PROMOTING STRUCTURAL CHANGE

SECURING SUPPLIES



SHAPING TRANSFORMATION

VNG

ANNUAL REPORT

2022: A YEAR OF HUGE CHALLENGES

Last year presented our company with challenges unlike any other in our history: the war in Ukraine and the cancellation of our natural gas supply contracts with Russia were undoubtedly dramatic events resulting in problems that are extremely challenging.

With the unwavering support of our shareholders, politicians and, of course, hard work of our employees, we managed to put VNG back onto a stable financial footing at the end of this difficult year.

This basis affords us the capacity necessary to continue to fulfil our core tasks - assuring the security of energy supplies and promoting structural change, especially in Eastern Germany - and to face the challenges posed by the energy transformation as a company along with the energy industry as a whole.

In this annual report, we describe how we dealt with the extreme challenges of 2022. We also present some of the projects with which we are promoting the transformation to green gases across the Group.

In the same way as our partners supported VNG in 2022 and helped create stable perspectives for us, we want to live up to our responsibility to help create the climate-neutral energy supply of the future.

OUR ACTIVITIES HAVE THREE DIMENSIONS



SECURING SUPPLY

VNG as a supporting pillar for the security of gas supply in Germany.

KEY EVENTS IN THE FINANCIAL YEAR 2022



24 February Russia begins its war of aggression against Ukraine.

12 May

Russia imposes sanctions on numerous companies in the energy industry in Germany and Europe - including WIEH GmbH (trading partner for VNG H&V). As a result, WIEH GmbH no longer receives Russian gas deliveries, which also has a significant impact on VNG Handel & Vertrieb GmbH (VNG H&V).

14 June

Gazprom also restricts gas exports via Nord Stream 1: up to 40 percent less natural gas is piped from Russia to Europe. From September, no more Russian pipeline gas flows via Nord Stream 1 to Germany.

2 September

VNG CEO Ulf Heitmüller says in a newspaper interview that the procurement of replacements for the missing Russian gas deliveries is costing VNG a low to mid double-digit million amount every day.

9 September

VNG applies to the Federal Ministry of Economics and Climate Protection (BMWK) for stabilisation measures in accordance with § 29 of the Energy Security Act (EnSiG). This is intended to ensure the ability of VNG to act.

10 October

VNG H&V and WIEH GmbH reach an out-of-court agreement on the distribution of the replacement procurement costs incurred as a result of the Russian GAZPROM Export LLC stopping deliveries to WIEH GmbH.

2

PROMOTING **STRUCTURAL** CHANGE

VNG as a key player and structure-determining company in Eastern Germany.



2 December

VNG H&V also reached a solution for the second supply contract for Russian gas with Gazprom Export LLC. The federal government compensates VNG H&V in part for the expenses it bears for the procurement of replacements to ensure security of supply. VNG withdraws the application for stabilisation measures submitted in September in accordance with § 29 EnSiG.

15 December

The VNG shareholders EnBW, VUB and OEW agree to increase VNG's equity capital by € 850 million. This represents the third pillar in a programme to stabilise VNG financially in the long term.

A TURBULENT YEAR ENDS WITH SUCCESSFUL STABILISATION

Financial KPIs

| in € million | 2022 | 2021 ¹ |
|-----------------------------|--------|-------------------|
| Billed revenue ² | 36,237 | 18,479 |
| Adjusted EBIT ³ | -205 | 225 |
| Consolidated result | -337 | 141 |
| FFO ⁴ | -197 | 221 |
| Gross investments | 128 | 197 |
| Net investments | 122 | 174 |
| Net financial liabilities | 7 | 679 |
| Gearing (%)⁵ | 13 | 9 |

Group snapshot

| | 2022 | 2021 |
|--|-------|-------|
| Number of employees as at end of year ¹ | 1,578 | 1,462 |
| Group companies and holdings | 68 | 69 |
| Number of European countries with VNG holdings | 5 | 5 |
| Gas send-out in billion kWh | 588 | 762 |
| Transmission system in km | 7,700 | 7,700 |
| Storage capacity in billion m ³ | 2.2 | 2.2 |

1 Total employees of all fully consolidated companies; as of: 31.12.2022

1 The previous year's net financial debt was reduced by current securities.

2 Before application of the IFRIC Agenda Decision on IFRS 9.

3 EBIT adjusted for extraordinary and one-off effects on results.

4 Funds from operations, i.e. consolidated earnings adjusted for non-cash expenses

and income as well as gains/losses from the disposal of fixed assets.

5 Unadjusted gearing.



BUSINESS AREAS

TRADING & SALES

As a major gas importer and gas trader in Germany, VNG Handel & Vertrieb GmbH offers around 400 municipal utilities and industrial companies a wide range of products and services. VNG H&V has a deep regional structure and has holdings in Germany and abroad.

TRANSPORT

The independent transmission system operator **ONTRAS Gastransport GmbH** operates the 7,700-kilometre transmission network in Eastern Germany and is responsible for the reliable and efficient transport of gas. ONTRAS thus supports the European gas market and is a pioneer in hydrogen projects in the gas network. The Company also makes important contributions to security of supply.

Underground storage facilities are an integral part of the gas infrastructure and essential for security of supply. Our subsidiary VNG Gasspeicher GmbH, the third largest gas storage operator in Germany, stores its customers' gas efficiently, safely and reliably, successfully markets storage capacities and offers innovative storage products.

BALANCE Erneuerbare Energien GmbH operates 40 biogas facilities in Eastern and Northern Germany. The production of green energy is just as much a focus as the intensification of value creation and the development of new products related to biogas and biomethane.

Several VNG subsidiaries and holdings organise the expansion of fibre optic networks or offer services in the areas of documentation and telecommunications. In order to bundle activities in this growth market, VNG established this new business area in 2022.

CONTENTS

| 2 vn | G in | profile |
|------|------|---------|
|------|------|---------|

- 6 Foreword by the Executive Board
- **12** Report of the Supervisory Board
- 16 Gas market in transition
- **26** Green gas projects
- **38** Group Management Report
- 68 Consolidated Financial Statements



STABLE OUTLOOK DESPITE LOSSES IN A CRISIS YEAR

"IN 2022, SUPPOSED **CERTAINTIES IN** THE ENERGY INDUSTRY WERE SHAKEN."

2022 was an enormous challenge for VNG.

The year 2022 with the war against Ukraine and the energy crisis have demanded a lot from the people of Germany and elsewhere in Europe – most of all from the people of Ukraine, to whom we extend our enduring sympathy.

With regard to the German and European energy industry, many things that were long considered

immutable certainties were shattered in 2022: Long-standing supply relationships were ruptured, and the security of supply became virulent to an unprecedented extent, particularly with regard to natural gas.

This had a major impact on VNG's business activities throughout the year. At € 36,237 million, billed revenue was almost twice as high as in 2021, mainly due to the enormous increase in gas prices. Above all, the bottom line for VNG is a clearly negative result with an adjusted EBIT of € -205 million.

"DESPITE THE UPHEAVALS, WE HAVE DISPLAYED A REMARKABLE PERFORMANCE IN OUR OPERATIONAL BUSINESS."

Nevertheless, looking back on the year we are able to say: we were able to cope with the acute corporate crisis situation in cooperation with the German federal government, the shareholders and other stakeholders and assure a reliable supply of gas at all times.

This is not least due to the great commitment of our workforce: in 2022, the employees of VNG achieved extraordinary things in all areas of the group. In the operative business, our team has shown considerable commitment and performance despite upheavals and pressures – which can by no means be taken for granted. We owe a debt of gratitude for the great commitment underlying this. Despite all the pressures and all the economic complications, we have seen that we can achieve more together. This knowledge is an additional motivation for us as we go into the 2023 financial year.

This is not to say that VNG would have survived the crisis year 2022 entirely on its own. Securing substitute supplies of the natural gas volumes that we no longer received from Russia presented VNG with enormous difficulties at times. Government help and the strong support of our shareholders prevented

"ON THE BASIS OF THREE CONCRETE PILLARS, THE STABILISATION OF VNG HAS **BEEN SUCCESSFUL."**

these difficulties from becoming an existential threat. It was assuring to experience how we were treated with such confidence by our shareholders as well as by external partners, customers and financiers. This is something else for which we are grateful. This also applies explicitly to the colleagues in the Works' Council, who have always played an open and constructive role in overcoming the crisis.

On this steady foundation and on the basis of three concrete pillars, VNG was successfully stabilised by the end of 2022. The first two pillars were the settlement agreement with a subsidiary of SEFE (formerly Gazprom Germania GmbH) and the settlement reached with the federal government in connection with the costs incurred in securing substitute supplies for the direct supply contract with Gazprom. The third pillar was the equity injection of € 850 million, which was decided by our shareholders in mid-December.

This stabilisation has given security to us and more than 400 municipal utilities and industrial companies in the significantly affected business area Trading & Sales. Despite the very good operational performance of our colleagues, the negative result in the trading area is offset by better deals in the other business areas: in 2022, the Group developed positively both in the areas of transport and storage and in the biogas area, as well as in the newly established Digital Infrastructures business area.

This also shows the strength of ideas and working approaches in the group of companies along the gas value chain: losses and risks in one business area can be partially offset by good performance and positive earnings contributions in other business areas. With a

"WE HAVE POSITIONED OURSELVES WELL DURING THE ENERGY CRISIS WHEN IT COMES TO SECURITY OF SUPPLY."

view to the consolidated result, this also played a part in the overall solid asset and financial position at the end of the year.

The state and in particular the Federal Ministry of Economics and Climate Protection (BMWK) worked at an enormous tempo in 2022 in its crisis management. The Ministry has issued a large number of laws and regulations and piloted them through the parliamentary process, and made decisions under extremely high pressure. It has thus been possible to create a framework for all market participants within which security of supply in Germany can be maintained. Thanks to the comparatively mild temperatures, gas consumers and the economy as a whole got through the winter relatively well.

The question of security of energy supplies will continue to loom large in 2023. VNG has consciously positioned itself in the regard during the energy crisis: we have restructured our gas imports dispensing with Russian gas purchases, deepened existing supply relationships and established and developed new ones.

However, the energy industry faces other huge challenges: above all, the transformation from today's reliance on natural gas to green gases such as hydrogen and biogas. 2023 will be a year of critical political decisions for the climate-neutral energy future.

In this context political framework conditions must be created to ensure that future energy supplies

"THE PLAYERS IN THE ENERGY MARKET NEED PLANNING SECURITY IN ORDER TO BE ABLE TO DEVELOP BUSINESS MODELS FOR HYDROGEN."



remain economically viable. We hope that the political initiatives and measures that were created in 2022 will help finalise the urgent regulatory specifications, for example with the Delegated Act (RED II) at European level. The players on the market - producers, importers, traders and customers - need planning and investment security in order to finally be able to develop viable business models for hydrogen.

The move away from natural gas requires much more than simply a substance change from CH₄ to H₂.

The necessary infrastructure such as lines and storage must also be planned and built or converted. Here we will contribute our know-how, our technical competence and experience and the assets available in the group of companies. These include:

- 1. A gas transport network that is largely H₂-ready and that our subsidiary ONTRAS will supplement with further H₂ infrastructures in the form of a large number of exciting projects or convert existing infrastructure to the transport of hydrogen. A pioneering project with ONTRAS participation is, for example, the H₂ start network in Eastern Germany with a connection to the European H₂ backbone.
- 2. Gas storage facilities, which in 2022 have proven their enormous importance for the security of supply and which will also play a vital role in the energy system of the future because they make it possible to store large quantities of renewable energies and cushion fluctuations in the generation of renewable energy.

"WE WANT TO COOPERATE EVEN MORE CLOSELY WITH THE MUNICIPALITIES IN EASTERN GERMANY: WITH HYDROGEN AND DIGITALISATION."

We are actively involved in the implementation of the energy transition and will actively help shape the change in energy supply in our country with our investments in the coming years.



Our roots are in Eastern Germany, we have our headquarters and our business focus here. We reliably supply numerous Eastern German municipal utilities and thus municipalities with gas. We are investing in infrastructure here in the region, as well as in renewable and decarbonised gas projects.

We not only want to maintain our good relationships with the municipalities and communities in the region; we also want to further develop these connections, for example through direct cooperation in hydrogen and digitalisation. This is because the energy transition will not take place in the laboratory or in planning conferences, but where people and companies live and work.

A current scientific study by Conoscope GmbH underscores the importance of VNG for Eastern Germany: due to the regional economic integration and the corresponding benefits, profits, depreciation, taxes and levies as well as wages and salaries, VNG had a regional economic effect in terms of direct and generated added value of € 662 million in 2021,



"WE NOT ONLY HAVE AN INTERNATIONAL REPUTATION, BUT VALUED AS A **COOPERATION PARTNER.**"

especially in the federal states of Saxony and Saxony-Anhalt. This regional commitment is important to us. It is something we want to consolidate and expand wherever possible.

In addition to the regional importance, we are pleased to note that VNG is not only highly regarded by national and international partners in the field of green gases, but also valued as an expert. In such partnerships, we can mobilise and productively contribute our knowledge and operational skills from the gas industry for the developing hydrogen economy. On this basis, we are establishing new international contacts and enter into new partnerships. In doing so,

we want to sustainably expand our role as a shaper of the energy transition and our structural relevance for Eastern Germany.

In addition, we are continuing to drive forward our business in the area of digital infrastructures. In 2022 we established an independent business area and will further deepen and diversify our commitment to the planning, construction and operation of fibre optic networks and digital applications for companies.

We will maintain and expand the intensive contact that we established in 2022, primarily with our industrial customers and municipal utilities.

With a view to the ongoing transformation, it can help us to successfully master the enormous challenges of the energy transition together. We are firmly convinced that the energy transition, assuring the continuity of the existing security of supply into the future and the structural change in the regions can only be successfully managed as a joint project by different partners. That's why we made it our mission to bring the various stakeholders together. Because if one thing has become clear in 2022, it is that together, in a constructive cooperation, more can be achieved, especially under difficult conditions.

With all this, let's not forget that the entrepreneurial and individual challenges, the fears and the risks, as we experienced at VNG 2022, count for little compared to the terrible suffering people in Ukraine have had to endure since the start of the Russian war of aggression. There is no justification for the Russian invasion, which is contrary to international law, and must be stopped immediately. Resuming business relationships with Russian companies is not currently on the agenda as far as we are concerned. VNG will not take any action in this direction without an

express political and social declaration of intent. We note once more that the past financial year was an enormous challenge with a negative result. Nevertheless, the very good operational performance across the Group and our stable financial and earnings situation towards the end of the year make us confident that our commitment every working day to a reliable and increasingly climate-neutral energy supply will soon be reflected in positive annual results again.

We want to achieve three key goals in 2023:

- 1. We want to supply our customers securely throughout the year.
- 2. We want to continue to push our projects relating to renewable and decarbonised gases and, with our investments in the region, make a contribution to providing the local economy with prospects for the future.
- 3. We want to close the 2023 financial year with a clearly positive adjusted EBIT that will enable a dividend payment to our shareholders and at the same time secure the financing of further future projects.

After the end of the 2022 financial year, we are now in a position to build on a solid foundation again. It is now up to us to take the trust and encouragement that we have received from our stakeholders, and actively help shape the future with an unchanged high level of commitment and our skills and experience from 65 years in the energy industry.





10



The Executive Board

Juda U

Ulf Heitmüller Chairman of the Executive Board

A. J. Jok

Hans-Joachim Polk Member of the Executive Board, Infrastructure/Technical Affairs

6 hunt

Bodo Rodestock Member of the Executive Board, Finance/Human Resources

REPORT BY THE **SUPERVISORY BOARD**

The 2022 financial year was a very special one for VNG, as well as for the energy sector as a whole. With the start of the Russian war of aggression against Ukraine in February 2022, the economic framework changed fundamentally, and the situation continued to intensify over the course of the year. The energy industry as a whole, but VNG in particular, was confronted with a previously unknown scenario last year, namely the almost complete stoppage of Russian pipeline gas deliveries.

This also posed particular challenges for the work of the VNG Supervisory Board. As part of the advisory function entrusted to it, it continuously advised the Executive Board by increasing the frequency of its meetings and thus closely accompanied the management of the company and the strategic management of the company. It was informed by the Executive Board comprehensively and promptly about the current developments and the situation of the Group as well as about significant business transactions, both verbally and in writing. On the basis of these reports and the information provided, the Supervisory Board monitored the management in the form of a preventive control and dealt in particular with the financial situation of the company.

In Autumn 2022, in order to be able to exhaustively check the continued existence of the company's liquidity, the Supervisory Board commissioned the Finance and Investment Committee with the task of being informed in detail by the Executive Board about the current liquidity situation in extraordinary meetings.

In addition, the Supervisory Board of course also dealt with general questions of financial, investment and personnel planning as well as all measures that require the approval of the Supervisory Board in accordance with the Articles of Association.

Main activities of the Supervisory Board in the past financial year

The Supervisory Board held a total of four regular and ten extraordinary meetings in the 2022 financial year. In connection with its advisory and monitoring responsibilities, the Supervisory Board reviewed the activities of all business areas of the Group. The main areas of focus included:

- **b** the annual and consolidated financial statements 2021.
- the medium-term planning 2023-2025,
- the "VNG 2030+" strategy update,
- the resolutions:
 - ▶ to increase the equity capital of VNG AG,
 - ▶ to refinance and expand loans and credit lines of VNG.
 - ▶ to conclude the loan agreement with KfW and extend a loan agreement with EnBW Energie Baden-Württemberg AG,
 - ▶ to grant a loan to a subsidiary,
 - ▶ on the conclusion of gas purchase contracts, a gas sales contract and settlement agreements in connection with the supply shortfalls from Russian contracts by VNG Handel & Vertrieb GmbH.
 - ▶ on the acquisition of a biogas company, on material investments by BALANCE EnviTec BIO-LNG GmbH, guarantee commitments and other contracts,
 - ▶ the consideration of detailed ongoing and various reports.
 - ▶ on the current situation of the company, in particular on the earnings, financial and

liquidity status and risk management of the VNG Group,

- ▶ on the sanctions in Europe in general and the Russian sanctions on Erdgasspeicher Peissen GmbH and the resulting effects on the VNG Group in particular,
- ▶ on the current status of supply contracts in the business area Trading, in particular regarding legal disputes, an application according to §29 of the German Energy Security Act (EnSiG), the assumption of costs of procurement of substitute gas supplies by the federal government as well as alternative supply relationships,
- ▶ to the tax administration procedure at HANDEN Sp. z o.o.,
- ▶ in the business area Biogas, in particular for strategy implementation, current project plans and ongoing projects,
- ▶ in the business area Storage on current legal and energy policy framework conditions,
- ▶ on the developments in the business area Green Gases, in particular on the target vision for green gases, Bad Lauchstädt Energy Park and an overview of the IPCEI projects and
- the holding of constitutive meetings of the Supervisory Board and its committees as well as new elections in committees in the event of personnel changes in the body.

