



PEPEES CAPITAL GROUP MANAGEMENT REPORT

for H1 ended 30 June 2023

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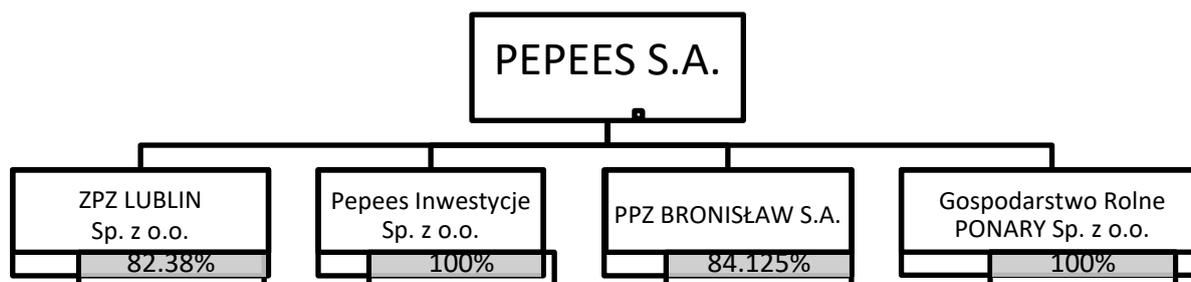
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I. DETAILS OF THE PEPEES CAPITAL GROUP

1. Structure of the PEPEES Capital Group

Przedsiębiorstwo Przemysłu Spożywczego “PEPEES” Spółka Akcyjna is the Parent of the PEPEES Capital Group. On 30 June 2023, the PEPEES Capital Group (hereinafter also referred to as the “Group”) comprised the following subsidiaries:



In the Consolidated Semi-Annual Report of the PEPEES Capital Group for the H1 period ended 30 June 2023, the following related parties were consolidated in addition to Przedsiębiorstwo Przemysłu Spożywczego “PEPEES” S.A.:

Product name	Registered office	Core business	Registration court	Issuer's share in capital (%)	Share in the total number of votes (%)
ZPZ LUBLIN Sp. z o.o.	Lublin	Production and sale of potato 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 property for own account	District Court in Białystok, 12th Commercial Division of the National Court Register	100	100
PPZ BRONISŁAW S.A.	Bronisław	Manufacture of starches and starch products	District Court in Bydgoszcz, 13th Commercial Division of National Court Register	84.125	84.125
Gospodarstwo Rolne Ponary Sp. z o.o.	Łomża	Agricultural crops combined with animal breeding and husbandry	District Court in Białystok, 12th Commercial Division	100	100

All subsidiaries were consolidated using the full method.

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

1.1. Przedsiębiorstwo Przemysłu Spożywczego “PEPEES” S.A. in Łomża - Parent

1.1.1. Basic information about the Parent

The Parent operates under the business name of Przedsiębiorstwo Przemysłu Spożywczego “PEPEES” S.A. (hereinafter referred to as the “Parent”, “Issuer”). Its registered office is in Łomża, ul. Poznańska 121.

The business is conducted in the form of a joint stock company, established by a notarial deed on 21 June 1994 before Paweł Błaszczuk, notary in Warsaw (Repertory No. A 14126/94).

The Company is entered in the Register of Entrepreneurs kept by the District Court in Białystok, 12th Commercial Division of the National Court Register in Białystok, under KRS number 000038455.

The Company holds the following tax identification number (NIP): 7181005512 assigned by the Tax Office in Łomża on 20 January 2000.

The statistical office has assigned the Company the following REGON number: 450096365.

The Company operates under the provisions of the Commercial Companies Code. It is a single business enterprise and has no branches.

PEPEES S.A. with its registered office in Łomża is one of the largest starch potato processing plants in Poland and the only domestic producer of crystalline glucose. The high quality and complete health safety of the manufactured products is ensured thanks to the integrated management system implemented and certified since 2007. The Company’s products are widely used in the food, pharmaceutical, feed, chemical, textile or paper industries.

According to the Company’s Articles of Association, its core business is:

- ✓ potato processing;
- ✓ manufacture of starches and starch products;
- ✓ service activities related to the processing and preservation of fruit and vegetables;
- ✓ production of fruit and vegetable juices.

The business concerning manufacture of starches and starch products was active during the reporting period.

The share capital of the Company as at 30 June 2023 and as at the date of this report amounted to PLN 5,700 thousand and was divided into 95,000 thousand ordinary bearer shares with a nominal value of PLN 0.06 each.

As at the date of approval of this interim report, the shareholder structure of the Company was as follows:

SHAREHOLDER STRUCTURE	Number of shares [pcs]	Share in capital %	Number of votes	Share in the total number of votes at the GMS (%)
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**	20,423,531	21.50%	20,423,531	21.50%
Others	25,374,332	26.71%	25,374,332	26.71%

* As a result of failing to comply with notification obligations on the acquisition of significant blocks of shares under the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies of 29 July 2005, EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, which holds, according to the information held by the Company, 27,759,032 shares in the Company, has lost and cannot exercise voting rights under 21,402,233 shares. The Company's Management Board has therefore brought an action for determination before the District Court in Białystok. Epsilon FIZ AN takes the opposite position, maintaining that it is entitled to voting rights under 27,759,032 shares representing 29.22% of the total number of votes at the GMS. The Chairman of the Financial Supervision Authority joined the case and presented their position on 24 July 2019. The Company reported on the case in current reports Nos. 13/2019, 14 to 23/2019 and 30/2019. On 21/04/2023 the District Court of Białystok ruled that EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych with its registered office in Warsaw has lost the voting rights and cannot exercise them under 21,402,233 ordinary bearer shares. This ruling is not final, as the Company informed in current report No. 7/2023.

** Mr. Maksymilian Maciej Skotnicki and Mr. Michał Skotnicki are the persons referred to in Article 87(4)(1) of the Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies, and thus the total number of shares held by the aforementioned persons comprises 41,866,636 shares, which corresponds to 44.07% of the share capital and 56.89% of the number of authorised votes in the Company (taking into account the loss of the possibility to exercise voting rights by EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych).

1.1.2. Company authorities

As at 30 June 2023 and at the date of publication of this consolidated semi-annual report, the composition of the Management Board and Supervisory Board was as follows:

Management Board

Wojciech Faszczewski President of the Management Board

Tomasz Krzysztof Rogala Member of the Management Board

There were no changes to the Company's Management Board during the reporting period.

Supervisory Board as at 30 June 2023:

Maciej Kaliński Chairman of the Supervisory Board

Robert Malinowski Secretary of the Supervisory Board

Kajetan Rościszewski Member of the Supervisory Board

Jacek Okoński Member of the Supervisory Board

Agata Czerniakowska Member of the Supervisory Board.

Changes were made to the Company's Supervisory Board following the end of the reporting period.

Supervisory Board from 3 July 2023 until the date of publication of the consolidated semi-annual report:

Maciej Kaliński Chairman of the Supervisory Board

Robert Malinowski Deputy Chairman of the Supervisory Board

Agata Czerniakowska Secretary of the Supervisory Board

Kajetan Rościszewski Member of the Supervisory Board

Jacek Okoński Member of the Supervisory Board.

The Supervisory Board has an Audit Committee whose composition as at 30 June 2023 and the date of publication of this report was as follows:

Audit Committee

Maciej Kaliński	Chairman of the Audit Committee
Jacek Okoński	Deputy Chairman of the Audit Committee
Agata Czerniakowska	Member of the Audit Committee
Robert Malinowski	Member of the Audit Committee
Kajetan Rościszewski	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. Basic information about ZPZ LUBLIN Sp. z o.o.**

The Company’s registered office is located in Lublin, at ul. Betonowa 9. The Company operates as a limited liability company, incorporated by a notarial deed on 8 November 1996, drawn up at the Notary’s Office of Antonina Renata Bednara in Lublin, ul. Spokojna 8, Repertory A No. 6437/96 for unlimited duration. The Company is entered in the Register of Entrepreneurs kept by the District Court in Lublin, 11th Commercial Division of the National Court Register in Białystok, under KRS number 0000050886.

The Company holds the following tax identification number (NIP): 9461580419. The Company operates under the provisions of the Commercial Companies Code.

The Company’s core business includes mainly production and sale of starch syrup and dried potatoes.

The share capital of the Company as at 30 June 2023 was PLN 2,761,200 and the shareholders were:

PEPEES S.A.	-	22,748 shares with a value of PLN 2,274,800, i.e.	82.38%
Company employees	-	3,244 shares with a value of PLN 324,400, i.e.	11.75%
Farmers	-	1,620 shares with a value of PLN 162,000, i.e.	5.87%

1.2.2. The governing bodies of ZPZ LUBLIN Sp. z o.o. as of 30 June 2023***Management Board***

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

Supervisory Board

Wojciech Faszczewski	Chairman of the Supervisory Board
Piotr Marian Taracha	Deputy Chairman 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. Basic information about Pepees Inwestycje

The registered office of the Company is located in Łomża, ul. Poznańska 121. The Company was incorporated by a notarial deed (Repertory A 12369/2010) on 18 October 2010 before notary Tomasz Poreda in Łomża.

The Company is entered in the Register of Entrepreneurs kept by the District Court in Białystok, 12th Commercial Division of the National Court Register in Białystok, under KRS number 0000370060. The Company holds the following tax identification number (NIP): 7182123627.

The Company operates under the provisions of the Commercial Companies Code.

The core business of this Company, according to Articles of Association, is the purchase and sale of real estate for its own account.

As at 30 June 2023, the share capital of the Company amounted to PLN 95,000 and was divided into 1,900 equal and indivisible shares, PLN 50 each.

1.3.2. Governing bodies of Pepees Inwestycje as at 30 June 2023

Management Board

Roman Adam Minierski

President of the Management Board.

1.4. Przedsiębiorstwo Przemysłu Ziemniaczanego “BRONISŁAW” Spółka Akcyjna in Bronisław - subsidiary

1.4.1. Basic information about PPZ BRONISŁAW S.A.

Przedsiębiorstwo Przemysłu Ziemniaczanego Bronisław S.A. has been in operation since 23/11/2001. On 12/12/2017 (date of registration in the National Court Register) Przedsiębiorstwo Przemysłu Ziemniaczanego Spółka z ograniczoną odpowiedzialnością was transformed into Przedsiębiorstwo Przemysłu Ziemniaczanego Bronisław Spółka Akcyjna.

The Company's registered office is located in Bronisław 41, 88-320 Strzelno. The Company operates as a joint stock company, incorporated by notarial deed on 31/07/2017, Repertory A No. 1989/2017 for unlimited duration. The Company is entered in the Register of Entrepreneurs kept by the District Court in Bydgoszcz, 13th Commercial Division of the National Court Register in Bydgoszcz, under KRS number 0000708945.

The Company holds the following tax identification number (NIP): 5571595182.

The Company operates under the provisions of the Commercial Companies Code.

The Company's core business includes:

- manufacture of starches and starch products;
- processing and preserving potatoes;
- service activities supporting crop production.

