



**PGNiG Supply & Trading GmbH  
Munich**

**Annual Financial Statement as of December 31, 2021 and  
the Management Report for the Fiscal Year 2021**

**INDEPENDENT AUDITORS' REPORT**

to PGNiG Supply & Trading GmbH, Munich

**Audit assessments**

We have audited the financial statements of PGNiG Supply & Trading GmbH, which comprise the balance sheet as at 31 December 2021 and the income statement for the year from 1 January to 31 December 2021, and the notes to the financial statements, including a description of the accounting policies. We have also audited the management report of PGNiG Supply & Trading GmbH for the financial year from 1 January to 31 December 2021.

In our opinion, based on the findings of our audit,

- the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2021 and of its financial performance for the financial year from 1 January 2021 to 31 December 2021 in accordance with German principles of proper accounting and the
- accompanying management report presents fairly, in all material respects, the financial position of the Company. In all material respects, this annual report is consistent with the consolidated financial statements, complies with German legal requirements and accurately presents the opportunities and risks of future development.

In accordance with Section 322(3)(1) HGB, we declare that our audit has not led to any objections to the regularity of the consolidated financial statements and the annual report.

**Basis for the audit opinion**

We conducted our audit of the annual financial statements in accordance with Section 317 HGB and the generally accepted German standards for the audit of financial statements as laid down by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under these rules, policies and standards are further described in the section entitled "Auditors' responsibility for auditing the consolidated financial statements and the annual report" of our audit report. We are independent of the group companies in accordance with the European and German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. We believe that the audit evidence we obtain is sufficient and appropriate to form the basis for our opinion on the consolidated financial statements and the annual report.

**Responsibility of the legal representatives and the Supervisory Board for the financial statements**

The legal representatives are responsible for the preparation and fair presentation of these financial statements in accordance with German principles of proper accounting and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Furthermore, the legal representatives are responsible for the internal controls that they have determined, in accordance with German generally accepted accounting principles, to be necessary to enable the preparation of financial statements that are free from material misstatement, whether intentional or unintentional.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They have also the responsibility to disclose matters relating to the continuation of business, if relevant. In addition, they are responsible for preparing the accounts on the basis of the going-concern principle, unless this is contradicted by factual or legal circumstances.

In addition, the legal representatives are responsible for the compilation of the annual report, which provides a true picture of the group's situation as a whole and is in line with the consolidated financial statements in all major respects, the German law and the chances and risks of future development. Furthermore, the legal representatives are responsible for the arrangements and measures (systems) it has deemed necessary to enable the preparation of a management report in accordance with the applicable German legal requirements and to provide sufficient appropriate evidence for the statements made in the management report.

**Auditor's responsibility for the audit of the annual financial statements and the management report**

Our objective is to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides a suitable view of the Company's position and is consistent, in all material respects, with the annual financial statements and the audit findings, complies with German legal requirements and suitably presents the opportunities and risks of future development, and to issue an auditor's report that includes our audit opinion on the annual financial statements and the management report.

Adequate assurance is a high degree of security, but does not guarantee that an audit conducted in accordance with Section 317 HGB and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect material misstatements. Misstatements can result from violations or inaccuracies and are considered material if they could reasonably be expected to influence, individually or collectively, the economic decisions of users made on the basis of these financial statements.

During the audit, we exercise due discretion and maintain a basic critical attitude. In addition thereto,

- We identify and assess the risks of material misstatement of the financial statements and management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk that material misrepresentations will not be detected is higher for violations than for inaccuracies, as violations may include fraudulent interactions, counterfeiting, intentional incompleteness, misrepresentations or overriding internal controls.
- We gain an understanding of the internal control system relevant for the audit of the consolidated financial statements and the arrangements and measures relevant to the audit of the annual report in order to design audit procedures that are appropriate in the circumstances, but not with the aim of providing an opinion on the effectiveness of these systems.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We draw conclusions on the appropriateness of the accounting policies applied by the legal representatives as a going concern and, based on the audit evidence obtained, whether there is any material uncertainty related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Should we conclude that there is material uncertainty, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and the annual report or, if these disclosures are inadequate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may lead to the Group being unable to continue its business activities.
- We assess 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 such a way that the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting.

- We assess the consistency of the annual report with the consolidated financial statements, its legislation, and the picture it conveys of the Group's position.
- We perform audit procedures on the forward-looking statements presented by the legal representatives in the annual report. On the basis of sufficient suitable audit evidence, we carry out, in particular, the significant assumptions on which the forward-looking statements are based and assess the proper derivation of the forward-looking statements from these assumptions. We do not give an independent opinion on the forward-looking statements and on the underlying assumptions. There is a significant unavoidable risk that future events will differ materially from the forward-looking statements.

Among other things, we discuss with those responsible for monitoring the planned scope and timing of the audit as well as significant audit findings, including any deficiencies in the internal control system that we discover during our audit.

## **OTHER STATUTORY AND OTHER LEGAL REQUIREMENTS**

### **Report on the audit of compliance with the accounting obligations pursuant to Section 6b (3) EnWG**

We have audited the compliance with the accounting obligations pursuant to Section 6b (3) EnWG, according to which separate accounts must be kept for the activities pursuant to Section 6b (3) EnWG, for the financial year from 1 January 2021 to 31 December 2021.

In our opinion, based on the findings of our audit, the accounting obligations pursuant to section 6b (3) EnWG, which require separate accounts to be kept for the activities pursuant to section 6b (3) EnWG, have been fulfilled in all material respects for the financial year from 1 January 2021 to 31 December 2021.

### **Basis for the audit opinion**

We conducted our audit in accordance with Section 6b (5) EnWG and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility under these provisions and principles is further described in the section "Auditor's responsibility for the audit of compliance with the financial reporting requirements pursuant to section 6b (3) EnWG" and in the section "Auditor's responsibility for the audit of the annual financial statements and the management report". We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion in this regard.

### **Responsibility of the legal representatives and the supervisory board for the financial reporting pursuant to Section 6b (3) EnWG**

The legal representatives are responsible for compliance with the accounting obligations pursuant to Section 6b (3) EnWG and for the precautions and measures (systems) they have deemed necessary to comply with these obligations.

### **Auditor's responsibility for the audit of compliance with the accounting obligations pursuant to section 6b (3) EnWG**

Our objective is to obtain reasonable assurance about whether the financial reporting requirements pursuant to Section 6b (3) EnWG have been fulfilled in all material respects, and to issue an auditor's report that includes our opinion on compliance with the financial reporting requirements pursuant to Section 6b (3) EnWG. The audit includes assessing whether the valuations and the allocation of accounts in accordance with

Section 6b (3) EnWG are appropriate and comprehensible and whether the principle of consistency has been observed.

Munich, July 5, 2022

Baker Tilly GmbH & Co. KG  
Wirtschaftsprüfungsgesellschaft  
(Düsseldorf)

Hund  
German CPA

Biersack  
German CPA

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

PGNiG Supply & Trading GmbH, München

Balance sheet as of December 31, 2021

ASSETS			LIABILITIES		
	EUR	Previous year EUR		EUR	Previous year EUR
<b>A. FIXED ASSETS</b>			<b>A. EQUITY</b>		
<b>I. Intangible assets</b>			<b>I. Subscribed capital</b>	10,000,000.00	10,000,000.00
1. Acquired concessions, industrial property and similar rights and assets as well as licences in such rights and assets	1,738,899.00	38,962.00	<b>II. Currency translation reserves</b>	125,007.78	16,569.84
2. Prepayments	0.00	1,346,594.15	<b>III. Net loss</b>	-2,426,119.18	-5,246,423.20
	1,738,899.00	1,385,556.15		7,698,888.60	4,770,146.64
<b>II. TANGIBLE ASSETS</b>			<b>B. PROVISIONS</b>		
Other equipment, factory and office equipment	250,545.39	314,744.36	1. Tax provisions	1,059,121.53	106,853.53
			2. Other provisions	7,191,665.84	5,959,964.19
				8,250,787.37	6,066,817.72
<b>III. Financial assets</b>			<b>C. ACCOUNTS PAYABLE</b>		
Shares in affiliated companies	298,921.66	298,921.66	1. Bank loans and overdrafts	11,783,144.09	44,585,566.50
	2,288,366.05	1,999,222.17	2. Payments received on account	1,133,691.47	21,052.58
			3. Trade payables	273,959,499.11	53,405,034.77
			4. Payables to affiliated companies	345,991,707.18	35,879,621.05
			5. Other liabilities	40,411,940.35	4,967,407.64
			incl. from taxes EUR 3,113,880,45 (previous year: EUR 736,399.32)		
<b>B. CURRENT ASSETS</b>				673,279,982.20	138,858,682.54
<b>I. Inventories</b>			<b>D. DEFERRED INCOME</b>	86,099,040.25	4,246,993.10
Natural gas reserves	2,294,902.01	831,251.50			
<b>II. Receivables and other assets</b>			<b>E. DEFERRED TAX LIABILITIES</b>	1,967.78	1,001.53
1. Trade receivables	329,749,013.50	43,145,864.74			
2. Receivables from affiliated companies	286,613,022.03	71,020,945.71			
3. Other assets	99,302,256.86	22,896,723.35			
incl. from taxes EUR 31,230.33 (previous year: EUR 14,559.12)	715,664,292.39	137,063,533.80			
<b>III. Cash on hand and bank balances</b>	38,883,804.40	9,495,050.41			
	756,842,998.80	147,389,835.71			
<b>C. PREPAID EXPENSES AND DEFERRED CHARGES</b>	14,391,174.44	1,364,601.00			
<b>D. DEFERRED TAX ASSETS</b>	1,808,126.91	3,189,982.65			
	775,330,666.20	153,943,641.53		775,330,666.20	153,943,641.53