Based on these deliberations and on the reports submitted and the information provided by the Executive Board, the Supervisory Board is satisfied that the management of the Group is being conducted in due manner.

Audit results of the auditors

Ernst & Young GmbH has audited the annual financial statements of VNG AG as of 31 December 2022 as issued by the Executive Board and also the management report for the financial year 2022, including the bookkeeping and compliance with the accounting obligations in accordance with §6b (3) EnWG (German Energy Industry Act), and endorsed these with an unqualified approval. In addition, the consolidated financial statements prepared in

12

accordance with IFRS as of 31 December 2022 and the Group management report was also reviewed. The auditor issued an ungualified audit opinion for these, too. The audit reports were presented to all members of the Supervisory Board. The Supervisory Board duly noted and approved the result of these audits.

The Supervisory Board reviewed the annual financial statements of VNG AG and the management report as well as the consolidated financial statements and the Group management report. After the final result of the Board's review thereof, no objections were raised. The auditor attended the balance sheet meeting of the Supervisory Board and reported to the Supervisory Board on the main results of his audit. The Supervisory Board approved the annual financial statements as of 31 December 2022 as issued by the Executive Board. The annual financial statements were thus formally adopted. In addition, the Supervisory Board endorsed the consolidated financial statements of VNG AG as of 31 December 2022 and the Group management report.

The report on relationships with affiliates of VNG AG to be drawn up by the Executive Board in accordance with § 312 AktG (German Companies Act) has been presented. The auditor reviewed this report and issued the following unqualified audit opinion in accordance with § 313 (3) AktG:

"According to our due examination and assessment, we confirm that

- 1. the factual information in the report is correct,
- 2. the payments by the company for the legal transactions listed in the report were not
 - unreasonably high and
- 3. subsidiaries and sub-subsidiaries were not disadvantaged by the measures initiated by VNG."

Based on its review, the Supervisory Board endorses the auditor's assessment.

Composition of the Supervisory Board

Due to the end of the current term of office on 30 June 2022, the extraordinary general meeting elected Mr. Markus Baumgärtner, Dr. Frank Brinkmann, Mr. Sascha Enderle, Ms. Barbara Endriss, Prof. Martin Fleckenstein, Mr. Hans-Peter Floren, Mr. Dirk Güsewell, Prof. Dr.-Ing. habil. Antonio Hurtado, Mr. Hartmut Kremling, Mr. Karsten Rogall, Ms. Gunda Röstel, Mr. Fabian Spalthoff, Ms. Liv Monica Stubholt and Dr. Bernd-Michael Zinow as members of the Supervisory Board.

In addition, in the spring of 2022, Mr. Tobias Dittrich, Ms. Christina Fenin, Mr. Monty Heßler, Ms. Christina Ledong, Mr. Peter Leisebein, Ms. Katja Schmied and Dr. Benno Seebach were elected to the VNG Supervisory Board by the workforce of VNG AG as employee representatives with effect from 30 June 2022.

At the same time, Ms. Josefine Bormann, Mr. Hans-Joachim Herrmann, Ms. Stefanie Kleine, Dr. Martin Konermann, Mr. Thomas Kusterer, Mr. Michael Raida, Mr. Michael M. Theis and Dr. Jochen Weise will leave the Supervisory Board on 30 June 2022.

At the constitutive meeting of the Supervisory Board on 30 June 2022, Mr. Dirk Güsewell was elected Chairman of the Supervisory Board, Dr. Frank Brinkmann was elected first deputy and Ms. Christina Ledong was elected second deputy chairman of the supervisory board.

In addition, Mr. Markus Baumgärtner, Mr. Sascha Enderle, Ms. Christina Ledong, Mr. Karsten Rogall and Mr. Fabian Spalthoff were appointed to the Finance and Audit Committee, as well as Mr. Markus Baumgärtner, Mr. Peter Leisebein and Dr. Bernd-Michael Zinow elected to the Personnel Committee. According to §3 of the rules of procedure for the Supervisory Board, the Personnel Committee also includes the Chairman of the Supervisory Board and the first Deputy Chairman of the Supervisory Board.

Supervisory Board member Peter Leisebein passed away on 6 August 2022. With sincere sympathy, the Supervisory Board recognises his great commitment and his services to the VNG Group. By decision of the District Court of Leipzig on 15 September 2022, Mr. Sebastian Thamm was appointed as his successor to the Supervisory Board.

On 19 September 2022, Ms. Christina Ledong resigned from the Finance and Audit Committee with effect from the end of 4 October 2022.

As a result, at the Supervisory Board meeting on 5 October 2022, Mr. Sebastian Thamm was elected to the Finance and Audit Committee and Ms. Christina Ledong to the Personnel Committee.

In addition, Mr. Fabian Spalthoff resigned from the Supervisory Board and the Finance and Audit Committee with effect from the end of 14 December 2022.

On 15 December 2022, Mr. Peter Heydecker was elected a member of the Supervisory Board by the Annual General Meeting and a member of the Finance and Audit Committee by the Supervisory Board.

At the same session, the Supervisory Board decided to extend the appointment of Mr. Bodo Rodestock until 30 September 2028 and Mr. Hans-Joachim Polk until 30 November 2028 as members of the Executive Board of VNG AG.

The Supervisory Board would like to thank the departing Supervisory Board members for the good and trusting cooperation and their great commitment.

The year 2022 was an extraordinary financial year for VNG. On behalf of all members of the Supervisory Board, I would like to thank the Executive Board and all employees of VNG and all Group companies for their energetic commitment, the work they have done and their achievements in this remarkable year.

Leipzig, 30 March 2023

The Supervisory Board



Chairman

"GREAT CHALLENGES MASTERED AS A TEAM"

Mr. Güsewell, you have been the new Chairman of the Supervisory Board of VNG since 30 June 2022. What is your opinion of the past financial year?

The past financial year - due to the terrible war of aggression against Ukraine and its consequences was unusual for VNG and for many other companies: a year full of major changes and existential

challenges. This is not least evident from the annual result achieved. In this situation, it was particularly important for me that VNG lived up to its claim as an important, relevant company in the gas industry: that VNG could be relied on, especially in times like these.

I was particularly pleased by the commitment evidenced by the employees throughout the Group. During this eventful period, which was characterised by uncertainty in the business environment, the great commitment, high level of competence and solution orientation of our employees was always evident. Challenges are best mastered in a team, and I have experienced team spirit in many places at VNG. On behalf of the entire Supervisory Board, I would like to thank everyone.

I would also like to thank the shareholders of VNG. who were also challenged last year and who have showed their special responsibility towards and loyalty to the company. Meeting the challenges of last year was only possible thanks to the close cooperation between the company and its shareholders.

Now is the time to look forwards and align VNG with the opportunities and possibilities of the future. VNG can and must make a substantial contribution to shaping the energy transition, especially in Eastern Germany. With the impressions from last year I am very optimistic and look forward to continuing to accompany this development.

this area. The company and the Supervisory Board will define the framework for further orientation in the current year with an update of the "VNG 2030+" group strategy. I am convinced that VNG will be a key player in reshaping the energy system towards climate neutrality.

VNG ANNUAL REPORT 2022

14



What insights do you take from the events of 2022?

The energy industry and in particular the gas industry had to take leave of many supposed certainties in 2022. Dependencies that were too one-sided left us vulnerable and open to attack.

A broader and therefore more resilient energy system is important for the future. The task now is to consistently push ahead with the diversification of our gas procurement portfolio and the necessary infrastructure. At the same time, progress must be maintained in the transformation to green gases and a climate-neutral energy system. And in my opinion, this is must be done much faster than we thought a year ago.

What is your future vision for VNG?

First of all, natural gas will remain important in key applications for the foreseeable future, including when it comes to replacing energy sources that will no longer be available for power generation once nuclear and coal are phased out. At the same time, it is important to organise the ramp-up of green gases.

Summing up, this means for me: VNG has positioned itself as a green, digital and gas-based concern. The company is already almost "H2-ready" and the preparations for the coming hydrogen age are in progress in a concentrated and targeted fashion, as evidenced not least by the broad project portfolio in





Sources: BDEW (German Assoc. of Energy and Water Industries), own calculations based on Refinitiv

17

A YEAR OF HUGE VOLATILITY

For VNG, 2022 was a year of extremes. Nevertheless, we have succeeded in supplying municipal utilities and industrial companies with the contractually agreed gas quantities at historical prices at all times. Alexander Lück describes how VNG Handel & Vertrieb GmbH has organised the security of supply for customers and how the division is preparing for the hydrogen age.

> Alexander Lück is an experienced wholesaler of energy and raw materials and has been Head of Sales at VNG Handel & Vertrieb GmbH since August 2018.



Mr. Lück, the year 2022 was probably unique both in your personal career and in the history of VNG. How will you remember 2022?

As a very strenuous and very volatile year. Several factors were volatile: the price jumps on the gas markets, but also the mood. There have been days when my emotional state when leaving my workplace in the evening was significantly different from when I arrived at work in the morning - positively as well as negatively.

From April, VNG only received natural gas from Russia in reduced quantities, and from September not at all. Was there any time at all for other issues in 2022 apart from the securing replacement supplies? The energy and gas crisis caused by the war has indeed overshadowed many other things. At the same time, the topic of decarbonisation has significantly gained momentum in 2022. Our hydrogen projects have also kept us very busy. It was good to turn to subjects that are orientated at a future that we all at VNG believe in.

First of all let's look at the gas crisis: what was your department's greatest concern?

We faced two particular challenges: our colleagues in Key Account Management handled the many inquiries, especially from our municipal utility customers. We were no longer able to offer some products or to make flexible fixed price offers because the market didn't allow it. In Sales Service, where the creation of flexible products for offers to our customers are managed, we were only able to offer a very limited portfolio, but it was still intensive and high demand for it. We also noticed the enormous strain on the purchasers of municipal utilities, who at times were looking almost desperately for available fixed-price offers.

In addition to the general uncertainty and the large number of customer inquiries, what did you find to be particularly extreme in 2022?

Colleagues who are active in foreign markets, for example in Poland or the Czech Republic, had to adapt to the respective national regulations which as in Germany, where the gas levy was discussed at times – were changed at frequent intervals. In addition, we have developed emergency plans and concepts in the event that government support measures for the gas industry no longer worked. We had to set up completely new processes in order to be able to fulfil our obligation to provide information to our customers. For example, we were prepared to create, print and send hundreds of individual letters to our customers in a very short time. Luckily we didn't have to implement these plans.

Communication with customers, but also internally, was certainly much more intensive than in previous years. Fortunately, we were able to fall back on established instruments and formats, such as our analyst calls, which we have been offering our customers for years. There we took a careful look at market developments and influencing factors every two weeks. These calls was used much more frequently from the second half of 2021. From February 2022, the number of hits rose again significantly.



TTF stands for "Title Transfer Facility" and designates a virtual Dutch gas trading point

18

"PRICE LEVELS, VOLATILITY AND AVAILABILITY WERE THE DOMINANT ISSUES."

How has gas trading changed for VNG in 2022?

Price level, volatility and availability were the dominant issues for all market participants: we have actually never experienced such price jumps in an extremely short time. The trading locations have also changed: until gas prices exploded, trade was primarily bilateral. This soon ceased to function because many retailers - even the very large ones and customers had exhausted their lines of credit,

Development of day-ahead gas prices in 2021 and 2022 at the Dutch trading point TTF in €/MWh

Source: ICIS Heren

WITH COURAGE AND STAYING POWER



ULF HEITMÜLLER Chairman of the Executive Board

"24 February 2022 was a crucial moment. Until recently, we were convinced that our Russian trading partners would keep the agreements we had made with them. Unfortunately, this turned out to be a mistake. The consequences were serious, the price turbulence was massive, and on some days the procurement of gas to replace the failed deliveries from Russia cost us tens of millions. But we didn't lose heart and rose to the challenges. Together with politicians, with our shareholders and all our VNG colleagues, we have succeeded in supplying our customers with gas safely and in accordance with the contract, in stabilising the company – albeit with considerable signs of wear and tear – and thus laying the basis to lay a successful future. Now we can look ahead: our mission remains to supply our customers with gas safely and on good terms. In addition, we are well positioned to drive forward the transformation of VNG towards climate neutrality with even more consistency. That, too, will take courage and perseverance - but we've shown that we have both."

which meant trade contracts could no longer be secured. So a lot of traders went public, some without really understanding the rules that applied there. For example, some dealers and customers were surprised by high advance payments a year before the delivery date. Municipal utilities in particular, which buy their own gas, were quickly overwhelmed by the risks of incorrect coverage. We, too, had to repeatedly readjust our risk premiums.

Throughout the year, VNG supplied its customers with the agreed gas quantities at the agreed prices. Did VNG find it easier to procure the gas quantities than other players on the market?

In part, we have benefited from long-standing trading relationships with non-Russian partners, for example with the Norwegian Equinor Group. This relationship was built up in the 1990s, we are also very well networked there at the working level, and this wellestablished partnership has helped us. With other export countries, we needed political support to open doors and establish contacts. In many countries, gas production is often in the hands of state-owned companies.

Since the end of 2022, LNG has been imported directly to Germany for the first time via the Wilhelmshaven terminal, with other terminals to

follow. What role does VNG play in this business? Our role is to ensure that the agreed quantities are delivered. Whether we charter the LNG transport ship ourselves or whether someone else does is initially less relevant to us. We have secured a number of options, for example in terms of transport capacities. We cooperate closely here with our main shareholder, EnBW. LNG and pipeline gas are also different worlds commercially: in the case of LNG, for example, we deal with shipping traffic and shipping routes, with the booking tools at the terminals, with capacities for regasification. While the business processes for pipeline gas are largely standardised within Europe, the LNG business is more like dealing with gas storage facilities: each terminal has individual services and uses different technologies, and the financial and legal framework also differs.



What are the special challenges in building the hydrogen and other green gases market?

Unlike in the conventional gas market, we are not yet able to offer our customers any standard products. So we first set up joint projects, each with an individual project structure: for example at the Bad Lauchstädt Energy Park or when importing ammonia.

We listen very carefully to what our industrial customers need. For many, the purity of the hydrogen is of great importance. There are also customers who in the future want to substitute part of their current natural gas supply with hydrogen for test purposes in order to prepare for the future mixed gas quality of CH4 and H2. To achieve this, we must above all be open to partnerships. This ties up significantly more resources than our conventional activities. But no company is large enough to be able to set up and develop the hydrogen market on its own.



The analyst call, which takes place every two weeks, saw a significant increase in visits from February 2022



Will VNG be able to establish a position in the new world of hydrogen that is as strong as that in gas trading?

We are optimistic in this regard. We are also noticed by large global companies, energy companies as well as investment funds, and we are talking with them about financing H₂ projects. Our professional, but also personal approach and our focus on results are highly valued. In turn, we can leverage our group of companies and position VNG with respect to our future hydrogen customers as a transformation manager. I see VNG in a very good position with its wide-ranging expertise in many areas – be it electrolysis technology or drafting contracts. But we are staying on the ball, and will cultivate and further develop these qualities.

₽ vng-handel.de

MANDATORY COMPONENT **OF SECURITY OF SUPPLY**

Gas storage facilities are normally a matter of public concern. In the energy crisis of 2022, their filling levels attracted massive attention. VNG Gasspeicher (VGS) operates four storage facilities, which have recently been used primarily as an instrument to increase flexibility in gas trading. How did the company deal with the new public perception as a mainstay of security of supply?

"Supply security is not automatic and not a matter of course," says Bernd Protze, long-standing Managing Director of VNG Gasspeicher GmbH (VGS). "In 2022, the public became aware of this. We need companies and people who take responsibility for it and show commitment every day." His company, which operates four gas storage facilities in the federal states of Saxony-Anhalt and Lower Saxony, is one of the guarantors that people and companies have gas available in sufficient quantities.

At the end of the 2021/22 heating season, the gas storage facilities in Germany were less full than usual, despite a mild winter. However, some of the VGS



storage tanks had higher fill levels than in previous years. This was due to the good positioning of VGS on the market and also to the favourable geographical location of the storage facilities: on the one hand, near the Central German Chemical Triangle region with numerous companies with high gas requirements, on the other hand in north-west Germany along important gas transport pipelines: "Our storage facilities are of great importance for the supply, especially in Eastern Germany, so our capacities are in constant demand," says Bernd Protze.

GAS STORAGE LAW HAS CHANGED A LOT

The filling is not in the hands of the operator, but of the customers: "We are, so to speak, just the hotel that provides rooms and storage volume reliably and without disruption, and that organises and carries out the technical processing." Gas storage customers book storage volumes, for example to secure commercial transactions with their customers by temporarily storing contractually agreed gas quantities there.

Gas storage facilities are financially attractive for customers primarily because of the so-called summer-winter spread, which companies use as a basis for storage management. Roughly speaking, gas prices for winter withdrawals finance the price of gas injected over the summer and the costs of storage. The smaller the price spread between winter and summer, the lower the profit margin. In 2022, the spread experienced massive ups and downs due to the volatile prices on the wholesale markets, at times it even turned negative due to the immensely high global gas demand.

Cavern storage Bad Lauchstädt: Preparations for



100

80

60

40

20

Mar



Source: AGSI Mav Iul Sep Dec

"The Gas Storage Act, which came into force on 1 May 2022, has changed a lot," says Bernd Protze. With the new law, the state set concrete specifications as to how many percent the gas storage tanks must be filled at certain times of the year. "This has significantly intensified communication with our customers," reports the VGS Managing Director. "We had to renegotiate contracts in order to be able to achieve the targeted filling levels. A few storage customers were overwhelmed with the procurement of the required quantities at the market prices applicable at the time. These contracts had to be terminated."

In any case, the market structures changed in 2022. Trading Hub Europe (THE) increasingly acted as a player. It was commissioned by the state to procure enough gas to get Germany through the winter with security of supply. As a result, the storage capacity specifications were even exceeded at many locations. "This brought a lot of relief to the public: the winter was saved," says Bernd Protze.

