



**REPORT OF THE
MANAGEMENT BOARD
OF THE PEPEES CAPITAL
GROUP**

for H1 ended on 30 June 2022

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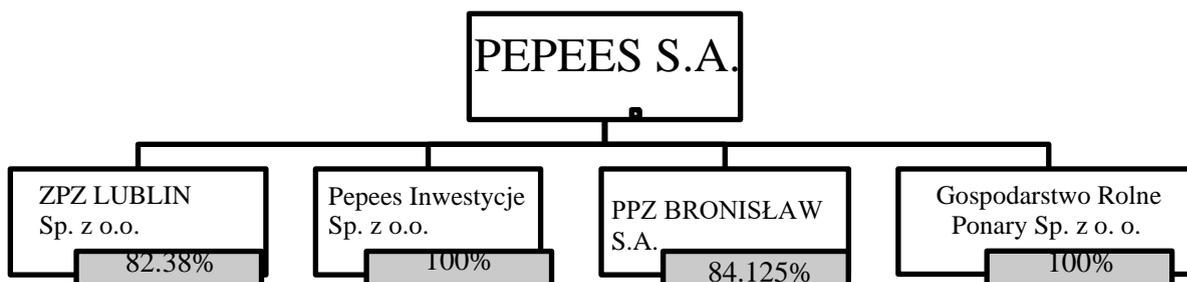
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I. CHARACTERISTICS OF THE PEPEES CAPITAL GROUP

1. Structure of the PEPEES Capital Group

Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" Spółka Akcyjna is the Parent Company of the PEPEES Capital Group. On 30 June 2022, the PEPEES Capital Group (hereinafter also referred to as the "Group") comprised the following subsidiaries:



In the interim consolidated report of the PEPEES Capital Group for H1 ended on 30 June 2022, the following related parties were subject to consolidation besides Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A.:

Name	Registered office	Objects of operations	Court Registration	Issuer's share in capital (%)	Share in the total number of votes (%)
ZPZ LUBLIN Sp. z o.o.	Lublin	Production and sales of syrup and dried potatoes, processing of fruit and vegetables	District Court in Lublin, 11th Commercial Division of the National Court Register	82.38	82.38
Pepees Inwestycje Sp. z o.o.	Łomża	Purchase and sales of real properties on own account	District Court in Białystok 12th Commercial Division of the National Court Register	100	100
PPZ BRONISŁAW S.A.	Bronisław	Production of starch and starch products	District Court in Bydgoszcz 13th Commercial Division of the National Court	84.125	84.125
Gospodarstwo Rolne Ponary Sp. z o. o.	Łomża	Agriculture combined with husbandry	District Court in Białystok 12th Commercial Division of the National Court Register	100	100

All subsidiaries were subject to consolidation based on the full method.

There were no changes in the structure of the Issuer's Capital Group throughout the reporting period.

1.1. Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. in Łomża – Parent Company

1.1.1. Basic information about the Parent Company

The Parent Company operates under the name: Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. (hereinafter referred to as the "Parent Company", "Issuer"). The Company's registered office is located in Łomża, at ul. Poznańska 121.

It conducts its business as a public limited company, established by a notarial deed on 21 June 1994 before

Paweł Błaszczyk, a notary in Warsaw (Repertory No. A 14126/94).

The Company was entered into the register of entrepreneurs maintained by the District Court in Białystok, 12th Commercial Division of the National Court Register in Białystok under KRS 000038455.

It has the following tax identification number NIP: 7181005512, as granted by the Tax Office in Łomża on 20 January 2000.

The Statistical Officer granted the Company the following statistical number (REGON) : 450096365.

The business operates under the provisions of the Code of Commercial Partnerships and Companies. It consists of one plant, without branches.

"PEPEES" S.A., with its registered office in Łomża, is one of the largest starch potato processing plants in Poland and the sole Polish manufacturer of crystalline glucose. Thanks to the integrated management system implemented in 2007 and certified ever since, the Company ensures high quality and full safety of manufactured goods for health. The Company's products are widely used in the food, pharmaceutical, animal feed, chemical, textile and paper industries.

Pursuant to the Articles of Association, the Company's objects of business comprise:

- ✓ potato processing,
- ✓ production of starch and starch products,
- ✓ service activities related to the processing and preservation of vegetables and fruit,
- ✓ production of fruit and vegetable juice.

During the reporting period, the Company performed activities within the scope of manufacturing starch and starch products.

The share capital of the Company as of 30 June 2022 and as of the date hereof amounted to EUR 5,700 thousand. It was divided into 95,000 thousand ordinary bearer shares with a nominal value of PLN 0.06 each.

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

SHAREHOLDING	Number of shares [pcs.]	Share in capital %	Number of votes	Share in the total number of shares at the Annual General Meeting %
Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	27,759,032	29.22%	6,356,799	6.69 %
Michał Skotnicki**	21,443,105	22.57%	21,443,105	22.57%
Maksymilian Maciej Skotnicki**	20,703,282	21.79%	20,703,282	21.79 %
Others	25,094,581	26.42%	25,094,581	26.42 %

**Due to the failure to fulfil the reporting obligation on the purchase of a significant package of shares, according to the Act of 29 July 2005 on public offer and the conditions of introduction of financial instruments to organised trading system and on public companies, EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, holding – pursuant to the information known to the Company – 27,759,032 shares of the Company, has lost and cannot exercise the rights to vote in relation to 21,402,233 shares. Therefore, the Company's Management Board filed an action to the Regional Court in Białystok to decide on the issue. Epsilon FIZ AN is of the contrary opinion, claiming that is entitled to vote in relation to 27,759,032 shares accounting for 29.22% of the total number of votes at the AGM. The Chairperson of the Polish Financial Supervision Authority joined the case; he presented his opinion on 24 July 2019. The Management Board is awaiting a valid and binding ruling of the court. The Company discussed the issue in current reports no. 13/2019, 14-23/2019 and 30/2019.*

*** Maksymilian Maciej Skotnicki and Michał Skotnicki are persons referred to in Article 87(4)(1) of the Act of 29 July 2005 on public offer and the conditions of introduction of financial instruments to organised trading system and on public companies; therefore, the total shareholding of the aforementioned individuals comprises 42,146,387 shares, which accounts for 44.36% share in share capital and 57.27% of the number of entitled votes in the Company (taking into account the loss of voting rights by EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych).*

1.1.2. Company's authorities

As of 30 June 2022 and at the date of publication of this interim consolidated report, the composition of the Management Board and Supervisory Board presented itself as follows:

The Management Board

Wojciech Faszczewski President of the Management Board

Tomasz Krzysztof Rogala Member of the Management Board

During the reporting period, there were no changes in the Company's Management Board.

The Supervisory Board

Maciej Kaliński Chairperson of the Supervisory Board

Tomasz Nowakowski Deputy Chairperson of the Supervisory Board

Robert Malinowski Secretary of the Supervisory Board

Agata Czerniakowska Member of the Supervisory Board

Jacek Okoński Member of the Supervisory Board

Kajetan Rościszewski Member of the Supervisory Board

On 14 April 2022, i.e. the Annual General Meeting appointed the Supervisory Board for a new term in office, which was constituted on 4 May 2022.

Until 14 April 2022 the composition of the Supervisory Board presented itself as follows:

Maciej Kaliński Chairperson of the Supervisory Board

Tomasz Nowakowski Deputy Chairperson of the Supervisory Board

Robert Malinowski Secretary of the Supervisory Board

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

The Supervisory Board has an Audit Committee whose composition as of 30 June 2022 and the publication date hereof presented itself as follows:

Audit Committee

Maciej Kaliński	Chairperson of the Audit Committee
Tomasz Nowakowski	Deputy Chairperson of the Audit Committee
Agata Czerniakowska	Member of the Supervisory Board
Robert Malinowski	Member of the Audit Committee
Kajetan Rościszewski	Member of the Audit Committee.

The Audit Committee, with its new composition, started to operate on 4 May 2022.

Until 14 April 2022, the Audit Committee operated in the following

composition: Maciej Kaliński	Chairperson of the Audit Committee
Krzysztof Stankowski	Deputy 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

1.2. Zakłady Przemysłu Ziemniaczanego "LUBLIN" Spółka z ograniczoną odpowiedzialnością, with its registered office in Lublin – subsidiary

1.2.1. Background Information on ZPZ LUBLIN Sp. z o.o.

The Company has its registered office in Lublin, at ul. Betonowa 9. The Company conducts its business as a private limited company and was established by a notarial deed drafted in the Notary Office of Antonina Renata Bednara in Lublin, at ul. Spokojna 8, Repertory A no. 6437/96 for indefinite duration. The Company was entered into the register of entrepreneurs maintained by the District Court in Lublin, 11th Economic Division of the National Court Register in Białystok under KRS: 0000050886.

The Company has the following tax identification number NIP: 9461580419.
The Company operates pursuant to the provisions of the Code of Commercial Partnerships and Companies.

The object of the company's activities mainly comprises the production and sales of starch syrup and dried potatoes.

As of 30 June 2022, the Company's share capital amounted to PLN 2,761,200, whereas the shareholders were:

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PEPEES S.A.	-	22,748 shares of the value	PLN 2,274,800, that	82.38%
The Company's	-	3,244 shares of the value	PLN 324,400, that	11.75%
Farmers	-	1,620 shares of the value	PLN 162,000, that	5.87%

1.2.2. The authorities of ZPZ LUBLIN Ltd. as of 30 June 2022

The Management Board

Piotr Kaniowski	President of the Management Board
Tomasz Rojecki	Member of the Management Board.

The Supervisory Board

Wojciech Faszczewski	Chairperson of the Supervisory Board
Piotr Marian Taracha	Deputy Chairperson of the Supervisory Board
Tomasz Nowakowski	Secretary of the Supervisory
Board Mariusz Świetlicki	Member of the Supervisory
Board Agata Czerniakowska	Member of the Supervisory
Board Robert Malinowski	Member of the Supervisory
Board.	

1.3. Pepees Inwestycje Spółka z ograniczoną odpowiedzialnością, with its registered office in Łomża – subsidiary

1.3.1. Background information on Pepees Inwestycje

The Company's registered office is located in Łomża, at ul. Poznańska 121. The Company was incorporated by a notarial deed (Repertory A12369/2010) on 18 October 2010 before notary Tomasz Poreda in Łomża.

The Company was entered into the register of entrepreneurs maintained by the District Court in Białystok 12th Commercial Division of the National Court Register in Białystok under KRS: 0000370060. The Company has the following tax identification number NIP: 7182123627 .

The Company operates pursuant to the provisions of the Code of Commercial Partnerships and Companies.

The object of the company's activities, according to the articles of association, involves the purchase and sale of real properties on own account.

As of 30 June 2022, the Company's share capital amounted to PLN 95,000 and was divided into 1,900 equal and indivisible shares, PLN 50 each.

1.3.2. Company authorities of Pepees Inwestycje as of 30 June 2022

The Management Board

Roman Adam Minierski	President of the Management Board.
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1.4. Przedsiębiorstwo Przemysłu Ziemniaczanego "BRONISŁAW" Spółka Akcyjna in Bronisław – subsidiary

1.4.1. Background information on Spółka PPZ BRONISŁAW S.A.

Przedsiębiorstwo Przemysłu Ziemniaczanego Bronisław S.A. has been operating since 23/11/2001. On 12/12/2017 (date of registration with the National Court Register), it was transformed from Przedsiębiorstwo Przemysłu Ziemniaczanego Spółka z ograniczoną odpowiedzialnością to Przedsiębiorstwo Przemysłu Ziemniaczanego Bronisław Spółka Akcyjna.

The Company's registered office is located at Bronisław 41, 88-320 Strzelno. The Company conducts its business as a public limited company and was established by a notarial deed on 31/07/2017, Repertory A no. 1989/2017 for indefinite duration. The Company was entered in the register of entrepreneurs maintained by the District Court in Bydgoszcz, 13th Commercial Division of the National Court Register in Bydgoszcz under KRS: 0000708945.

