

Report of the Supervisory Board of Przedsiębiorstwo Przemysłu Spożywczego PEPEES

On operations in the financial period from 1 January 2021 to 31 December 2021



**REPORT ON THE OPERATIONS OF THE SUPERVISORY BOARD OF PRZEDSIĘBIORSTWO
PRZEMYSŁU SPOŻYWCZEGO PEPEES IN ŁOMŻA**

in the financial period from 1 January 2021 to 31 December 2021

The report includes:

- I. Legal basis for the operations of the Supervisory Board of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A.;**
- II. Composition of the Supervisory Board of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A., division of functions and changes in the composition of the Board in the financial year of 2021;**
- III. Topics of the meetings of the Supervisory Board of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A., the form and mode of supervision, information on the number and frequency of Board meetings and number of resolutions adopted;**
- IV. Evaluation of the Company's standing, including the assessment of the internal control systems, risk management, compliance and internal audit function;**
- V. Assessment of the Company's compliance with its disclosure obligations as regards the application of corporate governance principles;**
- VI. Assessment of the reasonableness of the Company's charitable activities;**
- VII. Evaluation of the implementation of the diversity policy;**
- VIII. Cooperation of the Supervisory Board of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. with the Company's Management Board;**
- IX. Self-assessment of the Supervisory Board of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A.**

I. Legal basis for the operations of the Supervisory Board of Przedsiębiorstwa Przemysłu Spożywczego PEPEES S.A.

The Supervisory Board of Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. (the "Company") is the permanent supervisory authority for all the areas of the Company's operations. It acts based on generally applicable legal regulations, exercises constant supervision over the company's activities and performs its tasks based on specific rights granted to the Supervisory Board by the Company's Articles of Association and the Regulations of the Company's Supervisory Board, taking into account the Good Practices of Companies Listed on the Stock Exchange (DSPN2021). The Supervisory Board Members were appointed at the Extraordinary General Meeting of the Company Shareholders for the joint 10th term in office, commencing on the date of appointment and covering three consecutive financial years in their entirety (Repertory A 12992/2018). The current 10th term in office began on 18 December 2018 and expires on the date of the Annual General Meeting approving the financial statements for 2021. The Supervisory Board performed its duties at the Board meetings and adopted resolutions in voting by means of direct remote communication using Skype pursuant to 10.9 of the Supervisory Board Regulations due to the coronavirus pandemic COVID-19.

II. Composition of the Supervisory Board of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A., division of functions and changes in the composition of the Board in the financial year of 2021;

In 2021, there were no changes in the composition of the Supervisory Board of Przedsiębiorstwo

Przemysłu Spożywczego PEPEES SA.; until the date of preparing the report, the composition of the Supervisory Board remained unchanged:

COMPOSITION OF THE SUPERVISORY BOARD AS OF 31/12/2021 AND ON THE DATE OF PREPARING THE REPORT

Maciej Jacek Kaliński *	Chairperson of the Supervisory Board
Tomasz Nowakowski*	Deputy Chairperson of the Supervisory Board

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Piotr Taracha*	Member of the Supervisory Board
Krzysztof Stankowski*	Member of the Supervisory Board
Agata Czerniakowska	Member of the Supervisory Board

**Member of the Supervisory Board meeting the statutory independence criteria*

The diverse composition of the Supervisory Board, which includes individuals with both business experience and expertise backed by many years of professional practice, ensures that supervisory duties are carried out appropriately and effectively and that the tasks assigned to them are duly performed. The professional CVs of the Board Members are posted on the Pepees website (tab *About Company – Company Authorities*).

Information on the Board Members of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. meeting the independence criteria

In accordance with the Best Practices for WSE Listed Companies, the required number of the Board Members meets the independence criteria. According to the statements made by the Supervisory Board Members, 5 (five) of the 6 (six) Members of the Supervisory Board meet the independence criteria set out in the Articles of Association. These are: Chairman of the Supervisory Board – Mr Maciej Kaliński, Deputy Chairman of the Supervisory Board – Mr Tomasz Nowakowski, Secretary of the Supervisory Board – Mr Robert Malinowski and Members of the Supervisory Board – Mr Piotr Taracha and Mr Krzysztof Stankowski. Independence was lost by Mrs Agata Czerniakowska due to her association with a person belonging to the Company's management body.

Audit Committee of the Supervisory Board of Przedsiębiorstwo Przemysłu Spożywczego PEPEES Spółka Akcyjna

In the reporting period, the operations of the Supervisory Board was supported by the Audit Committee elected from among the Supervisory Board Members, whose tasks included supporting the Supervisory Board in carrying out its statutory control and supervisory duties related to the process of preparing financial statements of the Company and of the PEPEES S.A. Capital Group, in close cooperation with WBS Audyt Sp. z o.o., which is the auditor in this respect.