TRANSLATION

PGNiG Supply & Trading GmbH, München

Income statement  
for the fiscal year 2021

	EUR	Previous year EUR
1. Sales revenue	4,659,143,866.80	1,017,424,377.42
2. Other operating income including from currency translation: EUR 1,759,644.25 (previous year: EUR 411,551.71)	2,085,065.41	961,372.52
3. Cost of materials		
a) Cost of raw materials, supplies and merchandise	-4,405,417,506.25	-903,458,243.11
b) Cost of purchased services	-232,883,761.05	-99,150,735.50
	-4,638,301,267.30	-1,002,608,978.61
4. Personnel expenses		
a) Wages and salaries	-4,801,282.05	-4,246,238.66
b) Social security, pension and other benefits including for pension: EUR 292,84 (previous year: EUR 209,52)	-600,564.26	-508,568.17
	-5,401,846.31	-4,754,806.83
5. Depreciation of fixed intangible and tangible assets	-386,091.12	-187,357.63
6. Other operating expenses including from currency translation: EUR 2,164,656.08 (previous year: EUR 1,888,337.53)	-7,784,036.83	-10,374,305.46
	9,355,690.65	460,301.41
7. Losses absorbed due to a profit-and-loss transfer agreement	-749,979.07	-1,959,619.56
8. Other interest and similar income	56,998.59	181,472.27
9. Depreciations of financial assets and securities held as current assets	0.00	-701,078.34
10. Interest and similar expenses	-3,250,068.66	-1,966,791.62
	-3,193,070.07	-2,486,397.69
11. Taxes on income including income from deferred tax assets EUR 1,201,033.17 (previous year income: EUR 1,781,698.43)	-2,592,245.49	1,446,485.73
12. Earnings after taxes	2,820,396.02	-2,539,230.11
13. Other taxes	-92.00	-236.00
14. Annual net profit (previous year annual net loss)	2,820,304.02	-2,539,466.11
15. Loss carryforward	-5,246,423.20	-2,706,957.09
16. Net income/annual loss	-2,426,119.18	-5,246,423.20

TRANSLATION

## **PGNiG Supply & Trading GmbH, Munich**

### **Notes for the financial year from 1 January to 31 December 2021**

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#### **General information**

These annual financial statements of PGNiG Supply & Trading GmbH, Munich (HRB 190424, Munich Local Court) were prepared in accordance with Sections 242 ff. and Sections 264 ff. of the German Commercial Code (HGB) and the relevant provisions of the German Limited Liability Companies Act (GmbHG).

The company is a large corporation within the meaning of Section 267 (3) and (4) of the German Commercial Code (HGB).

The income statement has been prepared using the total expenditure format.

The Company is a wholly owned subsidiary of Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna, Warsaw, Poland, a vertically integrated energy company in the field of gas production and gas supply. The Company therefore belongs to a group of undertakings which are linked within the meaning of Article 3(2) of Council Regulation (EC) No 139/2004 of 20 January 2004 on the control of concentrations between undertakings and which are active in the electricity or gas sectors in the European Union. The company is therefore a vertically integrated undertaking within the meaning of Section 3 no. 38 of the German Energy Industry Act (EnWG). The provisions of the EnWG shall apply.

A profit and loss transfer agreement exists with the wholly owned subsidiary PST Europe Sales GmbH, Munich. The contract has been in force since 1 January 2017 and runs until 31/12/2022. The entry in the commercial register was made on 5 January 2017.

The company has had a production facility in London, UK since 2017 and a production facility in Warsaw, Poland since 2019.

#### **Accounting and valuation methods**

The following accounting and valuation methods were used to prepare the annual financial statements.

Acquired **intangible fixed assets** have been reported at acquisition cost and, if they are subject to wear and tear, have been reduced by scheduled amortisation in accordance

with their useful life using the straight-line method. Depreciation on additions during the financial year is made on a pro rata temporis basis. The expected useful lives are between 1 and 5 years.

**Property, plant and equipment** have been reported at acquisition cost and, to the extent that they are subject to wear and tear, have been written down on a straight-line basis in accordance with their expected useful lives. Depreciation on additions to property, plant and equipment is made on a pro rata temporis basis. The useful life of the fixed assets is between 3 and 23 years. Low-value assets with acquisition costs of up to EUR 250.00 are written off in full in the year of acquisition or over five years (pooling) in the case of acquisition costs between EUR 250.00 and EUR 1,000.00.

**Holdings and investments** have been valued at acquisition cost.

In the event of a permanent reduction in the value of **fixed assets**, unscheduled depreciation is made to the corresponding lower value in accordance with Section 253 (3) sentences 5 and 6 HGB.

In addition to the actual procurement costs for the stored gas, the **costs associated with the storage** are also taken into account when accounting for the inventories. As a result, the gas procurement costs increased by the attributable ancillary costs have to be recognised as an expense when the gas is withdrawn from storage. The valuation has been carried out with the moving average value.

**Receivables and other assets** have been stated at nominal value; recognisable risks are taken into account through value adjustments.

**Prepaid expenses and deferred income** are expenses recognised on the assets side of the balance sheet if they represent expenses for a certain time after the balance sheet date.

**Cash in hand** and **bank balances** have been valued at nominal value.

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

This also applies to the balance sheet items of the foreign establishments. The items in the profit and loss account, on the other hand, have been converted at the average spot exchange rate for the financial year. Any resulting difference will be transferred to the currency translation reserve with no effect on profit or loss.

For the calculation of **deferred taxes** due to temporary differences between the commercial-law valuations of assets, liabilities and prepaid expenses and their tax valuations or due to tax loss carry-forwards, the amounts of the resulting tax burden and relief have been valued at the company-specific tax rates at the time of the elimination of the differences and have not been discounted. The calculation of deferred taxes results in an overall tax benefit. The capitalisation option for deferred tax assets according to Section 274 (1) sentence 2 HGB was exercised.

The **subscribed capital** is stated at par value.

**Tax provisions** and **other provisions** take into account all identifiable risks and uncertain liabilities. They are recognised at the settlement amount deemed necessary according to prudent business practice. Long-term provisions are discounted at the market interest rate appropriate to the remaining term in accordance with Section 253 (2) HGB.

**Liabilities** have been reported at the settlement amount.

As **deferred income**, income has been reported on the liabilities side insofar as it represents income for a certain time after the balance sheet date.

#### Notes to the balance sheet

##### Fixed assets

The development of the individual fixed asset items is shown in the fixed asset movement schedule with details of depreciation for the financial year.

PST Europe Sales GmbH is reported under financial assets. A profit and loss transfer agreement has been in place with this company since 1 January 2017.

	Participation level	Subscribed equity (EUR )	Financial year	Result (EUR )
PST Europe Sales GmbH, Munich	100%	1,000,000.00	01/01/2021 - 31/12/2021	0.00

Due to the profit and loss transfer agreement, the company must assume losses to the amount of EUR 749,979.07.

## Inventories

As at 31/12/2021, gas with a value of EUR 2,193,907.97 was stored in rented storage facilities (previous year EUR 0.00). In addition, ethane worth EUR 100,994.04 (previous year EUR 0.00) is reported under inventories. The so-called "White Certificates" (Polish CO<sub>2</sub> certificates of the Warsaw facility) are no longer included in the inventories as at 31/12/2021 (previous year EUR 831,251.50).

## Receivables and other assets

	31/12/2021 EUR	31/12/2020 EUR
Trade receivables	329,749,013.50	43,145,864.74
of these with a residual term of more than one year	0.00	0.00
Receivables from affiliated companies	286,613,022.03	71,020,945.71
of these with a residual term of more than one year	0.00	0.00
Other assets	99,302,256.86	22,896,723.35
of these with a residual term of more than one year	0.00	0.00
	<u>715,664,292.39</u>	<u>137,063,533.80</u>

Trade receivables in the 2021 financial year mainly include receivables from trading partners for the December 2021 delivery period.

	31/12/2021 EUR	31/12/2020 EUR
Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna, Warsaw, Poland	283,234,488.03	60,544,432.25
PST Europe Sales GmbH in Liquidation, Munich	3,378,534.00	10,319,329.83
XOOL GmbH in Liquidation, Munich	0.00	160,183.63
	<u>286,613,022.03</u>	<u>71,020,945.71</u>

Receivables from affiliated companies mainly result from receivables from the shareholder PGNiG SA, Warsaw, from delivery and service transactions. The receivable from PST Europe Sales GmbH consists of a loan to the amount of EUR 3,378,534.00 (previous year EUR 8,582,087.08); there are no more receivables from delivery and service transactions to be shown (previous year EUR 1,734,242.75). There are no more trade receivables due from XOOD (previous year EUR 160,183.63).

In addition to security deposits paid, other assets include margin payments ("initial and variation margin") for gas and electricity futures for delivery periods after 31 December 2021 totalling EUR 92,565,855.49 (previous year EUR 18,291,795.87).

