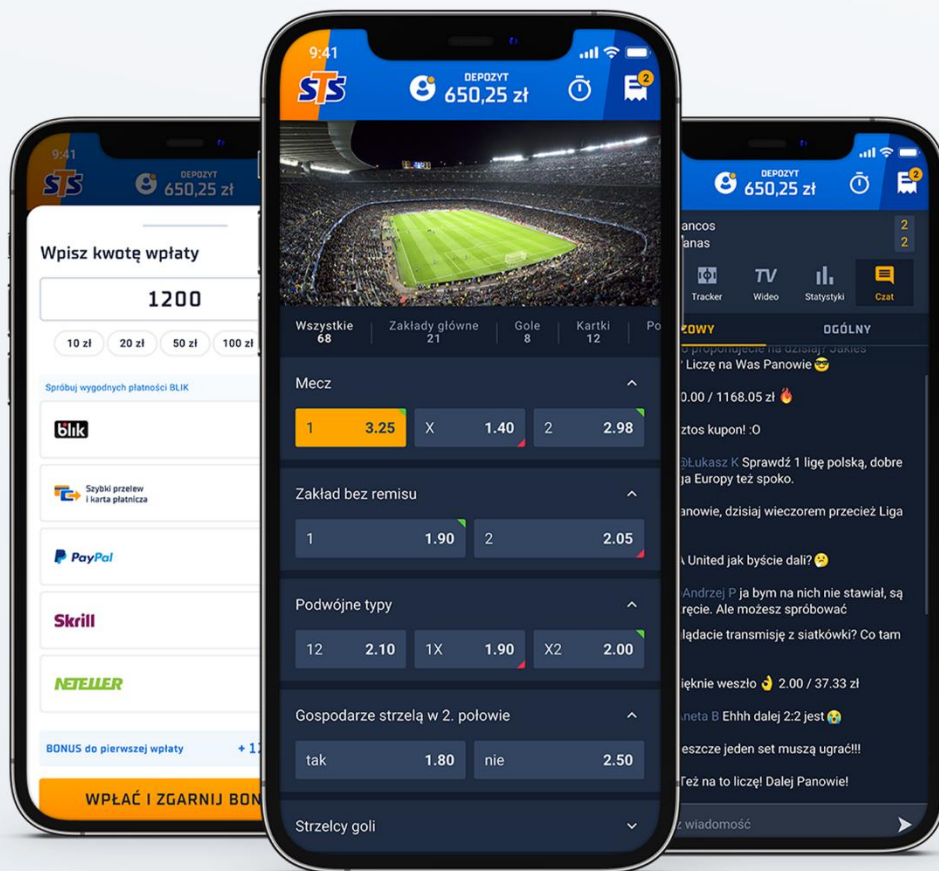




# Report of the Management Board on the activities of STS Holding S.A. Group of Companies

for the period from January 1 to December 31, 2021

It includes the report on the operations of STS Holding S.A.



# Letter of the President of the Management Board





## Dear Shareholders,

last year marked a breakthrough for the STS Group, that is the group of companies headed by STS Holding S.A. It was complete with the debut of STS Holding SA on the WSE main market in December. Over 12 months of last year, the STS Group achieved historically the highest operating and financial results.

In 2021, the number of active users amounted to 693,000, compared to 557,000 in the previous year, which represents an increase by 24%. From January to December 2021, the Group recorded 370 thousand new registered users, as compared to 314 thousand in the previous year. Therefore, there was a year-on-year increase of 18%.

Furthermore, the number of customers who made their first deposit has also increased. In 2021, their number amounted to 249,000, compared to 205,000 in the previous year, which represents a year-on-year increase by 21%.

Certainly, EURO 2020 held in June and July of the previous year and our promotional campaign additionally contributed to the achievement of great results in terms of the acquisition of new users. Our data shows that over 90 thousand additional users were acquired in connection with this international event.

The excellent operating results also had a direct impact on the financial results. Last year, the value of amounts staked by the customers of the STS Group amounted to nearly PLN 4.5 billion, as compared to nearly PLN 3.6 billion in 2020, so then, there was a year-on-year increase by 25%.

On the other hand, NGR, i.e. the value of bets placed by the customers decreased by the winnings paid and gaming tax - increased to a record amount of PLN 565 million in 2021, compared to PLN 434 million a year before. This represents an increase in the ratio by approx. 30% y-o-y.

In 2021, the STS Group also achieved the highest financial results in history. The consolidated net profit amounted to PLN 131 million, which means an increase by 29% year-on-year. Last year, the STS Group also achieved a record level of EBITDA, which after adjustment by IPO costs, inter alia, amounted to as much as PLN 216 million and was 43% higher than in the previous year.

In 2021, we also systematized our activities, simplifying the structure of the STS group of companies. In 2021, our company STS.BET Ltd., which is responsible for operations on the British and Estonian markets, was directly incorporated into STS S.A. Thus, our revenue on foreign markets are also visible in the consolidated statements.

The STS group remains one of the largest bookmakers in Central Europe and a leader in Poland. Our overriding goal is to strengthen our position on the domestic market, which involves an increase in the margins of our activity. What is more, we are further developing our presence on foreign markets, thanks to licenses in Great Britain and Estonia. In 2022, the Group intends to reach year-to-year NGR growth of 15-20%.

In addition, the Group is observing the first potential acquisition targets that will allow it to enter new attractive markets. We will consider companies that fit into our growth strategy aiming to quickly grow outside Poland. The entities that will positively affect the consolidated EBITDA ratio will be taken into consideration. Significant factors will include the complementarity of the offer, prospects for dynamic development and synergies at the entire group level. The STS Group is in a very good financial situation; it is a preferred partner of banks, inter alia, so the acquisition could be financed from one of the many available sources without the need to change the dividend policy.

As announced in the IPO and in the dividend policy, we maintain our willingness to pay out the entire generated net profit. STS SA - the main operating company - generated over PLN 153 million of net profit in 2021. Due to the holding structure of the STS Group, it will also be paid in the form of advance payments.

The challenges of 2022 are ahead of us. From the end of February this year, we have been operating in the circumstances of war beyond our eastern border, which has an impact on consumers and business in Poland. What is more, the economy operates in an environment of high inflation and rising interest rates, which has a direct impact on the financial condition of customers.

STS is a large and professional company, a market leader, so it can handle a more demanding situation. The first quarter of 2022 was intense for the world of sport, and the results of sports events turned out to be good for Polish operators. In addition, Poland qualified for the World Cup in Qatar, and Iga Świątek is the leader of the WTA ranking. The positive atmosphere around Polish sport already in the first quarter of this year translated into players' activity. This will have a significant positive impact on the Group's operating and financial indicators in the first and second quarter of this year. We assume that the third and fourth quarters of this year will be the strongest for us.

A handwritten signature in black ink, reading "Mateusz Jurczyk". The signature is written in a cursive, flowing style with a large initial 'M'.

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# 1. Introduction





## 1.1. Details of the Parent Entity

Name:	STS Holding S.A.
Legal form:	spółka akcyjna [joint-stock company]
Registered office:	Katowice, ul. Porcelanowa 8
Country of registration:	Poland
KRS (National Court Register Number):	0000898108
Body keeping the register:	District Court for Katowice - Wschód in Katowice, 8th Commercial Division of the National Court Register
REGON (Polish Business Registry Number):	388903879
NIP (Tax Identification Number):	527-29-56-761

STS Holding S.A. is the parent company of the STS Holding SA Group of Companies (hereinafter also referred to as the "Group", "STS Group" or "Group of Companies"). STS Holding S.A. was established on March 10, 2021 by Vistra Shelf Companies sp. z o.o., under the business name of Vartomil Investments Spółka Akcyjna (hereinafter: Vartomil Investments S.A.). The company was based in Warsaw, ul. Towarowa 28, and was entered in the Register of Enterprises kept by the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register under KRS number: 0000898108.

On June 10, 2021, the company's shares were acquired by the following companies: Betplay Capital sp. z o.o. (former: Betplay International sp. z o.o.), Juroszek Holding sp. z o.o. (former: Juroszek Investments sp. z o.o.) and MJ Investments sp. z o.o.

On 10 September 2021, the Extraordinary General Meeting of the Company adopted Resolution no. 3 on increasing the Company's share capital by way of issuing series B shares for the existing shareholders of the Company, establishing the preemptive right, registering the Company's shares in the depository of securities kept by the National Depository for Securities and applying for admission and introduction of series B shares to trading on the regulated market

kept by the Warsaw Stock Exchange. The share capital of the Company was increased by PLN 156,149,998.00 through the issue of 156,149,998 series B shares with a nominal value of PLN 1.00 per share and an issue price of PLN 19.1767091322446 per share. All shares were offered for subscription pursuant to Art. 431 para. 2 point 1 of the Commercial Companies Code, by way of a private subscription by the existing shareholders of STS Holding S.A. holding the company's shares as at the subscription rights date, in exchange for an in-kind contribution in the form of 112,150,000 series A and B registered shares of STS Spółka Akcyjna with its registered office in Katowice. The total value of the in-kind contribution was PLN 2,994,443,131.00.

On October 21, 2021, the Extraordinary General Meeting of the company adopted Resolution No. 5 on increasing the Company's share capital by issuing 140,000 series C shares with a nominal value of PLN 1.00 per share and an issue price of PLN 1.00. 70,000 shares were offered for subscription pursuant to Art. 431 para. 2 point 1 of the Commercial Companies Code by way of private subscription to Zdzisław Kostrubała for a cash contribution of PLN 70,000. 70,000 shares were offered for subscription pursuant to Art. 431 para. 2 point 1 of the Commercial Companies Code by way of private subscription to

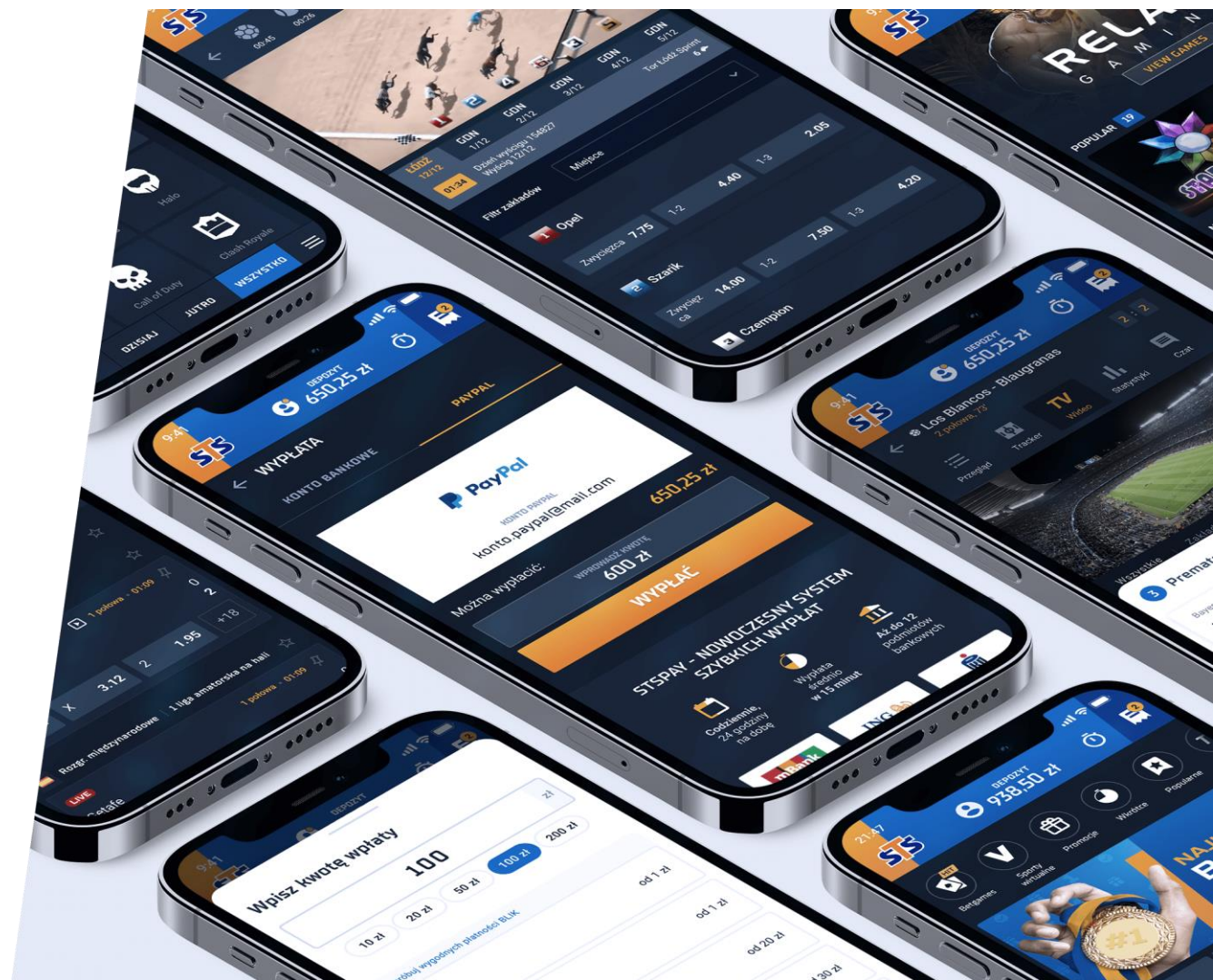
Marcin Walczysko for a cash contribution of PLN 70,000.

Due to the actual control over the STS Group, the ultimate parent of the company is Mr Mateusz Juraszek.

## 1.2. Duration of the Group of Companies

The Parent Company STS Holding S.A. and other entities of the Group of Companies were established for an indefinite period.

## 2. Operations of the STS Group



## 2.1. Description of activities of STS Holding S.A. and the STS Group

Founded in 1997, the STS group is one of the largest bookmakers in Central Europe and a leader in Poland. The bookmaker is licensed in the UK and Estonia. The portfolio of the Group includes sports betting, Virtual Sports, online casino (excluding Poland), BetGames and a wide range of eSports.

The Group provides online services not only via the desktop website, but also through its mobile version, as well as dedicated Android and iOS applications and a network of approx. 400 retail betting shops across Poland. The Group is continuously improving its offering by, among others, providing more live bets and strengthening its leading position in the field of eSports. The bookmaker has also created its own withdrawal system – STSpay – allowing for quick transfers 24/7. The Group additionally owns Betsys – the company providing betting engine.

Thanks to effective 24/7 customer service, the Group can respond to increasing customer needs. Also, the Company offers live broadcasts of sports events via STS TV, also available to users of mobile devices. Every month, the Company broadcasts nearly 5,000 sports events, including, among others, football, tennis, volleyball, basketball and other sports.

The bookmaker is actively involved in supporting Polish sport, being the largest private entity on the domestic sponsorship market. The Company is the official sponsor of the Polish National Football Team, the strategic sponsor of Lech Poznań, the main sponsor of Jagiellonia Białystok and the official sponsor of Cracovia, Pogoń Szczecin, Górnik Łęczna, Zagłębie Lubin, Polish Volleyball League and other clubs and sports associations. The Group also supports eSports.

The company has modern betting outlets, which are located in every major city in Poland - there are over 400 of them in total throughout the country. The Group has over 1,500 employees.

In February 2019, the Group started operating on European markets. Outside Poland, the bookmaker is licensed in the UK and Estonia, from which it offers services on several markets. The group is the first Polish bookmaker to start operating abroad. In addition, the Group operates in the Czech Republic (Betsys) and Malta. The Group remains focused on Poland, but it expects its international offering, including its online casino, to be a growing and important part of the Group's operations in the future. The company also does not rule out the interest in new directions of foreign expansion and the commercialization of the Betsys system in order to offer it to other bookmaking operators in Central and Eastern Europe, in the markets where the Group is not operating.

## 2.2. Strategy and development prospects of STS Holding S.A. and of the Group

The Group's strategy is based on its ability to acquire and retain customers, geographical expansion, maintaining technologically sound and innovative infrastructure and continuous introduction of new products and services:

**Market leader position in Poland** - the Group is the largest player in the sports betting industry in Poland. Due to development of the portfolio of products and services and a scalable proprietary platform, the Company is ideally positioned to acquire new customers, the number of which grows due to organic growth of the market and the migration of players away from the grey economy.

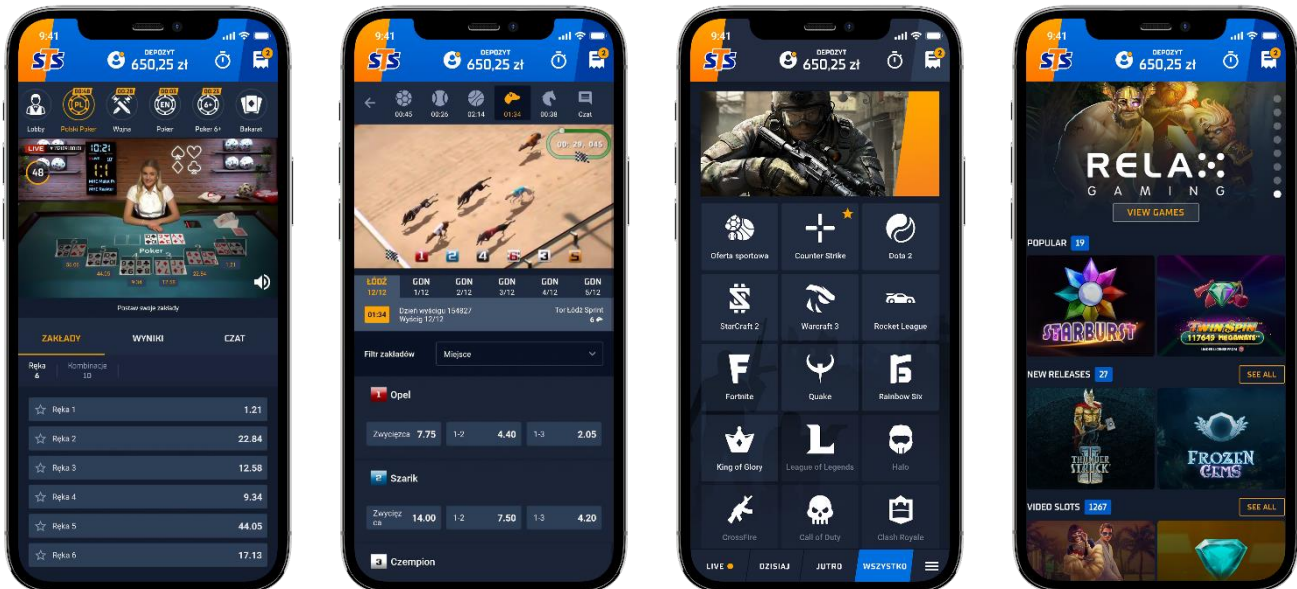
**Leading customer satisfaction and innovation** - the Group provides its players with a best-in-class customer experience enriched with an innovative proprietary technology platform. STS S.A. has a high level of customer satisfaction – NPS (Net Promoter Score) for the retail network increased from 39 in 2018 to 52 in 2021. The Group plans to follow and set trends with its product and technological offering, which will positively affect engagement and loyalty of players

**Platform of choice engaging sports fans** - the Group intends to maintain its status as the bookmaker of choice for sports fans in Poland. The Group will continue to leverage proven marketing and sponsorship capabilities to increase STS brand awareness. The goal of the Company is to become a one-stop provider of sports entertainment with high level of player engagement

**Expansion into selected international markets and mergers and acquisitions** - the Group intends to consider attractive options for foreign expansion and focus on markets insufficiently served in terms of innovation or advancement of product offering, i.e. areas in which the Group stands out from the competition. As part of this selective approach, it is possible that the Group will enter new markets, acquire an entity from the technology industry or will commercialize Betsys' system as a B2B product in countries in which the Group does not intend to operate in the future.

## 2.3. Product portfolio of the STS Group

The Group has a diversified portfolio, and in some cases it is an exclusive operator to offer selected services:



### Sports betting

Bets on over 70 different sports disciplines, over 300 thousand in-play (live) events per year and over 1.5 million pre-match events.

### BetGames

Proprietary live dealer games with exclusive odds allowing customers to bet on poker, war games and baccarat, along with a real-time exchange rate offer published on the game's website.

### Virtual Sports

Betting on the results of virtual sports such as football, basketball, horse racing and dog racing. The results of the games are determined by the Random Number Generation (RNG) software.