The Company has the following tax identification number NIP: 5571595182.

The Company operates pursuant to the provisions of the Code of Commercial Partnerships and Companies.

The Company's objects of activities involve:

- production of starch and starch products,
- processing and preservation of potatoes,
- service activities supporting the production of plants.

As of 31 June 2022, the Company's share capital amounted to PLN 800,000 and was divided into 800,000 shares, each of nominal value of PLN 1. These shares are not preferential.

"PEPEES" S.A. is the main shareholder, holding 84.125% of the capital. The other shareholders are natural persons.

1.4.2. Company authorities of PPZ BRONISŁAW S.A. as of 30 June 2022

The Management Board

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

The Supervisory Board

Tomasz Nowakowski	Chairperson of the Supervisory Board
Agata Czerniakowska	Deputy Chairperson of the Supervisory Board
Stanisław Bukowski	Secretary of the Supervisory Board
Grzegorz Dobrowolski	Member of the Supervisory Board
Robert Malinowski	Member of the Supervisory Board

1.5. Gospodarstwo Rolne Ponary Spółka z ograniczoną odpowiedzialnością, with its registered office in Łomża – subsidiary

1.5.1. Background information on Gospodarstwo Rolne Ponary Sp. z o.o.

The Company's registered office is located in Łomża, at ul. Poznańska 121. The Company conducts its business as a private limited company and was established under the articles of association of 10 November 2015 for indefinite duration. The Company was entered in the register of entrepreneurs maintained by the District Court in Białystok, 12th Economic Division of the National Court Register in Białystok under KRS: 0000585975.

The Company has the following tax identification number NIP: 1132898091 and operates pursuant to the provisions of the Code of Commercial Partnerships and Companies.

The objects of the Company's activities involve agricultural production combined with animal breeding.

As of 30 June 2022, the Company's share capital amounted to PLN 1,620,000 and was divided into 32,400 equal and indivisible shares, each of nominal value of PLN 500. "PEPEES" S.A. is the only shareholder of the company.

1.5.2. Authorities of Gospodarstwo Rolne Ponary Sp. z o.o. as of 30 June 2022

The Management Board

Tomasz Krzysztof Rogala President of the Management Board.

2. Activities of companies belonging to the PEPEES Capital Group

The PEPEES Capital Group is created by Companies specialising mainly in potato processing for the purpose of production of, for instance, potato starch, maltodextrin and potato flakes.

Each of the companies performs specific functions, which involve taking actions and carrying out operations, and contributes essentially to the creation of goodwill within the PEPEES Capital Group.

"PEPEES" S.A. serves the role of the Parent Company. The Management Board of "PEPEES" S.A. prepares the development strategy of the Group and makes key decisions on both the scope of activities and finances of entities constituting the PEPEES Capital Group.

PEPEES holds one of the largest potato starch plants in Poland. Its processing capacity reaches the level of up to 2,400 tons of potatoes per day. Among significant assets involved, one should mention the machinery for the production of starch, specialised staff and warehouse space.

ZPZ Lublin Sp. z o.o., with its registered office in Lublin, focuses on processing of ware potatoes into potato grits and potato flakes and the production of potato glucose syrups.

PPZ Bronisław S.A., with its registered office in Bronisław, mainly processes potatoes into starch and potato flakes.

Gospodarstwo Rolne Ponary Sp. z o.o., with its registered office in Łomża, has its own agricultural land leased by the Parent Company to grow starch potatoes, among other things.

3. Changes in the organisation of the PEPEES Capital Group

In the reporting period, no changes were introduced in the organisation of the PEPEES Capital Group.

II. CHARACTERISTICS OF THE ACTIVITIES OF THE PEPEES CAPITAL GROUP

1. Characteristics of the market of activities

The primary activities of the PEPEES Capital Group in the reporting period comprised production, commercial and service activities focused mainly on the processing of potatoes.

The PEPEES Capital Group has distinguished three segments, that is to say "potato processing," "agricultural production combined with animal breeding" and "purchase and sale of real property on own account."

All assets and liabilities of Gospodarstwo Rolne Ponary are allocated to "agricultural production combined with animal breeding." Due to the fact, that in 2022 Ponary company did not generate in H1 any revenues from sales, the segment of "agricultural production with animal breeding" was not separated in revenues and results of the segments. Because of the value of land owned by Ponary, the segment was separated in the financial statements solely for the purpose of presentation of its assets and liabilities.

The segment of "purchase and sale of real property for own market" comprises all assets and liabilities of Pepees Inwestycje Sp. z o.o.

All other assets and liabilities specified in the consolidated financial statements are allocated to "potato processing."

PEPEES Capital Group processes both ware and starch potatoes. Potatoes serve as the main source of starch in Poland and in the whole of Europe. Starch potatoes are ones containing no less than 13% of starch. Starch is made from such potatoes through the mechanical separation of other elements of a potato, their rinsing, cleaning, drying and sieving, and it is used for food and technical purposes.

The largest potato starch markets in the world are in China, Germany and the USA, generating nearly 50% of global demand.

The largest markets of potato starch in the European Union are: Germany, the Netherlands, France, Denmark and Poland.

Properties of companies competing in the EU market:

- ✓ high proportion of starchy products of non-grain origin (mainly maize),
- ✓ very high concentration of production (the largest plants each produce 150-250,000 tonnes per year),
- ✓ longer production period for starch (up to 200 days or twice as long as in Poland), which allows for the more efficient use of production assets and higher production volumes,
- ✓ greater opportunities for contracting raw material,
- ✓ significant share in the production of processed goods (modified starches),
- ✓ large share of sales to markets outside the food sectors.

The greatest competitors of the PEPEES CG in the potato starch processing industry on the domestic market are the Luboń Group and Trzemeszno. Other competitors include: Zakłady Przemysłu Ziemniaczanego "ZETPEZET" in Piła sp. z o.o., Przedsiębiorstwo Przemysłu Ziemniaczanego NOWAMYŁ S.A., and Przedsiębiorstwo Przemysłu Ziemniaczanego S.A. in Niechlów.

The potato starch market in Poland is a saturated and mature one, as evidenced by the dominance of the three largest entities (Luboń Group, Trzemeszno, PEPEES CG).

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

The "potato processing" segment manufactures:

- ✓ potato starch that is widely used in the food, pharmaceutical, paper, textile and chemical industries;
- ✓ couple of selections of glucose used in the food, confectionery and pharmaceutical industries,
- ✓ maltodextrin, which is an essential element of powder products (ice cream, sauces, soups, fruit extracts, flavoured toppings) and nutritional supplements and vitamin and mineral supplements for children and athletes;
- ✓ protein received from potato cell cytoplasm through coagulation, separation and drying; it is a valuable component of feed mixtures for animals and an excellent substitute of animal protein.
- ✓ wide range of glucose syrups used in the confectionery and bakery industries;
- ✓ potato grits, potato flakes, potato cubes and dumplings; products used by the food industry.

Potato starch

Potato starch (potato flour) is made as a result of mechanical shredding of potatoes, their extraction, refining, draining, drying and sieving.

Starch is one of the most multifunctional raw materials in the food industry. Some applications take advantage of its natural properties for the creation of gels and thickening of products (food, chemical, textile and paper industries).

In the food and pharmaceutical industries, starch is used to ensure proper texture, appearance (form), humidity, consistency and durability during storage.

Starch with water content

Starch with water is extracted from potato pulp through rinsing, and then cleaning, drying and sieving. The commercial product contains approx. 40% of water. Starch with water content is manufactured of industrial potatoes of sufficient quality, that is to say high starch content with possibly the highest content of big starch grains, low content of non-starch substances, low protein content, round tubers, crispy flesh and shallow eyes.

Potato protein

This product is made of cellcytoplasm by means of coagulation, separation and drying. The ready-made product is in the form of grey flowing power with a flavour peculiar for dried potato protein and humidity that does not exceed 10%. The product is characterised by a high (over 80%) content of general protein, and digestible protein accounts for more than 70% of the dry product. As a high-quality and easily digestible plant protein, the product proves a valuable component of animal feed mixtures and an excellent substitute for animal protein.

Grit

Grit is a waste product in the starch plant. It consists of glued clods of starch separated from dried potato flour.

Potato flakes

Potato flakes are made of edible varieties of potatoes. These are steamed and then dehydrated flakes of 0.2-0.5 mm in size.

Starch hydrolysates✓ **Crystalline glucose**

Crystalline glucose is the end product of potato starch hydrolysis. It is in the form of white fine crystalline sweet powder. It is characterised by a very high degree of microbiological purity and contains approx. 99.5% of pure glucose. Crystalline glucose is a mono-saccharide, very energetic and easily digestible by the human organism. It is a valuable, natural source of energy. Glucose is widely used in the production of pharmaceutical and dietary products (medicines, nutritional supplements). Its consumption is particularly important during intense physical exercise and convalescence.

The food industry mainly takes advantage of these features of glucose: it strengthens the perception of sweets and emphasises the taste of products. It is used for manufacturing confectionery products, ice cream, desserts, dry food mixtures, non-alcoholic beverages, fruit and vegetable products. Furthermore, crystalline glucose is used in breweries, wineries, bakery and meat industries.

✓ **Anhydrous glucose**

Anhydrous glucose is a product resulting from the fluid drying of crystalline glucose to the humidity level of 1%. The product meets high microbiological requirements. The entire manufacturing process of anhydrous glucose is used in the pharmaceutical industry. For the most part, it is used for manufacturing infusion fluids.

✓ **Maltodextrin**

Maltodextrin is a product of the depolymerisation of potato starch and is made as a result of enzymatic hydrolysis. It is in the form of white lightly sweet powder. The properties of maltodextrin vary depending on the level of starch hydrolysis. The increased level of DE (dextrose equivalent) results in increased sweetness, accompanied by increased solubility and hygroscopicity, reduced viscosity, tie strength and resistance to crystallisation. Due to bonding, filling, improvement of texture and stabilisation of flavour and aroma, maltodextrin has found its way into food production. It is an essential element of powder products (ice cream, sauces, soups, fruit extracts, flavoured toppings) and nutritional supplements and vitamin and mineral supplements for children and athletes. It is an important carbohydrate ingredient of infant formulas and nutritional powder meals for infants. Maltodextrin is very important for the production of reduced calorie food.

✓ **Glucose syrups**

Glucose syrups are thickened water solutions of mono-saccharides (glucoses, maltoses) and low-molecular polysaccharides made in the enzymatic hydrolysis of starch. They are characterised by good temperature and chemical stability, as well as high osmotic pressure. Glucose syrups are used for manufacturing hard and soft candies, chewing gums, fruit jellies, ice cream, desserts, confectionery products. Glucose syrup increases the plasticity of mass, durability of colour and taste, and contributes to transparency and glitter. The addition of syrup ensures proper structure and delicate sweetness, improves structural properties, impedes sugar crystallisation, enables the preservation of natural colour of fruit, adds delicate taste and emphasises the aroma.

✓ **Hydrol**

Hydrol is a waste product. It is inter-crystalline juice left over after separating glucose crystals from thickened glucose syrup – saccharification. It is thick brown liquid with a peculiar odour. Due to the high contents of carbohydrates, hydrol is used in the distillery, animal feed and chemical industries (e.g. tanning of skins).

In addition to the above products, in the first half of 2022 within the Group, sales revenue were also generated in the following groups:

- ✓ seed potatoes,
- ✓ pesticides
- ✓ sales of materials.

All assets and liabilities of Gospodarstwo Rolne Ponary Sp. z o.o. are allocated to "agricultural production combined with animal breeding." Due to the value of land owned by GR Ponary Sp. z o.o., the third segment was separated in this report solely for the purpose of presentation of its assets and liabilities. The third segment includes the purchase and sales of real property on own market, as executed by Pepees Inwestycje Sp. z o.o.

