoing a debt restructuring process.

During the current year PST delivered 8,0 TWh gas compared to 2,4 TWh last year. Financial performance for 2020 was slightly below plan mainly due to pandemic driven default of one of the customers. For the year 2021 it is planned to continue operations of the Branch, with stable gas supplies without further negative impacts of the COVID-19.

Developments in retail sales

Following the extensive performance analysis of the retail sales business division and further change in the strategic goals of the PST, the Management Board decided to divest the retail segment that consists of two PST's subsidiaries - PST Europe Sales GmbH and XOOL GmbH.

With the involvement of external advisors, a due diligence review was conducted by potentially interested parties by March 2020. In March 2020, the decision was made that the nation-wide energy provider lekker Energie GmbH would take over the approximately 40,000 electricity and natural gas customers of PST Europe Sales GmbH and XOOL GmbH as of September 1, 2020. With lekker Energie, PST ES has succeeded in finding a reputable and experienced energy provider in the interests of its customers, who will also be able to guarantee a secure supply and excellent service in the future. After the complete transfer of customers, which was legally completed in October 2020, PST Europe Sales GmbH and XOOL GmbH will be liquidated in the course of 2021. For the employees in charge of retail sales operations, either transition to PGNiG Supply & Trading were agreed upon or mutually agreeable solutions for the termination of the employment contracts were found together with the works council and the employees.

The above-mentioned transaction has limited impact on the standalone financial statement of PST for the year 2020. As of 31.12.2020, the shares of PST ES have been revalued. However, following the PnL transfer agreement the net result of PST ES’s sales operations, after the sale of portfolio and discontinuation of operations, has been incorporated in PST’s result.

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. These performance indicators are reported to the management board and the shareholder on a regular basis. The budget approved for the respective financial year forms the basis for the business activities.

b.) Non-financial performance indicators

<u>Environment and climate friendly organization</u>

Since the fall of 2015, the operations of PST have been emission-neutral. After determining the CO_2 emissions which are caused by the organizational activities of the PST Group for the year 2020, we procure the required emission rights to operate on an emission-neutral basis.

<u>Employees</u>

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 42 employees.

5. Presentation of financial statements

Cash flow statement for the financial year from 01.01 – 31.12.2020

		2020	2019
		KEUR	**KEUR**
	Annual net loss	-2,539	424
+/-	depreciations/appreciations of fixed asset items	187	142
+/-	depreciations/appreciations of financial asset	701	0
+/-	other non-cash expenses/income	-1,752	228
+/-	increase/decrease of provisions without tax provisions	-6,957	11,080
-/+	increase/decrease of inventories	12,358	20
-/+	increase/decrease of trade receivables	-3,856	-21,475
-/+	increase/decrease of receivables from affiliated companies	-22,660	87,858
-/+	increase/decrease of other assets without receivables, income taxes, incl. prepaid expenses	-634	2,564
+/-	increase/decrease of prepayments	21	0
+/-	increase/decrease of trade payables	25,727	-88,117
+/-	increase/decrease of payables to affiliated companies	6,772	-6,539
+/-	increase/decrease of other liabilities	70	1,301
+/-	increase/decrease of deferred income	3,059	-11,561
+/-	interest expenses/ interest income	1,785	1,603
+/-	income tax expenses/income	78	-25
=	**Cash flow from operating activities**	**12,360**	**-22.496**
-	payments for investments in intangible assets	-381	-441
-	payments for investments in tangible assets	-188	-145
+	payments due to cash investments due to short-term treasury management	-1,042	674
+	Received interest	181	168
=	**Cash flow from investment activities**	**-1.429**	**255**
+	payments from/to loan drawdowns	11,172	-5,356
+/-	payments from/to Cash-pool utilisation from PGNiG	-39,283	58,836
+/-	payments from/to Revolving Loan from PGNiG	-9,986	0
-	paid interest	-1,967	-1,771
=	**Cash flow from financing activities**	**-40,064**	**51,708**
	Change of cash and cash equivalents	-29,133	29,468
+	Cash and cash equivalents at the beginning of the period	38,628	9,160
=	**Cash and cash equivalents at the end of the period**	**9,495**	**38,628**

Cash flow from operating activities for twelve months 2020 increased by EUR 34.9 million EUR compared to previous year and amounted to 12.4 million EUR. The main driver for positive operating cash-flow was liquidation of gas storage, which amounted to 12.4 million EUR. Additionally, in 2020 depreciation of financial asset was recognized amounting to EUR 0.7 million due to divesture of sales business.

The decrease in cash flow from investing activities by EUR 1.7 million compared to the previous year resulted mainly from increase of the shareholder loan to PST ES in the amount of EUR 1.0 million.

Since 2019 operating activities cash flow includes no longer 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.

Cash flow from financing activities decreased by EUR 91.8 million compared to 2019 and amounted to minus 40 million EUR. Negative cash flow comes from reduction of financing from Group Cash-pool account, used to cover securities for commodity purchases on the exchange and to finance operations of PST Branch in Poland and the repayment of Revolving Loan from PGNiG. Financing from bank credit lines was increased by EUR 11.2 million.