### Esport

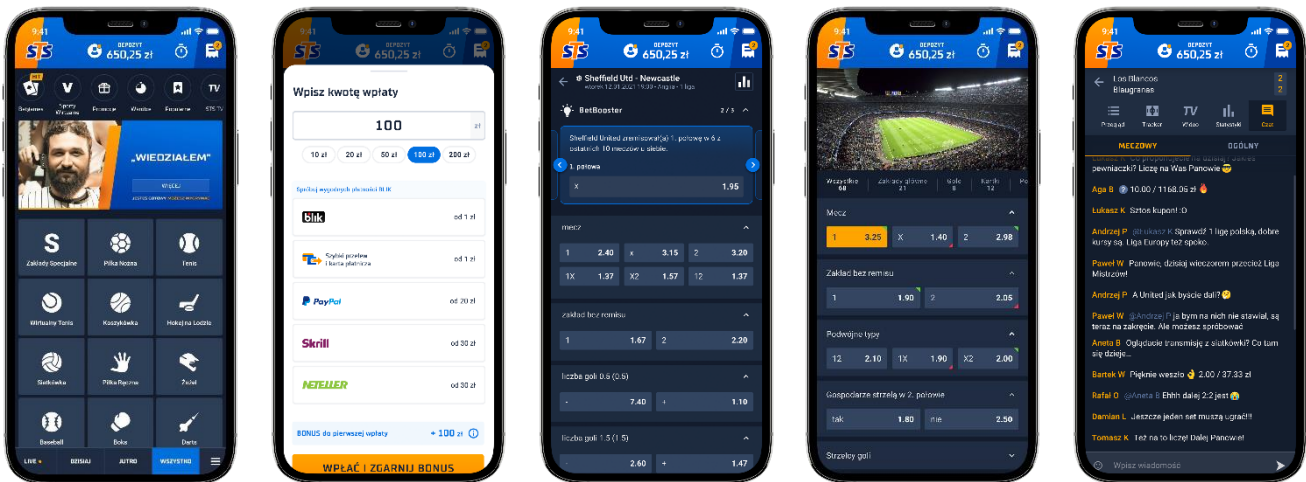
Electronic sports are games between players in video games, often in the form of organized leagues and tournaments (incl. Counter Strike, League of Legends, Dota 2, StarCraft 2 or Fortnite). Electronic sports enable the Group to enter new markets and acquire new customers (in particular Millennials and Generation Z), who are generally less interested in traditional sports. The group was the first bookmaker in Poland to introduce a betting offer for esports games, and it also has dedicated channels in social media for esports fans. A separate team of the Group's specialists is responsible for product support for esports.

### Online casino

Offered by the Group outside of Poland, under the license in the UK and Estonia. The company offers over 1 thousand games, including roulette, blackjack, slots and video games. Online casinos simulate real-world casino play. Furthermore, online casinos allow players to play against each other in other games such as poker.

The Group's focus on proprietary technology has enabled to create a unique betting platform that is key to offering best-in-class gaming experience. Such an approach allows the Group to attract and retain customers.

## Key features of the platform



### Betsys betting system

The Group's platform was created for the needs of the Polish market and adapted to the preferences of local customers. Betsys allows the Group to provide customers with best-in-class products and user experience (UX), including access to over 70 different sports disciplines, over 300 thousand in-play (live) events per year and over 1.5 million pre-match events.

### STSpay

Since 2017, the fast payment system STSpay has been in operation cooperating with the largest banks in the country. It allows players to make fast payouts (average payout time from request is 9 minutes) on winnings around the clock. STSpay enables the Group's customers to use many fund deposit methods, including Skrill, Neteller, PayPal, Blik, PayU and debit/credit cards.

### BetBooster

An AI-driven automated sports insight feed, and a 24/7 virtual sports offering, available both in online and retail channels. In Poland, the Group has an exclusive agreement with the supplier of the system.

### STS TV

The Group, thanks to contracts for media rights, broadcasts nearly 5,000 sports events every month on STS TV, including football, tennis, volleyball, basketball and other sports.

### Chat and gaming community

Development of the user community through a unique and proprietary chat platform and forum that allows players to interact, discuss and share their bets or opinions. By September 2021, approximately 100,000 customer entries had been recorded in the Group's forum and chat, about 1.3 million bets have been shared and there are about 160 thousand active chats.

## 2.4. Research and development

For many years, the group has been continuously implementing the "mobile-first" strategy based on the proprietary bookmaker system. It is constantly developing its own technology platform to meet customer needs and set market trends. The Group's investments in the product portfolio and technological solutions in 2021 amounted to PLN 29 million. Furthermore, in 2020, STS S.A. took control of Betsys s.r.o., the Czech technology company, in which it currently holds 74% of shares. Betsys is the main provider of IT solutions for the bookmaker in Poland, both for online and retail channels. In total, the Group's product and platform development team consists of about 160 highly qualified specialists, including approximately 85 programmers, 55 other employees in technology and platform development, and 20 people dealing with business intelligence and business analytics.

## 2.5. Basic information about STS Holding S.A. and the STS Group

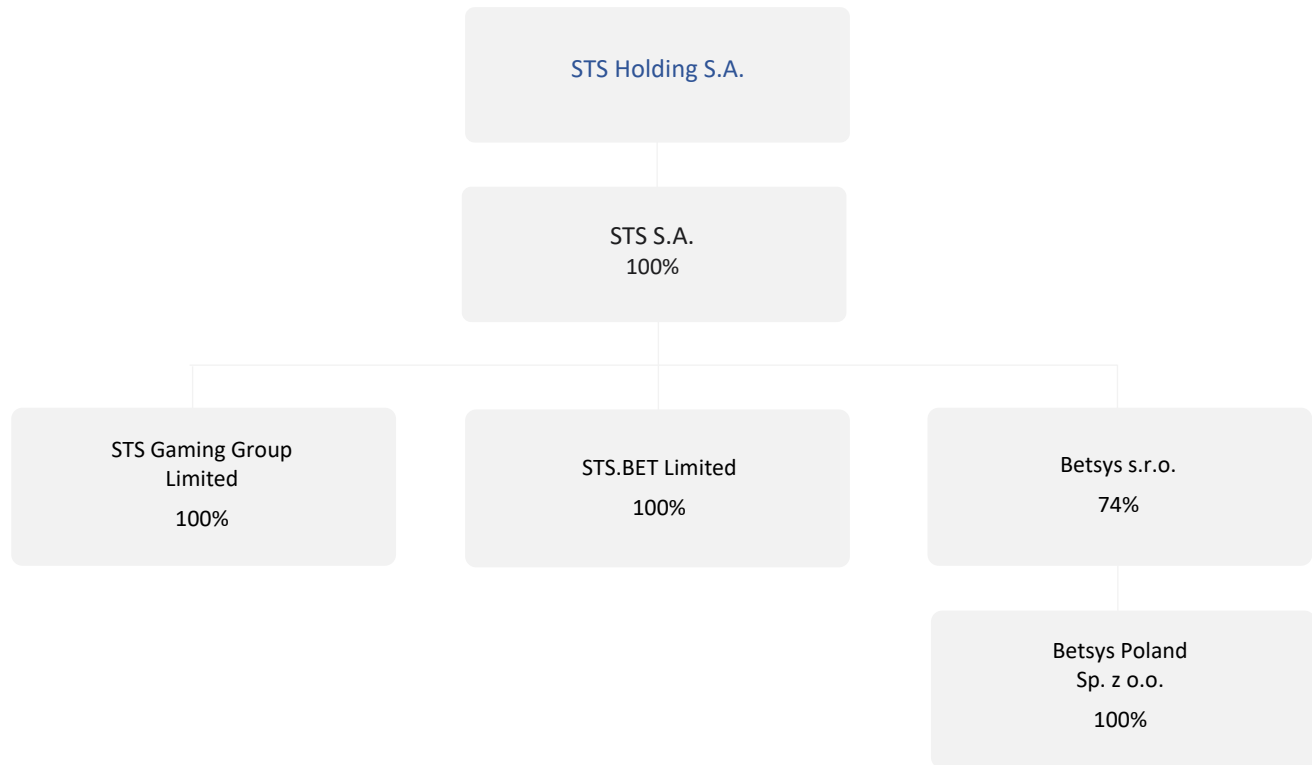
The structure of subsidiaries of STS HOLDING S.A. as on December 31, 2021 is presented in the diagram and chart below:

Name	Registered address	Registration data	Scope of business operations	Share capital (in PLN)	% share in capital	Percentage share in voting rights
STS Spółka Akcyjna	Katowice, ul. Porcelanowa 8	National Court Register: 0000829716	Betting	4, 486,000	100%	100%
STS Gaming Group Limited	Malta, Pieta, 177/179 Triq Marina	C 68747	Bookmaker service provider	48,039,452	100%	100%
STS BET Limited	Malta, Pieta, 177/179 Triq Marina	C 68747	Betting	16,925,697	100%	100%
BetSys s. r. o.	Czech Republic, Prague, Karlin, Karolinska 650/1	ICO: 26499606	Programming services	33,540	74%	74%
Betsys Poland sp. z o.o.	Katowice, ul. Porcelanowa 8	National Court Register: 0000693519	Programming services	5,000	74%	74%



The date of acquisition of shares in STS Gaming Group Ltd. by STS S.A. is August 24, 2020. The date of acquisition of shares in Betsys s.r.o. and Betsys Poland sp. z o.o. by STS S.A. is August 31, 2020. The companies from the Group's structure are fully consolidated.

The date of acquisition of shares in STS BET Ltd. by STS S.A. is July 14, 2021.



## 2.6. Share capital and shareholding structure

The share capital of STS HOLDING S.A. as on December 31, 2021 amounted to PLN 156,389,998 and was divided into 156,389,998 shares.

Shares	Date of General Meeting	Number of shares (pcs.)	Issue price (PLN)	Nominal price	Date of registration in the National Court Register
Series A	March 10, 2021	100,000	1	1	April 30, 2021
Series B	September 10, 2021	156,149,998	19.18	1	November 4, 2021

Series C                      October 21, 2021                      140,000                      1                      1                      November 29, 2021

As at December 31, 2021, the shareholding structure was as follows:

Shareholders	Number of shares	% of shares in the share capital	Number of votes	% in the number of votes
Juroszek Holding sp. Z o.o.	52,628,313	33.65	52,628,313	33.65
MJ Investments sp. Z o.o.	39,699,901	25.39	39,699,901	25.39
Betplay Capital sp. Z o.o.	17,046,786	10.9	17,046,786	10.9
Norges Bank	10.145.400	6.49	10.145.400	6.49
Nationale-Nederlanden Powszechno Towarzystwo Emerytalne S.A.	9,375,000	5.99	9,375,000	5.99
Others	27.494.598	17.58	27.494.598	17.58
<b>Total</b>	<b>156.389.998</b>	<b>100</b>	<b>156.389.998</b>	<b>100</b>

## 2.7. Changes in the capital structure and structure of subsidiaries in 2021

### Share capital increase in STS Gaming Group Limited

On December 6, 2021, a capital increase was registered in a Maltese subsidiary, STS Gaming Group Limited. Under the agreement of September 10, 2021, signed between STS S.A. and STS Gaming Group Limited, according to which liability from the share capital increase of STS Gaming Group Limited was covered by receivables from loans to STS Group Limited in the amount of EUR 1,000,000 and PLN 6,000,000.00, which, at the exchange rate as on the date of the agreement, i.e. EUR 1 = PLN 4.5417, it amounted to EUR 1,321,091.00. The amount of the debt includes only the principal amounts of the loans granted, excluding interest.

All receivables of STS S.A. towards STS Gaming Group Limited were set off with the liability for taking up shares in the increased capital and amounted to EUR 2,421,091.00.

## Capital increase in STS.BET Limited

On December 6, 2021, a capital increase was registered in a Maltese subsidiary, STS Gaming Group Limited. Under the agreement of September 10, 2021, signed between STS S.A. and STS.BET Limited, according to which liability from the increase in share capital of STS.BET Limited was covered by receivables from loans granted to STS.BET Limited in the amount of EUR 2,235,000.00 and PLN 2,185,000.00, which, according to the exchange rate on the date of the agreement, i.e. EUR 1+ PLN 4.5417 it amounted to EUR 481,097.00. The amount of the debt includes only the principal amounts of the loans granted, excluding interest.

The total debt of STS S.A. to STS.BET Limited, which is being cleared by the acquisition of shares in the increased capital, is EUR 2,716,097.00.

## Adoption of a resolution on the adoption of an incentive programme for key personnel of the Group

On October 29, 2021, the Extraordinary General Meeting of the Company adopted the resolution no. 4 on the adoption of an incentive scheme for key employees and associates of the Group.

According to preliminary analyses, the Management Board of STS Holding S.A. plans to recognize the incentive programme in accordance with IFRS 2, under which the value of remuneration for managerial work is determined indirectly by reference to the fair value of the equity instruments granted. The fair value of the options is measured at the date of grant, whereby non-market vesting conditions (achievement of a financial performance target) are not taken into account in estimating the fair value of the share options.

The cost of remuneration and the increase in equity is recognized based on the best available estimate of the number of options that will vest during the period. In determining the number of options that will vest, non-market vesting conditions are taken into account.

On October 21, 2021, the Extraordinary General Meeting of the Company adopted Resolution No. 5 on the increase of the Company's share capital by issuing series C shares, depriving the existing shareholders of the Company of all pre-emptive rights. Pursuant to this resolution, the share capital of the Company was increased by the amount of PLN 140,000.00 through the issue of 140,000 ordinary registered series C shares with a nominal value of PLN 1.00 each, and with an issue price of PLN 1.00 per share. These shares were offered for private subscription by Mr. Zdzisław Kostrubała (member of the Management Board) in the number of 70,000 series C shares in exchange for a cash contribution of PLN 70,000.00, and Mr. Marcin Walczysko (member of the Management Board) in the number of 70,000 shares series C in exchange for a cash contribution of PLN 70,000.00. The capital increase was registered by the Registry Court on November 29, 2021. The Extraordinary General Meeting, having read the written opinion of the Management Board of the Company justifying the reasons for depriving the Company's shareholders of the pre-emptive rights and the proposed issue price for series C shares, decided in the interest of the Company to deprive the Company's shareholders of the entire pre-emptive rights regarding all series C shares.

## Share capital increase in STS Holding S.A.

On October 21, 2021, the Extraordinary General Meeting of STS Holding S.A. adopted a Resolution no. 5 on the increase in the share capital of STS Holding S.A. through the issuance of 140,000 series C shares with a nominal value of PLN 1 each, which were offered by way of private subscription to Mr. Zdzisław Kostrubała for 70,000 series C shares in exchange for a cash contribution of PLN 70,000 and to Mr. Marcin Walczysko for 70,000 series C shares in exchange for a cash contribution of PLN 70,000. Series C shares have been fully paid up.

## Share capital increase of STS Holding S.A.

On September 10, 2021, the Extraordinary General Meeting of the Company adopted a resolution on the increase in the Company's share capital through the issuance of 156,149,998 series B shares with a nominal value of PLN 1 each (the "Series B Shares"), which

will be offered by way of private subscription to the existing shareholders of the Company (the "Resolution"). In accordance with the Resolution, 21,720,374 Series B Shares were offered for subscription by Betplay Capital sp. z o.o. in exchange for a contribution in kind in the form of 15,600,000 Series A registered shares in STS S.A., 73,674,883 Series B Shares were offered for subscription by Juroszek Holding sp. z o.o. (former: Juroszek Investments sp. z o.o.) in exchange for a contribution in kind in the form of 26,000,000 Series A registered shares and 26,914,750 Series B registered shares in STS S.A, and 60,754,741 Series B Shares were offered for subscription by MJ Investments sp. z o.o. in exchange for a contribution in kind in the form of 20,800,000 Series A registered shares and 22,835,250 Series B registered shares in STS S.A. The value of the share capital increase amounted to PLN 156,149,998.00. The shares in STS S.A. were contributed in kind, and Series B Shares were subscribed for by the Company's shareholders on the basis of (i) an agreement with Betplay Capital sp. z o.o. dated September 14, 2021, (ii) an agreement with Juroszek Holding sp. z o.o. (former: Juroszek Investments sp. z o.o.) dated September 14, 2021 and (iii) an agreement with MJ Investments sp. z o.o. dated September 14, 2021.

## Split of shares in STS S.A.

On August 12, 2021, the division (split) of the STS S.A.' shares and the related amendment to the STS S.A.' Articles of Association were registered in the National Court Register. Pursuant to Resolution No. 1 of the Extraordinary General Meeting of STS S.A. of April 14, 2021, all registered, non-preferred series A shares (2,496,000 series A shares) and series B shares (1,990,000 series B shares) with a nominal value 1.00 PLN each were split based on a 1 to 25 ratio. Therefore, the number of the STS S.A.' shares constituting the share capital was increased from 4,486,000 of the total number of series A and series B shares to 112,150,000 of the total number of shares of series A and series B shares, with a nominal value of PLN 0.04 each. Due to the split (split) of the STS S.A.'s shares, the amount of the STS S.A. share capital was not changed.

## Share capital increase in STS Gaming Group Limited

On April 17, 2021, a capital increase was registered in a Maltese subsidiary, STS Gaming Group Limited. The share capital was increased by EUR 8,110,375.00 from EUR 1,165.00 (1,165 ordinary shares of EUR 1.00 each) to EUR 8,111,540.00 (8,111,540 ordinary shares of EUR 1.00 each).

The new shares were acquired by the existing shareholder, STS S.A. Under the agreement of 14 July 2021, the liability under the increased capital was covered by receivables under loans from STS Gaming Group Limited in the amount of EUR 3,974,000.00 and PLN 18,890,000.00, which, converted at the exchange rate on the agreement date, i.e., PLN 4.5668 = EUR 1.00, gives the amount of EUR 4,136,375.00. The amount of debt covered only the principal amounts of loans granted without interest.

All of STS's receivables from STS Gaming Group Limited were set off with the liability for taking up shares in the increased capital and amounted to EUR 8,111,375.00.

## Acquisition of STS.BET Limited

On July 14, 2021, an agreement was concluded between Betplay Capital sp. z o.o. (formerly Betplay International sp. z o.o.) and STS S.A., under which STS S.A. purchased from Betplay Capital sp. z o.o. (formerly Betplay International sp. z o.o.) 100% of the shares in a Maltese company, STS.BET Limited, for the price resulting from the nominal value of the shares (1 million shares at EUR 1.00 each), i.e., for EUR 1,000,000.00. The sale price was paid in cash. The company STS.BET Limited has been providing bookmaking services on the European market under its own license in the UK and Estonia since April 2019. These licenses entitle STS.BET Limited to offer sports betting, casino games as well as games based on random number generators (RNG).

The main reason for STS SA purchasing the shares in STS.BET Limited was to concentrate the companies operating on the bookmaking market within one group of companies.

Due to the fact that the seller of the shares was a company that is also a co-owner of STS S.A., the acquisition took place under joint control. Therefore, the pooling of interests method will be used to account for this acquisition, based on the reference in IAS 8 to the local standards regulating this type of acquisition, i.e. the Polish Accounting Standards. In line with the pooling of interests method, the Group's financial statements will summarize the relevant items of STS.BET Limited assets, liabilities and revenues and costs, and

appropriate exclusions of balances and interactions as well as elimination of core capital will be made, and comparative data will be restated as if a merger (acquisition of shares in STS.BET) took place at the beginning of the comparative period.

## Share capital increase in STS S.A.

On 19 January 2021, an increase in the STS S.A. share capital by PLN 1,990,000 was registered in the National Court Register in accordance with Resolution No. 2 of the STS S.A. Extraordinary General Meeting of Shareholders of 18 November 2020. The new series B shares were taken up by the existing shareholders of the Company as follows: 1,076,590 shares with a nominal value of PLN 1.00 each were taken up by Juroszek Holding sp. z o.o. (former: Juroszek Investments sp. z o.o.) with its registered office in Cieszyn, ul. Stawowa 27, and 913,410 shares with a nominal value of PLN 1.00 each were taken up by MJ Investments sp. z o.o. with its registered office in Katowice, ul. Porcelanowa 8. New Series B shares were acquired for cash, at the issue price of PLN 1 each.

The companies listed in the Group's structure are subject to consolidation.

## 2.8. Dividend Policy of STS Holding S.A.

In the medium-term, the Company's intention is to distribute 100% of the net profit of the Company for the relevant financial year as dividends. It is the Company's intention, provided that the Company's financial capabilities, market conditions and current investment needs, to achieve a dividend company status. In the event that the Group plans to undertake material M&A, the Company reserves the right to reduce the payout ratio or suspend the dividend payment.

The Company will ensure STS S.A.'s payment of advances on expected dividends in order to accelerate the distribution of profits to the Company's shareholders. An advance on account of a dividend may constitute no more than a half of the profit made from the end of the previous financial year, disclosed in the audited financial statements, increased by reserve capitals established from profit at the disposal of the Management Board for the payment of advances and decreased by uncovered losses and own shares.

In submitting proposed dividend payments, the Management Board will take into account in particular the relevant laws and regulations, the liquidity and capital requirements necessary for the Company's business growth and absorption of potential losses resulting from the materialization of unexpected stress scenarios, such as a sharp decline in the GDP growth or adverse currency or interest rate fluctuations.

However, the Management Board may review the dividend policy from time to time and any future dividends will be paid subject to the Annual General Meeting's decision, taking into account several factors concerning the Company, including its prospects, expected future net profits, cash requirements, financial standing, level of liquidity ratios, business expansion and growth plans, as well as the relevant laws and regulations to make such decision and the amount that may be distributed to shareholders in accordance with law. Additionally, the approval of dividends and their amounts to be paid is always a decision of the shareholders at the Annual General Meeting, who are not bound by any dividend recommendation of the Management Board.

The Parent Company did not pay any dividends in 2021. In the consolidated statement of changes in equity, the Group presents the payment of dividends in the amount of PLN 119 million with regard to the payment of dividends by the subsidiary STS S.A. for the previous owners of the Company.