3. Volume and structure of sales

The Capital Group operates on a highly competitive market both in Poland and abroad in the environment of Polish entities and the largest international corporations. It occupies one of the leading positions on the Polish market, both with respect to values and volumes.

The summary of the structure of sales revenue in the period from 1 January 2022 to 30 June 2022 compared to the same period in 2021 is shown in Table 1 and Charts 1 and 2.

Table 1: Structure of net revenues from sales for a periods of 6 months of 2022 and 2021

(in thousands of PLN)

Product range	For the period of 6 months ended on 30	Structure 2022	For the period of 6 months ended on 30	Structure 2021	Dynamics
Potato products	117,73	93.14	90,106	87.91	130.66
Electricity			982	0.96	0.00
Other sales, including:	8,673	6.86	11,415	11.13	75.98
a) services	453	0.36	522	0.51	86.78
b) goods and materials	8,220	6.50	10,893	10.62	75.46
Total net revenues from sales	126,40	100.00	102,50	100.00	123,32

Chart 1: Structure of revenues from sales for the period of 6 months of 2022

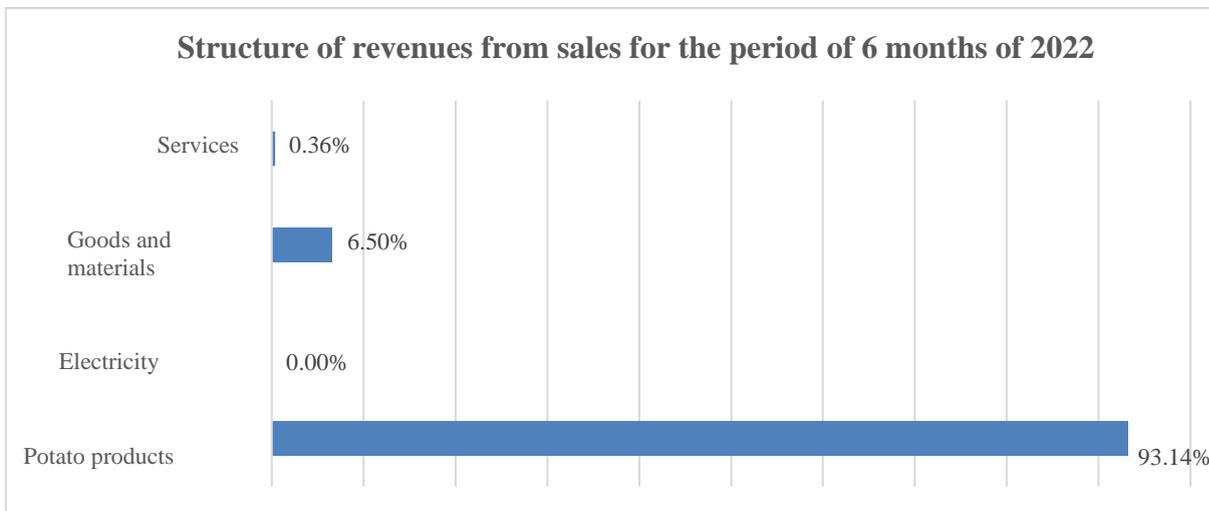
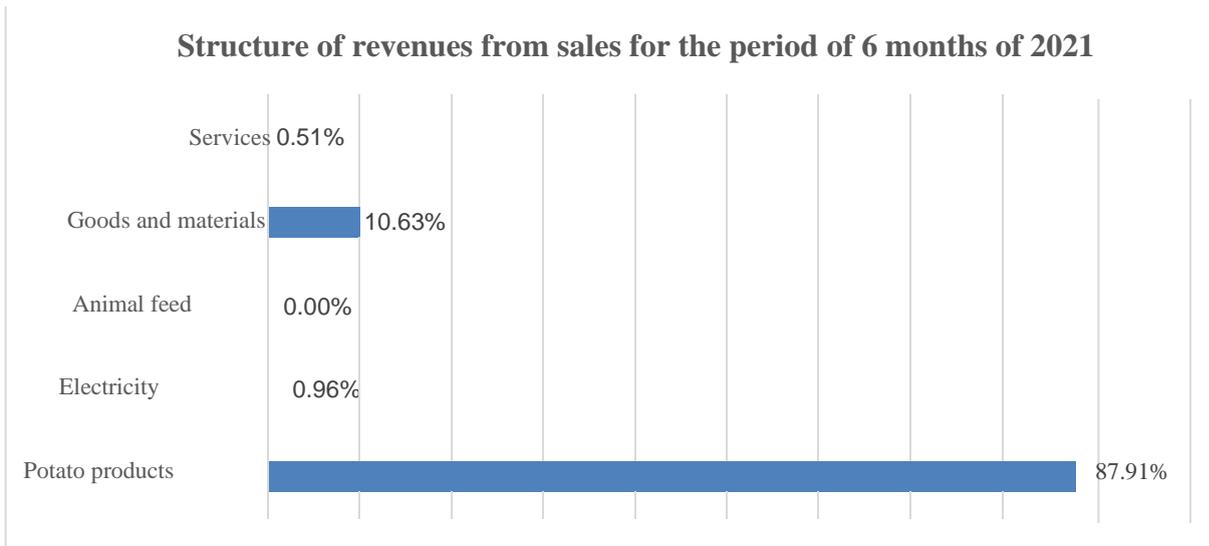


Chart 2: Structure of revenues from sales for the period of 6 months of 2021



4. Information on domestic and foreign outlets

The Group distributes products both through a chain of warehouses and commercial companies supplying products to the food industry, and directly to manufacturing plants, mainly in the meat, food, confectionery, bakery and pharmaceutical industries, for which starch products are the raw material for further processing and a component in the manufacturing process. Packing products in packaging for retail sale enables cooperation with the largest commercial chains operating on what is referred to as the traditional market. In this manner, products under the PEPEES Capital Group brand reach customers that purchase starch products for own needs.

Schemes of distribution channels of the PEPEES Capital Group

The distribution channels present themselves as follows:

Company \longrightarrow customer (manufacturer – wholesale customer)

Company \longrightarrow wholesaler \longrightarrow customer (manufacturer – recipient of smaller volumes)

Company \longrightarrow wholesaler \longrightarrow retailer \longrightarrow consumer

Company \longrightarrow retail network \longrightarrow consumer

The most popular payment method is the wire transfer with dues date of 30, 45 and 60 days. Payment deferral depends on the length of the cooperation period with a specific recipient, its financial capacity and volume of goods purchased. The financial reliability assessment made by the insurer, and granted financial limit are also of key importance. The prepayment is a payment method in case of a new recipient. The letter of credit is often applied in case of export sales.

Revenues from sales with the division into outlets are presented in the following table.

Table 2: Revenues from sales with the division into outlets

Net revenues from sales	For the period of 6 months ended on 30	Structure 2022	For the period of 6 months ended on 30	Structure 2021
Poland, including	78,900	62.42%	68,578	66.90%
- products	72,516	57.37%	59,126	57.68%
- goods and materials	5,931	4.69%	8,930	8.71%
- services	453	0.36%	522	0.51%
EU states – supplies intra-community, including:	8,145	6.44%	7,082	6.91%
- products	8,145	6.44%	6,797	6.63%
- goods and materials	-	-	285	0.28%
Other countries – exports, including:	39,361	31.14%	26,843	26.19%
- products	37,071	29.33%	25,165	24.55%
- goods and materials	2,290	1.81%	1,678	1.64%
Total	126,406	100.00%	102,503	100.00%

4.1. Domestic sales by industry and geographical structure

The products sales of the potato industry in 2022 was performed in the whole of the country. The main product in the range, that is to say potato starch, accounted for the largest share in the sales, on the domestic market as regards value (52,8%). Further products in terms of value include: dried potato – grits and flakes (13.3%), glucose (9.6%), maltodextrin (9.0%), and potato protein (5.5%). The main recipients of the products of the Parent Company on the domestic market mainly include renown domestic companies which are often capially related with large European and global companies.

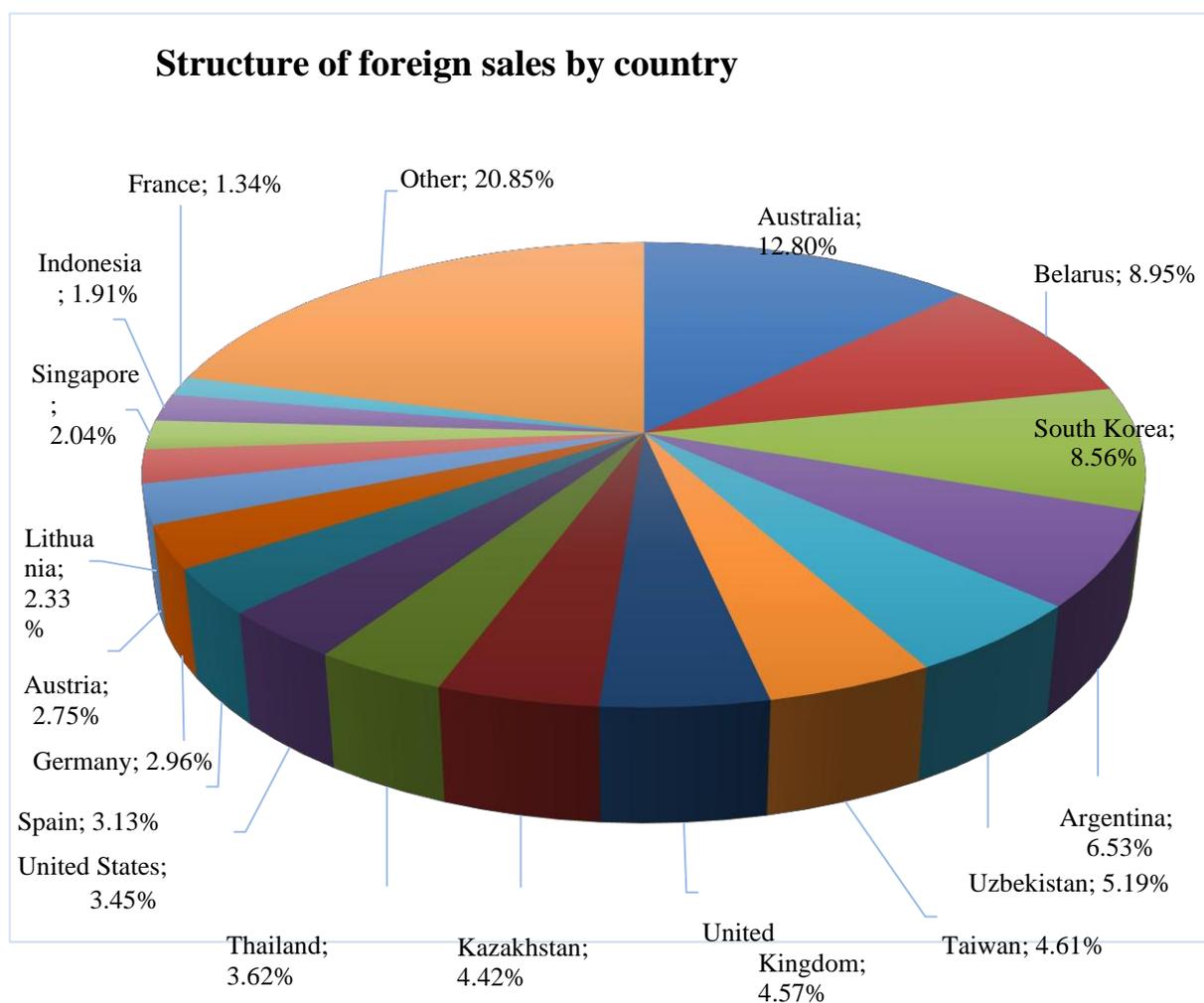
The Group distributed products both through a chain of warehouses and commercial companies supplying products to the food industry, and supplied directly to manufacturing plants, mainly in

the food, confectionery, meat and pharmaceutical industries, for which starch products are the raw material for further processing and a component in the production process. None of the recipients exceeded 10% of revenues from sales of the Group and the Parent Company.