### **Cash in hand and bank balances**

Cash and cash equivalents consist of bank balances, which are restricted, totalling EUR 776,149.64 (previous year EUR 776,900.00). The reason for the decrease compared to the previous year is the decline in cash deposits, which are no longer needed as collateral for bank guarantees after the discontinuation of the underlying base business.

### **Accruals and deferrals**

The prepaid expenses mainly include the expense from the cascading of gas and electricity futures (with delivery starting on 1 January 2022). Thereby, the cascading effect is netted on this accrual item regardless of whether it is a future physical delivery or a financial close-out.

### **Deferred taxes**

The deferred tax assets result from the following circumstances:

	31/12/2021 EUR	31/12/2020 EUR
Deferred taxes on tax loss carry-forwards	527,335.74	2,197,798.67
Deferred taxes from local differences of the establishment in Poland	1,280,791.17	992,183.98
	<u>1,808,126.91</u>	<u>3,189,982.65</u>

The calculation of deferred taxes on tax loss carry-forwards was based on an unchanged tax rate of 32.975%. Deferred tax assets were recognised on loss carry-forwards totalling EUR 1,599,198.61. The deferred tax assets on the loss carry-forwards were reported under the assumption that the company will achieve a positive tax result in the future.

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

There is a distribution block in the amount of the deferred tax assets created, as there are no freely available equity shares on the balance sheet date.

### **Share capital**

The subscribed capital of EUR 10,000,000.00 is held in full by the sole shareholder Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna, Warsaw, Poland.

There is a distribution block in the amount of the deferred tax assets created, as there are no freely available equity shares on the balance sheet date.

### **Taxation provisions**

The reported tax provisions relate to the 2021 and 2020 financial years.

### **Other provisions**

The other provisions were essentially posted for outstanding invoices (here in particular for missing settlements of gas deliveries), for bonus and holiday obligations from the personnel area and furthermore for annual financial statement preparation and audit costs as well as for the preparation of tax returns.

In the financial year, no provisions for contingent losses had to be created for the trading business (previous year EUR 161,657.21).

## Liabilities

The classification of liabilities and their maturities are shown in the following schedule of liabilities:

	Total Amount EUR	Remaining term up to one year EUR
Liabilities to credit institutions (Prev. year)	11,783,144.09 (44,585,566.50)	11,783,144.09 (44,585,566.50)
Advance payments received on orders (Prev. year)	1,133,691.47 (21,052,58)	1,133,691.47 (21,052,58)
Liabilities from deliveries and services (Prev. year)	273,959,499.11 (53,405,034.77)	273,959,499.11 (53,405,034.77)
Payables to affiliated companies (Prev. year)	345,991,707.18 (35,879,621.05)	345,991,707.18 (35,879,621.05)
Other liabilities (Prev. year)	40,411,940.35 (4,967,407.64)	40,411,940.35 (4,967,407.64)
	<u>673,279,982.20</u> (138,858,682.54)	<u>673,279,982.20</u> (138,858,682.54)

Trade payables essentially relate to costs for energy procurement.

The liabilities to affiliated companies relate, among other things, to trade payables of EUR 279,224,646.45 (previous year EUR 12,358,172.44) to the sister company PGNiG Upstream SA, Stavanger, Norway. In addition to trade payables of EUR 2,231,427.09 (previous year EUR 726,237.34), there were liabilities of EUR 437,638.20 (previous year EUR 282,744.29) to the sole shareholder Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna, Warsaw, Poland, resulting from the utilisation of the shareholder loan (including interest). This item also includes a liability from a cash pool between the sole shareholder and the subsidiary in Warsaw to the amount of EUR 63,318,326.76 (previous year EUR 19,551,897.42). Liabilities to XOOOL GmbH to the amount of EUR 2,676.67 (previous year EUR 1,000,950.00) result from cash pooling within the PST Group. Due to the existing profit and loss transfer agreement, liabilities from the transfer of PST ES losses amounting to EUR 749,979.07 (previous year EUR 1,959,619.56) have also been reported.

Other liabilities mainly include security deposits in the form of margin obligations for gas and electricity futures for delivery periods after 31 December 2020 totalling EUR 36,898,940.16 (previous year EUR 3,720,344.23).

Deferred income mainly includes the effect from the cascading of gas and electricity futures (with delivery starting on 1 January 2021). Thereby, the cascading effect is netted on this accrual item regardless of whether it is a future physical delivery or a financial close-out.

## **Contingent liabilities**

### **Contingent liabilities from warranty agreements**

As at the balance sheet date, there were contingent liabilities from guarantees amounting to a maximum of EUR 465.7 million, USD 893.1 million and PLN 30 million vis-à-vis the sole shareholder Polskie Górnictwo Naftowe i Gazownictwo Spółka 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 given 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 resolutive condition that the claim to be secured on the part of the external suppliers is settled or the term of the respective guarantee ends.

As of the balance sheet date, the company had outstanding liabilities to external suppliers and thus payment guarantees from the parent company totalling EUR 274.0 million, so that a claim in the same amount would be possible as of the balance sheet date. As the company has sufficient liquid funds and meets its payment obligations, a call on the parent company's warranty obligation by external suppliers and thus the call on the company's warranty obligation by the parent company is not expected. The risk is considered to be minimal.

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

There were no contingent liabilities from the provision of collateral for third-party liabilities as at the balance sheet date.

## Other financial obligations

As at 31 December 2021, other financial obligations existed in the following amounts:

2022 EUR	2023 EUR	2024 EUR	2025-2027 EUR	Total EUR
119,295,356.43	28,687,198.95	5,697,816.28	7,348.40	153,687,720.05

These are essentially pending gas and electricity forward transactions (procurement) with third parties.

However, this also includes pending procurements from the Norwegian sister company totalling EUR 3,161,698.82.

## Notes to the Profit and Loss Account

### Sales turnover

The main reason for the quadrupling of sales revenues is the price rally on the energy markets, which started at the beginning of the fourth quarter. Quarter started. Sales revenues of the Warsaw facility increased by 86 per cent compared to 2020, those of the head office by 400 per cent and those of the London facility by as much as 475 per cent. In addition to the sheer price effect, there was also the increased trading volumes. Thus, the trading volume increased from 75.1 TWh in 2020 to now 93.3 TWh.

The sales revenues are distributed regionally and among the raw materials as follows:

	within Germany EUR	outside Germany EUR	Total EUR
Sales turnover (Prev. year)	1,299,569,195.94 (313,642,220.68)	3,359,574,670.86 (703,782,156,74)	4,659,143,866.80 (1,017,424,377.42)

The trading revenues are distributed among the commodities as follows:

	Gas EUR	Electricity EUR	Crude oil EUR	Total EUR
Sales turnover	4,531,261,953.58	127,881,781.38	131.84	4,659,143,866.80
(Prev. year)	(962,304,412.20)	(55,044,651.15)	(75,314.07)	(1,017,424,377.42)

### Material costs

The cost of materials post includes the cost of raw materials, consumables and supplies as well as all purchased services. Analogous to the sales revenues, the largest part is accounted for by gas procurement costs. The reduction compared to the previous year corresponds to the decline in sales revenue and results from a lower procurement volume and a general decline in prices.

### Depreciation

Only scheduled depreciation was applied to tangible and intangible fixed assets.

### Other operating income and other operating expenses

Other operating income mainly includes income from the reversal of provisions (EUR 176,284.35; previous year EUR 514,348.72) as well as income from currency translations, which amounted to EUR 1,759,644.25 in the 2021 financial year (previous year EUR 411,551.71).

Other operating expenses include those from currency conversions totalling EUR 2,164,656.08 (previous year EUR 1,888,337.53). In addition, other operating expenses include expenses for third-party services, consulting costs and expenses for the company's infrastructure. The decrease in reported costs is mainly due to the high value adjustment of the Polish customer portfolio in the previous year.

### Other interest and similar income

Other interest and similar income amounting to EUR 56,998.59 (previous year EUR 181,472.27) includes interest from PST Europe Sales GmbH in liquidation amounting to EUR 28,534.00 (previous year EUR 32,087.08).

### **Interest and related expenses**

Interest and similar expenses mainly include guarantee commissions to the parent company totalling EUR 2,074,517.82 (previous year EUR 1,035,711.93) and interest expenses to the parent company totalling EUR 11,207.67 (previous year EUR 107,071.95). The increase in interest expenses is mainly due to a significant increase in the guarantees provided as collateral.

### **Depreciation on financial assets**

In the previous year, the affiliated company PST ES no longer supplied any end customers with energy. The customer portfolio was spun off and sold to a competitor. Due to the lack of future income from the distribution business, the investment valuation therefore had to be corrected at that time from the acquisition costs to the remaining equity of PST ES. There was no need for further value adjustments in the previous financial year.

### **Taxes on income and earnings**

Taxes on income result from expenses from the consumption of deferred taxes on losses carried forward amounting to EUR 1,378,695.71 (previous year income EUR 1,781,698.43) as well as from the creation of tax provisions and current tax payments totalling EUR 1,213,549.78 (previous year EUR 318,236.96).

### **Other Information**

#### **Major transactions with affiliated or associated companies pursuant to Section 6b (2) EnWG**

In the financial year, the company sold 25,390 GWh of natural gas (piped natural gas and LNG gas) to its sole shareholder Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna, Warsaw, Poland, generating sales revenues (incl. capacities) of approximately EUR 1,678 million. Since the affiliated company PST ES and its subsidiary XOOD GmbH sold their customer portfolio in 2020, there was no need to procure gas or electricity for these companies in the past financial year.