As at 30 June 2023, the share capital of the Company amounted to PLN 800,000 and was divided into 800,000 shares with a nominal value of PLN 1 each. The shares are not preferred.

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

1.4.2. PPZ BRONISŁAW S.A. company bodies as at 30 June 2023

Management Board

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

Supervisory Board

Agata Czerniakowska	Deputy Chairman 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

Until 3 December 2022, the position of Chairman of the Supervisory Board was held by Mr. Tomasz Nowakowski, whose mandate expired upon his death. Since then, the Supervisory Board of PPZ BRONISŁAW has functioned without a Chairman, who was not appointed until the end of the reporting period, i.e. 30 June 2023.

As of 11 July 2023, Mr. Maciej Kaliński was appointed to the Supervisory Board of PPZ BRONISŁAW and was subsequently elected its Chairman as of 1 September 2023.

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

1.5.1. Basic information about Gospodarstwo Rolne Ponary Sp. z o.o.

The registered office of the Company is located in Łomża, ul. Poznańska 121. The Company operates as a limited liability company, incorporated by way of Articles of Association on 10 November 2015 for unlimited duration. The Company is entered in the Register of Entrepreneurs kept by the District Court in Białystok, 12th Commercial Division of the National Court Register in Białystok, under KRS number 0000585975.

The Company holds the following tax identification number (NIP): 1132898091.

The Company operates under the provisions of the Commercial Companies Code.

The Company's core business is agricultural crops combined with animal breeding and husbandry.

As at 30 June 2023, the share capital of the Company amounted to PLN 1,620,000 and was divided into 32,400 equal and indivisible shares with a nominal value of PLN 50 each.

The sole shareholder of the Company is PEPEES.

1.5.2. Governing bodies of Gospodarstwo Rolne Ponary Sp. z o.o. as at 30 June 2023

Management Board

Tomasz Krzysztof Rogala

President of the Management Board.

2. Business of the PEPEES Capital Group companies

The PEPEES Capital Group is comprised of companies specialising primarily in potato processing to produce, among other things, potato starch, maltodextrin and potato flakes.

Each of the companies performs specific functions which involve taking actions and carrying out activities and contributes significantly to value creation within the PEPEES Capital Group.

"PEPEES" S.A. acts as the Parent. The Management Board of "PEPEES" S.A. prepares the Group's development strategy and takes key decisions concerning both the scope of operations and finances of the entities forming the PEPEES Capital Group.

PEPEES has one of the largest starch plants producing potato starch in Poland. Its capacity reaches up to 2,400 tonnes of potatoes per day. Significant involved assets include the machinery used in the production of starch, a staff of specialised employees and storage space.

ZPZ Lublin Sp. z o.o. with its registered office in Lublin focuses on processing table 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 arable land at its disposal, leased by the Parent for the purpose of growing crops such as starch potatoes.

3. Changes in the organisation of the PEPEES Capital Group

There were no changes in the organisation of the PEPEES Capital Group in the reporting period.

II. BUSINESS PROFILE OF THE PEPEES CAPITAL GROUP

1. Operating market profile

The PEPEES Capital Group's core business in the reporting period was production, trade and service activities, focusing mainly on potato processing.

There are three segments within the PEPEES Capital Group, i.e.: "potato processing", "agricultural crops combined with animal husbandry" and "purchase and sales of property for own account".

All assets and liabilities of Gospodarstwo Rolne Ponary are allocated to the "agricultural crops combined with animal breeding and husbandry" segment. As Ponary did not generate sales revenue in H1 2023, the "agricultural crops combined with animal breeding and husbandry" segment was not identified in segment revenue and results. Due to the value of Ponary's land holdings, the segment has been identified in the

consolidated financial statements solely for the purpose of presenting its assets and liabilities.

The “purchase and sales of property for own account” segment includes all assets and liabilities of Pepees Inwestycje Sp. z o.o.

All other assets and liabilities recognised in the consolidated financial statements are allocated to the “potato processing” segment.

Both starch and table potatoes are processed in the PEPEES Capital Group. Potatoes are the primary source of starch not only in Poland but throughout Europe. Starch potatoes are potatoes containing no less than 13% starch. Food and technical purpose starch is obtained from such potatoes by mechanical separation from other potato components, washing, cleaning, drying and sifting.

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

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

Features of companies competing in the EU market:

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

The biggest 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" sp. z o.o. in Piła, Przedsiębiorstwo Przemysłu Ziemniaczanego NOWAMYŁ S.A., Przedsiębiorstwo Przemysłu Ziemniaczanego S.A. in Niechlów.

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

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

The “potato processing” segment produces:

- ✓ potato starch with a wide range of applications in the food, pharmaceutical, paper, textile and chemical industries;
- ✓ several ranges of glucose used by the food; confectionery and pharmaceutical industries;

- ✓ maltodextrin, which is an important ingredient in powdered products (ice creams, sauces, soups, fruit extracts, flavoured sprinkles) and nutritional and vitamin and mineral preparations for children and athletes;
- ✓ protein which is obtained from potato cell sap by coagulation, separation and drying; it is a valuable component of animal feeds and an excellent substitute for animal protein;
- ✓ a wide range of glucose syrups for use in the confectionery and baking industry;
- ✓ potato grits, potato flakes, potato cubes and dumplings; products used by the food industry.

Potato starch

Potato starch (potato flour) is obtained by mechanically crushing the potatoes, extracting, refining, dehydrating, drying and sifting.

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

In the food and pharmaceutical industries, starch is used to give products the right texture, appearance (form), moisture, consistency and shelf life during storage.

Starch

Starch is extracted from mashed potato tuber cells by rinsing, then cleaning, drying and sifting. The commercial product contains approximately 40% water. The raw material for starch production is potatoes for industrial use with suitable quality features, i.e. high starch content with the highest possible proportion of large starch grains, low non-starch substances, low protein content, round tuber shape, crisp pulp, shallow-set spots.

Potato protein

This product is obtained from potato cell sap by coagulation, separation and drying. The finished product is a free-flowing, grey powder, an odour typical of dried potato protein and a moisture content of no more than 10%. A characteristic feature of the product is its high total protein content of more than 80%, with digestible protein accounting for more than 70% of dry matter. As a high-value, easily digestible vegetable protein, the product is a valuable component of animal feed mixtures and is an excellent animal protein substitute.

Grit

Grit is a starch plant waste product. It is made of lumps of conglomerated and gelatinised starch separated from dried potato meal.

Potato flakes

Potato flakes are made from table potato varieties. These are steamed and then dehydrated 0.2-0.5 mm flakes.

Starch hydrolysates

✓ **Crystalline glucose**

Crystalline glucose is the end product of potato starch hydrolysis. It is in the form of a white, fine, sweet-flavoured crystalline powder. It is characterised by a very high degree of microbiological purity and contains approximately 99.5% pure glucose. Crystalline glucose is a monosaccharide, high in calories and easily absorbed by the body. It is a valuable natural source of energy. Glucose has found extensive use in the production of pharmaceutical and dietary products (medicines, nutritional supplements). Its intake is particularly important during increased physical exertion and recovery.

The food industry mainly uses the properties of glucose as an agent promoting sweetness perception and enhancing product flavour. It is used for confectionery, ice cream, desserts, dry food mixes, soft drinks, and fruit and vegetable products. In addition, crystallised glucose is used by the brewing, wine, baking and meat industries.

✓ **Anhydrous glucose**

Anhydrous glucose is a product obtained by fluidising drying of crystalline glucose to a moisture content of less than 1%. The product meets high microbiological requirements. The entire anhydrous glucose production is used by the pharmaceutical industry. Its main use is in the production of infusion fluids.

✓ **Maltodextrin**

Maltodextrin is a depolymerisation product of potato starch obtained by enzymatic hydrolysis. It is in the form of a slightly sweet-flavoured white powder. The properties of maltodextrin change depending on the degree of starch hydrolysis. An increase in DE (dextrose equivalent) results in an increase in sweetness, accompanied by an increase in solubility and hygroscopicity, and a decrease in viscosity, binding strength and resistance to crystallisation. Maltodextrin has found its way into food production due to its binding, filling and texture-enhancing properties, as well as its flavour and odour stabilising properties. It is an important ingredient in powdered products (ice creams, sauces, soups, fruit extracts, flavoured sprinkles) and nutritional and vitamin and mineral preparations for children and athletes. It constitutes a significant carbohydrate component in modified milk and infant nutrition meals. A large proportion of maltodextrin is used in the production of reduced-calorie foods.

✓ **Glucose syrups**

Glucose syrups are concentrated aqueous solutions of monosaccharides (glucose, maltose) and low molecular weight polysaccharides, obtained by enzymatic hydrolysis of starch. They are temperature and chemically stable, and are characterised by high osmotic

pressure. Glucose syrups are used in the production of hard and soft caramel drops, chewing

gums, fruit jellies, ice cream, desserts, confectionery. Glucose syrup increases plasticity, affects the durability of the colour and flavour, and provides transparency and gloss. The syrup ensures the appropriate structure and delicate sweetness, improves structural properties, inhibits sugar crystallisation, preserves the natural colour of fruit, adds delicate flavour, and enhances the aroma.

✓ **Hydrol**

Hydrol is a waste product. It is an intercrystalline juice remaining after the separation of glucose crystals from concentrated glucose syrup - massecuite. It is a dense, dark brown liquid with a characteristic aroma. Due to its high content of carbohydrates, hydrol is used in the spirits, feed-producing and chemical industries (e.g. for tanning).

In addition to the above products, in H1 2023 within the Group, sales revenue was 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 the “agricultural crops combined with animal breeding and husbandry” segment. Due to the value of GR Ponary Sp. z o.o.’s land holdings, this segment has been identified in this report solely for the purpose of presenting its assets and liabilities. The third segment comprises the purchase and sale of property on own market conducted by Pepees Inwestycje Sp. z o.o.

3. Sales volume and structure

The Capital Group operates in a highly competitive market both domestically and internationally, surrounded by domestic entities as well as major multinational corporations. On the Polish market, both in terms of value and volume, it holds one of the leading positions.

A summary of the structure of sales revenue in the period from 1 January 2023 to 30 June 2023 compared with the same period in 2022 is shown in Table No. 1 and Charts No. 1 and 2.