Lower cash balance by EUR 29.1 million is caused mainly by decrease of cash locked as security of exchange transactions entered in Poland.

<u>Assets and its financing sources as of 31.12.2020</u>

	2020	2019
	KEUR	KEUR
ASSETS	**153,943.6**	**165,839.2**
Fixed assets	1,999.2	2,319.0
Current assets	147,389.8	155,235.4
Prepaid expenses	1,364.6	6,817.6
Deferred tax assets	3,190.0	1,467.2
EQUITY AND LIABILITIES	**153.943,6**	**165,839.2**
Equity	4,770.1	7,332.5
Provisions	6,066.8	12,945.4
Accounts payable	138.858.7	144,366.0
Deferred income	4,247.0	1,188.4
Deferred tax liability	1.0	6.9

The balance sheet total sum was decreased by 7.1 percent from EUR 165.8 million in 2019 to the present level of EUR 153.9 million. With regard hereto, the share of current assets in total assets amounts to approx. 95.7 % in 2020 (previous year: 93.6 %). The change is mainly due to increased turnover at the end of the year. Whereas trade receivables from third party companies increased slightly from EUR 39.3 million in 2019 to EUR 43.1 million in the current business year, total receivables from affiliated companies increased significantly from EUR 47.3 million to EUR 71.0 million. Within this position the shareholders' loans to PST ES grew by EUR 1.0 million compared to the previous year.

Additional investments, depreciation and amortization did not influence fixed assets significantly. Fixed assets decreased by EUR 0.3 million to EUR 2.0 million.

Liabilities to affiliated companies decreased from EUR 78.4 million in the previous year to currently EUR 35.9 million due to change of Cash-pool balance that is additional financing from the PGNiG SA to finance development of activities in Poland. In contrast to the decrease of liabilities from PGNiG and PST Group, trade liabilities to third party companies increased by 93.0 percent to EUR 53.4 million in the financial year 2020. This is in particular due to the significantly lower share of exchange-bought volumes for the delivery period of December 2020 vs December 2019.

The reported other provisions decreased compared with 2019 (EUR 6.0 million compared to EUR 12.9 million in the previous year). The equity ratio decreased from 4.4 percent (previous year) to 3.1 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. Consequently, deferred tax assets increased by EUR 1.7 million to currently EUR 3.2 million.

On top of the two bank credit lines available for PST Group, 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 higher level than in 2019 (by 33.4 percent) and now amount to EUR 44.6 million. Revolving loan from PGNiG SA was not drowned as of 31.12.2020, contrary to 2019 when the loan was fully utilised in amount of EUR 10.0 million. 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 joined 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

	2020 KEUR	**2019** KEUR
Sales revenues	1.017.424	1.640.271
Costs (offset against other income)	1.016.964	1.634.986
EBIT	460	5.284

PST sales revenues consists of gas, electricity, oil and LNG sales as well as capacity and balancing settlements. Costs position corresponds with sales revenues and includes additional operational costs of the Company.

Due to lower volumes sold and lower energy prices compared to the previous year results in total sales decreased by 38.0 percent. However, compared to the budget for 2020 the realized volumes in trading were higher than planned. The realized sales revenues of KEUR 1,017,424 were within the range of updated plan figures for the year 2020 (KEUR 924.240 - KEUR 1.129.627).

Last year's costs developed accordingly. In 2020 costs amounted to KEUR 1,016,964, whereas updated planned costs were budgeted in the amount of KEUR 922.765 – KEUR 1.127.824. All in all, EBIT result for the financial year 2020 is positive.

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
- Legal and regulatory risk

<u>Operational risks</u>

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.

<u>Market price risks</u>

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.

<u>Counterparty default risks / credit risks</u>

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.

<u>Liquidity risks</u>

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 5. "Presentation of Financial Statements."

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 team, 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 member of management board and the respective divisions’ 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 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):

<u>Operational opportunities</u>

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 NCS and DCS on the European markets, the Company actively operates 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.

<u>Liquidity opportunities</u>

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 more than ten 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 2021

With the expansion of our trading relationships throughout Europe, but especially toward NCS, Denmark and CEE, as well as the increasing marketing volumes, we are getting closer to our goal of becoming one of the leading players on the European gas market.

We strive to achieve the necessary growth sustainably and organically and to minimize risks, particularly those arising from trading, efficiently and consistently. A step in this direction was the restructuring of PST Sales & Trading into a holding company that can fall back on operational units in Munich, London and Warsaw that are goal-oriented and equipped with outstanding know-how.

We assume that with the operational restructuring of PST, our personnel requirements will increase in order to implement the goals we have set. We are sure and very confident that PST will successfully contribute to the security of supply of natural gas to Poland and LNG to Europe in the future.

We are planning for a positive corporate result in the coming years.

The table below shows the economic performance indicators of PST planned for 2021:

		2021
Sales revenues	Mio. EUR	1.431,4 - 1.749,5
Costs (offset against other income)	Mio. EUR	1.430,3 - 1.748,1
EBIT	Mio. EUR	1,1 - 1,4

Munich, March 31, 2021

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.