

*PEPEES S.A*

**REPORT ON ACTIVITIES OF**

**For OF PEPEES CAPITAL GROUP 12**  
**months ended on 31 December 2020**

**(including the disclosures required for the Report of Management Board  
on activities in the aforementioned period) published  
on 28 April 2021**

# INDEX TO THE REPORT OF THE MANAGEMENT BOARD ON ACTIVITIES OF THE CAPITAL GROUP

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for 12 months ended on 31 December 2020*

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### **INTRODUCTION**

This Management Board's Report on the PEPEES Group's activities for 2020 contains information whose scope is defined in §70 and 71 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities [...] (the Regulation).

The consolidated annual report, of which these financial statements and this management report are a part, has been prepared pursuant to §70 and §71 in connection with section 1 point 3 and section 2 § 60 of the Regulation.

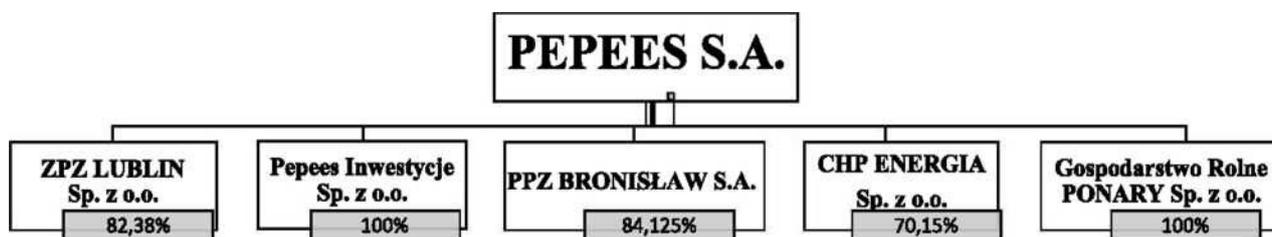
Pursuant to §71 sec. 8 of the Regulation, this report also includes disclosures required for the Report on the Activities of the Holding Company referred to in § 70 sec. 1 point 4 of the Regulation.

The principles of preparation of financial statements are presented in the respective statements, i.e. in the Parent Company Financial Statements and in the Group Financial Statements for 2020.

### **CHARACTERISTICS OF PEPEES CAPITAL GROUP**

Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. (hereinafter also referred to as the Issuer, the Company, "PEPEES" S.A., PEPEES) is the parent entity of: Zakłady Przemysłu Ziemniaczanego ZPZ "LUBLIN" Sp. z o.o., Przedsiębiorstwo Przemysłu Ziemniaczanego "BRONISŁAW" S.A., Pepees Inwestycje Sp. z o.o. (formerly OZENERGY Sp. z o.o.), Gospodarstwa Rolnego Ponary Sp. z o.o. and CHP Energia Sp. z o.o.

The structure of the Capital Group as of 31 December 2020 was as follows:



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Nazwa	Registered office	Subject of business	Registration court	Issuer's share in equity (%)	Share in the total number of votes (%)
ZPZ LUBLIN Sp. z o.o.	Lublin	Production and sale of potato syrup and dried potatoes, fruit and vegetable processing	District Court in Lublin, 11th Economic Department of the National Court Register	82.38	82.38
Pepees Inwestycje (former OZENERGY Sp.)	Łomża	Sale and purchase of real property for own account	District Court in Białystok 12th Economic Department of the National Court Register	100	100
PPZ BRONISŁAW S.A.	Bronisław	Production of starch and starch products	Sąd Rejonowy w Bydgoszczy XIII Wydział Gospodarczy KRS	84,125	84,125
CHP ENERGIA Sp. z o.o.	Wojny Wawrzyńce	Production of electricity and heating from gas obtained from biogas plant	District Court in Białystok 12th Economic Department of the National Court	70.15	70.15
Gospodarstwo Rolne Ponary Sp. z o.o.	Łomża	Farming connected with livestock breeding	District Court in Białystok 12th Economic Department	100	100

All subsidiaries were consolidated using the full method.

## 1. Structure of PEPEES Capital Group

### 1.1. Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. in Łomża - the Holding Entity

#### 1.1.1. Basic information about the Holding Entity

The Holding Entity operates under the name of Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. (hereinafter: "the Company", "the Holding Entity", "the Issuer"). It has its registered office in Łomża, ul. Poznańska 121.

The business is performed in form of a joint stock company established with a notary deed on 21 June 1994 before notary Paweł Błaszczuk in Warsaw (Repertory no A 14126/94).

The company was entered to the register of entrepreneurs kept by the District Court in Białystok, 12th Economic Department of the National Court Register in Białystok under number KRS 000038455.

It has tax identification number (NIP): 7181005512 assigned by the Tax Office in Łomża on 20 January 2000 . The Statistical Office assigned statistical number (REGON): 450096365.

The Company operates in compliance with the provisions of the Code of Commercial Companies. It is a company consisting of one establishment, it has no branches .

PEPEES S.A. with registered office in Łomża is the biggest starch potato processing plant in Poland and the only domestic producer of crystalline glucose. The implemented and certified (since 2007) integrated management system has also ensured high quality and full health safety of produced goods. The Company's products are widely used in the food, pharmaceutical, animal food, chemical, textile and paper industries.

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According to the Company's articles of association, the subject of its business comprises:

- S Potato processing,
- S Production of starch and starch products,
- S Service activities related to processing and preservation of vegetables and fruit,
- S production of juice of fruit and vegetables.

In the reporting period, the Company performed activities related to production of starch and starch products, and potato processing .

As at 31 December 2020 and the date of preparation of this report, the Company's share capital amounted to PLN 5 700 thousand and was divided into 95 000 ordinary bearer shares of the nominal value of PLN 0.06 each.

As at the date of approval of this periodical report, the Company's shareholding structure was as follows:

SHAREHOLDING	Number of shares	Share in capital %	Number of votes	Share in total number of votes at the General Meeting%
<u>Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych*</u>	27 759 032	29.22%	6 356 799	6.69%
<u>Michał Skotnicki</u>	21 399 174	22.53%	21 399 174	22.53%
<u>Maksymilian Maciej Skotnicki**</u>	20 703 282	21.79%	20 703 282	21.79%
<u>Newth Jonathan Reginald</u>	7 995 200	8.42%	7 995 200	8.42%
<u>Richie Holding Ltd.</u>	6 133 100	6.46%	6 133 100	6.46%
<u>Other</u>	11 010 212	11.59%	11 010 212	11.59%

\*Due to the failure to comply with the notification obligations about purchase of significant amounts of shares pursuant to the Public Offering and Public Companies Act of 29 July 2005, EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, which has - according to the information held by the Company - 27 759 032 shares of the Company, has lost and cannot exercise voting rights on 21 402 233 shares. The Management Board filed a lawsuit for determination to District Court in Białystok. Epsilon FIZ AN believes that they can exercise voting rights on 27,759,032 shares which is 29.22% of total votes at the General Meeting. The Chairman of Financial Supervision Commissions (KNF) presented his standpoint on the issue on 24 July 2019. The Management Board awaits the valid decision of the court of law. The Company informed about the issue in interim reports Nos 13/2019, 14-23/2019 and 30/2019.

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### 1.1.2. The Company's authorities

As at 31 December 2020 and as at the date of publication of this Management Report, the composition of the Management Board, the Supervisory Board and the Audit Committee was as follows:

#### *The Management Board*

Wojciech Faszczewski	President of the
	Management
Tomasz Krzysztof Rogala	Board Member
The Management Board	of the
consists of one to five	Management
persons. The Supervisory	Board
Board appoints the	President of the
President of the	Management Board;
Management Board; at the	at the

request of the President of the Management Board, it appoints other members of the Management Board. Management staff is dismissed by the Supervisory Board. The Management Board exercises all rights in the scope of management of the Company, with the exception of those reserved for the Supervisory Board or the General Meeting. The decision to issue or redeem shares is taken by the General Meeting of Shareholders by way of resolution. The Issuer's Management Board is not authorised to issue or redeem shares - no authorised capital has been established in the Company.

#### *The Supervisory Board*

Maciej Kaliński	Chairman of the Supervisory Board Vice-
Tomasz Nowakowski	Chairman of the Supervisory Board Secretary of
Robert Malinowski	the Supervisory Board Member of the Supervisory
Krzysztof Stankowski	Board Members of the Supervisory Board are
Piotr Marian Taracha	appointed and dismissed by the General Meeting
Agata Czerniakowska	of Shareholders.

#### *The Audit Committee*

Maciej Kaliński	Chairperson of the Audit Committee
Krzysztof Stankowski	Vice Chairperson of the Audit Committee
Piotr Marian Taracha	Member of the Audit Committee
Robert Malinowski	Member of the Audit Committee
Tomasz Nowakowski	Member of the Audit Committee

On 14 April 2020 the Supervisory Board appointed two additional members to the Audit Committee, namely Robert Malinowski and Tomasz Nowakowski.

### 1.2. Zakłady Przemysłu Ziemniaczanego „LUBLIN” Spółka z ograniczoną odpowiedzialnością with registered office in Lublin - a subsidiary

#### 1.2.1. Basic information on ZPZ LUBLIN Sp. z o.o.

The Company's registered office is located in Lublin, ul. Betonowa 9. The Company runs the business in form of a limited liability company that was established for indefinite duration with a notary deed on 8 November 1996; the notary deed was drafted in the Notary Office of Antonina Renata Bednara in Lublin, ul. Spokojna 8, Repertory A No 6437/96. The company was entered to the register of entrepreneurs kept by the District Court in Lublin, 11th Economic Department of the National Court Register in Białystok under number KRS 0000050886.

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The Company has tax identification number NIP: 9461580419.



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The subject of the company's business, according to articles of association, comprises purchases and sales of real property on own account.

As at 31 December 2020, the Company's share capital amounted to PLN 95000 and was divided into 1 900 equal and indivisible shares of PLN 50 each share .

### **1.3.2. The authorities of Pepees Inwestycje as at 31 December 2020**

#### ***The Management Board***

Roman Adam Miniński                      President of the Management Board.

### **1.4. Przedsiębiorstwo Przemysłu Ziemniaczanego "BRONISŁAW" Spółka Akcyjna z with registered office in Bronisław - a subsidiary**

#### **1.4.1. Basic information about PPZ BRONISŁAW S.A.**

Przedsiębiorstwo Przemysłu Ziemniaczanego Bronisław S.A. has operated since 23.11.2001 . On 12.12.2017 (date of registration in the National Court Register) Przedsiębiorstwo Przemysłu Ziemniaczanego Spółka z ograniczoną odpowiedzialnością was transformed into Przedsiębiorstwo Przemysłu Ziemniaczanego Bronisław Spółka Akcyjna.

The Company's registered office is located in Bronisław 41, 88-320 Strzelno. The company runs the business in form of a joint stock company, which was established with a notary deed on 31.07.2017 Repertory A No 1989/2017 for unlimited duration. The company was entered to the register of entrepreneurs kept by the District Court in Bydgoszcz, 13th Economic Department of the National Court Register in Bydgoszcz under number KRS0000708945.

The Company has tax identification number NIP: 5571595182. The Company operates in compliance with the provisions of the Code of Commercial Companies.

The subject of the Company's business comprises:

- production of starch and starch products,
- potato processing and preservation,
- service activities supporting plant production.

As at 31 December 2020, the company's share capital amounts to PLN 800 000 and is divided into 800 000 shares of the nominal value of PLN 1 each share. Shares are not privileged.

PEPEES is its main shareholder and holds 84.125%. Other shareholders are individuals.

### **1.4.2. The authorities of PPZ BRONISŁAW S.A as at 31 December 2020**

#### **The Management Board**

Wojciech Faszczewski                      President of Management Board  
Roman Adam Miniński                      Vice President of the Management Board.

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### ***Supervisory Board - members until 21\*08\*2020.***

Piotr Marian Taracha	Chairman of the Supervisory Board
Agata Czerniakowska	Vice-Chairman of the Supervisory Board
Grzegorz Dobrowolski	Board Member of the Supervisory Board
Stanisław Bukowski	Member of the Supervisory Board
Elżbieta Trandziuk	Member of the Supervisory Board
Robert Malinowski	Member of the Supervisory Board
Tomasz Nowakowski	Member of the Supervisory Board

### ***Supervisory Board - members from 22.08.2020 to 31.12.2020.***

Tomasz Nowakowski	Chairman of the Supervisory Board
Agata Czerniakowska	Chairman of the Supervisory Board
Grzegorz Dobrowolski	Member of the Supervisory Board
Stanisław Bukowski	Member of the Supervisory Board
Robert Malinowski	Member of the Supervisory Board

## **1.5. CHP Energia Spółka z ograniczoną odpowiedzialnością with registered office in Wojny Wawrzyńce - a subsidiary**

### **1.5.1. Basic information on CHP ENERGIA Sp. z o.o.**

The company with registered office in Wojny Wawrzyńce was established on 27 April 2011 with a notary deed Repertory A No 1163/2011. The company operates in form of a limited liability company. The company was entered to the register of entrepreneurs kept by the District Court in Białystok, 12th Economic Department of the National Register under number KRS 0000390180.

The Company has tax identification number (NIP): 7721624470. The Company operates in compliance with the provisions of the Code of Commercial Companies.

The subject of the Company's business comprises:

- production of electricity,
- transmission and distribution of electricity.

As at 31 December 2020, the company's share capital amounted to PLN 5 298 000 and was divided into 10 596 equal and indivisible shares of PLN 500 each share. The Company's main shareholder is "PEPEES" S.A., that holds 70,15% of the capital. The remaining shareholders are individuals.

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### **1.5.2. The authorities of CHP ENERGIA Sp. z o.o. as at 31 December 2020**

#### ***The Management Board***

Andrzej Bogdan Wyszyński	President of the Management Board
Mirosław Siemieniako	Vice-President of the Management Board.

#### ***The Supervisory Board***

Wojciech Faszczewski	Chairman of the Supervisory Board
Tomasz Krzysztof Rogala	Member of the Supervisory Board
Wojciech Zagdański	Member of the Supervisory Board

After the balance sheet date  
PEPEES sold all its shares in  
the CHP Energia Sp. z o.o.

The sale took place on 18 March 2021. The shares were bought by ORLEN Południe S.A., a subsidiary of PKN ORLEN S.A.

### **1.6. Gospodarstwo Rolne Ponary Spółka z ograniczoną odpowiedzialnością with seat in Łomża**

#### **1.6.1. Basic information on Gospodarstwo Rolne Ponary Sp. z o.o.**

The Company's registered office is located in Łomża, ul. Poznańska 121. The Company runs the business in form of a limited liability company that was established with articles of association on 10 November 2015 for indefinite duration. The company was entered to the register of entrepreneurs kept by the District Court in Białystok, 12th Economic Department of the National Court Register in Białystok under number KRS 0000585975.

The Company has tax identification number NIP: 1132898091.

The Company operates in compliance with the provisions of the Code of Commercial Companies.

The Company's subject of business comprises farming connected with livestock breeding

As at 31 December 2020, the company's share capital amounted to PLN 1 620 000 and was divided into 32 400 equal and indivisible shares of PLN 500 each share .

The company's sole shareholder is "PEPEES" S.A.

#### **1.6.2. The authorities of Gospodarstwa Rolne Ponary Sp. z o.o. as at 31 December 2020**

##### ***The Management Board***

Tomasz Krzysztof Rogala	President of the Management Board .
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## **2. Business of the companies belonging to PEPEES Capital Group**

PEPEES Capital Group is established by companies specialising mainly in potato processing for the purpose of production of potato starch, maltodextrin, potato flakes, etc. The Group also comprises facilities related to the production of renewable energy, the cultivation of starch potatoes, and the purchase and sale of real estate for its own market.

Each company performs specified functions and has significant share in creation of values in PEPEES Capital Group.

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"PEPEES" S.A. performs the function of the Holding Company. The Management Board of "PEPEES" S.A. works out the Group's development strategy and makes key decisions concerning both, the scope of activities, and finances of entities belonging to PEPEES Capital Group.

"PEPEES" S.A. owns one of the biggest starch producing plants in Poland. Its processing capacity reaches up to 2400 tons of potatoes per day. The significant involved assets include machinery used for starch production, specialised staff and warehouse space.

ZPZ Lublin Sp. z o.o. with registered office in Lublin focuses on processing edible potatoes to produce potato grits, potato flakes and production of potato glucose syrups.

PFZ "BRONISŁAW" S.A. with registered office in Bronisław produces first of all starch and also processes edible potatoes into potato flakes.

CHP Energia Sp. z o.o. with registered office in Wojny Wawrzyńce is a company that primarily ensures collection of potato pulp (a by-product of production) from the Holding Company. Therefore, it plays a key role in PEPEES's production cycle.

Pepees Inwestycje Sp. z o.o. based in Łomża deals with buying and sales of real estate for its own market.

Gospodarstwo Rolne Ponary Sp. z o.o. with registered office in Łomża has farmland that is leased by the Holding Company in order for instance to grow starch potatoes.

### **3. Changes in organisation of PEPEES Capital Group**

On 29 December 2020 PEPEES acquired 288 shares in CHP Energia, thereby increasing its shareholding in the company's capital from 67.43% to 70.15%. The shares, with a nominal value of PLN 144 thousand, were purchased from GK Plus Sp. z o.o. for PLN 51,840.

Assets and liabilities of CHP Energia Sp. z o.o. were presented in the consolidated financial statements as held for sale. After the balance sheet date PEPEES sold all its shares in the CHP Energia Sp. z o.o. The sale took place on 18 March 2021. The shares were bought by ORLEN Południe S.A., a subsidiary of PKN ORLEN S.A.

## **II. CHARACTERISTICS OF THE BUSINESS OF PEPEES CAPITAL GROUP**

### **1. Characteristics of the business market**

The main business activities of PEPEES Capital Group in the reporting period comprised production, commercial activities and services focused mainly on potato processing and production of electricity. Four industrial branches are specified in PEPEES Capital Group that is: "potato processing", "production of electricity", "agricultural farming combined with animal breeding" and "purchases and sales of real properties for own account".

The segment "power generation" includes all assets and liabilities of CHP Energia Sp. z o.o.

The segment of "agricultural farming combined with animal breeding" includes all assets and liabilities of Gospodarstwo Rolne Ponary. Because during 2020 Ponary did not generate any revenues from sale, the segment of "agricultural farming combined with animal breeding" was not separated in revenues and results of the segments. Due to the value of land owned by Ponary, the third segment was separated in this consolidated financial statement exclusively to show its assets and liabilities.

The segment of "purchases and sales of real properties for own market" includes all assets and liabilities of Pepees Inwestycje Sp. z o.o. Ta spółka również nie generowała w 2020 roku przychodów ze sprzedaży.

The segment of "potato processing" comprises all other assets and liabilities presented in the consolidated financial statement.

In the "potato processing" segment, the following products are produced:

- > potato starch,
- > several ranges of glucose,
- > wide range of glucose syrups,

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- > potato grits,
- > potato flakes.

PEPEES Capital Group processes both starch and edible potatoes. Potatoes serve as the main source of starch in Poland, but also in the whole Europe. Starch potatoes are potatoes containing not less than 13% of starch. Starch is mechanically separated from other components of such potatoes, through their rinsing, cleaning, drying and sieving; such starch is to be used as food and for technical purposes.