4.2. Export and intra-community sales

In the first half of 2022, the value of export and intra-community sales amounted to PLN 47,506 thousand, showing an increase of 40% in relation to the previous year. In H1 2022, the Group exported its products, mainly potato starch, to approx. 50 countries. The majority of products were sold to Australia, Belarus, South Korea, Argentina, Uzbekistan, Taiwan and EU states.

Chart No. 3: Share of respective countries in total sales to the EU and beyond



5. Information on sources of supplies of the materials for manufacturing, goods and services

Industrial and ware potatoes are the main raw material for manufacturing products in the PEPEES Group. They are bought in autumn based on cultivation contracts executed in spring. Since the early 1990s, we have been noticing a decline in the Polish potato production. In the late 1990s, the share of potatoes in the crop structure amounted to 10%; nowadays, it makes less than 3%. Approximately 235 thousand hectares are under potato cultivation in Poland, with the area under starch potatoes of only

5% of the total potato area. Growing cultivation costs are also affecting the potato, which is one of the most cost-intensive crops all the same. Costs are generated by certified seed potatoes, fertilisers, harvesting and storage. The pandemic has also greatly hindered the potato market. Many farmers are either reducing the area under potato or abandoning it altogether. The situation is further complicated by expensive cereals and oilseed rape, fertilisers and the situation across our eastern border. Starch potato acreage is estimated to have fallen by more than 30% this year.

Furthermore, the following materials and raw materials are bought for production: paper packaging, enzymes, starch, glucose syrup, technical gases, electric materials, fine coal, metal parts, bags, sulphur dioxide, wrapping hydrochloric acid, labels, carton boxes, diatomaceous earth, adhesives, solvents, enamels, steel tape, pesticides, etc.

The source of supply of the primary raw material, that is to say industrial potatoes, are individual farmers, who do not associate with any organisation important for the Group's activities.

The main source of supply of materials, goods and services in H1 2022 were Polish businesses and representative branches of foreign companies. In case of enzymes and filtration materials, the Group became dependent on one supplier, because these are the sole Polish representatives of foreign companies manufacturing the raw materials requisite for the Group to conduct its business.

There are no recipients whose share in the Group's revenues would account for at least 10%. However, in the group of individual products there are customers whose share accounts for more than 10% of the sale of a given product. And so:

- more than 40% of maltodextrin was sold to three domestic counterparties (17,6%; 14,8% and 13,7%, respectively),
- 48.8% of the protein was sold to three domestic customers (20,1%, 16,9 and 11,8%, respectively).

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

6.1. Business agreements

In H1 2022, the PEPEES Capital Group did not execute any business agreements of significant value as well as significant cooperation/collaboration agreements.

Regardless of the foregoing, the Issuer points out to the following agreements executed in H1 2022

- agreement on purchase of pesticides for potato plantations for the value of ca . PLN 1,3 million;
- two lease agreements for agricultural land totalling 475 ha.
- commercial agreements,
- agreement on the purchase and modernisation of production machinery and equipment, and refurbishment works.

6.2. Loan agreements

No new loan agreements were entered into by the CG companies in H1 2022.

6.3. Borrowing agreements

PEPEES S.A. has granted the following borrowings in H1 2022:

- borrowing agreement of 30/05/2022 granted to the subsidiary PPZ BRONISŁAW S.A. in the amount of PLN 1,400 thousand – this is a special purpose borrowing, granted on market terms and conditions, which is to be repaid by the end of this year,
- borrowing agreement of 30/06/2022 granted to the subsidiary ZPZ LUBLIN Sp. z o.o. in the amount of PLN 1,000 thousand, granted on market terms and conditions, which is to be repaid by the end of this year.

6.4. Lease agreements executed in H1 2022

- Lease agreements for a passenger car executed with PKO Leasing with a value of approx. PLN 222,000;
- Agricultural machinery lease agreements executed with Santander Leasing and PKO Leasing, with the total value of PLN 2.285 thousand.

6.5. Insurance agreements

The company executed the following insurance agreements:

- property insurance against fire and other forces of nature;
- business interruption insurance;
- property insurance against theft with burglary and robbery;
- insurance of electronic equipment;
- civil liability insurance, including:
 - tort liability
 - contractual liability
 - product liability
 - liability of the management board members
- insurance of mechanical vehicles (third party liability, insurance against accident and theft).

6.6. Agreements among Shareholders

As of the date of preparation hereof, the Company is not aware of any agreements executed by and between its Shareholders.

7. Information on the Issuer's organisational or capital relations with other entities and determination of its main domestic and foreign investments

As of 30 June 2022, PEPEES S.A.'s main investments are shares and bonds in consolidated subsidiaries and 4,000 shares in Warszawski Rolno-Spożywczy Rynek Hurtowy S.A. (WRSRH), the estimated value of which, according to the valuation made using the method of discounted future cash flows by an independent actuary, is on 31/12/2021 PLN 7,125 thousand.

WRSRH shares represent 3.34% of WRSRH's capital. The State Treasury is WRSRH's major owner and it holds a 70% share in equity. PEPEES does not control WRSRH.

The Group also holds shares in SBR Spółdzielczy Bank Rozwoju, with its registered office in Szepietowo, with the total value of PLN 270 thousand, as well as shares in 3 other domestic entities (ZM Ostrołęka, Agencja Rozwołu and BPS), accounting for less than 5% of the total number of votes at the general meeting and insignificant from the perspective of the value and the Group's investment policy.

Background financial data of the subsidiaries

Subsidiary (business) name	Equity as of 30/06	Assets as of 30/06	Liabilities as of 30/06	Revenues from sales for H1	Profit/loss for H1
2021					
ZPZ LUBLIN Sp. z o.o.	5,781	13,069	7,288	8,675	522
PPZ BRONISŁAW	16,555	58,064	41,509	24,114	(2,928)
Pepees Inwestycje Sp. z o.o.	79	90	11	-	3
Gospodarstwo Rolne Ponary Sp. z o. o.	13,982	21,614	7,632	-	53
2022					
ZPZ LUBLIN Sp. z o.o.	3,935	14,779	10,844	10,775	(724)
PPZ BRONISŁAW	16,490	61,033	44,543	35,759	2,317
Pepees Inwestycje Sp. z o.o.	68	68	-	-	3
Gospodarstwo Rolne Ponary Sp. z o. o.	14,771	21,674	6,903	-	41

ZPZ Lublin Sp. z o.o. suffered a loss, while last year it still generated a profit. PPZ Bronislaw

S.A. increased its revenue by 48% and, therefore, made a profit.

Pepees Inwestycje Sp. z o.o. did not generate any revenues from sale.

Ponary Sp. z o.o. did not generate any revenues from sale. Net profit earned in H1 results from financial revenues received each month, that is to say fees for the surety granted to the Parent Company.

Methods of funding the subsidiaries in H1 2022

ZPZ LUBLIN Sp. z o.o.	self-funding and loan funding (bank loans and borrowing granted by PEPEES)
PPZ BRONISŁAW S.A.	self-funding and loan funding (bank loans and borrowing granted by PEPEES)
Pepees Inwestycje Sp. z o.o.	self-funding
Gospodarstwo Rolne Ponary Sp. z o. o.	self-funding

8. Description of transactions with related entities

During the reporting period, "PEPEES" S.A., the Parent Company, entered into transactions with related entities, which transactions were typical in nature, as resulting from current operating activities performed by "PEPEES" S.A. and its subsidiaries. These were arm's length transactions. Furthermore, a part of the transactions executed arise from existing agreements with financial institutions, under which agreements mutual sureties of the entities of the PEPEES Capital Group that are parties to such agreements are one of the types of security.

The aim of cooperation of the Capital Group enterprises is to raise the level of use of the resources that the entities have at their disposal and limit risk due to performed activities.

The allocation of risk and division of functions of the enterprise enable the reduction of costs of activities and effective use of financial resources. Granting the surety to liabilities, as well as security of their repayment within the scope of related entities enables the quicker execution of a contract, which may contribute to the more efficient management of the PEPEES Capital Group entities.

Pursuant to the provisions of Chapter 4b of the Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading and Public Companies, the Supervisory Board of Pepees periodically evaluates transactions with related parties.

9. Information on incurred loans and borrowings

As of 30 June 2022, the PEPEES Capital Group had loan liabilities, which are presented in the table below:

Table 3: Loan commitments as of 30/06/2022.

Type of loan	Lending bank	Borrower	Loan amount as defined under the	Debt as of 30/06/2022	Repayment date
Loan on the current account	Santander Bank Polska S.A.	"PEPEES" S.A.	4,000	0	31/08/2022
Revolving loan	Santander Bank Polska S.A.	"PEPEES" S.A.	16,500	6,188	31/08/2022
Working capital loan	Santander Bank Polska S.A.	"PEPEES" S.A.	17,000	4,250	31/08/2022
Loan on the current account	Powszechna Kasa Oszczędności Bank Polski S.A.	"PEPEES" S.A.	4,000	1,929	31/08/2022
Revolving loan	Powszechna Kasa Oszczędności Bank Polski S.A.	"PEPEES" S.A.	16,500	4,125	31/08/2022
Working capital loan for potato purchase	Powszechna Kasa Oszczędności Bank Polski S.A.	"PEPEES" S.A.	17,000	4,250	31/08/2022
Investment loan to finance and refinance the purchase of 100% shares in Gospodarstwo Rolne Ponary Sp. z o.o.	Powszechna Kasa Oszczędności Bank Polski S.A.	"PEPEES" S.A.	10,530	4,513	30/06/2025
Loan on the current account	Santander Bank Polska S.A.	ZPZ "LUBLIN" Sp. z o.o.	2,000	1,449	31/08/2022
Revolving loan	Santander Bank Polska S.A.	ZPZ "LUBLIN" Sp. z o.o.	4,000	1,500	31/08/2022.
Working capital loan	Santander Bank Polska S.A.	ZPZ "LUBLIN" Sp. z o.o.	2,000	163	31/08/2022
Loan on the current account	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ "LUBLIN" Sp. z o.o.	2,000	1,873	31/08/2022
Revolving loan	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ "LUBLIN" Sp. z o.o.	4,000	1,000	31/08/2022
Working capital loan for potato purchase	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ "LUBLIN" Sp. z o.o.	2,000	414	31/08/2022
Loan on the current account	Santander Bank Polska S.A.	PPZ "Bronisław" S.A.	700	0	31/08/2022
Purchase loan	Santander Bank Polska S.A.	PPZ "Bronisław" S.A.	9,000	2,249	31/08/2022
Revolving loan	Santander Bank Polska S.A.	PPZ "Bronisław" S.A.	7,300	2,737	31/08/2022
Loan on the current account	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ "Bronisław" S.A.	700	594	31/08/2022
Purchase loan	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ "Bronisław" S.A.	8,000	2,000	31/08/2022
Revolving loan	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ "Bronisław" S.A.	8,300	2,075	31/08/2022
Investment loan	BOŚ	PPZ „Bronisław” S.A.	8,456	5,168	31/12/2027
Total			143,986	46,477	

Interest rate of short-term loans is based on WIBOR rate for 1-month deposit plus bank margins, and in case of long-term loans – on WIBOR rate for 3-month deposit plus bank margins. All loans are in PLN. In H1 2022, no loan agreement of the Group was terminated by a bank or by any company of the Group.