However, this was only possible because the technical infrastructure was in very good condition. "Despite the difficult general conditions, we had a pleasingly trouble-free year and were able to meet all the specifications and the wishes of our customers at all times," says Bernd Protze. VGS continued to invest in maintenance and modernisation in 2022: at the Bad

In addition, this gas storage facility is a core element of the Bad Lauchstädt Energy Park (see page 31) and is being made fit for future tasks: "We are currently making preparations to store green hydrogen in the future. This enables us to make renewable energy storable on an industrial scale. Technically, we are absolutely able to do this. But at the moment it is still questionable what the commercial models for hydrogen and its storage can look like."

Lauchstädt gas storage facility, for example, the boiler house and the control system for the compressors, with which the gas is compressed before it is stored underground, were renewed.

PREPARED FOR FUTURE CHALLENGES

Bernd Protze does not believe that massive state intervention in gas procurement and the filling of gas storage facilities makes sense in the long term: "In terms of storage management, we are now back to where we were in 2005." In the meantime, the liberalisation of the storage market has resulted in attractive options from which VGS was able to benefit, also due to its cost leadership in the market. For the time being, these free-market structures have largely been abolished.

Nevertheless, Bernd Protze is relaxed about the coming winter of 2023/24, also with regard to the filling levels: "Our systems are in excellent condition, our employees are fully motivated - we are more than willing to continue to fulfil our tasks in terms of security of supply."

₽ vng-gasspeicher.de



BERND PROTZE Managing Director VNG Gasspeicher GmbH



RESILIENT IN ALL DIRECTIONS

2022 was challenging for gas network operations. ONTRAS Gastransport GmbH countered this with the necessary competence as an independent transmission system operator. Changes also took place in the transmission network: They concerned, among other things, the flow direction of the gas.



DR. RALF BORSCHINSKY Press spokesman ONTRAS Gastransport GmbH

the entire gas supply was in 2022 also affected the transmission grid of the transmission system operator ONTRAS: "2022 was a year of upheaval for the gas industry, combined with previously unimaginable challenges," says Dr. Ralf Borschinsky, ONTRAS spokesman. "Nevertheless, the gas infrastructure in the ONTRAS network area, like everywhere else in Germany, has fulfilled its task 100 percent."

The difficult conditions under which

Challenges in gas transport included the changed flow directions and the rapid, additional integration of the LNG volumes expected from 2023: The German highpressure pipeline system - an important part of which is the 7,700-kilometre ONTRAS network – was primarily designed for transport from east to west and north to south for decades. Up to now, gas from Russia has been transported to many neighbouring European countries via Germany, the central hub.

The media reported the first signs of change from October 2021: gas flows from Russia have been sharply reduced. In 2022, there were regular reports of reduced gas volumes from Russia. Deliveries via the Nord Stream also came to a standstill in September. In a joint effort by all those involved, the missing gas quantities were gradually replaced by new sources of supply.

WELL PREPARED THROUGH MONITORING, EUROPEAN **COOPERATION AND EXPERIENCE**

In order to optimise the gas flows from the new delivery points to the demand centres, many longdistance gas pipelines had to be switched differently. This was possible with many pipelines in the ONTRAS network and also at most border crossing points between neighbouring countries. In some cases, minor modifications had to be made or systems that were disused had to be put back into operation. "That was a technical challenge for which we were very well prepared thanks to our permanent monitoring, the defined processes in network control, the commitment of our colleagues in the network areas and also our extensive experience," says Borschinsky.

The intensified cooperation between the European transmission system operator has also made a significant contribution to securing the gas supply, at times with daily telephone conferences even on Sundays and public holidays. As a precaution, ONTRAS has prepared for a possible gas shortage and the resulting consequences for network operation by modelling various scenarios, among other things. The network customers were informed at an early stage

"The gas network has also proven its resilience in 2022," says Borschinsky. "In principle, the steel pipelines are also suitable for transporting hydrogen. In this way we make a contribution to decarbonisation: converting saves time and money. And the gas infrastructure remains a guarantee for a secure energy supply in the future energy system." You can find out which projects ONTRAS is actively helping to shape the climate-neutral future from page 28.



about possible scenarios and the resulting options for action: "Fortunately, there was no shortage. But we could have dealt with it together."

The gas for transport customers in Eastern Germany municipal utilities, regional network operators, industrial companies and power plants – increasingly came from the west or north-west, including via imports from Norway and via lines from our European neighbours, for example from the European LNG terminals in France, Belgium and the Netherlands.

RESILIENT, HYDROGEN-READY, GAS NETWORK

P ontras.com

EVOLUTION GAS: FUTURE PROJECTS OF VNG

At many different locations and in a variety of projects, VNG is working on the future with green gases. In addition to the now 40 biogas facilities, the focus is on the import, generation, trade, transport and storage of hydrogen. Many of the projects are linked to each other, almost all of them are planned and implemented with cooperation partners.

H₂ IMPORT

Chile project Import of green ammonia

H2 H2GE Production of blue low-carbon hydrogen

H₂ GENERATION

H₂ Greenroot

Production of green hydrogen by electrolysis on an industrial scale

2) Bad Lauchstädt Energy Park

Real-life laboratory for the energy transition, which maps the entire hydrogen value chain of green H₂

P⁷ energiepark-bad-lauchstaedt.de

BIOGAS PROJECTS

😡 BioVia

Liquefaction plant for the production of bio-LNG **P** balance-envitec-bio-Ing.de

BioHydroGen Production of green hydrogen from raw biogas

Biogas facilities of BALANCE Erneuerbare Energien GmbH

RESEARCH PROJECTS



Feasibility study for the storage and further use of CO₂

Etzel

Jemgum

H2 separation/membrane project Prenzlau Efficient separation of hydrogen from a hydrogen-natural gas mixture

H₂ TRANSPORT

A doing hydrogen

The hydrogen hub for Eastern Germany with 616 km of pipelines P³ doinghydrogen.com

B Green Octopus Central Germany

Around 305 km of hydrogen lines between the Salzgitter steel region via industries in the federal state of Saxony-Anhalt to the Central German Chemical Triangle

H2 STORAGE

GO! Green Octopus gas reservoir

Sub-project of Green Octopus Central Germany for the large-scale storage of hydrogen in the Bad Lauchstädt gas storage facility

Storage locations of VNG Gasspeicher GmbH



Chile Project

Schwer



TRANSFORMATION

CLOSE UP

Salzgitte

BODO RODESTOCK Member of the Executive Board, Finance/ Human Resources

Magdeburg Bernburg Bad Lauchstädt Energy park GO! Gas reservoir

CREATING SUSTAINABLE VALUES FOR THE REGION

"Ensuring security of supply with gas is one of our main tasks, helping to shape the energy transition and an energy system for a CO₂-neutral future is another. We are currently involved in hydrogen in more than ten different, mostly cross-company projects and in all stages of the value chain: in import and generation, in trading and sales, storage, transport and use. In 2022, interest in hydrogen has gained enormous additional momentum. We have the means to invest in and develop our ambitious H₂ plans. The focus of our projects is clearly in Eastern Germany: VNG is based in Eastern Germany and we want to help ensure that the region remains an important business location and can play a pioneering role in the decarbonisation of industry. Fortunately, we enjoy a great deal of trust in this regard. We can and want to build on that. What we are developing together with our partners in Eastern Germany over the next few years can serve as a template for many other projects."

26



TRANSPORT BOOST FOR HYDROGEN

With the H₂ start network, ONTRAS, as an indepen transmission system operator, is developing the basic framework for the rapid ramp-up of the hydroge in Central and Eastern Germany, integrated into the European Hydrogen Backbone.

Before the first green H₂ gas can be transported, the natural gas pipelines to be converted must be checked for their hydrogen suitability, adjusted if necessary and converted to hydrogen. Line sections to be newly constructed must be planned, approved and built. The necessary human and technical resources must be available well in advance. ONTRAS has ensured this in recent years, among other things, through forward-looking personnel policy and investments.



With the H₂ start-up network for Eastern Germany, the basic element for a hydrogen economy will be created in the next few years, which will open up promising prospects for companies and consumers in Eastern Germany in particular. This initial network will include around 950 kilometres of pipelines. The core elements are the two projects Green Octopus Central Germany and doing hydrogen, classified as Important Projects of Common European Interest (IPCEI), linked by the pipeline between the Bad Lauchstädt storage facility and Leuna, which is already being converted to hydrogen.



GREEN OCTOPUS CENTRAL GERMANY



EARLY START OF ACTION

An important IPCEI milestone: in November 2022, ONTRAS received approval for the early start of the projects from the Federal Ministry of Economics and Climate Protection. This has given the projects an additional boost and is the starting signal for organic growth in the hydrogen economy, also in the area of infrastructure.

POWERFUL NORTH-SOUTH TRANSPORT ROUTE

The H₂ start network for Eastern Germany is integrated into the H₂ project FLOW - making hydrogen happen - via several connection points. Hydrogen

doing hydrogen connects numerous producers, downstream networks and consumers in Eastern Germany: from the planned H₂ hub in Rostock, the transmission network, which comprises a total of 616 kilometres, runs via the greater Berlin area Leipzig/Halle economic area. *doing hydrogen* can also be further expanded in the direction of Poland and the federal state of Thuringia.

Just like Green Octopus, *doing hydrogen* was also presented in 2019 by the then Federal Minister of Economics Peter Altmeier as the winner of the ideas competition "Real-life Laboratories for the Energy Transition". ONTRAS was thus able to apply for funding Interest (IPCEI) for both, an essential contribution to stable financing. The final funding decision is still pending. Various partner companies who want to produce hydrogen or use it for their processes are already involved in the project.

is to be transported from the Baltic Sea region to Southern Germany via this pipeline system. ONTRAS works with the two transmission system operators GASCADE Gastransport GmbH and terranets bw GmbH. The pipelines run from Lubmin in Mecklenburg-Vorpommern to Stuttgart in Baden-Württemberg.

Together with five European infrastructure operators, ONTRAS is also involved in the Nordic Baltic Hydrogen Corridor. The aim is to build a hydrogen infrastructure from Finland via Estonia, Latvia, Lithuania and Poland to Germany in order to achieve the REPowerEU targets for 2030.

P doinghydrogen.com

MAKE CLIMATE NEUTRALITY POSSIBLE

VNG is actively preparing the ramp-up of the hydrogen economy. Many different things have to intermesh: courageous ideas, willingness to cooperate and willingness to take risks in project development. The future business models for the transformation from natural gas to green gases are often not yet clear. Nevertheless, the group invests in planning and preparation: in the import and generation, in the transport and storage of this future energy source. One thing is certain: the decarbonisation of the economy in particular is increasingly coming into focus. We present three major VNG future projects here.

Hydrogen is one of the great hopes for a climateneutral energy future. But as promising as the potential is, the uncertainties in terms of political framework conditions, regulation or valid business models are still great. VNG is doing pioneering work here with numerous partners. Our hydrogen projects are in various stages of planning and implementation.

However, technical issues still need to be resolved: which method of hydrogen transport makes the most technical sense and offers the best economic prospects? It may make more sense to chemically process hydrogen into ammonia - the technology is tried and tested and available - and then transport it by ship, for example. Ammonia can then either be used directly or split back into hydrogen and nitrogen in what's called a cracker.



NEW STRUCTURES FOR THE GROWING MARKET

Digital infrastructures are a growth market – VNG's activities in this segment are growing with it. A total of eight VNG subsidiaries and holdings are involved in the planning, construction and operation of fibre optic networks (FTTX), the provision of network services and their sale and marketing, primarily in Eastern Germany. Other companies act as service providers for internet, telephony and TV services. In 2022, VNG established a new business area for the wide range of offers and services for network and end customers: digital infrastructure. With this, VNG is further diversifying its activities in business segments outside of the classic natural gas business.



The cavern storage facility is one of the core elements of the Energy Park.

PROJECT 1

BAD LAUCHSTÄDT ENERGY PARK REAL-LIFE LABORATORY

Consortium partner: VNG AG, ONTRAS, Terrawatt, Uniper, VNG Gasspeicher, DBI – Gastechnologisches Institut

The project: In Saxony-Anhalt, an Energy Park is being built in which the entire value chain with green hydrogen is mapped under real conditions: from the wind farm with connected electrolysis for the production, transport and storage of hydrogen to industrial use. The electrolyser will have a capacity of up to 30 MW. The "real-life laboratory for the energy transition" is funded by the Federal Ministry for Economic Affairs and Climate Protection.

Planning status: The wind farm with eight wind turbines was approved in 2022. The planning and preparations are further advanced, for example with





the conversion of the surface facility of the cavern storage facility, which is to be used for hydrogen in the future. Delays in the development of a business model resulted from the late adoption of the regulatory provisions at EU level (Delegated Act – RED II) and its pending adoption into national law. The final investment decision is expected to be made in the second guarter of 2023.

Project benefits: With the real-life laboratory, all the essential elements of value creation with green hydrogen are being further developed and made ready for the market. The Energy Park is a flagship project of the energy transition and does valuable groundwork for structural change in Eastern Germany.

Challenges: Lengthy and complex approval processes have partially delayed the project. A lack of political guidelines makes it difficult to design sustainable business models.

P¹ energiepark-bad-lauchstaedt.de

PROJECT 2 CHILE PROJECT

Cooperation partner: VNG AG, VNG H&V, Total Eren

The project: Total Eren has several green hydrogen production projects around the world, including in Africa, Australia and South America. In the Magallanes region (Chile), 800,000 tons of hydrogen are to be produced annually from wind power. From 2028, VNG wants to import part of this in the form of green ammonia by ship to Germany. A planned H₂ and CO₂ hub in the Rostock area is being considered for this purpose (see PROJECT 3). In November 2022, VNG and Total Eren signed a cooperation agreement.

Planning status: The properties in the very windy south of Chile were secured by Total Eren in 2021. In 2025, the generation of green electricity is to begin

in a wind farm with a later capacity of 10 GW – this corresponds to the wind power capacity that is to be added every year throughout Germany from 2023. The production of green hydrogen is planned from 2027. The hydrogen is to be enriched with nitrogen, resulting in up to 4.4 million tons of ammonia per year.

Project benefits: Ammonia can be transported more easily and used directly, for example in the industrial production of fertilisers or plastics. The hydrogen contained is recovered by "cracking" and can be used, among other things, in industry, in transport or to generate electricity and heat.

Challenges: Lengthy approval procedures can delay the planning and completion of the planned H₂ hub in Rostock and thus call the import of green hydrogen in the form of ammonia into question. In addition, the cost-effectiveness of ammonia transport and its further processing requires constant monitoring.





PROJECT 3 H2GE ROSTOCK

storage in depleted oil and gas deposits. Questions of technical feasibility (area search, grid connections) and possible business models are currently being developed and evaluated.

The project: Import and production of low-CO₂ blue hydrogen in the Rostock region as well as capture, use and offshore storage of CO₂.

The cooperation partners: VNG AG, VNG H&V, Equinor Deutschland

Planning status: The cooperation agreement signed in July 2022 includes the planning, construction and operation of hydrogen production with up to 9 TWh/ year, which corresponds to 3 billion Nm³. Almost two million tons of CO₂ are to be separated and liquefied every year from natural gas imported from Norway. From Rostock, the liquefied CO₂ is transported back to Norway for permanent and safe underground

Challenges: There is still a lack of political and regulatory stipulations within the EU and Germany on how to deal with Carbon Capture and Storage (CCS) and Carbon Capture and Utilisation (CCU). In the case of large infrastructure projects, lengthy examination and approval processes can cause delays and possibly worsen the investment framework.

Project benefits: CO₂ sequestration reduces the carbon footprint of hydrogen by more than 95 percent. In addition, the project continues the 45-year German-Norwegian energy partnership and makes Rostock a central hub of the future hydrogen economy.

GREEN ENERGY ON COURSE FOR GROWTH

Biogas is not only climate-friendly and can be generated and used in a decentralised fashion: it also reduces dependence on gas imports. The VNG subsidiary BALANCE Erneuerbare Energien GmbH is expanding its portfolio of plants and is involved in bio-LNG production and the generation of hydrogen from biogas.

ORGANIC INVESTMENT GROWTH

At the end of 2022, the VNG subsidiary BALANCE Erneuerbare Energien GmbH acquired the two most recent additions to the list of its biogas facilities: plant number 39 is in Schöpstal in Lausitz, number 40 in Oberlommatzsch, northwest of Dresden. These two biogas facilities supplement the portfolio that BALANCE has built up since 2006. All the plants in Eastern Germany and in Lower Saxony (see pages 28/29) together theoretically produce enough green electricity to supply 51,000 households and green biomethane to supply 53,000 households.

Electricity is produced on site using the climate-friendly biogas, and the systems are connected to local district heating networks. Eleven plants also have a processing plant and feed biomethane with natural gas quality into the gas network. The ambitious growth is to be maintained in the coming years.



VOLKER KLINKERT Managing Director Operational Operations BALANCE Erneuerbare Energien GmbH

PROJECT 1

CO2-NEUTRAL HEAVY GOODS TRAFFIC

LNG, i.e. liquefied natural gas, has developed into a potential fuel alternative for heavy goods traffic in recent years. LNG sales in Germany increased from 14,500 to 139,000 tons between 2019 and 2022.

In Ahrensfelde, northeast of Berlin, BALANCE EnviTec Bio-LNG GmbH & Co. KG, a joint venture of BALANCE Erneuerbare Energien GmbH and EnviTec Biogas AG, is planning to implement one of the first bio-LNG liquefaction plants in Germany from 2023. There, climate-friendly biomethane is liquefied. The biomethane is fed into the network throughout

ы

Production of biomethane Gas Gas Ahrensfelde: Liquefaction and intermediate storage of bio-LNG

The biogas facility in Schöpstal acquired by BALANCE in 2022



BALANCE IN FIGURES







Germany and taken from the network at the Ahrensfelde site, liquefied and fuelled in the trailers.

From the end of 2024, bio-LNG can be produced here, which will be used as fuel for LNG trucks. This will help the transport sector to come closer to achieving its CO₂ reduction targets. Bio-LNG vehicles are almost CO₂-neutral. They also generate significantly less noise and virtually no nitrogen oxides or particulate matter.

