



**MANAGEMENT  
REPORT  
OF THE “PEPEES” CAPITAL  
GROUP**

**for the 12-month period ended 31 December 2023  
(including the disclosures required for the 2023 Management Report  
of during the aforementioned period)**

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## INTRODUCTION

This 2023 Management Report of the “PEPEES” Capital Group contains information the scope of which is specified in §70 and §71 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information published by issuers of securities [...] (“Regulation”).

The consolidated annual report, with the aforementioned financial statements and this Management Report constituting its part, has been prepared on the basis of §70 and §71 in conjunction with (1)(3) and (2) of §60 of the Regulation.

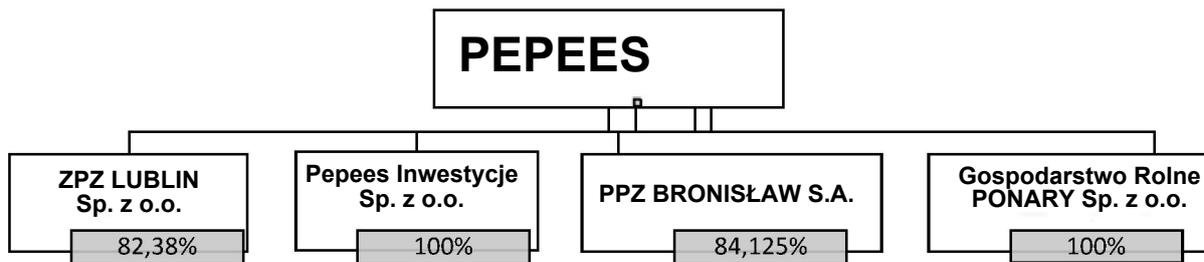
Pursuant to §71(8) of the Regulation, the disclosures required for the Management Report of the Parent Company referred to in §70(1)(4) of the Regulation are also included in this report.

The principles for the preparation of the financial statements are set out in the respective statements, i.e. the financial statements of the Parent Company and the financial statements of the Capital Group for 2023.

## I. DETAILS OF THE PEPEES CAPITAL GROUP

Przedsiębiorstwo Przemysłu Spożywczego “PEPEES” S.A. (also referred to as the Issuer, the Company, “PEPEES” S.A., PEPEES) is the parent company of: Zakłady Przemysłu Ziemniaczanego ZPZ “LUBLIN” Sp. z o.o., Przedsiębiorstwo Przemysłu Ziemniaczanego “BRONISŁAW” S.A., Pepees Inwestycje Sp. z o.o. and Gospodarstwo Rolne PONARY Sp. z o.o.

The Capital Group structure as at 31 December 2023 was as follows:



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	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 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. Structure of the PEPEES Capital Group

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

#### 1.1.1. Key information on the Company

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

It 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 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. 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.

Starches and starch products and potato production and processing activities were carried out during the reporting period.

The share capital of the Company as at 31 December 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 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 Management Board is awaiting the final decision of the court. The Company informed of the case in Current Reports No. 13/2019, 14-23/2019 and 30/2019.

\*\* 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 31 December 2023, the composition of the Management Board, Supervisory Board and Audit Committee was as follows:

#### **Management Board - composition as at 31 December 2023**

Wojciech Faszczewski President of the Management Board

Tomasz Krzysztof Rogala Member of the Management Board

The Management Board consists of between one and five persons. The Supervisory Board appoints the President of the Management Board; the other members of the Management Board are appointed by it upon request of the President of the Management Board. The management staff are dismissed by the Supervisory Board. The Management Board exercises all the powers of management of the Company except those reserved to the Supervisory Board or the General Meeting. The decision to issue or buy back shares is taken by the General Meeting of Shareholders by way of resolution. The Management Board of the Issuer has no authority to issue or buy back shares - no authorised capital has been established in the Company.

***Supervisory Board - composition as at 31 December 2023***

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

Composition of the Supervisory Board for the period from 1 January 2023 to 3 July 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

Until 3 December 2022, the position of Deputy Chairman of the Supervisory Board was held by Mr. Tomasz Nowakowski, whose mandate expired upon his death. From then, until 2 July 2023, the Supervisory Board functioned without the Deputy Chairman. On 3 July 2023 the Supervisory Board of the Company elected Mr. Robert Malinowski as the Deputy Chairman of the Supervisory Board and Ms. Agata Czerniakowska as the Secretary of the Supervisory Board.

Members of the Supervisory Board are appointed and dismissed by the General Meeting of Shareholders.