## 2.9. Employment

As on December 31, 2021, employment in the group of companies was as follows:

Specification	Jan 1, 2021 – Dec 31, 2021	Jan 1, 2020 – Dec 31, 2020
Manual workers	3	4
Office workers	1,255	1 289
<b>Total number of employees</b>	<b>1,258</b>	<b>1,293</b>

Turnover:

Specification	Jan 1, 2021 – Dec 31, 2021	Jan 1, 2020 – Dec 31, 2020
Number of employees hired	332	304
Number of employees terminated	325	365
<b>Difference</b>	<b>7</b>	<b>-61</b>

## 2.10. Revenue sources

The main source of revenue of the Group of Companies in 2021 was revenue from bets, which accounted for over 99.9% of the STS Group's revenue from sales.

Revenue from the sale of services was slightly above PLN 230 thousand, and revenue from the sale of goods and services amounted to PLN 5.5 thousand.

The STS Group generates the vast majority of revenue on the Polish market, which is of key importance to the Group. The Company has no material customers and suppliers that would generate at least 10% of the Group's consolidated revenue.

## 2.11. Cooperation with customers and suppliers

### Customers

The STS Group is one of the largest bookmakers in Central Europe and a leader in Poland. Its services are used by approx. 1.6 million people throughout Europe. At the end of last year, the number of active users amounted to 693,000, compared to 557,000 in the

previous year, which represents an increase by 24%. From January to December 2021, the Group recorded 370 thousand new registered users, as compared to 314 thousand in the previous year. Therefore, there was a year-on-year increase of 18%.



Furthermore, the number of customers who made their first deposit has also increased. In 2021, their number amounted to 249,000, compared to 205,000 in the previous year, which represents a year-on-year increase by 21%.

In 2021, the Group recorded a very high NPS (Net Promoter Score) for the retail network - 52, while for the online channel it was also high - 29.

In June and July 2021, the Group reported increased player interest in the Group's sports betting services related to the 2020 UEFA European Football Championship. Major sport events constitute an opportunity for the Group to attract new players. In June 2021, STS S.A. recorded 67,714 new player registrations as compared to 19,788 in May 2021. In total, in connection with EURO 2022 alone, the Group estimates that it has acquired approx. 90 thousand new users.

## Suppliers

The group's operations are based primarily on its own bookmaker system, which is owned by the Group. The BetSys system is supplemented with a variety of integrated modules, including trading, risk, content, and a privileged information access management system. In addition, the Group's technology team is responsible for front-end development of the Group's technology platform. The Group also integrates external tools into its platform, including external odds providers, video streaming services, statistics data providers and AI-driven customer relationship management (CRM) tools.

The supplementary services include the STSpay payment system created by the Group, which enables players to make fast payouts (average payout time from request is 9 minutes) on winnings around the clock. STSpay enables STS S.A. to connect with major Polish banks via API (application programming interface), which fully automates the process of processing and withdrawing funds. STSpay enables the Group's customers to use many fund deposit methods, including Skrill, Neteller, PayPal, Blik, PayU and debit/credit cards.

On international markets, the Group (brand STSBet) uses the services of TGLab, a Lithuanian company developing software for the operation of bookmakers and other gambling games.

Agreements with key external service providers of the Group:

- Sportradar AG agreements for the provision of services related to the transmission of online sports events and the provision of the NovoPrime service, i.e. a platform for the operation of sports betting, the provision of betting terminals and the use of virtual sports products.
- Agreement with TV Zaidimai Ltd for the provision of a package of services related to the BetGames product.
- Agreement with PZPN and Ekstraklasa S.A. concerning the right to use results of games.
- Agreement with UAB TG LAB for the provision of programming and IT services.
- Agreement with Perform Media Channels for the provision of video and data analysis services by Perform.

The STS Group coordinates purchases and orders for services, which enables the selection of optimal variants and solutions. Orders are placed by people responsible for individual spheres of activity, however, coordination and price negotiations are carried out at the level of the entire Group, not operating companies. The policy pursued by the STS Group assumes the selection of suppliers and materials based on a bidding process. The main criteria for the selection of bids are quality, price, as well as terms and conditions of delivery.

## 2.12. Key contracts

Below is a list of significant contracts concluded by the Group in 2021, in addition to the contracts concluded in the ordinary course of business, as well as other contracts concluded by the Company or other companies of the Group, which contain provisions on the basis of which the Company or other Group companies have any obligations or powers significant for the Company or the Group:

1. On December 27, 2021, STS Gaming Group Limited extended the contract for the provision of services with Perform Media Channels Limited. The contract concerned the provision of video services and data analysis by Perform. Pursuant to the contract, the above services may also be used by STS SA. In return for the services provided, STS Gaming Group Limited was obliged to pay remuneration in the amount specified in the agreement. The agreement is valid until August 2024.
2. On September 10, 2021, STS S.A. and STS Gaming Group Limited signed an agreement under which liability from the share capital increase of STS Gaming Group Limited would be covered by receivables from loans from STS Group Limited in the amount of EUR 1,000,000 and PLN 6,000,000.00, which, according to the exchange rate on the date of the agreement, i.e. EUR 1 = PLN 4.5417, was EUR 1,321,091.00. The amount of the debt includes only the principal amounts of the loans granted, excluding interest. All receivables of STS S.A. towards STS Gaming Group Limited were set off with the liability for taking up shares in the increased capital and amounted to EUR 2,421,091.00.
3. On September 10, 2021, STS S.A. and STS.BET Limited signed an agreement under which liability from the increase in share capital of STS.BET Limited was covered by receivables from loans granted to STS.BET Limited in the amount of EUR 2,235,000.00 and PLN 2,185,000.00, which, according to the exchange rate on the date of the agreement, i.e. EUR 1+ PLN 4.5417 it amounted to EUR 481,097.00. The amount of the debt includes only the principal amounts of the loans granted, excluding interest. The total debt of STS S.A. to STS.BET Limited, which is being cleared by the acquisition of shares in the increased capital, is EUR 2,716,097.00.
4. On July 14, 2021, a debt assignment agreement was concluded between Betplay Capital sp. z o.o. and STS transferring from Betplay Capital sp. z o.o. to STS SA receivables under loan agreements granted to STS.BET Limited for the total principal amount of PLN 1,735,000.00 and EUR 1,235,000.00. The amount of debt covered only the principal amounts of loans granted without interest. STS SA purchased the aforementioned receivables for cash at the nominal price of the acquired loans.
5. On May 27, 2021, an overdraft facility agreement was entered into by: mBank SA, and STS S.A. and Betplay Capital sp. z o.o. (formerly Betplay International sp. z o.o.) as borrowers. The Bank granted to the borrowers an overdraft facility in the amount not exceeding PLN 40 million to finance the borrowers' current operations, which amount may be increased based on agreement with the bank to PLN 70 million. The Borrowers may use the loan in the period from May 28, 2021 to May 26, 2022. Sublimits of the Borrowers are as follows: STS S.A. has a limit of PLN 70 million, while Betplay Capital sp. z o.o.



has a limit of PLN 20 million. The loan is secured with blank promissory notes issued by both borrowers. As on 31 December 2021, STS S.A. has not used the granted credit lines.

## 2.13. Transactions with related entities

Related party transactions concluded in 2021 were of a market nature. The description of related party transactions is presented in Note 27 to the consolidated financial statements of the STS HOLDING S.A. Group of Companies from January 1 to December 31, 2021.

## 2.14. Loans, liabilities, sureties

STS S.A. submitted blank promissory notes with a promissory note declaration as security for liabilities under overdraft agreements with mBank for the amount of PLN 25 million (the agreement was valid until May 25, 2021) and with PKO BP SA for the amount of PLN 50 million (the agreement was valid until July 21, 2021). Those securities have been released.

On May 27, 2021, an overdraft facility agreement was entered into by: mBank SA (Bank), and STS SA. and Betplay Capital sp. z o.o. (former Betplay International sp. z o.o.) (Borrowers).

The Bank granted to the Borrowers an overdraft facility in the amount not exceeding PLN 40 million to finance the borrowers' current operations. The Borrowers may use the loan in the period from May 28, 2021 to May 26, 2022. The Bank may increase the loan amount up to PLN 70 million on the basis of an instruction to increase the loan, indicating the amount and repayment date of the increased financing, however, not later than May 27, 2022. Sublimits of the Borrowers are as follows: STS S.A. has a limit of PLN 70 million, while Betplay Capital sp. z o.o. has a limit of PLN 20 million. The loan is secured with blank promissory notes issued by both borrowers.

On September 2, 2021, a multi-purpose overdraft limit agreement was concluded between: Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna, and STS S.A. and Betplay Capital sp. z o.o. (former Betplay International sp. z o.o.) (Borrowers).

The Bank granted the Borrowers a multi-purpose overdraft limit in the amount of PLN 50 million for financing the current operations of the Borrowers. The Borrowers may use the loan in the period from September 2, 2021 to May 31, 2022. Sublimits of the Borrowers are as follows: STS S.A. has a limit of PLN 50 million, while Betplay Capital sp. z o.o. has a limit of PLN 20 million. The total amount of the loan used for the Borrowers may not exceed PLN 50 million. The loan is secured with blank promissory notes issued by both borrowers as well as civil law sureties of: Zbigniew Juroszek to the amount of PLN 75 million and Mateusz Juroszek to the amount of PLN 75 million.

As on the balance sheet date, December 31, 2021, and as on the date of these consolidated financial statements, STS S.A. has not used the credit lines granted.

In addition, STS S.A. had a contractual mortgage on real estate - the right of perpetual usufruct of land and ownership of a building - in the amount of PLN 29 million established in favor of ING Bank Śląski SA with its seat in Katowice for the company ATAL S.A. The entry on the removal of the mortgage was made on October 6, 2021.

STS S.A. is a party to a aircraft lease agreement, with the parent company - Betplay Capital Sp. z o. o. (former Betplay International sp. z o. o. - BI) with its seat in Katowice as the lessee and mLeasing Sp. z o.o. as the lessor. It is a tripartite agreement where STS S.A. acts as a guarantor of blank promissory notes issued by BI to secure the agreement and STS S.A. will be jointly and severally liable if BI ceases to make lease payments under the contract with conditional assumption of rights and responsibilities. The total value of the leased assets is PLN 37 million in the case of the aircraft lease agreement regarding the EMBRAER PHENOM 300E jet aircraft of December 07, 2020, monthly lease payment of PLN 520 thousand, lease period: 5 years.

## 2.15. Agreements between shareholders

As on the date of publication of the report, i.e. April 27, 2022, STS HOLDING S.A. is controlled by Mateusz Juroszek and Zbigniew Juroszek, who act in concert within the meaning of Article 87 sec. 1 pt 5 of the Public Offering Act. Mr. Mateusz Juroszek holds, indirectly through MJ Investments sp. z o.o., 39,784,902 shares, i.e., 25.44% of shares. Mr. Zbigniew Juroszek holds, indirectly through Juroszek Holding sp. z o.o., 52,713,314 shares, i.e., 33.71 % of the Issuer's shares. Betplay Capital sp. z o.o. (controlled by Mateusz Juroszek (50% of shares) and Zbigniew Juroszek (50% of shares)) holds 17,046,786 shares, i.e., 10.90% of the Company's shares.

## 2.16. Cooperation or collaboration agreements

The STS HOLDING S.A. Group of Companies did not conclude any cooperation or collaboration agreements in 2021.

## 2.17. Financial forecasts

The STS HOLDING S.A. Group of Companies did not inform about financial forecasts for 2021, 2022 and the following years.

## 2.18. Feasibility assessment of investment plans

The Group did not have any significant liabilities due to loans and borrowings as on December 31, 2021, and the granted credit lines were not disbursed. What is more, the generated cash flows enable current operations, including technology investments. What is more, the STS Group had over PLN 146 million as free funds and equivalents.

## 2.19. Court proceedings

As at the date of the report, there are no other significant proceedings pending before any court, arbitration tribunal or public administration body, the subject of which are the Group's liabilities and receivables and which could materially affect the Group's financial condition or profitability, other than those described below. In the period covered by the report, no other proceedings were pending that could have had or had a significant impact on the financial situation or profitability of the Group. To the best knowledge of the Company, the initiation of such proceedings is not expected.

Proceedings or claims considered significant by the Group are those with a value in excess of PLN 2 million, or otherwise crucial for the Group's operations, in particular in connection with the potential consequences of the permits held by the Group or potentially affecting the Group's reputation.

According to the information disclosed by the Company in the prospectus, in March 2020, the General Inspector of Financial Information (GIIF) concluded an inspection of STS S.A.'s business with respect to compliance with the applicable obligations and noticed a number of shortcomings, in particular with respect to the obligation to monitor and report suspicious transactions or activity. STS S.A. issued objections to the findings of GIIF, in particular with respect to the relevant compliance procedures and systems of the Group. On September 6, 2021, in connection with the abovementioned inspection of GIIF, administrative proceedings were initiated against STS S.A. with respect to the imposition of a penalty for failure to comply with certain obligations under the AML Act. On January 25, 2022, the Issuer's subsidiary, i.e. STS S.A., received the decision of GIIF on the imposition of an administrative penalty on STS S.A. in connection with the violation of certain provisions of the Act of March 1, 2018 on counteracting money laundering and financing terrorism. GIIF, by decision of January 14, 2022, imposed an administrative penalty on STS S.A. in the amount of PLN 2,950,000.00.

In the opinion of the Issuer, the imposition of an administrative penalty by GIIF and the initiation of the proceedings in question was unjustified. In particular, the explanations presented by STS S.A., submitted both as part of the control and administrative proceedings, were not taken into consideration by GIIF. In the opinion of the Issuer's Management Board, STS S.A. complied with all procedures required by law, including the verification of players, reporting and compliance with other obligations under the AML Act. Therefore, STS S.A. appealed against the decision of GIIF and to use all the means of appeal it is entitled to, including an appeal to the administrative court. In the Issuer's opinion, the administrative penalty imposed by GIIF will not have a significant impact on the financial situation of the Issuer's Group. The decision of GIIF is not final, and the penalty will be payable only from the date on which the decision to impose it becomes final.

In January 2020, funds in the STS S.A.'s account in the amount of PLN 9.2 million were blocked and secured in connection with different pending criminal proceedings as funds potentially derived from the illegal activity of a person who was in the past a client of the Group and was indicted for money laundering. STS S.A. was not a party to the criminal proceedings against that person and could not directly challenge the blocking of its funds. In May 2021 STS S.A. filed a civil claim against the State Treasury for the release of the blocked and secured amounts. The proceedings are currently pending and have not been legally concluded.

In August 2021, the District Prosecutor's Office in Ostrów Wielkopolski blocked the bank account of STS S.A. and, in November 2021, it secured the monetary assets on the same bank account as part of an ongoing investigation. The blockade concerns assets up to PLN 6 million on the account of STS S.A. due to the indication of a suspicious transaction by STS S.A. as an obliged institution in the meaning of the AML Act. The blockade was established for a period of 6 months, i.e. until February 11, 2022, and it was maintained by the decision of the District Court in Kalisz of November 8, 2021. Together with the notification, STS S.A. blocked the account of the client and prevented them from taking any action on that account. On November 3, 2021, the prosecutor of the District Prosecutor's Office in Ostrów Wielkopolski issued a decision on proprietary security on funds accumulated on the same bank account of STS S.A. and up to the same amount. The company filed a complaint regarding the decision on proprietary security. The relevant proceedings are pending and a ruling has yet to be issued.

## 2.20. Other additional information:

In 2021, the STS HOLDING S.A. Group of Companies:

- did not record any achievements in the field of research and development,
- did not purchase own shares (stocks),
- did not create and did not have branches (plants),
- did not use financial instruments, hedging instruments with regard to the risk of: price changes, credit risk, significant disruptions to cash flows and loss of financial liquidity,

**Unusual factors and events:**

In the period from January 1 to December 31, 2021, there were no factors or unusual events affecting the operating result for the period.

**Changes in the basic principles of managing the Group of Companies:**

In 2021, there were no changes in the management principles of the Group of Companies.

## 2.21. Events after the balance sheet date

On January 25, 2022, the Issuer's subsidiary, i.e. STS S.A., received the decision of GIIF on the imposition of an administrative penalty on STS S.A. in connection with the violation of certain provisions of the Act of March 1, 2018 on counteracting money laundering and financing terrorism ("AML Act"). According to the information obtained, GIIF, by decision of January 14, 2022, imposed an administrative penalty on STS S.A. in the amount of PLN 2,950,000.00.

In the opinion of the Issuer, the imposition of an administrative penalty by GIIF and the initiation of the proceedings in question was unjustified. In particular, the explanations presented by STS S.A., submitted both as part of the control and administrative proceedings, were not taken into consideration by GIIF. In the opinion of the Issuer's Management Board, STS S.A. complied with all procedures required by law, including the verification of players, reporting and compliance with other obligations under the AML Act. Therefore, STS S.A. appealed against the decision of GIIF and is going to use all the means of appeal it is entitled to, including an appeal to the administrative court.

In the Issuer's opinion, the administrative penalty imposed by GIIF will not have a significant impact on the financial situation of the Issuer's Group. At the present stage, the decision of GIIF is not final, and the penalty will be payable only from the date on which the decision to impose it becomes final.

Fines are typical administrative sanctions for non-compliance with regulatory obligations. However, one of the sanctions provided by the Polish Gambling Law for failure to comply with the obligations relating to the prevention of money laundering or terrorism financing is the withdrawal of the relevant licenses to conduct sports betting. Any sanctions imposed and/or regulatory measures applied may require the Group to expend significant capital or other resources, modify internal standards, procedures, systems or the Group's product offering, and may require the Group to modify or cease its operations, all of which could adversely affect the Group's business, performance, prospects, value, financial condition, and results of operations.

In the Group's opinion, the probability of the materialization of this risk is medium.

## 2.22. Factors important for the development of STS HOLDING S.A. and the STS Group

The most important factors for development in 2021 include:

### External factors:

#### Macroeconomic situation

In 2021, there was an economic recovery. The coronavirus pandemic is not over, however, sanitary restrictions have been severely limited and have not had such a negative impact on the economy as in 2020. Following a weak start in 2021, GDP surpassed pre-pandemic levels in the second quarter and the economic recovery continued in the following quarters. In the fourth quarter alone, Poland's GDP increased by 7%. It is expected that in the coming period the Polish economy will slow down somewhat, which will be driven by rising inflation and the tightening of monetary policy, and consequently deteriorating consumer sentiment. At the same time, a very good situation on the labor market and low unemployment are still forecast. However, the factor that may further limit growth will certainly be the Russia-Ukraine war. In 2021, the price level in Poland increased by 5.1%. In the first half of the year, inflation remained relatively low with an upward trend. In the third quarter, it increased to 5.4%, while in the fourth quarter, it continued to grow dynamically and reached the level of 7.7%. The dynamic increase in inflation was mainly related to the increases in global commodity markets, which contributed to the increase in fuel and energy prices. Disrupted supply chains, which contributed to the increase in production costs, were also an inflationary factor. In the coming periods, the increase in energy prices will continue

to drive inflation, although in the first months this factor will be limited by the Anti-Inflation Shield. A further rise in inflation will also be related to the conflict started by Russia in Ukraine, and thus an increase in fuel and gas prices. The first three quarters of 2021 were the period of the lowest interest rates in history (the NBP reference rate was only 0.1%). From October 2021, the Monetary Policy Council started a cycle of interest rate increases to 1.75% at the end of 2021. In January and February, March and April 2022, there were further increases to 4.5%. However, the announcements of the MPC members show that this is not the end of interest rate increases in Poland. 2021 is the time of improvement of the situation on the labor market. It was related to the easing of pandemic-related restrictions. Employment increased due to the fact that enterprises tried to make up for the downtime in the production and sale of services. Positive factors also included the increase in the number of vaccinated population and a decrease in the number of those on sick leave and in quarantine. The unemployment rate fell to 5.4% at the end of 2021. Further changes in the labor market can be expected throughout 2022. Due to the outbreak of the war in Ukraine, the labor market will have to deal with a significant outflow of Ukrainian workers (mainly from the construction and transport sectors). On the other hand, due to the large influx of immigrants, there is a possibility of professional activation in industries that still need employees (trade, services).

## Growth in the use and penetration of mobile devices

As the Group is a market disruptor adopting an innovative, mobile-first strategy, the results of its operations are influenced by the growth in mobile penetration and the general trend to consume online content on mobile rather than traditional desktop devices.

The strong growth in the penetration of increasingly sophisticated mobile devices with increased capacity to process data and ever-improving screen quality has a significant impact on the volume of mobile service market. Mobile connectivity continues to improve with the evolution of faster networks that further stimulate growth in mobile service market. This is strongly supported by a general shift of the economy to e-commerce, i.e. Customers switching to online channels also in gaming, attracting new customers that, for example, have no access to STS S.A.'s retail shops. According to Central Statistical Office data, in 2020 more than 17.6 million people in Poland aged 16-74 (60.9% of the population) have made purchases over the Internet in the past 12 months. Internet access in Poland is increasing, with 90.4% of all households in Poland having access to the Internet in 2020 (according to Statistics Poland) as compared to 80.4% in 2016.

The Group has sought to leverage these developments through the delivery of tailored product offerings through multiple mobile platforms and has enjoyed significant revenue growth through these channels. In 2020, customers using the mobile application generated 69% of the Group's revenue and this number is expected to increase going forward.