The Supervisory Board Committee is an advisory and opinion-forming body acting collectively and performing support and advisory functions for the Supervisory Board. The tasks of the Audit Committee of the Supervisory Board are carried out by presenting conclusions, recommendations, opinions to the Supervisory Board. Powers, scope of action and working procedures are defined by the Supervisory Board Regulations of the Audit Committee.

The composition of the Committee remained unchanged and operated as follows throughout 2021:

**COMPOSITION OF THE SUPERVISORY BOARD COMMITTEE AS OF 31/12/2021
AND ON THE DATE OF THE REPORT**

Maciej Jacek Kaliński*	Chairperson of the Audit Committee
Krzysztof Stankowski *	Deputy Chairperson of the Audit Committee
Piotr Taracha*	Member of the Audit
Robert Malinowski*	Committee Member of the
Tomasz Nowakowski*	Audit Committee Member

*Member of the Audit Committee meeting the statutory independence criteria

Detailed activities of the Audit Committee of the Supervisory Board of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. are presented in the report on the operations of the Audit Committee, attached hereto.

III. Topics of meetings of the Supervisory Board of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A., the form and mode of supervision, information on the number and frequency of Supervisory Board meetings and number of resolutions adopted;

Within the framework of its supervisory function, the Board dealt with the fulfilment of its statutory duties during the reporting period and, above all else, exercised constant supervision over the Company's operations in all areas of its business and provided the Management Board with advice and consultation in making decisions important for the Company, which was facilitated by the use of knowledge and professional experience of the

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Board Members. The Supervisory Board carried out its tasks based on the specific powers granted under the Company's Articles of Association and the Supervisory Board Regulations, and also the principles of corporate governance set out in the Good Practices of Listed Companies (DSPN2021). Within the scope of its activities, the Supervisory Board actively supported the Company's Management Board in achieving the Company's strategic objectives set for 2021. It considered the Management Board's requests on matters requiring the approval of the Supervisory Board, as well as matters related to the Company's day-to-day operations, and familiarised itself with other matters presented by the Management Board. The current state of affairs of the Company and the Group was discussed at nearly all the meetings of the Supervisory Board in 2021 as separate items included in the agenda. The Supervisory Board received comprehensive information from the Management Board on the current state of affairs of the Company and the Group.

Additionally, due to the expiry of the term in office of the Management Board of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. on 26 March 2021, the Supervisory Board appointed Mr Wojciech Faszczewski as the President of the Management Board of PPS PEPEES S.A. and Mr Tomasz Rogala as a Member of the Management Board of PPS PEPEES S.A. for another term in office.

Another topic of the Supervisory Board's deliberations was undoubtedly the unusual event of selling a subsidiary to Orlen Południe S.A. on 18/03/2021. In the Supervisory Board's opinion, it was a difficult and long-term process for the Management Board, but at the same time it proved extremely beneficial for the Company due to the option to optimise the operations of the PEPEES Group, simultaneously ensuring the long-term receipt of pulp by a stable business partner. The work of the Supervisory Board proceeded smoothly, with the participation of all its members. The quorum was maintained at each meeting and the Supervisory Board was, therefore, able to adopt resolutions on the matters included in the agenda. In addition to the Board Members, the meetings were regularly attended by the Management Board Members and, depending on the issue at hand, by persons invited by the Chairperson of the Supervisory Board. In the reporting period, the Supervisory Board held 7 minuted meetings at which it adopted the total of 21 resolutions (byway of circular voting the Board adopted one resolution). The detailed description of the activities

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undertaken by the Supervisory Board in 2021 can be found in the minutes of the Board meetings, which, together with the resolutions adopted, are kept in the Company's registered office. The list of resolutions adopted by the Supervisory Board in 2021 is attached as Annex 1 hereto.

The detailed scope of topics discussed by the Supervisory Board in 2021 is set out below:

- assessment of transactions with related parties for the period from 01/01/2020 - 31/12/2020;
- assessment of transactions with related parties for the period from 30/11/2019 - 31/12/2020;
- approval of the Company's budget for 2021;
- approval of the report on the implementation of the Company's Investment Plan in 2020;
- approval of the Company's Investment Plan for 2021;
- appointment of the Company's Management Board President for a further term of three years;
- appointment of the Company's Management Board Member for a further term of three years;
- discussion of the sale of shares in CHP Energia Sp. z o.o.;
- discussion on the current standing of the Company in the market environment;
- adoption of the statement on the selection of the auditing firm;
- adoption of the statements on the operations of the Audit Committee;
- assessment of the report on the Company's operations and separate financial statements of the Company for the financial year of 2020;
- assessment of the report on the operations of the issuer's capital group in the financial

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year of 2020 and the Capital Group's consolidated financial statements for 2020;