Europe produces the most potato starch in the world. Germany is the largest producer of potato starch in the European Union, followed by the Netherlands, France and Denmark. EU companies are large starch plants, processing between 3,000 and 5,000 tonnes of potatoes per day. The top 3 European companies (Emsland in Germany, Avebe in the Netherlands and Roquette in France) account for about 65% of EU starch production.

In the EU in recent years, production has amounted to around 1.9 million tonnes per year, of which 92% is accounted for by the EU-15 and less than 8% by the new member states. Poland's share in potato starch production in the EU is ca. 6%.

The Polish starch industry consists of 10 companies producing potato starch and its derivatives. The domestic starch industry is highly fragmented. There are 5 largest starch plants operating on the Polish market, with processing capacity of 1,000-2,400 tons of potatoes per day. These are plants located in Łomża ("PEPEES" S.A. in Łomża), Luboń, Trzemeszno, Piła and Łobez. Other Polish starch plants are much smaller and capable of processing around 300-800 tons of potatoes per day.

Edible potatoes are processed in the subsidiary ZPZ Lublin Sp. z o.o., mainly into potato grits and flakes and partially in PPZ Bronisław S.A. into potato flakes.

CHP Energia Sp. z o.o. is a company operating in the "electricity generation" segment, whose strategy assumes use of a biogas plant and integrated solid fuel plant of biomass and cogeneration of green electricity. The surplus heat energy produced is used to dry the biomass which is used as agricultural fertiliser. Additionally, the company conducts trading activities related to the purchase and pelleting of pulp. The development of agricultural biogas plants is part of the implementation of obligations towards the European Union. The new legal regulations and support system introduced will accelerate the development of this sector in Poland.

## **2. Information on basic products, goods and services sold in the Group**

In the "potato processing" segment, the following products are produced:

*S potato starch to be used in food, pharmaceutical, paper, textile and chemical industries;*

*S a few types of glucose used in food, confectionery and pharmaceutical industries;*

*S maltodextrin which is an essential additive to powdered products (ice cream, sauces, soups, fruit solids, flavours) and vitamin and mineral nutrients for children and athletes;*

a wide range of starch syrups used in confectionery and bakery;

*S potato grits used in food industry;*

*S potato flakes used in food industry .*

### **Potato starch**

Potato starch (potato flour) is produced in result of mechanical shredding of potatoes, extraction, refining, dehydration, drying and sieving.

Starch is one of the most multifunctional raw materials in the food industry. Some applications use its natural properties to create gels and thickening (food, chemical, textile, paper industries)

In food and pharmaceutical industries starch is used to give proper texture (form), humidity, consistency and durability of products during storage.

### **Starch**

Starch is extracted from potato tubers crashed into pulp, through rinsing followed by cleaning, drying and sieving. The commercial product contains up to 40% of water. Starch is made of industrial potatoes characterised by appropriate qualitative features, that is high starch contents and as large as possible content of

large starch grains, small amount of non-starch substances, small protein contents, round tubers, crisp flesh, shallow potato eyes.

#### **Potato protein**

The product is received from potato cell cytoplasm through coagulation, separation and drying. The ready product has a form of free flowing grey powder, with typical smell of dried potato protein and humidity not higher than 10%. The product is characterized by high almost 80% content of crude protein, which digestible protein accounts for more than 70% of the dried mass. Being high-quality, easily digestible plant protein, the product is a valuable component of animal feed mixtures and it is a great substitute of animal protein.

#### **Grits**

Grits is a by-product in the starch plant. It consists of glued gruel clods separated from dried potato flour.

#### **Potato flakes**

Potato flakes are produced from edible kinds of potatoes. These are steamed and then dehydrated flakes large to 0.2-0.5 mm.

#### **Starch hydrolysates /**

##### **Crystalline glucose**

Crystalline glucose is the end product of potato starch hydrolysis. It has a form of white, fine crystalline powder with sweet flavour. It characterises with very high level of microbiological purity and contains ca. 99.5% of pure glucose. Crystalline glucose is a monosaccharide that is high caloric and easily absorbed by the body. It is valuable natural source of energy. Glucose is widely used in production of pharmaceutical and dietetic products (medicines, nutrients). Its consumption is particularly important in the period of intense physical efforts and convalescence.

*In the food industry, mainly the following properties of glucose are used: means supporting perception of sweetness and strengthening taste of products.* It is used for production of confectionery products, ice creams, desserts, dry food mixtures, non-alcoholic beverages, fruit and vegetable products. Moreover, crystalline glucose is used in brewery, wine, bakery and meat industry.

##### **/ Anhydrous glucose**

Anhydrous glucose is a product received in result of fluidized drying of crystalline glucose to the humidity level lower than 1%. The product meets high microbiological requirements. Total production of anhydrous glucose is used by the pharmaceutical industry. It is used mainly for production of infusion fluids.

##### **S Maltodextrin**

Maltodextrin is the product of depolymerisation of potato starch, received in result of enzymatic hydrolysis. It has a form of white powder with slightly sweet flavour. Properties of maltodextrin change depending on the level of starch hydrolysis. DE (g;glucose equivalent) growth raises sweetness accompanied by growth of solubility and hygroscopicity, as well as fell of viscosity, binding power and resistance to crystallisation. Due to the bonding and filling properties, as well as ability to improve texture and stabilise flavour and taste, maltodextrin is used in production of food. It is a significant element of powdered products (ice cream, sauces, soups, fruit extracts, flavoured toppings) and nutrients and vitamin and mineral products for children and athletes. It is an important carbohydrate element of ready-made milk and nutritional powders for infants. Maltodextrin has a large share in production of low calories food.

##### **S Glucose syrups**

Glucose syrups are thickened water solutions of monosaccharides (glucose, maltose) and low-molecular polysaccharides received in result of enzymatic hydrolysis of starch. It is characterised by good temperature and chemical stability, high osmotic pressure. Glucose syrups are used for production of hard and soft candies, chewing gums, fruit jellies, ice creams, desserts, confectionery products. Use of glucose syrup raises mass plasticity, has impact of durability of colour and flavour and gives transparency and shine. Addition of syrup ensures appropriate structure and delicate sweetness, improves structural properties, impedes crystallisation of sugar, enables maintenance of natural colour

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of fruit, adds delicate test and emphasizes flavour.

**S Hydrol**

Hydrol is a waste product. It is intercrystalline fluid left after separation of glucose crystals from thickened glucose syrup . It is a thick brown fluid with specific odour. Due to high carbohydrate contents, hydrol is used in the spirit, animal feed and chemical (e.g. skin tanning) industries.

Besides the foregoing products, in 2020 revenues from sales in the Group were also generated in the following groups of products:

*S* seed potatoes,

*S pesticides* ,

*S Selling* materials.

In the electricity generation segment, the following products are produced:

*S* electricity from agricultural biogas,

*S* heat for own needs, that is used, for instance, to dry animal feed and pellet.

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The segment of "agricultural farming combined with animal breeding" includes all assets and liabilities of Gospodarstwo Rolne Ponary Sp. z o.o. Due to the value of land owned by GR Ponary Sp. z o.o., the third segment was separated in this report exclusively to show its assets and liabilities. The fourth segment comprises purchase and sales of real properties on the own market by Pepees Inwestycje Sp. z o.o.

### 3. Volume and structure of sales

The Capital Group operates on a very competitive market, both in Poland and abroad, in environment of domestic companies and larger international concerns. On the Polish market it has one of the leading ranks, both in respect to value and quantities of goods.

Table no 1 and Fig. no 1 and 2 present the structure of sales in the period from 1 January 2020 to 31 December 2020 as compared to the corresponding period of 2019.

**Table no 1: Structure of net revenues from sales for 12 months of 2020 and 2019**  
(data in PLN '000)

Product offer	For 12 months ended on 31 December 2020	Structure in 2020	For 12 months ended on 31 December 2019	Structure in 2019	Dynamics
Potato products	187 803	89.03%	204 089	87.98%	92.07%
Electric power	3 711	1.76%	3 540	1.53%	104.83%
Property rights (electric power and heat)	2 496	1.18%	2 626	1.13%	95.05%
Animal feed	257	0.12%	727	0,31%	35.35%
<b>Other sales, including:</b>	<b>16 668</b>	<b>7.90%</b>	<b>20 999</b>	<b>9.05%</b>	<b>79.38%</b>
a) services	1 668	0,79%	1 823	0.79%	91.50%
b) goods and materials	15 000	7.11%	19 176	8.27%	78.22%
<b>Total revenues from sales*</b>	<b>210 935</b>	<b>100.00%</b>	<b>231 981</b>	<b>100.00%</b>	<b>90.97%</b>

In the consolidated financial statements, revenues from the sale of CHP Energia in the amount of PLN 6,856 thousand were recognised under "Profit (loss) on discontinued operations"

Fig. 1: Structure of revenues from sales for 12 months of 2020

### Structure of revenues from sales for 12 months of 2020



**Fig. 2: Structure of revenues from sales for 12 months of 2019**

## Structure of revenues from sales for 12 months of 2019

1. Ingi	0.79%	
Goods and materials	<b>8.27%</b>	
Animal feed	<b>0.31%</b>	
Electric power	<b>2.66%</b>	
<b>Potato products</b>		<b>87.98%</b>

**Table no 2: Volume of revenues from sales for 12 months of 2020 and 2019**

Product offer	Unit of measurement	Year 2020	Year 2019	Dynamics in %
Potato products (Group)	ton	61 887	67 465	91.7
including the Holding Company	ton	47579	51538	92.3

In 2020, sales revenue by value decreased by 9% and by volume decreased by 8% as compared to the previous year.

#### **4. Information on domestic and foreign outlets**

Due to high quality of products, constant improvement of production methods and management, the Group's brand is a reputable trademark in Poland and abroad. The Group develops cooperation with current and new customers, offering high standard services.

The Group distributes products through the chain of wholesalers and commercial companies that provide supplies to the food intraindustry, and provides its products directly to production plants, mainly in the meat, confectionery, bakery and pharmaceutical industries, where starch products serve as a raw material for further processing or component in the production process. Packing of products onto retail packagings enables cooperation with the biggest commercial chains and recipients operating on so called, traditional market. In this way, products of PEPEES Capital Group reach customers that buy starch products for own needs.

#### **Charts of distribution channels in PEPEES Capital Group**

The distribution channels are as follows:

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Company and customer (producer - wholesale recipient)

Company and wholesaler customer (producer - recipient of smaller volumes)

Company] > wholesaler l [> store i > consumer

Company !> commercial chain i ;> consumer

Most often used form of settlements used are bank transfers with payment period of 14, 21, 31, 45 and 60 days. Payment prolongation period depends on the period of cooperation with a given recipient, its financial ability and volume of purchased goods. The assessment of financial credibility by the insurer and the financial limit granted is also decisive. In the case of a new recipient, a prepayment is used as the form of payment used. In the case of export sales, a letter of credit is often used as a form of payment.

Revenues from sales by outlets are presented in the following table.

*Table no 3. Revenues from sales by outlets.*

Net revenues from sales	For 12 months ended on 31 December 2020	Structure in 2020	For 12 months ended on 31 December 2019	Structure in 2019
<b>Poland, including</b>	149 404	70.83%	154 696	66.68%
-products	137 656	65.26%	141 062	60.81%
- goods and materials	10 080	4.78	11 811	5.09%
-services	1668	0.79%	1 823	0.79%
<b>EU countries - intra-Community supplies, including:</b>	12 984	6.16%	19 299	8.32%
-products	12 922	6.13%	19149	8.25%
- goods and materials	62	0.03%	150	0.06%
<b>Remaining countries - export, including:</b>	48 547	23.02%	57986	25.00%
-products	43 689	20.71%	50 771	21.89%
- goods and materials	4 858	2.30%	7 215	3.11%
<b>total</b>	<b>210 935</b>	<b>100.00%</b>	<b>231 981</b>	<b>100.00%</b>

#### 4.1. Domestic sale by industry and geographical structure

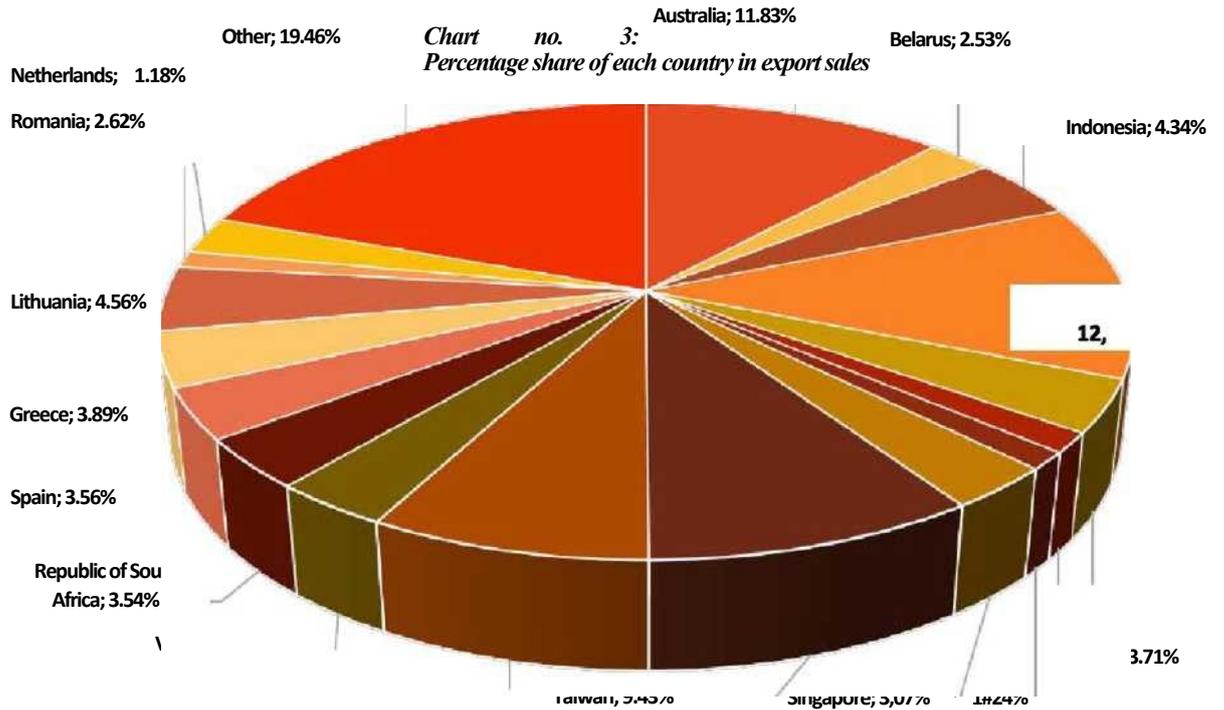
Sales in Poland were made to approximately 400 contractors. In the analysed period, the sales of the basic product in the offer, i.e. potato starch in the so-called wholesale channel, had the largest share in the domestic market sales and accounted for 43.60% in terms of volume and 40.03% in terms of value of the total sales. It was followed by retail potato starch (pre-packed) 19.84% and 20.85%, maltodextrin 16.13% and 19.91%, and crystalline glucose 11.05% and 9.68%. Other products accounted for 9.38% of the sales volume representing 9.53% of the total value. The main recipients of the products of the Parent Company in the Polish market comprise mainly renowned domestic companies, that are often linked by capital with large European and global companies.

The Group distributes products through the chain of wholesalers and commercial companies that provide supplies to the food intraindustry, and provides its products directly to production plants, mainly in the confectionery, bakery, meat and pharmaceutical industries, where starch products serve as a raw material

for further processing or as a component in the production process. None of the recipient exceeded 10% of revenues from sales of both the Group and the Parent Company.

**4.2. Exports and intra-Community sales**

In 2020, the value of exports and intra-Community sales amounted to PLN 61 531 thousand, that is fell by 20 % as compared to the previous year. In 2020, the Issuer sold its products, mainly potato starch, to 58 countries worldwide. Most products were sold to South Korea, Australia, Taiwan, United States, and Lithuania.



**Percentage share of export sales by country in value.**

**5. Information on sources of supplies in the production materials, goods and services**

The main raw material for production of goods in PEPEES Capital Group are industrial and edible potatoes that are bought in autumn under contracts concluded in spring. The decreasing tendency of potato production in Poland has been observed since early 1990's. In the late 1990's, their share in the structure of crops amounted to more than 10%, while now it is only 3%. Ca. 300 thousand hectares are devoted to potato production, and only almost 20 thousand hectares is devoted to starch potatoes, that is only 6% of the entire area of potato crops.

The main raw material for electricity production CHP Energia is biomass produced mainly from plant waste purchased from farmers and from PEPEES - by-product from starch production (potato pulp).

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Furthermore, the following raw materials and other materials are purchased for the purpose of production: paper packagings, enzymes, starch, glucose syrup, technical gases, electric materials, fine coal, metal parts, bags, sulphur dioxide, shrinkable films, hydrochloric acid, labels, boxes, diatomaceous earth, adhesives, varnishes, solvents, enamels, steel tape, pesticides, etc.

The main raw materials, industrial potatoes, are supplied by individual farms who are not gathered in any organisation that could be of significant importance for the activities of the Group.

The main source of supplies of materials, goods and services in 2020 were Polish companies or representative branches of foreign companies. As far as enzymes and filtration materials were concerned, the Group is dependent on one supplies because these are the only representatives of foreign companies in Poland, that produce raw materials needed by the Group.

The Group has no recipient with a share in revenues of at least 10%.

## **6. Information on significant agreements for the business activity of the Capital Group**

### **6.1. Economic agreements**

In 2020 PEPEES Capital Group did not conclude economic agreement of significant value or significant agreements on cooperation.

Regardless of the foregoing, the Issuer points out to the following agreements concluded in 2020

- agreement on purchase of pesticides for protection of potato crops of PLN 2.7 million, • commercial agreements,
- agreements on purchase and modernisation of machines and production equipment, and refurbishment works.

### **6.2. Credit facility agreements**

#### **a) with Santander Bank Polska S.A.**

On 20 March 2020 an annex to the MultiLine Agreement of 07.10.2014 was signed between Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. with registered office in Łomża, Zakłady Przemysłu Ziemniaczanego "LUBLIN" Sp. z o.o. with registered office in Lublin, Przedsiębiorstwo Przemysłu Ziemniaczanego "BRONISŁAW" S.A. with registered office in Bronisław and Santander Bank Polska S.A. with registered office in Warsaw.

Pursuant to the said annex changed the repayment schedule of the revolving credit facility for the companies of the PEPEES Capital Group. The total amount of the revolving credit limit granted to the Group companies did not change.

On 17 July 2020, another annex to the MultiLine Agreement dated 07.10.2014 was signed. The subject of the annex is the renewal of the multilines for the PEPEES Capital Group companies for the next business year. The multilines amount is PLN 58,500 thousand. The repayment date is 31.08.2021.

#### **b) with Powszechna Kasa Oszczędności Bank Polski SA.**

On 17 July 2020 an annex to multipurpose credit line agreement of 10.08.2017 with Powszechna Kasa Oszczędności Bankiem Polskim S.A. was also signed. The subject matter of the annex is to renew of working capital funding for companies within the PEPEES Capital Group. The amount of the multipurpose credit limit is PLN 58,500 thousand. The repayment date is 31.08.2021.