## Grey gambling market development in Poland

The Group, and in particular the Group's principal operating company, i.e. STS S.A., may face difficulties competing with bookmakers and other gambling entities that are based in low-tax jurisdictions and offer their products in the so-called "grey area". These entities do not hold appropriate gambling licenses in Poland and typically do not meet stringent regulatory requirements with respect to players. As a result, such unlicensed entities, operating in the grey area of the market, which in Poland was estimated to be worth over PLN 1 billion in 2020 based on gross gaming revenue (GGR) (according to EY's study "Szara Strefa Na Rynku Hazardowym Online w Polsce" ("The Grey Online Gambling Market in Poland")), are able to offer their services to players with more favorable betting odds or at a lower cost than the Group. For comparison, it is estimated that the regulated Polish market represents approximately PLN 2.9bn in gross gaming revenues (approximately 72% of the total market).

The Group expects that its results will depend on the effectiveness of regulatory efforts targeted at the grey market. The Group believes that it is well-positioned to capture players using services of operators in the grey area by providing best-in-class gaming services, on a mobile-first basis. Without regulatory change, the Group believes that unlicensed gaming market in Poland will continue to grow at a rapid pace, putting competitive pressure on the Group's operations.

## Costs related to compliance with applicable regulations

The Group's main operating company, STS S.A., is subject to a number of domestic and EU regulations, including in particular, those stemming from the Gambling Law, which introduces restrictive regulations concerning gambling and imposes strict requirements on gaming operators. Poland's gambling regulations are considered to be among the most restrictive in Europe. The Group operates in an industry which is subject to strict regulations of a complex and extensive nature that are not harmonized at the EU level, which may hamper the Group's ability to enter new markets.

The Group must devote significant human and financial resources to the evolving regulatory environment, the introduction of new products and the assurance of compliance with applicable laws. The Group expects the compliance to increase going forward, in particular in relation to the expansion to new markets and recent regulatory trends with respect to responsible gambling and data and customer protection.

## Marketing and user acquisition expenses

The growing popularity of online gaming and betting and social media has allowed operators to perform more targeted marketing and therefore substantially increase the marketing and user acquisition spend of gaming operators. To effectively attract and retain players and to re-engage former players, the Group invests in a variety of marketing channels in combination with personalized customer promotion, complementing its product offering (such as free bets, bonuses and matching deposits). These investments and personalized promotions are intended to increase consumer awareness of the Group's products, drive engagement and customer satisfaction.

Access to real time data allows the Group to assess the efficiency of its marketing and promotion activities. In recent years, the Group has steadily increased the share of its marketing budget relative to NGR, retaining the ability to increase it temporarily while maintaining profitability, for example during major player acquisition events such as the UEFA European Championship and FIFA World Cup.

The Group expects that marketing and user acquisition expenses will remain one of its main cost categories going forward.

## Product and platform development costs

The Group's implementation of a mobile-first strategy, based primarily on mobile devices, entails the need to maintain and continuously develop the Group's technology platform, in order to address market developments and customer needs. The Group is also required to spend significant resources on product development, in particular on the development and expansion of live, virtual sports, and eSports betting and BetGames offering.

The Group's investment in product and platform development amounted to PLN 6,465,000.00, PLN 19,480,000.00, and PLN 27,148,000.00 in 2018, 2019 and 2020 respectively, and it expects that product and platform development costs will remain one of its main cost categories going forward. The Group does not capitalize product and platform development costs.

## External factors:

### Product development, innovation and customer experience

The betting and gaming industry has shown significant product innovation over the past couple of decades in order to keep up with new trends. The most important has been the shift to online, and subsequent shift to mobile. The Group continuously invests in the

competitiveness of its offer and customer experience, which make players more willing to use the Group's services. For example, as the first company in Poland, it developed an offer for esports events and introduced the BetGames service. The Group intends to continue the current approach and remain an innovative operator in the markets where it operates.

## Development of employees and their competences

At the end of 2021, the STS Group had 1258 employees employed pursuant to an employment contract, including 73% women and 27% men. The organization saw no significant fluctuations in the number of employees, neither during the year (no seasonal work) nor compared to the previous fiscal year (2020). The STS Group is aware of the fact that training is beneficial both for employees and for the company. Employees frequently take advantage of training courses offered by the employer, which help develop their competences. They become more efficient, involved and satisfied with their workplace. The company, in turn, shapes competent staff, which also translates to financial gains. Each individual STS Group company offers slightly different training courses, which stems from the specific nature and type of work performed.

## Responsibility towards the customers

The STS Group is a responsible company which regularly invests in the latest technical solutions meant to ensure the safety and comfort of its users. Activities of STS, i.e. bookmaking, are classified as gambling. For this reason, for several years now STS has been developing the Responsible Gambling concept, whose goal is to provide players with appropriate tools and knowledge to ensure that they can enjoy our services safely. A special team for managing all actions related to responsible gambling has been created within the STS Group. The Group has prepared rules and procedures for responsible gambling aimed at both the Polish market and foreign markets.

The STS Group strives to improve the effectiveness of responsible gambling, and thus further steps are being taken to bring the Group closer to fulfilment of its assumptions. STS has begun working with Neccton in the scope of the innovative Mentor tool, which will be introduced first in the British market, and then in the Polish market. As part of cooperation with the University of Economics in Katowice, the Group is working on the implementation of an artificial intelligence tool to verify the behavior of players that may indicate addiction.



### 3. Corporate Governance



## 3.1. The corporate governance statement

The Management Board of STS Holding S.A. (the "Issuer") informs that the Issuer applies the principles of corporate governance resulting from the document "Code of Best Practice for WSE listed companies" ("DPSN", "Best Practice"), in the wording appended to the Resolution 13/1834/2021 of the Supervisory Board of the Warsaw Stock Exchange ("WSE") of March 29, 2021, which were published on the WSE website at: <https://www.gpw.pl/dobre-praktyki2021>

In accordance with the Current Report EBI 1/2022 of January 19, 2022, the Issuer informed about the application of corporate governance principles in accordance with DPSN. In 2021, the Issuer fully applied most of the corporate governance principles, except for the principles described below, which were not applied or were applied to a limited extent.

### **1.3. In its business strategy, the company also incorporates the ESG issues, which include in particular:**

#### **1.3.1. environmental issues, including measures and risks related to climate change and sustainable development;**

Company's comment: The company has not yet adopted an official document defining a comprehensive policy in the area of ESG.

#### **1.3.2. social and employee matters, concerning, inter alia, actions taken and planned to ensure gender equality, proper working conditions, respect for employees' rights, dialogue with local communities, relations with clients.**

Company's comment: The company has not yet adopted an official document defining a comprehensive policy in the area of ESG. The company undertakes a number of ESG tasks, including in particular limiting the consumption of electricity and water.

### **1.4. To ensure proper communication with stakeholders, within the scope of the adopted business strategy, the company posts on its website information regarding the assumptions of its strategy, measurable goals, in particular long-term goals, planned activities and progress in their implementation, determined by means of financial and non-financial measures. Information on the strategy in the area of ESG area should, among others:**

Company's comment: The company has not yet adopted an official document defining a comprehensive policy in the area of ESG. The issues considered important by the Company are those related to environmental protection, impact on the climate, as well as social aspects related to ensuring equal pay for female and male workers. In its day-to-day operation, the Company takes account of environmental factors through, inter alia, introducing energy-saving solutions. The Group is also involved in broadly understood sponsorship and charity work for external stakeholders, including sponsoring of Polish sport.

#### **1.4.1. explain how climate change issues are taken into account in the decision-making processes of the company and the entities of the group, pointing to the resulting risks;**

Company's comment: The company has not yet adopted any document defining a comprehensive policy in the area of ESG. The issues considered important by the Company are those related to environmental protection, impact on the climate, as well as social aspects related to ensuring equal pay for female and male workers. In its day-to-day operation, the Company takes account of environmental factors through, inter alia, introducing energy-saving solutions.

#### **1.4.2. present the value of the equal wage ratio paid to its employees, calculated as the percentage difference between the average monthly remuneration (including bonuses, awards and other allowances) of female and male workers for the last year, and provide information on actions taken to eliminate any inequalities in this respect, along with with the presentation of the related risks and the time horizon in which equality is planned to achieve.**

Company's comment: The company has not yet adopted any document defining a comprehensive policy in the area of ESG. The issues considered important by the Company are those related to environmental protection, impact on the climate, as well as social aspects related to ensuring equal pay for female and male workers. In its day-to-day operation, the Company takes account of environmental factors through, inter alia, introducing energy-saving solutions.

**2.1. The company shall have a diversity policy in place for the management board and the supervisory board, adopted by the supervisory board or the general meeting, respectively. The diversity policy shall define the objectives and criteria for diversity in areas such as gender, field of study, specialist knowledge, age and professional experience, and shall indicate when and how the achievement of these objectives shall be monitored. With respect to gender diversity of the Company's governing bodies, the condition for ensuring the diversity of the Company's governing bodies is the participation of minorities in a given body at a level of not less than 30%.**

Company's comment: The Company has not set diversity targets for the composition of the Management Board and Supervisory Board, but focuses only on the quality of management. In any case, a balanced proportion of women and men on the Board of Management in the future will be taken into account depending on the responsibilities assigned, the availability of suitable candidates for the position and the size of the Board of Management and the Supervisory Board. As at the date of the report, women account for 40% of the Supervisory Board's composition.

**2.2. The persons making decisions on the election of members of the Management Board or the Supervisory Board of the company should ensure the comprehensiveness of these bodies by selecting persons for their composition who ensure diversity, making it possible, inter alia, to achieve the target ratio of a minimum minority shareholding set at a level of not less than 30%, in accordance with the objectives set out in the adopted diversity policy referred to in the rule 2.1.**

Company's comment: The Company has not set diversity targets for the composition of the Management Board and Supervisory Board, but focuses only on the quality of management. In any case, a balanced proportion of women and men on the Board of Management in the future will be taken into account depending on the responsibilities assigned, the availability of suitable candidates for the position and the size of the Board of Management and the Supervisory Board. As at the date of the report, women account for 40% of the Supervisory Board's composition.

**2.7. The performance of functions by the members of the company's management board in bodies of entities outside the company's group requires the consent of the supervisory board.**

Company's comment: The performance of functions in the bodies of competitors to the Company by members of the Company's Management Board requires the consent of the Supervisory Board, while the performance of functions in bodies of non-competitive entities does not require such consent in accordance with Art. 380 par. 1 of the Commercial Companies Code and Art. 380 par. 2 of the Commercial Companies Code. Moreover, the Supervisory Board appoints members of the Management Board, therefore the candidates for this function are previously verified in terms of compliance with the Company's interests.

**2.11. In addition to the activities prescribed by law, the Supervisory Board shall prepare an annual report once a year and submit it to the Annual General Meeting for approval. The report referred to above shall contain at least:**  
**2.11.6. information on the extent to which the diversity policy with respect to the Management Board and Supervisory Board has been implemented, including the achievement of the objectives referred to in rule 2.1.**

Company's comment: The Issuer has not set targets regarding the composition of the Management Board and Supervisory Board in terms of diversity. When selecting the composition of the Governing Bodies, the Issuer focuses primarily on ensuring appropriate quality standards, which, in the Issuer's opinion, are independent of gender.

**3.1. A listed company maintains effective systems of: internal control, risk management and supervision of compliance with the law, as well as an effective internal audit function, appropriate to the size of the company and the type and scale of activities, for which the management board is responsible.**

Company's comment: In the current activity of the Company, separation of organizational units responsible for the implementation of tasks in the following systems: internal control, risk management, compliance, and internal audit was not justified due to the nature and scale of the activities of the Company and the Group. The company has appointed a Compliance Officer who is responsible for compliance issues. The Company applies a system of internal control and management as well as supervision of compliance with

the law based on organizational and procedural solutions aimed at ensuring effective and efficient control as well as identification and elimination of potential risks.

**3.3. A company included in the WIG20, mWIG40 or sWIG80 index shall appoint an internal auditor in charge of the internal audit function, acting in accordance with generally recognized International Standards for the Professional Practice of Internal Auditing. In other companies, where no internal auditor has been appointed to meet the above-mentioned requirements, the audit committee (or the supervisory board, if it serves as an audit committee) shall assess annually whether there is a need to appoint such a person.**

Company's comment: As explained in point 3.1., in the current activity of the Company, separation of organizational units responsible for the implementation of internal audit tasks was not necessary. The company applies appropriate internal control systems that are dispersed within the structure. The company has appointed a Compliance Officer whose scope of duties corresponds partly to the tasks of the internal auditor.

**3.4. Remuneration of persons responsible for risk management and compliance and the head of internal audit should depend on the performance of assigned tasks, and not on the short-term performance of the company.**

Company's comment: Remuneration of those responsible for compliance is based on the existing market standards. As stated in point 3.1., there is no internal audit unit in the company.

**3.6. The head of internal audit shall report organizationally to the president of the management board, and functionally to the chairman of the audit committee or the chairman of the supervisory board, if the board performs the function of the audit committee.**

Company's comment: As explained in point 3.1., in the current activity of the Company, separation of organizational units responsible for the implementation of internal audit tasks was not necessary.

**3.7. Principles 3.4 - 3.6 are also applicable to the entities from the company's group that are significant for its operations, if they have designated persons to perform such tasks.**

Company's comment: In the case of entities from the Company Group, there were no persons appointed to perform such tasks. A Compliance department was established in the subsidiary STS S.A. and STS Gaming Group Ltd.

**3.10. In a company included in the WIG20, mWIG40 or sWIG80 index, at least once every five years, an independent auditor selected with the participation of the audit committee shall review the internal audit function.**

Company's comment: The company is not included in the WIG20, mWIG40 or sWIG80 index.

**4.3. The Company shall provide publicly available real-time broadcast of the General Meeting.**

Company's comment: The Issuer cannot guarantee that such rule will be implemented, however, each time it will analyze the Issuer's shareholding structure and shareholders' expectations, and will decide whether it is justified to provide publicly available real-time broadcasts of the General Meeting.

### 3.2. Description of the main features of the internal control and risk management systems applied in the STS Group of Companies in relation to the process of drawing up financial statements and consolidated financial statements

The Company does not have separate organizational units responsible for internal audit and internal control. The control mechanisms are adapted on an ongoing basis to the Company's situation and needs. In each financial year, the Company's Management Board prepares its own assessment of the effectiveness of the internal control systems. The Supervisory Board evaluates them once a year.

The Management Board of each company of the Group is responsible for the internal control system in the Company, as well as its effectiveness in the process of preparing financial statements. The Management Board is also responsible for the correct preparation of financial statements and consolidated financial statements as the approving body. Individual elements of reports and descriptive parts are prepared by the Accounting Department with the participation of the Finance Department. The Finance Department is responsible for financial analysis, controlling and budget preparation. The Accounting Department deals in particular with accounting, reporting and preparation of the Group's consolidated statements. Those tasks are assigned to the competences of individual employees. The Finance Department is managed by the Chief Financial Officer, while the Accounting Department is managed by the Chief Accountant, who reports to the Chief Financial Officer.

Among the elements of the internal control system that are applicable to the preparation of financial statements, the following should be mentioned in particular:

1. Division of duties, which at each stage of the operating cycle excludes the possibility of only one employee performing activities related to the implementation and documentation of an accounting event,
2. High qualifications and documented experience of each of the employees who are responsible for the implementation of tasks dedicated to accounting and finance departments,
3. Digitized system of accounting documentation circulation,
4. Examination of an independent statutory auditor of financial statements and consolidated financial statements, selected by the Supervisory Board of STS Holding S.A.
5. Invoices are verified in individual departments of the Company, from which the relevant costs arise (substantive control), by the Finance and Accounting Department (formal and accounting control) and by the owner of the process (acceptance of payment and confirmation of service provision). Above the cost acceptability threshold for a given process owner, set by the Company, the approval is made by the Management Board.
6. The company prepares separate financial statements and consolidated financial statements in accordance with the International Financial Reporting Standards ("IFRS") approved by the European Union, the Accounting Act of September 29, 1994 and the Commercial Companies Code. The Company also applies the Accounting Policy established by the Company, which includes, among other things: the definition of the financial year and its reporting periods, specification of the manner of keeping the accounting books (corporate chart of accounts, list of accounting books, description of the data processing system), specification of a system for the protection of data and data sets, including accounting documents, books of accounts and other documents constituting the basis for making entries.
7. The company's accounting is carried out with the use of Comarch ERP XL accounting software, and access to the program data is provided to designated persons. This software is used for accounting, preparation of analyzes, summaries, financial

statements and other. Each month, the data obtained with the accounting software are analyzed, and then, based on those analyzes, decisions are made in the risk management process.

The Company's financial reporting system is the responsibility of the Management Board, and in particular of the Member of the Management Board supervising the Group's Chief Financial Officer. The Audit Committee, within the scope of its competences, monitors the financial reporting process.

The Supervisory Board assesses the fulfillment by the Company of the disclosure obligations specified in the provisions on current and periodic information. The Audit Committee reviews quarterly, half-yearly and annual reports prior to their publication.

The Audit Committee makes a recommendation to the Supervisory Board on the report addressed to the General Meeting on the results of the assessment of the annual financial statements and also makes recommendations to ensure the integrity of the financial reporting process, if any.

### 3.3. Information on holders of securities with special control rights and information on any restrictions on the exercise of voting rights, such as restrictions on the exercise of voting rights by holders of a certain proportion or number of votes and restrictions on the transfer of ownership rights

The company's share capital amounts to 156,389,998.00 and is divided into:

1. 100,000 (one hundred thousand) series A registered shares numbered from A000.001 to A100.000, with a nominal value of PLN 1.00 (one Polish zloty) each. The issue price of one series A share is equal to the nominal value and amounts to PLN 1.00 (one zloty),
2. 156,149,998 (one hundred fifty six million one hundred forty nine thousand nine hundred ninety eight) of series B ordinary registered shares numbered from B000.000.001 to B156.149.998, with a nominal value of PLN 1.00 (one Polish zloty) each. The issue price of one series B share is PLN 19.1767091322446,
3. 140,000 (one hundred and forty thousand) series C registered shares numbered from C.000.000.001 to C.000.140.000, with a nominal value of PLN 1.00 (one Polish zloty) each. The issue price of one series C share is equal to the nominal value and amounts to PLN 1.00 (one zloty).

The company may award shares with special rights (preference shares). Preferences of shares may relate to voting rights, the right to dividends or the division of property in the event of liquidation of the Company.

There are no preference shares in the company, however, it should be noted that pursuant to Art. 15 sec. 3 of the Articles of Association, from the date of admission of the Company's shares to trading on the regulated market operated by the Warsaw Stock Exchange, MJ Investments sp. z o.o. (National Court Register (KRS): 0000468879), Betplay Capital sp. z o.o. (National Court Register (KRS): 0000470826), Juroszek Holding sp. z o.o. (National Court Register (KRS): 0000514007), or their legal successors (all of them jointly) ("Entitled Shareholders") are entitled to elect Supervisory Board members in the following number (personal entitlement):

1. as long as the Entitled Shareholders hold (jointly) more than 40% of the total number of votes in the Company, they are entitled to elect the following number of the members of the Supervisory Board:

- 3 (three) members of the Supervisory Board (including the Chairman of the Supervisory Board) if the Supervisory Board consists of 5 (five) members;
  - 4 (four) members of the Supervisory Board (including the Chairman of the Supervisory Board) if the Supervisory Board consists of 6 (six) or 7 (seven) members;
  - 5 (five) members of the Supervisory Board (including the Chairman of the Supervisory Board) if the Supervisory Board consists of 8 (eight) members;
2. as long as the Entitled Shareholders hold (jointly) more than 33 % but not more than 40% of the total number of votes in the Company, they are entitled to elect the following number of the members of the Supervisory Board:
- 2 (two) members of the Supervisory Board (including the Chairman of the Supervisory Board) if the Supervisory Board consists of 5 (five) members;
  - 3 (three) members of the Supervisory Board (including the Chairman of the Supervisory Board) if the Supervisory Board consists of 6 (six) or 7 (seven) members;
  - 4 (four) members of the Supervisory Board (including the Chairman of the Supervisory Board) if the Supervisory Board consists of 8 (eight) members;
3. as long as the Entitled Shareholders hold (jointly) more than 20 % but not more than 33% of the total number of votes in the Company, they are entitled to elect 2 (two) members of the Supervisory Board.
4. as long as the Entitled Shareholders hold (jointly) more than 10 % but not more than 20% of the total number of votes in the Company, they are entitled to elect 1 (one) member of the Supervisory Board.

The Company's shareholders have the right to dispose of the Shares through their sale (transfer of ownership) and other forms of disposal, including the establishment of a pledge, a right of use or a lease over the Shares. Disposal of registered shares requires the consent of the Company, which, pursuant to Article 337 § 3 of the Commercial Companies Code, should be granted by the Management Board in writing.

### 3.4. Principles of appointing and recalling executives and their rights, in particular the right to decide on the issue or buyout of shares

According to the Articles of Association, the Management Board of STS Holding S.A. consists of one or more members, including the president of the Management Board, who are appointed and recalled by the Supervisory Board for a joint three-year term of office, subject to Art. 22 section 2 of the Articles of Association. The first Management Board of the Company is appointed by the Founder of the Company upon the establishment of the Company. In accordance with Art. 22 sec. 2 of the Articles of Association, from the date of admission of the Company's shares to trading on the regulated market operated by the Warsaw Stock Exchange [Giełda Papierów Wartościowych w Warszawie S.A.], the Entitled Shareholders have the right to appoint the President of the Management Board of the Company (personal right), as long as the Entitled Shareholders hold (in total) at least 33% (thirty three percent) of the total number of voting rights in the Company. Personal rights to appoint or recall the President of the Management Board referred to above shall be exercised by the shareholder through a written declaration delivered to the Company. To the declaration, the shareholder shall attach a certificate of deposit confirming the number of shares held by the shareholder on the date of exercising their personal right.