For PGNiG Upstream Norway SA, the company marketed the shares attributable to the sister company in the gas produced in several Norwegian gas fields. Procurement costs amounted to EUR -1,009 million (15,583 GWh).

There is a revolving loan agreement between PST and PGNiG SA, the term of which has been extended until 31 December 2023. The loan was not drawn down as at 31 December 2021. In addition, reciprocal loan agreements to carry out cash pooling have been concluded within the PST Group. PST Europe Sales GmbH in liquidation took up a shareholder loan of EUR 3.4 million in 2021. The Warsaw branch is integrated into a cash pool contract with PGNiG SA for settlement with the clearing bank in Poland.

### **Activity statement pursuant to Section 6b (3) EnWG**

The company carried out other activities within the gas sector and other activities within the electricity sector in the financial year 2021. The Company therefore maintains separate accounts for these activities.

### **Assessment units**

Separately according to the respective business purpose, the company forms valuation units for pending transactions in accordance with IDW RS ÖFA 3 in the form of <bpt>macro-hedges. The included hedging transactions serve to hedge the price change risks resulting from market price fluctuations. The valuation units are effective due to the congruence of type, quantity and maturity of underlying and hedging transactions. The effectiveness is demonstrated within the framework of the existing risk management system by means of critical terms matching as well as regression analysis. If negative market-to-market valuations result for a valuation unit in a year-related analysis, a provision for contingent losses is created for this. The creation of valuation units hedges risks from individual transactions amounting to TEUR 765,685. The volume of the hedged underlying transactions amounts to TWh 17.6 and relates to the monthly settlement periods until the end of 2024.

### **Business Management**

The members of the Board of Directors of PGNiG Supply & Trading GmbH in the financial year 2021 were:

- Bartłomiej Korzeniewski, graduate of the Faculty of Mathematics, Computer Science and Mechanics of the University of Warsaw and PhD from the Department of Finance and Management of the Warsaw School of Economics, Lipkow (since 29 July 2019)
- Olgierd Hurka, graduate of the Faculty of Economics with a specialisation in Foreign Trade at the University of Gdansk and completed an MBA at Manchester Business School in the UK, Warsaw (since 29 July 2019)

Mr Bartłomiej Korzeniewski and Mr Olgierd Hurka are exempt from the restrictions of Section 181 BGB (German Civil Code).

### **Supervisory Board**

The supervisory board members of PGNiG Supply & Trading GmbH in the financial year 2021 were:

- Jacek Polańczyk (Member and Chairman since 27 August 2020)
- Mariusz Bartosewicz (since 27 August 2020)
- Małgorzata Raczynska-Weinsberg (since 9 July 2021)
- Daniel Maria Wais (since 23 March 2021)
- Aneta Krasuń (up to 22 March 2021)

### **Remuneration of active members of governing bodies**

With regard to the total remuneration for the management, use is made of the protective clause pursuant to Section 286 (4) HGB.

The members of the Supervisory Board received remuneration of EUR 53,566.08 (previous year EUR 42,282.59) for their activities in the financial year.

### **Employees**

In the financial year from 1 January 2021 to 31 December 2021, an average of 46 (previous year: 42) employees were employed. The staff is structured as follows:

- Salaried: 41
- Senior executives: 5

### **Group relationships**

The annual financial statements are included in the consolidated financial statements of Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna, Warsaw, Poland (largest consolidated group). This is available at the registered office of the parent company. The operating business of PST Europe Sales GmbH in liquidation and XOOD GmbH in liquidation was discontinued with the sale of the respective customer portfolios in 2020. The companies have been in liquidation since 01/01/2022. In accordance with Section 290 of the German Commercial Code (HGB), the company is no longer obliged to prepare consolidated financial statements and a group management report (smallest group of

consolidated companies). A fiscal unity for turnover tax purposes still exists with both companies, whereas the previous fiscal unity for income tax purposes was automatically terminated with the sale of the essential basis of business. Under commercial law, the profit and loss transfer agreement with PST Europe Sales GmbH in liquidation still exists.

### **Auditor's fees**

An amount of EUR 71,707.82 of the total fee of EUR 96,388.77 charged by the auditor for the 2021 financial year relates to the audit of the financial statements.

### **Transactions with related parties**

There are no transactions with related parties at non-arm's length conditions.

### **Supplementary report**

Coronavirus-Pandemic:

PST continues to anticipate operational challenges related to possible staff sick leave or the need to work from home. PST is well prepared for these challenges and sees no risk of business interruption, as last year has already shown. Basically, Corona will continue to have an impact on demand and on market prices. Most traders work from the home office, which will reduce liquidity and the number of speculative positions in the market, which in turn could lead to higher volatility and random price fluctuations.

War in Ukraine:

The war in Ukraine has already led to considerable price fluctuations and thus to an increased need for liquidity. The European Union has launched a comprehensive package of sanctions against Russia, which so far has not affected the import of gas from Russia. Even a unilateral supply stop by Russia would not jeopardise the company's ability to continue as a going concern, as the company is already active in the alternative procurement markets with its LNG operations in London and its shipper activities in Norway. Current developments are being continuously monitored and analysed with regard to their impact on PST and the entire PGNiG Group.

Discontinuation of gas supplies by Gazprom:

On April 26, Gazprom notified PGNiG SA of its intention to completely cease gas supplies to Poland under the Yamal contract as of the beginning of the contract day on April 27.

Thanks to the implementation of the government's strategy to diversify gas supply sources, PGNiG SA is prepared to obtain gas for Poland from various directions, such as through the gas interconnectors on the western, southern, and north-eastern borders, as well as through the LNG terminal in Świnoujście, which is gradually increasing the number of LNG tankers it can receive. Poland also has its own gas production as well as gas reserves stored in underground facilities. The company's business activities support the implementation of this strategy. In May, for example, PST started operations at the Klaipeda LNG terminal (Lithuania) and is now also able to supply gas to Poland via GIPL (Gas Interconnector Poland-Lithuania).

Beyond that, however, there were no significant events that would have had to be recognised in the balance sheet after the end of the financial year.

#### **Appropriation of profits**

The management proposes to offset the net profit for 2021 amounting to EUR 2,820,304.02 against the existing accumulated loss and to carry it forward to new account.

Munich, 31 March 2021

Business Management

## PGNiG Supply &amp; Trading GmbH, München

## Development of fixed assets in the 2021 financial year

	Acquisition and manufacturing costs				Accumulated depreciation				Book value	
	1.1.2021 EUR	Additions EUR	Disposals EUR	31.12.2021 EUR	1.1.2021 EUR	Additions EUR	Disposals EUR	31.12.2021 EUR	31.12.2021 EUR	31.12.2020 EUR
<b>I. Intangible assets</b>										
1. Acquired concessions, industrial property and similar rights and assets as well as licences in such rights and assets	2,191,885.26	1,952,976.70	0.00	4,144,861.96	2,152,923.26	253,039.70	0.00	2,405,962.96	1,738,899.00	38,962.00
2. Prepayments	1,346,594.15	0.00	1,346,594.15	0.00	0.00	0.00	0.00	0.00	0.00	1,346,594.15
	3,538,479.41	1,952,976.70	1,346,594.15	4,144,861.96	2,152,923.26	253,039.70	0.00	2,405,962.96	1,738,899.00	1,385,556.15
<b>II. Tangible assets</b>										
Other equipment, factory and office equipment	1,138,792.71	68,852.45	0.00	1,207,645.16	824,048.35	133,051.42	0.00	957,099.77	250,545.39	314,744.36
<b>III. Financial assets</b>										
Shares in affiliated companies	1,000,000.00	0.00	0.00	1,000,000.00	701,078.34	0.00	0.00	701,078.34	298,921.66	298,921.66
	5,677,272.12	2,021,829.15	1,346,594.15	6,352,507.12	3,678,049.95	386,091.12	0.00	4,064,141.07	2,288,366.05	1,999,222.17

**Management report of PGNiG Supply & Trading GmbH, Munich,  
for the fiscal year 2021**

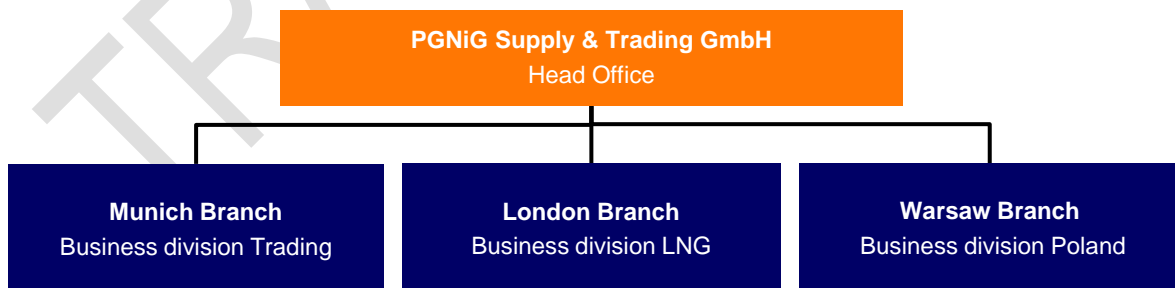
**Content**

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**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:



In 2020 sales of gas and electricity to end customers carried out through PST's subsidiaries - PST Europe Sales GmbH and XOOOL 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. In November 2021 decisions were made to liquidate PST Europe Sales GmbH and XOOOL GmbH. Liquidation process was started on 01.01.2022 and is planned to last at least one year.