On 30 November 2020, an annex to the investment loan agreement dated 12.12.2017 was signed. The subject of the annex is to precise in detail the clause of execution of the Company's turnover on the bank's accounts and update the contact details for the purpose of notifications and statements.

### **6.3. Loan agreements**

PEPEES S.A. granted the loan:

- > to the subsidiary PPZ BRONISŁAW S.A. for current activities in the amount of PLN 1,200 thousand; the loan was repaid on 31 December 2020;

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- > to the subsidiary PEPEES INWESTYCJE Sp. z o.o. in the amount of PLN 145 thousand; this is a special purpose loan and it was granted on market terms until the repayment date on 31.12.2021.

### **6.4. Lease agreements concluded in 2020**

- > Lease agreements of 6 passenger cars concluded with Volkswagen Leasing, Santander Leasing and PKO Leasing, of the total value of PLN 657 thousand.
- > Lease agreement of production machines and equipment concluded with Santander Leasing of the total value of PLN 2,856 thousand;
- > Lease agreement of a farm machine with Santander Leasing of the value of PLN 1,110 thousand;
- > Lease agreement of forklift trucks concluded with Santander Leasing of the value of PLN 103 thousand

### **6.5. Insurance agreements**

The companies from the Capital Group entered into the following insurance agreements:

- > property insurance against fire and other elements;
- > business interruption insurance;
- > property insurance against burglary and robbery;
- > insurance of electronic equipment;
- > general liability insurance, including:
  - o tort liability
  - o contractual liability
  - o product liability
  - o civil liability of Management Board Members
- ^insurance of mechanical vehicles (third party insurance, theft and accident insurance).

### **6.6. Surety agreements**

On 22.09.2020 the paid a deposit to bank SBR in Szepietowo in the amount of PLN 1,500 thousand for repayment of working capital credit in the amount of PLN 1,300 thousand, which was granted to its subsidiary CHP Energia Sp. z o.o.

### **6.7. Agreements between Shareholders**

As at the date of this statement, no agreement between Shareholders are known to the Holding Company .

## **7. Information on organisational or capital connections of the Issuer with other entities and specification of its main domestic and foreign investments**

As at 31 December 2020, the main investments of "PEPEES" S.A. are shares and bonds in consolidated subsidiaries and 4,000 shares in Warszawski Rolno- Spożywczy Rynek Hurtowy S.A. (WRSRH), whose estimated value, according to the valuation performed by means of the method of discounted future cash flows by an independent actuary, is, as at 31 December 2020 - PLN 6,970 thousand.

WRSRH shares account for 3.34% of WRSRH's capital. WRSRH's main owner is the State Treasury that holds more than 70% share in the capital. PEPEES does not exercise control over WRSRH.

The Group holds also shares and bonds of SBR Spółdzielczy Bank Rozwoju with registered office in Szepietowo of the total value of PLN 512 thousand, and also shares in 3 other domestic entities (ZM Ostrołęka, Development Agency and BPS), that entitle to less than 5% of the total number of votes at the general meeting and are not significant in respect to the value and the Group's investment policy.

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**Basic financial data of the subsidiaries**

Name (legal name) of a subsidiary	Revaluation capital	Assets	Liabilities	Revenues from sales	Profit/loss
<b>Year 2019</b>					
ZPZ LUBLIN Sp. z o.o.	3 652	18 569	14 917	19 769	1070
PPZ BRONISŁAW	19 291	67445	48154	45 342	5 199
CHP Energia Sp. z o.o.	(6 209)	19 901	26 110	7 473	(1 013)
Pepees Inwestycje Sp. z o.o. (former OZENERGY Sp. z o.o.)	69	155	86	284	110
Gospodarstwo Rolne Ponary Sp. z o.o.	12 727	21446	8 719	-	100
<b>Year 2020</b>					
ZPZ LUBLIN Sp. z o.o.	5 259	19 568	14 309	19 634	1607
PPZ BRONISŁAW	19483	77 706	58 223	43 132	192
CHP Energia Sp. z o.o.	(7 500)	18 247	25 747	7 646	(1 291)
Pepees Inwestycje Sp. z o.o. (former OZENERGY Sp. z o.o.)	82	235	153	-	(9)
Gospodarstwo Rolne PONARY Sp. z o.o.	13 566	21 557	7 991	-	106

ZPZ Lublin Sp. z o.o. generated net profit that was on a higher level than in 2019 .

PPZ Bronislaw S.A. 's profit declined significantly from its record year 2019 due to a drop in starch prices.

CHP Energia still closed the financial year with a loss of PLN 1,291 thousand.

Pepees Inwestycje Sp. z o.o. did not generate any revenues and closed the fiscal year 2020 with a net loss of PLN 9 000.

Ponary Sp. z o.o. did not generate any revenues form sales, either. The net profit earned in 2000 results from financial revenues received every month - fees for credit security granted to the Parent Company.

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### Financing methods of subsidiaries in 2020

ZPZ LUBLIN Sp. z o.o.	self-financing and financing through credits (bank loans)
PPZ BRONISŁAW S.A.	self-financing and financing through credits (bank loans and loans granted by PEPEES)
CHP Energia Sp. z o.o.	self-financing and financing through credits (bank loans and loans granted by PEPEES)
Pepees Inwestycje Sp. z o.o.	Self-financing and loans granted by PEPEES
Gospodarstwo Rolne PONARY Sp. z o.o.	Self-financing and loans granted by PEPEES

## 8. Description of transactions with associated entities

In the reporting period, the Parent Entity, PEPEES S.A. concluded transaction with associated entities which were of typical character resulting from the operations of PEPEES S.A. and subsidiaries. The transactions were made on market terms. Moreover, some concluded transactions result from existing agreements with financial institutions, where some securities are provided in form of mutual guarantees of entities belonging to PEPEES Capital Group subject to individual agreements.

Cooperation between the Capital Group companies is intended to increase the level of utilization of resources and to limit the operational risk.

The risk allocation and division of functions of the company allows the operating costs to be reduced and the financial resources to be utilized effectively. Financial guarantees among the associated entities allows a quicker performance of a contract which can contribute to the more effective management of entities forming the PEPEES Capital Group.

### Issuer's transactions with subsidiaries

*Transactions between PEPEES S.A. in Łomża and ZPZ LUBLIN Sp. z o.o. in Lublin*

The transactions of PEPEES\*\* S.A. in Łomża with its subsidiary ZPZ "LUBLIN" Sp. z o.o. in Lublin consisted of the purchase of starch from the subsidiary for the amount of PLN 2,464 thousand PLN and grits and potato flakes for the amount of PLN 36 thousand. The total value of purchases in ZPZ LUBLIN amounted to PLN 2,500 thousand.

In 2020 "PEPEES" S.A. sold starch to ZPZ "LUBLIN" Sp. z o.o. for PLN 86 thousand, maltodextrin for PLN 12 thousand and a service for PLN 283 thousand. The total value of sales to ZPZ "LUBLIN" Sp. z o.o. amounted to PLN 380 thousand.

The sale price is determined using the "cost plus" method or according to the price list for non-associated entities.

In addition, ZPZ "LUBLIN" paid PLN 34 thousand to the Issuer in interests on a loan granted in previous years. The loan was fully repaid on 30.09.2020.

*Transakcje pomiędzy „PEPEES” S.A. in Łomża and PPZ „BRONISŁAW” S.A. in Bronisław*

In the reporting period the Issuer purchased starch from its subsidiary for PLN 6,699 thousand and potato flakes for PLN 9 thousand and services for PLN 69 thousand. The total value of purchases of PPZ "BRONISŁAW" S.A. amounted to PLN 6,777 thousand.

In 2020 "PEPEES" S.A. sold potatoes to PPZ "BRONISŁAW" S.A. of the value PLN 2,472 thousand, potato starch of the value of PLN 1,457 thousand and a service for PLN 17 thousand. The total value of sale to PPZ "BRONISŁAW" S.A. amounted to PLN 3,946 thousand.

The sale price is determined using the "cost plus" method or according to the price list for non-associated entities.

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Besides, PPZ "BRONISŁAW" S.A. paid the interest to the Issuer in the amount of PLN 148 thousand on the loans granted earlier. In 2020, the Issuer granted a loan to PPZ "BRONISŁAW" S.A. in the amount of PLN 1,200 thousand, which was fully repaid on 31.12.2020.

### *Transactions between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o.*

Transactions of "PEPEES" S.A. in Łomża with its subsidiary CHP Energia Sp. z o.o. consisted of purchase of biocompost for PLN 101 thousand, pellet for PLN 606 thousand and services for PLN 83 thousand. The total value of purchases in CHP Energia was PLN 790 thousand.

"PEPEES" S.A. sold potato pulp to CHP Energia for PLN 57 thousand and services for PLN 195 thousand. The total value of sales to CHP Energia amounted to PLN 252 thousand.

As at the balance sheet date, there were loans outstanding in the total amount of PLN 4,719 thousand, fees on guarantees granted in the amount of PLN 1,127 thousand, interest on loans granted in the amount of PLN 213 thousand, an advance payment in the amount of PLN 1,044 thousand and trade receivables in the amount of PLN 1,161 thousand.

### *Transactions between PEPEES S.A. in Łomża and Gospodarstwo Rolne Ponary Sp. z o.o. in Łomża*

"PEPEES" S.A. sold the service to its subsidiary, Gospodarstwo Rolne Ponary, for the amount of PLN 10 thousand. Gospodarstwo Rolne Ponary previously had given a loan guarantee to the Issuer, for which fees of PLN 158 thousand were charged in 2019.

In addition, Ponary paid interest to the Issuer in the amount of PLN 19 thousand on the loan granted in 2018. The amount of unpaid loan as of the balance sheet date was PLN 550 thousand.

### *Transactions between PEPEES S.A. in Łomża and Pepees Inwestycje Sp. z o.o. in Łomża*

In 2020 the Issuer sold the service to Pepees Inwestycje Sp. z o.o. in the amount of PLN 4.2 thousand.

On 14 December 2020, the Issuer granted a special purpose loan to Pepees Inwestycje Sp. z o.o. in the amount of PLN 145 thousand, to be repaid by 31 December 2021.

As at the balance sheet date, there were trade receivables of PLN 13 thousand.

## 9. Information on contracted credits

As at 31 December 2020 PEPEES Capital Group had liabilities denominated in PLN under loans presented in the following table:

Table No. 4: Credit liabilities as at 31 December 2020

Loan type	Bank that grants a loan	Borrower	Loan amount defined in an agreement	Debt as at 31.12.2020	Due date
Overdraft facility	Santander Bank Polska S.A.	PEPEES S.A.	4000	=	31.08.2021
Revolving loan	Santander Bank Polska S.A.	"PEPEES" S.A.	14 500	14 500	31.08.2021
Working capital loan	Santander Bank Polska S.A.	PEPEES S.A.	17 000	17 000	31.08.2021
Overdraft facility	Powszechna Kasa Oszczędności Bank Polski S.A.	"PEPEES" S.A.	4000	=	31.08.2021

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Loan type	Bank that grants a loan	Borrower	Loan amount defined in an agreement	Debt as at 31.12.2020	Due date
Revolving loan	Powszechna Kasa Oszczędności Bank Polski S.A.	"PEPEES" S.A.	14 500	14 500	31.08.2021
Working capital loan for purchase of potatoes	Powszechna Kasa Oszczędności Bank Polski S.A.	"PEPEES" S.A.	17 000	17 000	31.08.2021
Investment loan for construction of the starch drying plant, unloading station and water	BNP Paribas Bank Polska S.A.	PEPEES S.A.	9 822	1 616	25.02.2022
Investment credit for financing and refinancing of purchase of 100% shares in Gospodarstwo Rolne Ponary Sp. z o.o.	Powszechna Kasa Oszczędności Bank Polski S.A.	"PEPEES" S.A.	10 530	6 769	30.06.2025
Working capital loan	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ LUBLIN Sp. z o.o.	2 000	1 926	31.08.2021
Working capital loan	Santander Bank Polska S.A.	ZPZ LUBLIN Sp. z o.o.	2 000	2 000	31.08.2021
Revolving loan	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ LUBLIN Sp. z o.o.	4000	3 424	31.08.2021
Revolving loan	Santander Bank Polska S.A.	ZPZ LUBLIN Sp. z o.o.	4000	2 990	31.08.2021
Overdraft facility	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ LUBLIN Sp. z o.o.	1 500	-	31.08.2021
Overdraft facility	Santander Bank Polska S.A.	ZPZ LUBLIN Sp. z o.o.	1500	-	31.08.2021
Overdraft facility	Santander Bank Polska S.A.	PPZ BRONISŁAW	700	-	31.08.2021
Purchase loan	Santander Bank Polska S.A.	PPZ BRONISŁAW	8 500	7 886	31.08.2021
Revolving loan	Santander Bank Polska S.A.	PPZ BRONISŁAW	6300	6 298	31.08.2021
Overdraft facility	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ BRONISŁAW S.A.	700	393	31.08.2021
Purchase loan	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ Bronisław S.A.	8 500	6 947	31.08.2021
Revolving loan	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ BRONISŁAW S.A.	6 300	5 674	31.08.2021
Investment loan	Santander Bank Polska S.A.	PPZ Bronisław S.A.	800	148	30.11.2021
Investment loan	BOŚ	PPZ Bronisław S.A.	8 456	6 577	31.12.2027
Syndicated investment loan*	Spółdzielczy Bank Rozwoju in Szepietowo and Bank Spółdzielczy in Ostrów Mazowiecka	CHP Energia Sp. z o.o.	12 830	9 222	31.12.2023
Revolving loan related to performed economic activity*	Spółdzielczy Bank Rozwoju in Szepietowo	CHP Energia Sp. z o.o.	1 300	1 150	14.09.2021
Working capital loan for financing current payables*	Spółdzielczy Bank	CHP Energia Sp.	3 000	1 052	31.05.2022
<b>Loan type</b>	<b>Bank that grants a loan</b>	<b>Borrower</b>	<b>Loan amount defined in an agreement</b>	<b>Debt as at 31.12.2020</b>	<b>Due date<sup>4</sup></b>
Revolving loan related to performed economic activity*	Spółdzielczy Bank Rozwoju in Szepietowo	CHP Energia Sp. z o.o.	2 500	667	31.08.2021
		<b>total</b>	<b>166 238</b>	<b>127 739</b>	

\*Loans taken out by CHP Energia have been presented in the consolidated financial statements as related to assets held for sale

Interests accrued on short-term loans is based on WIBOR for 1M deposits plus bank margins, and for long-term loans - on WIBOR for 3-months' deposits plus the bank margins. All loans are denominated in PLN.

In 2020 none of the loans of the Group was terminated, and the companies of the Group did not terminate loan agreements in this period.

## **10. Information on granted loans, guarantees and securities**

### Loans

As at 31 December 2020, the Group had the following loans granted by the holding entity to subsidiaries and individuals:

- > Loan dated 28 December 2016, granted to an individual, in the amount of PLN 304 thousand. Outstanding amount is PLN 62 thousand. The interest rate on the loan is 5%. Repayment date 30.11.2021
- > Loan of 12 January 2017, granted to subsidiary CHP Energia Sp. z o.o. in the amount of PLN 1,538 thousand. Outstanding amount is PLN 769 thousand. The interest rate on the loan is 3%. Repayment date 31.03.2021\*
- > Loan dated 27 January 2017, granted to an individual, in the amount of PLN 240 thousand. Outstanding amount is PLN 240 thousand. The interest rate on the loan is 5%. Repayment date 30.11.2021
- > Loan of 28 February 2017, granted to subsidiary CHP Energia Sp. z o.o. in the amount of PLN 450 thousand. Outstanding amount is PLN 300 thousand. The interest rate on the loan is 3%. Repayment date falls on 31.03.2021.\*
- > Loan of 14 December 2017, granted to subsidiary CHP Energia Sp. z o.o. in the amount of PLN 550 thousand. Outstanding amount is PLN 550 thousand. The interest rate on the loan is 3%. Repayment date falls on 31.03.2021.\*
- > Loan of 15 December 2017, granted to subsidiary CHP Energia Sp. z o.o. in the amount of PLN 1,000 thousand. Outstanding amount is PLN 1 000 thousand. The interest rate on the loan is 3%. Repayment date falls on 31.03.2021.\*
- > Loan of 10 January 2018, granted to subsidiary GR Ponary Sp. z o.o. in the amount of PLN 550 thousand. Outstanding amount is PLN 550 thousand. The interest rate on the loan is 3.5%. Repayment date 31.12.2021
- > Loan of 1 February 2018, granted to an individual in the amount of PLN 140 thousand. Outstanding amount is PLN 28,6 thousand. The interest rate on the loan is 5%. Repayment date 30.11.2021
- > Loan of 30 April 2018, granted to subsidiary CHP Energia Sp. z o.o. in the amount of PLN 500 thousand. Outstanding amount is PLN 500 thousand. The interest rate on the loan is 3%. Repayment date 31.03.2021\*
- > Loan of 26 June 2018, granted to subsidiary CHP Energia Sp. z o.o. in the amount of PLN 700 thousand. Outstanding amount is PLN 700 thousand. The interest rate on the loan is 3%. Repayment date falls on 31.03.2021.\*
- > Loan of 24 September 2018, granted to subsidiary CHP Energia Sp. z o.o. in the amount of PLN 900 thousand. Outstanding amount is PLN 900 thousand. The interest rate on the loan is 3%. Repayment date falls on 31.03.2021.\*
- > Loan dated 22 May 2019, granted to an individual in the amount of PLN 150 thousand. Outstanding amount is PLN 14 thousand. The interest rate on the loan is 5%. Repayment date 30.11.2021
- > Loan of December 14, 2020 granted to subsidiary PEPEES Inwestycje Sp. z o.o. in the amount of PLN 145 thousand. The outstanding amount is PLN 145 thousand. The interest rate on the loan is 3%. Repayment date 31.12.2021

*\*Loans granted to CHP Energia were presented in the holding company's financial statements as assets held for sale. All loans, pursuant to the subrogation agreement, were repaid on 18 March 2021.*

### Sureties

## **PEPEES S.A.**

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### *Sureties granted by the Parent Holding, "PEPEES" S.A., as at 31.12.2020.:*

Agreement dated 9 June 2014 on the terms and conditions of loan repayment security concluded between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o. Under the agreement, "PEPEES" S.A. secures repayment of an investment loan concluded by CHP Energia Sp. z o.o. The value of the investment loan incurred by CHP Energia Sp. z o.o. amounts to PLN 12 830 thousand. „PEPEES” S.A. gave security in form of an aval up to the amount of PLN 12,224 thousand for the period until 25.05.2024.

Agreement dated 14 September 2017 on the terms and conditions of loan repayment security concluded between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o. Under the agreement, "PEPEES" S.A. secures repayment of an working capital loan concluded by CHP Energia Sp. z o.o. The value of the working capital loan incurred by CHP Energia Sp. z o.o. amounts to PLN 3 000 thousand. „PEPEES” S.A. gave security in form of an aval up to the amount of PLN 2 800 thousand (debt about at the date of the security).