Table No. 1: Structure of net sales revenue for the 6-month period of 2023 and 6-month period of 2022

(data in PLN thousand)

Product range	For the 6-month period ended 30 June 2023	2023 structure	For the 6-month period ended 30 June 2022	2022 structure	Dynamics
Potato products	110,560	90.98%	117,733	93.14%	93.91%
Other sales, including:	10,963	9.02%	8,673	6.86%	126.40%
a) services	537	0.44%	453	0.36%	118.54%
b) goods and materials	10,426	8.58%	8,220	6.50%	126.84%
Total net sales revenue	121,523	100.00%	126,406	100.00%	96.14%

Chart No. 1: Structure of sales revenue for the 6-month period of 2023

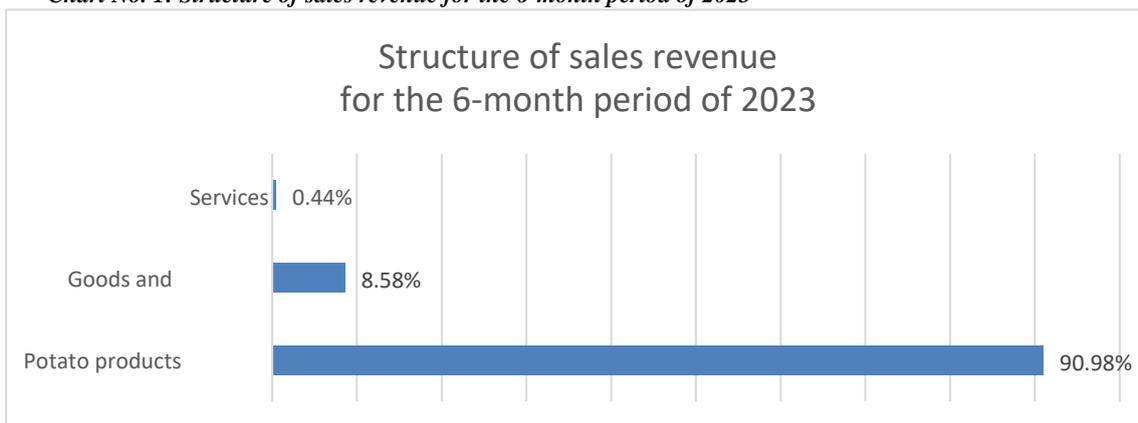
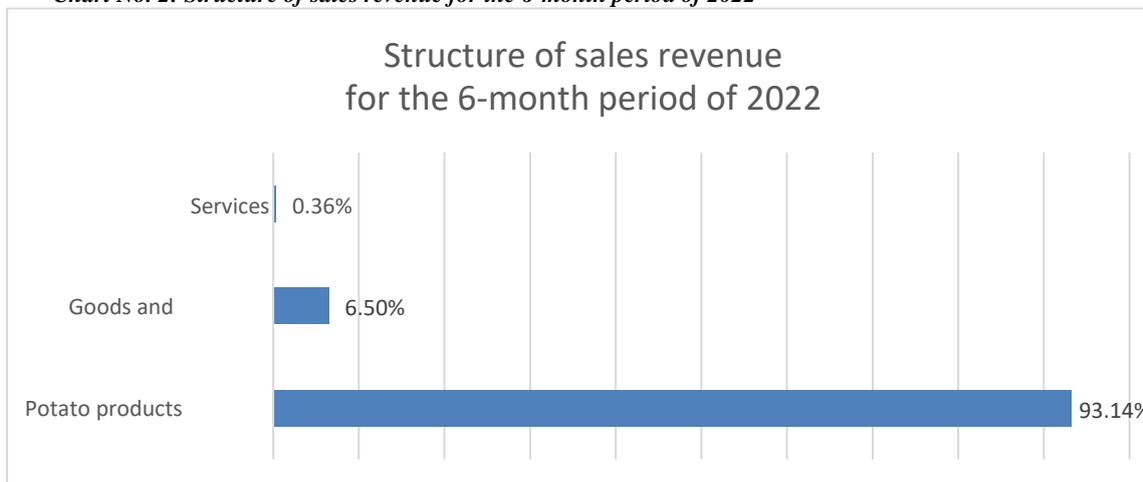


Chart No. 2: Structure of sales revenue for the 6-month period of 2022



4. Information on domestic and foreign markets

The Group distributes both through a network of wholesalers and trading companies supplying the food industry, as well as supplies products directly to production plants mainly in the meat, food, confectionery, baking and pharmaceutical industries, for which starch products are a raw material used for further processing or a component in the production process. The packaging of products for retail sale allows cooperation with the largest retail chains as well as customers operating in the so-called traditional market. This way, the PEPEES Capital Group brand products reach customers who source starch products for their own needs.

PEPEES Capital Group distribution channel diagrams

The distribution channels are as follows:

Company \Longrightarrow customer (manufacturer - wholesale customer)

Company \Longrightarrow wholesaler \Longrightarrow customer (manufacturer - smaller volume customer)

Company \Longrightarrow wholesaler \Longrightarrow shop \Longrightarrow consumer

Company \Longrightarrow sales chain \Longrightarrow consumer

Transfers with 30, 45 and 60-day payment deadlines are the most common form of settlement. The deferred payment period depends on the length of cooperation with the customer in question, its financial capacity and the volume of goods purchased. The insurer's assessment of financial credibility and the financial limit granted is also the deciding factor. Prepayment is the form used in the case of a new customer. For export sales, a common form of payment is a letter of credit.

Sales revenue by market is presented in the table below.

Table No. 2: Sales revenue by market

Net sales revenue	For the 6-month period ended 30 June 2023	2023 structure	For the 6-month period ended 30 June 2022	2022 structure
Poland, including	91,177	75.03%	78,900	62.42%
– products	81,937	67.43%	72,516	57.37%
- goods and materials	8,703	7.16%	5,931	4.69%
- services	537	0.44%	453	0.36%
EU countries – intra-Community supplies, including:	8,267	6.80%	8,145	6.44%
– products	8,267	6.80%	8,145	6.44%
- goods and materials	-	0.00%	-	-
Other countries – export, including:	22,079	18.17%	39,361	31.14%
– products	20,357	16.75%	37,071	29.33%
- goods and materials	1,722	1.42%	2,290	1.81%
Total	121,523	100.00%	126,406	100.00%

4.1. Domestic sales by industry and geographical structure

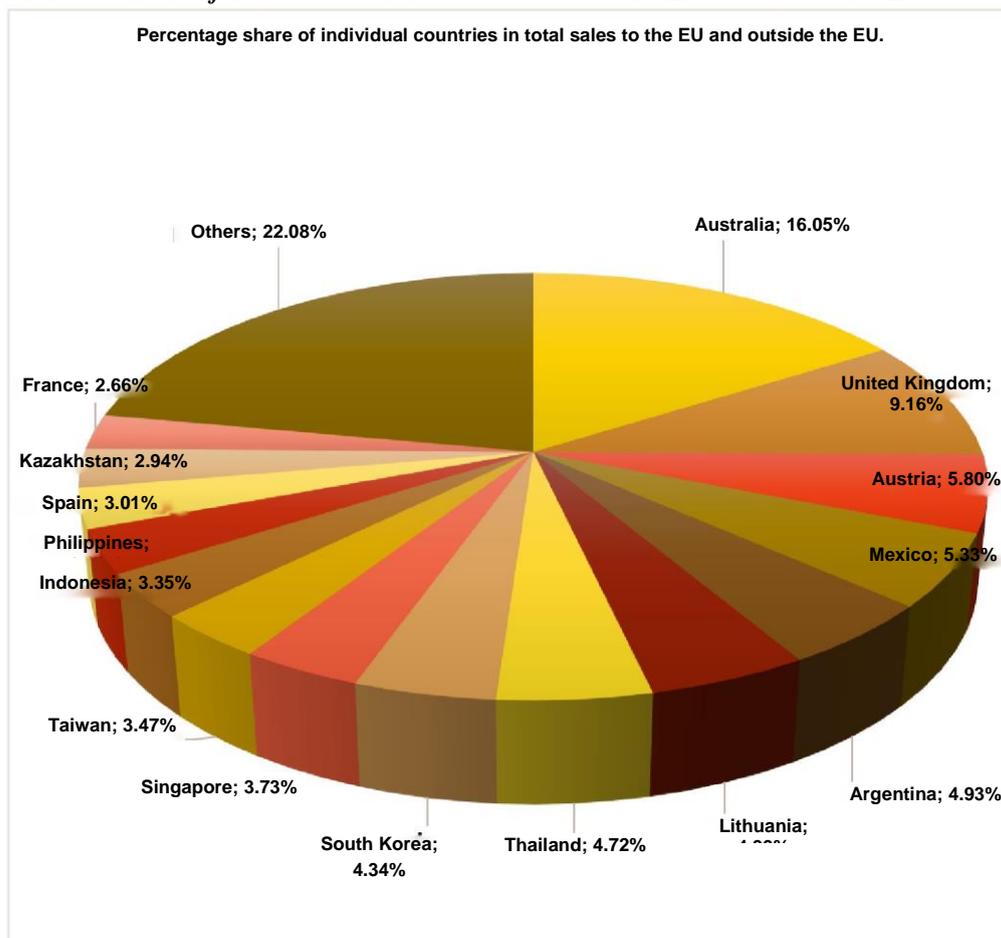
Sales of potato industry’s products in H1 2023 were made throughout the country. The largest share by value of sales on the domestic market was that of sales of the core proposed product, i.e. potato starch (50.8%). The next products in terms of share by value are dried potatoes - grits and flakes (12.9%), maltodextrin (11.0%), and glucose (8.1%). The main customers for the Parent’s products on the domestic market are mostly renowned domestic companies, often with equity links to large European and global companies.

The Group distributed both through a network of wholesalers and trading companies supplying the food industry, as well as supplied products directly to production plants mainly in the food, confectionery, meat and pharmaceutical industries, for which starch products are a raw material used for further processing or a component in the production process. No customer exceeded 10% of sales revenue of both the Group and the Parent.

4.2. Export and intra-Community sales

In H1 2023 export and intra-Community sales amounted to PLN 30,346 thousand, showing a decrease of 36% compared to last year. In H1 2023 the Group exported its products, mainly potato starch, to approx. 40 countries. Most products were sold to Australia, the UK, Austria and Mexico.

Chart No. 3: Share of individual countries in total sales to the EU and outside the EU



5. Information on sources of supply of production materials, goods and services

In the PEPEES Group, the main raw materials for production are potatoes for industrial use and table potatoes which are purchased in the autumn on the basis of procurement contracts concluded in the spring. Since the early 1990s, there has been a downward trend in potato production in Poland. At the end of the 1990s, their share in the crop structure exceeded 10%; today it is less than 3%. Approx. 235,000 hectares are cultivated in Poland, with starch potatoes accounting for only 5% of the total potato cultivating area. Rising cultivation costs are also affecting the potato crops which are already among the most cost-intensive ones. Costs are generated by certified seed potatoes, fertilisers and harvesting and storage. The COVID-19 pandemic has also greatly slowed down the potato market. Many farmers are either reducing the potato cultivating area or abandoning cultivating it altogether.

To reverse the unfavourable trend, the potato and potato starch processing sector wants the Ministry of Agriculture to increase potato subsidies to encourage creation of more acreage. Figures cited by representatives of the Ministry of Agriculture show that in the 2022/2023 campaign, the purchase of starch potatoes was 25% less than in the previous season (720,000 tonnes) and the number of growers dropped below 4,000. In contrast, the price has increased by 150% in the last two years.

The Capital Group's management board is constantly looking for solutions to encourage growers to plant potatoes. During the reporting period, a meeting was held at the Issuer's headquarters on 20 March 2023 with the Secretary of State at the Ministry of Agriculture and Rural Development, Lech Antoni Kołakowski. The meeting to address the situation of starch potato farmers and the starch industry was also attended by potato cultivation specialists from the Polish Potato Association ["Stowarzyszenie Polski Ziemniak"], representatives of the starch production industry and potato farmers. The Deputy Minister of Agriculture encouraged farmers to grow potatoes, assuring them of an increase in subsidies for certified seed and the purchase of potatoes by Polish processing companies.