₱ balance-envitec-bio-lng.de



PROJECT 2

BIOHYDROGEN: HYDROGEN PRODUCTION FROM RAW BIOGAS

At the site of the Gordemitz biogas facility, hydrogen is to be produced from biogas using the steam reforming process as part of a research project by VNG and TU Bergakademie Freiberg. The system was developed as a prototype by the associated partners DBI Gas- und Umwelttechnik, TU Bergakademie Freiberg and Multi Industrieanlagen GmbH. In the project, it will be converted from natural gas to raw biogas use. In the first step, the raw biogas, which consists roughly half of methane and half of carbon

dioxide, is compressed. It is then desulphurised and catalytically converted into syngas together with steam in a reformer housed in a container. After further processing, the almost pure hydrogen is separated, and the residual gas heats the reformer. The plant concept is to be extended to other biogas facilities in the long term. This also creates another option for using biogas plants to produce green gases. Local production of hydrogen can help fuel vehicles and fleets powered by hydrogen.



Plant for steam reforming of natural gas from the HydroGIn preliminary project for conversion to biogas operation in the BioHydroGen project. (Source: Multi and DBI)





PROIECT 3

DISTRICT HEAT FROM THE BIOGAS FACILITY

In Kodersdorf near Görlitz in Saxony, the plant of the VNG subsidiary BALANCE has been feeding 700 cubic metres of biomethane per hour into the gas network since 2014. At the beginning of 2021, a combined heat and power plant was built on the site, which covers the peaks in electricity demand in the mornings and evenings.

A new gas pipeline and the delivery of raw biogas from the plant to acosa are also planned. The gas can be used to fire two thermal oil boilers in which the floor panels and cladding are made. The biogas facility in Kodersdorf also shows the wide range of marketing options for the renewable energy source.

Since February 2022, part of the heat generated by the CHP has been directed to the neighbouring properties as district heating: the company acosa - Aircraft

PIONEERS OF GREEN GASES



HANS-JOACHIM POLK Member of the Executive Board, Infrastructure/ Technical Affairs

"In the near future, fossil natural gas will be continuously replaced by biogas and hydrogen, in short: green gases. Biogas from renewable raw materials is not only a contribution to climate neutrality, but also to security of supply: biogas is produced regionally and in many places is integrated into a lively and sustainable regional circular economy, from which all partners involved benefit. We believe in this sustainable energy source and its potential for the climateneutral generation of heat and electricity and are continuing to pursue an ambitious growth course with BALANCE Erneuerbare Energien GmbH. Hydrogen is the other elementary component of our green gas strategy, we are not just involved in many projects, but also in complex projects and partnerships along the entire value chain - from import and production to transport and storage to customer use. This variety of projects shows our high standards and our unconditional will to successfully position VNG as a pioneer for green gases."

BALANCE is developing new marketing options for the biogas produced in the 40 plants.

Composites Sachsen has its headquarters there and produces among other things floor panels and panelling for the cargo holds of AIRBUS aircraft. The use of local heat saves 180 tons of CO₂ every year.

GROUP MANAGEMENT **REPORT**

for the financial year 2022

A. VNG at a glance 40

- 1. 2022: Turning point for gas

- 4. Research and development 43

B. Report on economic position 45

- 1. Conditions on the market 45
- 2. Energy policy 46

C. Human resources and organisation 49

- 1. Changes in headcount 49

- 1. Transport <mark>51</mark>
- 2. Storage <mark>52</mark>
- 3. Trading & Sales 53
- 4. Biogas <mark>55</mark>
- 5. Digital Infrastructure 56

E. Financial position, performance and cash flows 57

- 1. Overall assessment 57
- 2. Financial performance 57
- 3. Cash flows 59
- 4. Financial position 60

F. Opportunities and risk report 61

- 1. Risk management system 61
- 3. Operating opportunities and risks 62
- 5. Compliance management system 65
- 6. Financial risk management 65

G.Outlook 66

VNG on track despite extreme challenges 40 2. Business model and strategic direction of VNG 40 3. Financial performance indicators and targets 42

2. Non-financial performance indicators 49

D. Performance of VNG's business areas 51

2. Looking back at the financial year 2022 61 4. Overall assessment of the risk situation 64

<mark>GROU</mark>P MANAGEMENT REPORT

of VNG AG, Leipzig, for the financial year 2022

A. VNG AT A GLANCE

1. 2022: TURNING POINT FOR GAS – VNG ON TRACK DESPITE EXTREME CHALLENGES

The past year has posed challenges for VNG that have never been seen in the Company's 65-year history. The catalyst was the Russian Federation's attack on Ukraine on 24 February 2022, which caused the Federal Republic of Germany and the European Union to impose sanctions on the Russian state, Russian organisations and individuals. In response, Russia imposed sanctions on Western organisations and individuals, which also have a major indirect impact on VNG in its supply relationships. VNG condemns the Russian war of aggression against Ukraine and has published this in a joint statement by the Executive Board and the General Works Council entitled "Stop the war!", among other things.

A year ago, immediately after the outbreak of the war, European and German energy supply security was already expected to come under scrutiny with the responsible political actors in light of the geopolitical implications of Russia's war of aggression against Ukraine. At the time, it was very difficult for VNG to estimate the extent and intensity of how the developments would unfold. The rapid price increases and an extremely volatile price development caused by gradual supply cuts at upstream suppliers right up to the complete halt of Russian gas supplies caused growing risks and specifically costs to procure the increasingly necessary replacement supply in order to continue supplying VNG's roughly 400 municipal utility companies, distributors, industrial customers as contractually agreed. Nevertheless, VNG managed to stand on a solid economic foundation again at the end of this turbulent year thanks to support from shareholders, the dedicated work of its employees and federal government aid. Looking back, it can be said that VNG remained fully committed to its mandate of ensuring the security of supply. Looking forward, VNG now sees itself in a stronger position again to play a significant role in shaping the energy transition and moving from natural gas to green gases.

2. BUSINESS MODEL AND STRATEGIC DIRECTION OF VNG

VNG is a group of companies active in the European energy industry with a broad, future-oriented portfolio of products and services in gas and infrastructure, and many years of experience in the energy market. The "VNG 2030+" strategy describes the Group's goals up to the year 2030 and beyond. The large number of operational challenges caused by the absence of Russian gas supplies in the reporting year 2022 confirm the vision of this strategic alignment and require both an accelerated and systematic implementation at the same time. Alongside overcoming new challenges currently faced while securing the gas supply in Germany, the aim is to increasingly focus on a decarbonised, gas-based and digital future on the basis of the Group's own strengths and capabilities relating to gas as a fuel.

This means that the goal is to diversify and consistently advance the existing business in the established business areas of Transport, Storage and Trading & Sales due to the absence of Russian gas supplies. As part of the ongoing transformation of the energy markets, VNG's strategic direction also focuses on the development of the decarbonised business. As an environmentally friendly fuel with good prospects for the future, hydrogen in its various forms is integral to the Group's "VNG 2030+" strategy. As part of this, VNG is seeking to focus on the Transport, Storage, Trading & Sales business areas throughout the entire hydrogen value added chain. In order to gain rapid entry into the hydrogen market, VNG is pushing to ensure the implementation of preparatory measures within the relevant business areas and the execution of initial pilot projects as part of its "H2-readiness by 2025" agenda. In addition to the digital infrastructure, the Group is also planning further, substantial growth in the Biogas business area.

VNG is currently focusing on the following business areas and segments:

Transport: ONTRAS Gastransport GmbH (ONTRAS) operates a transmission network in Eastern Germany with a total length of around 7,700 kilometres, and is responsible for reliably and efficiently transporting energy in the form of gas - today and in the future. This means that the infrastructure forms an integral part of both Germany's and Europe's gas transmission network. In addition to the transportation business, ONTRAS and its subsidiaries also operate telecommunications and refuelling infrastructure for alternative, gas-based fuels, and provide a wide range of network-related and gas-related services in the non-regulated sector. ONTRAS transports climateneutral gases via the 23 biogas feed-in facilities situated within its network territory, as well as the feeding in of hydrogen and synthetic methane via two power-to-gas facilities. By starting work on a hydrogen network for Eastern Germany, ONTRAS aims to make its contribution to the European Hydrogen Backbone by 2030.

Storage: As Germany's third-largest gas storage operator, VNG Gasspeicher GmbH (VGS) operates

storage facilities in Central and Northern Germany, and markets around 2.2 billion m³ of process gas throughout Europe. VGS also functions as a technical plant manager for third-party storage facilities, and provides engineering services in the fields of plant engineering and measurement technology. Furthermore, VGS holds an investment in Erdgasspeicher Peissen GmbH (EPG), which operates and is expanding the "Katharina" underground storage facility in Bernburg, Saxony-Anhalt. VGS is also working with ONTRAS, VNG H&V, VNG AG and other partners on the Bad Lauchstädt Energy Park regulatory sandbox – a project to test green hydrogen along the entire value chain of generation, transportation, storage, marketing and usage.

Trading & Sales: Both in its domestic German market and in Poland, Italy, Austria and the Czech Republic, VNG Handel & Vertrieb GmbH (VNG H&V) and its foreign investments supply natural gas to distributors and trading companies in addition to public utility companies, industrial customers and power plants. VNG H&V also offers its customers services such as balancing group and portfolio management. For the gas supply of the future, VNG H&V is developing a portfolio of renewable, decarbonised gases, while also supporting customers with their own decarbonisation efforts. In the past financial year, additional cooperations to develop hydrogen and ammonia projects were agreed. VNG H&V uses large-volume storage and transportation capacities to supply its customers and thus makes a significant contribution to the security of supply, which has been ensured at all times even given the extraordinary pricing and import situation on Europe's gas trading markets.

Biogas: VNG bundles its activities relating to biogas as a fuel via BALANCE Erneuerbare Energien GmbH (BALANCE) and its subsidiaries. For VNG, biogas is an important element of the decentralised energy system of the future, and provides a way to increase the share of green gases in the gas network in the long term. The current geopolitical developments have also caused the focus to shift toward the fact that it is a regionally produced, more secure and carbon-neutral fuel. Therefore, the Biogas business area is one of the central growth areas as part of the "VNG 2030+" strategy. In the financial year 2022, the production portfolio was expanded and optimised by the addition of a facility in Saxony and the construction of photovoltaic systems at existing biogas locations. In 2021, in order to exploit the significant potential offered by biomethane in the mobility sector, BALANCE entered into a strategic partnership with EnviTec Biogas AG, one of the biggest developers and operators of biogas facilities, with the aim of combining activities relating to the liquefaction of biomethane to produce bio-LNG. The final investment decision (FID) on the project was made in mid-January 2023.

Digital Infrastructure: The Digital Infrastructure centre of growth is one of the cornerstones of the "VNG 2030+" strategy. The focus is on activities in the fibre optic backbone, the fibre optic distribution network (FTTX¹) and services in connection with digital infrastructure. Group activities in this growth area are carried out via various group companies and investments. These activities were previously allocated to different business areas, but will be bundled together in one business area in future. This is why VNG created the new business area "Digital Infrastructure" in the financial year 2022.

Green gases: The green gases area is devoted to supporting the market ramp-up, coordinating the Group's activities, and developing and implementing operating projects with regard to renewable and decarbonised gases. The current projects are aligned to the value-added areas of generating, transporting, storing and marketing. The focus in this respect is on hydrogen and its derivative products, as well as biogas, biomethane and CO₂ as a resource. In 2022, the green gases project portfolio was expanded further in accordance with the roadmap and a vision for green gases and the collaboration with cooperation partners and project developments was driven forward. The

vision for green gases was adjusted in response to current developments in 2022. One particular example here is the ambitious electrolysis target of 10 GW in Germany under the federal government's current coalition agreement. The regional analysis, which primarily describes the future hydrogen send-out in Northeastern Germany for individual sectors, was also continued.

Innovation: VNG Innovation GmbH (VNG Innovation) is currently investing in three early-stage start-ups that focus on the energy sector with their own compelling ideas and improvements. VNG Innovation is supporting these start-ups with financial resources, as well as with the necessary infrastructure and its internal know-how. In this way, it offers a platform for innovative ideas and value creation at VNG. A partnership has been entered into in this context with SpinLab – The HHL Accelerator in Leipzig. VNG Innovation is one of two anchor investors in SpinLab's "Smart Infrastructure Ventures" venture capital fund, which focuses on supporting start-ups during their seed phase.

3. FINANCIAL PERFORMANCE INDICATORS AND TARGETS

VNG's strategic direction is based on economic performance indicators, and matches its financial strategy. This strategy is aimed at profitable business activity, creates transparent financial guidelines, and assesses the viability of the strategic direction. Refinanced in 2022, the syndicated loan agreement with a total volume of € 1,300 million, supplemented by promissory note and shareholder loans, provides the main basis for the diversified financial portfolio. As an additional hedging measure in the event of any extreme market developments that cannot be ruled out, VNG concluded a credit facility with the state-owned KfW Bank in 2022 with a term until 30 April 2023. This was not utilised and has since been repaid prematurely. VNG took various measures at an early stage to ensure its financial security in the reporting year.

VNG's financial strategy is based on the following core goals: generating positive cash flows, a suitable, risk-adjusted return, and avoiding risks to the Group's ability to continue as a going concern. The Group is mainly managed on the basis of adjusted EBIT. Nonrecurring effects on earnings that cannot be planned for are not taken into consideration. Other financial targets relate to the cash flow indicator "funds from operations" (FFO), as well as the levels of net financial liabilities, the gearing and gross/net investment. The focus is placed on performance indicators and information relating to the whole Group when it comes to steering the operation, monitoring forecast quality and reporting to executive management, the Supervisory Board and shareholders. These figures are arrived at in accordance with International Financial Reporting Standards (IFRS).

4. RESEARCH AND DEVELOPMENT

VNG is conducting research and development projects throughout the entire value added chain for decarbonised gases. The projects in the R&D portfolio were driven further forward in the reporting year.

Bad Lauchstädt Energy Park implements the entire value added chain for green hydrogen, from generation and storage to transportation and marketing, on an industrial scale. As part of the "regulatory sandbox for the energy transition," the project receives funding from the Federal Ministry for Economic Affairs and Climate Action (BMWK). ONTRAS, VGS and VNG H&V as associate partner are also involved alongside VNG AG and other industrial and research partners. Technical engineering plans, site preparations and approval processes were driven forward in the reporting year. The regulatory framework was also analysed and work was focused on developing a business model. As a pilot project, the Bad Lauchstädt Energy Park has received a great deal of attention from the government and the media.

VNG ANNUAL REPORT 2022

In the **BioHydroGen** project, VNG is working with other project partners to produce hydrogen for local use in the transportation sector in particular on the basis of raw biogas. The project is being supported as part of the BMWK's "Hydrogen Technology Initiative" programme. The plan is to build the test facility at the biogas plant in Gordemitz. In the reporting period, the planning work was advanced further and the approval stage was completed. Burner manufacturer ELCO GmbH joined the project as another key cooperation partner.

VNG is involved in the Federal Ministry of Education and Research's TransHyDE hydrogen transportation project as a syndicate partner. The project is being supported as part of the "Hydrogen Republic Germany" programme. The aim is to conduct research into and demonstrate possible ways of transporting hydrogen. VNG is a project partner in the system analysis sub-project. Work to evaluate the transportation options for importing hydrogen continued in the reporting period. Specific research questions have initially been defined, with a focus on hydrogen in steel manufacturing, the transition from decentralised to centralised hydrogen supply and the role of ammonia, to name a few examples. The scenarios to be considered were defined in the project group. The topics of model coupling and system prospects were also processed.

VNG is also involved in a project aimed at building up a CO₂ transportation infrastructure. Together with industrial and research partners, the **CapTransCO₂** project is dedicated to investigating the feasibility of a climate-neutral industrial sector in Central Germany by building up a networked CO₂ transportation infrastructure for carbon capture and utilisation (CCU) and/or carbon capture and storage (CCS). The project will be funded under the federal government's 7th Energy Research Programme. Within the project, VNG is looking into the technical and legal feasibility of a CO₂ transportation infrastructure, including interim storage. In the reporting period, various preliminary

¹ Fibre to the x, various expansion stages of fibre optic networks.

routings for a future CO₂ transmission system were planned and plastics-based pipeline materials were selected for examination, among other things. Furthermore, a legal opinion was commissioned to analyse the German legal framework. Discussions were also held with CO₂ emitters from the steel and cement industry along the potential transportation routes.

In addition to the ongoing projects described, VNG has also (jointly) commissioned and worked on a number of studies in order to gain knowledge in selected fields. The focus here was on analysing regional potential for production and demand and technological analyses. The "Central German Hydrogen Network" study, which INFRACON Infrastruktur Service GmbH & Co. KG, a subsidiary of ONTRAS, was involved in, was completed in the reporting period. The study proposes line routes for a hydrogen network in Central Germany based on its investigation of sources and sinks. The links between the supply of renewable electricity, future hydrogen imports and the respective demand for hydrogen storage systems were presented in a study on hydrogen storage systems. A market study on the commercialisation of biogenic CO₂, including facility design, was also completed. The study looked at potential sales markets and business models and created a facility design. In addition, a feasibility study was commissioned as part of the LHytHouse project to scale up the electrolyser at the Bad Lauchstädt Energy Park by 170 MW to a total of 200 MW.

Lastly, VNG is a member on the advisory board of the Funding Initiative Heat Transition and the Funding Initiative Hydrogen of the Institute of Energy Economics at the University of Cologne (EWI). The initiatives aim to highlight new research topics and to network with players in the field. VNG was also an active member of the HYPOS (Hydrogen Power Storage & Solution East Germany e.V.) **network**, which promotes the establishment of a green hydrogen economy in Central Germany.

B. REPORT ON ECONOMIC POSITION

1. CONDITIONS ON THE MARKET

Macroeconomic developments: Global economic growth in 2022 was heavily influenced by the Russian war of aggression against Ukraine and the resulting implications. Energy prices around the world rose sharply as a result of the geopolitical tensions caused by the war. In many countries, this effect resulted in a significant increase in inflation and was exacerbated even further by supply bottlenecks on account of the ongoing coronavirus pandemic and rising food prices following droughts in Europe and Central and South Asia. Many central banks responded accordingly by raising key interest rates. These factors curbed global economic growth.

In Germany, the recovery in consumer spending caused an upswing at the beginning of 2022, which was dampened by the Russian war of aggression. The fact that there was no gas shortage in the calendar year 2022 meant that a severe economic collapse was avoided. According to calculations by the Federal Statistical Office, gross domestic product increased by a total of 1.8 percent year on year in 2022. However, leading economic institutes estimate that economic output will decline slightly overall in 2023. While household consumption will continue to be hampered by high inflation and economic activity by reduced industrial production in the first half of 2023, leading economic institutes expect the economy to recover in the second half of 2023.