#### Business division Trading:

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

PST is the international trading arm of the PGNiG-Group and their face to the market. Within the PGNiG-Group, PST is the interface for the procurement of natural gas for the parent company and markets the natural gas produced in the Norwegian shelf by its Norwegian affiliate PGNiG Upstream Norway AS.

In year 2021 PST was concentrating on developing its activities as gas off-taker on Norwegian Continental Shelf (NCS) and Danish Continental Shelf (DCS) entering into multiple short and medium-term gas sales agreement with various counterparties.

Parallely 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. Also markets in northern part of CEE like Lithuania are of interest of PST due the planned pipeline connection of these markets with Poland in 2022.

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

#### Business division LNG

In 2021, PST has significantly developed its capacity and presence in LNG market. PST is conducting trading of LNG through its branch office in London. It was established in 2017 and became dedicated LNG competence centre of PGNiG Group. PST is continuously extending its LNG portfolio and expanding proficiencies on the LNG shipping market.

In order to implement the long-term contracts for FOB supplies PST chartered five gas carriers, which will be able to collect and transport the contracted LNG volume. Furthermore, PST has contracted regasification capacity at the LNG Montoir terminal in France, which includes 10 slots in 2023 and 15 slots annually for the period: 2024-2029

#### 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. Branch started its operations in 2019.

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 2021

###### *Development of global economy*

In 2021 global economy was slowly recovering from last year's pandemic crisis thanks to vaccinations and favourable policy changes in the first half of the year. In the second half recovery was weakened by new virus variant and growing inflation. Enormous monetary COVID-19 programs of governments resulted in higher inflation and increased interest rates. In addition, disrupted global supply chains causing supply shortages of key inputs, were contributing to growth of an inflation.

The increase of commodity prices in 2021 was very significant compared to 2020. The growing inflation was expected to come down to its pre-pandemic range in 2022 once the supply-demand mismatches resolve. However the future developments will be closely linked with the outcome of the war between Ukraine and Russia.

Nonetheless, as countries adapted their economic activity to the pandemic, we were able to see a GDP growth in the first half of 2021, while the second half was slowed down by new variant of virus and supply chain disruptions. The International Monetary Fund (IMF) expects the global economy to grow 5.8 % in the year 2021 and 4.9 % in 2022. Please note that IMF forecast was prepared before the war outbreak between Ukraine and Russia.

It is expected that war and sanctions imposed on Russia will negatively impact growth of global economy, will contribute to the further inflation growth especially in Eurozone due to bursting commodity prices like oil, gas and wheat, where Russia is a main or significant supplier.

#### *Eurozone and Germany*

According to the IMF calculation, the Eurozone economy grew by about 5 % in 2021 and by 3.1 % in Germany, which was lower than assumed mostly due to supply chain disruption and pandemic restrictions.

The economy in Germany is still very much depended on the pandemic trends. It was previously predicted to recover more noticeably than it actually did. However there is a visible economy growth trend comparing to the past year.

Unemployment dropped to around 5.1 % in December 2021 from 6 % in 2020 and the prediction for 2022 shows a further decline due to as the shortage of skilled labour workers.

According to the Federal Statistical Office, in December 2021, inflation rate reached highest monthly level in 2021 (+5.3%), raising the average annual rate in 2021 to 3.2%, from just 0.4% a year before. This was mainly driven by the reinstatement of regular VAT rates, increased carbon taxes and rising commodity prices, reinforced by demand, which was suppressed by pandemic in 2020. The prices of energy products were markedly up by 10.4% in 2021 year to year, following a 4.8% decrease in 2020.

#### Economic outlook 2022

##### *Development of global economy*

It was anticipated that global economy will recover more significantly in 2021 as it did in the end. According to the IMF's projection from World Economic Outlook (WEO) published in January 2022, the global economy and the most important trade areas were

forecasted to intensify their growth in the second quarter of 2022. Global growth was expected to slow from 4.4 % in 2022 to 3.8 % in 2023. According to last forecasts, inflation was expected to remain elevated in the near term, averaging 3.9 % in advanced economies and 5.9 % in emerging market and developing economies in 2022, before getting lower in 2023.

However in addition to the forecasts from January 2022, as of March 2022 we are expecting lower than predicted growth, higher prices and inflation due to ongoing Russian invasion on Ukraine.

According to Morgan Stanley's recent statement, default is a very likely scenario for Russia which may come as soon as a second quarter of 2022, due to observed bond prices fall, recession and payment restrictions after the Russian invasion of Ukraine.<sup>1</sup>

#### *Eurozone and Germany*

European Commission assumed Europe-wide growth of 4 % in 2022 and inflation peak in the first quarter of 2022, decline was expected in the final quarter of the 2022 and settling at below 2 % next year. According to this forecast, the European Union's GDP was supposed to decrease by 4% in 2022 to 2.7% in 2022.

According to European Commission the German economy was expected to stagnate in the first quarter of 2022 with infection rate rising. However it was projected that in the second quarter the economy will start growing again. Overall, GDP was forecast to expand by 3.6% in 2022 in Germany, with its return to pre-crisis levels in the course of the year, with continued growth by 2.6% in 2023.

The forecast projects growth in inflation in 2022 to 3.7% (YoY), and in 2023, inflation is expected to moderate.

#### *Possible impact of corona virus pandemic*

The consensus among all forecasters is that the key to overcoming the recession will be when can push back the COVID-19 pandemic with effective global health strategy. Worldwide access to vaccines, tests, and treatments is essential to reduce the risk of further dangerous COVID-19 variants. This requires increased production of supplies, as well as better in-country delivery systems and fairer international distribution. It is

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<sup>1</sup> <https://www.bloomberg.com/news/articles/2022-03-07/morgan-stanley-sees-russia-set-for-venezuela-style-debt-default>

expected that in the course of 2022 the covid restrictions in developed economies will be softened, due to high ratio of vaccinated and recovered population.

#### *Possible impact of war in Ukraine*

As of the date of this report the impact of war in Ukraine is hard to predict. In a short term we observe a dramatic growth of commodities prices, where Russia is significant market player. This will soon translate into higher inflation, which most probably will be followed by increased interest rates and costs of financing. All those factors will adversely impact economic growth in Europe and all over the world. According to IMF's statement published in March 2022, fiscal policies will need to be adjusted to help the most vulnerable and even though the situation remains highly fluid and the outlook is subject to extraordinary uncertainty, the economic consequences are already very serious.<sup>2</sup>

#### **b. Overview of the energy markets**

##### Pipeline gas market

The year 2021 has been challenging for the commodity markets, especially for the European gas market. Contrary to the year 2020, when the pandemic resulted in a significant demand destruction, the worldwide economic recovery and the striving for lower emissions resulted in a high demand for natural gas. The already increasing demand was supported by much colder weather in the period March to May contributing to an extension of the heating season, leading to record low fill of gas storages in Europe and high LNG demand in Asia.

Starting from May onwards, continental gas prices have been in a strong rising trend. A combination of rising LNG prices, where continents (Asia/Europe/South America) were competing to get spot cargoes, rising emissions prices and power prices were forcing gas prices to go even higher. No bookings of transit capacity from Gazprom for deliveries to Europe as well as rising tensions between Russia and Ukraine added to already escalated situation.

Based on an increasing storage deficit due to low storage filling in Europe and an LNG purchase heat from China resulted in a price increasing from September to the end of the year. As a result, gas prices rose exponentially – with market prices reaching new record levels almost every day. At the end of December, Spot prices on THE reached a new record at 190 €/MWh. This level was reached on the 20<sup>th</sup> of December, which was the first day bookings and deliveries through Mallnow fell to zero. The deliveries over

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<sup>2</sup> Source: [IMF Staff Statement on the Economic Impact of War in Ukraine](#)

Mallnow stayed at zero for the rest of the year (and through Jan 22 and Feb 22). Combined with the low storage levels, 93.94 €/MWh this contributed to a price rally in Q4 21 that we have never seen before. Average Spot price for Q4 21 THE turned out at 93.94 €/MWh. For the full year 2021, the average DA price on THE was only 46.48 €/MWh.

A special issue with the low continental storage levels, was that storages operated by Gazprom, had an even lower filling degree than the rest. For instance, had the largest German storage site, Rehden (operated by Gazprom), a filling degree of just 5% at the end of September 2021.

Both factors, lack of deliveries and low filling of Gazprom's storages, can be seen as Gazprom's and wider Russia's deliberate action to destabilize gas market in continental Europe. Induce the market prices growth and make EU more vulnerable for gas supplies from Russia. Given the development of the situation in Ukraine the action was probably aimed to make EU aware on how much it depends on Russian's energy supplies, make EU more reluctant to impose any sanctions on Russian economy after invasion on Ukraine and accumulate resources to finance war.

The forward market (TTF Gas Future) for the front year 2022 traded in the first quarter of the year with prices averaging between 15.5 EUR/MWh and 17.5 EUR/MWh. With the continuation of the cold weather in Europe, the whole commodity complex was increased resulting in an upwards trend of the front year contract moving up exceeding 26 EUR/MWh by the end of June. At the same time the front contracts (Q3 + winter 22/23) rose even faster to almost 40 EUR/MWh resulting in a steep backwardation (front contract trading higher than later dated contracts) of more than 10 EUR/MWh.