In accordance with the Articles of Association, the Management Board of the Company is authorized to increase the share capital of the Company by issuing new series D ordinary bearer shares in the number of not more than 714,000 (say: seven hundred and fourteen thousand) with a nominal value of PLN 1.00 each and with a total nominal value of not more than PLN 714,000.00 (seven hundred and fourteen thousand Polish zloty) (authorized capital) ("New Shares").

Within the limits of the authorized capital, based on the authorization, the Management Board is entitled to make one or several subsequent increases of the Company's share capital. The authorization of the Management Board to increase the share capital as part of the authorized capital expires three years after the Registry Court of the proper venue for the Company registers the relevant amendment to the Company's Articles of Association, i.e. the amendment made under the resolution no. 6 of the General Meeting of the Company of October 21, 2021.

Within the authorized capital, the Management Board may issue New Shares only for cash contributions. As part of each increase of the Company's share capital within the limits of the authorized capital, the Management Board may, in the interest of the Company, with the prior consent of the Supervisory Board expressed in the form of a resolution, deprive the shareholders of the right to pre-empt the New Shares in whole or in part.

The Management Board is authorized to decide on all matters related to the increase of the share capital within the authorized capital, and in particular the Management Board is authorized to:

1. determine the number of New Shares issued as part of each share capital increase within the limits of the authorized capital,
2. determine the issue price of the New Shares and the date(s) on which the New Shares will be included in the dividend,
3. establish the detailed rules, dates and conditions for the issue of the New Shares and the method of proposing the acquisition of the New Shares,
4. take all actions to dematerialize the New Shares and register the New Shares, in particular in the depository of securities kept by the National Depository for Securities [Krajowy Depozyt Papierów Wartościowych S.A.], which also includes the conclusion of agreements with the National Depository for Securities for the registration of the New Shares, take all actions with regard to applying for the admission and introduction of the New Shares to trading on the regulated market operated by the Warsaw Stock Exchange [Giełda Papierów Wartościowych w Warszawie S.A.],
5. specify the detailed terms of subscription and allotment of the New Shares, including the date of opening and closing of the subscription for New Shares, and establish the rules for the subscription and allotment of the New Shares; however, should the Management Board decide to deprive the shareholders of their subscription rights to the New Shares, this will require the consent of the Supervisory Board.

Determination by the Company's Management Board of the number of shares issued as part of each share capital increase within the limits of the authorized capital and the determination of the issue price of the New Shares does not require the consent of the Supervisory Board. The resolution of the Management Board adopted within the scope of the statutory authorization replaces the resolution of the General Meeting on increasing the share capital. The authorization of the Management Board to increase the share capital within the limits of the authorized capital does not violate the right of the General Meeting to ordinary increase of the share capital during the period when the Management Board exercises such authorization.

### 3.5. Description of the rules for amending the Company's Articles of Association

Pursuant to Art. 13 sec. 1 point 9) of the Articles of Association of STS Holding S.A., the powers of the General Meeting include making changes to the Company's Articles of Association. An amendment to the Articles of Association requires a resolution of the General



Meeting and an entry in the register of the National Court Register. Amendments to the Articles of Association shall be effective upon entry in the register.

### 3.6. The method of operation of the General Meeting and its fundamental powers as well as a description of the shareholders' rights and the manner of their exercise, in particular the rules resulting from the regulations of the General Meeting, if such regulations have been adopted, unless the information in this respect results directly from the provisions of law

The rules governing the operation of the General Meeting are regulated in the company's Articles of Association and in the Regulations of the General Meeting. Both documents are available on the website of STS Holding S.A. in the corporate documents tab.

The General Meeting is convened and it debates on the basis of the mandatory provisions of law and the provisions of the Articles of Association and the Regulations, taking into account the Code of Best Practice for WSE listed companies applied by the Company. The General Meeting can be convened as Ordinary General Meeting or Extraordinary General Meeting. General Meeting shall be held in the Company's registered office or in Warsaw.

Members of the Management Board and members of the Supervisory Board of the Company may participate in the General Meeting. The Management Board has the right to admit experts selected by the Management Board and other persons whose presence is required for the proper conduct of the General Meeting. Media representatives have the right to attend the General Meeting, unless the Management Board or the Chairman of the General Meeting decides otherwise for important reasons.

The General Meeting shall be convened by the Management Board. The Extraordinary General Meeting shall be convened by the Management Board on its own initiative or at a written request of the Supervisory Board or at a written request of a shareholder or shareholders representing at least 1/20 (one twentieth) of the share capital. The right to convene an Extraordinary General Meeting is also vested with the Company's shareholders representing at least one-half of the Company's share capital or at least one-half of the total number of votes in the Company.

The General Meeting is opened by the Chairman or Vice-Chairman of the Supervisory Board. Should these persons be absent, the General Meeting is opened by the President of the Management Board or a person appointed by the Management Board. Then, the Chairman of the General Meeting is elected from among those entitled to participate in the General Meeting. In the case referred to in Art. 11 sec. 5 of the Articles of Association, the shareholders convening the Extraordinary General Meeting shall appoint the Chairman of the General Meeting. Each of the shareholders or shareholders' proxies has the right to propose candidates for the Chairman of the General Meeting.

Shareholders may participate in the General Meeting and exercise their voting rights in person or through their proxies. The power of attorney to participate in the General Meeting should be granted in writing. From the date of admission of the Company's shares to trading on the regulated market operated by the Warsaw Stock Exchange, the power of attorney to participate in the General Meeting of a public company should be granted in writing or in electronic form. A power of attorney granted in an electronic form does not require a qualified electronic signature.

The competences of the General Meeting, apart from the matters specified in legal regulations and other provisions of the Articles of Association, include:

1. review and approval of the Management Board's report on the Company's operations and financial statements for the previous financial year,

2. review and approval of the Management Board's report on the operations of the Company's group and the consolidated financial statements of the Company's group for the previous financial year,
3. appointment and recalling of the Supervisory Board members, subject to the provisions of Art. 15 sec. 3 of the Articles of Association
4. discharging members of the Management Board and Supervisory Board from the performance of their duties,
5. increasing and reducing the share capital,
6. adopting resolutions on the distribution of profits or coverage of losses,
7. creation and liquidation of reserves,
8. determination of the rules of remuneration for the Supervisory Board members;
9. making changes to the Company's Articles of Association,
10. consideration of matters brought by the Supervisory Board and the Management Board, as well as by shareholders,
11. adopting resolutions on the dissolution and liquidation of the Company or its merger, division or transformation,
12. selection of liquidators,
13. issue of convertible bonds and bonds with priority rights and issue of subscription warrants,
14. decision on claims for redress of damage caused upon establishment of the Company or in the course of management or supervision,
15. sale and lease of the undertaking or an organized part thereof and establishing a limited material right on them,
16. specifying the date according to which the list of shareholders entitled to dividend for the financial year shall be determined (dividend date), as well as the dividend payment date.

The purchase and sale by the Company of real estate, perpetual usufruct right or a share in real estate or perpetual usufruct right does not require the consent of the General Meeting.

Resolutions of the General Meeting are adopted by an absolute majority of votes, irrespective of the number of shares represented at the General Meeting, unless the provisions of the Commercial Companies Code or other applicable laws and regulations provide for a different manner of adopting resolutions.

### 3.7. Composition and changes thereto over the last financial year as well as description of the activities of management and supervisory bodies and their committees

## Management Board

The Company's Management Board consists of 1 (one) or more members, including the president of the Management Board, who are appointed and recalled by the Supervisory Board for a joint three-year term of office, subject to Art. 22 sec. 2 of the Articles of Association. The first Management Board of the Company is appointed by the Founder of the Company upon the establishment of the Company. From the date of admission of the Company's shares to trading on the regulated market operated by the Warsaw Stock Exchange [Giełda Papierów Wartościowych w Warszawie S.A.], the Entitled Shareholders have the right to appoint the President of the Management Board of the Company (personal right), as long as the Entitled Shareholders hold (in total) at least 33% (thirty-three percent) of the total number of voting rights in the Company. Personal rights to appoint or recall the President of the Management Board referred to above shall be exercised by the shareholder through a written declaration delivered to the Company. To the declaration, the shareholder shall attach a certificate of deposit confirming the number of shares held by the shareholder on the date of exercising their personal right.

The Management Board manages the Company's affairs and represents the Company towards third parties. Each member of the Management Board shall be entitled to independent representation of the Company. Any and all matters related to the management of the Company which are not reserved by law or the Articles of Association as the powers of the General Meeting or the Supervisory Board shall be the powers of the Management Board. Resolutions of the Management Board shall be passed by an absolute majority of votes. In the case of an equal number of votes, the casting vote is held by the President of the Management Board.

## Composition of the Management Board

From the date of establishing the Company until June 8, 2021, the composition of the Management Board was as follows:

1. Christian Guy Gaunt
- By a resolution of the Supervisory Board of June 8, 2021, Mr. Christian Guy Gaunt was recalled and the following persons were appointed for the composition of the Management Board:
  1. Mateusz Juroszek - President of the Management Board
  2. Zdzisław Kostrubała – Member of the Management Board,
  3. Marcin Walczysko – Member of the Management Board

## Supervisory Board

The Supervisory Board exercises permanent supervision over the Company's activities in respect of all the aspects of its business. The members of the Supervisory Board exercise their rights and duties personally. In order to perform its duties, the Supervisory Board may inspect all documents of the Company, request reports and explanations from the Management Board and employees, and review the assets and liabilities of the Company.

Meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board, and in their absence, by the Vice-Chairman of the Supervisory Board. At the request of the Management Board, the meeting of the Supervisory Board should take place no later than 14 (fourteen) days from the date of submitting the request to the Chairman of the Supervisory Board or the Vice-Chairman of the Supervisory Board. The meeting of the Supervisory Board should be convened at least three times in a financial year.

The Supervisory Board consists of at least 3 members appointed for a three-year joint term. From the date of admission of the Company's shares to trading on the regulated market operated by the Warsaw Stock Exchange, the Supervisory Board of the Company is composed of 5 to 8 members.

The number of members of the Supervisory Board is determined by the General Meeting, with the reservation that the Supervisory Board shall be entitled to act, exercise its rights and perform its duties and adopt resolutions, provided that the total number of its

members is not less than 3 members or - from the date of admission of the Company's shares to trading on a regulated market maintained by the Warsaw Stock Exchange S.A. - not less than 5 members.

Members of the Supervisory Board are appointed and recalled by the General Meeting, subject to Art. 15 sec. 3 of the Articles of Association. From the date of admission of the Company's shares to trading on the regulated market operated by the Warsaw Stock Exchange, MJ Investments sp. z o.o. (National Court Register (KRS): 0000468879), Betplay Capital sp. z o.o. (National Court Register (KRS): 0000470826), Juroszek Holding sp. z o.o. (National Court Register (KRS): 0000514007), or their legal successors (all of them jointly) have the right to elect members of the Supervisory Board on the terms and in the number specified in the Articles of Association, and described on page 39.

The Supervisory Board shall adopt resolutions by an absolute majority of votes of the Supervisory Board members present at the meeting, and in the event of an equal number of votes, the casting vote belongs to the Chairman of the Supervisory Board. For the resolutions of the Supervisory Board to be valid, all members of the Supervisory Board must be invited and at least 1/2 (one-half) of the members of the Supervisory Board must be present. Members of the Supervisory Board may participate in adopting resolutions of the Supervisory Board by casting their votes in writing through another member of the Supervisory Board. Casting a vote in writing must not apply to matters introduced to the agenda during the meeting of the Supervisory Board. Members of the Supervisory Board may participate in adopting resolutions of the Supervisory Board also by using means of direct remote communication. A resolution is valid if all members of the Supervisory Board have been informed of the contents of the draft resolution.

**In addition to the matters specified in legal regulations and other provisions of the Articles of Association, the competences of the Supervisory Board include:**

1. (a) assessing the Management Board's report on the Company's activities and the Company's financial statements, as well as assessing the Management Board's report on the activities of the Company's capital group and the consolidated financial statements of the Company's capital group for the previous financial year, both with regard to their compliance with the books and documents and with the actual state of affairs, and examining the Management Board's interim and annual reports, motions for the distribution of profits and coverage of losses, and submitting a written report on the results of the examination to the General Meeting,
2. submitting an annual written report to the General Meeting on the results of the assessment referred to in item 1) above,
3. providing opinions on motions submitted by the Management Board to the General Meeting for consideration, 4) concluding and terminating employment contracts with members of the Company's Management Board, with such contracts being signed on behalf of the Supervisory Board by the Chairman of the Supervisory Board or a Vice-Chairman of the Supervisory Board authorized by the Supervisory Board, or another authorized member of the Supervisory Board,
4. appointing an auditor to audit the Company's financial statements and consolidated financial statements of the Company's group,
5. determining the amount of and rules for remunerating members of the Management Board,
6. expressing consent for the Company to pay an advance on the expected dividend,
7. approving the Regulations of the Management Board,
8. expressing consent to the purchase and sale by the Company of real estate, perpetual usufruct right or a share in real estate or perpetual usufruct right,
9. suspending individual or all members of the Management Board for important reasons and to delegate members of the Supervisory Board, for a period of no longer than three months, to temporarily perform the duties of members of the

Management Board who have been recalled, have resigned or who, for other reasons, are incapable of performing their duties,

10. adopting of the Regulations of the Supervisory Board.

## Composition of the Supervisory Board

From the date of establishing the Company until June 8, 2021, the composition of the Supervisory Board was as follows:

1. Kenneth Anthony Morgan
  2. Anna Magdalena Poliszkievicz
  3. Alwyn Jacobus De Lange
- By the resolution of the General Meeting of June 8, 2021, the existing members of the Supervisory Board were recalled and in their place the following members were appointed:
1. Zbigniew Juroszek
  2. Urszula Juroszek
  3. Mateusz Bromboszcz
- By the resolution of the General Meeting of August 10, 2021, Ms. Urszula Juroszek was recalled from the position of a Supervisory Board Member and Mr Maciej Fijak was appointed in her place.
- By the resolution of the General Meeting of August 31, 2021, Mr. Mateusz Bromboszcz was recalled from the position of a Supervisory Board member and the following persons were appointed as members of the Supervisory Board:
1. Elżbieta Spyra
  2. Milena Olszewska – Miszuris
  3. Krzysztof Krawczyk

As on December 31, 2021, the composition of the Supervisory Board was as follows:

1. Maciej Fijak - Chairman of the Supervisory Board
2. Zbigniew Juroszek – Vice-Chairman of the Supervisory Board, Member of the Audit Committee
3. Milena Olszewska-Miszuris - Member of the Supervisory Board, Chairwoman of the Audit Committee
4. Elżbieta Spyra - Member of the Supervisory Board, Member of the Audit Committee
5. Krzysztof Krawczyk - Member of the Supervisory Board

## Audit Committee

The Audit Committee was established by the Resolution No. 1 of the Supervisory Board of November 2, 2021.

### The tasks of the Audit Committee include in particular:

1. monitoring the financial reporting process, the effectiveness of internal supervision systems and risk management systems and internal audit, including financial reporting and the performance of financial audit activities,
2. controlling and monitoring the independence of the statutory auditor and the auditing firm,
3. informing the Supervisory Board about the results of the audit and explaining how the audit contributed to the reliability of financial reporting in the Company, as well as what the role of the audit committee played in the audit process,
4. assessing the auditor's independence and approving the auditor to provide permitted non-audit services to the Company,
5. developing a policy for selecting an auditing firm to conduct the audit,
6. determining the procedure for the selection of an auditing firm by the public interest entity,
7. submitting recommendations aimed at ensuring reliability of the financial reporting process in the Company.

The Audit Committee may request the Management Board to submit specific information in the accounting, finance, internal control, internal audit or risk management area, which is necessary to perform the functions of the Audit Committee. The Committee should be informed on the manner of recognition of material or non-standard transactions if different recognition methods may be used.

The Audit Committee may, if it deems necessary, to invite to the Audit Committee meetings, in particular, the members of the Management Board of the Company, employees of the Company, other persons hired by the Company, the statutory auditor, as well as the representatives of the auditing firm of the Company.]

### Composition of the Audit Committee

The Audit Committee consists of the following persons:

1. Milena Olszewska – Miszuris - Chairperson of the Committee
2. Zbigniew Eugeniusz Juroszek
3. Elżbieta Spyra

Ms. Milena Olszewska-Miszuris meets the criteria for independence within the meaning of the Act of 11 May 2017 on Statutory Auditors, Auditing Firms and Public Supervision. Ms. Milena Olszewska-Miszuris has knowledge and skills in accounting or auditing financial statements.

Ms. Milena Olszewska-Miszuris meets the criteria for independence in accordance with the WSE Best Practices and also within the meaning of the Act of 11 May 2017 on Statutory Auditors, Auditing Firms and Public Supervision.

Mr. Zbigniew Juroszek has knowledge and skills in the gaming industry.

Additional information on the knowledge and skills of the Audit Committee members is provided in the Non-Financial Report and on the Company's website.

### The value of remuneration, awards and benefits of members of the Management Board and the Supervisory Board

Remuneration of members of the Management Board of STS Holding S.A. in 2021

Name	Fixed remuneration	Variable remuneration	Additional benefits	Share-based remuneration	Remuneration in subsidiaries	The proportion between fixed and variable remuneration
Mateusz Juroszek	0.00	0.00	0.00	0.00	0.00	-
Zdzisław Kostrubała	0.00	0.00	0.00	0.00	0.00	-
Marcin Walczysko	0.00	0.00	0.00	0.00	0.00	-
Christian Guy Guant	No data	No data	No data	No data	No data	No data

Remuneration of members of the Management Board of STS S.A. and other subsidiaries in 2021

Name	Fixed remuneration	Variable remuneration	Additional benefits	Remuneration in subsidiaries	The proportion between fixed and variable remuneration
Mateusz Juroszek	288,540.00	0.00	1,013.13	0.00	100%
Zdzisław Kostrubała	237,966.00	0.00	12,596.15	0.00	100%
Marcin Walczysko	103,696.00	0.00	11,830.17	232,392.00	100%

Remuneration of members of the Supervisory Board of STS Holding S.A. in 2021.

Name	Fixed remuneration	Additional benefits
Kenneth Anthony Morgan	No data	No data
Anna Magdalena Poliszkiwicz	No data	No data
Alwyn Jacobus De Lange	No data	No data
Maciej Fijak	5,677.42	0.00
Zbigniew Juroszek	3,903.23	0.00
Milena Olszewska-Miszuris	5,677.42	0.00
Elżbieta Spyra	3,903.23	0.00
Krzysztof Krawczyk	0.00	0.00

Remuneration of members of the Supervisory Board of STS S.A. in 2021

Name	Fixed remuneration	Additional benefits
Zbigniew Juroszek	0.00	0.00
Mateusz Bromboszcz	27,340.00	0.00
Urszula Juroszek	0.00	0.00
Maciej Fijak	0.00	0.00

### 3.8. Number of Audit Committee meetings

In 2021, no meetings of the Audit Committee were held. The Audit Committee was established by a Resolution of the Supervisory Board of November 2, 2021. The first meeting of the Audit Committee was held on January 5, 2022.

### 3.9. Policy and procedure for selecting a statutory auditor and providing other services

At STS Holding S.A., there is a policy for selecting a statutory auditor/auditing firm to audit the Company's financial statements, as well as a policy for the provision of other services.

#### Auditor selection policy

Pursuant to the Auditor Selection Policy, the leading functions in the process of obtaining offers from the statutory auditor/auditing firm regarding the audit of financial statements are performed by the Member of the Management Board supervising the chief financial officer of the Company's group or the Member of the Management Board as the chief financial officer ("Chief Financial Officer"). The leading function in the scope of designing tasks in the Company that are aimed to select a statutory auditor/auditing firm for to audit financial statements is played by the Audit Committee, a permanent consulting and advisory body of the Supervisory Board, established in order to increase the effectiveness of the Supervisory Board's supervisory activities with regard to checking the correctness of financial reporting, financial results, effectiveness of the internal control system, including internal audit and risk management system, as well as submitting recommendations to the Supervisory Board regarding the selection of a statutory auditor/auditing firm, after carrying out established selection procedures ("Audit Committee"). To fulfill their duties, the Audit Committee and the Chief Financial Officer may use the support of the Company's corporate structures.

The Chief Financial Officer is responsible for obtaining offers from the statutory auditor/audit firms regarding the audit of financial statements, which are the basis for the Audit Committee's recommendation regarding the selection by the Supervisory Board of a statutory auditor/auditing firm to audit financial statements in the Company. Conclusions and recommendations as well as the recommendation of the Audit Committee are the basis for the Supervisory Board to select (by resolution) a statutory auditor/auditing firm. The entity responsible for the preparation and implementation of the procedure for selecting a statutory auditor/auditing firm is the Chief Financial Officer.