Germany's inflation rate rose by an average of 7.9 percent in 2022. This was due to the higher energy prices worldwide on account of uncertainties caused by the Russia-Ukraine war and the more expensive food prices. Effects relating to the crisis, such as

Position of natural gas in the energy market: Natural gas consumption in Germany decreased by 15 percent in comparison to 2021. This was primarily attributable to the aforementioned price increases, which resulted in consumers conserving energy and, if possible, changing energy sources. This trend was also boosted by public appeals by the federal government and the energy industry for everyone to conserve energy

supply shortages and in some cases significant price increases on upstream links in the value chain, were also observed in 2022, and caused inflation rates to climb even higher. In October 2022, inflation reached its peak at 10.4 percent, the highest it has been since 1951. December emergency aid caused the rising inflation rate to abate at the end of the fourth quarter of 2022. Among other things, the introduction of government electricity and gas price brakes is expected to prompt another decrease in 2023. Nevertheless, Deutsche Bundesbank anticipates that inflation rates will remain at a high level due to the fact that the electricity and gas price brakes expire in April 2024 and pressure from higher wages.

Trend for energy consumption: In 2022, primary energy consumption in Germany fell 4.7 percent year on year and is thus at the lowest it has been since the German reunification according to the Working Group on Energy Balances (Arbeitsgemeinschaft Energiebilanzen e.V.). The main reason for the decrease in consumption is the abrupt increase in energy prices, which resulted in short-term behavioural savings by consumers and medium and long-term investments in energy efficiency. Pricerelated production stops in individual economic areas and the overall mild weather also had a dampening effect on consumption. By contrast, the share of hard coal and lignite in the energy mix rose by around 5.0 percent, respectively, year on year to a total of 19.8 percent. Renewable energies also made a greater contribution to primary energy consumption in Germany, increasing by 4.4 percent in comparison to the previous year to a share of 17.2 percent in 2022.

and gas, for example with the "80 million together for the energy switch" campaign. This development was also driven by the milder weather compared to the previous year, which was coincidentally below the long-term average.

Price trends: VNG's business activities are influenced by a variety of market-related factors such as changes in the prices for raw materials, exchange rates and interest rates. These can influence both the performance of business and the valuation of key assets. At the beginning of 2022, the fill levels of Europe's gas storage facilities were at the lowest level since 2010 and have been gradually refilled since March. The statutory requirements introduced in Germany to attain minimum fill levels for gas storage facilities in order to secure the gas supply were achieved in full. This means that fill levels have been constantly rising since April 2022. The gradual reduction of Russian gas supply volumes to Europe over the course of the year and the complete halt of the direct supply to German gas importers from Russia caused gas prices to soar, reaching their historical high of just over € 300/MWh in August 2022. The high level of LNG imports, mild weather, lower demand for gas and extremely high storage fill levels in a year-on-year comparison lowered gas prices to \in 75/MWh at the end of the year. (Day-ahead) gas prices on the Dutch trading point TTF² averaged € 123.0/MWh in 2022, which was much higher than the figure of € 46.9/MWh recorded in the previous year.

The average Brent price for 2022 of USD 99.0/barrel was significantly higher the average of USD 70.9/barrel for 2021. The extreme price developments (€/MWh) in 2022 are shown in the following chart.

The seasonal summer-winter spread (SWS), which is important for the management and evaluation of storage capacities, exhibited an extremely mixed trend over the course of the year. While the spread was already averaging \in -3.7/MWh at the end of March in the past storage year of 2021/2022, it fell further in the subsequent storage year and averaged € -7.1/MWh. It saw a recovery at the end of the financial year, increasing to € 3.0/MWh. Interest rates rose substantially on account of the tightening of monetary policy. Overall, the euro lost significant value in relation to the US dollar in 2022. It reached a temporary low of USD 0.95, but then ended the year at USD 1.06. The average exchange rate for 2022 was USD 1.05/€ (previous year: USD 1.18/€).

2. ENERGY POLICY

The federal government made up of the SPD, Bündnis 90/Die Grünen (Alliance 90/The Greens) and the FDP that took office in 2021 started the year with ambitious objectives and plans for energy policy. The project from the coalition agreement was described in detail in the "opening balance sheet on climate protection" presented by the BMWK on 10 January 2022 and

Gas prices (for day-ahead) on the Dutch trading point TTF² in €/MWh



² Title Transfer Facility, a Dutch virtual gas trading point.

national level, the possibility to expropriate energy

companies was introduced in the German Energy Security of Supply Act [Gesetz zur Sicherung der Energieversorgung, EnSiG], among other things, in order to ensure the security of supply and this was implemented in the case of Securing Energy for Europe GmbH (SEFE) (previously: Gazprom Germania GmbH). In addition, several relief packages were passed to support the economy and the population, fill level requirements were introduced for gas storage facilities and floating storage and regasification units (FSRU) were chartered to import LNG. Under the German LNG Acceleration Act [LNG-Beschleunigungsgesetz, LNGG], the foundation was laid to swiftly expand the LNG infrastructure. This was realised with the opening of the first LNG terminal in Wilhelmshaven on 17 December 2022.

backed by additional measures. The focus was on the

expansion of renewable energies and their use in the

However, the Russian war of aggression against

Ukraine since 24 February 2022, which is in breach

of international law, and its consequences for the

energy supply in general and the natural gas supply

European energy policy to crisis management and

in particular quickly pushed the focus of German and

securing the security of supply. For instance, the federal

government had to commission the Federal Network

Agency to develop tools to counter a gas shortage and

use multiple social policy support measures to cushion

the huge price increase on the energy markets.

Crisis management measures at federal level: At a

electricity and heating market.

After the federal government's plans for a gas procurement levy were met with massive criticism, they were discarded in favour of price brakes for gas and electricity, which cap the maximum consumer price per kWh for a set quota. It was also resolved to reduce the VAT on gas supplies in the natural gas network from 19 percent to 7 percent for the period from 1 October 2022 to 31 March 2024 as a relief measure for gas customers.

Regular energy policy developments at federal level: In parallel to crisis management measures, energy policy projects were driven forward on a national level. A whole range of legal amendments were adopted as part of the Easter Package with a focus on renewable energies in the electricity sector (renewables expansion target of at least 80 percent by 2030, virtually all renewables by 2035). While the tender capacities for wind and photovoltaics were increased, the internal weighting of biomass was merely shifted more towards biomethane. The BMWK presented a discussion paper on municipal heat planning in July 2022, which was considered from August 2022. The introduction of a corresponding law in the third quarter of this year aims to create planning security and make it possible to implement the heat transition in a cost-efficient and economically viable way. The requirement for newly installed heating systems to be run on 65 percent of renewable energies, which had already been announced in the coalition agreement, was brought forward from 2025 to 2024. For this purpose, the BMWK and the Federal Ministry for Housing, Urban Development and Building (BMWSB) published a concept paper for consideration, which presented technology-neutral and step-by-step implementation options. The tenant protection regulation ("Mieterschutzvorschrift") tends to discriminate against green gases compared to other fulfilment options in the step-by-step model and across models. In October, the BMWK, the Federal Ministry of Food and Agriculture (BMEL) and the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety and Consumer Protection (BMUV) presented a key point paper on the National Biomass Strategy (NABIS), which states that the energetic use of biomass should not be prioritised. Accompanied by a stakeholder participatory process, the NABIS aims to specifically clarify by the end of 2023 the areas where the (energetic) use of biomass should be subsidised and the areas where there should be a switch to electricity-based technologies.

VNG ANNUAL REPORT 2022

Crisis management measures at European level: At

European level, the REPowerEU Plan was launched as a response to the crisis situation. In addition to the introduction of fill level requirements for gas storage facilities, this also called for stricter energy-saving targets in the reform of the Energy Efficiency Directive (EED) and more ambitious targets in the expansion of renewable energies in the reform of the Renewable Energy Directive (RED), among other things. The EU targets for renewable hydrogen (10 million tonnes of both production and import by 2030) and biomethane (35 bcm³ instead of 18 bcm by 2030) are particularly worth mentioning. Furthermore, it was agreed to jointly purchase gas and, after much back-and-forth, a limited price correction mechanism was resolved, i.e., the introduction of a European gas price cap, which affects month-ahead trading with natural gas and aims to avoid excessive prices.

Regular energy policy developments at European

level: Progress was made in the "Fit for 55" legislation in 2022, even if this was below the expectations of many observers. The Council and Parliament have come to political agreements for the EU emissions trading system and the closely related carbon border adjustment mechanism as well as for the Effort Sharing Regulation, but these have not yet been formally confirmed. The RED III and the EED were in trialogue at the end of 2022 after the Council and Parliament presented their negotiating positions. There were no positions presented by the Council or Parliament for the internal gas market directive and regulation. The Parliament positioned itself in this regard at the beginning of February 2023 and put several precise requirements in place to force the urgently needed start of a European hydrogen economy. This especially applies to the unbundling rules for future hydrogen networks. The member states have not yet positioned themselves. A decision is expected to be made at the end of March 2023; however, the corresponding trialogue negotiations between the Commission, Parliament and member states will not take place until after the summer

³ Billion cubic metres, a unit for measuring gas volumes.

In February, the Commission adopted a Delegated Act to the EU taxonomy, under which investments in natural gas will be considered sustainable from 2023 if they meet strict criteria. Uncertainties surrounding the hydrogen regulations stem not only from the slow progress of the legislative process for the internal gas market package, but also from the delays to the Delegated Acts to the RED II, which aim to regulate the method for calculating greenhouse gas reductions of renewable liquid and gaseous fuels of non-biological origin (RFNBO) for the transportation sector and the criteria for their production. In May 2022, the first drafts were presented and subsequently considered.

C. HUMAN **RESOURCES AND** ORGANISATION

1. CHANGES IN HEADCOUNT

The VNG Group had a total of 1,578 employees as at 31 December 2022. This is an increase of 116 in relation to 2021, mainly as a result of the first-time inclusion of GEOMAGIC GmbH in the consolidated financial statements.

2. NON-FINANCIAL **PERFORMANCE INDICATORS**

Employees: Special attention was paid to several personnel-related topics on account of the challenging situation in the reporting year. These included strategic personnel planning, personnel development, compensation and benefits, the future of work and employee engagement.

The HR department developed a model for strategic personnel planning and tested this over the course of the year, resulting in a precise picture of the risk positions and critical skills in the Company. A key factor for employee satisfaction and their resulting engagement is the training and development offerings VNG provides to its employees. This offering was extended in 2022, with the addition of new e-learning courses but also an increased number of in-person training sessions and workshops. The benefit programme was also continued in 2022 after being introduced in the past year. As a major component of the compensation and benefits portfolio, a new rule on working time accounts was added. With regard to the topic of HR work that is mindful of current trends, the introduction of the "60+" policy marked a significant milestone for the

The health and safety of employees are crucial to a company's success and employee engagement. In 2022, VNG met its target for an improved LTIF (Lost Time Injury Frequency) compared to the previous year. Irrespective of the coronavirus pandemic, a wide range of activities aimed at maintaining and further improving standards with respect to workplace safety were carried out within the VNG Group in the reporting year.

"Verbundnetz der Wärme" underwent a transformation this year and has been realigned with a new internal organisation, but is nevertheless still sticking to the fundamental principle of the "Verbundnetz der Wärme", which is promoting volunteering in Eastern Germany, and raising the profile of the voluntary sector within society and in the field of politics. "Verbundnetz der Wärme", which was founded as an initiative of VNG AG and is now run by the VNG Foundation, has been supporting voluntary work for 21 years.

48

workforce that is becoming older as a result of the higher retirement age.

Progress and development fields became apparent as part of the EnBW employee survey. Despite VNG's challenging situation in the reporting year mentioned earlier, the People Engagement Index (PEI) reached 80 (previous year: 81), with a similar participation rate as in the previous year. The PEI measures the motivation and engagement of employees in the VNG Group on a scale of 0 to 100.

Responsibility towards society: Social engagement in the interest of an active and engaged civil society has long been a part of VNG's corporate identity. This engagement is above all focused on the regions in which VNG and its subsidiaries operate, as well as the core areas of social welfare, education, sport and art/culture, and targets the public at large in the municipalities of Eastern and Central Germany in particular. The "Verbundnetz der Wärme" initiative plays a leading role in VNG's social engagement.

In round tables on the topic of volunteering and the presentation of the engagement award in the five sustainability categories, the VNG Foundation not only awards prizes to social commitment, but also gives those volunteering the opportunity to draw public attention to their projects. This year, the VNG Foundation also carried out a study on "volunteering" in Eastern Germany" for the first time, the results of which were presented at the Association of German Foundations' Foundation Day. The VNG Foundation also once again supported selected initiatives, projects and associations in the fields of social welfare, education, sports, art and culture this year. In the field of education and research, VNG has been working for many years with universities and colleges in the region to offer practical lectures, part-time courses of study and financial support for student excursions. The VNG Foundation also once again sponsored young students at Leipzig University and Leipzig University of Applied Sciences with the awarding of a "Deutschlandstipendium" scholarship.

Customers: As an energy company with a highpressure pipeline system and storage, VNG is responsible for ensuring that its customers are supplied with gas. As part of its investment and maintenance measures, VNG expands its networks as required and maintains them through its Transport business area. VGS ensures the same for the Storage business area.

Since customers increasingly value sustainability in their suppliers, in July 2022, VNG H&V underwent an extensive evaluation process on the EcoVadis sustainability platform. Once again, VNG H&V achieved bronze status, putting it among the top 60 of the companies that had been evaluated up to that point.

Environmental issues: As part of the Group's "VNG 2030+" strategy, VNG has set itself the target of contributing to the success of the energy transition and its climate policy objective with the climatefriendly fuel of gas. In addition to the ongoing

expansion of the biogas portfolio, various different projects were supported in this context in the field of green gases, such as projects on hydrogen and synthetic gases. The focus of ONTRAS's sustainability programme in 2022 was once again on action in the fields of climate and energy, and in particular on reducing CO₂ emissions, and therefore activities aimed at achieving a gas supply that is entirely climateneutral by the year 2045. By signing a memorandum of understanding for the voluntary Oil & Gas Methane Partnership 2.0 initiative, ONTRAS, VGS and BALANCE have undertaken to measure their methane emissions much more accurately and extensively than before, and to measurably reduce them.

During the materiality analysis completed in the past year, VNG identified the relevant sustainability topics in the fields of environmental, social and governance (ESG criteria). As part of this, VNG has decided on a voluntarily basis in a first step to publish a sustainability report for the reporting year 2022 based on the established Global Reporting Initiative (GRI) reporting standards. Here, VNG will report on its qualitative and quantitative sustainability achievements. Building on this, the aim is to establish a company-wide process that measures, monitors and controls VNG's sustainability activities by 2023.

D. PERFORMANCE **OF VNG'S BUSINESS** ARFAS

1. TRANSPORT

Economic development: In the past financial year 2022, ONTRAS and its subsidiaries made a significant earnings contribution in the high double-digit millions of euros to adjusted EBIT. The lower earnings compared to the previous year are attributable to higher expenses from loss allowances and also increased energy costs, whereas these will be balanced out again via the regulatory account in the coming years. As an independent transmission system operator, ONTRAS has been subject to incentive regulations since 2010. 2022 was largely shaped by the preparation of the fourth regulatory period. While the starting point has already been determined, the definitions regarding the efficiency comparison and the general sector-wide productivity factor (Xgen) are still pending. The Federal Network Agency also released the following two definitions, which remedy significant risks from the Transport business area. For one, in contrast to Annex 1 of the German Ordinance on Network Charges for Gas [Gasnetzentgeltverordnung, GasNEV], the useful lives for calculating the imputed depreciation of new investments from 2023 onwards can be flexibly set until 2045 (KANU decision). For another, energy costs for operating gas pressure regulator stations and metering stations were classified as volatile costs with retroactive effect from 2021 and can therefore be included in the calculation of the revenue cap each year (VOLKER decision). At the end of 2022, engineering office Weishaupt was initially acquired and then transferred to Weishaupt Planungen GmbH (WPG), which ONTRAS founded solely for this purpose. This acquisition adds construction planning,

part of the Gas Network Development Plan 2022-2032.

One key project of this initiative is the European Hydrogen Backbone – a vision of around 30 European transmission system operators for a European hydrogen network. A network comprising around 53,000 kilometres of hydrogen pipelines could be created in Europe by 2040, based for the most part

construction supervision and approval processes to the ONTRAS portfolio.

Projects for a climate-friendly gas supply: The Russia-Ukraine war has led to all transmission system operators to reassess their gas network planning. In light of the aim to substitute natural gas supplies from Russia with other natural gas sources and thus maintain the security of supply, the Gas Network Development Plan 2022–2032 is examining how to connect potential LNG terminals to the German highpressure pipeline system and how to expand the existing key western cross-border interconnection points. The publication of the Network Development Plan's consultation document in December 2022 ultimately presented transmission system operators with the network expansion measures necessary to fully substitute Russian natural gas supplies to Germany. ONTRAS intensified its hydrogen activities and drove forward the preparatory work for the start of its hydrogen network, which is set to span more than 900 kilometres of lines by 2030. Following successful pre-notification by the European Commission, the national applications for funding were submitted as part of the H₂ Important Projects of Common European Interest (IPCEI) for the doing hydrogen, Green Octopus Mitteldeutschland (GO!) and LHyVE projects in June 2022. In December, ONTRAS received approval that preliminary measures can begin. This ensures that all measures relating to the IPCEI taken after this point in time are retroactively eligible for funding. In addition to a potential network expansion for LNG terminals, the transmission system operators drove forward the further development of a potential nationwide hydrogen network in Germany as

on the existing gas infrastructure. In the reporting year, ONTRAS continued work on the conversion of a roughly 20 kilometre-long section of an existing natural gas pipeline between Bad Lauchstädt and Leuna at the Bad Lauchstädt Energy Park regulatory sandbox.

2. STORAGE

Economic development: The seasonal difference in gas prices, which is above all reflected in the SWS, has established itself as an authoritative indicator of storage capacity prices for the Storage business area since the liberalisation of the gas market. However, the outbreak of the Russia-Ukraine war had enormous effects on the gas market in Germany and thus also on the development of the SWS. In 2022, there was a shift in values within the levels of the value chain attributed to storage facilities. For example, volatilities have risen dramatically, meaning that the extrinsic value of storage capacities has increased as have the realisable mark-ups in the marketing procedure, even though the SWS was negative at times.

German storage facilities started 2022 at a fill level of a mere 54 percent. Following a rather mild winter, the fill level at the beginning of the storage year on 1 April 2022 was just below 27 percent, the same as in the previous year.