In the second half of the year, prices have been trending again with an increased volatility and substantial corrections further upwards. The reasons for the price increase were:

- Rising demand strengthening the commodities markets
- Lower Russian gas supply with restricting sales above contractual volumes in Europe

The front year TTF contract reached a temporary high of above 43 EUR/MWh in September to jump in a panic move above 70 EUR/MWh in October, due to margin calls on trading companies resulting in position squeezing in order to avoid further liquidity constraints resulting from margin calls.

Furthermore, at the beginning of December panic buying begun on the market doubling the front year price by mid-December to reach almost 140 EUR/MWh to mark a new all-time high. The anxiety was caused by:

- Huge storage deficit and concerns about security of supply;
- Expected colder temperatures;
- Rising tensions between Russia and Ukraine;
- News that there were no flows from the East via the Yamal pipeline.

Once the panic buying period ended prices receded till the end of the year with approx. 82 EUR/MWh at the year-end

*Outlook:*

At the end of 2021, the supply situation was significantly less comfortable compared to the previous year. Natural gas storage facilities in continental Europe showed a record low fill level for this time of year. A slightly calming factor was the weather in Europe and Asia, where the winter was significantly milder resulting in lower gas demand. This led to redirections of LNG flows away from Asia to Europe in the first part of the year 2022.

The key factors for the European natural gas market in 2022 will be:

- Further development of the Russian invasion of Ukraine and the resulting sanctions imposed by the western countries - a downturn of the economic activities is expected due to accelerated commodity prices
- Pipeline flows from Russia and Norway. Gas flows have been significantly reduced and a possible ban of Russian gas and oil exports will result in higher prices and further demand destruction.
- Temperatures and levels of filling of continental gas reservoirs. Contrary to expectations, the winter was relatively mild, resulting storages catching up with normal fill levels seen in the past (opposite to the high deficit seen most throughout the storage season). However, price backwardation does not give an incentive to storage capacity holders to fill the storages in the summer 2022 as price are above those for the winter 2022/23. The predicted implementation of a regulation to force capacity holders to inject gas into storage would reinforce prices for the upcoming summer season further.
- LNG inflows: Demand from Asia can be counterproductive for the gas market with Europe and Asia fighting for LNG supplies, keeping prices up in Europe and globally.

## LNG market

In 2021, gas volatility reached a record with European and Asian gas hubs reaching an all-time high. TTF was below 10 USD/MMBtu through the year until Q3 where it started spiking at around 40 USD/MMBtu at the end of Q3 2021.

Global LNG demand resumed strongly in 2021, rising by 5% year-on-year to reach a new all-time high of 380 MT (vs 358.9 MT in 2020 and 316.8 MT in 2018). Despite a new record achieved also in LNG production, 2021 was marked by lower utilisation rates from many liquefaction projects globally. Technical issues or maintenance, which could not be completed due to the pandemic featured prominently. Hammerfest LNG in Norway was offline for the entire year for example, which significantly affected European LNG market. LNG export growth was dominated mainly by the US.

Global trade is forecasted to expand in 2022 with a variety of projects coming online, including a floating plant in Mozambique and a greenfield module project in the United States. Additionally, higher import will be needed across Asia, in particular in China, which is expected to add nearly 90 MT of incremental demand by 2027. Europe is expected to continue to import LNG at an elevated level despite commitments to decarbonization. Demand for natural gas is expected to be resilient, meaning declining domestic production and limitations in pipeline supply will enable growth in LNG imports during the coming years.

### *Outlook:*

According to the IEA (International Energy Agency), even the pandemic will not fundamentally change the increasing use and planning of LNG infrastructure worldwide. We are expecting the increase in LNG delivered volumes.

## Power Market

### Europe:

The power market had a similar development as the gas market in 2021. Following record low demand and prices in 2020, the economic recovery led to an increase in demand and a mismatch between supply and demand. Additionally, increasing EUA prices and soaring gas prices fuelled the price rally further. Markets in Europe experienced spot prices never seen before, reaching all-time highs in December:

- German spot prices reached a new all-time high at 432 EUR/MWh in base and 515.5 EUR/MWh in peak (average spot price over the year was 53.3 EUR/MWh);

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

- Due to restricted nuclear power production availability, French power prices have reached even higher levels: the French Feb 22 Peak-Load contract reached an all-time high of 1,100 EUR/MWh;
- German forward prices also reached new record levels in December, with the front year (Cal 22 Base) trading as high as 324.6 EUR/MWh.

*Outlook:*

The development of the European power prices depends on several factors. Key factors for markets include:

- Further development of the EUA and gas prices;
- Generation mix- the expansion of renewable electricity production and its share in the electricity mix;
- Nuclear power production in France - latest reports show another drop of French production by 10 % compared to the last forecast in 2021 reflecting the problem France is facing relying on their ageing nuclear reactors;
- The speed of electrification (i.e. vehicles) in Europe, resulting in higher demand for electricity;
- The overall expansion and resulting from it, production of renewable energy sources (which has been much lower in 2021 compared to other years).

*CO2 Prices and price development for Emission Allowances (EUA's) Europe*

As the rest of the energy complex, prices for emission allowances have risen strongly throughout the year. Low renewable production, combined with a more restrictive emissions schemes and the global recovery saw an increase in power demand resulting in prices for EUA certificates tripling in course of the year. Fossil fuel powerplants had to fill the gap of missing renewable power production. In the second half of the year, German wind production fell to 50 % of its normal levels, which raised the demand for coal and gas fired power plants, resulting in an increased demand for EUA certificates. In December 21, emission prices rose above 90 EUR/mt for the first time ever.

Many analysts expect emission prices to rise well above 100 EUR/mt in 2022. However, due to a possible slowdown of the global economic development due to high geopolitical tensions and overall high energy prices, the price for EUA certificates could come under pressure. This could also be supported by political measures in order to reduce the burden for household and industries in Europe resulting from high energy prices.

**Global Crude Oil Market:**

As the whole commodity complex also oil prices have enjoyed an uptrend throughout most of the year. Aggressive cuts from OPEC+ during the pandemic facing surprisingly high demand in the beginning of 2021 led to higher prices. Throughout the year, production has struggled to keep pace with the increase in demand from the global economic recovery.

Rising geopolitical tensions (esp. war in Ukraine) added to the upward trend and increased the risk premium. The forward curve is in a steep backwardation – which intensifies market participants to empty storages and sell more oil at current levels – which again may lead to increased prices later on.

Experts see crude oil rising above 100 USD/bbl in 2022. With the military conflict between Russia and Ukraine and a possible sanction on Russian oil production, the oil market may revisit its highs from 2007 (147 USD/bbl).

The oil market may receive some relief by added oil production from Iran through reaching of an agreement with the Western countries on curbing Iran's nuclear ambitions.

**c. Legal framework**

There were only minor changes in the legal framework for natural gas trading in Germany. PST continues to monitor the regulatory framework. PST also continues to be involved in regulatory disputes concerning strategic infrastructure (OPAL and Nord Stream 2). As PST (through its London Branch) continues to expand a fleet of LNG carriers, it also monitor regulatory development concerning emissions, methane slip, etc., both on international level (IMO) and within the EU.

As PST (through its Warsaw Branch) operates on the Polish market, it noted recent changes in the fiscal regime (the so-called Polish Order), introducing i. a. minimum corporate tax. In January 2022 a subsidiary of PST in Poland was incorporated (pending registration with the commercial register).

While PST (through its Munich Branch) continues to expand its activities in Central and Eastern Europe the monitoring of formal and legal requirements on the company's new commercial markets is continued. Furthermore the formal process of liquidation of both subsidiaries PST Europe Sales GmbH and XOOOL GmbH was started.

## 2. Business development

### Impact of price crisis on the energy market and the COVID-19 pandemic

Year 2021 was still influenced by the COVID-19 pandemic and the recovery through the crisis with the introduction of vaccines. 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. However PST was able to adapt to the situation and outperformed in another areas to cover the limitations caused by COVID-19.

### Pricing crisis on the energy market

Exceptionally high energy prices noted in 2021 resulted in the low liquidity of the OTC market due to increased credit risk. The necessity to purchase gas on the exchange induced liquidity tensions on the market and on PST. PST increased its financing facilities available in banks and implemented a very flexible scheme of settlements within a PGNiG group mainly referring to its settlements with PGNiG S.A. and PGNiG Upstream Norway (PUN), which strongly supported PST's ability to settle all its liabilities on time.

### Developments in the trading business division

In 2021 PST , further developed its natural gas business successfully on a sustainable basis. Among other things, PST was able to secure additional volumes through our Norwegian upstream sister company, PGNiG Upstream Norway, and other producers in the NCS.

In addition to existing cooperation with Lotos Norge, Denmark's Ørsted Salg & Service A/S (Ørsted) and Aker BP ASA for the purchase and sale of natural gas PST has managed to conclude offtake contract from the Norwegian continental shelf with TOTALenergies A.S. and with Sval Energy A.S..