Agreement dated 14 September 2017 on the terms and conditions of loan repayment security concluded between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o. Under the agreement, "PEPEES" S.A. secures repayment of an working capital loan concluded by CHP Energia Sp. z o.o. The value of the working capital loan incurred by CHP Energia Sp. z o.o. amounts to PLN 2 500 thousand. „PEPEES” S.A. gave security in form of an aval up to the amount of PLN 2,500 thousand.

Agreement of 30 July 2018 r. concerning the conditions of loan repayment security concluded between "PEPEES" S.A. in Łomża and PPZ Bronisław S.A. Under the agreement, "PEPEE S" S.A. gives a security of the Investment Loan from Funds from Foreign Credit Lines that was incurred by PPZ Bronisław S.A. The value of the investment loan incurred by PPZ Bronisław S.A. amounts to PLN 8 456 thousand. The security granted by "PEPEES" S.A. is in the form of a notarystatement on submission to enforcement up to the amount of PLN 12,684 thousand.

In the reporting period "PEPEES" S.A. paid a deposit to bank SBR in Szepietowo in the amount of PLN 1,500 thousand for repayment of working capital credit dated 21.09.2020.in the amount of PLN 1,300 thousand, which was granted to its subsidiary CHP Energia Sp. z o.o.

In connection with the sale of shares in CHP Energia to Orlen Południe, on 15.04.2021 the Issuer received a letter from Spółdzielczy Bank Rozwoju (SBR), dated 14.04.2021, in which the Bank informed about:

- release of PEPEES from liabilities, resulting from promissory note sureties, established by the Company in favor of SBR in order to secure the repayment of loans granted by the Bank to CHP Energia;
- release of the cash deposit in the amount of PLN 1.5 million, which was established by PEPEES in favour of SBR in order to secure the repayment of loan granted by the Bank to CHP Energia.

### *Sureties granted to the Parent Entity, „PEPEES” S.A., as at 31.12.2020.:*

Surety of an individual dated 28 December 2016 for „PEPEES” S.A. under a loan granted to an individual in the amount of PLN 304 thousand.

Agreement of 12.12.2017 concerning the establishment of a mortgage on the real estate of GR Ponary Sp. z o.o. in the amount of PLN 15,795 thousand, in favour of "PEPEES" S.A. as a security for the repayment of the loan granted to "PEPEES" S.A. by PKO BP in the amount of PLN 10,530 thousand for the period 12.12.2017 - 30.06.2025.

A fee was set for the security received and it is charged monthly in compliance with concluded agreements that determine the terms and conditions of securities.

In the reporting period and until this report was made, the companies of PEPEES capital Group did not give other loans or sureties than listed above.

The total value of sureties or guarantees granted as of 31.12.2020 by PEPEES Company to the entities of PEPEES Capital Group amounts to PLN 32 million.

### Gwarancje

Guarantees received as at 31.12.2020

As at 31 December 2020 the Holding Company held 4 guarantees (performance bonds and guarantee of repayment

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of a deposit or advance payment) for the total amount of PLN 51 thousand and EUR 56.5 thousand, respectively.

### 11. Off-balance sheet items in PEPEES Capital Group

Off-balance sheet assets (data in PLN thousand)	2020	2019
Guarantees received	311	671
Off-balance sheet liabilities		
Mortgages on the assets of the companies	169 339	180 975
Lien on property	120 430	114 512
Loan guarantee	32 218	32 218
Assignment of debts from insurance policy	254 630	254 630
Possible competition ban compensations	1 563	1 563
Udzielone gwarancje	=	287

### 12. Description of use of revenues from issue of shares or purchase of own shares

W 2020 roku Spółka oraz Grupa nie emitowała papierów wartościowych oraz nie nabywała ani nie zbywała akcji własnych.

### 13. Description of differences between the financial results presented in the report and forecasts of results for a given year, which were published earlier

The Company and the Capital Group did not publish financial forecasts for 2020 .

### 14. Description of financial resources management

In 2020 both the Holding Company and the Group were fully able to fulfil incurred liabilities, in relation to supplies and financial institutions. There were no threats to repayment of liabilities.

Throughout the year the PEPEES Capital Group was fully able to meet its liabilities.

In 2020, during the "potato campaign", the Group continued the policy of diversification of the structure and sources of working capital financing, which was adopted in earlier years and based on increase in the share of the overdraft facility and revolving credit in relation to the revolving working capital facility and split of working capital financing between two banks. These actions have contributed to the optimisation of interest costs on bank loans.

In 2020 the Holding Company invested free cash in bank deposits and did not engage in other financial instruments.

In the following reporting period, the Groups financial liquidity should not be threatened either. Existing surpluses of funds are kept on short-term deposits.

### 15. Information on financial instruments related to the risk, and on objectives and methods of financial risk management

Information on used financial instruments and financial risk are parallel for the Capital group and the Parent entity that coordinates the management of the above mentioned risk on the Group level.

The main financial instruments used by the Group are: bank loans, lease agreements, short-term deposits, financial funds.

In the reporting period the Group did not enter into derivative transactions. It did not use hedge accounting either.

Other instruments that were generated directly in the course of activities were trade receivables and liabilities. The main financial risk present in 2020 is the risk of change of market prices of products produced by the Group and the foreign exchange risk. The main objective of the company in relation to the above risk management is to restrict them.

The risk of the Group's business is closely related to changes of product prices on the domestic market and foreign currency rates, since their fluctuations affect revenues from export sales. In the same time, also the purchase prices of imported materials for production depend on the foreign currency risk.

Due to financing of operating and investment activities with bank loans, the Group is exposed to the interest rate risk.

Financial liquidity risk present in the Group is not assessed as high. It results from the efficient policy of merchant credit management. Counterparty assessment and insurance of receivables is provided by KUKE company.

Cash surpluses are placed in short-term deposits to enable timely payment of liabilities. In the periods of stronger need for working capital funds, such as "potato campaign", the main financial instrument used by the companies of the Group is a short-term bank loan for purchase of potatoes, and its individual tranches are correlated with the time schedule of raw material purchases.

The Management Board of the companies verify and agree principles of management of every type of risk. They monitor the market price risk in relation to all financial instruments held.

## **16. Information on performed investments and investment plans**

Year 2020 was another year in which the PEPEES Capital Group consistently implemented investment plans focusing on raising of the production and quality standards of the technical infrastructure of the plants.

The supreme objective of the package of investment projects completed was to increase the Group's competitiveness and to maintain and strengthen a stable, leading position on the demanding market of starch products.

Specific objectives of the investment projects carried out included:

- improvement of the efficiency of production and business operations through modernization of the machinery park,
- adjustment of production installations to hygienic standards and requirements of the Integrated Management System (IMS) implemented in the Company,
- increase in the efficiency of raw material purification in order to improve the quality of manufactured products and circulated rinse water,
- optimization of activities related to the storage of by-product - potato pulp, which is a commercial product,
- development of the technical base needed to grow its own potatoes,
- optimisation of working conditions,
- steps to be taken to eliminate bottlenecks in order to increase production capacity.

The following projects were included in the list of key investments executed by the Group in 2020:

- Extension of the company boiler room
- Delivery and installation of a new starch packaging line
- Modernisation of the steering system of the sampling and raw material assessment station.
- Modernization of production machinery and equipment
- Construction of carport
- Purchase of machinery and equipment (metal detector, laboratory apparatus, forklift, dosing conveyor, farm machinery, etc.)

In 2021, the Group will continue the investments commenced in 2020 (i.e. expansion of the packaging plant by

another starch packaging line for 0.5 and 1 kg packages, construction of a K2-KG gas boiler) and plans to execute thermal modernisation buildings and a number of new investment projects to modernise production facilities, technical facilities and utilities transmission.

Own funds and leasing will be the source of funding. The Issuer does not identify any threats to implementation of the aforementioned investment plans.

## **17. Information on environmental issues**

Legal regulations concerning natural environment and use of natural resources are subject to constant changes, and for a few last years there has been a tendency to implement increasing stricter standards. Therefore, the Group may not be able to comply with and act in compliance with the future changes in legislation or such changes in legislation may have a negative impact on the economic activity of the Group. Moreover, changes in the environmental law may lead to a need to adjust the activities of the Group's companies to the new requirements (e.g. introduction of changes in technologies used by the Group to limit emission to the air or changes in the waste management, water and sewer management of the Group), including also to obtain new permissions, change the current conditions of permissions held by the Group's companies. Such obligation may required additional investment expenses from the Group, and that is why, it may have impact on its financial conditions, when raising the costs of its activities. The Group aims at mitigation of the risk, having constant supervision on the legal requirements related to environmental protection and performing necessary investment projects that enable fulfilment of all environmental requirements. Knowledgable and responsible operation on the basis of the highest environmental standards and consistent fulfilment of environmental tasks are the Group's priorities . These activities ensure good possibilities to lower the risk level and costs of adaptation of the Group's activities to the new conditions of the environment protection. What is positive, CO2 emission is decreasing. It is related to assembly of gas boilers and reduction of fine coal in the burning system.

PEPEES is a participant of the Community greenhouse gas emission allowance trading scheme in relation to emission of carbon dioxide. A need to buy emission allowance on an auction or a need to execute projects aimed at reduction of the emission may have negative impact on the Company's financial condition.

In its production activity, the Group endeavours to comply with all requirements of environmental protection. It has regulated formal and legal condition in respect to emission of pollution, consumption of water, disposal of waste water and generation of waste. The Group monitors environmental impacts in the system of periodical measurements and registration of volumes and characteristic parameters of streams of air pollution emission and waste, and volumes of collected water and disposed sewage. The current size of the monitoring, as determined in the administrative permissions held by the Company, should be considered satisfactory for assessment of operation of the installations.

Waste management takes place in compliance with the conditions preventing environmental pollution and ensuring human security health .

In PEPEES Capital Group there is the Integrated Management System that covers management of quality, environment, activities aimed at ensuring health and safety of staff and quality management system in laboratories. The companies of the Capital Group keep quantitative and qualitative records of waste trading according to the adopted classification and forms of documents defined in respective legal provisions.

However, it should be emphasized that according to the growing requirements related to environmental protection, PEPEES Capital Group plans, in the Strategy adopted for years 2019-2024, to undertake necessary activities concerning water and sewage management to ensure better protection of the natural environment.

## 18. Information on employment in the Group

Table No 6: Employment in PEPEES Capital Group

Description	Average number of employees in 2020	As at 31.12.2020		Average number of employees in the previous year financial year 2019
		Women	Men	
White collar	156	81	75	154
Blue collar workers	324	24	241	315
Persons on parental leave and unpaid leave	2	1	-	1
<b>total</b>	<b>482</b>	<b>106</b>	<b>316</b>	<b>470</b>

## 19. Major achievements in research and development

In 2020 the Group did not perform major activities in the field of research and development. Pellet quality examination was performed in the period in respect to its usefulness for joint burning with fine coal in boiler units .

## 20. Non-material aspects

>Implemented Quality and Food Safety Management System that is confirmed with certificates,

- \* *Certificate of compliance of the Quality Management System with EN ISO 9001:2015 standard*  
Scope of Quality Management System: Production of starch, hydrolysates, starch preparations and potato protein.  
Certificate Number: 070509.  
Granted for the first time on: 2007-06-19.  
Accreditation: UKAS.
- \* *Certificate of compliance of the Food Safety Management System with the EN ISO 22000:2005 standard.*  
Scope of certification: Design, manufacture and sale of starch, hydrolysates, starch preparations and potato protein  
Certificate Number: 0087878.  
Granted for the first time on: 2007-07-13.  
Accreditation: UKAS.
- \* *Certified as compliant with the standard: Global Standard for Food Safety, 8th Edition; January 2015*  
Certificate Scope: Extraction and hydrolysis of starch, crystallization of glucose, drying of potato starch, glucose and maltodextrin, packaging of potato starch in paper block bags, paper bags, big-bags and tankers; maltodextrin and glucose in paper bags and big-bags.  
Product Category: 15.  
Rating: AA.

Certificate registration number: 30951397 BRC 8.

Release date: 08.01.2020.

Audit date: 27.11.2019.

Required re-audit date: 31.10.2020 to 28.11.2020.

Validity date: 09.01.2021.

Accreditation: UKAS.

- *GMP Certificate of compliance with Good Manufacturing Practice requirements in Directive 2003/94/EC, Directive 91/412/EEC and Article 47 of Directive 2001/83/EC on GMP requirements for active substances*

Certificate Range: anhydrous glucose, glucose monohydrate.

Certificate Number: IWSC.405.15.2019.IPI0.1

Inspection Date: 29-30.01.2019.

Release date: 24.04.2019.

Expiration Date: 3 years from the last date of inspection.

- \* *\*Certificate for compliance with the standard: GMP+BI Production, Trade and Services*

*Certificate scope: Production of feed materials. Trade in feed materials.*

Certificate Number: GMP453.

Inspection Date: 18.12.2018.

Issue date: 29.01.2019.

Validity date: 28.01.2022.

- > Presence on the Sedex platform (supporting ethical business practices in the supply chain).
- y y Developed and implemented technologies for obtaining starch hydrolysates (glucose, maltodextrin, glucose syrups), starch and potato protein.
- > Knowledge and professional experience of the staff.
- > Promotional emblem licenses.
- > Implemented IT system.

## 21. Non-typical events that had significant impact on the results of the Group's business activity in 2020

In 2020, a dividend of PLN 11,400 thousand was paid to shareholders, which had a material impact on the Group's equity and cash.

An unusual event that accompanied the 2020 activity was the COVID-19 pandemic. It had an impact on all economic sectors. The agricultural and food industry has also suffered, although perhaps less than other sectors. There were significant fluctuations of the global demand for native potato starch. Reduced industrial production on selected export markets (including the meat and ready product industries) resulted in a decreased demand for native potato starch. During the first wave of the pandemic, this phenomenon was observed in the markets of South Korea, Taiwan and Indonesia, but also in the European Union - Romania, Greece and Bulgaria, where PEPEES S.A. had a significant position. The unpredictability of the development of the epidemic situation did not allow the conclusion of long-term contracts and planning of sales on these markets.

In the second half of 2020 a slowdown in sales was observed on American markets, e.g. in Mexico, Latin American countries. Given the relatively high potato starch production in Europe, the reduced demand results in downward pressure on prices in those markets, which translates into reduced profitability of selected product groups of PEPEES S.A.

During the first wave of the pandemic, the stagnation in the logistics sector was observed that resulted in significant delays in deliveries of goods and risk of delayed deliveries to customers.

As far as exports (mainly maritime transport) are concerned, it was not possible to plan shipments on a long-term basis, due to the unpredictability of the global pandemic and the risk of ad hoc seaport closures.

Freezing of the HORECA sector (hotels, restaurants, cafés) and limiting the production of products for that industry (delicatessen and refrigeration products, meat, bakery, confectionery) had a negative impact on PEPEE's revenues from sales on the local market.

In the longer time frame, one can expect new restrictions and formal requirements imposed by the food producers on the raw materials suppliers which will entail additional operational costs for the Company.

General economic slowdown (including higher unemployment caused by temporary lockdown of many industries) reduces the purchasing power.

The impact of the COVID pandemic - 19 on the economy was shown, inter alia, by significant exchange rate fluctuations, including USD and EUR - main settlement currencies of PEPEES S.A. This phenomenon limits the predictability of revenues from sales as well as the price attractiveness of the company's offer as compared to the European competitors.

In result of the pandemic, no assets were lost and no significant changes in the statement on the financial condition occurred.

## 22. Structure of main capital deposits or main capital investments

Investments and capital deposits	2020	2019
Short-term bank deposits in PLN	1 887	32 443
Other financial assets	6 772	5 838

## 23. Corrections of errors in previous periods and changes of accounting principles and presentation of statements

The Group did not change accounting principles on a voluntary basis and did not adjust errors for previous years. The Group only changed the presentation of individual statements in connection with the implementation of the ESEF. The change in presentation had no effect on the Company's financial position, financial result, capital or cash flows.

The Group's financial statements (the separate and consolidated ones respectively) are prepared in compliance with IAS/IFRS provisions.

There were no adjustments of errors from prior periods.

## 24. Changes in the Group's basic management principles

There were no significant changes in the management principles of the Issuer and its Group in 2020.

## 25. Changes in shares and rights to shares held by the management or supervisory personnel

In the reporting period there were no changes in the Issuer's shares and rights to shares held by the management or supervisory personnel. As at 31.12.2020 and as at the publication date of this report, the Issuer's shares were held by the President of the Management Board - Wojciech Faszczewski - in the number of 701 thousand shares of the nominal value of PLN 0.06 each and the total nominal value of PLN 42,060.

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None of the management and supervisory board members has shares in any subsidiaries.

### 26. Agreements concluded between the Issuer and the management staff providing for compensation in the event of their resignation or dismissal from their position without due cause, or if their removal or dismissal results from the Issuer's merger through acquisition

Managerial contracts are concluded between the Issuer and the managing persons, which stipulate compensation for non-competition in the period of 12 months from the date of contract termination in the amount of 100% of the average monthly remuneration together with bonuses for the last 12 months.

### 27. Value of salaries, awards and other benefits paid or due to managers and supervisors in the Issuer's enterprise in 2020

#### The Management Board:

Wojciech Faszczewski

PLN 745.9

Tomasz Krzysztof Rogala

thousand PLN

**Total remuneration of the Management Board**

568.5 thousand

#### Members

PLN **1,314.4**

**thousand**

#### The Supervisory Board:

Maciej Kaliński

270.5 PLN

thousand

Tomasz Nowakowski

208.1 PLN

Piotr Marian Taracha

thousand

Krzysztof Stankowski

106.1 PLN

Robert Malinowski

105.8 thousand

Agata Czerniakowska

171.0 PLN

**Total remuneration of the Supervisory Board**

thousand

107.1 PLN

**Remuneration of the Management Board and Supervisory Board received for performing functions in the authorities of subsidiaries:**

thousand

**968.6 PLN**

Wojciech Faszczewski - President of the Management Board of PEPEES - PLN 64

**thousand**

thousand for being a member of the Supervisory Board of Zakłady Przemysłu Ziemniaczanego "Lublin" Sp. z o.o., PLN 119 thousand for being the President of the Management Board of PPZ "BRONISŁAW" S.A., PLN 8 thousand for being a member of the Supervisory Board of CHP Energia.

Tomasz Krzysztof Rogala - Member of the Management Board of PEPEES - PLN 6 thousand for being a member of the Supervisory Board of CHP Energia.

Piotr Marian Taracha - PLN 58 thousand as a member of the Supervisory Board of Zakłady Przemysłu Ziemniaczanego "Lublin" Sp. z o.o. and PLN 36 thousand as a member of the Supervisory Board of PPZ BRONISŁAW S.A.

Agata Czerniakowska - PLN 31.0 thousand for the membership in the Supervisory Board of ZPZ "LUBLIN" Sp. z o.o. and PLN 52 thousand for the membership in the Supervisory Board of PPZ BRONISŁAW S.A.

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Robert Malinowski - PLN 32.0 thousand for the membership in the Supervisory Board of ZPZ "LUBLIN" Sp. z o.o. and PLN 31 thousand for the membership in the Supervisory Board of PPZ BRONISŁAW S.A.

Tomasz Nowakowski - PLN 51 thousand for the membership in the Supervisory Board of ZPZ "LUBLIN" sp. z o.o. and PLN 40 thousand due to the membership in the Supervisory Board of PPZ BRONISŁAW S.A.