10. Information on granted borrowings, guarantees and sureties

Borrowings

As of 30 June 2022, there were the following borrowings in the Group granted by the Parent Company to its subsidiaries:

Borrowing of 10 January 2018, granted to the subsidiary GR Ponary Sp. z o.o. in the amount of PLN 550 thousand. Outstanding amount: PLN 550 thousand. Repayment date: 31/12/2022

Borrowing of 26 February 2021, granted to the subsidiary PPZ Bronisław S.A. in the amount of PLN 1,100 thousand. Outstanding amount: PLN 1,100 thousand. Repayment date: 31/12/2022

Borrowing of 31 May 2021, granted to the subsidiary PPZ Bronisław S.A. in the amount of PLN 900 thousand. Outstanding amount: PLN 900 thousand. Repayment date: 31/12/2022

Borrowing of 30 June 2021, granted to the subsidiary PPZ Bronisław S.A. in the amount of PLN 1,300 thousand. Outstanding amount: PLN 1,300 thousand. Repayment date: 31/12/2022

Borrowing of 30/05/2022 granted to the subsidiary PPZ BRONISŁAW S.A. in the amount of PLN 1,400 thousand. Outstanding amount: PLN 1,400 thousand. Repayment date: 31/12/2022.

Borrowing of 30/06/2022 granted to the subsidiary ZPZ LUBLIN Sp. z o.o. in the amount of PLN 1,000 thousand. Outstanding amount: PLN 1,000 thousand. Repayment date: 31/12/2022.

Sureties

Sureties granted by the Parent Company "PEPEES" S.A., as of 30/06/2022:

Agreement of 30 July 2018 on terms and conditions of loan repayment security executed by and between "PEPEES" S.A. in Łomża and PPZ Bronisław Sp. z o.o. Under the agreement, "PEPEES" S.A. grants the repayment security of the Investment Loan from Funds of the Foreign Loan Lines incurred by PPZ Bronisław S.A. The investment loan incurred by PPZ Bronisław S.A. amounts to PLN 8,456 thousand. "PEPEES" S.A. granted a security in the form of notarial submission to enforcement up to the amount of PLN 12,684 thousand. PEPEES charges a monthly fee of 1% on the surety provided.

During the reporting period, PEPEES did not grant any sureties or guarantees.

Sureties granted in favour of the Parent Company, "PEPEES" S.A., as of 30/06/2022:

Agreement of 12/12/2017 on establishing a mortgage on the real properties of GR Ponary Sp. z o.o. in the amount of PLN 15,795 thousand, on behalf of "PEPEES" S.A., as the repayment security of the loan granted to "PEPEES" S.A. by PKO BP in the amount of PLN 10,530 thousand for a period from 12/12/2017 - 30/06/2025.

A fixed fee in the amount of PLN 13,162.50 was set for the sureties granted and received, and it is charged monthly in compliance with the agreements executed specifying the terms and conditions of sureties.

During the reporting period and until the date of preparation hereof, the companies of the PEPEES Capital Group did not grant any borrowings, sureties or guarantees other than those indicated.

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

The change in off-balance sheet items of the PEPEES Group is shown in the table below:

Table No. 4: Change in off-balance sheet items

CHANGE IN CONTINGENT ASSETS (BY TITLE)	For the period of 6 months ended on 30	For the period of 12 months ended 31 December 2021	For the period of 6 months ended on 30 June 2021
a) opening balance, including	15,795	15,795	15,795
- surety of investment loan by GR PONARY	15,795	15,795	15,795
b) increase (due to)	-		
- surety of investment loan by GR PONARY	-		
c) use (due to)	-	-	-
d) closing balance, including	15,795	15,795	15,795
- surety of investment loan by GR PONARY	15,795	15,795	15,795

CHANGE IN CONTINGENT LIABILITIES (BY TITLE)	For the period of 6 months ended on 30	For the period of 12 months ended 31 December 2021	For the period of 6 months ended on 30 June 2021
a) opening balance, including	14,449	32,481	32,481
- liabilities under non-compete agreements	1,765	1,563	1,563
- sureties of loans for related companies	12,684	30,918	30,918
b) increase (due to)	15	202	29
- liabilities under non-compete agreements	15	202	29
- sureties of loans for related companies			
c) dissolution (due to)	39	18,234	18,234
- liabilities under non-compete agreements	39	-	-
- sureties of loans for related companies	-	18,234	18,234
d) closing balance, including	14,425	14,449	14,276
- liabilities under non-compete agreements	1,741	1,765	1,592
- sureties of loans for related companies	12,684	12,684	12,684

12. Description of using revenues from the issue of shares or repurchase of treasury shares

The Company and the Group did not issue securities in 2022.

28 December 2021, the Management Board of PEPEES S.A. issued an invitation to tender for the sale of shares under the authority granted by the Annual General Meeting of Shareholders by way of Resolution No. 24 of 25 April 2017 and the resolution of the Supervisory Board of 23 December 2021. The Invitation is related to the acquisition of no more than 2,000,000 ordinary bearer shares of the Company coded PLPEPES00018, representing in total 2.11% of the Company's share capital and the total number of votes at the Company's General Meeting.

The purchase price for treasury shares was set at PLN 1.20 per share. The invitation was addressed to all shareholders of the Company. The repurchase was carried out through the agency of Dom Maklerski Banku Ochrony Środowiska S.A. As a result of the invitation, as many as 32,828 treasury shares were purchased between 29 December 2021 and 11 January 2022. Accordingly, on 14 February 2022, the Board renewed

invitation to tender for the sale of shares. In the second round, as many as 34,295 shares were purchased. The total number of treasury shares pursuant to Resolution No. 24 of 25 April 2017 was 67,123 shares, representing 0.071% of the share capital and the total number of votes attributable to all shares of the Issuer.

29 June 2022, the Management Board of PEPEES S.A. decided to commence a share buyback programme by way of Resolution No. 28 of the Annual General Meeting of 14 April 2022. The share buyback programme will last until 31 December 2023. The buyback programme covers no more than 7,125,000 (say: seven million one hundred and twenty-five thousand) ordinary bearer treasury shares of the nominal value of PLN 0.06 (say: six Polish grosz) each, designated with ISIN securities code: PLPEPES00018, fully paid up, listed on the main market of the Warsaw Stock Exchange or purchased beyond the regulated market operated by the said Exchange. The amount of funds earmarked to fund the buyback programme will be no more than PLN 14,250,000 (say: fourteen million two hundred and fifty thousand Polish zloty 00/100). Within the framework of the buyback programme, the Company may purchase shares representing a total of no more than 7.5% of the share capital.

Under this programme, as many as 119,364 treasury shares have been acquired up to the publication date of this report. In total, the Company holds 186,487 treasury shares, representing 0.196% of the share capital and the total number of votes attributable to all shares of the Issuer (as of the publication date of the report).

The Company acquires treasury shares for the purposes indicated in the AGM Resolution, i.e. alternatively for redemption or resale against payment or use in acquisition transactions.

13. Explanation of differences between financial results specified in the report and forecast of results for a given year that were published earlier

The Parent Company and the PEPEES Capital Group did not publish the financial forecasts for 2022.

14. Assessment of the management of financial resources

In H1 2022, the Parent Company and the entire Group had full capacity to fulfil incurred liabilities, both with respect to suppliers and financial institutions. There were no risks as to the repayment of liabilities.

Similarly in the next reporting period, there should be no threats to the Group's financial liquidity. Occurring surpluses of funds are transferred to short-term bank deposits.

15. Information on financial instruments pertaining to risk and purposes and methods of financial risk management

Information on the use of financial instruments and financial risk are the same for the Capital Group and the Parent Company coordinating the process of aforementioned risk management on the Group's level.

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

During the reporting period, the Group did not enter into transactions related to derivative instruments. It did not use hedge accounting.

Other instruments that occurred directly in the course of performed activities were trade receivables and liabilities.

The main financial risks in H1 2022 included: risk of changes in interest rates on loans, risk of fluctuating market prices of products manufactured by the Group and foreign exchange risk. The main objective of the enterprise with respect to the management of the risks mentioned above is their elimination or reduction.

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

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

The financial liquidity risk present in the Group is not considered high. It results from the efficient policy of trade credit management. The assessment of counterparties and insurance of receivables is provided by KUKU.

The management boards of the companies verify and agree on principles of each risk management. They monitor the market price risk due to all financial instruments held.

16. Information on executed investments and investment plans

In H1 2022, the PEPEES Capital Group implemented several investment undertakings as well as renovation and construction works. The most important of these include:

Main investment projects:

- modernisation of the in-house boiler plant,
- installation of a container boiler plant,
- replacement of reactors at the syrup plant,
- purchase of agricultural machinery and equipment.

In the next six months of 2022, the Group will continue with the commenced investments as well as renovation and construction works.

17. Information on issues related to the natural environment

Legal regulations related to the environment and consumption of natural resources are constantly changing, and the trend in recent years has been to even tighten the existing standards. As a result, the Group may not be able to comply and act in accordance with future changes in the provisions of law or such changes may adversely affect the Group's operations. Additionally, changes in environmental law may necessitate adapting the operations of the Group's companies to new requirements (e.g. changes in the technologies used by the Group to reduce emissions into the air, or changes in the manner the Group manages waste, conducts water and sewage management), including the acquisition of new permits, or changing the terms and conditions of existing permits held by the Group's companies. Such an obligation may require the Group to incur certain additional capital expenditures and, therefore, may affect the Group's financial standing by increasing the cost of its operations. The Group seeks to mitigate the risks by maintaining the constant surveillance of legal requirements related to the environmental protection and by carrying out necessary investment tasks to meet all the environmental requirements. The Group's priorities include conscious and responsible operations based on the highest environmental standards and consistency in fulfilling environmental tasks. Such measures offer great opportunities to reduce the level of risk and cost of adapting the Group's environmental activities to new conditions.

In its production activities, the Group endeavours to comply with the requirements of the environmental protection. Its formal and legal condition is regulated as regards the emission of pollution, collection of water, disposal of waste water and generation of waste. Environmental impacts are monitored in the system of periodical measurements and registration of volumes and characteristic parameters of emission streams of air pollution and waste, as well as the volume of water collected and waste water disposed. The current scope of monitoring, defined by administrative permits held by the Company, should be considered sufficient for assessing the operation of the installations. Waste is handled in compliance with the conditions aimed at preventing the pollution of the natural environment and ensuring the security and health of people. The PEPEES Capital Group has the Integrated Management System comprising the management of quality, environment, activities to ensure the health and safety of the staff and quality management system in the laboratories. The quantitative and qualitative records of waste handling are maintained in the companies of the Capital Group in compliance with adopted classification and forms of documents defined in the respective provisions of law. However, it should be emphasised that in relation to growing requirements of the environmental protection that the PEPEES Capital Group expects in the Strategy adopted for 2019-2024 that it will undertake necessary activities within the scope of water and waste water management in order to ensure the better protection of the natural environment.

18. Information on employment in the Group

Table 5: Employment in the PEPEES Capital Group

Specification	Average number of employees in H1 2022	As of 30/06/2022.		Average number of employees in the previous financial year 2021
		Women	Men	
White collar employees	143	77	68	146
Blue collar employees	226	24	213	288
Persons on unpaid holidays	4	-	1	2
Total	373	101	282	436

19. Major achievements in research and development

The Group did not undertake any major research and development activities in H1 2022.

20. Unusual events that had significant impact on the result of the business activities of the Group in H1 2022

In the first half of 2022, there were no unusual events with a significant impact on the financial results of the PEPEES Group.

21. Adjustments of errors carried forward and changes to accounting principles

The Group did not voluntarily change the accounting principles and did not adjust errors made in previous years. The Company's financial statements (separate and consolidated respectively) are prepared in compliance with IAS/IFRS provisions.

22. Specification of changes in the Issuer's shares or rights to shares held by members of the Issuer's management and supervisory bodies

Wojciech Faszczewski, acting as the Company's Management Board President, holds 701,000 shares in the Parent Company. The person referred to above has no rights to shares in the Company.

Tomasz Krzysztof Rogala, acting as a Member of the Management Board, and persons supervising the Parent Company do not hold any shares in the Parent Company or rights thereto.