In addition to potatoes, which are the main raw material, the PEPEES Capital Group also buys the following raw materials and materials for production: paper packaging, enzymes, starch, glucose syrup, industrial gases, electrical materials, fine coals, metal parts, bags, sulphur dioxide, shrink film, hydrochloric acid, labels, cardboard boxes, diatomaceous earth, adhesives, varnishes, thinners, enamels, steel strip, pesticides, etc.

The sources of supply for the basic raw material, potatoes for industrial use, are individual farmers who are not affiliated to any organisations of importance to the Group's operations.

The main sources of supply of materials, goods and services in H1 2023 were Polish companies or branches of foreign companies. Dependence on a single supplier occurred in the case of enzymes and filtration materials due to the fact that these are the only representatives of foreign companies in Poland producing the raw materials which the Group needs.

There is no customer with a share of 10% or more in the Group's revenue. In contrast, there are customers in the individual products' group that account for more than 10% of sales of a given product. This means that:

- more than 39% of maltodextrin was sold to two domestic business partners (23.8% and 15.4% respectively);
- more than 34% of glucose was sold to two domestic business partners (23.8% and 10.7% respectively);
- more than 16% of protein was sold to a domestic customer.

6. Information on contracts significant for the Group's business activities

6.1. Business contracts

In H1 2023 the Issuer concluded a contract for the construction of a line of modified products of starch with a total value of PLN 14.5 million. The project is scheduled to be completed in H1 2024.

Apart from the aforementioned contract, the PEPEES Capital Group did not conclude any business contracts of significant value or significant cooperation/collaboration agreements.

Notwithstanding the above, the Issuer points to the following agreements and contracts concluded in H1 2023:

- an agreement for the purchase of potato plant protection products worth more than PLN 1 million;

- lease agreements for new agricultural land (Wrzosy farm);
- trade agreements;
- contracts for the purchase and modernisation of production machinery and equipment, as well as repair works.

6.2. Credit facility contracts

No new credit facility contracts were concluded by CG companies in H1 2023.

6.3. Loan contracts

In H1 2023 the Issuer granted the following loans:

- a loan of PLN 2.5 thousand granted to the related company, PPZ Bronisław S.A., for current operations (repayment term: 31/12/2023)
- a loan of PLN 500 thousand granted to the entity under the name Dariusz Dorożko Usługi Rolnicze for the purchase of a combine harvester to provide agricultural services for PEPEES (repayment term: 30/11/2026)

6.4. Lease contracts concluded in H1 2023

In H1 2023 the Issuer did not enter into any new lease contracts.

6.5. Insurance contracts

The companies have entered into the following insurance contracts:

- insurance of property against fire and other elements;
- insurance for loss of profit;
- insurance of property against burglary and robbery;
- electronic equipment insurance;
- third-party liability insurance, including:
 - tort third party liability
 - contract third party liability
 - product third party liability
 - management board members' third party liability,
- insurance for domestic and foreign market trade receivables,
- motor vehicle insurance (third party liability, motor hull insurance).

6.6. Agreements between Shareholders

As at the date of this report, the Company is not aware of any agreements between its Shareholders.

7. Information on the Issuer's organisational or equity links with other entities and identification of its main domestic and foreign investments

As at 30 June 2023, 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 a measurement made using the discounted future cash flow method by an independent actuary, is PLN 6,893 thousand as at 31/12/2022.

WRSRH shares represent 3.33% of WRSRH's capital and 1.6% of the voting rights at the GMS. The State Treasury is the main owner of WRSRH, holding more than 71.83% of the capital. PEPEES does not exercise control over WRSRH.

The Group also holds shares in SBR, Spółdzielczy Bank Rozwoju [Cooperative Development Bank], with its registered office in Szepietowo, with a total value of PLN 270,000, as well as shares in 3 other domestic entities (ZM Ostrołęka, the Development Agency and BPS) which provide less than 5% of the total number of votes at the general meeting and are not significant in terms of the Group's value and investment policy. Consequently, these shares have been reported at the transaction price.

Key financial data of subsidiaries

Name (business name) of subsidiary	Equity as at 30/06	Assets as at 30/06	Liabilities as at 30/06	H1 sales revenue	H1 profit/(loss)
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
2023					
ZPZ LUBLIN Sp. z o.o.	5,256	14,329	9,073	12,668	1,286
PPZ BRONISŁAW	17,383	62,541	45,158	29,482	897
Pepees Inwestycje Sp. z o.o.	55	56	1	-	(3)
Gospodarstwo Rolne PONARY Sp. z o.o.	15,527	21,451	5,924	-	47

ZPZ Lublin Sp. z o.o. generated a profit in H1 2023, while incurring a loss in the comparable period last year.

PPZ Bronisław S.A. decreased its sales revenue by more than PLN 6 million which translated into a lower profit than in the comparable period of the previous year.

Pepees Inwestycje Sp. z o.o. did not generate any sales revenue.

Ponary Sp. z o.o. did not generate any sales revenue. The net profit achieved in H1 is due to the financial revenue received each month - fees for granting credit surety to the Parent.

Methods of financing subsidiaries in H1 2023

ZPZ LUBLIN Sp. z o.o.	self-financing and credit financing (bank credits and a loan from PEPEES)
PPZ BRONISŁAW S.A.	self-financing and credit financing (bank credits and loans from PEPEES)
Pepees Inwestycje Sp. z o.o.	self-financing
Gospodarstwo Rolne PONARY Sp. z o.o.	self-financing and credit financing (loan granted by PEPEES)

8. Description of transactions between related parties

In the period under review, the Parent, "PEPEES" S.A., entered into transactions with related parties that were of a typical nature, resulting from the day-to-day operating activities conducted by "PEPEES" S.A. and its subsidiaries. The transactions were concluded at arm's length. In addition, some of the concluded transactions result from existing agreements with financial institutions, one of hedging of which are mutual guarantees of the PEPEES Capital Group entities that are parties to the respective contracts.

Undertaking cooperation by the Capital Group companies is intended to increase the level of utilisation of

the resources available to the entities involved in the transaction and to reduce the risks accompanying their activities.

The allocation of risk and the division of the company's functions allow it to reduce operating costs and make efficient use of financial resources. Granting surety for a liability, as well as securing its repayment among related parties, allows for faster contract execution which may contribute to more efficient management of the entities within the PEPEES Capital Group.

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 on Public Companies, the Supervisory Board of Pepees periodically evaluates transactions with related parties.

9. Information on credits and loans taken out

As at 30 June 2023, the PEPEES Capital Group had credit liabilities as shown in the table below:

Table 3: Credit liabilities as at 30/06/2023

Credit type	Lending bank	Borrower	Contractually agreed credit amount	Currency	Debt as at 30/06/2023	Repayment date
Credit on the current account	Santander Bank Polska S.A.	"PEPEES" S.A.	4,000	PLN	4,000	31/08/2023
working capital loan	Santander Bank Polska S.A.	"PEPEES" S.A.	36,500	PLN	9,340	31/08/2023
Credit on the current account	Powszechna Kasa Oszczędności Bank Polski S.A.	"PEPEES" S.A.	4,000	PLN	2,480	31/08/2023
Revolving credit	Powszechna Kasa Oszczędności Bank Polski S.A.	"PEPEES" S.A.	19,000	PLN	4,750	31/08/2023
Working capital facility for the purchase of potatoes	Powszechna Kasa Oszczędności	"PEPEES" S.A.	17,500	PLN	4,375	31/08/2023

Management Report of the Capital Group for the 6-month period ended 30 June 2023 (data in PLN thousand)

Credit type	Lending bank	Borrower	Contractually agreed credit amount	Currency	Debt as at 30/06/2023	Repayment date
	Bank Polski S.A.					
Investment credit to finance and refinance the acquisition of 100% of the shares in Gospodarstwo Rolne Ponary Sp. z o.o.	Powszechna Kasa Oszczędności Bank Polski S.A.	"PEPEES" S.A.	10,530	PLN	3,008	30/06/2025
Loan for the purchase of property, plant and equipment - Deutz Fahr agricultural tractor	BNP Paribas Lease Group	"PEPEES" S.A.	937	PLN	550	13/08/2024
Credit on the current account	BNP Paribas Bank Polska SA	"PEPEES" S.A.	1,000	EUR	814	19/12/2023
Credit on the current account	Santander Bank Polska S.A.	ZPZ "LUBLIN" Sp. z o.o.	2,000	PLN	720	31/08/2023
Revolving credit	Santander Bank Polska S.A.	ZPZ "LUBLIN" Sp. z o.o.	6,500	PLN	1,625	31/08/2023
Credit on the current account	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ "LUBLIN" Sp. z o.o.	2,000	PLN	683	31/08/2023
Revolving credit	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ "LUBLIN" Sp. z o.o.	5,000	PLN	1,250	31/08/2023
Working capital facility for the purchase of potatoes	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ "LUBLIN" Sp. z o.o.	1,500	PLN	375	31/08/2023
Credit on the current account	Santander Bank Polska S.A.	PPZ "Bronisław" S.A.	700	PLN	604	31/08/2023
Working capital loan	Santander Bank Polska S.A.	PPZ "Bronisław" S.A.	17,800	PLN	4,449	31/08/2023
Credit on the current account	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ "Bronisław" S.A.	700	PLN	572	31/08/2023
Purchase credit	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ "Bronisław" S.A.	8,500	PLN	2,325	31/08/2023
Revolving credit	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ "Bronisław" S.A.	9,300	PLN	2,125	31/08/2023
Investment loan	BOŚ	PPZ "Bronisław" S.A.	8,456	PLN	4,228	31/12/2027
Credits in PLN			154,923	PLN	47,470	
Credits in EUR			1,000	EUR	814	
Total after conversion to PLN			159,373	PLN	51,093	

The interest rate on short-term credits is based on WIBOR for 1M deposits plus bank margins, and on long-term loans on WIBOR for three-month deposits plus bank margins. All credits are in PLN.

None of the Group's loans were terminated during H1 2023, nor did the Group companies terminate their loan contracts during this period.

10. Information on loans, guarantees and sureties granted

Loans

As at 30 June 2023, the Group had the following loans granted by the Parent to its subsidiaries:

Loan of 10 January 2018 granted to the subsidiary GR Ponary Sp. z o.o. in the amount of PLN 550 thousand.