- opinion on the recommendation of the Company's Management Board as regards the allocation of net profit for the financial year of 2020;
- adoption of the Audit Committee's report on its operations in 2020;
- adoption of the report on the operations of the Supervisory Board in the financial period from 01/01/2020 to 31/12/2020;
- adoption of the remuneration report drawn up in accordance with the applicable remuneration policy;
- acknowledgement of the fulfilment of duties of the Company's Management Board President for the financial year of 2020;
- acknowledgement of the fulfilment of duties of the Company's Management Board Member for the financial year of 2020;
- approval of the draft agenda of the Company's Annual General Meeting;
- adoption of an amendment to the "Periodic assessment procedure for related party transactions" binding on the Company's Supervisory Board;
- authorising the commencement of share buybacks and setting the share purchase price;
- consent to the early payment of the first part of the (sales) bonus to the Management Board of PPS PEPEES S.A.

IV. Evaluation of the Company's standing, including the assessment of the internal control systems, risk management, compliance and internal audit function;

1. Assessment of the Company's standing

In the Supervisory Board's opinion, 2021 was a difficult year for the Company due to unfavourable circumstances related to the SARS-CoV-2 virus pandemic, the effects of which have been felt at every level of the economy. In 2021, PEPEES generated revenues from

sales in the amount of PLN 163,943 thousand in relation to the same period last year PLN 155,182 thousand, an increase of 5.6%. On the other hand, cost of sales increased by 9.5% year-on-year, which reduced gross profit on sales by 6.7% compared to the same period of the previous year.

The lower margin on products sold was achieved as a result of falling prices in both domestic and foreign markets. Sales and marketing costs for the period of 2021 increased by 35.7% compared to the comparative period, which was mainly affected by higher transport costs, while general and administrative expenses were at a similar level. The balance of other operating activities in the twelve months of 2021 closed at a positive level of PLN 1,646 thousand due to the received subsidies to salaries from the anti-crisis shield. In the comparative period, the balance was positive at PLN 1,974 thousand. In turn, the result on financial activities, construed as the balance of financial income less financial expenses, was minus PLN 1,363, and the balance was positive at PLN 1,129 thousand in 2021 and minus 482 in the comparative period in the comparative period. This result was mainly affected by interest on loans and lease payments. In consequence of the foregoing, the Company incurred a pre-tax loss in 2021 at 1,664 thousand. PLN 7,547 thousand gross profit generated in the comparative period, and net loss for the period of 2021 amounted to PLN 2,343 thousand with PLN 5,530 thousand of net profit in the same period of 2020.

Having reviewed the financial statements, the Company's results and future development plans, despite the fact that the Company closed the past year with a loss, the Supervisory Board positively assesses the Company's standing in 2021 as regards the stabilisation of the market position, tasks performed and development prospects. The result is considered satisfactory against the high bar set in previous years. In the Supervisory Board's opinion, the Company's standing is stable, although the pandemic did affect the Company's negative result. The Supervisory Board does not perceive any threats to the going concern of the Company attributable to the Company. The Board believes that despite the difficulties in the economic environment, the Company successfully performs the tasks undertaken and the

continuation of as a going concern in the future financial periods is not at risk.

In its report, the Supervisory Board deviates from the detailed assessment of the situation in the context of COVID-19 pandemic, considering that it was fairly and clearly presented in the Management Report on the Company's operations for 2021. It also refrained from detailing the Company's economic and financial results, as they were comprehensively presented in the Company's financial statements.

2. Evaluation of the internal control system, the system for management of risks significant for the company

The Company maintains the effective systems of internal control, risk management and supervision compliance, as well as an effective internal audit function. Due to the type and size of the Company's operations, the separation of organisational entities liable for internal control, risk management, supervising the compliance, or internal audit function was not reasonable. The implementation of tasks in the aforementioned area is of a dispersed (non-centralised) nature, primarily based on the division of competencies in key decision-making by adapting to the Company's organisational structure. The Company's Management Board is liable for all of the aforementioned systems. The Supervisory Board, including the Audit Committee, monitors the effectiveness of the aforementioned systems and functions and finds that they are effective and appropriate to the size of the Company and the nature of its business operations.

Furthermore, as regards the correctness of financial reporting, the independent chartered auditors, selected by the Supervisory Board upon the recommendation of the Audit Committee, verify, review and audit the separate and consolidated financial statements, and in this respect do not raise any reservations as to the completeness, correctness and reliability thereof. The Supervisory Board positively assesses the Company's internal control systems, risk management, compliance and internal audit function, although these systems are not formalised and separated due to the size of the Company.