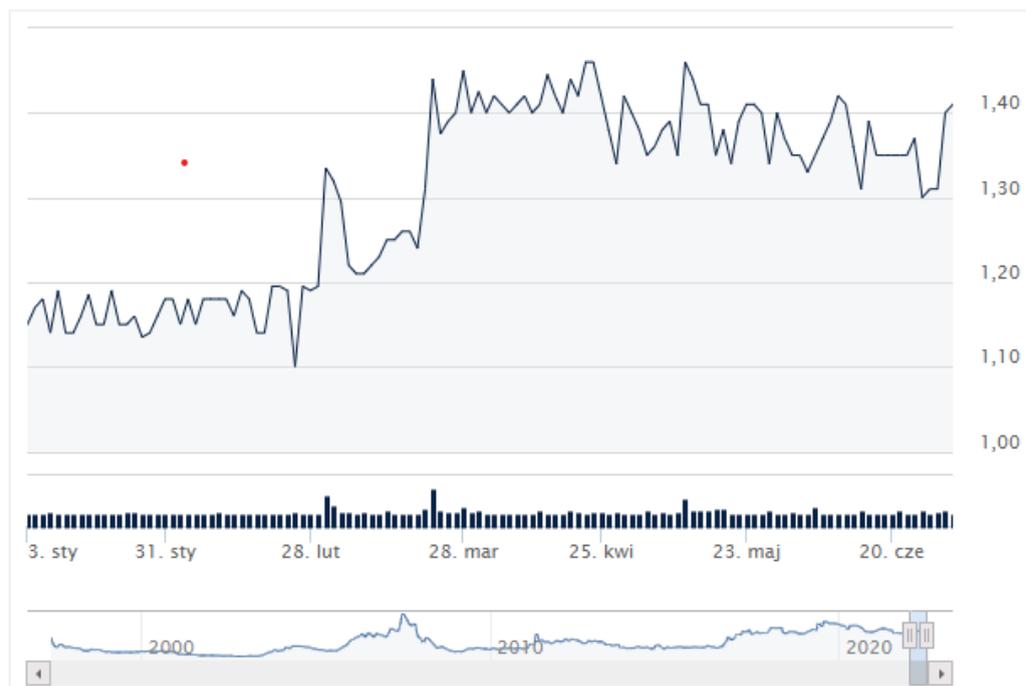
During the period from the publication date of the previous periodic statements, i.e. 26 May 2022, to the publication date hereof, the managing and supervising persons did not make any transactions as regards the Company's shares or rights thereto.

None of the members of management and supervisory bodies hold shares in any subsidiary of the Capital Group.

23. Quotations of the Parent Company in H1 2022

Since 22 May 1997, the Company's shares are quoted on the Warsaw Stock Exchange. The share price on 3 January 2022 (the opening price on the first day of 2022) was PLN 1.15 and on 30 June 2022, PLN 1.41. The highest share price during the reporting period was PLN 1.48 and the lowest was PLN 1.08. The changing price of "PEPEES" S.A.'s shares in H1 2022 are presented on the following chart:

Chart 4: Changes in the price of "PEPEES" S.A.'s shares in H1 2021



24. Information on agreements known to the Issuer as a result of which changes in proportions of shares held by current shareholders may occur in future

The Issuer has no information on agreements, as a result of which changes in proportions of shares held by current shareholders may take place in the future.

25. Specification of holders of all securities which give special controlling powers in relation to the Issuer and description of these powers

The Issuer's shareholders have no securities which give special controlling rights in relation to the Issuer.

26. Information on the system of control of employee share schemes

The Group has no system of control of employee share schemes.

27. Specification of all restrictions pertaining to the transfer of property rights to the Issuer's securities and all restrictions in exercising the rights to vote assigned to the Issuer's shares

Due to the failure to fulfil the reporting obligation on the purchase of a significant package of shares, according to the Act of 29 July 2005 on public offer and the conditions of introduction of financial instruments to organised trading system and on public companies, EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, holding – pursuant to the information known to the Company – 27,759,032 shares of the Company, has lost and cannot exercise the rights to vote in relation to 21,402,233 shares. Therefore, the Company's Management Board filed an action to the Regional Court in Białystok to decide on the issue. Epsilon FIZ AN is of the contrary opinion, claiming that it is entitled to vote in relation to 27,759,032 shares accounting for 29.22% of the total number of votes at the 2020 AGM. The Chairperson of the Polish Financial Supervision Authority joined the case; he presented his opinion on 24 July 2019. The Management Board is awaiting a valid and binding ruling of the court. The Company discussed the issue in current reports no. 13/2019, 14-23/2019 and 30/2019.

28. Summary of operations during the reporting period

During H1 2022, the PEPEES Capital Group received revenues from sales in the amount of PLN 126,406 thousand, This represents an increase of more than 23% (PLN 102,503 thousand) in relation to the same period last year.

The increase in sales revenue dynamics, resulted in a noticeably higher gross sales result of PLN 36,098 thousand, an increase of 120% compared to the same period of the previous year.

Profit from operating activities amounted to PLN 10,380 thousand, compared to a loss last year in the amount of PLN (4,585) thousand

Sales and marketing costs increased by 21% in H1 2022 in relation to the comparative period, while general and administration costs increased by 4%

The balance of other operating activities in the period of six months of 2022 closed at minus PLN (708) thousand against a positive result of PLN 2,010 thousand in the comparative period.

On the other hand, the results on financing activities, construed as the balance of financial income less financial costs, amounted to minus PLN (1,598) thousand in January-June 2022. For H1 last year, the balance was minus PLN (1,818) thousand.

As a result of the foregoing, the Group generated gross profit after H1 2022 of PLN 8,782 thousand with gross loss of PLN (1,374) thousand in the comparative period, while net profit in January-June 2022 amounted to PLN 5,554 thousand with gross loss of PLN (1.378) thousand in the same period of 2021.

29. Brief description of achievements or failures of the PEPEES Capital Group in H1 2022 together with the list of the most important events concerning them

In H1 2022, the PEPEES Capital Group had no significant achievements or failures other than the ones presented herein.

30. Other information that in the Capital Group's opinion is essential for the assessment of its personnel, economic, financial standing, financial result and their changes, and information significant for the assessment of the Group's options to fulfil obligations

In H1 2022, no other events were recorded than the ones described herein, which events could be essential for the assessment of its personnel, economic, financial standing, financial result and their changes, and information that could be significant for the assessment of the PEPEES Capital Group's options to fulfil their obligations.

31. Specification of factors that in the Issuer's and the Group's opinion will impact the results achieved by them in the perspective of at least the next half year

In the next six months, the following factors will have essential impact on the result:

- key interest rates – the Group has loans whose interest rates are based on WIBOR,
- hostilities across Poland's eastern border,
- coronavirus pandemic,
- volume and value of purchased potatoes, that is the main raw material for production,
- demand for and price of starch on the Polish and global market,
- volume of sales achieved and margins realised,
- foreign exchange rates – the Group is an exporter,
- prevailing weather conditions.

The Group's activities are mainly based on domestic raw material, supplied by Polish farmers, so that the war across the eastern border and the pandemic will not disrupt the supplies. During the next six months of 2022, the PEPEES Capital Group will implement the executed agreements and conduct

operational activities that underpin its operations, including manufacturing, trading and service activities.

32. Information on the entity authorised to audit and review financial statements of the Issuer

"PEPEES" S.A. and the subsidiaries entered into an agreement on the review and audit of the financial statements for 2020-2022 with WBS Audyt Sp. z o.o., with its registered office in Warsaw.

The subject matter of the agreements comprised the review of the individual and consolidated financial statements as of 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 agreements, due for 2022, amounts to PLN 59,700 plus VAT.

In addition, the agreement of 17/05/2022 was executed with the entity authorised to audit statements during the reporting period, concerning the performance of an attestation service consisting in the preparation of the chartered auditor's report on the assessment of the remuneration report of the Management Board and Supervisory Board drawn up for the year of 2021 by the PEPEES Supervisory Board. The fee of PLN 5,000 plus VAT was agreed for the indicated service.

33. Information on litigations, proceedings before an arbitration or administrative body

On 25/06/2019, the Management Board of Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. filed an action to the court of law, asking to have a decision issued whether EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, the Company's shareholder having, pursuant to information known to the Company – 27,714,832 shares, due to the breach of the notification obligation related to the purchase of significant packages of shares in compliance with Article 89(1)(1) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, has lost and cannot exercise the voting rights attached to 21,402,233 shares. Epsilon FIZ AN is of a contrary opinion, claiming that it is entitled to vote in relation to 27,714,832 shares accounting for 29.17% of the total number of votes at the AGM. The case was joined by the Chairperson of the Polish Financial Supervision Authority, who presented his opinion on 24 July 2019. The Company discussed the issue in current reports 13/2019, 14-23/2019 and 30/2019.

As of the date hereof, the case filed by EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in Warsaw against "PEPEES" S.A.:

- for revoking or rendering invalid Resolutions No. 24-29 adopted on 28/06/2019 by the Annual General Meeting of Shareholders, including Resolution No. 28 on amendments to the Articles of Association and authorisation of the Company's Management Board to raise the share capital of the Company within the scope of the authorised capital and with the option to exclude the pre-emptive right of the current shareholders of the Company in whole or in part upon the consent of the Company's Supervisory Board. The District Court suspended the proceedings until the proceedings in the suit brought by PEPEES against EPSILON for determining the loss of voting rights have been concluded in a legally binding manner,
- for revoking or rendering invalid two resolutions on the acknowledgement of fulfilment of obligations adopted on 21/04/2020 by the General Meeting of Shareholders. The litigation is pending before the Court of First Instance. The District Court suspended the proceedings until

*Report of the Management Board on the activities of the
Capital Group
for the period of 6 months ended on 30 June 2022*

the proceedings in the suit brought by PEPEES against EPSILON for determining the loss of voting rights have been concluded in a legally binding manner,

- for revoking or rendering invalid four resolutions adopted on 29 June 2021 by the Annual General Meeting, i.e. Resolution No. 4 on the consideration and approval of the Company's financial statements for the period from 01/01/2020 to 31/12/2020, Resolution No. 9 on the appropriation of the Company's net profit for the financial year of 2020, and Resolutions No. 10 and 11 on the acknowledgement of fulfilment of obligations by the Company's Management Board Members. The litigation is pending before the Court of First Instance. On 11 January 2022, the Regional Court suspended the proceedings until the proceedings in the suit brought by PEPEES against EPSILON for the determination of the loss of voting rights have been concluded in a legally binding manner,

- for revoking or rendering invalid nine resolutions adopted on 14 April 2022 by the Annual General Meeting of Shareholders on: consideration and approval of the Company's financial statements for the period from 01/01/2021 to 31/12/2021, consolidated report, report on the Company's activities, appropriation of the Company's net profit for the financial year of 2021, acknowledgement of fulfilment of obligations by the Company's Management Board Members, appointment of 2 Supervisory Board Members, purchase of treasury shares and creation of reserve capital. The litigation is pending before the Court of First Instance.

Within the remaining scope, there are no other significant litigations or proceedings before the court, arbitration body or public administration authority as regards the Issuer's liabilities or receivables.

There are several cases pending before the court for the recovery of trade receivables on which the Company has made

100% write-offs. The amounts are not significant as regards total receivables.

III. ECONOMIC AND FINANCIAL STANDING

1. Economic standing of the Capital Group

The status of assets as of 30 June 2022 as compared to the state of 31 December 2021 is presented in the table below.