There are no liabilities arising from pensions and benefits of a similar nature in respect of former members of the management and supervisory boards.

### **28. Information on all liabilities arising from pensions and benefits of a similar nature in respect of former members of the management and supervisory boards managers, and of liabilities incurred in respect of these pensions**

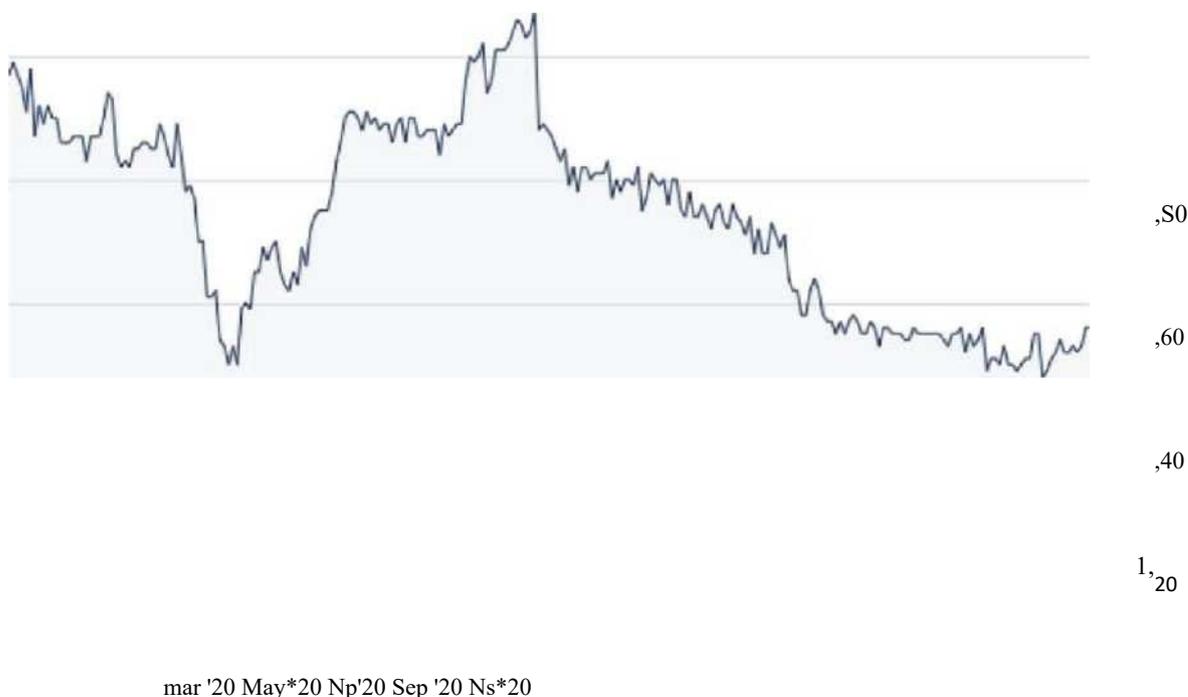
In 2020 in the PEPEES Capital Group there were no liabilities arising from pensions

1 benefits of a similar nature in respect of former members of the management and supervisory boards managers, or former members of administrative bodies and of liabilities incurred in respect of such pension

### **29. Listings of the Holding Entity in 2020**

Since 22 May 1997, the Company's shares are quoted on the Warsaw Stock Exchange. The prices of shares on 2 January 2020 (opening prices in the first day of 2020) amounted to PLN 1.77 , and on 31 December - to PLN 36. The highest price in the reporting period amounted to PLN 1.88 , and the lowest to PLN 1.20 . Changes of the prices of PEPEES's shares in 2020 is presented in the following figure:

*Fig. 4: Changes of the prices of PEPEES's shares in 2020*



**30. Information on agreements known to the Issuer, in result of which the proportions of shares held by the current shareholders and bondholders may change in the future**

The Issuer does not know Information on agreements, in result of which the proportions of shares held by the current shareholders may change in the future The Issuer has no bonds issued.

**31. Specification of holders of securities that grant special control rights in relation to the Issuer together with description of such rights**

The Issuer's shareholders do not have shares that grant special control rights in relation to the Issuer .

**32. Information on the control system of employee share schemes**

The Group has no control system of employee share schemes.

**33. Summary of operations in the reporting period**

In 2020 , the PEPEES Capital Group achieved sales revenues of PLN 210,935 thousand, which means a decrease by 0.9% as compared to the same period last year, 0 (9)

On the other hand, cost of sales increased by 4% in relation to the previous year, which resulted in a decrease of the gross result on sales by 34% in relation to the same period of the previous year. The lower margin on the products sold was achieved as a result of the drop in prices both on the domestic and 1 foreign markets.

Costs of sales and marketing in the period of 2020 increased by 9% in relation to the comparative period, which was affected primarily by higher transport costs, while overheads remained at a similar level.

The balance of other operating activities in the period of twelve months of 2020 closed at a positive level of PLN 2,217 thousand due to the sale of fixed assets and reversal of revaluation write-downs, with a negative result of PLN 235 thousand in the comparative period.

In turn, the result on financing activities, understood as the balance of financial income less financial expenses in 2020, was minus 482 and minus 2,719 in the comparative period.

In result of the foregoing, the gross profit in 2020 amounted to PLN 10,196 thousand as compared to gross profit of PLN 32,526 thousand generated in the comparable period, while net profit in 2020 amounted to PLN 6,206 thousand, as compared to the net profit of PLN 24,782 thousand in the same period of 2019, which means a fourfold decrease .

**34. Brief description of significant achievements or failures of PEPEES Capital Group in 2020, together with a list of the most important events related to them**

The PEPEES Group in 2020 was committed to fighting the effects of the Covid-19 pandemic.

The Management Board of PEPEES Group took immediate actions to limit potential health and safety hazard for employees and ensure business continuity. Appropriate safety and hygiene procedures according to the Ministry of Health guidelines were implemented. PEPEES's Management Board also decided to support the healthcare facilities, local communities and business partners who suffered damage as a result of epidemic. In addition to providing staff safety, which was the priority, all actions focused on flexible response to changing circumstances and activities aiming to limit the epidemic impact on business. Thanks to all these efforts and endeavors, despite the existing pandemic, the Group managed to make record purchases of potatoes, which are the basic raw material for starch production, and thus achieve very high production volumes during the potato campaign.

**35. Other information which in the opinion of Capital Group is important for assessment of its human resources, property, financial situation, financial result, and information pertinent**

## **to the assessment of the Group's capability of fulfilling its obligations**

In 2020, there were no events other than those described in this report, which could be important for assessment of its human resources, property, financial situation, financial result, and could be pertinent to the assessment of the PEPEES Capital Group's capability of fulfilling its obligations.

### **36. Specification of factors, which in the Issuer's and Group's opinion will affect their results at least in the next year**

The following actors will have significant impact on the results:

- the quantity and value of purchased potatoes - the basic raw material for production, demand and the price of starch on the Polish and world markets,
- exchange rates - the Group is an exporter, basic interest rates,
- the spread of COVID-19 coronavirus in Poland and worldwide.

The Group has loans whose interest rates are based on WIBOR.

In the next year, PEPEES Capital Group will perform the executed contracts and continue its basic operations, including production, trade and services.

PEPEES negotiates with Korean Daesang Corporation ("Daesang") in respect to potential cooperation in production of modified products of potato starch. On 5 November 2019, the Company sent a draft letter of intent to Daesang relating to good faith discussions regarding cooperation in the production of potato starch modifiers and other starch derivatives, including conducting the necessary research and making the relevant investments.

On 25 February 2020, the Company and Daesang signed a Letter of Intent in which the parties agreed to continue their cooperation. After signing the Letter of Intent the parties will proceed with its implementation.

These discussions in 2020 were affected strongly by the outbreak of coronavirus pandemic. Restrictions put in place due to the coronavirus pandemic are prolonging the parties' discussions. As at the date of publication of this statement, the negotiations with Daesang Corporation continued.

The Holding Company's Management Board is unable to assess the impact of potential cooperation on the Group's results.

### **37. Information on the entity entitled to audit and review the Issuer's financial statements**

PEPEES S.A. and its subsidiaries entered into the agreement on review and audit of its financial statement for years 2020-2022 with WBS Audyt Sp. z o.o. with registered office in Warsaw. The agreement was entered into on 29 July 2020. The auditing firm was selected by the Issuer's Supervisory Board.

The subject of the agreements comprises review of the separate and consolidated financial statements dated 30 June 2020, 30 June 2021 and 30 June 2022 and audit of the separate and consolidated financial statements for years 2020-2022. The total value of the fee under the agreement, to be due for 2020 amounts to PLN 65 700 plus VAT.

No other agreement were concluded with the entity authorised to audit the statements in the reporting period and in the previous period.

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Description	2020	2019
<u>Mandatory audit of the annual financial statements</u>	46.7	41
<i>of which: PEPEES</i>	23.5	21
<u>Review of the semi-annual report</u>	19.0	19
<i>of which: PEPEES</i>	13.8	14
Tax consulting services	-	-
Other services	-	-
<b>Total remuneration</b>	<b>65.7</b>	<b>60</b>

Remuneration of the auditing firm WBS Audyt Sp. z o.o. for individual works in 2020 is as follows : /in thousand PLN/

<b>Review of the separate financial statements of PEPEES</b>	<b>Review of the consolidated financial statements</b>	<b>Review of the financial statements ZPZ Lublin</b>	<b>Review of the financial statements - PPZ Bronislaw</b>	<b>Review of the financial statements CHP Energy</b>	<b>Review of consolidation packages of subsidiaries not subject to audit (CHP Energia, Pepees Inwestycje, GR Ponary)</b>	<b>Total remuneration for review of the statements as at 30.06.2020</b>
1 500	2 300				5 200	19 000
<b>Audit of the separate financial statements of PEPEES</b>	<b>Audit of the consolidated financial statements</b>	<b>Audit of separate financial statements - ZPZ Lublin</b>	<b>Audit of the separate financial statements - PPZ Bronislaw</b>	<b>Audit of the separate financial statements - CHP</b>	<b>Review of consolidation packages of subsidiaries not subject to audit (CHP Energia, Pepees Inwestycje, GR Ponary)</b>	<b>Total remuneration for audit of the statements as at 31.12.2020</b>
18 400	2 300	8 600	8 600	6 000	2 800	46 700

### **38. Information on court, administrative or arbitration proceedings**

On 25 June 2019 the Management Board of "PEPEES" S.A. filed a lawsuit to the court to rule that due to the failure to comply with the notification obligations about purchase of significant amounts of shares pursuant to the Public Offering and Public Companies Act of 29 July 2005 the shareholder EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, which has - according to the information held by the Company - 27 714 832 shares of the Company, has lost and cannot exercise voting rights on 21 402 233 shares. Epsilon FIZ AN believes that they can exercise voting rights on 27.714.832 shares which is 29.17% of total votes at the General Meeting The Chairman of Financial Supervision Commissions (KNF) presented his standpoint on the issue on 24 July 2019. The Company informed about the case in current reports no 13/2019, 14-23/2019 and 30/2019.

As of the statement date, there is an undecided lawsuit filed by EPSILON Investment Fund in Warsaw against "PEPEES" S.A.:

- for the annulment or declaration of invalidity of two resolutions on the appointment of the Supervisory Board members, adopted on 11 May 2018 by the General Meeting of Shareholders, and for the annulment of the resolution on the distribution of profit for 2017. By judgment of 26.10.2018 the Regional Court annulled the resolutions on the appointment of two Supervisory Board members and dismissed the claim in the remaining scope. Appeals against the judgement were filed by both parties. The Court of Appeal in Białystok dismissed both appeals. EPSILON filed a cassation appeal, which was accepted for examination by the Supreme Court on 21.11.2020,
- for invalidation of resolutions 24-29 on 28.06.2019 by the General Meeting of Shareholders, including resolution 28 on the Company Articles of Association and authorizing the Management Board to increase the Holding Company's share capital within the target capital along with the option to exclude by the Management Board the pre-emptive rights of current shareholders with the consent of the Supervisory Board. The Regional Court suspended the proceedings until the proceedings related to the suit brought by PEPEES against EPSILON for determination the loss of voting rights
- cancellation or declaration of invalidity of two resolutions on discharging of fulfilment of obligation, adopted taken on 21.04.2020 by the General Meeting of Shareholders have been concluded in a legally binding manner. The proceedings are pending before the Court of First Instance. The Regional Court suspended the proceedings until the proceedings related to the suit brought by PEPEES against EPSILON for determination the loss of voting rights,

Otherwise, there are no significant pending litigations in court, proceedings in an arbitration court or a public administration body in respect to liabilities or receivables of the Issuer or its subsidiaries.

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### III. ECONOMIC AND FINANCIAL CONDITION

#### 1. Economic condition of the Capital Group

State of the assets as at 31 December 2020 as compared to 31 December 2019 is presented in the following table.

Table 6: State of the assets as at 31.12.2020 and 31.12.2019;

Name of an asset	State as at		Amount changes + increases -decreases	Structure indices %	
	31.12.2020	31.12.2019		31.12.2020	31.12.2019
<b>I. FIXED ASSETS</b>	<b>181 307</b>	<b>200 342</b>	<b>(19 035)</b>	<b>49.7</b>	<b>55.1</b>
1. Tangible fixed assets	158 843	179 454	(20 611)	43.5	49.4
2. Intangible assets	499	416	83	0.1	0.1
3. Rights to assets	11431	11076	355	3.1	3.0
4. Investment property	583	593	(10)	0.2	0.2
5. Goodwill	3 095	3 140	(45)	0.8	0.9
6. Investment in other units	625	613	12	0.2	0.2
7. Assets from deferred income tax	6 231	5 050	1 181	1.7	1.4
<b>CURRENT ASSETS</b>	<b>183 531</b>	<b>163 280</b>	<b>20251</b>	<b>50.3</b>	<b>44.9</b>
<b>Current assets other than assets classified as held for sale</b>	<b>165 284</b>	<b>163 280</b>	<b>2 004</b>	<b>45.3</b>	<b>44.9</b>
1. Inventory	110 198	85 893	24 305	30.2	23.6
2. Biological assets	338	322	16	0.1	0.1
3. Trade receivables	27 872	28 473	(601)	7.6	7.8
4. Current income tax receivables	1 245	-	1 245	0.3	0.0
5. Other financial assets	7 281	6 559	722	2.0	1.8
6. Cash assets and equivalents	18 350	42 033	(23 683)	5.0	11.6
<b>Fixed assets held for sale</b>	<b>18 247</b>	<b>-</b>	<b>18247</b>	<b>5.0</b>	<b>0.0</b>
<b>Total assets</b>	<b>364 838</b>	<b>363 622</b>	<b>1216</b>	<b>100.0</b>	<b>100.00</b>

The Group's assets expressed in total assets as at 31 December 2020 amounting to PLN 364,838 thousand increased by PLN 1,216 thousand, i.e. by 0.3% compared to the previous year.

The assets of CHP Energia have been classified as "Fixed assets held for sale". As a result of the reclassification, the line of fixed assets decreased.

Current assets increased (an increase by PLN 20.25 thousand), in particular on account of inventories due to seasonal potato processing. There was a big drop in cash, due to the financing of a record purchase of potatoes, the basic raw material for production.

## 2. Funding sources of the Capital Group

Specification of the funding sources according to the state of the assets as at 31 December 2020 as compared to 31 December 2019 is presented in the following table.

**Table 8: State of funding sources as at 31.12.2020 and 31.12.2019**

Specification of funding sources	State as at		Amount changes + increases -decreases	Structure indices %	
	31.12.2020	31.12.2019		31.12.2020	31.12.2019
<b>Equity capital</b>	<b>175 422</b>	<b>180541</b>	<b>-5119</b>	<b>48.1</b>	<b>49.7</b>
<b>Equity for the shareholders of Parent</b>	<b>173 769</b>	<b>178 773</b>	<b>-5 004</b>	<b>47.6</b>	<b>49.2</b>
Share capital	5 700	5 700	0	1.6	1.6
Share premium	7 562	7 562	0	2.1	2.1
Assets revaluation reserve	31 014	31 057	-43	8.5	8.5
Retained profits	129 493	134454	-4 961	35.5	37.0
Non-controlling shares	1653	1 768	-115	0.5	0.5
<b>Liabilities</b>	<b>189416</b>	<b>183 081</b>	<b>6335</b>	<b>51.9</b>	<b>50.3</b>
<b>Long-term liabilities</b>	<b>39373</b>	<b>54 664</b>	<b>-15291</b>	<b>10.8</b>	<b>15.0</b>
Credits and loans	11 134	24 789	-13 655	3.1	6.8
Lease liabilities	16 062	15 014	1048	4.4	4.1
Provisions for deferred income tax	6 662	6447	215	1.8	1.8
Payables for pensions and similar benefits	3 317	2 782	535	0.9	0.8
Subsidies	2198	5 632	-3 434	0.6	1.5
Short-term liabilities	150 043	128 417	21 626	41.1	35.3
Short-term liabilities other than related to assets held for sale	132 561	128 417	4144	36.3	35.3
Trade and other short-term liabilities	23 990	16 933	7 057	6.6	4.7
Current income tax payables	76	2 528	-2 452	0.0	0.7
Credits and loans	104 514	104 815	-301	28.6	28.8
Lease liabilities	3 616	3 728	-112	1.0	1.0
Payables for pensions and similar benefits	365	413	-48	0.1	0.1
<b>Liabilities related to assets held for sale</b>	<b>17 482</b>	<b>-</b>	<b>17 482</b>	<b>4.8</b>	<b>0.0</b>
<b>Total equity and liabilities</b>	<b>364 838</b>	<b>363 622</b>	<b>1216</b>	<b>100</b>	<b>100.0</b>

In the whole presented period, the largest share in the sources of financing of the assets had the Group's equity, which decreased in value by PLN 5,119 thousand and by 1.6 percentage points. Reserve and supplementary capitals increased due to distribution of the previous year's result. There was an increase by PLN 13,872 thousand. The Ordinary General Meeting of "PEPEES" S.A. on 21 April 2020 adopted

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resolution No. 8 on allocation of profit for the fiscal year 2019 amounting to PLN 19,181,930.51: PLN 11,400,000 was allocated to dividend (PLN 0.12 PLN per share), and the remaining PLN 7,781,930.51 was allocated to capital reserve of the Holding Company. The day on which the list of shareholders authorized to receive dividend is to be decided was set for 1 July 2020. The dividend payment date is 31 July 2020. The dividend was paid on the agreed date.

All liabilities of CHP Energia were included in "Liabilities associated with assets held for sale"

Among short-term liabilities, the highest increase was recorded in "Trade liabilities", which was affected by the record-breaking potato campaign.

### 3. Financial results of the Capital Group

Financial results of the business activity of the Capital Group for 2020 and 2019 are presented in the following table and figure.