Outstanding amount: PLN 300 thousand. Repayment term: 31/12/2023

Loan 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 term: 31/12/2023

Loan 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 term: 31/12/2023

Loan 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 term: 31/12/2023

Loan of 30 May 2022 granted to the subsidiary PPZ Bronisław S.A. in the amount of PLN 1.400

Outstanding amount: PLN 1,400 thousand. Repayment term: 31/12/2023

Loan of 29 June 2023 granted to the subsidiary PPZ Bronisław S.A. in the amount of PLN 2.500

Outstanding amount: PLN 2,500 thousand. Repayment term: 31/12/2023

Loan of 30 June 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 term: 31/12/2023

Sureties

Sureties granted to subsidiaries by the Parent, "PEPEES" S.A., as at 30/06/2023:

Agreement of 30 July 2018 concerning the terms and conditions of granting credit repayment security concluded between "PEPEES" S.A. in Łomża and PPZ Bronisław S.A. Pursuant to the agreement, "PEPEES" S.A. provides security for the repayment of the Investment Credit from Foreign Credit Lines taken out by PPZ Bronisław S.A. The value of the investment credit taken out by PPZ Bronisław S.A. amounts to PLN 8,456 thousand. The security provided by "PEPEES" S.A. is in the form of a notary statement of submission to enforcement up to the amount of PLN 12,684 thousand. PEPEES charges a monthly fee of 1% on the granted surety.

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

Sureties granted to the Parent, "PEPEES" S.A., as at 30/06/2023:

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

A fixed remuneration of PLN 13,162.50 has been agreed for the sureties granted and received, calculated on a monthly basis in accordance with the concluded agreements, specifying the terms of sureties.

In the reporting period and until the date of this report, the PEPEES Capital Group companies did not grant any loans, sureties or guarantees other than those indicated above.

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

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

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

CHANGE IN CONTINGENT ASSETS (ON ACCOUNT OF)	For the 6-month period ended 30 June 2023	For the 12-month period ended 31 December 2022	For the 6-month period ended 30 June 2022
a) opening balance, including	15,795	15,795	15,795
- surety for investment credit by GR PONARY	15,795	15,795	15,795
b) increase (under)	-	-	-
- surety for investment credit by GR PONARY	-	-	-
c) utilisation (under)	-	-	-
d) closing balance, including	15,795	15,795	15,795
- surety for investment credit by GR PONARY	15,795	15,795	15,795

CHANGE IN CONTINGENT LIABILITIES (ON ACCOUNT OF)	For the 6-month period ended 30 June 2023	For the 12-month period ended 31 December 2022	For the 6-month period ended 30 June 2022
a) opening balance, including	14,451	14,449	14,449
- liabilities under non-competition agreements	1,767	1,765	1,765
- surety for credits to related companies	12,684	12,684	12,684
b) increase (under)	4	41	15
- liabilities under non-competition agreements	4	41	15
- surety for credits to related companies	-	-	-
c) release (under)	-	39	39
- liabilities under non-competition agreements	-	39	39
- surety for credits to related companies	-	-	-
d) closing balance, including	14,455	14,451	14,425
- liabilities under non-competition agreements	1,771	1,767	1,741
- surety for credits to related companies	12,684	12,684	12,684

12. Description of the utilisation of proceeds from the issue of shares or purchase of treasury shares

The Company and the Group have not issued securities in 2023.

On 17 January 2023 the Management Board of PEPEES S.A. announced an invitation to submit offers for the sale of shares on the basis of the authorisation granted by the Ordinary General Meeting of Shareholders by Resolution No. 28 of 14 April 2022. The invitation concerned the purchase of no more than 1,000,000 ordinary bearer shares of the Company marked with the code PLPEPES00018, representing in total 1.05% of the Company's share capital and the total number of votes at the Company's General Meeting.

The purchase price for the treasury shares was set at PLN 1.65 per share. The invitation was addressed to all shareholders of the Company.

As a result of the aforementioned invitation, 1,000,000 treasury shares were acquired at the proposed price of PLN 1.65 per share.

The acquired shares represent 1.05% in the Company's share capital and provide 1.05% of the total number of votes attributable to all shares in the Company.

The total number of treasury shares held by the Company is 1,186,487 shares, representing 1.25% of the Company's share capital. These shares provide a total of 1.25% of the total number of votes attributable to all shares in the Issuer (as at the date of publication of the report).

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

13. Explanation of differences between the financial results disclosed in the report and the previously published profit forecasts for the given year

The Parent and the PEPEES Capital Group did not publish financial forecasts for 2023.

14. Assessment of financial resources management

In H1 2023, both the Parent and the Group had the capacity to settle their liabilities with suppliers and financial institutions. There were no risks in terms of repayment of liabilities.

The Group's liquidity should not be at risk in the next reporting period either. Any generated surplus cash is transferred to short-term deposits.

15. Information on financial risk instruments and financial risk management objectives and methods

Information on financial instruments used and financial risks converge for the Capital Group and the Parent which coordinates the management of the aforementioned risks at Group level.

The main financial instruments used by the Group were bank credits, lease contracts, short-term deposits and cash.

The Group did not enter into derivative transactions during the reporting period. It also did not apply hedge accounting.

Other instruments arising directly in the course of business were trade receivables and liabilities.

The main financial risks in H1 2023 were the risk of changes in credit interest rates, the risk of market prices for products manufactured by the Group and currency risk. The enterprise's primary objective in managing the above risks is to eliminate or reduce them.

The Group's business risk is closely linked to changes in the price of products on the domestic market and currency exchange rates, the fluctuations of which affect export sales revenue. In parallel, the purchase prices of imported production materials depend on the currency risk level.

The financing of operating and investing activities with bank credits and leasing leaves the Group exposed to interest rate risk.

The liquidity risk present in the Group is assessed as not high. This is due to the smooth functioning of the trade credit management policy. Business partner assessment and receivables insurance is carried out by KUKI.

Management boards of companies review and agree policies for managing each risk type. They monitor market price risk on all financial instruments held.

16. Information on completed investments and investment plans

In the first half of 2023, the PEPEES Capital Group carried out several investment projects and renovation and construction works.

Major investment projects:

- construction of a line of modified products of starch;
- purchase of laboratory equipment for the analysis of quality and physical and chemical parameters of finished products and environmental studies;

- replacement of filters including the installation of a filter flushing system with treated water in the plant boiler room for water treatment purposes.

In the next six months of 2023, the Group will continue with the investments and renovation and construction works.

17. Information on environmental issues

Legislation relating to the environment and the use of natural resources is constantly changing, and the trend in recent years has been to tighten the standards in force. As a result, the Group may not be able to comply with and act in accordance with future changes in legislation, or such legislative changes may adversely affect the Group's business. In addition, changes in environmental law may lead to the need to adapt the operations of Group companies to new requirements (e.g. introduce changes in the technologies used by the Group to reduce air emissions, or changes in the manner the Group manages waste, conducts water and waste water management), including obtaining new permits, or changing the terms of existing permits held by Group companies. Such an obligation may require the Group to incur certain additional investment expenditures and thus may affect its financial position by increasing its operating costs. The Group seeks to mitigate risks by continuously monitoring environmental legislation and making the necessary investments to meet all environmental requirements. Conscious and responsible action based on the highest environmental standards and consistency in fulfilling environmental tasks are among the Group's priorities. These measures have great potential for risk and cost reduction in the adaptation of the Group's environmental activities to new conditions.

In carrying out its production activities, the Group makes every effort to comply with environmental protection requirements. It has a regulated formal and legal status concerning emissions, water abstraction, waste water input or waste generation. Monitoring of environmental impacts is carried out through a system of periodic measurement and recording of the volume and characteristic parameters of air and waste emission streams, as well as the volume of water intake and discharged waste water. The current form of monitoring, dictated by the administrative permits held by the Company, must be considered sufficient to assess the operation of the plant. Waste handling is carried out under conditions that prevent environmental pollution and ensure human health and safety. The PEPEES Capital Group has an Integrated Management System in place which includes quality management, environmental protection, activities to ensure the health and safety of employees and a quality management system for laboratories. The Capital Group companies keep quantitative and qualitative records of waste rotation in accordance with the classification adopted and the specimen documents defined by the relevant regulations. However, it should be emphasised that due to the increasing environmental protection requirements, the PEPEES Capital Group envisages taking the necessary measures in the field of water and waste water management for better environmental protection in the adopted strategy for the years 2019 to 2024.

18. Information on employment within the Group

Table No. 5: Employment in the PEPEES Capital Group

Item	Average headcount in H1 2023	As of 30 June 2023		Average headcount in the previous financial year 2022
		Women	Men	
White-collar workers	141	73	68	143
Blue-collar employees	228	24	203	226
Persons on unpaid leave	3	1	2	4
Total	372	98	273	373

19. Major achievements in research and development

The Group did not carry out any major research and development activities in H1 2023.

20. Unusual events with a significant impact on the Group's business performance in H1 2023

In H1 2023 there were no unusual events with significant impact on the financial results of PEPEES Group.

21. Corrections of prior periods' errors and changes in accounting policies

The Group did not voluntarily change accounting policies or correct previous years' errors. The Company's financial statements (separate and consolidated respectively) are prepared in accordance with IAS/IFRS provisions.

22. Information on changes in the Issuer's shares or the rights thereto held by members of the Issuer's management and supervisory staff

Mr. Wojciech Faszczewski, acting as President of the Company's Management Board, holds 701,000 shares in the Parent. The person referred to above is not entitled to shares in the Company.

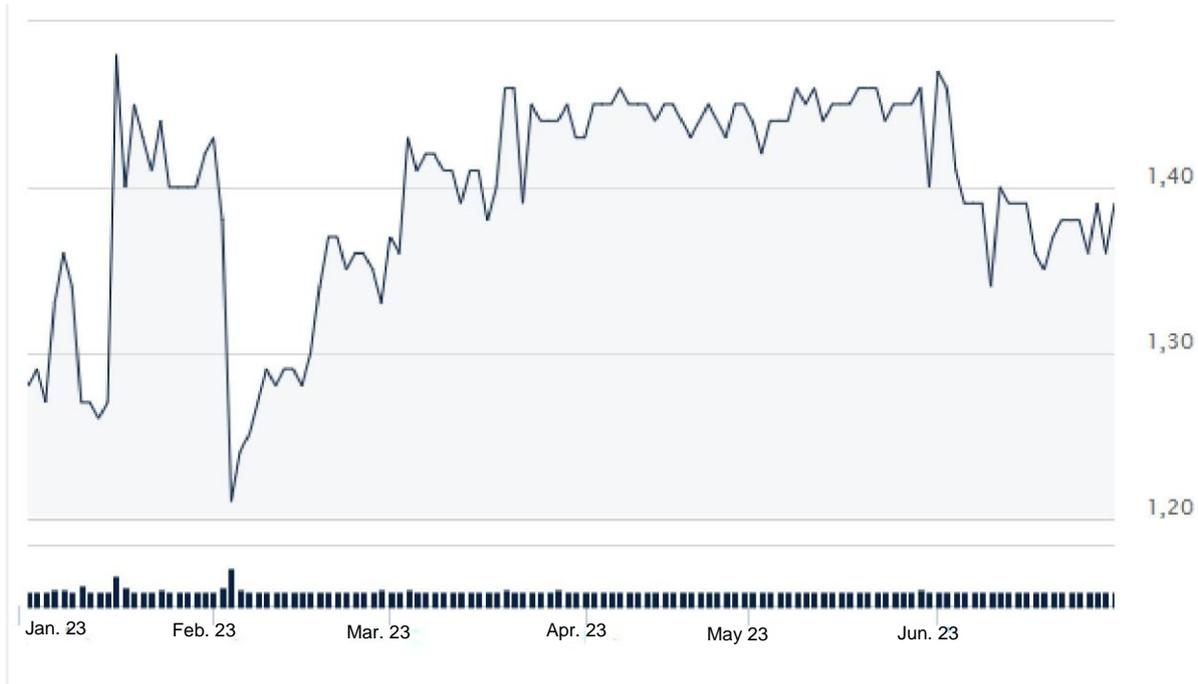
Mr. Tomasz Krzysztof Rogala, acting as a Member of the Management Board, and the supervising persons do not hold any shares in the Parent or rights thereto.