In parallel, our upstream sister PUN completed an important acquisition on the Norwegian Continental Shelf through purchasing of INEOS Norge A.S. together with its production assets on the Norwegian Continental Shelf. PST's task is to place gas volumes on the European wholesale market via the pipeline connections of the Netherlands, Belgium and Germany, (Emden/Dornum), and at a later stage via the Baltic Pipe running from Denmark through the Baltic Sea to Poland. With the agreements entered in 2021, PST is continuing its growth and strengthening its position in Northern Europe and on the Danish natural gas wholesale market.

PST also focused on expanding its business in Eastern Europe. With the trade relations to Slovakia, the Lithuania, Ukraine and also to Hungary, Austria, we have a solid and future-oriented foothold also on the Eastern European market. In 2021, during the gas crisis in Moldavia, PST completed the first supplies of non-Russian gas to that country. However the further activity in the region will be closely related to the outcome of military invasion of Russia on Ukraine.

While the corona pandemic and the resulting measurements imposed by the government (i.e. mandatory home office during the winter 2021/22) as well as a significantly increased volatility in the market and the increased margin requirement from the Exchanges affected PST's proprietary trading business by a further reduced speculative traded natural gas volume.

The strong trading performance was mainly driven by optimizing of the NCS upstream production on the European hub leading to the best performance of the trading business division in PST's still young history.

#### Implementation of new ETRM system

In 2021 PST successfully implemented the new ETRM system. The switch to Allegro led to the reduction in the manual workload. As a result, the reports are prepared quicker, are available earlier and are less prone to error. On top of that, Allegro, being a more advanced ETRM system, allows for more in-depth analyses and custom solutions which further enhance risk management.

#### Developments in the LNG trading division

##### *Additional volumes*

In 2021 PGNiG signed amendment to its agreements with Venture Global LNG companies - a long-term, low-cost provider of U.S. LNG to be sourced from resource rich North

American natural gas basins. Contracts determine the increase in the sales volume of LNG. In case of the sales and purchase agreement with Venture Global Calcasieu Pass, LLC the amendment provides for an increase in the volume of LNG purchased by PGNiG by 0.5 MTPA to 1.5 MTPA while the amendment to the agreement with Venture Global Plaquemines, LLC increases the volume of supplies of LNG by 1.5 MTPA to 4 MTPA. Thanks to the amendments the total volume of LNG that PGNiG will purchase from both Venture Global LNG companies for the period of 20 years will increase to a total of 5.5 MTPA, i.e. to approx. 7.4 bcm after regasification.

The first supplies from Venture Global LNG are planned for the beginning of 2023.

The amended agreements are contracts based on the free-on-board (FOB) formula, which means that the purchaser is responsible for the loading and transportation of the purchased volumes.

At the same time, PGNiG terminated a supply deal for 2 M mt/year of LNG from Sempra's proposed 11 M mt/year Port Arthur LNG export facility citing project delays.

#### *Development of shipping*

PST has signed an agreement with Norway's shipping company Knutsen OAS Shipping for chartering of two liquefied natural gas (LNG) carriers. PST will be the sole user for 10 years, with an option of extension. Moreover, the vessels will be built exclusively for the PGNiG Group and will enter service in the first half of 2024. The PGNiG Group has already contracted its first two LNG carriers in 2020, also with Knutsen OAS Shipping, bringing fleet of the Group to four LNG carriers (174k cubic meters each). PST will be in full control of the commercial operations.

In addition to 4 carriers contracted by Knutsen OAS Shipping we also have a contract with Thenamaris for 1 carrier, amounting the total number of shipping fleet to 5 vessels.

#### *Milestone for PGNiG Group LNG fleet*

In August 2021, at the Ulsan shipyard of the South Korean group Hyundai Heavy Industries, there was a formal start of construction of the first of the LNG carriers chartered by PGNiG, ordered by the Norwegian shipowner Knutsen OAS Shipping AS, i.e. the first steel cutting for the construction of the vessel with the shipyard construction symbol. This constitutes a milestone for PST in its development of LNG business.

### 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 resellers active on Polish market.

As of December 31, 2021 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, chemical 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.

In year 2021 volumes PST haven't seen a reduction of gas consumption related to Covid-19 pandemic, which was registered in year 2020. This factor is reflecting general recovery of economy after 2020 downturn.

During 2021 PST delivered 7.7 TWh gas to Polish customers compared to 7.9 TWh previous year. As of 31.12.2020 PST ceased cooperation with one large customer, which picked-up 1.5 TWh in 2020; excluding that factor volumes delivered increased by 20% in 2021 compared to 2020.

Despite of gas deliveries in line with the planned volumes, branch in Poland experienced several negative developments on the market, which adversely impacted the performance. Since September market has experienced a historical growth of prices, reaching all times high in December 23<sup>rd</sup> when spot prices exceeded 820 PLN/MWh (i.e. average 5 years spot price amounts to 73 PLN/MWh<sup>3</sup>). This growth of prices caused significant increase of balancing costs and flexibility costs. Even though customers have flat consumption profiles and very limited flexibility allowed within a contractual limits, costs of small deviation from the forecasted levels caused significant expenditures to PST, which were not reflected in prices offered to customers. It applies to customers purchasing gas based on MA index or having percentage tranches.

Given the current market volatility PST is not offering MA index anymore and from 2022 it has such product in its portfolio only for two customers (the first one is glass producer without any flexibility, the second is small reseller and its markup reflects the risk). PST created a provision for single contract in portfolio with percentage tranches amounting to 0.7 MEUR

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<sup>3</sup> Source: TGE; average for the period 2016 - 2020

Operations in Poland are financed by loans granted by PGNiG via cash-pool agreement and loans granted by headquarter. Increase of prices caused significant demand for liquidity resulting in increase of interest bearing debt from 37.3 MEUR (both cash-pooling agreement within PGNiG group and internal loan from PST Munich) as of 31.12.2020 to 113.7 MEUR as of 31.12.2021.

Additionally since October 2021 National Bank of Poland started to increase a interest rates. Main interest rate rose from 0.1% as of 31.12.2020 to 1.75% as of 31.12.2021. This has translated into increase of market rates and financing costs. Both these factors - increased level of debt financing due to historically high prices and increase of interest rates - caused that financial costs were above the budgeted figures.

Financial performance for 2021 for Polish operations was significantly below the planned figures. Loss on this segment of operations amounted to 1.5 MEUR. To improve financial performance of this segment amendment of prices for customers is required to reflect current market conditions. This process has been already initiated however due to the terms of current contracts the improved performance is expected only in years 2023 – 2024.

#### Developments in retail sales

In 2020 PST divested the retail segment consisting of two PST's subsidiaries - PST Europe Sales GmbH and XOOOL GmbH. As of 1<sup>st</sup> September 2020 the nation-wide energy provider lekker Energie GmbH took over the approximately 40K electricity and natural gas customers of PST Europe Sales GmbH and XOOOL GmbH. In November 2021 Management Board of PST adopted the resolution to liquidate sales companies. The liquidation should be finalized at the end of 2022.

After the sale of portfolio and discontinuation of operations following the PnL transfer agreement the net result of sales 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**

###### Environment and climate friendly organization

Since the fall of 2015, the operations of PST have been emission-neutral. After determining the CO<sub>2</sub> 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. At the same time, PST prepared an annual non-financial report within the PGNiG Group. In fulfilling the obligation to report non-financial data, PST rely on the international reporting guidelines of the Global Reporting Initiative (GRI Standards) and Sustainability reporting guidance for the oil and gas industry (IPIECA).

###### Employees

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

At the end of the reporting period, our workforce comprised 53 employees.

## 5. Presentation of financial statements

### Cash flow statement for the financial year from 01.01 – 31.12.2021

	2021	2020
	KEUR	KEUR
Annual net loss	2,820.3	-2,539.5
+/- depreciations/appreciations of fixed asset items	386.1	187.4
+/- depreciations/appreciations of financial asset	0.0	701.1
+/- other non-cash expenses/income	1,491.3	-1,751.6
+/- increase/decrease of provisions without tax provisions	1,231.7	-6,956.5
-/+ increase/decrease of inventories	-1,463.7	12,357.9
-/+ increase/decrease of trade receivables	-286,603.2	-3,856.2
-/+ increase/decrease of receivables from affiliated companies	-220,795.6	-22,660.4
-/+ increase/decrease of other assets without receivables, income taxes, incl. prepaid expenses	-89,432.1	-633.7
+/- increase/decrease of prepayments	1,112.6	21.1
+/- increase/decrease of trade payables	220,554.5	25,727.4
+/- increase/decrease of payables to affiliated companies	266,345.7	6,772.1
+/- increase/decrease of other liabilities	35,445.0	69.6
+/- increase/decrease of deferred income	81,852.1	3,058.6
+/- interest expenses/ interest income	3,193.1	1,785.3
+/- income tax expenses/income	952.3	77.9
<b>= Cash flow from operating activities</b>	<b>17,089.5</b>	<b>12,360.5</b>
- payments for investments in intangible assets	-606.4	-402.4
- payments for investments in tangible assets	-68.9	-166.3
+ payments due to cash investments due to short-term treasury management	5,203.6	-1,041.6
+ Received interest	57.0	181.5
<b>= Cash flow from investment activities</b>	<b>4,585.3</b>	<b>-1,428.8</b>
+ payments from/to loan drawdowns	-32,802.4	11,171.9
+/- payments from/to Cash-pool utilisation from PGNiG	43,766.4	-39,283.4
+/- payments from/to Revolving Loan from PGNiG	0.0	-9,985.9
- paid interest	-3,250.1	-1,966.8
<b>= Cash flow from financing activities</b>	<b>7,713.9</b>	<b>-40,064.2</b>
<b>Change of cash and cash equivalents</b>	<b>29,388.7</b>	<b>-29,132.6</b>
+ Cash and cash equivalents at the beginning of the period	9,495.1	38,627.6
<b>= Cash and cash equivalents at the end of the period</b>	<b>38,883.8</b>	<b>9,495.0</b>

Cash flow from operating activities for twelve months of 2021 increased by EUR 4.7 MEUR compared to previous year and amounted to 17.1 MEUR. The main driver for positive operating cash-flow was high difference between spot sell transactions and spot buy transactions on the exchange. This effect was reinforced by soaring prices on the energy markets in the Q4 2021. Positive impact on the operating cash flow had also high NCS gas volume sold and limited activity on OTC market in Q4 2021.