Table 6: State of assets as of 30/06/2022 and 31/12/2021

Asset name	State as of		Changes in amounts +increase -decrease	Structure indicators in %	
	30/06/2022	31/12/2021		30/06/2022	31/12/2021
I. FIXED ASSETS	171,929	172,744	(815)	59,7	48,9
1. Property, plant and equipment	152,259	151,999	260	52,9	43,0
2. Intangible assets	276	184	92	0,1	0,1
3. Rights to assets	11,512	11,913	(401)	4,0	3,4
4. Investment properties	569	573	(4)	0,2	0,2
5. Goodwill	1,320	1,320	-	0,5	0,4
6. Investments in other entities	383	383	-	0,1	0,1
7. Deferred income tax assets	5,610	6,372	(762)	1,9	1,8
II. CURRENT ASSETS	116,110	180,745	(64,635)	40,3	51,1
Current assets other than assets classified as held for sales	116,110	180,745	(64,635)	40,3	51,1
1. Stock	64,238	97,165	(32,927)	22,3	27,5
2. Biological assets	4,075	560	3,515	1,4	0,2
3. Trade receivables and other short-term receivables	34,934	33,922	1,012	12,1	9,6
4. Current income tax receivables	-	-	-	0,0	0,0
5. Other financial assets	7,125	7,125	-	2,5	2,0
6. Cash and cash equivalents	5,738	41,973	(36,235)	2,0	11,9
Assets held for sale	-	-	-	0,0	0,0
Total	288,039	353,489	(65,450)	100,0	100,00

The Group's assets, expressed as total assets as of 30 June 2022 in the amount of PLN 288,039 thousand, decreased by PLN 65,450 thousand, i.e. by 18.5% compared to the end of 2021. Mainly current assets decreased (by PLN 64,635 thousand), particularly in relation to stock, due to the seasonal processing of potatoes.

Cash also declined due to the repayment of short-term loans. Supply receivables, however, increased, due to the sale of seed potatoes and crop protection products with payment terms pending the delivery of potatoes for processing.

2. Funding sources of the Capital Group

Summary of sources of financing assets as of 30 June 2022 compared to the state as of 31 December 2021 is presented in the table below.

Table 7: State of sources of asset funding as of 30/06/2022 and 31/12/2021

Specification of funding sources	State as of		Changes in amounts +increase -decrease	Structure indicators in %	
	30/06/2022	31/12/2021		30/06/2022	31/12/2021
Equity	180,928	175,053	5,875	62.8	49.5
Equity allocated to shareholders of the Company	177,617	171,983	5,634	61.7	48.7
Share capital	5,700	5,700	0	2.0	1.6
Share premium	7,562	7,562	0	2.6	2.1
Treasury shares	(112)	-	(112)	0.0	0.0
Revaluation capital	31,050	31,027	23	10.8	8.8
Retained earnings	133,417	127,694	5,723	46.3	36.1
Non-controlling shares	3,311	3,070	241	1.1	0.9
Liabilities	107,111	178,436	(71,325)	37.2	50.5
Long-term liabilities	35,167	36,728	(1,561)	12.2	10.4
Loans and borrowings	7,237	8,459	(1,222)	2.5	2.4
Liabilities due to assets under lease	17,161	16,496	665	6.0	4.7
Deferred income tax liabilities	5,972	6,242	270	2.1	1.8
Liabilities related to retirement and similar benefits	2,766	3,005	(239)	1.0	0.9
Subsidies	2,031	2,086	(55)	0.7	0.6
Other long-term liabilities	-	440	(440)	0.0	0.1
Short-term liabilities	71,944	141,708	(69,764)	25.0	40.1
Short-term liabilities other than related to assets held for sale	71,944	141,708	(69,764)	25.0	40.1
Trade and other short-term liabilities	26,368	24,111	2,257	9.2	6.8
Current income tax liabilities	1,227	-	1,227	0.4	0.0
Loans and borrowings	39,240	112,614	(73,374)	13.6	31.9
Liabilities due to assets under lease	4,485	4,455	30	1.6	1.3
Liabilities related to retirement and similar benefits	624	528	96	0.2	0.1
Liabilities related to assets held for sale	-	-	0	0.0	0.0
Total liabilities	288,039	353,489	(65,450)	100.0	100.0

Throughout the period presented, the Group's equity accounted for the largest share of the sources of asset financing, accounting for 62.8% of liabilities.

On 14 April 2022, the Annual General Meeting of "PEPEES" S.A. adopted Resolution No. 10 on covering the loss for the financial year of 2021 from the supplementary capital.

Short-term liabilities decreased by PLN 69,764 thousand. This was mainly due to the repayment of short-term loans and borrowings.

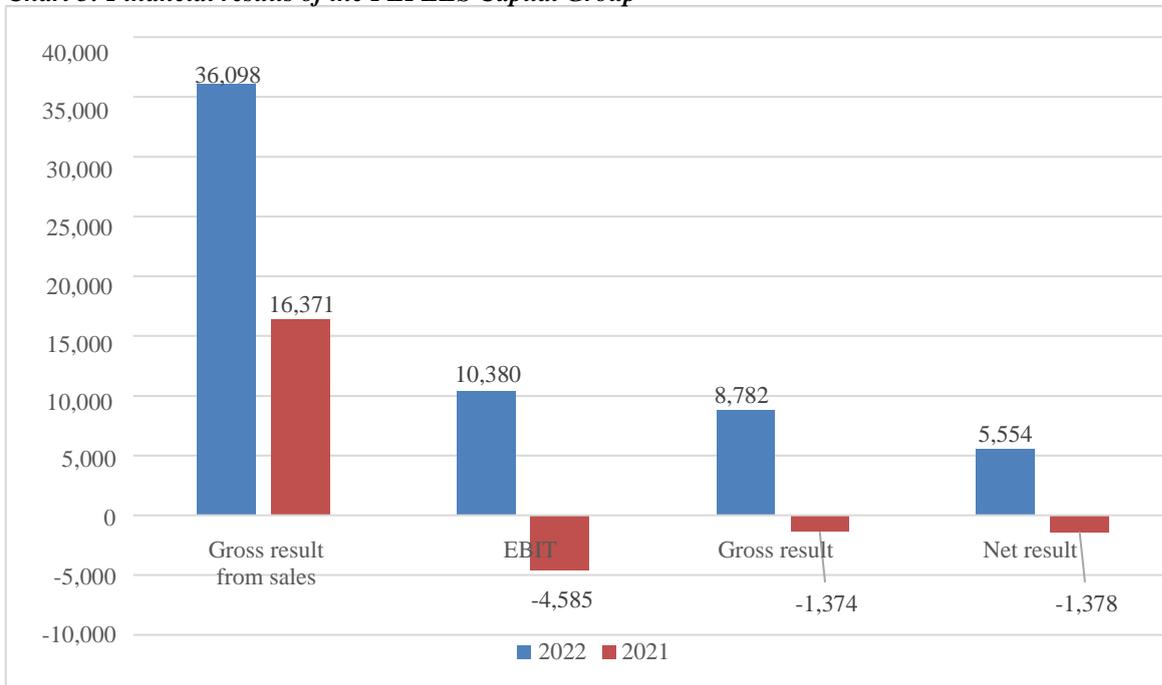
3. Financial results of the Capital Group

Financial results of the economic activities of the Capital Group in H1 2022 and 2021 are presented in the table and chart below.

Table 8: Comparison of the financial result for H1 2022 and 2021

No.	Specification	Performance for H1	Performance for H1	Dynamics in %
1	Revenues from sales	126,406	102,503	123.3
2	Own cost of sales	(90,308)	(86,132)	104.8
3	Gross profit from sales (I-II)	36,098	16,371	220.5
4	Costs of sales and marketing	(7,677)	(6,343)	121.0
5	Overheads	(17,333)	(16,623)	104.3
6	Other operating revenue	392	2,419	16.2
7	Other operating costs	(1,100)	(409)	268.9
8	Profit (loss) on operating activities	10,380	(4,585)	(226.4)
9	Financial costs	(3,254)	(1,838)	176.2
10	Financial revenue	1,656	20	8,200.0
11	Profit (loss) on the disposal of a subsidiary	-	5,029	
12	Profit (loss) before tax	8,782	(1,374)	(639.1)
13	Income tax	(3,228)	(4)	80,700.0
14	Net profit (loss) on continued operations	5,554	(1,378)	(403.0)
15	Net profit (loss) on discontinued activities	-	-	-
16	Net profit (loss), including:	5,554	(1,378)	(403.0)
17	- allocated to shareholders of the parent company	5,314	(946)	(561.6)
18	- allocated to non-controlling interests	240	(432)	(55.6)
19	Other comprehensive income	23	7	328.6
20	Total comprehensive income, including	5,577	(1,371)	(406.7)
21	- allocated to shareholders of the parent company	5,337	(939)	(568.3)
22	- allocated to non-controlling interests	240	(432)	(55.6)
23	Net profit (loss) per 1 ordinary share	0.06	(0.01)	(406.7)
24	- on continued operations	0.06	(0.01)	(406.7)
25	- on discontinued activities	-	-	-
26	Diluted profit (loss) per 1 ordinary share	0.06	(0.01)	(406.7)
27	- on continued operations	0.06	(0.01)	(406.7)
28	- on discontinued operations	-	-	-

Chart 5: Financial results of the PEPEES Capital Group



In the period under review, all results are significantly better compared to the same period last year. Gross profit from sales increased by 120%. Operating EBIT is positive, while it was negative in the previous year.

In the end, the Group made gross profit and net profit, while recording loss in the previous year.

4. Cash flows

In H1 2022, there was a negative net cash flow balance in the PEPEES Group due to the high repayment of short-term loans. The balance of operating activities is positive and amounts to PLN 48,783 thousand. The balance from investment activities is negative due to expenditure on the purchase of machinery and equipment. The balance from financing activities was generated in a negative amount, i.e. PLN 80,282 thousand, resulting in particular from the repayment of loans. The cash balance in the consolidated cash flow statement as of 30 June 2022 is positive at PLN 5,738 thousand.

5. Economic indicators

The indicators presented below are Alternative Performance Measures (APMs) within the meaning of ESMA's Alternative Performance Measurement Guidelines. The Alternative Performance Measures are not ones of financial results under International Financial Reporting Standards; neither should they be considered as measures of financial performance or cash flows. These indicators are not uniformly defined and may not be comparable to indicators presented by other companies, including companies operating in the same sector as the PEPEES Group. Alternative Performance Measures should only be analysed in addition to, and not as a substitute for, the financial information presented in the Group's consolidated financial statements. This data should be examined together

with the Group's consolidated financial statements. The PEPEES Group presents selected APM indicators as, in its opinion, they provide additional (apart from the data presented in the financial statements) information about the financial and operating standing of the Group; they also facilitate the analysis and evaluation of the Group's financial results over various reporting periods. The Issuer presents these specific Alternative Performance Measures as they are applied cyclically and uniformly from one report to the other. The selection of Alternative Performance Measures was preceded by the analysis of their usefulness in terms of providing investors with useful information on the Group's financial standing, cash flows and financial efficiency and, in the Management Board's opinion allows the optimal assessment of the financial results achieved. The results presented below should not be attributed to the higher level of materiality than measurements directly derived from the Company's financial statements or the Group's consolidated financial statements.