In the period between the publication of the previous interim report, i.e. 19 May 2023, and the publication of this interim report, the management and supervisory staff did not carry out transactions involving the Company's shares or rights thereto.

None of the management and supervisory staff hold shares in a subsidiary of the Capital Group.

23. Parent listings in H1 2023

The Company's shares have been listed on the Warsaw Stock Exchange since 22 May 1997. The share price on 2 January 2023 (the opening price on the first day of 2023) was PLN 1.28 and PLN 1.39 on 30 June 2023. The highest exchange rate in the reporting period was PLN 1.48 and the lowest was PLN 1.21. The development of the PEPEES share price in H1 2023 is shown in the chart below:

Chart No. 4: Development of PEPEES share price in H1 2023

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

The Issuer is not aware of any agreements which may result in future changes in proportions of shares held by the existing shareholders.

25. Information on holders of any securities conferring special control rights in relation to the Issuer, together with a description of such rights

The Issuer's shareholders do not hold securities conferring special control rights in relation to the Issuer.

26. Information on the system of control over employee share ownership plans

The Group does not have a system of control over employee share ownership plans.

27. Information on any restrictions on the transfer of ownership right to the Issuer's securities and any restrictions on the exercise of voting rights attached to the Issuer's shares

As a result of failing to comply with notification obligations on the acquisition of significant blocks of shares under the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies of 29 July 2005, EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, which holds, according to the information held by the Company, 27,759,032 shares in the Company, has lost and cannot exercise voting rights under 21,402,233 shares. The Company's Management Board has therefore brought an action for determination before the District Court in Białystok. Epsilon FIZ AN takes the opposite position, maintaining that it is entitled to voting rights under 27,714,832 shares representing 29.17% of the total number of votes at the GMS. The Chairman of the Financial Supervision Authority joined the case and presented their position on 24 July 2019. The Management Board

is awaiting the final decision of the court. The Company reported on the case in current reports No. 13/2019, 14 to 23/2019 and 30/2019.

On 21/04/2023 the District Court of Białystok ruled that EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, which is a shareholder of the Company, has lost the voting rights and cannot exercise them under 21,402,233 ordinary shares. This ruling is not final, as the Issuer informed in current report No. 7/2023.

28. Summary of activities during the reporting period

In H1 2023, the PEPEES Capital Group generated sales revenue of PLN 121,523 thousand which represents a 3.9% decrease compared to the corresponding period of last year (PLN 126,406 thousand).

The decrease in sales revenue was accompanied by a simultaneous 6.9% drop in own cost of sales which resulted in a higher gross profit on sales of PLN 37,446 thousand which represents a 3.7% increase compared to the corresponding period last year.

Profit from operating activity amounted to PLN 13,620 thousand, a 31.2% increase compared to the previous year (PLN 10,380 thousand).

H1 2023 sales and marketing costs decreased by 31% in relation to the comparative period, while overhead costs increased by approx. 4%.

The balance of other operating activities, defined as the balance of other operating revenue less other operating expenses, in the six-month period of 2023 closed at minus PLN (538) thousand with a result of minus PLN (708) thousand in the comparative period.

On the other hand, the result on financing activities, understood as the balance of financial revenue less financial expenses, amounted to minus PLN (3,804) thousand in H1 2023. For the first half of last year, the balance was minus PLN (1,598) thousand. It should be noted that the financing of operating and investing activities with WIBOR-based bank credits leaves the Group exposed to interest rate risk. In addition the Group has debt under lease based on variable interest rate. Due to the increase in interest rates, the Group's result on financing activities deteriorated more than twice compared to the previous year's half-year.

The Group generated a gross profit of PLN 9,816 thousand after the first half of 2023 with gross profit of PLN 8,782 thousand in the comparative period, while net profit between January and June 2023 amounted to PLN 6,624 thousand with net profit of PLN 5,554 thousand in the corresponding period of 2022, an increase of more than 19%.

29. Brief description of significant achievements or failures of the PEPEES Capital Group in H1 2023, together with a list of the most important events concerning them

In H1 2023 there were no significant achievements or failures in the PEPEES Capital Group other than those presented in this report.

30. Other information which, in the opinion of the Group, is material for the assessment of its personnel, economic, and financial position, financial result and their changes, and information material for the assessment of the Group's ability to meet its obligations

In H1 2023 there were no events other than those described in this report which could be material for the assessment of the personnel, economic, and financial position, financial result and their changes and which could be material for the assessment of the PEPEES Capital Group's ability to meet its obligations.

31. Information on factors which, in the opinion of the Issuer and the Group, would

affect their results in the perspective of at least the next six months

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

- key interest rates - the Group has credits taken out whose interest rates are based on WIBOR;
- hostilities across Poland's eastern border;
- the quantity and value of bought potatoes - the basic raw material for production;
- the price of starch on the Polish and global markets;
- the volume of sales achieved and margins realised;
- exchange rates - the Group is an exporter;
- prevailing weather conditions.

The Group's operations are mainly based on domestic raw material supplied by Polish farmers, therefore the war across the eastern border will not disrupt supplies. During the next six months of 2023, the PEPEES Capital Group will implement the concluded agreements and carry out the operational activities that form the basis of its operations, including production, trade, and service activities.

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

PEPEES S.A. and its subsidiaries entered into agreements to review and audit the financial statements for the years 2023 to 2027 with WBS Audyt Sp. z o.o. with its registered office in Warsaw.

The subject of the agreements is the review of the separate and consolidated financial statements as at 30 June 2023, 30 June 2024, 30 June 2025, 30 June 2026 and 30 June 2027 and the audit of the separate and consolidated financial statements for the years 2023 to 2027. The total value of the remuneration under the concluded agreements due for 2023 is PLN 124,000 plus VAT.

In addition, an agreement dated 14/03/2023 was concluded with an entity authorised to audit reports during the reporting period, concerning the performance of an assurance service consisting in the preparation of an independent statutory auditor's report on the assessment of the report on the remuneration of the Management Board and Supervisory Board drawn up for 2022 by the PEPEES Supervisory Board. The remuneration for the said service was agreed at PLN 6,800 plus VAT.

33. Information on proceedings pending before a court, an authority competent to conduct arbitration proceedings or before a public administration body

On 25/06/2019 the Management Board of Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. filed a lawsuit with the court to establish that the shareholder of EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, holding, according to the information in the Company's possession, 27,714, 832 shares, lost and cannot exercise the voting rights from 21,402,233 shares due to the breach of the obligation to notify of the acquisition of significant blocks of shares pursuant to Article 89(1)(1) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies. Epsilon FIZ AN takes the opposite position, maintaining that it is entitled to voting rights under 27,714,832 shares representing 29.17% of the total number of votes at the GMS. The Chairman of the Financial Supervision Authority joined the case and presented their position on 24 July 2019. The Company reported on the case in current reports Nos. 13/2019, 14 to 23/2019 and 30/2019.

On 21/04/2023 the District Court of Białystok ruled that EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, which is a shareholder of the Company, has lost the voting rights and cannot exercise them under 21,402,233 ordinary shares. This ruling is not final, as the Issuer informed in current

report No. 7/2023.

As at the date of this report, there are pending lawsuits filed by EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in Warsaw against “PEPEES” S.A.:

- to annul or declare invalid resolutions Nos. 24 to 29, adopted on 28/06/2019 by the Ordinary General Meeting of Shareholders, including resolution No. 28 on amending the Company’s Articles of Association and authorising the Company’s Management Board to increase the Company’s share capital within the framework of authorised capital with the possibility for the Management Board to exclude the pre-emptive rights of the Company’s existing shareholders in whole or in part with the consent of the Company’s Supervisory Board.
The District Court suspended the proceedings pending the final conclusion of the proceedings in the PEPEES v EPSILON action for determination of loss of voting rights;
- to annul or declare invalid two discharge resolutions adopted on 21/04/2020 by the General Meeting of Shareholders. The proceedings are pending before the court of first instance. The District Court suspended the proceedings pending the final conclusion of the proceedings in the PEPEES v EPSILON action for determination of loss of voting rights;
- to annul or declare invalid four resolutions adopted on 29 June 2021 by the Ordinary General Meeting of Shareholders, 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 allocation of the Company’s net profit for the financial year 2020, and resolutions No. 10 and 11 on granting discharge to the members of the Company’s Management Board. The proceedings are pending before the court of first instance. On 11 January 2022 the District Court suspended the proceedings pending the final conclusion of the proceedings in the PEPEES v EPSILON action for determination of loss of voting rights;
- to annul or declare invalid nine resolutions adopted on 14 April 2022 by the Ordinary General Meeting of Shareholders on the consideration and approval of the Company’s financial statements for the period from 01/01/2021 to 31/12/2021, the consolidated report, the Company’s management report, the allocation of the Company’s net profit for the financial year 2021, granting discharge to the Company’s Management Board members, the appointment of 2 Supervisory Board members, the purchase of treasury shares and the creation of reserve capital. The proceedings are pending before the court of first instance. The District Court suspended the proceedings pending the final conclusion of the proceedings in the PEPEES v EPSILON action for determination of loss of voting rights;
- to annul or declare invalid three resolutions adopted on 25 May 2023 by the Ordinary General Meeting of Shareholders, i.e. resolutions No. 9 and 10 on granting discharge to the members of the Company’s Management Board and resolution No. 11 on granting discharge to the Chairman of the Supervisory Board. The proceedings are pending before the court of first instance. Trial date has not yet been set.

Otherwise, there are no other significant proceedings pending before a court, an authority competent to conduct arbitration proceedings or a public administration body concerning the liabilities and receivables of the Issuer.

There are several cases pending in court for the recovery of trade receivables on which the Company has made 100% revaluation write-downs. The amounts are not significant in relation to the total receivables.

III. ECONOMIC AND FINANCIAL SITUATION

1. Economic situation of the Capital Group

The balance of assets as at 30 June 2023 compared to the balance as at 31 December 2022 is shown in the table below.