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.

The increase in cash flow from investing activities by 6.0 MEUR compared to the previous year resulted mainly from repayment of the shareholder loan to PST ES in the amount of 5.2 MEUR.

Cash flow from financing activities were higher by 47.8 MEUR compared to 2020 and amounted to 7.7 MEUR. Positive cash flow comes from increased 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 resulting from soaring gas prices. Financing from bank credit lines was decreased by 32.8 MEUR.

Higher cash balance by 29.4 MEUR is caused by increased financing from Group Cash-pool facility and higher cash flow from investment activity. Moreover cash flow was positively influenced by adjustment of the intercompany payment terms to take account of special situation on the financial and energy markets.

**Assets and its financing sources as of 31.12.2021**

	<b>2021</b>	<b>2020</b>
	KEUR	KEUR
<b>ASSETS</b>	<b>775,330.7</b>	<b>153,943.6</b>
Fixed assets	2,288.4	1,999.2
Current assets	756,843.0	147,389.8
Prepaid expenses	14,391.2	1,364.6
Deferred tax assets	1,808.1	3,190.0
<b>EQUITY AND LIABILITIES</b>	<b>775,330.7</b>	<b>153,943.6</b>
Equity	7,693.9	4,770.1
Provisions	8,250.8	6,066.8
Accounts payable	673,280.0	138,858.7
Deferred income	86,099.1	4,247.0
Deferred tax liability	1.9	1.0

The balance sheet total sum was increased by 403.6 % from 153.9 MEUR in 2020 to the present level of 775.3 MEUR. With regard hereto, the share of current assets in total assets amounts to approx. 97.6% in 2021 (previous year: 95.7 %). The change is mainly due to increased turnover at the end of the year. Both trade receivables from third party companies increased significantly from 43.1 MEUR in 2020 to 329.7 MEUR in the current business year and total receivables from affiliated companies increased from 71.0 MEUR to 286.6 MEUR.

Liabilities to affiliated companies increased significantly from 35.9 MEUR in the previous year to currently 346.0 MEUR. In the same way as liabilities from PGNiG Group and PST Group, trade liabilities to third party companies increased significantly from 53.4 MEUR in the financial year 2020 to 274.0 MEUR in 2021. Those significant growths are mostly due to high increase of commodity prices in a year.

Additional investments, depreciation and amortization did not influence fixed assets significantly. Fixed assets increased by 0.3 MEUR to 2.3 MEUR.

The reported other provisions increased compared with 2020 (7.2 MEUR vs. 6.0 MEUR in the previous year). The equity ratio decreased from 3.1 percent (previous year) to 1.0 percent in the financial year. That decrease was caused by market price related significant increase in balance sheet total. Due to the profit-and-loss transfer agreement which has been in effect since 2017, the Company had to absorb the losses incurred by

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PST ES. In relation to that deferred tax assets decreased by 1.4 MEUR to currently 1.8 MEUR.

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. Credit lines were used to on a lower level than in 2020 (44.6 MEUR in 2020) and now amount to EUR 11.8 MEUR. Revolving loan from PGNiG SA was not drawn as of 31.12.2021, the same as in the previous year. 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**

	<b>2021</b>	<b>2020</b>
	KEUR	KEUR
Sales revenues	4,659,143.9	1,017,424.4
Costs (offset against other income)	4,649,788.2	1,016,964.3
EBIT	9,355.7	460.1

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 soaring energy prices and higher volumes sold compared to the previous year results in total sales increased by 357.9 %. The realized sales revenues of MEUR 4,659.1 significantly exceeded planned figures for the year 2021 (MEUR 1,431.4– MEUR 1,749.5).

Last year's costs developed accordingly. In 2021 costs amounted to MEUR 4,649.8 whereas updated planned costs were budgeted in the amount of (MEUR 1,430.3 – MEUR 1,748.1). All in all, EBIT result for the financial year 2021 of MEUR 9.3 is very positive and much better than budgeted (MEUR 1.1– MEUR 1.4).

### **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

##### Operational risks

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

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

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

PST recognizes a significant operational risk increase due to geopolitical situation related to invasion to Ukraine. Infrastructure in Ukraine is endangered with physical damage and the risk of attacks on IT infrastructure of energy companies, banks, telecom operators has to be closely monitored. Since war outbreak weekly meetings are being organized with all companies in PGNiG group to exchange information on any adverse events, which might be related to deliberate, hostile actions of entities and individuals. Security Department of the PGNiG group on weekly basis points out the areas of operations where additional attention is required. So far this additional risks materialized for PST in probable loss of 100 k USD, which has been deposited with Ukrainian transmission system operator to enable PST to transport gas through Ukrainian infrastructure.

#### Market price risks

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

The assessment, monitoring and management of the resulting risks require a consistent risk management system. To this end, trading positions are recorded in the trading system and valued according to current market parameters. The management of market price risks includes both open position - and loss-related limits at book and strategy level. Market conformity checks are carried out for all transactions by our Back Office team. 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.

For past two years due to Covid-19 pandemic and energy prices crisis as of Q'4 2022 we observed an extreme volatility of the prices with historical lows and highs in 2020 and 2021 respectively. Daily monitoring of positions allowed PST to avoid any losses in proprietary trading. On the other hand results of Warsaw Branch were adversely affected by single contracts with industrial customers, which contained even a limited flexibility element. All priced in risk mark-ups turned out to be completely insufficient to cover risk coming from prices' volatility. For the moment PST is not offering or extending any

contracts or products, which expose PST to the risk of the price movements or consumption volatility.

#### Counterparty default risks / credit risks

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

The credit risk management mainly includes:

- Credit risk assessment
- Credit limit monitoring
- Collateral management

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

The prices outburst in Q'4 2021 caused that all credit limits assigned have been quickly utilized in course of ordinary operations. PST applied a conservative approach and assigned higher credit limits only to selected counterparties with highest credibility and avoided significant growth of credit risk exposure. To continue operations on non-interrupted basis PST increased its activity on exchanges, where credit risk is very limited. Such approach caused higher demand for liquidity. Thanks to strict monitoring of credit limit utilization PST was able to make decision to block from trading or reduce exposure with counterparties reaching their assigned credit on daily basis. In 2021 PST was not negatively impacted by payment defaults.

### Liquidity risks

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

The management of liquidity risks includes:

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

Due to price crisis in Q4 the demand for liquidity for PST increased dramatically. Frequent analysis of liquidity position allowed for implementation of non-standard measures to manage the situation. PST implemented flexible scheme of settlements with affiliated companies and increased its bank financing limits. Thanks to that PST operated and operates on similar level (in terms of volumes traded) as before the prices' crisis and war outbreak in Ukraine.

### Legal and regulatory risks

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 (including KYC, client onboarding, anti-bribery and gift-giving policy) 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.

PST acknowledges dynamic developments in the sanction regimes worldwide, especially those induced by war in Ukraine. In order to manage compliance risks pertinent thereto PST revised KYC process. A revisited KYC form refers i.a. to direct or indirect involvement of any Russian national or entity. The form also contains an obligation to update the indications contained therein. Typically, commercial agreements entered into by PST contain a sanctions clause. Since the outbreak of Russian invasion PST has also received regular updates on sanctions from PGNiG (intra-group communication on US and EU sanctions) as well as from an external law firm (focusing predominantly on US sanctions).

**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 Management Department by means of weekly, monthly and annual 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. Due to war outbreak in Ukraine and energy price crisis PST acknowledges the risk increase in all areas: operational, market prices, credit, liquidity and regulatory. However the existing framework and risk management processes allow PST react flexibly and on time on changing risk exposure. Therefore we believe that all the risks are well manage and do not endanger well-being of the PST.

**2. Opportunities report**

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

**a. Definition of opportunities**

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

Operational opportunities

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.

#### Liquidity opportunities

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

#### Market price opportunities

The fact that the Company has been operating on the German and European energy market for 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 2022

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 Supply & 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 further development 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.

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We are planning for a positive corporate result in the coming years, in spite of risks related to overall economic uncertainty driven by war in Ukraine.

The table below shows the economic performance indicators of PST planned for 2022:

		2022
Sales revenues	MEUR	6,581.8 – 8,044.4
Costs (offset against other income)	MEUR	6,577.9 – 8,039.6
EBIT	MEUR	3,9 – 4.8

Munich, March 31, 2021

The Management Board

# General Engagement Terms

## for

### Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften

#### [German Public Auditors and Public Audit Firms]

#### as of January 1, 2017

DokID:

#### 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.