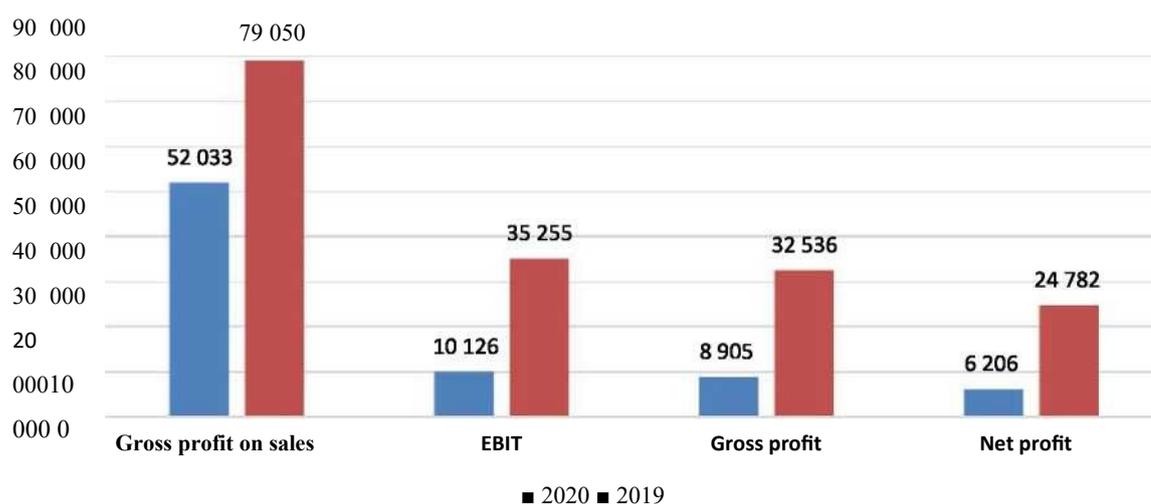
Table 8: Specification of the financial result for 2020 and 2019

Item	Description	For 12 months ended on 31 December 2020	For 12 months ended on 31 December 2019	Dynamics
<b>1</b>	<b>Revenues from sales*</b>	210 935	231 981	904.3%
	- revenues from sales of products	191 770	208 355	92.04%
	- revenues from sales of services	1 668	1 823	91.50%
	- revenues from sales of goods and materials	17 497	21 803	80.25%
<b>2</b>	<b>Cost of products, goods and materials sold</b>	(158 902)	(152 931)	1034.0%
	- costs of products sold	(140 729)	(134 447)	104.67%
	- costs of services sold	(798)	(736)	108.42%
	- costs of goods and materials sold	(13 813)	(14 075)	98.14%
	- result of agricultural production	(3 562)	(3 673)	964.8%
<b>3</b>	<b>Gross profit on sales</b>	52 033	79 050	65.82%
	- sales and marketing costs	(11 441)	(10 461)	109.37%
	- overheads	(33 365)	(33 099)	100.80%
	- other operating revenues	3 800	1 141	333.04%
	- other operating costs	(901)	(1 376)	65.48%
<b>4</b>	<b>Operating profit</b>	10 126	35 255	28.72%
	Financial costs	(5 200)	(3 700)	140.54%
	- financial revenues	3 979	981	405.61%
<b>5</b>	<b>Profit before tax</b>	8 905	32 536	27.37%
	- income tax	(2 699)	(7 754)	34.81%
<b>6</b>	<b>Net profit, including:</b>	6 206	24 782	25.04%
<b>7</b>	Profit allocated to the Parent Company shareholders	6 313	24 091	26.20%
<b>8</b>	Profit allocated to non-controlling shares	(107)	691	(15.48%)

In the consolidated financial statements, revenues and expenses of the subsidiary CHP Energia were presented under the item "Net profit/loss from discontinued operations"<sup>39</sup>

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**Fig. no 5: Financial results of PEPEES Capital Group**



In the period analysed, the indicators of the dynamics of the financial result and its calculation elements show a downward trend. In the reporting period, the operating result - EBIT - decreased by more than three times, and the net result by four times. This is due to a fall in the prices of the main product, potato starch. Despite the pandemic and resulting lower demand, there was a satisfactory positive gross margin on sales and margin on sales in 2020.

#### 4. Cash flows

In 2020 the PEPEES Capital Group had a negative net cash flow balance. Also the balance on operating activities is negative and amounts to PLN (118) thousand. The balance on investing activities was negative in the amount PLN (5165) thousand resulting mainly from acquisition of tangible fixed assets. The balance of financing activities was also negative (PLN 18,405) thousand and resulted in particular from the dividend paid to shareholders and repayment of loans and borrowings. The cash balance in the consolidated statement of cash flows as at 31 December 2020 is PLN 18,350 thousand.

#### 5. Economic indicators

The indicators presented below are the Alternative Performance Measures (APM) within the meaning of ESMA Guidelines concerning Alternative Performance Measures. The Alternative Performance Measures are not meters of financial results in compliance with the International Financial Reporting Standards, and should not be treated as meters of financial results or cash flows. These indicators are not uniformly defined and cannot be compared to indicators presented by other companies, including companies operating in the sector of PEPEES Group. Alternative Performance Measures should be analysed only as additional ones, and not substitutes of financial information presented in the Group's consolidated financial statements. These data should be examined together with the Group's consolidated financial statements. PEPEES Group presented selected indicators

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APM, since in its opinion they are a source of additional (to presented in financial statements) information on the financial and operational position of the Group, and they facilitate analysis and assessment of financial results achieved by the Group in various reporting periods. The Issuer presents this specific alternative measurements of results, because they are applied in a cyclic and uniform way in subsequent reports. Selection of alternative measurements of results was preceded with an analysis of their usefulness from the perspective of delivery of useful information to investors on the financial position, cash flows and financial efficiency of the Group, and in the opinion of the Management Board it enables optimum assessment of achieved financial results. In this statement, in comparison to the previous year, such indicators as EBIT, EBITDA were additionally presented. EBITDA margin, EBIT margin. The results presented below should not be assigned a larger significance than measurements resulting directly from the Company's financial statement or the Group's consolidated financial statement.

**Table no 10: Economic indicators**

Indicator	Economic contents	Year 2020	Year 2019
Return on assets	$\frac{\text{Net profit allocated to the Parent Company shareholders} \times 100}{\text{Total assets}}$	1.73%	6.63%
Return on equity	$\frac{\text{Net profit allocated to the Parent Company shareholders} \times 100}{\text{equity}}$	3.64%	13.48%
Net return on sales	$\frac{\text{Net profit allocated to the Parent Company shareholders} \times 100}{\text{Total sales revenue}}$	2.95%	10.38%
Gross return on sales	$\frac{\text{Gross profit on sales} \times 100}{\text{Total revenues from sales}}$	24.67%	34.08%
EBIT	Operating profit, that is profit before interests (financial costs , minus financial revenues) and taxation (income tax)	10 126	35 255
EBITDA	Operating profit (EBIT) plus depreciation	25 611	49 054
EBIT margin	$\frac{\text{EBIT} \times 100}{\text{Total sales revenues}}$	4.80%	15.20%
EBIT margin	$\frac{\text{EBITDA} \times 100}{\text{Total sales revenues}}$	12.14%	21.15%
1st liquidity ratio	$\frac{\text{Current short-term assets}}{\text{Short-term liabilities}}$	1.25	1.27
liquidity ratio n	$\frac{\text{Current (short-term) assets} - \text{inventory}}{\text{Short-term liabilities}}$	0.42	0.60
Receivables rotation ** in days	$\frac{\text{average amount of trade receivables} \times 360}{\text{Revenues from sales}}$	34.32	37.89
Indicator	Economic contents	Year 2020	Year 2019
Inventory rotation in days**	$\frac{\text{average stock} \times 365}{\text{Costs of goods sold}}$	225.21	195.66
Coverage of fixed assets with equity	$\frac{\text{Equity allocated to the Company shareholders} \times 100}{\text{Fixed (long-term) assets}}$	0.96	0.89
Durability of the financing structure	$\frac{\text{equity attributable to equity holders of the Company} + \text{long-term liabilities} \times 100}{\text{Total liabilities and equity}}$	0.51	0.56

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To calculate the rotation ratios, the company adopted amounts at the beginning and at the end of every reporting period.

By means of the indicator analysis, a synthetic evaluation of the economic and financial position of PEPEES Group was performed. Basic indicators related to profitability, liquidity, effectiveness of operation (efficiency) and capital structure (debt) were selected.

In 2020, the return on assets and return on equity ratios were at significantly lower levels than in 2019. The gross and net sales profitability ratios, as well as the EBIT margin and EBITDA margin reached lower levels in relation to the previous year. It is the result of the growth of costs of own sales and simultaneous fall of revenues from sales.

An improvement was observed in case of receivables rotation indicator, because the Group has appropriate debt collection and financial policies. The inventory rotation indicator increased. This indicator is always high in the Group due to the seasonal nature of the production.

Liquidity ratios decreased due to a decline in cash.

## 6. Assets of the Holding Company

Table No. 11: Conditions of asset

Item	ASSETS	As of 31 December 2020	As of 31 December 2019
<b>L</b>	<b>Fixed assets (long-term)</b>	<b>142 587</b>	<b>151 766</b>
1.	Tangible fixed assets	98 004	103 464
2.	Intangible assets	499	413
3.	Rights to assets	15 844	16 717
4.	Investment property	383	393
5.	Investment in subsidiaries	23 586	26 632
6.	Investment in other units	625	613
7.	Assets from deferred income tax	3 646	3 534
<b>II</b>	<b>Current assets (short-term)</b>	<b>116 564</b>	<b>123 896</b>
1.	Inventories	71924	55 712
2.	Biological assets	338	322
3.	Trade receivables	17 419	16 340
4.	Current income tax receivables	1245	-
5.	Other receivables	5 043	4 310
6.	Prepayments	1 140	1302
7.	Loans granted	1006	5 593

Item	ASSETS	As of 31 December 2020	As of 31 December 2019
8.	Other financial assets	6 970	5 961
9.	Monetary assets and equivalents	11479	34 356
m	Assets held for sale	9 639	-
	<b>Total assets</b>	<b>268 790</b>	<b>275 662</b>

## 7. Sources of funding for the Holding Company

Table No. 12: Sources of funding

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<b>Item</b>	<b>EQUITY AND LIABILITIES</b>	<b>As of 31 December 2020</b>	<b>As of 31 December 2019</b>
<b>L</b>	<b>Equity capital</b>	<b>158530</b>	<b>164 443</b>
1.	Share capital	5 700	5 700
2.	Supplementary and reserve capitals	147 408	139 626
3.	Assets revaluation reserve	(108)	(65)
4	Current year result	5 530	19 182
<b>II</b>	<b>Long-term liabilities</b>	<b>29 734</b>	<b>30 815</b>
1.	Credits and loans	5 496	8 385
2.	Lease liabilities	13 036	11 714
3.	Provisions for deferred income tax	6486	6 312
4.	Payables for pensions and similar benefits	2 693	2 284
5.	Subsidies	2 023	2 120
<b>III</b>	<b>Short-term liabilities</b>	<b>80 525</b>	<b>80 404</b>
1.	Trade payables	4 887	5 436
2.	Current income tax payables	-	2 394
3.	Other short-term liabilities	2 570	2 576
4.	Credits and loans	65 889	63 083
5.	Lease liabilities	3 237	3 192
6.	Payables for pensions and similar benefits	253	204
7.	Provisions for other liabilities and charges	3 689	3 519
<b>IV.</b>	<b>Liabilities related to assets held for sale</b>	<b>1</b>	
	<b>Total equity and liabilities</b>	<b>268 790</b>	<b>275 662</b>

## 8. Financial results of the Holding Company

Table no 13: Financial results

Item	Description	For 12 months ended on 31 December 2020	For 12 months ended on 31 December 2019
<b>I</b>	<b>Revenues from sales</b>	<b>155 182</b>	<b>172 934</b>
1.	Revenues from sales of products	136 229	150 874
2.	Revenues from sales of services	1 178	1054
3.	Revenues from sales of goods and materials	17 775	21 006
Item	Description	For 12 months ended on 31 December 2020	For 12 months ended on 31 December 2019
n	Costs of goods sold	(117 135)	(112 274)
1.	Costs of products sold	(95 567)	(90 393)
2.	Costs of services sold	(780)	(481)
3.	Costs of goods and materials sold	(17 226)	(17 727)
4.	Result of agricultural production	(3 562)	(3 673)
m	Gross profit (loss) on sales (I-II)	38 047	60 660
i.	Sales and marketing costs	(9 257)	(8 495)
2.	Overheads	(24 346)	(25 246)
3.	Other operating revenues	2 489	447
4.	Other operating costs	(515)	(2 042)
<b>IV</b>	<b>Operating profit (loss)</b>	<b>6418</b>	<b>25324</b>
1.	Financial costs	(3 722)	(2 252)
2.	Financial revenues	4 851	2 100
<b>V</b>	<b>Profit (loss) before tax</b>	<b>7 547</b>	<b>25172</b>
<b>VI</b>	<b>Income tax</b>	<b>(2 017)</b>	<b>(5 990)</b>
<b>VII</b>	<b>Net profit (loss)</b>	<b>5530</b>	<b>19182</b>
<b>VIII</b>	<b>Other total income</b>	<b>(43)</b>	<b>(39)</b>
i.	Results of valuation of financial assets available for sale	-	-
2.	Revaluation of liabilities from employee benefits	(43)	(39)
<b>IX</b>	<b>Total income, including</b>	<b>5 487</b>	<b>19 143</b>
<b>X</b>	<b>Net profit (loss) per share</b>	<b>0.06</b>	<b>0.20</b>

## 9. Non-typical events influencing the Holding Company's financial result

In 2020, the Holding Company reversed write-downs on assets involved in its subsidiary CHP Energia, in connection with a subrogation agreement guaranteeing the recovery of loans, trade receivables and advances. The amounts of the reversed write-downs are as follows:

- PLN 3,019 thousand - reversal of revaluation write-downs for loans
- PLN 868 thousand - reversal of revaluation write-downs of trade receivables
- PLN 485 thousand - reversal of revaluation write-downs for prepayments

It made impairment write-downs on its shares in CHP Energia in the amount of PLN 1,695 thousand

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Write-offs and reversals of write-offs increased the gross financial result by PLN 2,677 thousand

In 2020, a dividend of PLN 11,400 thousand was paid out to shareholders, which affected the Company's equity and cash.

## **IV. DEVELOPMENT OF THE ISSUER AND THE CAPITAL GROUP**

### **1. Description of main risk and threats and the characteristics of external and internal factors essential for the development of the Holding Entity and PEPEES Capital Group**

#### **1.1. Risks and threats**

##### **S Dependence of production on the weather and seasonality**

Potatoes are the main raw material for production. Consequently, volume and quality of production depend on potato crops. Bad weather reduces potato crops and reduces the starch content.

##### **/ Product portfolio imbalance**

It is necessary to introduce new products to the offer in order to balance the product portfolio and the Group's development. It should be emphasized in this context that a few plants directly competing with the PEPEES Capital Group declare production of starch modificates, which are becoming more and more popular on the European and domestic market.

##### **S Globalisation**

The globalisation process is visible mainly in competitiveness. At the moment we observe strong competition threatening on the side of substitutes. In the food industry there are many products that fulfil similar functions (filling and thickening) like potato starch, e.g. wheat starch, corn starch, imported hydrocolloids of natural origin, such as guar gum, xanthan gum, gum arabic, locust bean gum and gelatine.

At a time of limited supply of potato starch, these substitutes are gradually making their way into industries hitherto "reserved" for our products. This raises the threat of a partial loss of markets. Therefore, the Group has introduced other types of starch so as not to lose control of the subordinate market.

Furthermore, there is large competition inside the EU starch industry.

##### **S Dependence on profitability of potato production**

Because of high costs of potato production, potatoes are superseded by other more profitable agricultural products. Moreover, the region of north-eastern Poland focused on dairy production that takes the agricultural land from other productions. Therefore, it is increasingly more difficult to acquire new farmers from the areas that are closest to the plant. Consequently, the Group has to purchase raw materials from increasingly more distant areas of Poland, which translated into lower profitability.

##### **S Exchange rate risk**

Such risk arises in case of international trade performed in other currencies than zloty. Strong fluctuations in currency prices negatively affect the profitability of foreign transactions, as well as arouse growers' anxiety (settlements with growers take place with reference to the EURp rice).

##### **S Interest rate risk**

Due to financing of operating and investment activities with bank loans, the Group is exposed to the interest rate risk. Through quick repayment of working capital loans within 8-9 months, the Group has significantly decreased the impact of the interest rate risk on the financial result.

**S Financial liquidity risk**

In the analysed period, the financial liquidity risk is assessed as very low. It results from the Group's surplus cash and the efficient policy of merchant credit management. The Group invests all surplus cash in financial instruments with possibly low risk. The Group seeks to minimise the risk of counterparty insolvency and failure to meet the deadline for payment for products supplied. A large proportion of the Group's sales are based on prepayments. Sales on the basis of trade credit, both domestic and export sales, are covered by trade receivables insurance. In case of execution of high-risk foreign transactions, letters of credit and documentary collection are used to secure them.

**/Fluctuations of the economic situation**

The state of the economic activity worldwide, in Poland and in specific sector affects operations of an enterprise through various factors (GDP, prices, salaries, employment).

**Too expensive instruments raising security of the trade**

Credits granted to recipients raise the risk of failure to pay supplies. Financial products offered on the market are expensive and significantly prolong the stage of a transaction.

**/ Sale of a product threatening to consumer health and life**

The Group is a producer of food products. In case of sale of a product threatening human health or life, the Group would lose its reputation, would be obliged to pay compensation to customers and consumers and cover costs related to product recall and its disposal.

The risk is small due to the implemented Quality and Food Safety Management System.

Product recall procedure has been implemented, recall simulations are performed.

**S Poor product quality detected at customer's site during production**

The risk may comprise the cost of redress for causing the loss, the possible loss of the customer.

The risk is low due to the Integrated Management System in place, in particular the quality control system for finished products, semi-finished products, raw materials and production materials as well as process supervision by production operators in accordance with the applicable work instructions .

Ensuring proper storage conditions and transport supervision reduces the risk of defects at these stages.

**S Inadequate information security/infrastructure management**

The risk comprises the leakage of company and customer data. Potential loss of data due to failure.

The risk is low due to the application of security levels for both the operating system and the ERP system. Backups are made to prevent data loss. The network is secured by hardware and software solutions. All aspects are regulated by a procedure implemented for this purpose.

**SS Risks related to the spread of COVID-19 coronavirus**

Coronavirus pandemics and its possible impact on disruptions of continuity of operations or restrictions of operations:

- due to possible infection with virus SARS-CoV-2 and more frequent absences of the employees employed at the main technological process,
- due to possible disruptions in the supply chain of materials and services and logistic restriction, in particular in international transportation,
- due to possible disappearance of some outlets, decreased demand and optimisation of counterparties' inventories of raw materials and ready products
- in result of extraordinary amendments of legal provisions.

**1.2. External factors deciding about the success of the Issuer and the Group**

Development of the Issuer and its Group in the potato industry depends mainly on the agricultural policy of the European Union and Poland, and on establishment of proper conditions of operation of the agricultural and food industry. -

Factors that serves as the main opportunities of development are:

*S development of the domestic potato branch.* The Polish potato branch has been in the state of deep structural reconstruction for many years. These changes lead to professionalism of potato production, and it may increase competitiveness of the Polish potato branch in the future. The number of potato growing farms decreases, but it occurs simultaneously with concentration and specialisation of production.