Table 6: Balance of assets as at 30/06/2023 and 31/12/2022

Asset name	As at		Changes in amounts + increases - decreases	Structure ratios in %	
	30/06/2023	31/12/2022		30/06/2023	31/12/2022
A. FIXED ASSETS	170,772	171,231	(459)	58.5	45.5
1. Property, plant and equipment	150,721	151,327	(606)	51.6	40.2
2. Intangible assets	188	644	(456)	0.1	0.2
3. Rights to assets	12,487	11,248	1,239	4.3	3.0
4. Investment property	558	563	(5)	0.2	0.1
5. Goodwill	1,320	1,320	-	0.5	0.4
6. Investments in other parties	383	383	-	0.1	0.1
7. Deferred income tax assets	5,115	5,746	(631)	1.8	1.5
B. CURRENT ASSETS	121,220	204,783	(83,563)	41.5	54.5
1. Inventories	63,061	104,817	(41,756)	21.6	27.9
2. Biological assets	3,833	326	3,507	1.3	0.1
3. Trade and other short-term receivables	38,991	35,059	3,932	13.4	9.3
4. Current income tax receivables	1	1	-	0.0	0.0
5. Other financial assets	7,393	6,893	500	2.5	1.8
6. Cash and cash equivalents	7,941	57,687	(49,746)	2.7	15.3
Total assets	291,992	376,014	(84,022)	100.0	100.00

The Group's assets, expressed in terms of total assets as at 30 June 2023 in the amount of PLN 291,992 thousand, decreased by PLN 84,022 thousand in relation to the end of 2022. The decrease was mainly in current assets (down by PLN 83,563 thousand), particularly on account of inventories, due to seasonal potato processing.

Cash also declined due to the repayment of short-term credits. Trade receivables, however, increased, due to the sale of seed potatoes and pesticides with payment deadlines until delivery of potatoes for processing.

2. Capital Group funding sources

A summary of the sources of funding for assets as at 30 June 2023 compared with the position as at 31 December 2022 is shown in the table below.

Table 7: Sources of asset financing as at 30/06/2023 and 31/12/2022

Specification of funding sources	As at		Changes in amounts + increases - decreases	Structure ratios in %	
	30/06/2023	31/12/2022		30/06/2023	31/12/2022
A. Equity	182,683	186,534	(3,851)	62.6	49.6
<i>Capital attributable to shareholders of the Company</i>	178,999	183,219	(4,220)	61.3	48.7
Share capital	5,700	5,700	-	2.0	1.5
Issue price surplus over nominal value of shares	7,562	7,562	-	2.6	2.0
Treasury shares	(1,649)	(224)	(1,425)	(-0.6)	(-0.1)
Revaluation capital	31,004	31,050	(46)	10.6	8.3
Retained profit	136,382	139,131	(2,749)	46.7	37.0
<i>Non-controlling shares</i>	3,684	3,315	369	1.3	0.9
B. Liabilities	109,309	189,480	(80,171)	37.4	50.4
<i>Long-term liabilities</i>	32,068	35,526	(3,458)	11.0	9.4
Credits and loans	4,977	6,508	(1,531)	1.7	1.7
Liabilities for leased assets	15,254	17,648	(2,394)	5.2	4.7
Deferred income tax provision	5,971	6,518	(547)	2.0	1.7
Retirement and similar benefit liabilities	3,270	2,878	392	1.1	0.8
Subsidies	1,920	1,974	(54)	0.7	0.5
Other long-term liabilities	676	-	676	0.2	0.0
<i>Short-term liabilities</i>	77,241	153,954	(76,713)	26.5	40.9
Trade liabilities and other short-term liabilities	23,268	22,881	387	8.0	6.1
Current income tax liabilities	2,578	3,032	(454)	0.9	0.8
Credits and loans	46,179	122,713	(76,534)	15.8	32.6
Liabilities for leased assets	4,694	4,809	(115)	1.6	1.3
Retirement and similar benefit liabilities	522	519	3	0.2	0.1
Total liabilities	291,992	376,014	(84,022)	100.0	100.0

In H1 2023, the Group's equity, constituting 62.6% of liabilities, accounted for the largest share of sources of asset financing.

On 25 May 2023, the Ordinary General Meeting of "PEPEES" S.A. adopted Resolution No. 8 on the distribution of the Issuer's profit for the financial year 2022 in the amount of PLN 9,203,815.70 in the following manner: the amount of PLN 1,970,411.91 for the supplementary capital and the amount of PLN 7,233,403.79 for the payment of dividends to shareholders.

Pursuant to the aforementioned Resolution, part of the supplementary capital (created from previous years' profits) in the amount of PLN 2,147,947.51 was allocated to the payment of dividends to shareholders. Thus, a total dividend of PLN 9,381,351.30, i.e. PLN 0.10 per share was set, excluding 1,186,487 own shares which do not participate in the dividend.

The date by which the list of shareholders entitled to dividends is determined is set at 6 June 2023. In contrast, the dividend payment date was set for 19 July 2023.

The Group's long-term liabilities decreased by PLN 3,458 thousand which was mainly due to a reduction in debt from leased assets. Short-term liabilities, on the other hand, decreased by PLN 76,713 thousand which was mainly caused by repayment of short-term credits and loans.

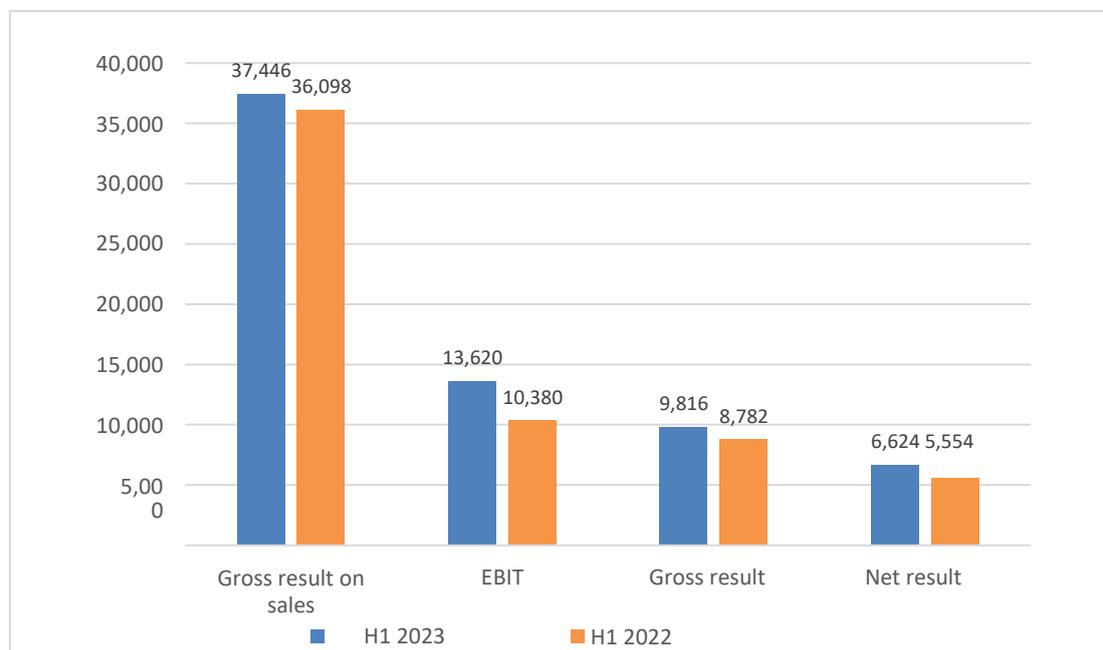
3. Capital Group's financial results

The Capital Group's financial results from business activity for H1 2023 and 2022 are shown in the table and chart below.

Table 8: Statement of financial result for H1 2023 and 2022

No.	Item	Implementation for H1 2023	Implementation for H1 2022	Dynamics in %
1	Sales revenue	121,523	126,406	96.1
2	Cost of goods sold	(84,077)	(90,308)	93.1
3	Gross profit on sales (I-II)	37,446	36,098	103.7
4	Sales and marketing costs	(5,290)	(7,677)	68.9
5	General administrative costs	(17,998)	(17,333)	103.8
6	Other operating revenue	194	392	49.5
7	Other operating expenses	(732)	(1,100)	66.5
8	Profit (loss) on operating activities	13,620	10,380	131.2
9	Financial expenses	(4,965)	(3,254)	152.6
10	Financial revenue	1,161	1,656	70.1
12	Pre-tax profit (loss)	9,816	8,782	111.8
13	Income tax	(3,192)	(3,228)	98.9
14	Net profit (loss) on continued operations	6,624	5,554	119.3
15	Net profit (loss) on discontinued operations	-	-	
16	Net profit (loss), including:	6,624	5,554	119.3
17	- attributable to shareholders of the Parent	6,255	5,314	117.7
18	- attributable to non-controlling shares	369	240	153.8
19	Other comprehensive income	(46)	23	-200.0
20	Total comprehensive income, including:	6,578	5,577	117.9
21	- attributable to shareholders of the Parent	6,209	5,337	116.3
22	- attributable to non-controlling shares	369	240	153.8
23	Net profit (loss) per ordinary share	0.07	0.06	116.3
24	- from continuing operations	0.07	0.06	116.3
25	- from discontinued operations	-	-	-
26	Diluted net profit (loss) per ordinary share	0.07	0.06	116.3
27	- from continuing operations	0.07	0.06	116.3
28	- from discontinued operations	-	-	-

Chart No. 5: Financial results of the PEPEES Capital Group



In the period under review, all results are noticeably better compared to the corresponding period last year which was mainly influenced by a reduction in cost of sales by 6.9%, sales and marketing expenses by 31.1% and other operating expenses by 33.5%.

4. Cash flows

In H1 2023, the PEPEES Capital Group experienced a negative net cash flow balance due to the high repayment of short-term credits. The balance from operating activities is positive at PLN 53,195 thousand. The balance from investing activities is negative due to expenditure on the construction of a line of modified products of starch and the purchase of machinery and equipment. The balance from financing activities was negative, amounting to PLN 95,571 thousand, resulting in particular from the repayment of credits. The cash balance in the consolidated statement of cash flows as at 30 June 2023 was positive, amounting to PLN 7,941 thousand.

5. Economic indicators

The indicators presented below are Alternative Performance Measures (APMs) within the meaning of the ESMA Guidelines on Alternative Performance Measures. Alternative Performance Measures are not a measure of financial performance under International Financial Reporting Standards, nor 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. These figures should be considered in conjunction with the Group's consolidated financial statements. The PEPEES Group presents selected APM indicators as, in its opinion, they provide additional (in addition to the data presented in the financial statements) information on the Group's financial and operational position, as well as facilitate analysis and assessment of the Group's financial performance over different reporting periods. The Issuer presents these specific Alternative Performance Measures as they are applied cyclically and uniformly on the ground of successive reports. The selection of Alternative Performance Measures was preceded by an analysis of their usefulness in terms of providing investors with helpful information on the Group's financial position, cash flows and financial efficiency and, in the opinion of the Management Board, allows for an optimal assessment of financial results. The results presented below

should not be attributed a higher level of materiality than measurements derived directly from the Company's financial statements or the Group's consolidated financial statements.