The selection of the statutory auditor/auditing firm to audit the financial statements of the Company, in accordance with the provisions of the Company's Articles of Association, falls within the competence of the Supervisory Board. Given the fact that the Supervisory Board is not the body approving the financial statements of the Company, the Management Board, while fulfilling the statutory obligation under Art. 133 of the Act on statutory auditors, immediately informs the Polish Financial Supervision Authority ("KNF") of that fact.

The company evaluates the bids submitted by statutory auditors/auditing firms in accordance with the criteria set out in the tender documentation on the basis of transparent and non-discriminatory selection criteria and prepares a report containing the conclusions of the selection procedure, approved by the Audit Committee. The Company does not limit the possibility of presenting an offer to auditing firms and in no way excludes audit firms that received less than 15% of their total remuneration for audits from public interest entities in Poland in the previous calendar year from participation in the selection procedure, nor does it exclude the possibility of entrusting the audit of financial statements of more than one audit firm. The company is free to define the selection procedure and may negotiate directly with the auditing firms concerned during the selection procedure. The introduction of any clauses in the contracts concluded by the Company with third parties that limit the possibility of selecting a statutory auditor/auditing firm for the purposes of conducting the Company's audit is prohibited and invalid in the procedure of selecting statutory auditors/auditing firms. The company is obliged to notify directly and immediately the competent authorities of any attempts by third parties to impose such a contractual clause or otherwise improperly influence the decision of the Supervisory Board - as to the selection of the statutory auditor/auditing firm. When making decisions and selecting statutory auditors/auditing firms, the Company may take into account the possibility of conducting an audit and issuing an opinion by a statutory auditor/audit firm, other than the statutory auditor/auditing firm of the Company's Group, if it is justified by the implementation of the principles set out in this Policy.



Where the total remuneration received from the Company for each of the last three consecutive financial years amounts to more than 15% of the total remuneration received by the statutory auditor/auditing firm or, where applicable, the statutory auditor of the Group, conducting the audit in each of these financial years, the relevant statutory auditor or the audit firm concerned, or the Group's statutory auditor, where applicable, shall disclose this fact to the Audit Committee and discuss with it the threats to their independence and the safeguards applied to mitigate those threats. The Audit Committee considers whether the audit engagement should be subject to a quality assurance review by another statutory auditor/auditing firm prior to issuing the audit report. Where the remuneration received from the Company still exceeds 15% of the total remuneration received by such statutory auditor, such auditing firm or, where applicable, the Group's statutory auditor, the Audit Committee shall decide, based on objective reasons, whether the statutory auditor, the auditing firm or the statutory auditor of the group, such entity or group of entities may continue to perform the audit for an additional period which may not exceed two years in any event.

The maximum period of uninterrupted duration of the Company's audit engagements (the first engagement including any renewed engagements) by the same auditing firm or its related company or any member of the network operating in the European Union countries to which the audit firm belongs, may not exceed 10 years. After the maximum duration of the engagement referred to in sec. 1, neither the statutory auditor/auditing firm nor, where applicable, any of the members of their networks operating in the European Union countries shall undertake the audit of the Company within the next four years. The key statutory auditor may not audit the Company for a period longer than 5 years. Re-audit of the Company by the key statutory auditor may take place not earlier than after at least 3 years from the date of completion of the last audit of the Company.

Basic criteria for evaluating offers of auditing firms:

- The amount of remuneration for the audit of the financial statements of the Company and its subsidiaries.
- The number of statutory auditors employed by the auditing firm, their professional qualifications, knowledge of foreign languages, in particular with regard to the statutory auditor who is to perform the function of the key statutory auditor.
- Availability of qualified specialists in the field of specific issues in financial statements, such as the valuation of actuarial provisions, valuation of derivative instruments, analysis of tax issues and other issues specified by the Audit Committee.
- The previous experience of the statutory auditor/auditing firm - expressed in revenue obtained over the past 3 years from the audit of public interest entities, as well as the number of conducted audits of public interest entities.
- Experience in auditing financial statements of public companies listed on the regulated (primary) market of the Warsaw Stock Exchange
- Appropriate insurance policy, covering the scope of liability for damage incurred due to improper performance of the contract for the audit of the Company's reports.
- The geographical scope of the operation, including: the possibility of auditing the financial statements of consolidated entities located outside Poland.
- Industry specialization and experience in auditing reports of entities with a profile of activity similar to that of the Company.
- Possibility of establishing permanent, effective cooperation between the statutory auditor/auditing firm and the Management Board of the Company.
- Ensuring that the audit is conducted in accordance with the International Standards on Auditing and other standards specified by the Audit Committee.
- The results of control inspections of the statutory auditor/auditing firm carried out by supervisory authorities in the current year and in the last three years preceding the year in which the bid was submitted.
- Possibility to conduct the audit within the time limits specified by the Company.
- Expected nature, scope and frequency of contacts with the Audit Committee, Supervisory Board and the Management Board of the Company.

The Audit Committee may establish additional selection criteria.

## Policy for the provision of other services:

The policy for the provision of other services sets out the rules for outsourcing additional services to statutory auditors/auditing firms, in addition to auditing financial statements, ensuring the minimization of financial and operational risks and compliance with legal requirements, and the continuous improvement of the quality of financial reporting, as well as honesty, independence, objectivity, accountability and reliability of statutory auditors/auditing firms performing tasks in the company STS Holding S.A.

The policy for the provision of other services regulates the prohibition of providing non-audit services, which have been exhaustively listed in Art. 2 of the Policy, and also lists permitted non-audit services that, in accordance with the assumptions of the Policy for the provision of other services, are not prohibited services. The provisions of the policy also include regulations regarding restrictions to the amount of remuneration of a statutory auditor/auditing firm related to the provision of services other than an audit of financial statements.

If the statutory auditor/auditing firm provides, for a period of at least three consecutive financial years, to the Company, its parent entity or entities controlled by it, non-audit services other than the services referred to in Art. 2 of the Policy, the total remuneration for of such services is limited to a maximum of 70% of the average remuneration paid in the last three financial years for the audit of the Company and, where applicable, of its parent company, its controlled entities and the consolidated financial statements of that group of companies. Non-audit services, other than those mentioned above, that are required to be provided in accordance with EU provisions or national legislation shall be excluded.

### 3.10. List of key policies, other than those regarding the selection of an expert and the provision of other services

Sports betting regulations

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Work and payroll regulations

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Anti-corruption policy

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AML Policy

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Anti-mobbing policy

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Personal data protection policies

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Information security policy

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Responsible gambling concept

### 3.11. Risk management

In each financial year, the Company's Management Board prepares its own assessment of the effectiveness of the risk management systems.

As part of monitoring risk management systems, the tasks of the Audit Committee include in particular: 1) monitoring the financial reporting process, the effectiveness of internal control systems and risk management systems as well as internal audit, including in the scope of financial reporting and performing financial audit activities, 2) controlling and monitoring the independence of the statutory auditor and the auditing firm, 3) informing the Supervisory Board about the results of the audit and explaining how the audit contributed to the reliability of financial reporting in the Company, as well as about the role of the audit committee in the audit

process, 4) assessing the independence of the statutory auditor and consenting to the provision of permitted non-audit services by the auditor, 5) developing a policy for selecting an auditing firm to conduct the audit, 6) defining the procedure for selecting an auditing firm by a public interest entity, 7) submitting recommendations to ensure the reliability of the financial reporting process in the Company.

In addition to the matters specified in legal regulations and other provisions of the Articles of Association, the competences of the Supervisory Board include: 1) assessing the Management Board's report on the Company's activities and the Company's financial statements, as well as assessing the Management Board's report on the activities of the Company's group of companies and the consolidated financial statements of the Company's group of companies for the previous financial year, both with regard to their compliance with the books and documents and with the actual state of affairs, and examining the Management Board's interim and annual reports, motions for the distribution of profits and coverage of losses, and submitting a written report on the results of the examination to the General Meeting, 2) submitting an annual written report to the General Meeting on the results of the assessment referred to in item 1) above, 3) providing opinions on motions submitted by the Management Board to the General Meeting for consideration, 4) concluding and terminating employment contracts with members of the Company's Management Board, with such contracts being signed on behalf of the Supervisory Board by the Chairman of the Supervisory Board or a Vice-Chairman of the Supervisory Board authorized by the Supervisory Board, or another authorized member of the Supervisory Board, 5) appointing an auditor to audit the Company's financial statements and consolidated financial statements of the Company's capital group, 6) determining the amount of and rules for remunerating members of the Management Board, 7) giving consent for the Company to pay an advance on the expected dividend 8) approving the Regulations of the Management Board, and 9) giving consent to the Company's acquisition or disposal of real properties, a perpetual usufruct right or interest in a real property or a perpetual usufruct right, 10) suspending individual or all members of the Management Board for important reasons and to delegate members of the Supervisory Board, for a period of no longer than three months, to temporarily perform the duties of members of the Management Board who have been recalled, have resigned or who, for other reasons, are incapable of performing their duties, 11) adopting of the Regulations of the Supervisory Board.

The Company maintains risk management and supervisory systems appropriate to the size of the Company and the nature and scale of its operations. The Company does not have a separate organizational unit responsible for risk management.

The Management Board is responsible for implementing and maintaining an effective risk management system.

The Company's key risk areas include: (i) liquidity risk; (ii) personal data protection risk; (iii) risk of business downtime and IT system failure; (iv) regulatory risk; (v) competition risk; (vi) AML related risk; (vii) risk of failure to execute the Company's strategy. The risk areas above are regulated by the Group's internal procedures, including the procedure on counteracting money laundering and terrorist financing, personal data protection procedures and policies and other internally applicable procedures and policies.

As part of its internal risk management system, the Company conducts an ongoing assessment of the level of risk associated with the factors listed above. The level of liquidity risk is examined as part of internal management reporting based on the observation of standard liquidity measures. As the other key risks associated with the Company's operations are of a nature that is difficult to measure, the risk management system in relation to these factors significantly relies on the internal incident reporting system.

### 3.12. Any contracts signed by and between the Issuer and its executives, providing for compensation in the event of their resignation or dismissal from the position held without valid reason or when their recall or dismissal takes place due to the merger of the issuer by acquisition.

The Company has no contracts signed with its executives providing for compensation in the event of their resignation or dismissal from the position held without valid reason or when their recall or dismissal takes place due to the merger of the issuer by acquisition.

### 3.13. Risk factors

**Risks relating to the betting and gaming industry:**

#### Risk relating to the regulatory environment of the gaming industry in Poland

The Group's main operating company, i.e. STS S.A., is subject to numerous regulations under national and EU laws, including in particular those under the Gambling Act of 19 November 2009 (Dz.U. /Journal of Laws/ of 2020, item 2094, as amended) (the "Gambling Law"). The Gambling Law imposes restrictive gambling regulations and strict requirements on gambling entities, the violation of which carries severe penalties. Poland's gambling regulations are considered to be among the most restrictive in Europe.

The only forms of online gambling currently permitted in Poland for private sector operators are betting and promotional lotteries. Conducting either of these requires obtaining a prior permit. All other forms of online gambling are subject to state monopoly and can only be held by a state-owned company i.e. Totalizator Sportowy sp. z o.o.

The Gambling Law is intended to comprehensively regulate all aspects of the gambling sector. In particular, it sets out the types of gambling games and bets subject to regulation, the manner of offering particular types of gambling and the related restrictions, the requirements and procedures for obtaining concessions and permits by gambling operators to conduct operations in the area of providing gambling services, the fees applicable to gambling operators, gambling tax rates and administrative penalties for violations of the law. In addition to administrative fines, criminal penalties are also provided for gambling violations.

For example, STS S.A. is obliged to prevent minors from participating in the offered gambling games. A significant or repeated failure to respect the rules and principles of the prohibition of underage gambling is likely to have a significant impact on the Group's image and reputation and may entail the non-compliance with applicable legal and regulatory provisions.

Non-compliance with the relevant provisions of the Gambling Law or the terms of the licenses obtained by STS S.A. may result in the imposition of penalties, sanctions or ultimately the revocation or refusal to renew the licenses. The costs of ensuring compliance of our operations may be significant as a result of any changes thereto or the imposition of additional regulatory requirements. Accordingly, failure to comply with relevant regulations or permit conditions could have a material adverse effect on the Group's revenues, business, results of operations, financial condition and prospects.

In the Group's opinion, the probability of the materialization of this risk is medium.

#### Risk relating to the Group's non-compliance with Anti-Money Laundering regulations

The industry in which the Group operates is exposed to an increased risk of prohibited money laundering activities and therefore there is a risk that the Group's products may be used for those purposes by its customers, employees or third parties. Such actions of customers, employees or third parties may expose the Group to liability in relation to non-compliance with the relevant anti-money laundering or anti-terrorist financing regulations.

For example, pursuant to the Polish Act of March 1, 2018, on the Prevention of Money Laundering and Financing of Terrorism (the "AML Act"), the activities of the Group's principal operating company, i.e. STS S.A., are subject to money laundering regulations and

anti-corruption laws. Ensuring the compliance of STS S.A.'s operations with these regulations may require the Group to incur additional costs, limit the Group's ability to conduct business or subject the Group to civil or criminal actions or proceedings. In 2010, the Group introduced and implemented comprehensive anti-money laundering (AML) procedures and compliance systems, which have been further updated in line with the updated AML regulations. Additionally, STS.BET Limited, as an entity holding a license to organize gambling in the United Kingdom and Estonia, is also subject to regulations on preventing money laundering and terrorist financing and is subject to supervision by the relevant authorities in the countries in which it operates.

Non-compliance with the applicable regulations relating to the prevention, detection, and/or reporting of money laundering or terrorist financing activities could expose the Group to a risk of direct losses, as well as a risk of the members of the Group being subject to civil, administrative or criminal sanctions and losing the confidence of its customers, all of which could have a material adverse effect on the Group's reputation, international brand expansion efforts, commercial relationships, and ability to attract and retain employees and customers, which may have an impact on the Group's operations, financial performance and prospects. It should be underlined that the current regulations are often not clear and the bookmaking industry in Poland faces challenges with their interpretation in a manner appropriate to its activity.

The tightening of anti-money laundering regulations may also adversely affect the speed and convenience with which customers can access the Group's products and services, which may also have a detrimental effect on the Group's revenue, operations, results, financial position and prospects.

Fines are typical administrative sanctions for non-compliance with regulatory obligations. However, one of the sanctions provided by the Polish Gambling Law for failure to comply with the obligations relating to the prevention of money laundering or terrorism financing is the withdrawal of the relevant licenses to conduct sports betting. Any sanctions imposed and/or regulatory measures applied may require the Group to expend significant capital or other resources, modify internal standards, procedures, systems or the Group's product offering, and may require the Group to modify or cease its operations, all of which could adversely affect the Group's business, performance, prospects, value, financial condition, and results of operations.

In the Group's opinion, the probability of the materialization of this risk is medium.

## Risk relating to the complex and non-harmonized regulation of the gaming industry in Europe

The Group operates in an industry subject to strict regulation of a complex and extensive nature that is not harmonized at EU level. The cross-border provision of gaming services in the EU constitutes an economic activity that falls within the scope of the fundamental freedoms set out in the Treaty on the Functioning of the European Union ("TFEU"). In particular, inter alia, Article 56 TFEU prohibits restrictions on the freedom to provide services to service recipients in other EU countries. However, there is no requirement for mutual recognition of gambling licenses or authorizations granted by the authorities of EU countries. In addition, the European Court of Justice has recognized the competence of Member States to determine policies on betting on bookmaking or other games of chance and to restrict gambling activities when this is necessary to protect public interest objectives such as the protection of minors, the fight against gambling addiction and the prevention of crime and fraud. However, the restrictions imposed should be consistent with the EU Treaties, i.e. the justification, proportionality and necessity of the measure must be demonstrated. The lack of harmonization of regulations in the gambling industry, as outlined above, particularly affects the Group, e.g. in connection with expansion into international markets.

Regulation of the gambling industry is also of interest to national legislatures due to the level of risk generated by the industry, which in turn causes legal regulations to be very restrictive and often subject to administrative discretion. The regulatory environment for the gambling industry, including online betting, is constantly evolving and often does not reflect technological progress (including

new products) and the transition of the gambling market to an online business model. Individual regulations and rules for the organization of gambling, including online sports betting, vary from jurisdiction to jurisdiction (from liberal legal systems permitting commercial operators to legal systems imposing state monopolies or significant restrictions on certain activities). In some jurisdictions there are no laws directly applicable to online gambling activities, while in other jurisdictions the mere organizing, offering or advertising of online gambling and betting may be illegal and give rise to criminal liability or financial penalties. Many countries have conflicting regulations, interpretations, differing or inconsistent practices or policies of public authorities in enforcing applicable laws. In addition, many of the laws regulating the gambling industry in various European countries are relatively recent, may be subject to change and competent authorities may change their interpretations of the laws.

An example of significant regulatory changes in the countries in which the Group operates is the ban on accepting credit card payments by gambling operators, which was introduced in the UK in April 2020. In addition, from October 2021, a ban on autoplay, i.e. the ability for a player to repeatedly play a slot machine game without performing additional actions, is planned to be introduced in the UK.

The complex regulatory environment requires the Group to incur significant resources to ensure compliance with relevant regulations. In addition, any adverse changes to betting or other gaming regulations, interpretations of those regulations, regulations and licensing and authorization requirements by the relevant regulatory authorities or the revocation of a license or operating license could have a material and adverse effect on the Group's ability to operate, generate revenue in certain countries or expand its product offering or enable the availability of services in those countries. Changes to existing regulations may include the introduction of significant tax burdens, requirements to provide collateral or other financial guarantees, restrictions on product offerings, liquidity requirements, requirements to obtain licenses or permits or limits on the number of entities that may obtain licenses or permits, restrictions on permitted marketing activities or restrictions on third party service providers for betting operators or other online gambling activities. The imposition of some or all of these measures in certain countries may render it commercially unviable or impractical for the Group to provide its betting and gaming services in those countries, may reduce its revenues in those countries and may cause the Group to limit the scope of its services in those countries, withdraw completely from certain countries or decide not to enter new markets, which could result in financial losses due to the need to block access to customers located in certain countries.

The Group continuously monitors the regulatory environment of its business to decide whether to allow customers in a particular country access to one or more of its products and whether to engage in different types of marketing and customer contact activities, taking into account various factors, including current regulatory developments. There is a significant risk that the Group will not accurately assess the likelihood that one or more countries will take action that is unfavorable to the Group or decide to introduce legislation that is unfavorable to the Group, or its customers or suppliers. Any such action or activities could result in the illegality of the Group's operations and those of its customers or suppliers. Failure to comply with relevant laws, regulations or licensing or permitting requirements may result in penalties, sanctions or ultimately the suspension, revocation or non-renewal of relevant licenses or permits, and may affect licenses or permits issued in other countries. In addition, the compliance costs associated with these changing and increasingly complex laws, regulations and licensing or permitting requirements could be significant. Failure to comply with relevant laws, regulations and licensing or permitting requirements could have an additional material adverse effect on the Group's revenues, business, results of operations, financial condition and prospects.

In the Group's opinion, the probability of the materialization of this risk is medium.

## **Risk relating to potential reduction of the Group's revenue and profits and constraint of the Group's growth due to increased competition**

The Group competes with a large number of betting operators, whether in betting shops (i.e. stationary betting shops) or in the Internet, as well as with providers of other gaming products.

The Group's competitors in Poland include mainly licensed bookmakers. The Group's competitors on foreign markets include large local and multinational gaming operators. The Company's most important market is Poland, where the Group was the largest operator at the end of 2021 (in terms of turnover, based on Ministry of Finance data for 2021). Even though the Group has a dominant position on the Polish market, it faces continuous competition from both established market players and new entrants to the market.

The gambling industry is a competitive market and competitors have numerous opportunities to increase their market share due to the changing regulatory environment despite the Group's established position on the Polish market, particularly if they are more established in foreign markets. The betting companies compete mainly by expanding their product offerings in the form of introducing services with growth potential, such as live betting, virtual sports, eSports or other forms of betting, such as simulated card games, introduced by STS S.A. in 2019 (BetGames). If the Group is unable to expand or provide attractive product offerings to its customers, it may lose market share to its competitors, which would have a negative impact on the Group's ability to generate revenue.

The Group, and in particular the Group's principal operating company, i.e. STS S.A., may face difficulties competing with bookmakers and other gambling entities that are based in low-tax jurisdictions and offer their products in the so-called "grey area". These entities do not hold appropriate gambling licenses in Poland and typically do not meet stringent regulatory requirements with respect to players. As a result, such unlicensed entities, operating in the grey area of the market, which in Poland was estimated to be worth over PLN 1 billion in 2020 based on gross gaming revenue (GGR) (according to EY's study "Szara Strefa Na Rynku Hazardowym Online w Polsce" ("The Grey Online Gambling Market in Poland")), are able to offer their services to players with more favorable betting odds or at a lower cost than the Group.

The failure of the relevant gambling regulators to implement effective regulations necessary to enforce the prohibitions on providing bookmaker betting or other unlicensed gambling may affect the success of the Group's operations in specific jurisdictions, including Poland. The Group also cannot rule out the possibility that the Group's competitors will introduce products similar to or better than the Group's products or that their development activities or investments will not achieve better results than the Group's development activities or investments, which may have an adverse impact on the Group's operations, earnings, prospects and results of operations.

In the Group's opinion, the probability of the materialization of this risk is low.