As a result of the Russia-Ukraine war and the uncertainty surrounding Russian natural gas supplies, which gradually decreased over the course of the year, political measures were taken to ensure that German storage facilities were filled.

Thanks to high supply volumes from Norway, a record supply of LNG and price-related declines in demand, German storage facilities were well filled – although they were partially filled by the state or Trading Hub Europe (THE), particularly in Rehden, Jemgum, Wolfersberg and at the Katharina underground gas

storage facility. After a very mild October, virtually all storage facilities met the fill level requirement of 95 percent as at 1 November 2022.

Fears of supply shortages caused the day-ahead price of gas to climb to never-before-seen heights of over € 300/MWh by the end of August 2022. A short-term oversupply as a result of full storage facilities and mild weather pushed prices down below € 30/MWh by the end of October 2022, before stabilising at € 120/MWh for the time being at the end of November 2022. Developments in the SWS were mixed. For the current storage year 2022/23, the SWS was at times extremely high, allowing VGS to considerably benefit from the marketing of residual capacities. By contrast, the SWS was negative for a long time in the storage year 2023/24, meaning that agreements already concluded and indexed to the SWS were worthless. The spreads only turned positive, at least temporarily, at the beginning of October 2022. Despite the negative SWS, free capacities were marketed with positive margins as part of the marketing procedure as a result of the extrinsic value caused by high volatilities and positive spreads between the fourth and third quarter of a storage year.

Due to this trend on the market, VGS considers its strategy of consistently sticking to achieving its cost targets in order to ensure that it can remain competitive in the long term in a turbulent market to have been confirmed. The Storage business area generated adjusted EBIT in the mid-double-digit millions of euros from its business operations in the reporting year.

Development of storage capacities: The capacity of the underground storage facilities was marketed in full in the storage year 2022/23. Investment activities are still partly characterised by capital expenditure on existing assets, with the aim of maintaining and optimising the asset structure in the long term. They also partly relate to the work that began on the future hydrogen storage facility. This aims

to contribute to a more secure, sustainable and economic energy supply for the future. A regular profitability analysis of all storage facilities is carried out, which takes the current changes in the market situation into account. These results have a significant influence on strategic decisions at VGS. Dismantling and decommissioning work at the Buchholz facility was continued according to plan. The project is within budget with respect to costs and also on schedule. The dismantling of all surface and underground facilities is scheduled to be completed by the end of 2023. The underground work for the custodianship at the Kirchheilingen site was completed as planned. Residual work on the land is currently ongoing and will be finished by March 2023. The property has been sold to a regional energy supply company for subsequent use. The operating business of the mining field was transferred in January 2023.

Through EPG, VGS is also involved in the development and operation of the Katharina underground gas storage facility in partnership with Gazprom export LLC (GPE). After the outbreak of the Russia-Ukraine war, shareholders were unable to find a solution regarding another cavern scheduled for completion in 2022. The brine operations at the remaining caverns under construction are continuing. It is not vet planned when these caverns will be completed. As EPG was sanctioned by the Russian state and all consideration payments from Russia were stopped, the carrying amount of the investment had to be impaired and the shareholder loan written off.

Sustainable business: As a company operating in the energy sector, VGS is committed to constantly improve as part of its sustainability strategy launched in 2020 in order to conduct its business with net zero CO₂ emissions in the medium term. The Company has already been researching energy-efficient storage methods, developing green gas storage products, renaturing dismantled facilities and working to protect nature and biodiversity for many years. In 2020, VGS

Economic development: The Trading & Sales business area's results are still mainly driven by gas sales to large customers and trading activities on the European gas markets. However, the result in 2022 was dominated more than anything by the replacement procurement costs to make up for the absence of import volumes. In the past financial year, there were extreme burdens from unfulfilled supply obligations from two agreements for Russian gas volumes. VNG H&V had to procure replacements for the lack of volumes from the summer of 2022 at significantly higher prices on the energy markets. For its part, VNG H&V still reliably supplied all of its customers at the contractually agreed, much lower prices and met all of its contractual obligations. Dealing with the resulting damage allowed VNG to stably steer its way out of the crisis on the whole. For example, it was agreed in a settlement that WIEH GmbH (WIEH), as the upstream supplier for the larger of the two defective supply agreements, would assume the costs. The supply agreement, which was originally concluded until 2030, was terminated at the end of 2022. For the second defective agreement, which contained direct supplies from GPE, compensation of financial detriments in connection with these replacement procurement costs was agreed in a settlement with the federal government. Irrespective of this, the agreement had an original limited term until 1 January 2023. In addition, a capital increase by the shareholders of VNG AG was resolved as a third key measure to minimise losses from procuring replacements. This stabilised VNG's capital base on the whole in order to ensure the future viability of the VNG Group. All gas supplies from Russia were terminated; there are no

52

also introduced climate-neutral storage. By voluntarily buying Verified Emission Reduction certificates, the Company offsets all of its CO₂ emissions generated through the use of electricity and gas for the management of its storage facilities.

3. TRADING & SALES

longer any open items from sales commitments. The once again extremely volatile pricing conditions with record highs presented particular challenges with respect to portfolio and risk management. However, the security of supply for municipal utility companies, distributors, industrial customers and power plants was ensured securely and reliably at all times. Additional requirements were covered for existing and new customers, but the acquisition of new business customers was limited compared to the previous year. In order to ensure the security of supply, VNG H&V again contracted a large volume of storage capacities and met all fill level requirements. As part of its management activities, the entire portfolio of gas supply contracts, storage and transport capacities produced a better result than in the previous year. This was an additional contribution towards minimising losses from procuring replacements. Nevertheless, the operating result was considerably negative at the end of the past financial year. This is because the price level from the defective long-term purchase agreements was significantly below the price levels seen on the market. Overall, the Trading & Sales business area contributed negative earnings in the mid-triple-digit millions of euros to VNG's total comprehensive income.

Business with end consumers also remains an important source of earnings for VNG. goldgas GmbH (goldgas), which has its registered office in Eschborn and plays a leading role within the Group, generated adjusted EBIT in the low double-digit millions of euros under extremely challenging market conditions in the past financial year, with a slight increase in its customer base in the electricity business and a smaller customer base in the gas business. Receivables in the low double-digit millions of euros were derecognised with retroactive effect. Due to the development of market prices, it was only possible to acquire new customers to a very limited extent; the resulting market opportunities were systematically leveraged. Further investments in the end consumer business in Poland, Austria and Italy also generated stable results in the mid-singledigit millions of euros. A conservative coverage policy protected the business with end consumers against expensive supplementary purchases, and ensured that supplies to customers were never interrupted. Necessary preparations were made in the event of a gas shortage. Nevertheless, pricing policy presented enormous challenges for all end consumer suppliers.

VNG's wholesale business, which previously operated directly in Italy, had already been discontinued in the previous year. Wholesale business and trading activities have since then been handled centrally by VNG H&V in Leipzig. Local business customer sales organisations are still operating in Austria and the Czech Republic. Procurement and portfolio management for sales customers in those countries, as well as in Luxembourg and Italy, is also carried out centrally in Germany. In Austria in particular, additional market shares were gained in the industrial customer segment.

Sales customers in Poland also benefited from secure and stable supplies. Given the special aspects of the Polish energy market, the procurement of gas and electricity and risk and portfolio management will still be carried out locally in Poland. A significant number of customers are supplied using dedicated distribution networks. The network and sales business of VNG's Polish subsidiary G.EN. Gaz Energia Sp. z o.o. was unbundled in accordance with the national and European regulations and will be managed in two separate companies from 2023 onwards. It was not yet possible to bring the tax proceedings in connection with a regular, ongoing tax field audit at HANDEN Sp. z o.o. (HANDEN) to a close. After the final tax assessment notice was issued by the Polish tax authorities, HANDEN filed an action against the notice at the Polish tax court.

VNG is also adjusting the long-term perspective of its trading and sales activities against the backdrop of the more intense efforts to overcome the climate crisis at the global and European levels. In the

financial year 2022, a cooperation was launched between VNG and Total Eren SA, the purpose of which is to allow VNG H&V to purchase green ammonia at the German coasts in future and then make this available to its customers either directly or in the form of hydrogen from 2028. In light of this, VNG is working together with its subsidiaries to plan the construction of a hydrogen and CO₂ hub in the Rostock region. VNG H&V is also driving forward projects on domestic hydrogen production with other partners. The intention here is to decarbonise the future energy requirements from the broad customer base in the long term. Together with other companies, VNG H&V is still active in the H₂Global Foundation to develop a functioning hydrogen market in Germany.

Demand for natural gas is expected to remain stable at least until the 2030s, particularly in the core German market. VNG's procurement portfolio is being realigned in order to ensure the security of supply. In addition to the existing import relationships with Norwegian and Dutch suppliers, new purchasing partnerships are also being driven forward and opportunities to purchase liquid gas are being exhausted.

Development of unit sales and procurement

volumes: In the past financial year 2022, VNG's gas **send-out** amounted to 588 billion kWh, which was down significantly year on year (previous year: around 762 billion kWh). The total decrease of roughly 23 percent is attributable in virtually identical amounts to the lower unit sales volumes in the B2B and B2C segment for one and lower trading volumes for another. The tense market environment and the use of gas-saving potential weighed on customers in the B2B segment. Gas output in the B2C segment (private households and industry/retail/services) saw lower volumes than in the previous year on account of lower consumption volumes and the reserved new customer acquisitions. The decline in the volume of trading is related to the reduced sales performance, and can be largely attributed to risk and portfolio management activities.

Portfolio expansion: The Biogas business area once again underwent expansion in 2022 thanks to BALANCE and its subsidiaries. BALANCE pursued its growth strategy by acquiring a stand-alone facility in Schöpstal and completing and commissioning photovoltaic systems at existing locations and again contributed to the consistent implementation of the Group's "VNG 2030+" strategy.

The total number of biogas facilities operated by BALANCE rose during the reporting year to 39 facilities in Eastern and Northern Germany with an installed rated thermal output of around 164 MW. The integration of the acquired biogas facility has gone according to plan thus far.



* Excluding short-term arbitrage transactions

VNG **procured** around 595 billion kWh of **gas** in total in 2022 (previous year: around 760 billion kWh). Supply constraints and the lack of supply volumes from Russia over the course of the year shifted gas procurements to other bilateral supply agreements with established partners and to trading activities on the European spot and futures markets. The long-standing connections with Norwegian gas producers remained stable.

4. BIOGAS

Economic development: The Biogas business area mainly generates revenue by feeding processed biomethane into the natural gas network, marketing proceeds for converting the generated biogas into electricity and supplying renewable heat to customers in the vicinity of the biogas facilities. The amendment to the changed regulatory environment (RED II requirements) allowed BALANCE to carry out the necessary certification processes. It was therefore also possible to realise marketing opportunities in the fuel market for the first time. The direct marketing of the electricity volumes produced resulted in proceeds above the level defined by the German Renewable Energy Act [Erneuerbare-Energien-Gesetz, EEG]. This development is due to the active use of scheduled service at flexible locations, futures and the relevant monthly market averages in the spot market that at times exceeded EEG levels. The higher sales results are partially offset by higher input costs and increased service and maintenance costs. Overall, the Biogas business area generated adjusted EBIT in the high single-digit millions of euros. This is primarily a result of the marketing successes of new biomethane products and successful electricity sales. On the whole, BALANCE concentrated to a greater extent on certification, sales and risk management processes in the reporting year and thus profited from the dramatically changed market environment. In the subsequent years, it will need to adjust the cost and revenue dynamic in the short and medium term via coordinated purchasing and sales activities, as costs are expected to increase considerably. The cost increase will also cover electricity purchased for the Group's own use, personnel compensation and service charges as well as investment and maintenance costs in addition to the agricultural products used. It will therefore once again be necessary to actively exploit potential revenue on the biomethane and electricity market on the unit sales side. The strategic further development will be aligned to the European and national regulations on the use of biomass in energy production, which are still being worked on.

5. DIGITAL INFRASTRUCTURE

Establishing a new business area: Alongside the natural gas and biogas business, VNG is also focused on the expansion and operation of digital infrastructure via direct and indirect associates and investments. Minority interest GasLINE Telekommunikationsnetzgesellschaft deutscher Gasversorgungsunternehmen mbH & Co. KG, for example, is expanding its network of approximately 15,000 kilometres of optic fibres. GDMcom GmbH (GDMcom) offers services in the fields of documentation and telecommunications. Under the GIBY brand, through GDMcom and its subsidiary Schneider GmbH, the planning and expansion of the fibre optic network in the Leipzig region was pushed forwards down to the end consumer business. VNG invests in the expansion of the FTTX business via GDMcom and its shareholdings. The investment in wittenberg-net GmbH strengthened VNG's communal footprint in the FTTX area even further in the financial year.

Economic development: Adjusted EBIT of the Digital Infrastructure business area was around the high single-digit millions of euros as at the end of the financial year 2022. VNG invests directly and indirectly in the expansion and operation of digital infrastructure via various investments and subsidiaries and works together with municipal utility companies in Leipzig and Wittenberg, among other things. The focus of investments this year was on expanding the FTTX business. VNG has enhanced activities in the Digital Infrastructure area over the past few years and thus drove forward the diversification of the entire portfolio in addition to biogas and hydrogen activities.

E. FINANCIAL POSITION, PERFORMANCE AND **CASH FLOWS**

1. OVERALL ASSESSMENT

VNG was not able to build on the high level of earnings in previous years in the financial year 2022. This was due to the high costs of replacement procurements caused by the loss of Russian purchasing volumes and the current market conditions. With **adjusted EBIT** of € -205 million (previous year: € 225 million), the operating business performed considerably weaker than expected. Despite positive contributions to earnings from virtually all business areas, the effects of the Russia-Ukraine war dominated the result of the Trading & Sales business area and thus also the consolidated profit or loss in the reporting year. The non-adjusted EBIT of € -274 million was correspondingly lower year on year (previous year: € 205 million). The consolidated profit or loss largely follows EBIT and was down dramatically on the previous-year figure at € -337 million (previous year: € 141 million). Despite the challenges in 2022, VNG managed to limit the amount of risks on the earnings side with the support of stakeholders.

FFO also decreased in line with the development of earnings. The total cash outflow decreased in comparison to the previous year as a result of lower investments in the Transport and Biogas business areas. The decline in financial liabilities to external financing partners caused net financial liabilities to decrease by € 295 million to € 7 million.

VNG follo €m

Bill Adj Cor FFO Gro Net Net Gea

The volume of **billed revenue**⁸ in the financial year 2022 is around € 36,237 million, which is € 17,758 million higher than in the previous year. By contrast, the unit sales volume declined to 588 billion kWh. Much of revenue still stems from sales of gas and electricity in the Trading & Sales business area. The significant increase in billed revenue and cost of materials stems from the higher average price level, which more than compensates for the opposing effect from lower trading volumes. A settlement payment to an upstream supplier is included in cost of materials.

The IFRIC Agenda Decision on the "Physical Settlement of Contracts to Buy or Sell a Non-financial

The development of earnings caused VNG's equity to significantly decline. For this reason, a capital increase by the shareholders became necessary to stabilise VNG's financial base in the long term. As a result, the **gearing** rose to 13 percent (previous year: 9 percent). Thus, VNG has a stable financial position and cash flows in order to continue implementing its strategy.

| G's individual perfor | mance indicators | changed | as |
|------------------------------|------------------|---------|----|
| OWS: | | | |

| nillion | 2022 | 2021 | 2021 |
|---------------------------|--------|-----------------------|----------|
| | | restated ⁴ | reported |
| led revenue ⁵ | 36,237 | 18,479 | 18,479 |
| usted EBIT ⁶ | -205 | 225 | 225 |
| nsolidated profit or loss | -337 | 141 | 141 |
|)7 | -197 | 221 | 221 |
| oss investments | 128 | 197 | 197 |
| t investments | 122 | 174 | 174 |
| t financial liabilities | 7 | 679 | 699 |
| aring (%) | 13 | 9 | 9 |
| | | | |

2. FINANCIAL PERFORMANCE

⁶ EBIT adjusted for extraordinary and non-recurring effects on inc

⁷ Funds from operations, i.e., consolidated profit or loss adjusted for non-cash expenses and income as well as gains/losses from the disposal of fixed assets. ⁸ Prior to the application of the IFRIC Agenda Decision regarding IFRS 9.

Item (IFRS 9)" stipulates that purchase and supply contracts measured at fair value through profit and loss be recognised at their current spot price on the date of settlement. That is why the billed revenue and cost of materials are stated in the consolidated statement of comprehensive income. Adjustments are netted against the other operating result. The application of the Agenda Decision merely leads to a change in reporting, and therefore has no impact on the volume of EBIT. Income and expenses from shortterm arbitration transactions were netted against each other.

Other operating income (€ 1,289 million) rose significantly in comparison to the previous year (€ 231 million) due to income relating to the valuation of gas contracts, which was however counterbalanced by compensating effects within cost of materials. Furthermore, compensation payments from the federal government in the mid-triple-digit millions of euros are included here. VNG received these as partial compensation for the financial detriments in connection with the replacement procurement costs incurred as a result of a Russian gas procurement agreement that was no longer fulfilled.

Personnel expenses (€ 130 million) were up on the previous year (€ 121 million) on account of the increased headcount, particularly in Germany.

Depreciation and amortisation (€ 135 million) rose by € 35 million in comparison to the previous year. This increase is mainly due to impairment losses in the Storage business area.

Other operating expenses of € 493 million are down significantly year on year (previous year: € 758 million). This was largely due to the lower expenses relating to the valuation of gas contracts in comparison to the previous year. Expenses from the application of the Agenda Decision are also included here.

The **investment result** (€ -49 million) has deteriorated by € 73 million in comparison to the previous year. This trend is primarily attributable to the full impairment of the shares in EPG as a result of Russian sanctioning. The deterioration of the financial result (€ -131 million; previous year: € -15 million) is mainly caused by the write-off of the loan granted to EPG.

Income taxes (€ 67 million) comprise ongoing tax expenses of € 13 million and income from deferred taxes of € 80 million.

The result of the discontinued business area

Exploration & Production (E&P) is disclosed separately in the statement of profit or loss for the last time this year. In the previous year, this result (€ 0 million; previous year: € -3 million) stemmed from the derecognition of a contingent purchase price receivable relating to the sale of the E&P business.