Table No. 9: Economic indicators

Ratio	Economic content	H1 2023	H1 2022
Return on assets	$\frac{\text{Net profit (loss) attributable to shareholders of the Parent} \times 100}{\text{Total assets}}$	2.14%	1.84%
Return on equity	$\frac{\text{Net profit (loss) attributable to shareholders of the Parent} \times 100}{\text{equity attributable to shareholders of the Parent}}$	3.49%	2.99%
Net return on sales	$\frac{\text{Net profit (loss) attributable to shareholders of the Parent} \times 100}{\text{Total sales revenue}}$	5.15%	4.20%
Gross return on sales	$\frac{\text{Gross profit on sales} \times 100}{\text{Total sales revenue}}$	30.81%	28.56%
EBIT	Profit (loss) on operating activities, i.e. profit before interest (financial expenses minus financial revenue) and tax (income tax)	13,620	10,380
EBITDA	Profit (loss) on operating activities (EBIT) plus amortisation	20,149	17,119
EBIT margin	$\frac{\text{EBIT} \times 100}{\text{Total revenue from sales}}$	11.21%	8.21%
EBITDA margin	$\frac{\text{EBITDA} \times 100}{\text{Total revenue from sales}}$	16.58%	13.54%
Liquidity ratio I	$\frac{\text{Current assets (short-term)}}{\text{Short-term liabilities}}$	1.57	1.61
Liquidity ratio II	$\frac{\text{Current assets (short-term) - inventories}}{\text{Short-term liabilities}}$	0.75	0.72
Receivables turnover rate** in days	$\frac{\text{average balance of trade receivables} \times 180}{\text{Sales revenue}}$	39.76	35.33
Liability repayment rate in days**	$\frac{\text{average trade liabilities} \times 180}{\text{Own cost of sales}}$	26.54	35.99
Inventory rotation rate in days**	$\frac{\text{average inventory} \times 180}{\text{Own cost of sales}}$	179.70	160.85

Ratio	Economic content	H1 2023	H1 2022
Equity-to-fixed-assets ratio	$\frac{\text{Equity attributable to shareholders of the Company}}{\text{Fixed assets (long-term)}}$	1.05	1.03
Funding structure durability	$\frac{(\text{Equity attributable to shareholders of the Company} + \text{long-term liabilities})}{\text{Total liabilities}}$	0.72	0.74

**Balances at the beginning and end of each reporting period were used to calculate turnover ratios.*

Using indicator-based analysis, a synthetic assessment of the economic and financial position of the PEPEES Group was made. Key indicators from the areas of profitability, liquidity, operating efficiency (effectiveness) and capital structure (debt) were selected.

In H1 2023, all profitability indicators are positive due to the generated profits.

Compared to the corresponding period of the previous year, the liability repayment rate improved thanks to timely payments, but the rotation of trade receivables increased by approx. 5 days.

The inventory rotation indicator increased, but it should be borne in mind that this rate is always high in the Group due to the seasonality of production.

Liquidity indicators were at a similar level to that of the previous year.

IV. Development of the Issuer and the Capital Group

1. Description of the main risks and threats and the characteristics of the external and internal factors significant for the development of the Parent and the PEPEES Capital Group

1.1. Risks and threats

✓ **Risks relating to the situation in Ukraine**

As a result of the continued aggression of the Russian Federation against Ukraine, the Management Board anticipates the following risks:

1. Difficulties in accessing markets - due to hostilities and economic sanctions in place, difficult access to Central Asian markets (Uzbekistan, Kazakhstan) and restrictions for rail transport in Ukraine (hostilities) and Russia and Belarus (economic sanctions) are expected.
2. Global restrictions on access to major export markets - container transit difficulties in the company's main export destinations, trade insurance restrictions.
3. Currency crisis - likelihood of significant fluctuations in the company's export settlement currencies (EUR, USD).

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

The main raw material for production is potatoes. Consequently, the volume and quality of production depends on potato harvest. Inclement weather limits potato yields and reduces starch content.

✓ **Globalisation**

The globalisation process can be seen mainly in terms of competitiveness. We are currently seeing strong competition from substitutes. There are many products in the food industry that perform similar functions (filling and thickening) to potato starch, e.g. wheat starch, maize starch, imported hydrocolloids of natural origin such as guar gum, xanthan gum, acacia gum, locust bean gum and gelatine.

In addition, there is a lot of competition within the starch sector in the European Union.

✓ **Dependence on profitability of potato production**

The high cost of potato production is causing it to be displaced by other more profitable crops. In addition, the region of north-eastern Poland has become a dairy heartland, taking agricultural land away from other production sectors. For this reason, it is becoming increasingly difficult to attract

new growers from areas closest to the plant. As a result, the Group is forced to buy raw material from increasingly remote regions of the country which translates into reduced profitability.

✓ **Foreign exchange risk**

Such risks arise from international trade in currencies other than the Polish zloty.

Strong currency price fluctuations have a significant impact on the profitability of foreign transactions.

✓ **Liquidity and credit risk**

The financing of operating and investing activities with bank credits and leasing makes the Group significantly exposed to interest rate risk.

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. The risk of losing financial liquidity is a risk of the Group being unable to pay its financial liabilities on their maturity. To maintain liquidity, the Group uses various sources of funding, including overdrafts, working capital loans, revolving credit line loans and trade credit. The Group uses methods of settlement with business partners such as letters of credit and prepayments to mitigate the risk of customers failing to pay their dues on time. The companies observe the behaviour of their business partners in the payment market (both at the bidding stage and during the execution of contracts) and assess their ability to meet their obligations and take immediate action in the event of even the slightest sign of disruption in their customers' payment cycles.

✓ **Economic downturn fluctuations**

The state of economic activity globally, domestically and in a specific sector influences the operation of the company through various indicators (GDP, prices, wages, inflation level, tax law, employment, etc.).

✓ **Sales of a product posing a risk to the health and life of the consumer**

The Group is a producer of food products. In the event of sales of a product posing a risk to health or life, the brand would lose, an obligation to compensate customers and consumers would arise, and costs would be incurred for the recall and disposal of the product.

The risk is low due to the Quality and Food Safety Management System in place.

A recall procedure has been implemented and recall simulations are being carried out.

1.2. External factors determining the successful development of the Issuer and the Group

The development of the Issuer and its Group in the potato industry depends primarily on the agricultural policy of the European Union and Poland, as well as on the creation of appropriate conditions for the operation of the agricultural and food industry.

Factors creating fundamental opportunities for development are:

- ✓ the growth of the domestic food industry (the food industry is a growing industry in the long-term assessment of market analysts);
- ✓ the possibility of obtaining EU funds to finance investments;
- ✓ market demand for modified potato starch products;
- ✓ access to new and modern technologies;
- ✓ development of markets in international trade;
- ✓ development of specialised farms;
- ✓ the broad spectrum of applications of starch and its modified products;
- ✓ area subsidies for starch potatoes.

1.3. Internal factors determining the successful development of the Issuer and the Group

The most important internal factors and those relevant to further development are:

- ✓ systematic investment and modernisation activities of production departments to increase the efficiency and innovation of production and reduce operating costs;
- ✓ sourcing new markets;
- ✓ implemented certified Quality and Food Safety Management System;
- ✓ GMP (Good Manufacturing Practice) system in place for manufacturers of active substances;
- ✓ SMETA-compliant activities; presence on the SeDeX platform;
- ✓ good cooperation with growers throughout the year;
- ✓ the possibility of producing hydrolysates tailored to specific customer requirements;
- ✓ high production capacity;
- ✓ low production waste water disposal costs;
- ✓ implementing the strategy and taking investment measures;
- ✓ expanding the product range;
- ✓ the professional knowledge and experience of staff.

2. Development prospects of the Issuer and the Group

Operating conditions for most sectors of the broadly defined industry have become highly unpredictable in recent months. The war in Ukraine, disrupted logistics, galloping inflation and the fluctuations in energy and gas prices resulting largely from these phenomena are currently 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 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 operations automatically need to take into account a number of risks that were absent in earlier periods. This state of affairs requires the individual companies of the PEPEES Capital Group to be highly sensitive and flexible in their current and future business activities.

In face of the above, the Group successfully continued its core business and, despite the objective risks from the environment, consistently implemented the strategy adopted on 12 June 2019 for the years 2019 to 2024, which allowed it to generate a net profit in excess of the level obtained in the corresponding period of the previous year.

The Group's objective remains to maximise returns on investment while maintaining a moderate level of investment risk. The PEPEES Group envisages parallel development activities by increasing the efficiency of the Group companies and minimising the risks to which they are exposed, as well as pursuing further investing activities. In the event of attractive market offers, investing activity will continue both within and outside the Group.

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

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

- increasing the value and market share of the PEPEES Capital Group;
- expanding target markets and product ranges, including modified products;
- establishing cooperation with an industry investor;
- intensifying and improving raw material sourcing;

- optimising the operation of the PEPEES Capital Group.

Market penetration strategy:

Using its own funds, credits, share issues and other external sources, the PEPEES Capital Group plans to increase sales value and market share through organic growth and acquisitions, organise warehouse management, modernise the starch plant and build a line of modified products of starch (Pepees S.A.), transfer production to ZPZ Lublin and optimise the use of property to ensure the growth of the Capital Group.

New product and diversification strategy:

Using its own funds, credits, share issues and other external sources, as well as assuming the possibility of raising capital from an industry investor, the PEPEES Capital Group plans to implement measures enabling it to introduce an attractive product range to the market. The Issuer has begun construction of a line of modified products of starch which will enable the Group to introduce new products (modified products of starch) to the European food and pharmaceutical markets.

4. Characteristics of the Issuer Capital Group's development path policy

The policy of the PEPEES Capital Group is to continuously develop and optimise its product range taking into account the changing expectations and preferences of its customers.

The PEPEES Capital Group aims to significantly increase starch production and introduce new products (modified products of starch) to the market which will enable it to compete with foreign companies. The Group's strategy ranges from short-term tasks, such as those related to improving the condition of the starch production market in Poland and the conditions for growers, to long-term steps aimed at establishing cooperation with an industry investor. The Group is keen to have good and long-lasting relationships with growers that guarantee stability and profitability in the cultivation of raw materials, thus ensuring that the Group has regular suppliers of raw materials through the use of a clear and transparent procurement system.

Surplus products will be directed to foreign markets with a particular focus on emerging markets such as Asian markets. The Group's new market strategy is based on the markets of South East Asia, South America and the developing European countries.

This should be achieved through the continuation of the project titled "Export and domestic market development programme" which will involve identifying the Group's key foreign markets and building a sales system for them. There is a growing demand for starch worldwide, so the PEPEES Group is creating effective tools for the distribution and sales of domestic products.

The PEPEES Group's development strategy is to systematically improve its quality and cost competitiveness in relation to leading Polish companies in the potato processing industry.

V. STATEMENT OF THE MANAGEMENT BOARD

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

- the condensed consolidated financial statements for H1 2023 and the comparative data have been prepared in accordance with the applicable accounting principles and give a true, reliable and fair view of the economic and financial position of the PEPEES Capital Group and the Capital Group's net profit;
- the condensed financial statements of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. for H1 2023 and the comparative data have been prepared in accordance with the applicable accounting principles and give a true, reliable and fair view of the economic and financial position and net profit;
- the Management Report on the Capital Group's activities in H1 2023 gives a true picture of the development, achievements and situation of the PEPEES Capital Group, including a description of the main threats and risks.

REPRESENTATIVES

Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" Spółka Akcyjna in Łomża

President of the Management Board – Wojciech Faszczeński

Member of the Management Board – Tomasz Rogala