*a possibility to obtain money for funding of investments,*

*S market demand for modified products of potato starch,*

*S access to new and modern technologies,*

*market development in international trade,*

*S development of specialist agricultural farms,*

*S wide spectrum of application of starch and its modified products,*

*S area payments related to starch potatoes.*

### **1.3. Internal factors deciding about the success of the Issuer and the Group**

Most important internal factors meaningful for its further development are:

*Continuation of the industry consolidation process,*

*systematic investment and modernising activities of production departments to raise efficiency and innovation of production and reduce costs of operations,*

*S active reactions to the market needs and requirements,*

*S active policy of sales and acquisition of new markets,,*

*S implemented Quality and Food Safety Management System certified with certificates, S implemented GMP (Good Manufacturing Practice) system for manufacturers of active substances,*

*S activity meets Smeta requirements; presence on SeDeX platform,*

*S very good cooperation with farmers during the whole year,*

*S possibility of hydrolysates production to meet specific expectations of customers,*

*S high production capacities,*

*S low cost of disposal of production wastewater,*

*S realisation of strategies and undertaking investment activities,*

*S ensuring the necessary level of funding for the Group's development investments,*

*S developing the product offer,*

*S knowledge and professional experience of the staff.*

*S minimizing the Group's operating costs.*

## **2. Perspectives of the development of the Issuer and the Group**

The Group seeks to implement the 2019-2024 strategy adopted on 12 June 2019. Also negotiations with Korean Daesang Corporation ("Daesang") are conducted in respect to potential cooperation in production of modified products of potato starch.

The Group's main objective is to achieve the maximum rate of return on investments while maintaining moderate level of investment risk. PEPEES Group assumes performance of parallel activities in the field of development, through increase of efficiency of activities of the Capital Group companies and mitigation of risks to which they are exposed, as well as performance of further investment activities. In any attractive

market offers occur, the investment activities will be continued both in the Group and outside.

The existing epidemic condition as a result of the spread of the COVID-19 coronavirus and related actions taken by the government administration in Poland and other countries negatively affect the Group's development. New investments have been suspended. The year 2021 will remain influenced by the fight against the effects of the pandemic. All Group companies monitor on an ongoing basis the development of the situation in Poland and worldwide, related to the COVID-19 coronavirus pandemic, verifying all information with respect to its impact on the Group's economic situation and taking ad hoc actions to minimize the consequences related to the above-mentioned extraordinary circumstances.

### **3. Development strategy of the Company and PEPEES Capital Group**

According to the Strategy, PEPEES S.A.'s mission is to strengthen its position as the leader in the agricultural-food processing sector, offering a wide range of starch products and implementing innovative products. The Leader creating, thanks to this, satisfactory value for its shareholders, ensuring satisfaction of its employees and enabling development of agricultural production in Poland by building long-term relations with growers, guaranteeing them stability and profitability of raw material crops. As part of the implementation of the Strategy, the Company supports the development of customers by offering them high quality natural starch products made from agricultural raw materials and implementing innovative products.

The Company has defined the following strategic objectives:

S Increase of the value and market share by PEPEES Capital Group through the organic growth and acquisitions,

S Extension of the target markets and the product offer, including modified starch products,

S Commencement of cooperation with a branch investor,

S Intensification and improvement of raw material acquisition.,

S Optimisation of functioning of PEPEES Capital Group.

Establishing the cooperation with the industry partner, especially from the food, pharmaceutical, dietary supplements and children products sectors, will be crucial for the further development of the PEPEES Capital Group. The implementation of the Strategy requires ensuring appropriate know-how and significant investments in the development of new products, in particular modifications and modern technologies.

Detailed information on the adopted strategy is described in current report No. 12/2019.

The Company plans to review the assumptions and implementation of strategic objectives in view of the prolonged impact of the pandemic and the market situation considering the period from Q1 2020. The results of the analysis should be produced early in Q3 2021.

### **4. Characteristics of the policy concerning directions of the development of the Issuer's Capital Group**

The policy of PEPEES Capital Group, on the basis of the Strategy adopted for years 2019-2024, is aimed at constant development and optimisation of the product offer, taking into account changing expectations and preferences of recipients.

The strategy provides for increasing sales value and market share through organic growth and acquisitions. It assumes, among other things, expanding and increasing the attractiveness of a diversified product offer, expanding target markets and acquiring new customers, establishing cooperation with an industry partner, in particular from the food, pharmaceuticals, dietary supplements sectors and products for children. The implementation of the Strategy requires ensuring appropriate know-how and significant investments in the development of new products, in particular modifications and modern technologies.

PEPEES Capital Group endeavours to raise significantly starch production, thanks to which it will be able to compete with foreign enterprises. The strategy of the Group assumes short-term tasks, as the ones related to improvement of the state of the starch production market in Poland and conditions of operation of farmers, ending on long-term steps aimed at establishment of cooperation with a branch investor. The Group cares for good and long-term relationships with farmers, which will guarantee stability and profitability of raw material

growing, which in turn will ensure regular suppliers of raw materials for the Group thanks to a clear and legible system of contracts.

Surplus of products will be directed to foreign markets, with particular focus on the developing markets, e.g. Asian markets. The new market strategy is based by the Capital Group on intensification of sales on external markets (in particular markets of Eastern Asia, South-Eastern Asia, South America and developing European countries).

This objective should be fulfilled through continuation of the project entitled "Export and Domestic Market Development Programme" that will include identification of key foreign outlets for the Group and creation of a sale system for them. The global demand for starch is growing, to the Group creates effective tools for distribution and sales of domestic products.

The development strategy of PEPEES Group assumes systematic raising of competitiveness and the cost relationship as compared to the leasing Polish companies of potato processing.

## **5. Additional disclosures in relation to the pandemic**

The ongoing COVID19 pandemic in 2020 has caused the deterioration of the economic environment. This also had an impact on the Group's revenue, which decreased as a result of falling prices. There were also logistical problems, increased transport costs and also new costs related to the purchase of disinfectants and personal protective equipment for employees, as well as to the adaptation of work places to safe working conditions. Nevertheless, all companies in the Group operated without major disruptions. No unused production capacities occurred due to the pandemic, but on the contrary, the PEPEES Company in 2020 made a record-breaking processing of potatoes into starch. The management boards of the companies have assessed all risks associated with the pandemic and have determined that they will not affect the Group's continued operations.

The Group did not benefit from the so-called Crisis Shield and other forms of assistance.

### **y. APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES**

#### **I. I. Indication of corporate governance rules applicable to the Issuer and of the place where the text of the set of rules is publicly available**

Pursuant to § 29 of the Rules of the Warsaw Stock Exchange, it applies the corporate governance principles contained in the document - "Best Practices of Companies Listed on the WSE 2016", constituting an Appendix to Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange of 13 October 2015 (hereinafter "Best Practices"), available on the website:

[https://www.gpw.pl/pub/GPW/files/PDF/GPW\\_1015\\_17\\_DOBRE\\_PRAKTYKI\\_v2.pdf](https://www.gpw.pl/pub/GPW/files/PDF/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf)

The Company's Management Board declares that appreciating the importance of the corporate governance principles contained in the aforementioned document and the role these principles play in enhancing the transparency of listed companies, it has made every effort to ensure that the principles referred to above are applied to the fullest possible extent in the Company.

Point n indicates editorial units and a description of rules under the Best Practices which are not applied by the Company and an explanation of the reasons for abandoning their application.

#### **II. Indication to what extent the Issuer departed from provisions of corporate governance rules, with indication of these provisions and explanations of the reasons of departure.**

"PEPEES" S.A. in 2020 complied with all the recommendations and principles of Good Practices with the exception of the following:

##### **I. Information policy and communication with investors**

*I.Z.1. The Company maintains a corporate website and publish therein, in a legible form and in a separate place, the following besides the information required by law:*

*I.Z.1.3 "scheme of allocation of tasks and responsibilities among members of the management board, prepared in accordance with "*

*with rule II.Z.1"*

The division of responsibilities is included in the regulation of the Management Board available on the Company's website.

*I.Z.1.10 "financial forecasts - if the company has decided to publish them - published over a period of at least the last 5 years, together with information on the extent to which they have been achieved, "*

The rule does not apply.

*I.Z.1.15 "information containing a description of the company's diversity policy with regard to the company's governing bodies and its key managers; the description should take into account such elements of the diversity policy as gender, field of study, age, professional experience, as well as indicate the objectives of the diversity policy and the manner in which it has been implemented in the reporting period; if the company has not developed and does not implement a diversity policy, it shall include on its website an explanation of that decision ""*

The Company has not developed and does not implement a diversity policy. When selecting persons for the position of members of the Management Board and the Supervisory Board, the Company invariably follows the highest standards and in this respect does not differentiate between candidates on the basis of their gender or other non-substantive features. The basic criterion for election of the Company's authorities is high competence, skills and professionalism of the candidates.

*I.Z.1.19 , shareholders' questions addressed to the Management Board pursuant to art. 428 § 1 or § 6 of the Commercial Companies Code, along with the Management Board's answers to the questions posed, or a detailed statement of the reasons for not answering, pursuant to W.Z. Rule no 13."*

The aforementioned information shall be published in accordance with the requirements of the Regulation. The Company's reports are published on the website under the tab of Investor Relations >> Current reports. The Company does not post them in a separate section of the website.

## **II. Management Board and Supervisory Board**

*n.Z.1. The internal division of responsibility for particular areas of the company's activity among management board members should be formulated in a clear and transparent manner, and the division scheme should be available on the company's website..*

The division of responsibilities is contained in the regulation of the Management Board.

*U.Z.2. Membership of the company's Management Board in the Management or Supervisory Boards of companies outside the company's capital group requires consent of the Supervisory Board.*

Conflict of interest are resolved in accordance with Article 380 of the Code of Commercial Companies.

## **III, Internal systems and functions**

*IU.R.J. The Company separates units responsible for the execution of tasks in its structure in particular systems or functions, unless the separation of organisational units is not justified due to the size or type of activity conducted by the Company.*

Separation of organisational units responsible for internal control, risk management, compliance or internal audit is not justified due to the size of the Company's business.

*III.Z.4. At least once a year the person responsible for internal audit (where such a function has been separated in the company) and the management board shall present their own assessment of the effectiveness of the systems and functions referred to in principle III.Z.1, to the supervisory board together with an appropriate report.*

No internal audit function was separated in "PEPEES" S.A.

**IV. General meeting and relations with shareholders**

*IY.R.2. If warranted by shareholder structure or expectations reported to the company*

*IY.R.2. If justified by the shareholding structure or the expectations of the shareholders notified to the company, provided that the company is able to provide the technical infrastructure necessary for the efficient conduct of the general meeting via electronic communication means, it should enable the shareholders to participate in the General Meeting via such means, in particular by*

- 1) real-time transmission of the General Meeting,*
- 2) real-time two-way communication whereby shareholders may address the General Meeting from a location other than the venue of the General Meeting,*
- 3) exercising, in person or by proxy, the right to vote during the General Meeting.*

In the opinion of the Management Board, there is no need to broadcast the General Meetings or provide real-time two-way communication. The General Meetings are held at the Company's registered office, at convenient hours, therefore participation in them is not hindered in any way for the shareholders interested in them, speaking or exercising the shareholders' right to vote (in person or by proxy). All necessary safeguards related to pandemic restrictions are provided - disinfectants, masks, distances between participants, etc. The Company is also of the opinion that despite the advanced technology, there is always a risk that for various reasons (including those beyond the control of the Company, shareholders, or third parties) the technical and legal security of two-way communication in real time, or exercising of voting rights through electronic means of communication will not be guaranteed, and any potential damage resulting from any disruptions in this area could cause an unjustified increase in the costs of the Company's operations.

*IY.R.2 The company aims to ensure that when securities issued by the company are traded in different countries (or in different markets) and under different legal systems, the realization of corporate events related to the acquisition of rights on the part of the shareholder occurred on the same dates in all countries where they are listed.*

Securities issued by the company are traded only in Poland.

*TV.Z.12. The management board should present the financial results of the company and other relevant information included in the financial statements to the participants of the ordinary general meeting subject to approval by the general meeting.*

In the opinion of the Management Board, there is no need for presentation and discussion of the results. The Company's financial results are fully available through the publication of periodic reports.

*IV. Z. 16. The dividend day and the dividend payment dates should be set so that the period between them was not longer than 15 working days. Establishing a longer period between these deadlines requires justification.*

The dividend payment date depends each time on the Company's financial condition.

**V. Conflict of interests and transactions with associated entities**

*V. Z.6. The Company shall determine in its internal regulations the criteria and circumstances under which a conflict of interest may occur in the company, as well as rules of conduct in the face of a conflict of interest or the possibility of its occurrence. The company's internal regulations take into account, among other things, the ways of prevention, identification and resolution of conflicts of interest, as well as the principles of exclusion of a member of the Management Board or the Supervisory Board from participation in the consideration of the matter covered by or threatened by the conflict of interests.*

The Company's practice to date does not indicate that such regulations are necessary. With respect to conflicts of interest the Company acts in accordance with the provisions of the generally applicable law.

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**VI. Salaries**

*V7.R.1. Remuneration of members of the company's bodies and key managers should result from the adopted remuneration policy.*

The General Meeting of Shareholders adopted the Remuneration Policy on 21 April 2020.

*YI.R.3 If the Supervisory Board has a remuneration committee, principle II.Z. 7 applies to its operation .*

The Supervisory Board does not have a remuneration committee.

*VI. Z. 4. The Company presents a report on its remuneration policy in its management report, including at least:*

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- 1) *general information on the remuneration system adopted in the company,*
- 2) *information on the conditions and amounts of remuneration of each member of the Management Board, divided into fixed and variable remuneration components, with indication of key parameters for determination of the variable remuneration components and the rules for payment of severance pay and other payments due to termination of the employment relationship, mandate or another legal relationship of a similar nature - separately for the company and for each entity belonging to the capital group,*
- 3) *information on non-financial elements of remuneration to which individual members of the Management Board and key managers are entitled,*
- 4) *indication of significant changes in the remuneration policy in the last financial year or information about their absence*

The reports indicate the remuneration of each member of the Management Board and Supervisory Board, but the remuneration policy is not described. A report on the Remuneration Policy is prepared by the Supervisory Board pursuant to Article 90g of the Act on Public Offering.

### III. Report on remuneration policy

On 21 April 2020 General Shareholders Meeting adopted the Remuneration Policy for Management and Supervisory Board Members of "PEPEES" S.A.

Separate rules of remuneration apply to members of the Company's Management Board and Supervisory Board. The remuneration of members of the Company's Management Board consists of fixed remuneration, variable remuneration (bonus) and additional benefits.

The remuneration of members of the Supervisory Board consists of a fixed remuneration set at a monthly rate and additional benefits.

The Supervisory Board shall determine in a resolution the amount of fixed remuneration for the members of the Management Board of the Company, taking into account the qualifications, experience, scope of duties and responsibilities of a member of the Management Board as a body of a listed company and the need to ensure a competitive level of remuneration.

The General Meeting shall determine in a resolution the amount of remuneration of members of the Supervisory Board. The General Meeting shall determine the amount of differentiated remuneration of the Supervisory Board members depending on the function performed, taking into account the degree of involvement of the Supervisory Board members in their duties and the principles of responsibility of a Supervisory Board member of a listed company.

The variable part of the remuneration of the Management Board members in the form of quarterly and annual bonuses depends on the level of implementation of key objectives according to the rules established by the Supervisory Board taking into account the financial results achieved and the degree of implementation of objectives set by the Supervisory Board.

The objectives are established by the Supervisory Board based on the current operational and strategic goals of the Company for a given period along with the measures for their implementation, including the implementation of the planned sales budget, achievement of the planned profit or EBIDTA level.

The Supervisory Board evaluates the achievement of objectives after the end of a given bonus period.

The bonus payment date should be linked to the publication of financial results and, in relation to the annual bonus, to the completion of the audit of the consolidated and separate financial statements of the Company for the financial year constituting the bonus period.

There are no deferred periods for bonus payments and no possibility for the Company to demand repayment of the bonuses paid.

The maximum total amount of remuneration components constituting a bonus for a member of the Company's Management Board may depend, among other things, on the level of the generated profit and constitute a percentage share in the net profit generated above the planned level, taking into account the functions held. The Members of the Management Board may be entitled to additional benefits in the form of financial instruments granted by the Company as part of an incentive scheme.

An incentive program for members of the Management Board and key executives should grant the right (option) to

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receive shares in the Company in order to create incentive mechanisms in the Company and its subsidiaries promoting activities that ensure both a long-term increase in the Company's value and its shares, stable growth of the Company's results and dividends for shareholders and its subsidiaries, as well as implementation of the Pepees Group Strategy.

An incentive program may be established for a limited period of time for a defined group of people. The Programme may be implemented through the issue of financial instruments conferring the right to receive the Company's shares or through the purchase of the Company's own shares offered subsequently to the scheme's participants, where the share sale price for participants may not be lower than the purchase price of the shares by the Company. The condition for exercising of the right to shares shall be to remain in employment with the Company or its subsidiary, comply with the non-competition or other loyalty conditions and fulfil individual and financial objectives determined by the Supervisory Board.

The period between granting the right to purchase or acquire the Company's shares under the incentive scheme and the possibility to exercise the same should be at least 2 years.

The members of the Supervisory Board may not participate in the incentive programmes.

The members of the Management Board and Supervisory Board are entitled to Additional Benefits in the form of:

- 1.1. a company car with a driver intended for business or private use;
- 1.2. a personal computer and a business phone;
- 1.3. medical care package, also for immediate family members;
- 1.4. company housing granted where the permanent place of work is substantially distant from the place of residence;
- 1.5. participation in training courses funded by the Company;
- 1.6. general liability insurance of the company's governing bodies;
- 1.7. other benefits in accordance with the regulations adopted by the Company and granting them to all employees.

The members of the Management Board and the Supervisory Board may be covered by the Employee Pension Plan on the same basis as other employees of the Company.

## **IV. Sponsorship activities**

"PEPEES" S.A. is a patron of many cultural, sport and environmental events. To meet the growing social, economic, cultural, educational and sports needs, principles have been adopted that can concentrate aid where it can be used effectively. Sponsoring activities undertaken by the Company consist in financial and material support of regional- local initiatives. The primary, direct goal of sponsorship provided by PEPEES is to build and strengthen brand awareness and to create a positive image of the undertaking in which Pepees participates as a sponsor.

### ***AREAS OF ACTIVITY***

The Company is involved in the following spheres of life:

1. Sport and education
  - Promotion of initiatives for the advancement of science and education,
  - Supporting the development of physical culture and sports education.
2. Culture
  - Sponsorship of local and regional events.
3. Charitable activities
  - Supporting organizations that help people in need,
  - Equipping hospitals with masks and protective suits.