## Risk relating to an escalation of the coronavirus disease (COVID-19) or similar diseases in Poland and other countries in which the Group operates

Since March 2020, the global markets have been exposed to severe disruption due to the COVID-19 pandemic. As a result of the pandemic, individual countries, including Poland, have taken extensive measures to limit the spread of the virus and its effects, such as introducing social, travel, and economic restrictions. In 2021, restrictive measures introduced by the governments were gradually relaxed mainly due to the growing percentage of the vaccinated population.

While the Polish economy was able to maintain its positive outlook, the COVID-19 pandemic and related economic and societal events resulted in, among others, increasing inflation, a decline in purchasing power, a volatility in the demand for consumer goods, a change in consumer preferences and a general deterioration in the mood of citizens related to the deterioration of their economic or social situation and uncertainty as to the further development of events.

The pandemic increases the risk of an economic downturn which in turn can potentially result in rising unemployment and inflation, – factors which may adversely impact on the Polish market. The uncertainty surrounding the COVID-19 pandemic and its effects on the global economy...

The COVID-19 pandemic has had a direct impact on the Group's operations, including the Group's main operating company, i.e. STS S.A. Due to the cancellation of numerous sports events from March to June 2020, and changes in traditional schedules there has

been a corresponding significant decrease in sports betting in that period. In addition, due to COVID-19, STS S.A. decided to shut down its retail operations (stationary betting shops) between March 15, 2020 and May 3, 2020. At the same time, from March to June 2020, the Group noticed an increasing interest in online betting on eSports, BetGames and virtual sports. Since June 2020, the Group has noticed a permanent increase in online and offline betting. In total, the Group's turnover increased in 2020 by 8% as compared to 2019; however, the Group believes such increase would have been much higher under normal circumstances, i.e., without changes to the scheduling of sports events and shut down of retail operations as well as the consequences of COVID-19 pandemic.

Moreover, employees or persons cooperating with the Group who had contact with persons diagnosed with COVID-19 or were themselves diagnosed with COVID-19 may have to be quarantined, have to self-isolate and/or be on sick leave or hospitalized, which may have a negative impact on the Group's operations, in particular if this applies to a significant number of people simultaneously or a group of employees responsible for a specific area of the Group's operations.

Another wave of the COVID-19 pandemic, emergence of new mutations of COVID-19 or any similar disease may have a negative impact on the execution of the Group's business plans and operations. The increase in remote working may also result in consumer privacy, IT security and fraud concerns, as well as increase the Group's exposure to potential work organization, and its understanding of applicable legal and regulatory requirements, as well as the latest guidance from regulatory authorities in connection with the COVID-19 pandemic, may be challenged by the competent authorities, particularly as regulatory guidance evolves in response to future developments.

The Group is unable to accurately estimate the impact that COVID-19 will have on all its operations going forward due to uncertainties that will be dictated by the length of time that the pandemic and related disruptions continue, the impact of governmental regulations that might be imposed in response to the pandemic and overall changes in the Group's customers' behavior.

In the Group's opinion, the probability of the materialization of this risk is medium.

## **Risk relating to the potential deterrence of third party suppliers from entering into business with the Group due to uncertainty of to the legality of or adverse public sentiment towards the Group's operations**

Suppliers' willingness to provide services to the Group may be affected by their assessment of the legality of providing services to the Group or by the need to make changes to their business to enable them to lawfully provide services to the Group. Suppliers may also be reluctant to provide services to the Group due to their negative view of the betting or other gambling industry, possible negative sentiment towards the industry and due to political or social pressure brought on them. Adverse changes in law or regulation of enforcement policies in any jurisdiction may make the provision of key services to the Group unlawful or problematic in certain jurisdictions. The unwillingness or inability of service providers to provide services to the Group could have a material adverse effect on the approvals received by Group companies and affect the Group's ability to generate revenue from offering its products and services to customers.

For example, from 2016 to 2020, the Group's main operating company, STS S.A., was unable to open a bank account in one of the largest Polish banks due to the fact that the internal policy of such bank prohibited cooperation with companies providing gaming services. Although the internal policy of the aforementioned bank was changed, the Group cannot rule out the possibility that similar policies may be introduced in the future.

In addition to legal or regulatory reasons, certain third party service providers may be reluctant to provide services to the Group due to concerns regarding public or political sentiment towards the betting and gaming industry.



Certain service providers may also determine that an association with the Group could result, directly or indirectly, in adverse consequences for their business and so they may be unwilling to provide their services to the Group and/or prohibit or restrict the Group's customers from using such third party service provider's technology or services or maintaining commercial relations with the Group which may have a material adverse effect on the Group's revenue. In addition, the Group may experience or be subject to an increased scrutiny or supervision of service providers in certain sectors, such as financial services, which may result in a necessity to incur additional costs or cause the Group to resign from providing certain services.

In the Group's opinion, the probability of the materialization of this risk is low.

## Risk relating to potential revocation of the Group's companies licenses or lack of extension thereof

The Group conducts activities that are highly regulated. Licenses or permits are usually required to provide sports betting or gaming products in the jurisdictions in which the Group operates. Currently, STS S.A. operates based on 13 decisions issued by the Ministry of Finance (1 decision concerning online betting services and 12 concerning retail betting services (stationary betting shops)), which may be subject to changes from time to time, for example in relation to a change of location of betting shops (stationary betting shops). In the UK and Estonia the Group's services are available based on licenses, issued by the relevant authorities in those countries, held by STS.BET Limited.

Regulations in each of the countries in which the Group operates stipulate, among other things, various conditions concerning the organization of services, marketing, employees, and products offered. Furthermore, the introduction of new products may result in a necessity to obtain new licenses or to widen the scope of current licenses and to make the relevant adjustments to conducted operations. The Group makes all reasonable efforts to comply with the terms and conditions of its licenses and to renew licenses that are due to expire. Any failure to comply with any applicable regulations or the terms and conditions of its licenses, or any unfavorable changes of law may lead to the Group losing one or more of its licenses or to an inability to renew its licenses.

In addition, the Group's operating companies may not be able to comply with all the requirements, conditions and rules that are necessary to obtain the authorizations or extend their scope to new products. Loss of the existing permits or failure to obtain new ones may have a material adverse impact on the Group's operations, financial performance and development outlook. In addition, violation of applicable regulations may result in administrative or criminal sanctions against the Group companies or their managers.

Certain of the Group's licenses may be granted for fixed periods of time, after which renewal of the license may be required. For example, in accordance with the Polish Gambling Act, a license concerning the provision of betting services in Poland is granted for a period of 6 years and may be extended for an additional 6-year period. Licenses also typically include a right of revocation for the regulator or grantor in certain circumstances. Licenses also have conditions attached to them, some of which may be onerous for the Group to comply with. A failure to win new licenses, the loss of an existing license, or a material adverse change to the terms of a license would significantly adversely impact the Group's financial performance and growth plans.

The Group's operating companies, including STS S.A., may not be able to obtain new licenses in the countries in which it intends to operate or renew its existing permits if they expire or are revoked, on terms acceptable to the Group. In addition, the Group may lose its licenses or violate their terms. Similarly, the Group's business partners in different countries may violate the terms of their authorizations, which could result in the loss or material adverse change in the Group's authorizations.

In the Group's opinion, the probability of the materialization of this risk is low.

## Risk relating to the restrictions on advertising of gaming services

Extensive restrictions apply to the marketing of betting or other gaming services in some countries in which the Group operates. In those countries where such restrictions apply, the Group is forced to limit its marketing activities according to relevant applicable laws.

For example, in Poland, the advertising of betting or other gaming services is restricted (unless explicitly allowed in the Gambling Law). Advertising definition in the Gambling Law covers a broad spectrum of activities, including displaying the trademarks or other distinctive marks of gambling operators, as well as the names and graphic symbols of the entities operating in the field of betting and other gambling games and displaying any information regarding where such games or other services are held and how to participate in them. The advertising and promotion restrictions under the Gambling Law also apply to the advertising and promotion of any goods or services whose name, trademark, graphical shape or packaging make use of a resemblance to or are equivalent to the designation of gambling games or gambling operators. In Poland, the advertising of betting became possible in April 2017, although with several restrictions. Only licensed operators, such as STS S.A., are allowed to advertise, and the contents of advertisements are highly regulated. Among other things, the advertisements may not associate betting with relaxation or leisure, financial success, or sexual attraction and are permitted as long as they do not link the placing or participation in betting to physical or intellectual performance.

The rules on advertising of gambling, described above, may reduce the Group's potential to attract new customers, launch new products, implement a common marketing strategy or expand its market share in a given market. In addition, the Group's advertisements may breach the relevant applicable restrictions and the Group may face criminal or civil proceedings as a result or may lead to the loss of licenses. A failure to adhere to the relevant regulations in this area or an inability to market the Group's products effectively due to the need to adhere to such regulations could have a significant adverse effect on the Group's revenue, business, results, financial position and prospects.

In the Group's opinion, the probability of the materialization of this risk is low.

## Risk relating to negative effects of the reputation of the betting and other gaming services industry

The Group's revenue is dependent on both the number of customers using its services and the average amount of money that each customer spends on a given game. The number of the Group's customers is in turn directly related to the reputation of betting and other gaming services and the general public's perception of betting and other gaming services in the countries in which the Group operates. Public sentiment towards the betting and other gaming services industry can vary considerably. Despite the Group's attempts to improve the image of betting and other gaming services industry in Poland, it is often labelled as a less socially desirable type of entertainment. Significant increases in anti-betting and anti-gaming views may occur from time to time causing significant negative effect to the betting and other gaming services industry as a whole. In particular, adverse changes in the perception of the betting and other gaming services industry by the general public may lead to a decrease in demand for betting and other gaming services industry or increased regulatory restrictions which, in turn, may have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

Negative shifts in the perception of online betting and other gaming services industry by the public, politicians, lobbyists or others could affect introduced or planned changes in laws or regulations in particular countries. In particular, some jurisdictions may abandon or postpone planned legalization or liberalization of online betting and other gaming services industry, thereby limiting the number of jurisdictions into which the Group could launch operations. In addition, betting social impact, is an increasingly important subject of public debate, and related social pressure may result in the introduction of more restrictive regulatory measures concerning, among others, responsible gambling, advertising, the availability of payment methods or scope of services which could be offered to customers. Increased regulation may restrict the Group's scope of operations and increase its compliance costs and therefore have an adverse impact on the Group's business, financial condition, results of operations or prospects.

The betting and other gaming services industry is at times exposed to negative publicity, including compulsive gambling, gambling by minors and gambling online. Publicity about problem gambling, gambling by minors and other problems, even if not directly or indirectly connected with the Group or its products, may adversely impact the Group's reputation and the willingness of the public to participate in betting and other gaming services industry or a particular form of betting and gaming. A material reduction in the number of customers willing to participate in betting and other gaming services industry as a direct or indirect result of such events could have a material adverse impact on the Group's revenues and the Group's business, financial condition, results of operations or prospects.

A negative social and political perception of the gaming industry and related legal or internal requirements of the institutional investors such as investment policies prohibiting investing in companies in the Group's industry may decrease the investors demand for the Company's shares. In addition, the Group cannot exclude that certain investors will not invest in the Company's shares as a result of ethical or reputational concerns, or that some investors may implement any such prohibitions, or in the future. All of the above may have an adverse impact on the Group's reputation and the price of the Company's shares.

In addition, responsible gambling initiatives aimed at, among others, promoting awareness of possible risks associated with gambling, may require the Group to incur additional costs related to the implementation of the industry best practices or to cease to offer certain products, in the event they are considered harmful to customers. Based on the UK's operations experience, and in light of requirements imposed on gambling companies by the Polish Gambling Act, the Group has adopted industry best practices with respect to responsible gambling, including inter alia, time or amount limits or quota limits and the possibility of self-exclusion by the players. In addition, already in 2022, it concluded an agreement with the University of Economics in Katowice and implemented the Mentor tool, which will facilitate further development of competences in this area. However, it cannot be excluded that such initiatives are ineffective, result in customer complaints or negative media coverage having a detrimental impact on the Group's business.

In the Group's opinion, the probability of the materialization of this risk is medium.

## Risk relating to compliance with the personal data regulations

The Group's business depends on obtaining and processing the personal data of a large number of customers. The Group processes personal customer data (including name, address, age, bank details and gaming history) and therefore must comply with strict data protection and privacy laws in Poland, the EU and other jurisdictions, in particular Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC ("GDPR"). The GDPR introduced new compliance obligations applicable to the Group's business, resulting in expenses related to the implementation of the GDPR and an adjustment in the Group's business practices. In addition, the GDPR stipulates increased financial penalties for non-compliance (including possible fines of up to four percent of global annual revenue for the preceding financial year or EUR 20 million (whichever is higher) for the most serious violations.

Any failure or perceived violation by the Group companies to comply with their posted privacy policies, their privacy-related requirements to customers or other third parties, or any other legal requirements relating to privacy, data protection, or information security may result in governmental investigations or supervisory actions, claims or public statements against the Group by data protection entities, consumer advocacy groups or others state entities. It may involve liability of a substantial nature, cause the customers to lose trust in the Group's services or otherwise materially, adversely affect reputation and business of the Group.

Furthermore, the costs of compliance with, and other burdens imposed by the laws, regulations, and policies that are applicable to the Group may limit the adoption and use of, and reduce the overall demand for, the Group's services. Additionally, if third parties cooperating with the Group violate applicable laws, regulations, or agreements, such violations may put the Group's customer data at risk.

Further, public scrutiny of, or complaints about, technology companies or their data handling or data protection practices, even if unrelated to the Group's business, industry or operations, may lead to increased scrutiny of technology companies, including the Group, and may cause government agencies to enact additional regulatory requirements, or to modify their enforcement or investigation activities, which may increase the Group's costs and risks. Each of these factors would have a material adverse effect on the Group's operations, financial performance and prospects.

In the Group's opinion, the probability of the materialization of this risk is low.

## Risk relating to alleged or actual anti-competitive behavior or practices negatively impacting consumers or competition

The Group's activities may come under increased scrutiny by competition and consumer protection authorities and the Group's companies may be subject to civil claims for damage in relation to alleged or actual violations of competition and consumer protection law. A claim for compensation may be pursued by way of an action brought independently or after a decision has been issued by public authorities, for example the President of the Office of Competition and Consumer Protection ("President of UOKiK").

The President of UOKiK is empowered under the Polish Act of February 16, 2007 on Competition and Consumer Protection (unified text: Journal of Laws of 2020, item 1076, as amended) to initiate administrative proceedings concerning the protection of competition or the protection of consumers, including abusive clauses in standard agreements with consumers or abuse of a dominant position.

Actions taken by regulatory agencies such as the President of UOKiK, even if without grounds, typically are very expensive to defend, require significant management time and may involve negative media coverage. If a President of UOKiK investigation were to conclude with a decision adverse to the Group or if the Group were to enter into a settlement arrangement, the Group may be subject to fines or other sanctions. Remedying violations may also require the Group to change its business practices. In the event of the Group's commitment to take or omit to take certain actions to cease the breach or remedy its effects, the Group may be required to implement substantial changes to its business practices in order to implement the commitments. The President of UOKiK has the power to impose fines of up to 10% of the turnover of the company concerned in the last financial year for breach of competition rules or for breach of consumer protection rules. Any adverse determinations could also result in significant negative publicity or reputational harm of the Group, and could complicate new or developing antitrust or other investigations relating to consumer protection. Fines imposed by the President of UOKiK, any adverse decisions proceedings, the need to introduce changes to the way in which the Group can operate, or negative publicity generated therefrom, may have a material adverse effect on the Group's business, financial condition and results of operations.

In the Group's opinion, the probability of the materialization of this risk is low.

## Risk relating to potential changes in taxation of betting services and other products offered by the Group

The Group is subject to taxation and/or levies in each of the countries in which it operates. The taxation and levies imposed upon the Group have changed over time and may also change in the future.

Poland, which is the main market of the Group's operations, is a jurisdiction with one of the highest gaming taxation regimes in the EU. As a rule, 12% tax is imposed on amounts staked for bets concerning the results of sports and other events (excluding sporting events involving animals). Moreover, gaming operators whose registered seat or main office is in Poland are subject to corporate income tax.

An increase of taxation on international markets on which the Group operates or imposition of new taxes may decrease the amount of money customers want to spend on the Group's products. It may also lead to increased competition from online betting and gaming organizers that do not comply with local regulations and therefore will not be affected by changes in taxation. An increase in state public levies or a significant change in their terms of application could have a significant adverse effect on the Group's revenue, business, results, financial position and prospects.

In the Group's opinion, the probability of the materialization of this risk is low.

## Risk related to the war in Ukraine

Currently, it is difficult to precisely estimate the impact of the war in Ukraine on the Group's operations, however, as at the date of approval of these financial statements, the Management Board has not identified any circumstances that would pose a threat to the Group continuing as going concern. Due to the complexity of the situation and the possibility of many scenarios being realized, the development of the situation will be monitored on an ongoing basis.

In the Group's opinion, the probability of materialization is difficult to estimate as on the date of approval of the report.

## Risks relating to the Group's operations

Risk relating to the Group's reliance on IT infrastructure, networks and systems and new technologies which may fail or be subject to disruptions

The integrity, reliability and operational performance of the IT infrastructure of the Group is critical to its operations. Such infrastructure, networks, systems and technologies are used to operate the Group's services, process payments and manage and secure its business and data.

Focus on the strategy based on mobile devices results in the Group's dependence on mobile platform providers such as Apple (iOS), Google (Android) and Huawei, who may limit STS mobile application availability on their platforms. For example, STS's mobile application is not available in Google Play store and can only be downloaded from the STS website.

The IT infrastructure of the Group may be damaged or interrupted by increased usage, human error, unauthorized access, natural hazards or disasters or similarly disruptive events. Any failure of the IT infrastructure of the Group or the telecommunications and/or other third party infrastructure on which such infrastructure relies could lead to significant costs and disruptions that could reduce revenue, harm the business reputation and have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

The Group's operations are highly dependent on the IT network and infrastructure that connects the sale points where the Group's products are offered and the headquarters where the operations are conducted, which enables the Group to access information on its operations in real time. IT solutions are of key importance for online services offered by the Group's operating companies, including STS S.A. Any failure, errors, deficiency or other malfunction of the Group's IT infrastructure, networks and systems may have an adverse effect on the quality or availability of services provided by the Group, its competitiveness, business, operating results and financial condition. Depending on the duration of any such event, the Group's revenues may be adversely impacted by such failure and the perception of the Group's brand or reputation may deteriorate.

In addition, if the Group's information systems do not provide accurate information, even for a short period of time, to the Group's management, the ability to manage Group's business, in particular bookmaking odds, could be disrupted and the Group's business, operating results and financial condition could be materially and adversely affected.

In the Group's opinion, the probability of the materialization of this risk is medium.

## Risk relating to potential vulnerability of the Group's IT systems to cyber attacks or other threats

The operating platforms used by the Group are reliant on technologies and network systems to securely handle transactions and user information over the internet, which may be vulnerable to system intrusions, unauthorized access or manipulation.

As the web users responsible for cybercrime use increasingly technologically advanced ways to commit fraud or cause disruption, the Group's security and network systems may be subjected to various attacks. Computer malware, viruses, hacking, phishing and similar attacks have become more prevalent in the industry. Two of the more common security issues affecting the gaming industry are "denial of service" and "phishing" attacks.

While the Group employs intrusion detection and prevention measures, there is no assurance that such intrusions or attacks or other unauthorized access or manipulation of the software will or can be prevented in the future and any occurrences may cause a delay in or an interruption of operations of the Group. Infringement or interference in the Group's technological platform operations may occur without warning, resulting in a negative assessment of the Group's products, services or sites by the Group's customers. If the Group's efforts to combat these attacks or other forms of cyber-crime are unsuccessful, the Group's reputation and product offerings could be materially adversely affected with a consequent impact on its ability to generate revenue.

In the Group's opinion, the probability of the materialization of this risk is low.

## Risk relating to potential disruption to the Group's activity due to crime and fraud

Like many operators in the betting and gaming industry, the Group faces challenges caused by crime and fraud in the countries in which it conducts its business. The betting and gaming industry is subject to various risks as a result of criminal activity, including organized crime, fraud, robbery, petty crime and theft.

These events may result in negative media coverage regarding the Group's operations or may disrupt the Group's operations, and could therefore materially adversely affect the Group's business, financial condition, results of operations or prospects.

The examples of fraud of an internal nature the Group may face include, among others, incorrect odds being published for a short period, sufficient for an employee to place a bet thanks to such odds, the transfer of funds going to a bank account belonging to an employee, crediting bonuses to an employee when the conditions for awarding them have not been met, unauthorized use of the Group's know-how within the industry, as well as breaches of data security and unauthorized use of customer data.

The examples of fraud of an external nature the Group may face include, among others, creating multiple accounts using borrowed or stolen identities to bypass verification thresholds or security checks, use of so called "mule" or "smurf" accounts i.e. alternative accounts created by the same person, requests by customers for a "chargeback", that is a card transaction complaint, unauthorized use of the payment methods offered by third parties, use of the Group's services from a prohibited jurisdiction, inappropriate use of bonuses, player collusion, exploiting errors or hacking games, arbitrage betting, low odds betting patterns or fixed matches. The Group incidentally faced such incidents in the past, however, they were not of a significant scale.