3. CASH FLOWS

Development of cash flows at VNG in2022 in € million



** The net cash flows from investing activities in the previous year were adjusted by securities classified as current assets, which are now presented in cash and cash equivalents

In line with the decrease in earnings, **FFO** (€ -197 million) were down in relation to the previous year (\in 221 million). The change in working capital (\notin 344 million) caused by the higher liabilities had a positive impact on net cash flows from operating activities.

The net cash flows from **investing activities** amount to € -79 million. The spending on investment that this includes, amounting to € 124 million, fell in comparison to the previous year (€ 222 million), and mainly relates to investments in the Transport and Digital Infrastructure business areas. This is counterbalanced by cash inflows of € 19 million from divestments that are on par with the previous-year level. The reported net cash flows from investing activities include dividends received (€ 19 million; previous year: € 14 million) and interest received (€ 7 million; previous year: € 3 million).

Financing activities resulted in a net inflow of € 314 million in the financial year (previous year: € 47 million). This increase chiefly stems from the capital increase by the shareholders of VNG AG (€ 667 million). VNG repaid financial liabilities to

external financing partners totalling € 297 million. In addition, the net cash flows from financing activities were impacted by the repayment of lease liabilities amounting to € 14 million (previous year: € 15 million). Interest payments amounting to € 41 million (previous year: € 14 million) were made. In the financial year, no dividend was distributed to VNG AG's shareholders for the financial year 2021 (previous year: dividend of € 20 million).

Taking changes due to exchange rates and the basis of consolidation (€ -9 million) into account, **cash and cash equivalents** rose from € 146 million to € 519 million. VNG was solvent at all times. Credit lines amounting to € 2,207 million had not been utilised as at 31 December 2022 (previous year: € 961 million). There were also investment obligations amounting to € 93 million as at the reporting date (previous year: € 110 million), most of which are financed internally and by existing credit lines.

4. FINANCIAL POSITION

VNG's **financial ratios** changed as follows in comparison to the previous year:



*** Correction of previous-year figures for netting the variation margins with the market values recognised for derivatives.

Total assets decreased by € 2,243 million in comparison to 31 December 2021. The decline in current assets and liabilities is primarily due to the development of the contracts for gas procurement and gas send-out disclosed under derivative financial instruments. The current trends there have resulted in a decrease in volumes as well as lower market values as at the measurement date.

In turn, non-current assets and liabilities increased because of the development of the contracts for gas procurement and gas send-out disclosed under derivative financial instruments. The price and volume effects were overcompensated by the decrease in contracts eligible for offsetting in this context. On the equity and liabilities side, the lower amount of contracts eligible for offsetting also resulted in an increase in trade payables compared to the previous year.

The gearing of 13 percent is up slightly on the previous year on account of the shareholders' capital increase.

F. OPPORTUNITIES AND RISK REPORT

1. RISK MANAGEMENT SYSTEM

VNG has an integrated risk management system that integrates all business areas and group entities. This ensures that a balance between opportunities and risks and the Group's capacity to bear risk are constantly maintained, thus assessing VNG's ability to continue as a going concern. The total risk is managed on the basis of having sufficient risk cover in place if a risk occurs. In addition to constantly measuring and monitoring risks, a comprehensive annual risk inventory is carried out in which the relevant risks and opportunities of all group entities are systematically recorded and assessed as deviations from the corresponding forecasts. Significant opportunities and risks are also updated every year. In addition to the regular risk assessment methods, an ad hoc risk reporting system based on defined thresholds is in place that identifies significant deviations from plans at an early stage and in so doing promptly highlights changes in the opportunity/risk portfolio. The effectiveness of the risk management system is checked regularly by the internal audit function.

2. LOOKING BACK AT THE FINANCIAL YEAR 2022

The past financial year 2022 posed extraordinary economic challenges for VNG. The effects on VNG from the Russia-Ukraine war were monitored and evaluated in various scenarios that took into account price turbulence and a complete ban on the supply of Russian natural gas, among other things. These scenarios resulted in increased price and replacement risks, which largely materialised over the course of the year. As a result, VNG developed appropriate

With increasing supply cuts to the procurement volumes of Russian natural gas, the next steps were discussed in great detail with shareholders and also with the leading ministries of the Federal Republic of Germany. In the meantime, owing to the economic situation, VNG saw no other option than to review the legal options pursuant to the EnSiG and to implement corresponding measures – for example, an application pursuant to Section 29 of the EnSiG - so as to also be able to ensure the Group's ability to continue as a going concern in the future. The application became necessary, as VNG had to procure replacements for the lack of volumes due to unfulfilled supply obligations from two agreements with upstream suppliers for Russian gas volumes at significantly higher prices on the energy markets, in order to be able to reliably supply its customers at the contractually agreed, much lower prices.

Together with SEFE, VNG was looking for a mutual solution with regard to the existing supply agreement between VNG H&V and WIEH at an early stage, which was ultimately settled out of court in October 2022.

At the beginning of December, VNG resolved some of the risks relating to procuring replacement gas by agreeing on a settlement with the federal government for compensation of financial detriments in connection with replacement procurement costs from the agreement with GPE. The losses beyond

measures at an early stage, tailored to the developing situation, in order to minimise the impact of a further escalation and to stabilise the Group's liquidity and equity situation.

The first major countermeasures were the conclusion of the credit facility with the state-owned KfW Bank and the increase of the EnBW bank guarantee in the spring of 2022 as well as the extension and increase of the syndicated loan agreement in June 2022. The KfW Bank's credit facility serves as a hedging measure in the event that there are extreme market developments in the future.

this amount are borne by VNG as a direct importer on its own and together with its shareholders. The risks relating to procuring replacements for the two Russian gas supply contracts are therefore definitively eliminated, thus stabilising VNG's economic situation.

3. OPERATING OPPORTUNITIES AND RISKS

VNG has put itself on a broad footing with its core business areas relating to natural gas as a product, and is also exploiting new potential unrelated to natural gas as part of its "VNG 2030+" strategy, including through acquisitions. This positioning diversifies the Group's risks, and also allows it to take advantage of opportunities in an extremely dynamic market. Based on the forecast results, the risk/reward profile for 2023 is also risk-heavy.

The main opportunities and risks are driven by market prices. This largely pertains to the persistent price fluctuations at a historically high level on the commodity markets in the area of trading and future spread developments in the area of storage. Recently, other significant opportunities and risks stem from the regulatory environment. Apart from the general risks of business, there are currently no apparent risks with the potential to have a lasting and significant impact on VNG's financial position, performance and cash flows.

Transport business area: As before, the economic performance of ONTRAS primarily depends on the regulatory framework and the permissible revenue cap associated with it. The Federal Network Agency sets the equity interest rate for existing and new facilities in each regulation period based on historical rates. This is why the most recent interest rate increase on the money and capital markets will only be reflected in the regulatory revenue cap after a significant time delay.

ONTRAS also takes advantage of opportunities to provide services in the non-regulated energy

infrastructure sector. With respect to the energy policy challenge of a CO₂-neutral future for energy, there is also an opportunity for the continued use of Germany's gas infrastructure as part of a gradual transition from natural gas to renewable gases. The coupling of the electricity, heating market, mobility and industrial sectors makes it possible to develop an economically viable and cost-effective solution that involves the gas infrastructure. As a result, ONTRAS is actively working on the transformation towards a climate-neutral gas supply by 2050. As part of this, ONTRAS is constantly carrying out necessary renovation and modernisation work on its technical facilities in order to ensure that the network is reliable, and in so doing safeguard the contractually agreed supply of gas to downstream networks and end consumers. The transmission system and its corresponding facilities were once again technically secure and available at all times in the financial year 2022. As before, the risks for 2023 are mainly limited to the operation of technical facilities.

Storage business area: There are substantial uncertainties for the future marketing of storage capacities and the associated revenue because of the volatile development of market prices at a historically high level and the changing regulatory environment.

The intensity of competition with other flexibility products means that the proportion of storage bookings at short notice remains high. On the one hand, the loss of the majority of Russian supply agreements in Europe, which were significant sources of flexibility, increase the value of natural gas storage facilities. On the other, this development is curbed by the high market price level and the associated sharp increase in storage users' cost of capital. In addition, the fill level requirements resulting from the German Gas Storage Act [Gasspeichergesetz] lower the scope for action in the management of storage and thus also opportunities in marketing. The revision of the German Gas Storage Act in 2023 harbours additional uncertainties. Substantial demand for storage capacity is anticipated in connection with the challenge of a CO₂-neutral future for energy. Under certain circumstances, the existing infrastructure may also be used to store renewable energy in the form of green gases. This is to be investigated and tested with project partners for green hydrogen as a fuel as part of the Bad Lauchstädt Energy Park regulatory sandbox.

The volatility of market prices creates uncertainty for the future marketing of storage capacity and the revenue that can be generated from it. Opportunities relate in particular to further increases in marketing prices. VGS also aims to tackle the competition with innovative products, targeted investment decisions, the decommissioning of inefficient and unprofitable storage facilities such as those in Buchholz and Kirchheilingen, and measures to improve efficiency and promote automation. Cost structures have already been optimised, the organisation has been aligned more closely with the market, and additional income has been generated from the services business in response to the situation to date with respect to demand. Ongoing maintenance and the monitoring of underground gas storage facilities on the basis of technical regulations and internal provisions, and regular assessment of the condition of all surface and underground facilities, ensure that high standards of safety are maintained from a technical perspective and in accordance with mining law. High standards of quality are also ensured by annual training plans for the ongoing qualification of VGS's employees and service providers, as well as regular internal and external audits.

Trading & Sales business area: VNG H&V's trading activities present opportunities and risks relating to price fluctuations on the commodity markets in particular. The key risk factors are currently the significant volatility of prices on the wholesale trading market, and the continued high market price level in absolute terms. Pricing differences between European gas trading points and price spreads

VNG ANNUAL REPORT 2022

between seasonal futures products also present opportunities and risks. Trading performance can also be affected by temperatures, particularly in the winter period. The positions in purchase and sale agreements are combined to form an overall portfolio, and constantly monitored and managed. In addition to the portfolio's natural hedging effects, specific hedging strategies are used to limit the effects of negative changes in earnings that take the relevant risk factors into consideration and may also include derivative financial instruments. Trading activities are carried out in accordance with specific risk and loss limits for the operating business. Based on the forecast results, risks will outweigh opportunities in 2023. The maximum total deviation in earnings as a result of the risk factors already mentioned is in the high double-digit millions of euros.

VNG H&V has a structurally diversified procurement portfolio that is aligned with the market. The existing contracts mainly serve to cover the sales position. As a result of the historically high market price level and the resulting persistent illiquidity on the OTC market, the majority of purchase agreements are concluded through the stock exchange. This is accompanied by significantly different capital requirements and also reduces credit risks. With respect to unit sales, VNG H&V is constantly developing new products and exploiting additional sales channels in the traditional wholesale business. It also takes the opportunities presented by the market and by spot and futures trading to optimise its overall portfolio.

The main credit risks stem from natural gas supply and trading agreements with national and international business partners. There are also credit risks associated with financial instruments that are entered into in order to hedge currency and commodity price risk positions. Increased market prices have led to a sharp rise in the financial estimate of the potential repurchasing and default risks. The credit ratings of business partners (customers, suppliers, trading partners and financial institutions) are evaluated and continuously monitored on the basis of the information available as well as procedures that are customary for the market as part of the Group's established credit risk management system. The usual hedging instruments (including guarantees or upfront payments) are used to manage credit risks. The customer portfolio is also largely covered against default by loan default insurance.

VNG is subject to energy and financial market regulation. Suitable IT systems have been installed in order to meet the requirements of MiFID II (Markets in Financial Instruments Directive), MAR (Market Abuse Regulation) and REMIT (Regulation on Energy Market Integrity and Transparency).

The end consumer supplier goldgas operates in a challenging competitive environment with low margins and significantly higher procurement costs. If there are price adjustment measures or market prices fall again, this could have a negative impact on the customer base and unit sales. goldgas also sees opportunities in connection with new distribution channels, the ongoing optimisation of processes and services relating to the energy sector.

Biogas business area: This area's risk profile is influenced, among other things, by the decentralised nature of the investment portfolio. Regional, weatherrelated risks are managed centrally by the substrate management function. The strong growth of BALANCE and parallel development continue to place significant demands on the organisation. The Biogas business area is also subject to regulatory requirements (including the EEG, RED and the electricity price brake), which give rise to both risks and opportunities. Additional opportunities stem from the potential role of biogas as part of the energy transition, and the associated goal of decarbonisation. **Digital Infrastructure business area:** The expansion of the fibre optic network in Germany is determined by increasing competition for appealing expansion regions and customer as a result of the growing public interest, political activities and steadily rising demand. The biggest opportunities and risks in the FTTX area therefore lie in the acquisition of attractive regions, the timely finishing of projects and the future price development. There are also opportunities in the marketing of reserves in the FTTX networks as dark fibre⁹ to third parties and internet-related services with existing customers.

Fibre optic services include the project business in addition to long-term and regularly recurring service and maintenance agreements. Alongside general risks such as adherence to fulfilment and performance obligations and IT security, the project business in particular, depending on the company and business activity, is subject to the economic situation in the telecommunications and energy supply sector and is therefore dependent on developments in the individual sectors and in the economy as a whole. Increasing digitalisation, which is also particularly relevant for energy suppliers with regard to the energy transition and new energy networks, is a key opportunity for the area of fibre optic services, in addition to the expansion of the fibre optic network. Future developments therefore hinge on winning new projects and additional customers.

4. OVERALL ASSESSMENT OF THE RISK SITUATION

The overall risk situation is assessed on the basis of a risk-bearing capacity concept and a deviation analysis of key performance indicators. Risk-bearing capacity describes a company's ability to financially cope with risks that occur, and therefore to avoid developments that threaten its ability to continue as a going concern. A company's capacity to bear risk can therefore be described as adequate if it has sufficient potential to cover risks if they occur. Risk cover potential includes capital to cover risks to earnings, which is defined as balance sheet equity, and capital to cover risks to liquidity, which is defined as the available financial framework. The potential loss in terms of profit (99 percent worst case) and the potential impact on liquidity (99 percent worst case) are calculated for the medium-term planning horizon using a Monte Carlo simulation, and juxtaposed with the risk cover capital. Based on this analysis of risk-bearing capacity, VNG's overall risk situation is not thought to pose a risk to its ability to continue as a going concern.

Opportunities and risks may also influence VNG's key performance indicators. The figure below shows the effects on adjusted EBIT for the financial year 2023 (figures stated in millions of euros), which are largely attributable to the continued high market prices. Based on a deviation analysis of the key performance indicators, the overall level of risk is considered to be appropriate.



Planned earnings corridor
Aggregated opportunities and risks

VNG is continuing to monitor the continuing political and economic developments extremely closely and is developing measures in order to minimise the impact in the event of a further escalation of the Russia-Ukraine war, for example. However, on account of the fluid situation, assumptions could change at any time. On the whole, there are currently no going concern risks within these considerations, taking the risks into account on both a gross as well as a net basis.

⁹ Dark fibre refers to unused fibre-optic cables.

5. COMPLIANCE MANAGEMENT SYSTEM

Conduct in compliance with regulations that is also ethically unobjectionable provides the foundation for lasting business growth. The group-wide compliance management system (CMS) is aimed at ensuring that all employees act in accordance with the law and with integrity in order to avoid jeopardising the confidence of customers, business partners, shareholders and the general public. In addition to organisational precautions and policies, there is an extensive reporting system in place and both general and targeted, subject-specific training is provided to employees. The adequacy of the CMS was last assessed and certified by an audit firm in 2015. The next assessment of adequacy is planned for 2023. In addition to the existing CMS, VNG has implemented a Tax CMS for income tax, VAT and excise tax at German subsidiaries whose accounting is handled by VNG AG, which it uses to identify risks of material violations of tax regulations at the Company in good time, and prevent them using targeted measures. An audit firm assessed and certified the adequacy and effectiveness of the Tax CMS for income tax and VAT in 2021 and the adequacy of the system for excise tax (energy and electricity tax) in 2022.

6. FINANCIAL RISK MANAGEMENT

VNG is, above all, exposed to risks relating to changes in commodity prices, exchange rates and interest rates, as well as credit risks. The Group's fundamentally conservative approach is reflected in its systematic financial risk management. Frontoffice and back-office functions, and financial risk management, are kept organisationally separate from each other.

The derivative standard financial instruments used for financial risk management are only used to hedge the existing risks associated with the underlying transactions. Futures are used by the trading companies to manage price risks associated with gas purchase and gas sale agreements as well as for ownaccount trading. Statistical risk parameters are used to measure and monitor these risks every day, and the potential changes in the present value of the trading portfolio are limited. All of the Group's currency exposures are concentrated with the parent company and hedged in full, if possible. Contracts with group entities based outside the euro zone are only ever concluded in the domestic currencies of those entities. Forward exchange transactions and natural portfolio hedging effects are primarily considered as hedging instruments. VNG practices active interest risk management involving the regular evaluation of all interest rate risks, which are also managed using derivative financial instruments. Solvency is guaranteed at all times by maintaining sufficient reserves of cash and cash equivalents in the form of guaranteed lines of credit, and also by optimising the allocation of liquidity within the Group. The rolling liquidity planning over periods of several years regularly determines the peak financing requirements in future. As at the reporting date, these were always covered by sufficient sources of financing, even in the risk scenarios.

G. OUTLOOK

This year, VNG has **three major priorities** to focus on. First, the **security of supply** is of great relevance for VNG, and this will remain so. VNG is a large supplier of gas and energy in Germany. With ONTRAS's network, VGS's storage infrastructure in Northern and Eastern Germany and VNG H&V's international trading business, VNG views its obligation in ensuring a secure and reliable supply of energy to the population and the industry. Following the termination of supply relationships with Russia, efforts to put gas procurement on broader footing in the short, medium and long term are being driven forward in a concentrated manner, especially in the area of trading. Based on the existing network and long-standing experience, this means, for example, expanding the proven supply partnership with Norway further and establishing relationships with new suppliers. The LNG business and pipeline-related gas imports are also on the radar.

Second, VNG has to use its position in the gas market to advance the **energy transition** and to accelerate this to the best of its ability this year. VNG's positioning along the gas value added chain provides a good starting point for this. The assets and current activities that VNG operates and carries out at present with fossil natural gas are also key components of a future energy and hydrogen economy. In this context, VNG has already launched a number of green activities in the past few years, positioned its organisation accordingly, grew its Biogas area and has various biogas and hydrogen concepts in the project pipeline. Together with the partners involved, it needs to successfully demonstrate that the focus in politics and society has to shift away from the technological and structural aspects and towards the direct commercial business necessities for a suitable regulatory framework, for example, in order for the projects and planned projects to be successfully realised.