## V. Description of the main features of internal control and risk management systems applied with respect to the process of preparation of financial statements and consolidated financial statements

The effectiveness of the internal control and risk management system in the process of consolidated financial statements is ensured by the development, implementation and supervision of the application of consistent accounting principles in the PEPEES Group companies. Group companies provide the required data in the form of reporting packages to prepare the Group's consolidated financial statements. The scope of disclosure within the Group is defined and follows the disclosure obligations set out by IAS/IFRS. Changes in accounting standards are monitored on an ongoing basis to determine the need to update the scope of reporting. All financial statements are audited by the Management Board of the Holding Entity, PEPEES. The Group companies submit their financial statements to semi-annual reviews and annual audits by an independent auditor. The consolidated financial statements are also audited. Until the publication of the financial statements and the consolidated financial statements, data shall be disclosed only to persons involved in the process of their preparation, verification and approval, while ensuring the confidentiality of data.

## VI. Shareholders with direct or indirect significant shareholdings

To the best of our knowledge, as at 31 December 2020 and as at the date of preparation of this report, the shareholder structure was as follows

SHAREHOLDING	Number of shares	Share in capital %	Number of votes	Share in total number of votes at the General Meeting %
<u>Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych*</u>	27 759 032	29.22%	6356799	6.69%
<u>Michał Skotnicki**</u>	21 399 174	22.53%	21 399 174	22.53%
<u>Maksymilian Maciej Skotnicki**</u>	20 703 282	21.79%	20 703 282	21.79%
<u>Newth Jonathan Reginald</u>	7 995 200	8.42%	7 995 200	8.42%
<u>Richie Holding Ltd.</u>	6 133 100	6.46%	6 133 100	6.46%
<u>Other</u>	11 010 212	11.59%	11 010 212	11.59%

\*Due to the failure to comply with the notification obligations about purchase of significant amounts of shares pursuant to the Public Offering and Public Companies Act of 29 July 2005, EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, which has - according to the information held by the Company - 27 759 032 shares of the Company, has lost and cannot exercise voting rights on 21 402 233 shares. The Management Board filed a lawsuit for determination to District Court in Białystok. Epsilon FIZ AN believes that they can exercise voting rights on 27,759,032 shares which is 29.22% of total votes at the General Meeting. The case was joined by the Chairman of Financial Supervision Commissions (KNF), who presented his standpoint on the issue on 24 July 2019. The Management Board awaits the valid decision of the court of law. The Company informed about the issue in interim reports Nos 13/2019, 14- 23/2019 and 30/2019.

\*\*Mr Maksymilian Maciej Skotnicki and Michał Skotnicki are persons referred to in article 87 sec. 4 point 1 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005, and therefore the accumulative ownership of the above mentioned persons comprises 42 102 456 shares/votes, which accounts for 44.32% share in the share capital/total number of votes in the Company.

## VII. Holders of any securities conferring special rights

The Company has not issued securities conferring special rights.

### ym. Restrictions on the exercise of voting rights

The Company's Articles of Association do not provide for any such restrictions. The prohibition on the exercise of voting rights by a shareholder may result from Article 89 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005 (hereinafter the "Act on the Offering"), if this shareholder violates certain provisions included in Chapter 4 of the Act on the Offering. In turn, pursuant to article 6 § 1 of the CCC, if the holding company fails to notify a subsidiary capital

company of the establishment of a dominant relation within two weeks from the date of such establishment, the exercising of voting rights from the shares of the holding company representing more than 33% of the share capital of the subsidiary shall be suspended.

The Company's shareholder, EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych with the registered office in Warsaw, due to the failure to comply with the notification obligations about purchase of significant amounts of shares pursuant to art. 89 of the Act on the Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies has lost and cannot exercise voting rights from 21,402,233 shares. The Management Board filed a lawsuit for determination to District Court in Białystok. Epsilon FIZ AN believes that they can exercise voting rights on 27.714.832 shares which is 29.17% of total votes at the General Meeting. The case was joined by the Chairman of Financial Supervision Commissions (KNF), who presented his standpoint on the issue on 24 July 2019. The Management Board awaits the valid decision of the court of law. The Company informed about the issue in interim reports Nos 13/2019, 14- 23/2019 and 30/2019.

## **IX. Restrictions on transfer of securities ownership rights**

The Company's Articles of Association do not provide for any such restrictions. They result from the provisions of law, including Chapter 4 of the Polish Act on Offering mentioned above, Articles 11 and 19 and Section VI of the Act on Trading in Financial Instruments of 29 July 2005, the Act on Competition and Consumer Protection of 16 February 2007 and Council Regulation (EC) No. 139/2004 of 20 January 2004 on the control of concentrations between undertakings.

## **X. Rules of appointment and dismissal of managers and their powers**

1. The Management Board consists of one to five persons. The term of office of the Board shall be three years, except for the term of office of the first Board, which shall be two years. The Supervisory Board appoints the President of the Management Board, and at the request of the President of the Management Board, it appoints other members of the Management Board. The Supervisory Board shall determine the number of members of the Management Board. The Supervisory Board may dismiss the President of the Management Board, a member of the Management Board or all members of the Management Board before expiry of the Management Board's term of office. The Management Board shall exercise all powers in the management of the Company, except for the powers reserved by law or the Company's Articles of Association to the other governing bodies of the Company.
2. The manner of operation of the Management Board, as well as the matters that may be entrusted to individual members, shall be specified in detail in the Regulations of the Management Board. The Regulations of the Management Board shall be adopted by the Company's Management Board and approved by the Supervisory Board.
3. The following persons are authorized to make representations and sign on behalf of the Company: (i) in the case of a Management Board consisting of one member - the President of the Management Board, (ii) in the case of a Management Board consisting of more members - two members of the Management Board acting jointly or one member of the Management Board acting jointly with a proxy.
4. The Supervisory Board executes agreements with the members of the Management Board on behalf of the Company and represents the Company in disputes with the members of the Management Board. The Supervisory Board may authorize, by way of a resolution, one or more of its members to perform such legal actions.
5. The Company's employees report to the Management Board. The Management Board shall conclude and terminate employment contracts with them and determine their remuneration.
6. The decision to issue or redeem shares is taken by the General Meeting by way of resolution.

## **XI. Rules for amending the Company's Articles of Association**

The Company's Articles of Association are amended with a resolution of the General Meeting of Shareholders. Such resolutions shall be passed by a majority of three-quarters. Resolutions on amendments to the Company's Articles of Association increasing benefits to shareholders or limiting the rights granted personally to particular

shareholders shall require the consent of all the shareholders concerned.

## **XII. Manner of operation of the General Meeting and its powers**

The basic principles of the General Meeting are as follows:

1. The Ordinary General Meeting shall be convened by the Management Board no later than in June each year.
1. The agenda of the General Meeting shall be determined by the Management Board in agreement with the Supervisory Board.
2. The Supervisory Board and shareholders representing at least 5% of the share capital may request to include particular issues in the agenda of the General Meeting.
3. General Meetings shall be held at the location of the Company's registered office.
4. The General Meeting may adopt resolutions irrespective of the number of shareholders present or shares represented.
5. Resolutions at the General Meeting shall be adopted by voting.
6. Resolutions of the General Meeting shall be adopted by a simple majority of votes cast, unless the Articles of Association or the Act provide otherwise.
7. Resolutions of the General Meeting are adopted by a majority of 3/4 of votes cast on the following matters:
  - a) amendments to the Articles of Association, including the issue of new shares,
  - b) issue of bonds,
  - c) disposal of the Company's enterprise,
  - d) merger of the Company with another company,
  - e) dissolution of the Company.
8. Voting at the General Meeting shall be open. Secret ballot shall be ordered in the case of elections and motions for dismissal of members of the Company's authorities or liquidators, or for holding them liable, as well as in personal matters. Resolutions on change of the subject matter of the Company's enterprise shall be adopted in an open voting by roll-call.
9. Shareholders entitled to participate in the General Meeting are the shareholders indicated in the list of shareholders prepared by the Management Board in accordance with the principles of applicable law, in particular in accordance with Articles 406 § 2 and 406 1 - 406 3 of the Commercial Companies Code.
10. The following persons may also be present at the General Meeting: each member of the Management Board, each member of the Supervisory Board, a notary public and the notary's auxiliary staff, an auditor, members of the General Meeting's organisational and technical support staff authorised by the Management Board, other persons indicated by the body convening the General Meeting. Persons other than those mentioned above may be present only with the consent of the Chairperson of the Meeting, who shall have the right to order any of such persons to leave the room of the General Meeting at any time, without giving reasons.
11. The General Meeting is opened by the Chairman of the Supervisory Board or his deputy, and in their absence by the President of the Management Board or another person appointed by the Management Board. Person opening the General Meeting

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shall order presentation of the candidates for the Chairman of the Meeting and after their collection shall order the election of the Chairman of the Meeting.

12. The Chairperson of the Meeting shall present the agenda to the shareholders in the form formulated by the Management Board in the notice on convening of the General Meeting and in the absence of such drafts, he shall himself formulate and present draft resolutions. A draft resolution on an issue included in the agenda may be proposed by any shareholder.

The Company's shareholders do not have any special rights apart from those arising from generally applicable laws, including the Commercial Companies Code.

### **XIII. Composition and description of operation of management and supervisory bodies**

1. Composition of the Management Board of "PEPEES" S.A. as at 31 December 2020

Wojciech Faszczewski	President of Management Board
Tomasz Krzysztof Rogala	Member of the Management Board

The rules of operation and the powers of the Management Board are regulated by the Company's Articles of Association and the Regulations of the Management Board.

The basic rules of operation of the Management Board are described in section X above.

Composition of the Supervisory Board of "PEPEES" S.A. as at 31 December 2020	
Maciej Kaliński Tomasz	Chairman of the Supervisory Board
Nowakowski Robert	Vice-Chairman of the Supervisory Board
Malinowski Krzysztof	Chairman of the Supervisory Board
Stankowski Piotr	Secretary of the Supervisory Board
Marian Taracha Agata	Member of the Supervisory Board
Czerniakowska	Member of the Supervisory Board
	Member of the Supervisory Board

The basic rules of operation of the Supervisory Board are regulated by the Company's Articles of Association and the Regulations of the Supervisory Board. According to these regulations, the Supervisory Board consists of five to nine members. The term of office of the Supervisory Board is three years. The Supervisory Board shall elect the Chairman and one or two Deputy Chairmen and a Secretary from among its members. The Chairman of the Supervisory Board shall convene and chair Board meetings. The Chairman of the leaving Supervisory Board shall convene and open the first meeting of the newly elected Supervisory Board and chair it until a new Chairman is elected. The Supervisory Board shall hold meetings at least quarterly. The Chairman of the Supervisory Board or one of the deputies is obliged to convene a meeting at the written request of at least two members of the Supervisory Board. The meeting shall be convened within one week of the date of the request, for a date not later than two weeks from the date of its convening. In order for resolutions of the Supervisory Board to be valid, all its members must be invited to the meeting. The Supervisory Board adopts resolutions by an absolute majority of votes present at the meeting, with at least half of its members present. Resolutions of the Supervisory Board may also be adopted without a meeting by way of written voting, provided that all members of the Supervisory Board consent in writing to the adoption of resolutions in such a manner. The Supervisory Board shall adopt its Regulation specifying the detailed procedure for

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operation of the Supervisory Board. The Supervisory Board may delegate its members to individual the performance of particular supervisory activities. Remuneration of the members of the Supervisory Board shall be determined by the General Meeting.

Pursuant to the Company's Articles of Association, in addition to the matters specified in the Act, the guilty provisions

In accordance with the Articles of Association or resolutions of the General Meeting of Shareholders, the Supervisory Board's responsibilities include

- 1) examination of the annual balance sheet as well as the profit and loss account and ensuring that they are reviewed by auditors of their choice,
- 2) examination and giving an opinion on the Management Board's report,
- 3) examination annually and approval of the Company's business, financial and marketing plans and requesting detailed reports from the Management Board on the implementation of these plans,
- 4) submitting a written report to the General Meeting on the results of the activities referred to in items 1 - 3. 1 - 3,
- 5) preparing reviews on proposals of the Company's Management Board concerning distribution of profit, including amounts allocated for dividend, dates of dividend payment or rules of covering losses,
- 6) approval of transactions involving the sale or purchase of shares or other property, or taking out a cash loan, if the value of the transaction exceeds 15% of the Company's net assets, according to the last balance sheet,
- 7) appointment, suspension and dismissal of Management Board members,
- 8) delegating members of the Supervisory Board to perform the duties of the Management Board in the event of suspension or dismissal of the entire Management Board or when the Management Board is prevented from acting for other reasons,
- 9) approval of the regulations adopted by the Management Board on the distribution of shares among eligible employees.

In the reporting period , the Audit Committee functioned within the Issuer's Supervisory Board , consisting of the following members

Maciej Kaliński Piotr	Chairman of the Audit Committee Vice-
Marian Taracha	Chairman of the Audit Committee Member
Krzysztof Stankowski	of the Audit Committee Member of the
Robert Malinowski	Audit Committee

Tomasz Nowakowski On 14 April 2020 the Supervisory Board appointed two additional members to the Audit Committee, namely Robert

Malinowski and Tomasz Nowakowski.

The statutory criteria for independence are met by all the above persons who are members of the Audit Committee.

Mr Piotr Marian Taracha has knowledge and skills in accounting - he completed postgraduate studies for finance directors with a specialisation in corporate finance management and numerous courses in finance and accounting.

Mr Krzysztof Stankowski has knowledge of the industry in which the Issuer operates -he graduated from a secondary agricultural school and holds supervisory positions in companies involved in potato processing.

PEPEES and its subsidiaries entered into the agreement for a period of review and audit of its financial statement (including consolidation packages) for years 2020-2022 with WBS Audyt Sp. z o.o. with registered office in Warsaw.

with registered office in Warsaw. The agreement was concluded on 3 July 2020. The audit firm was selected by the Company's Supervisory Board.

The Issuer has not used any other services of the selected audit firm.

Pursuant to the Act on Statutory Auditors, Audit Firms and Public Supervision (Journal of Laws 2019, item 1421) and the Regulation of the European Parliament No. 537/2014 on detailed requirements for statutory audits of public interest entities ("Regulation No. 537/2014"), the Audit Committee has adopted and applies the "Policy and Procedure for the Selection of the Entity Authorized to Perform the Statutory Audit of Financial Statements" and the "Policy for the Provision of Permitted Non-Audit Services by the Audit Firm Performing the Audit , by Affiliates of the Audit Firm and by a Member of the Audit Firm's Chain".

In accordance with the aforementioned policies, the selection of the entity authorized to conduct audits is made by the Supervisory Board acting on the recommendation of the Audit Committee. This policy defines the periods of cooperation with audit firms, the criteria for selecting an auditor such as past experience, reputation and qualifications and experience of the persons delegated to perform financial audit activities by the audit firm, knowledge of the industry where the Company operates, the pricing conditions or the proposed work schedule, and assumes that the selection of the audit firm should be made in an independent manner, free from any pressure or suggestions from third parties as to the selection, and that any limitations related to the selection result from generally applicable legal regulations .

The audit firm's permitted services policy primarily provides that any services provided by the audit firm or its affiliates require prior risk and independence assessments by the Audit Committee, and seeks to reduce the potential for conflicts of interest when the audit firm is contracted to provide permitted non-audit services by defining prohibited services and permitted services. Examples of permitted services include conducting due diligence procedures on the economic and financial condition, assurance services on pro forma financial information, forecasts of results or estimated results to be included in the prospectus of the audited entity, auditing historical financial information to the prospectus, verification of consolidation packages. Prohibited services, in turn, are in particular tax services related to: preparation of tax forms, payroll taxes, customs duties, bookkeeping and preparation of accounting documentation and financial statements, development and implementation of internal control procedures or risk management procedures related to the preparation or control of financial information (development and implementation of technological systems related to financial information, or services related to the internal audit function. Permitted services may be provided only to the extent not related to the Company's tax policy, after the Audit Committee has assessed the threats and safeguards to the independence of the audit firm, the key statutory auditor and other members of the audit team.

The recommendation regarding the selection of the audit firm to carry out the audit met the applicable conditions and was carried out after a selection procedure organized by the Issuer and meeting the applicable criteria.

Two Audit Committee meetings were held between 1 January 2020 and 31 December 2020.

The Committee's main tasks include:

- Discussing the audit process with the Auditor.
- Examination of the Company's documents.
- Submitting an annual report on its activities to the Supervisory Board.
- Monitoring the financial reporting process.
- Monitoring the performance of auditing activities, in particular the audit of the Company's financial statements by the auditing firm, including any conclusions and findings of the Audit Supervision Committee arising from the audit conducted at the audit firm .
- Controlling and monitoring the independence of the auditor or audit firm providing services to the Company.
- Informing the Supervisory Board of the results of the audit of the Company's financial statements and explaining how the audit contributed to the integrity of the Company's financial reporting and the Committee's role in the audit process.
- Assessing the auditor's independence and consenting to the auditor providing services to the Company.
- Developing the policy for selecting an audit firm to audit the Company's financial statements .

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- Developing the policy on the provision of permitted non-audit services by the audit firm, by affiliates of the audit firm and by a member of the audit firm's chain.
- Specifying the procedure for the selection of an audit firm by the Company.
- Making recommendations to ensure the integrity of the Company's financial reporting process.

The manner of operation of the Audit Committee:

- The Audit Committee meets as required, at least twice a year.
- Meetings of the Committee are convened by its Chairman on his own initiative or at the request of a member of the Audit Committee, as well as at the request of the Management Board, internal or external auditor. A meeting of the Audit Committee may also be convened by the Chairman of the Supervisory Board.
- The agenda of a meeting of the Audit Committee shall be determined by the person convening the meeting; however, it may be amended during the meeting.
- The Chairman of the Audit Committee may invite persons from outside the Audit Committee to a meeting.
- Minutes are taken on the meetings of the Audit Committee. The minutes shall be signed by the Chairman of the Audit Committee.
- The Audit Committee shall adopt resolutions provided that at least half of its members are present at the meeting.
- The Audit Committee may adopt resolutions in writing, provided that all members of the Audit Committee have been notified of the contents of draft resolutions.
- Resolutions of the Audit Committee shall be adopted by a simple majority of votes cast.
- The organizational and technical support for the Audit Committee shall be provided by the Company.

Apart from the Audit Committee, there are no other committees within the Company's Supervisory Board.

## **XIV. Diversity policy**

The Company has not developed and does not implement a diversity policy. When selecting persons for the position of members of the Management Board and the Supervisory Board, the Company invariably follows the highest standards and in this respect does not differentiate between candidates on the basis of their gender or other non-substantive features. The basic criterion for selection of the Company's authorities is high competence, skills and professionalism of the candidates.

## **VI STATEMENT OF THE MANAGEMENT BOARD**

The Management Board of Przedsiębiorstwo Przemysłu Spożywczego PEPEES Spółka Akcyjna in Łomża declares that to their best knowledge :

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- The annual separate and consolidated financial statements and comparative data were prepared in compliance with applicable accounting principles, and they reflect truly, reliably and clearly the economic and financial situation of the Issuer and PEPEES Capital Group and the financial result of the Capital Group,
- the report of the Management Board on activities of the Capital Group for 12 months ended on 31 December 2020 presents the true picture of development and achievements and the situation of PEPEES Capital Group, including description of the main risks and threats.

**REPRESENTATIVES OF  
Przedsiębiorstwo Przemysłu Spożywczego PEPEES Spółka Akcyjna with seat in Łomża**

**President of Management Board - Wojciech Faszczewski**

**Member of Management Board - Tomasz Krzysztof Rogala**