While the Group has systems in place to protect against fraudulent play and other inappropriate activities by customers and employees, the Group cannot guarantee full efficiency of these systems in all cases. Improving or remediating existing procedures or systems may require the Group to make unanticipated additional investments in its systems and processes. If the Group suffers any fraudulent

activities, the Group's business, performance, prospects, value, financial condition, and results of operations could be adversely affected.

All frauds and cheating have the potential to interfere with customers' use of the Group's products. If the Group fails to detect fraud and cheating, including fraudulent use of third party funds and the use of bots, the Group could lose the confidence of its customers. In addition, all negative media coverage related to such schemes could lead to customers becoming dissatisfied with the Group's products and services. The Group could also face action from third parties affected by fraud or cheating, where for instance fraudulent use of third party funds has occurred as a result of account takeovers by an unauthorized user. The occurrence of any of such events could result in reputational damage to the Group and it could materially adversely affect its revenue and could require significant capital expenditure to counteract.

In the Group's opinion, the probability of the materialization of this risk is medium.

## Risk relating to the impact of the schedules of sporting events on the Group's revenue and the potential volatility of the Group's revenue

As the bets offered by the Group are mainly related to sporting events, its business and financial results are partially related to schedules and results of such events. The major sporting events occurs seasonally (such as the Ekstraklasa, the Premier League, the UEFA Champions League, and the NBA) or at regular but infrequent intervals (such as the FIFA World Cup and the UEFA European Championship).

The Group observes an increased number of bets during such major sports events, which may influence the volatility of the financial performance of the Group between the reporting periods. Factors such as weather conditions, terrorist acts, wars and outbreaks of pestilence and infectious diseases such as COVID-19 may also result in cancellation or changes in the planned schedules of sporting events, which may adversely impact the Group's business, financial condition and results of operations. Cancellation, disruption to, or postponement of the live broadcasting of sporting events, for example, due to contractual disputes between the broadcasters, technological or communication problems, or other events could decrease the customers' interest in betting related to a given event and have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In the Group's opinion, the probability of the materialization of this risk is medium.

## Risk relating to the Group's dependence on its key personnel

The Group's success depends to a significant extent upon the experience and work of a limited number of the Group's key senior management and personnel, especially the members of the management board of STS S.A., bookmakers, local managers and product development specialists. The Group's President of the Management Board and key shareholder, Mateusz Juroszek, is a key person in the Group's development and is responsible for such areas as product development, finance, marketing, sportsbook and technology. Zdzisław Kostrubała is the gambling law expert and actively participated in the work on the Gambling Act and regular discussions with the regulators, and is responsible for the Group's legal and compliance issues.<sup>63</sup> Marcin Walczysko is an executive with experience gained with the largest gaming industry players and is responsible for the Group's retail operations (nationwide network of betting shops).

It cannot be ruled out that the Group will not be able to retain its key personnel. The risk management and product portfolio are the most crucial areas in which the Group is dependent on the key employees, who significantly contribute to the success of the Group. Due to the specifics of the betting industry and the ongoing digitalization, the Group is dependent on highly skilled and technically trained employees, whose high competences and knowledge translate into the development of new technologies and creation of innovative products. Competition for employees, particularly software developers, engineers and project managers with desirable

skill sets is high, and the Group devotes significant resources to identifying, hiring, training, successfully integrating and retaining of its employees.

Factors critical to retaining the Group's present staff and attracting and motivating new highly qualified personnel include the Group's ability to provide these individuals with competitive compensation arrangements. The loss (whether temporary or permanent) of the services of any director, member of the senior management team or other key personnel like bookmakers, could have a material adverse effect on the business, financial condition or results of operations of the Group.

In the Group's opinion, the probability of the materialization of this risk is low.

## Risk relating to material losses with respect to betting and other gaming services outcomes and individual events

A bookmaker's odds are determined so as to provide the bookmaker with a stable level of profits based on a large number of bets and betting events, which ensures the Group's performance and margin over the long term. However, the Group's financial performance and the margin achieved can reach high level of variation depending on the results of individual events and on a day-by-day basis.

The Group has, from time to time, experienced significant losses with respect to individual events or betting outcomes related to the so-called unlikely winners. Single high winnings may also affect the Group's results on a short-term basis. For example, in May 2021, one of the clients made 3 identical bets with a stake of PLN 300 and winnings of over PLN 300 thousand each. In addition, longer periods without unexpected results in the events most frequently chosen by customers (for example, a longer period of victories by favored teams) may clearly affect the Group's net margin in such period, i.e. the value of winnings paid out may be greater than the value of bets accepted on such events.

Although the Group has systems and controls in place which seek to reduce the risk of periodic losses, there can be no assurance that these systems and controls will effectively reduce this risk. The volatility of financial results and potential losses caused by single-events could have a material adverse effect on the Group's cash flows, the comparability of the Group's results on a short-term basis and therefore have a material adverse effect on its business, financial condition and results of operations.

In the Group's opinion, the probability of the materialization of this risk is medium.

## Risk relating to the necessity for the Group to introduce new, attractive products and high quality technologies addressing the newest industry trends

Sports betting is the main product offered by the Group. In order to attract and retain customers, the Group regularly introduces and expands betting opportunities for its customers through the expansion of its live betting, betting on virtual sports events, eSports betting and BetGames offering. Outside of Poland, the Group also provides players with online casino and other forms of gaming entertainment.

The Group's online business relies on access to the newest and most developed technologies, including the Group's proprietary betting platform and mobile application. Any failure to develop new technologies, systems or products, or to increase the effectiveness of existing systems may have an adverse effect on the quality of services provided by the Group, its competitiveness, business,



operating results and financial condition. In addition, the Group may be unable to access such technologies, for example, if they are developed by the Group's competitors.

Ineffective implementation of the new systems and technologies by the Group, which could cause its business disruptions and be more expensive, time-consuming, disruptive and resource-intensive or decrease the overall quality of the customer experience.

All of the above could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In the Group's opinion, the probability of the materialization of this risk is medium.

## Risk relating to the Group's dependence on third parties for some of its services, in particular dependence on the organizers of sports events

The Group relies to varying degrees on a number of third party vendors, service providers as well as strategic partners to efficiently operate the business, offer its products and meet the expectations of customers.

In particular, certain key elements of the Group's services are operated by third parties the Group does not control and whose replacement would take significant time or may be impossible. The Group expects this dependency to continue in terms of some services. For example, pursuant to the Polish Gambling Law, STS S.A. is required to obtain the consents of national organizers of sports events to use their results for betting. The law does not indicate on what conditions such consents should be given or whether they can be withheld. This includes the results of matches organized by the Polish Football Association (Polski Związek Piłki Nożnej) or Ekstraklasa, the country's primary football competition, and other popular sport competitions that have significant importance for the Group, in particular due to the Group's marketing activities being focused on football. Therefore, STS S.A. has had to enter into agreements with Polish organizers of sports events for the use of the events' results for sports betting on terms and conditions which are not always favorable to it, and sometimes they require the Group to share a certain amount of total revenues with the entity granting such consent. Such provisions are included in the agreement with the Polish Football Association and Ekstraklasa, which is further described under "9. Business – 9.10. Material Contracts – Agreement with PZPN and Ekstraklasa S.A. concerning the right to use results of games." The Polish Office of Competition and Consumer Protection is currently verifying whether the amount charged by the Polish Football Association and other Polish organizers of sports events can be based on the total revenue of the entity organizing sports betting, regardless of whether it was generated by sports events organized by such sports organizers or by other events.

Any adverse changes in the Group's existing arrangements with these third parties, including inability to fulfill obligations in a timely manner or an inability to enter into or renew arrangements on favorable terms, if at all, could reduce the quality, revenue or availability of the Group's products. In particular, if the Polish sports organizers withhold their consent for the use of their results or the Group fails to pay the fees to the organizers of such sports events on time or to extend the relevant agreement, the Group may not be able to offer betting for games' results. There is also a risk of temporary or permanent restrictions on consents granted by certain sports organizers due to the actions of competitors aimed at limiting access to particular events on an exclusive basis.

The Group's reliance on third parties may also lead to potential disruptions and various performance problems due to a variety of reasons, such as infrastructure changes, human and software errors, as well as capacity constraints. With regard to the aforementioned intermediaries, the Group is not always able to conclusively guarantee the timeliness and reliability of the services provided. A failure or significant interruption in the Group's services could adversely affect its business, operating results and financial condition.

In the Group's opinion, the probability of the materialization of this risk is medium.

## Risk relating to the majority of the Group's revenues coming from betting

The majority of the Group revenues are generated by sports betting operations, in particular online betting.

The Group has introduced new products, and expanded its offer of live bets offering and virtual sports, as well as eSports events. Nevertheless, the Group expects that sports betting will remain its major source of revenue in the future. If sports betting becomes less popular, in particular due to generational and societal changes, the revenues and operations of the Group may be significantly adversely affected.

In the Group's opinion, the probability of the materialization of this risk is low.

## Risk relating to the Group's dependence on the significance of the STS brand

The Group's revenues from operations depend largely on the significance of the Group's main brand, namely, the STS brand. According to the Group, the STS brand is very well recognized and trustworthy; however, any actions that may damage the STS brand, such as errors in the Group's marketing planning, the ineffective use of marketing expenditures or the loss of customers' trust, may have a material

In the Group's opinion, the probability of the materialization of this risk is low.

## Risk relating to the Group's potential infringement of third party IP rights

The Group's success may depend on its ability to obtain trademark protection for the names or symbols under which it offers its products, or to obtain intellectual property rights protection of its proprietary technologies. There is a risk that the Group may be unable to protect its intellectual property rights, which may have a significant adverse effect on the Group and its prospects.

The Group deals with two major groups of intellectual property rights: software and trademarks. Some software was developed or adjusted to the Group's activities and is used by Group companies. It is possible that IT solutions were implemented in a particular operating company without first obtaining all of the necessary licenses. Furthermore, rights to use trademarks designed for the Group by particular operating companies may not be properly secured. There is also a risk that the Group may violate third parties' rights to trademarks and other IP rights when conducting reports on sport events, informing about their participants or presenting competitions and their results. If action is taken by a third parties against the Group as a result of its alleged infringement of IP rights, that may have a material adverse impact on the operations, financial results and prospects of the Group.

In the Group's opinion, the probability of the materialization of this risk is low.

## Risk relating to potential disruptions in payment processing

Payment of the Group's customers, especially in online services, is predominantly made by debit/credit cards or other legally allowed online payment methods. Card-issuing institutions sometimes impose restrictions on the use of cards for particular online transac-

tions, including betting and other gaming services. The internet payments for the Group's products are processed by banks. Therefore, the Group's business will be increasingly dependent on financial institutions and other entities and organizations which ensure service payments made by and to customers. The Group's payment mechanism STSpay depends on the availability of the STS S.A. bank accounts in numerous Polish banks. Any disruptions in payment systems or negative assessment of payment process made by the Group's customers could have a material adverse effect on the Group's business, financial condition and operations.

In the Group's opinion, the probability of the materialization of this risk is medium.

## 4. Selected financial data



## 4.1. Property and financial situation of the STS Holding S.A. group of companies (description of consolidated data)

STS Holding S.A. does not conduct operating activities, therefore it does not identify operating segments in its activities.

In the period from March 10 to December 31, 2021, the Company conducted only holding activities in relation to the company STS S.A. and as part of this activity it only obtained dividend revenue in the amount of PLN 67,454,043.94.

The data presented below is consistent with the consolidated financial statements of the STS Holding S.A. Group of Companies for the period from January 1 to December 31, 2021.

Selected data from the consolidated statement of comprehensive income:

Data	Dec 31, 2021	Dec 31, 2020	Variation
Revenue from sales	497,631,476	388,969,859	28%
Gross profit (loss) on sales	170,433,072	123,824,699	38%
Profit before tax	174,279,936	133,658,348	30%
Profit on operating activities (EBIT)	179,479,093	134,579,945	33%
EBIT/ Sales revenue	36%	35%	
<b>Net profit</b>	<b>131,337,655</b>	<b>102,198,157</b>	<b>29%</b>

In 2021, the Group recorded a significant increase in revenue, which amounted to 28% year-on-year. This is due to the dynamically growing bookmaker market and a consistently implemented development strategy. The STS Group is one of the largest bookmakers in Central Europe and a leader in Poland, which is constantly strengthening its market position. Furthermore, in 2021, business profitability grew faster than revenue. Gross profit on sales increased by 38% year-on-year to the level of nearly PLN 170 million. The operating profit amounted to over PLN 179 million, which represents an increase by 33%. Net profit reached PLN 131 million and was 29% higher than in 2020. It is worth noting that all the data presented above were at the highest levels in the history of the STS Group.

Return ratios.	Dec 31, 2021	Dec 31, 2020	Variation
<b>Operating profit margin ratio</b>			
$\frac{\text{Profit on operating activities}}{\text{Revenue from sales}}$	36.1%	34.6%	4%
<b>Net profit margin ratio</b>			
$\frac{\text{Net profit}}{\text{Revenue from sales}}$	26.4%	26.3%	0%

Revenue from sales

**Return on Asset (ROA)**

Net profit	49.2%	38.1%	29%
<hr/> Total assets			

**Return on Equity (ROE)**

Net profit	124.6%	103.3%	21%
<hr/> Equity			

Profitability ratios at the end of 2021 reached higher levels than in 2020. It should be emphasized that despite the high increase in revenue generated from the conducted activity, the Group throughout the year maintained a lower dynamics of cost increase, which made the profitability ratios look much more favorable than in 2020. At the same time, mainly due to the significant increase in the level of profitability of the conducted activity, with the simultaneous lower growth dynamics in the assets and equity items, a significant increase in the return on assets (ROA) and return on equity (ROE) ratios was recorded.

**Selected data from the consolidated statement of financial position - assets**

Data	Dec 31, 2021	Dec 31, 2020	Variation
Total assets	266,853,085	268,461,571	-1%
Fixed assets	102,993,291	112,337,121	-8%
Current assets, including:	163,859,794	156,124,450	5%
Inventory	4,524	4,572	-1%
Trade and other receivables	16,404,261	9,885,207	66%
Cash and cash equivalents	146,433,170	48,652,271	201%
Short-term financial assets	1,017,839	97,582,400	-99%

In 2021, there was a decrease in the level of assets, mainly fixed assets. At the same time, there was an increase in current assets. The company's inventories are almost at the same level as last year. On the other hand, trade and other receivables as well as cash and cash equivalents increased significantly.

**Selected data from the consolidated statement of financial position - liabilities**

Data	Dec 31, 2021	Dec 31, 2020	Variation
Equity	105,401,310	98,932,272	7%

Share capital	156,389,998	2,496,000	6166%
Total liabilities	161,451,775	169,529,299	-5%
Non-current liabilities	23,155,144	32,879,945	-30%
Current liabilities	138,296,631	136,649,354	1%

In 2021, there was an increase in equity by 7%. Long-term liabilities have decreased significantly. The company has no material debts.

### Financing structure and management of financial resources

Data	Dec 31, 2021	Dec 31, 2020
Total assets	266,853,085	268,461,571
Fixed assets	102,993,291	112,337,121
Equity	105,401,310	98,932,272
Total liabilities	161,451,775	169,529,299
Non-current liabilities	23,155,144	32,879,945
Current liabilities	138,296,631	136,649,354

The management of the financial resources of the STS Holding S.A. Group of Companies in 2021 invariably involved the effective financing of the Group's operations, including, in particular, the provision of sources of financing for the implemented projects in the scope of technology, marketing and portfolio development. For this purpose, own funds and funds from payments from customers were used, which means that the generated cash flows allowed the Group to operate on a day-to-day basis.

### Gearing Ratios

Gearing Ratios	Dec 31, 2021	Dec 31, 2020
<b>Asset coverage ratio</b>		
$\frac{\text{Equity}}{\text{Total assets}}$	39.5%	36.9%
<b>Debt to Equity Ratio</b>		
$\frac{\text{Total liabilities}}{\text{Equity}}$	153.2%	171.4%

#### Overall debt ratio

Total liabilities	60.5%	63.1%
Total assets		

In the opinion of the Management Board, the level of STS Group debt can be considered as safe. The Group did not have any significant liabilities due to loans and borrowings at the end of 2020 as well as on December 31, 2021, and the generated cash flows enable current operations of the Company, including technology investments.

#### Liquidity ratios

Gearing Ratios	Dec 31, 2021	Dec 31, 2020
<b>Current Ratio</b>		
CURRENT ASSETS	118.5	114.3
Current liabilities		
<b>Quick Ratio</b>		
Current assets - Inventory	118.5	114.2
Current liabilities		

The current liquidity ratio of the STS Group as on December 31, 2021 has improved compared to the previous period and remains at a high and safe level.



## 5. Representations



## 5.1. Non-financial information

The Non-Financial Report of the STS Group has been prepared separately from the Management Board's Report on operations of the STS Holding S.A. Group of Companies.

## 5.2. Auditor

On January 13, 2022, the Company concluded an agreement with Grant Thornton Polska Sp. z o. o. Sp.k., ul. Abpa Antoniego Baraniaka 88 E, 61-131 Poznań, entered into the list of auditing firms kept by the National Council of Statutory Auditors, under number 4055, for the audit of the Company's separate financial statements and the consolidated statements of the STS Holding S.A. Group of Companies for the financial year ended December 31, 2021 and for the financial year ended December 31, 2022. The subject of the agreement is also a review of the summary separate financial statements of the Company and the consolidated financial statements of the Group for the period ending on June 30, 2022. The auditing firm was selected by the Supervisory Board in accordance with the policy of selecting an auditing firm in force in the Company, taking account of the recommendation of the Company's Management Board of December 29, 2021.

Pursuant to the agreement of June 18, 2021 and Annex No. 1 of June 18, 2021, prior to the approval of the policy of selecting an auditing firm by the Company, the auditing company Grant Thornton Polska Sp. z o. o. Sp.k. based in Poznań, provided to the STS S.A. Group (STS S.A.), in the financial year ended December 31, 2021, permitted non-audit services, i.e. services in the following scope:

- auditing historical financial information of STS S.A. for 2018, 2019 and 2020 in connection with the public offering of the Company's shares;
- conducting a review of the historical financial information of the Group of Companies in accordance with the International Financial Reporting Standards for the period from Jan 1, 2021 to Sep 30, 2021 in connection with the public offering of shares;
- issuing comfort letters and performing other agreed procedures in connection with the Company's public offering when drawing up the Offering Memorandum;
- carrying out the "tick and tie" procedure in connection with the Company's public offering when drawing up the Offering Memorandum;

The remuneration of the auditing firm for the financial year and the previous year was described in the Consolidated Financial Statements in Note 36 "Remuneration of the audit firm".

Under Art. 70 sec. 1 point 7 and Art. 71 sec. 1 point 7 of the Regulation of the Minister of Finance of March 29, 2018 on current and interim information delivered by issuers of securities and the conditions for recognizing as equivalent the information required by the laws of a non-member state (Dz. U. /Journal of Laws/ 2018, item 757), based on the statement made by the Supervisory Board of STS Holding S.A., the Management Board of the Company declares that the auditing firm authorized to audit the financial statements of the Company and the STS Holding S.A. Group of Companies, auditing the separate financial statements of STS Holding S.A. and the consolidated financial statements of the STS Holding S.A. Group of Companies for the year ended December 31, 2021, was selected in accordance with the provisions of law, including those concerning the selection procedure of an auditing firm.

The aforementioned auditing firm and members of the audit team performing the audit met the conditions for drawing up an impartial and independent report on the audit of the annual separate and consolidated financial statements in accordance with the applicable regulations, professional standards and professional ethics rules,

The applicable regulations related to the turnover of the auditing firm and the key statutory auditor as well as the mandatory grace periods are complied with in the Company,

The Company introduced a Policy and procedure for the selection of an auditing firm authorized to audit the financial statements of the Company and of the STS Holding S.A. Group of Companies, and the Policy for the provision of permitted non-audit services by the auditing company conducting the audit, an entity related to this auditing company or a member of the auditing firm's network.

### 5.3. Statement of the Management Board of STS Holding S.A. for the Consolidated Financial Statements

The Management Board of STS HOLDING S.A. declares that the consolidated financial statements of the STS HOLDING S.A. Group of Companies ("Group of Companies") and the financial statements of the parent company STS HOLDING S.A. for the period from January 1 to December 31, 2021 and comparable data were prepared in accordance with the applicable accounting principles (IFRS) and reflect in a true, fair and clear manner the property and financial situation of the Group of Companies and its financial result, and the annual report on the activities of the Group of Companies, containing the report on the activities of STS HOLDING S.A., presents a true picture of the development, achievements and condition of the Group of Companies, including a description of the main threats and risks.

### 5.4. Approval by the Company's Management Board of the Management Board's report on the operations of the STS Holding S.A. Group of Companies in 2021

This Report of the Management Board on the activities of STS Holding S.A. Group of Companies in 2021, including the report on the operations of STS HOLDING S.A., was prepared and approved by the Management Board of the parent company STS HOLDING S.A. on April 27, 2022.

Drawn up in Katowice, on April 27, 2022.

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**Mateusz Juroszek**

President of the Management Board of STS Holding S.A.

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**Zdzisław Kostrubała**

Member of the Management Board of STS Holding S.A.

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**Marcin Walczysko**

Member of the Management Board of STS Holding S.A.