Green projects are so important to VNG because they pave the way to an increasingly climate-neutral energy supply in the future and thus also to a green and sustainable VNG. This also opens up opportunities for the Group. In this context, VNG's main focus is always on the home market of Eastern Germany.

This is why it is also a priority for VNG this year to **support Eastern German regions** to an even greater extent when developing new opportunities and in so doing to assume a role as a key player with structuresetting relevance. The transformation of VNG has been in full swing since 2017 as part of the Group's "VNG 2030+" strategy. However, the past year's energy supply crisis has shown that not only VNG as a company, but also the industry as a whole, has to pick up the pace in the coming years. For instance, the rapid ramp-up of green gases is not only relevant as regards the target decarbonisation. This transformation in the gas sector can at the same time be a major step towards stabilising and ensuring the future European and German security of supply now that gas supplies from Russia have been lost. Following the disruptions of the past year, VNG is currently in the process of updating its "VNG 2030+" strategy, so as to be positioned beyond the fundamental confirmation of the strategic alignment in such a way that stable guiding principles continue to be provided with sufficient flexibility in light of current developments.

Strong operating performance and management required in current market conditions: Conditions in the market in 2022 were influenced more than ever before by geopolitical events and decisions. With extremely high gas prices that exceeded € 300/MWh at times, the negative SWS and highly volatile gas prices on account of the tough supply situation, it was very challenging to manage the operating business in all business areas, in particular in Trading. While a slight easing of the market is visible for the financial year 2023, it will not yet be in a steady or sustainable condition. This will continue to require a strong operating performance from the Storage and Trading & Sales business areas in 2023 in order to achieve the targets that have been set. VNG is planning to achieve an adjusted EBIT of between € 110 million and € 160 million in 2023, as well as a consolidated profit of between € 45 million and € 85 million – even taking into account the significantly increased risk/ reward profile on account of the energy crisis. The Transport business area is expected to once again achieve high results in 2023 compared to the reporting year, potentially even significantly higher because of the adjustment to the network charges. In the

Storage area, the return of a low SWS for the storage year 2023/2024 will reduce the financial performance considerably. The loss of long-term Russian gas contracts means that the Trading & Sales business area will focus on the sales and storage facility operation business in the coming financial year. The high gas prices in absolute terms mean that special attention is paid to managing the high credit risks and capital employed. However, the wholesale markets, which are currently volatile, also offer opportunities for the integrated approach of the business area, although these need to be exploited anew every year and depend on market conditions. Earnings are planned to correspond to the level seen before 2022. The end consumer business is still an important source of income in the German, Polish, Austrian and Italian target markets. The inorganic growth in the Biogas area stagnated during the energy crisis. Further organic growth is planned, but this will not yet be reflected in the earnings for 2023. There is also potential for earnings from price effects. Earnings are therefore expected to be slightly above the level in the reporting year. The Digital Infrastructure area was still hampered by integration effects from an acquired company in the current year. Earnings are therefore expected to improve in the coming year. Due to a largely balanced internal financing capability, net financial debt is expected to be stable in 2023. As in the past, changes in working capital in the trading business and its measurement as at the reporting date may be subject to severe fluctuation, and also have a significant impact on net debt, total assets and therefore also the Group's gearing. FFO were heavily impacted by replacement procurement costs in 2022; in 2023, FFO are expected to return to the level seen before 2022. The consolidated profit or loss for 2023 is not expected to be impacted by extraordinary effects. All in all, VNG considers itself to be in a good position for the financial year 2023.

CONSOLIDATED FINANCIAL STATEMENTS*

for the financial year 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the period from 1 January to 31 December 2022

| Emillion |
|---|
| Billed revenue |
| Restatement due to IFRIC Agenda Decision on IFRS 9 |
| Revenue pursuant to IFRS |
| Changes in inventories |
| Other own work capitalised |
| Other operating income |
| Cost of materials billed |
| Restatement due to IFRIC Agenda Decision on IFRS 9 |
| Cost of materials pursuant to IFRS |
| Personnel expenses |
| Depreciation and amortisation |
| Other operating expenses |
| nvestment result |
| inancial result |
| ncome taxes |
| Profit after tax from continuing business areas |
| Result after tax of the discontinued business area |
| Consolidated profit or loss |
| Profit or loss attributable to non-controlling interests |
| Concolidated profit or loss for the year after new controlling into |
| consolutated profit or loss for the year after non-controlling inte |
| Nithdrawal from the capital reserves |

Transfer to retained earnings

Consolidated net retained profit

* The annual report contains the following excerpt from the complete consolidated financial statements of VNG, which have been submitted electronically to the operator of the German Federal Gazette and can be accessed via the company register (www.unternehmensregister.de).

| | 01.01. to 31.12.2022 | 01.01. to 31.12.2021 |
|--------|-------------------------|-------------------------|
| | 36,237.1 | 18,479.2 |
| | 32,547.8 | 13,808.1 |
| | 68,784.9 | 32,287.3 |
| | 2.5 | -1.4 |
| | 6.1 | 7.9 |
| | 1,289.0 | 230.8 |
| | -37,267.2 | -17,398.0 |
| | -32,281.4 | -13,964.2 |
| | -69,548.6 | -31,362.2 |
| | -130.2 | -121.1 |
| | -134.8 | -99.7 |
| | -493.2 | -757.7 |
| | -49.3 | 23.5 |
| | -130.7 | -15.4 |
| | 67.3 | -48.7 |
| | -337.0 | 143.3 |
| | 0.0 | -2.6 |
| | -337.0 | 140.7 |
| | 0.0 | -3.2 |
| erests | -337.0 | 143.9 |
| | 541.9 | 0.0 |
| | -204.9 | 0.0 |
| | 0.0 | 143.9 |
| | | |

CONSOLIDATED BALANCE SHEET

as at 31 December 2022

| | restated | reported |
|------------|--|--|
| 31.12.2022 | 31.12.2021 | 31.12.2021 |
| 4,373.2 | 3,659.0 | 3,659.0 |
| 14.9 | 15.5 | 15.5 |
| 1,928.1 | 2,007.7 | 2,007,7 |
| 251.2 | 286.3 | 286.3 |
| 2,164.3 | 1,341.0 | 1,341.0 |
| 2.3 | 4.1 | 4.1 |
| 12.4 | 4.4 | 4.4 |
| 8,915.9 | 11,873.5 | 12,123.8 |
| 1,080.3 | 892.4 | 892.4 |
| 200.7 | 148.8 | 148.8 |
| 1,120.3 | 1,333.9 | 1,362.6 |
| 5,201.8 | 8,861.6 | 9,083.2 |
| 993.7 | 511.0 | 511.0 |
| 319.1 | 125.8 | 125.8 |
| | 31.12.2022 4,373.2 14.9 1,928.1 251.2 2,164.3 2,164.3 2.3 12.4 8,915.9 1,080.3 200.7 1,120.3 5,201.8 993.7 319.1 | restated 31.12.2022 31.12.2021 4,373.2 3,659.0 4,373.2 3,659.0 14.9 15.5 1,928.1 2,007.7 251.2 286.3 2,164.3 1,341.0 2.3 4.1 12.4 4.4 8,915.9 11,873.5 1,080.3 892.4 200.7 148.8 1,120.3 1,333.9 5,201.8 8,861.6 993.7 511.0 319.1 125.8 |

Equity and liabilities € million Equity Issued capital **Retained earnings** Consolidated net retained profit Cumulative changes in other comprehensive income Non-current liabilities Provisions Deferred taxes Financial liabilities Trade payables Derivative financial instruments Other liabilities and subsidies **Current liabilities** Provisions Financial liabilities Trade payables Derivative financial instruments Other liabilities and subsidies

```
13,289.1
```

15,532.5 15,782.8

| reported | restated | |
|------------|------------|------------|
| 31.12.2021 | 31.12.2021 | 31.12.2022 |
| 1,447.1 | 1,418.4 | 1,759.4 |
| 328.0 | 328.0 | 452.7 |
| 978.4 | 978.4 | 1,301.9 |
| 143.9 | 115.2 | 0.0 |
| -3.2 | -3.2 | 4.8 |
| | | |
| 2,848.8 | 2,848.8 | 3,040.6 |
| 466.2 | 466.2 | 357.7 |
| 69.7 | 69.7 | 1.2 |
| 511.9 | 511.9 | 508.9 |
| 0.9 | 0.9 | 0.4 |
| 1,788.0 | 1,788.0 | 2,159.2 |
| 12.1 | 12.1 | 13.2 |
| | | |
| 11,486.9 | 11,265.3 | 8,489.1 |
| 122.5 | 122.5 | 98.8 |
| 314.7 | 314.7 | 20.6 |
| 1,317.5 | 1,317.5 | 1,728.5 |
| 9,228.2 | 9,228.2 | 6,283.8 |
| 504.0 | 282.4 | 357.4 |
| | | |

| 13,289.1 | 15,532.5 | 15,782.8 |
|----------|----------|----------|
| | | |

OTHER DISCLOSURES

COMPOSITION OF VNG AG'S EXECUTIVE BOARD

| Ulf Heitmüller | Chief Executive Officer | Hans-Peter Floren | Entrepreneur |
|---------------------|---|--|--|
| Hans-Joachim Polk | Chief Infrastructure & Technology Officer | Monty Heßler | Systems technology off |
| Bodo Rodestock | Chief Financial & Human Resources Officer | Peter Heydecker (from 15 December 2022) | Head of Trading of EnB\ |
| COMPOSITION OF VNG | G AG'S SUPERVISORY BOARD | Prof. DrIng. habil. Antonio Hurtado (from 30 June 2022) | Head of the Institute fo Technische Universität |
| Dirk Güsewell | Chairperson | Hartmut Kremling | Consulting engineer |
| (from 30 June 2022) | (from 30 June 2022) | (from 30 June 2022) | |
| | Chief Operating Officer Critical Infrastructure of | | |
| | EnBW Energie Baden-Württemberg AG | Karsten Rogall | Managing Director of St |
| | | (from 30 June 2022) | |
| Dr. Frank Brinkmann | 1 st Vice Chairperson | | |
| | (from 30 June 2022) | Gunda Röstel | Managing Director of St |
| | Chairperson of the Board at SachsenEnergie AG | | |
| | | Katja Schmied | Order and Project Acco |
| Christina Ledong | 2 nd Vice Chairperson | (from 30 June 2022) | |
| | Chairperson of the joint works council of VNG AG, ONTRAS Gastransport GmbH, | | |
| | VNG Gasspeicher GmbH and VNG Handel & Vertrieb GmbH | Dr. Benno Seebach | Head of Capacity Plann |
| Markus Baumgärtner | Head of value chain natural gas of EnBW Energie Baden-Württemberg AG | Liv Monica Stubholt | Partner at Selmer AS |
| - | | (from 30 June 2022) | |
| Tobias Dittrich | Senior Project Manager of VNG Handel & Vertrieb GmbH | | |
| (from 30 June 2022) | | Sebastian Thamm | Specialist M&A Wholesa |
| | | (from 15 September 2022) | |
| Sascha Enderle | Head of Digital Finance & Transformation | | |
| | of EnBW Energie Baden-Württemberg AG | Dr. Bernd-Michael Zinow | Head of Legal Services, |
| | | | EnBW Energie Baden-W |
| Barbara Endriss | Managing Director of OEW Energie-Beteiligungs GmbH | | |
| Christina Fenin | Key person responsible for technical cooperations at VNG Gasspeicher GmbH | | |

Independent consultant

Prof. Dr. Martin Fleckenstein

ficer of GDMcom GmbH

W Energie Baden-Württemberg AG

or Energy Technology at Dresden

tadtwerke Leipzig GmbH

tadtentwässerung Dresden GmbH

ounting Officer of ONTRAS Gastransport GmbH

ning of ONTRAS Gastransport GmbH

ale at VNG AG

, Audit, Compliance and Regulation of Vürttemberg AG

FORMER MEMBERS OF THE SUPERVISORY BOARD

| Thomas Kusterer (until 30 June 2022) | Chairperson Member of the Executive Board of EnBW Energie Baden-Württemberg AG |
|---|--|
| Hans-Joachim Herrmann (until 30 June 2022) | Vice Chairperson Managing Director of Stadtwerke Lutherstadt-Wittenberg GmbH |
| Josefine Bormann (until 30 June 2022) | Main Consultant of Business Regulation of ONTRAS Gastransport GmbH |
| Dr. Martin Konermann (until 30 June 2022) | Managing Director Technology of Netze BW GmbH |
| Peter Leisebein (until 6 August 2022) | Vice Chairperson of the Works Council of VNG AG, ONTRAS Gastransport GmbH, VNG Gasspeicher GmbH and VNG Handel & Vertrieb GmbH |
| Michael Raida (until 30 June 2022) | Management Consultant |
| Fabian Spalthoff (until 14 December 2022) | Former Head of Trading of EnBW Energie Baden-Württemberg AG |
| Michael M. Theis (until 30 June 2022) | Chairperson of the Managing Directors of LVV Leipziger Versorgungs- und Verkehrsgesellschaft mbH |
| Stefanie Kleine (until 30 June 2022) | Project Manager at ONTRAS Gastransport GmbH |
| | |

SUMMARY OF FULLY CONSOLIDATED ENTITIES

| Shareholding % | Name and registered offic | |
|-------------------------------|-------------------------------|--|
| Transport business area | | |
| 100.00 | ONTRAS Gastransport Gml | |
| Storage business area | | |
| 100.00 | VNG Gasspeicher GmbH, L | |
| 100.00 | VNG Gasspeicher Service (| |
| Trading & Sales business area | | |
| Trading segment | | |
| 100.00 | ENERGIEUNION GmbH, Sci | |
| 100.00 | VNG Handel & Vertrieb Gn | |
| Domestic sales segment | | |
| 100.00 | goldgas GmbH, Eschborn | |
| Foreign sales segment | | |
| 100.00 | G.EN. Operator Sp. z o.o., Ta | |
| 100.00 | goldgas GmbH, Wien, Öste | |
| 100.00 | HANDEN Sp. z o.o., Warsch | |
| 100.00 | VNG Austria GmbH, Gleisd | |
| 100.00 | VNG Energie Czech s.r.o., P | |
| Biogas business area | | |
| 100.00 | BALANCE Erneuerbare Ene | |
| 100.00 | Biogas Produktion Altmark | |
| Group Centre business area | | |
| 100.00 | VNG AG, Leipzig | |

100.00

| Digital Infrastructure business area | |
|--------------------------------------|--|

| 100.00 | Gas-Union GmbH, Frankt |
|--------|------------------------|
| 100.00 | GDMcom GmbH, Leipzig |
| 100.00 | GEOMAGIC GmbH, Leipzi |

¹ Gas-Union GmbH holds treasury shares of 1.85 percent.

| Name a | and registered offices of the entity |
|---------|--|
| | |
| ONTRAS | S Gastransport GmbH, Leipzig |
| | |
| VNG Ga | sspeicher GmbH, Leipzig |
| VNG Ga | sspeicher Service GmbH, Leipzig |
| | |
| ENERGI | EUNION GmbH, Schwerin |
| VNG Ha | ndel & Vertrieb GmbH, Leipzig |
| goldgas | s GmbH, Eschborn |
| G.EN. O | perator Sp. z o.o., Tarnowo Podgórne, Republik Polen |
| goldgas | s GmbH, Wien, Österreich |
| HANDE | N Sp. z o.o., Warschau, Republik Polen |
| VNG Au | stria GmbH, Gleisdorf, Österreich |
| VNG En | ergie Czech s.r.o., Prag, Tschechische Republik |
| BALAN | CE Erneuerbare Energien GmbH, Leipzig |
| Biogas | Produktion Altmark GmbH, Leipzig |
| | |
| VNG AG | , Leipzig |
| VNG-Er | dgascommerz GmbH, Leipzig |
| Gas-Un | ion GmbH, Frankfurt am Main ¹ |
| GDMco | m GmbH, Leipzig |
| GEOMA | GIC GmbH, Leipzig |

INDFPFNDFNT AUDITOR'S REPORT

To VNG AG

OPINIONS

We have audited the consolidated financial statements of VNG AG, Leipzig, and its subsidiaries (the Group), which comprise the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated balance sheet as at 31 December 2022, the consolidated statement of cash flows and the consolidated statement of changes in equity for the financial year from 1 January to 31 December 2022, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of VNG AG for the financial year from 1 January to 31 December 2022.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) of the German Commercial Code [Handelsgesetzbuch, HGB] and, in compliance with these requirements, give a true and fair view of the financial position and cash flows of the Group as at 31 December 2022 and of its financial performance for the financial year from 1 January to 31 December 2022, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this

group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) Sentence 1 of the HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 of the HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY **BOARD FOR THE CONSOLIDATED** FINANCIAL STATEMENTS AND THE **GROUP MANAGEMENT REPORT**

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) of the HGB. and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the financial position, performance and cash flows of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do S0.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE **GROUP MANAGEMENT REPORT**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 of the HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) [and supplementary compliance with the ISAs] will always detect a material misstatement. Misstatements can arise from fraud or error and are considered

material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group 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 opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the financial position, performance and cash flows of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) of the HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information..

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Leipzig, 16 March 2023

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft

Bätz

Wirtschaftsprüfer [German Public Auditor] Salzer

Wirtschaftsprüfer [German Public Auditor]

PUBLICATION DETAILS

Publisher

VNG AG Braunstraße 7 04347 Leipzig

Coordination and editorial responsibility VNG AG, Kommunikation/Politik, Leipzig

Contact

Phone +49 341 443-0 Fax +49 341 443-1500 info@vng.de www.vng.de/en

Copy deadline

30 March 2023

Concept and layout

EKS | Die Agentur www.eks-agentur.de

Photos

Pages 6, 9, 10, 18, 20, 21, 22, 23, 25, 27, 28, 30, 31, 34, 37: Torsten Proß, Jeibmann Photografik Pages 8, 24: Peter Eichler Page 15: EnBW AG, Catrin Moritz Page 25: Dirk Brzoska Page 34: BALANCE Erneuerbare Energien GmbH Page 36: Multi, DBI Page 37: Anika Dollmeyer



VNG AG

Braunstraße 7 | 04347 Leipzig PO Box 24 12 63 | 04332 Leipzig Phone +49 341 443-0 | Fax +49 341 443-1500 info@vng.de | www.vng.de/en