V. Assessment of the Company's compliance with its disclosure obligations as regards the application of corporate governance principles

In the Supervisory Board's opinion, the Company has sought to implement the recommendations and principles adopted in the Good Practices of Listed Companies (DSPN2016). As of 1 July 2021, the third version of the set of corporate governance principles – Good Practices of Companies Listed on the WSE 2021 (DPSN2021) – is in force. The new corporate governance rules were introduced by way of Resolution No. 13/1834/2021 of the Stock Exchange Board of 29 March 2021.

The Company submitted a report on the status of application of the principles set out in the Good Practices and published, as required, information on the status of application of the Good Practices of Listed Companies (DPSN2021) by PEPEES S.A. on its website. As part of the aforementioned publication, comprehensive explanations are provided as to indicate the reasons and circumstances for the non-application of parts of the rules.

In the Supervisory Board's opinion, the Company has a transparent and effective information policy, ensuring easy access to disclosed information, using a variety of communication tools. The Company runs a website and publishes on it, in a clear and distinct manner, the basic documents, including the Company's Articles of Association, the Regulations of the Supervisory Board and the Management Board, and information on the composition of the Company's governing bodies. Taking into account the above actions, the Supervisory Board positively assesses the manner in which the Company fulfils its information obligations concerning the application of the principles of corporate governance, as defined in the Stock Exchange Rules and the regulations on current and periodic information provided by issuers of securities.

VI. Assessment of the reasonableness of the Company's charitable activities;

The Company does not have a formalised policy on its sponsorship, charitable or similar activities. The Supervisory Board positively evaluates the Company's sponsorship activities aimed at supporting young talents and local initiatives in the area of sports, culture and science. Actions taken by PEPEES S.A. in this respect serve to build a positive image of a

socially friendly company, involved in various local initiatives, often with a nationwide scope. For these purposes in 2021, the Company allocated the amount of PLN 89,291.24. The Supervisory Board assesses the Company's actions in this respect as reasonable and expedient.

VII. Evaluation of the implementation of the diversity policy;

The Company has not prepared and does not comply with a diversity policy. When electing persons for the functions of the Management Board and the Supervisory Board Members, the Company acts in compliance with the highest standards and, in this respect, it does not discriminate against candidates due to their gender or other features. The primary criterion of selection of the Company's governing bodies are high competences, skills and professional conduct of candidates. The Supervisory Board positively evaluates the activities and commitment of the Company's Management Board.

VIII. Cooperation of the Supervisory Board of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. with the Company's Management Board

The Supervisory Board positively evaluates the activities of the Management Board and the cooperation with the Company's Management Board. The documents for the Supervisory Board meetings were prepared by the Management Board in a reliable and comprehensive manner. The materials were distributed to the Supervisory Board Members on the following dates so that they could be read in advance of the meeting.

Within the scope of its activities, the Supervisory Board actively supported the Management Board in achieving the company's objectives for 2021, considered the Management Board's requests on matters requiring the Supervisory Board's approval in accordance with the Articles of Association, and familiarised itself with other matters presented by the Management Board. Additionally, the Supervisory Board provided the Management Board with advice, i.e. in the form of recommendations, which was facilitated by knowledge and professional experience of the Supervisory Board Members. The Management Board received decision-making support on multiple occasions for its actions from the Supervisory Board, as well as the required approvals and consents to carry out

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significant activities and enter into essential transactions pursuant to the Articles of Association. Considering that 2021 was dominated by uncertainty and unpredictability due to the prevailing coronavirus pandemic, the Board wishes to express its high appreciation for the actions taken by the Board to ensure the Company's further development, by thanking the Board for its proper approach to the situation at hand. In the Supervisory Board's opinion, the Management Board reliably discharged its duties in 2021; therefore, the Supervisory Board issues a positive opinion on the discharge of duties in 2021 to the Management Board Members.

IX. Self-assessment of the Supervisory Board of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A.

In the financial year covering the period from 1 January 2021 to 31 December 2021, the Supervisory Board Members of PEPEES SA did their utmost to duly perform their duties, taking into account their independent views on the work of the Management Board and the Company's operations. Thanks to the high competence and commitment of the Supervisory Board Members and its efficient organisation, the Supervisory Board effectively carried out its statutory tasks guided by the interests of the Company. The cooperation was based on trust and joint action for the benefit of the Company and all its shareholders. The Supervisory Board is of the opinion that it duly discharged its duties throughout 2021 in accordance with the formal and legal requirements, providing professional substantive support and adequate supervision of all aspects of the Company's operations. Its actions fully allow the continuous supervision of these operations.

The Supervisory Board requests the General Meeting to approve the report on the Supervisory Board's operations and to discharge all its members for the performance of their duties in the financial year of 2021.

The Supervisory Board of Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A.

1. Maciej Jacek Kaliński.....
2. Tomasz Nowakowski.....
3. Robert Malinowski

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4. Piotr Marian Taracha

5. Krzysztof Stankowski

6. Agata Czerniakowska