Table 9: Economic indicators

Indicator	Economic contents	2022	2021
Return on assets	$\frac{\text{Net profit (loss) attributable to shareholders of the Parent Company} \times 100}{\text{Total assets}}$	1.84%	(0.33)%
Return on equity	$\frac{\text{Net profit (loss) attributable to shareholders of the Parent Company} \times 100 \text{ equity}}{\text{attributable to equity holders of the Parent Company}}$	2.99%	(0.55)%
Net profitability of sales	$\frac{\text{Net profit (loss) attributable to the shareholders of the Parent Company} \times 100}{\text{Total sales revenues}}$	4.20%	(0.92)%
Gross profitability of sales	$\frac{\text{Gross profit on sales} \times 100}{\text{Total sales revenue}}$	28.56%	15.97%
EBIT	Operating profit (loss), i.e. profit before interest (finance costs minus finance income) and taxation (income tax)	10,380	(4,585)
EBITDA	Operating profit (loss) (EBIT) plus depreciation and amortisation	17,119	2,127
EBIT margin	$\frac{\text{EBIT} \times 100}{\text{Total revenues from sales}}$	8.21%	(4.47)%
EBITDA margin	$\frac{\text{EBITDA} \times 100}{\text{Total revenues from sales}}$	13.54%	2.08%
Liquidity ratio I	$\frac{\text{Current assets (short-term)}}{\text{Current liabilities}}$	1.61	1.56
Liquidity ratio II	$\frac{\text{Current assets (short-term)} - \text{stock}}{\text{Short-term liabilities}}$	0.72	0.73
Turnover ratio* of receivables in days	$\frac{\text{average trade receivables} \times 180}{\text{Sales revenue}}$	35.33	57.12
Period of repayment of liabilities	$\frac{\text{average trade liabilities} \times 180}{\text{Cost of sales}}$	35.99	52.16

Indicator	Economic contents	2022	2021
Rotation of stock** in days**	$\frac{\text{average stock} \times 180}{\text{Cost of sales}}$	160.85	175.42
Coverage of fixed assets with equity	$\frac{\text{Equity attributable to shareholders of the Company}}{\text{Fixed assets (non-current)}}$	1.03	0.98
Funding structure durability	$\frac{(\text{Equity attributable to shareholders of the Company} + \text{long-term liabilities})}{\text{Total liabilities}}$	0.74	0.74

**The opening and closing balances of each reporting period were adopted to calculate the turnover indicators.*

Based on the analysis of the indicators, the synthetic assessment of the economic and financial standing of the PEPEES Group was made. The basic indicators from the areas of profitability, liquidity, operating efficiency (effectiveness) and capital structure (debt) were selected.

In 2022, all profitability indicators are positive, due to the profits generated.

Accounts receivable turnover and payables repayment ratios decreased due to timely repayments.

The ratio of stock turnover also decreased. This indicator is always high in the Group due to the seasonality of production.

The liquidity indicators were at a similar level to the previous year.

IV. Expansion of the Issuer and the Capital Group

1. Description of major risks and threats and characteristics of external and internal factors essential for the expansion of the Parent Company and PEPEES Capital Group

1.1. Risks and threats

✓ Coronavirus pandemic

Systematic new outbreaks of Covid-19 infections result in lower demand for starch in certain markets, such as South Korea. Increased number of infections in specific markets can affect the disruption of supply chains and subsequently complicate the scheduling of container ships. Maritime logistics may remain further unpredictable and, after a period of prolonged stability, may tend to activate its dynamic characteristics known from the previous years of the pandemic.

✓ Risk due to the situation in Ukraine

In relation to the aggression of the Russian Federation against Ukraine, the Management Board anticipates the following risks:

1. Increase in the company's ongoing operating costs due to changes in fuel markets (coal, gas) The increase in energy commodity prices, which already began in 2021, will escalate. This is related to both the expected reduction in supplies from the East (oil, gas,

coal); the reserves of energy raw materials will also be increased by all the European countries; therefore, their availability will be affected, similarly contributing to further increase in prices.

2. Difficulties in access to markets –due to the warfare and economic sanctions imposed, difficult access to markets in Central Asia (Uzbekistan, Kazakhstan) and rail transport restrictions by Ukraine (warfare) and Russia (sanctions) are expected

3. Global restrictions on access to major export markets – impediments to container traffic on the company's main export destinations, trade insurance restrictions.

4. Currency crisis – the likelihood of significant fluctuations in the company's export settlement currencies (EUR, USD).

✓ **Dependence of production on weather conditions and seasonality**

Potatoes are the main raw material for production. Therefore, the volume and quality of production depends on potato crops. Unfavourable weather conditions reduce potato crops and starch content.

✓ **Globalisation**

The globalization process can, for the most part, be observed in the field of competitiveness. At the moment, we are witnessing strong competition as far as substitutes are concerned. In the food industry, there are multiple products which serve similar functions (fillers and thickeners) like potato starch, e.g. wheat and corn starch, imported hydrocolloids of natural origin, such as: guar gum, Xanthar gum, gum arabic, locust bean gum and gelatine.

Furthermore, there is a strong competition inside the starch sector in the European Union.

✓ **Dependence on the profitability of potato production**

Due to the high costs of potato production, potatoes are replaced by other more profitable crops. Furthermore, the region of north and eastern Poland has become strongly focused on dairy production, which takes over the agricultural areas from other types of production. As a result, it is increasingly difficult to attract new farmers from the areas nearest to the plant. In consequence, the Group has to buy raw materials from more distant regions of the country, which contributes to lower profitability.

✓ **Foreign exchange risk**

Such risk arises from international trade executed in other currencies than Polish złoty. Strong fluctuations in currency prices have a significant impact on the profitability of foreign transactions.

✓ **Liquidity and credit risk**

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

The liquidity risk management process involves managing assets and liabilities in such a manner as to take into account any changes in cash flows, both current and future. Liquidity risk is the risk that the Group will be unable to repay its financial obligations as they fall due. In order to maintain liquidity, the Group uses various sources of financing, including overdrafts, working capital loans, revolving credits line and trade credits. In order to mitigate the risk of customers failing to pay their debts on time, the Group uses methods of settlement with counterparties such as letters of credit and prepayments. The companies observe the behaviour of counterparties in the payment market (both at the quotation stage and during the performance of contracts) and assess their ability to meet their obligations and take

immediate actions at the slightest sign of disruption to customer payment cycles.

✓ **Fluctuations of the economic situation**

The state of economic operations in the world, at home and in a specific sector affects the functioning of an enterprise through various indicators (GDP, prices, remuneration, inflation levels, tax laws, employment, etc.).

✓ **Sales of a product threatening to the consumer's life and health**

The Group is a manufacturer of food products. In case of sales of a product causing a threat to life or limb, the company would jeopardise its reputation and face an obligation to pay compensation to customers and consumers, as well as costs related to the recall and disposal of the product.

The risk is slim due to the implemented System of Food Quality and Safety.

The market recall procedure has been implemented; recall simulations have been performed.

1.2. External factors affecting the successful expansion of the Issuer and the Group

The development of the Issuer and its Group in the potato trade mainly depends on the agricultural policy of the European Union and the Republic of Poland, and creation of proper conditions of operations in the agricultural and food industry.

The main opportunities for development are provided by the following factors:

- ✓ development of the domestic food industry (in the long-term assessment of market analysts, the food industry is a growing one),
- ✓ option to acquire funds for investments,
- ✓ market demand for modified products of potato starch,
- ✓ access to new and modern technologies,
- ✓ development of markets in international trade,
- ✓ development of specialised farms,
- ✓ wide spectrum of the application of starch and its modifiers,
- ✓ area payments to starch potatoes.

1.3. Internal factors deciding on successful development of the Issuer and the Group

The most important internal factors affecting its further development are:

- ✓ systematic investments and modernisations of production departments in order to raise the efficiency and innovation of production and reduce operation costs,
- ✓ finding new markets,
- ✓ implemented System of Food Quality and Safety Management System confirmed with certificates,
- ✓ implemented GMP (Good Manufacturing Practice) system for manufacturers of active substances,
- ✓ activities compliant with the Smeta requirements; presence on the SeDeX platform,
- ✓ smooth cooperation with farmers all year long,
- ✓ option to manufacture hydrolysates meeting specific expectations of customers,
- ✓ high production capacities,

- ✓low costs of production waste water disposal,
- ✓implementation of the strategy and undertaking investment activities,
- ✓expanding the range of products,
- ✓staff knowledge and professional experience,

2. Perspectives on the expansion of the Issuer and the Group

Operating conditions in the majority of sectors of broadly defined industry have become highly unpredictable in recent months. The systematic emergence of new Covid-19 outbreak, the war in Ukraine, disrupted logistics, skyrocketing inflation and disruption to the price and availability of energy and gas resulting largely from the aforementioned developments are now putting enormous pressure on business operators. The current operating environment of the PEPEES S.A. Capital Group is no different. Negotiation processes, production activities and sales themselves are carried out under conditions that are much more unpredictable compared to earlier periods. As a result, planning processes must be carried out with great sensitivity and care, and operating activities, by default, take into account a number of risks that were not present in earlier periods. This state of affairs requires companies to be highly sensitive and flexible in their current and future business activities.

In the face of the above, the Group successfully continued its core business and, despite the objective risks from the environment, has consistently pursued the strategy adopted on 12 June 2019 for the period 2019-2024, which allowed it to generate sales revenues significantly above the level obtained in the corresponding period of the previous year

The Group's objective is the maximum return on investments, while maintaining moderate level of investment risk. PEPEES Group assumes parallel activities to be conducted in the area of development, by increasing the efficiency of operations of the Capital Group companies and maximum reduction of risks to which they are exposed, and through further investment activities. If attractive market quotations appear, such investment activities will be continued in the Group and beyond.

3. Development strategy of the Company and PEPEES Capital Group

According to the PEPEES Group's strategy for 2019-2024, the most important objectives are:

- Increasing the value and market share of the PEPEES Capital Group.
- Expanding the target markets and product range, for instance to include starch modifiers.
- Establishing cooperation with an industry investor.
- Intensification and improvement of raw material acquisition.
- Optimisation of operations of the PEPEES Capital Group.

Market penetration strategy:

In the long term – until 2024 – the PEPEES Capital Group, using its own resources, loans, issue of shares and other external sources, plans on increasing sales value and market share through organic growth and acquisitions, putting warehouse management in order, carrying out the modernisation of the starch plant (Pepees S.A.), transferring the production of ZPZ Lublin and optimising the use of real estate which ensures the development of the Capital Group.

New product and diversification strategy:

In the long term – until 2024 – using its own resources, loans, issue of shares and other external sources as well as assuming the option of gaining capital from an industry investor, the PEPEES Capital Group plans on implementing actions to enable the introduction of an attractive product range on the market. Options under consideration are the introduction of starch modifiers into the European food and pharmaceutical markets.

4. Characteristics of the policy with respect to the development vectors of the Capital Group of the Issuer

The Policy of the PEPEES Capital Group is aimed at the continuous development and optimisation of the product range, taking into account changing expectations and preferences of recipients.

PEPEES Capital Group endeavours to increase starch production, thanks to which it will be capable of competing with foreign companies. The Group's Strategy assumes short-term tasks, for instance the one related to improving the conditions of the starch production market in Poland and conditions of operation for farmers, as well as long-term activities aimed at commencing cooperation with an industry investor. The Group cares for good and long-term relations with farmers to guarantee them the stability and profitability of their crops, which will consequently allow the Group to ensure regular supplies of raw materials thanks to a clear and legible contracting system.

Surplus of products will be directed to foreign markets, particularly to developing markets, e.g. in Asia. The new market strategy is based by the Capital Group on markets in South-Eastern Asia, South America and developing European countries.

This objective should be accomplished through the continuation of the project entitled "Export and Domestic Market Development Programme," which will include the identification of key outlets for the Group and creation of a sale system for them. The demand for starch has been growing in the world, so the PEPEES Group creates effective tools for the distribution and sale of domestic products.

The Strategy of PEPEES Group assumes systematic increase of competitiveness in respect of quality and costs as regards the leading Polish companies operating in the potato processing industry.

V. STATEMENT OF THE MANAGEMENT BOARD

The Management Board of Przedsiębiorstwo Przemysłu Spożywczego PEPEES Spółka Akcyjna in Łomża states that to the best of its knowledge:

- the condensed consolidated financial statements for H1 2022 were prepared in accordance with the applicable accounting principles and reflect the true, fair and clear view of the property and financial standing of the PEPEES Capital Group and the Capital Group's net loss,
- the condensed financial statements of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. for H1 2022 were prepared in accordance with the applicable accounting principles and reflect the true, fair and clear view of the property and financial standing and net loss,
- report of the Management Board on the activities of the Capital Group in H1 2022 includes a real picture of the expansion, achievements and standing of the PEPEES Capital Group, including the description of the major threats and risks.

REPRESENTATIVES

of Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” Spółka Akcyjna in Łomża

President of the Management Board – Wojciech Faszczewski

Member of the Management Board – Tomasz Rogala