***Audit Committee - composition as at 31 December 2023***

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

Composition of the Audit Committee for the period from 1 January 2023 to 27 February 2023:

Maciej Kaliński	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

Until 3 December 2022, the position of Deputy Chairman of the Audit Committee was held by Mr. Tomasz Nowakowski, whose mandate of the Member of the Supervisory Board expired upon his death. From then, until 26 February 2023, the Audit Committee functioned without the Deputy Chairman.

On 27 February 2023, the Company's Supervisory Board elected Mr. Jacek Okoński as Deputy Chairman 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 31 December 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 authorities of ZPZ LUBLIN Ltd. as at 31/12/2023 and the date of publication of the report**

#### ***The 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 Świątlicki	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 31 December 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. The authorities of Pepees Inwestycje as at 31 December 2023 and the date of publication of the report**

##### *The Management Board*

Roman Adam Miniński

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;
- potato processing;
- service activities supporting crop production.

As at 31 December 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 preference shares.

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

#### **1.4.2. The authorities of PPZ BRONISŁAW S.A. as at 31 December 2023 and the date of publication of the report**

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

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

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

Maciej Kaliński	Chairman of the 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

#### **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 31 December 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 500 each.

The sole shareholder of the Company is "PEPEES" S.A.

#### **1.5.2. The authorities of Gospodarstwo Rolne Ponary Sp. z o.o. as at 31 December 2023 and the date of publication of the report**

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

Tomasz Krzysztof Rogala	President of the Management Board.
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## **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. The Group also has a starch potato cultivation plant and business handling the purchase and sale of property for own account.

Each company performs specific functions and contributes significantly to value creation within the PEPEES Capital Group.

“PEPEES” S.A. acts as the Parent Company. 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” S.A. 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 the processing of edible potatoes into potato grits and potato flakes and the production of potato glucose syrups.

PPZ “BRONISŁAW” S.A., with its registered office in Bronisław, primarily produces starch and also processes edible potatoes into potato flakes.

Pepees Inwestycje Sp. z o.o., with its registered office in Łomża, is engaged in the purchase and sale of property.

Gospodarstwo Rolne Ponary Sp. z o.o. with its registered office in Łomża has arable land at its disposal, leased by the Parent Company 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.

Three segments were distinguished within the PEPEES 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 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.

The “potato processing” segment produces:

- > potato starch;
- > maltodextrin;
- > several ranges of glucose;
- > a wide range of glucose syrups;
- > potato grits;
- > potato flakes.

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 potato cultivation area in the EU has been declining for some time now. The cultivated area decreased by nearly half between 2000 and 2022, with particularly steep declines in Poland and Romania among the main producing countries. According to data from the Agency for Restructuring and Modernisation of Agriculture, the area for potato cultivation in Poland in 2023 decreased to approx. 182.4 thousand hectares, while it was 236 thousand hectares in 2021 and 308 thousand hectares in 2019. The systematic decline in potato cultivation is due to the lack of profitability of production. Starch potato prices are too low in relation to rising costs. This includes high fertiliser prices. In addition, the European Commission's approach to plant protection products is becoming increasingly problematic.

Europe produces the most potato starch in the world. Germany is the largest producer of potato starch in the European Union, followed by the Netherlands, France and Denmark. EU-based companies are large starch plants, processing between 3,000 and 5,000 tonnes of potatoes per day. The top 3 European companies (Emsland - Germany, Avebe - the Netherlands, Roquette - France) account for approximately 65% of EU starch production. These companies have very extensive research and development departments equipped with mini-lines, laboratories for product testing and development. As a result, the EU starch industry produces more than six hundred products, ranging from native starches to physically and chemically modified starches, and liquid and solid starches. Their application versatility is such that they are used as ingredients and enriching supplements for an enormous range of food, non-food, technical and feed products. Potato starch is known for its excellent thickening and binding properties, making it a popular ingredient in a variety of foods such as soups, sauces and baked goods. In addition, starch is used in non-food products such as adhesives, paper and textiles.

The Polish starch industry comprises 10 companies producing potato starch and its derivatives. The domestic starch industry is highly fragmented. There are five major starch plants operating on the Polish market with a processing capacity of 1,000-3,000 tonnes of potatoes per day. These plants are located in Łomża ("PEPEES" S.A. in Łomża), Luboń, Trzemeszno, Piła and Łobez. Other Polish starch plants are much smaller and capable of processing approximately 300-800 tonnes of potatoes per day.

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

## **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;
- ✓ a wide range of starch syrups for use in the confectionery and baking industry;
- ✓ potato grits used in the food industry;
- ✓ potato flakes used in 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 2023 within the Group, sales revenue was also generated in the following groups:

- ✓ seed potatoes;
- ✓ plant protection products,
- ✓ 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, the 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, i.e. the activities of Pepees Inwestycje.

### 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.

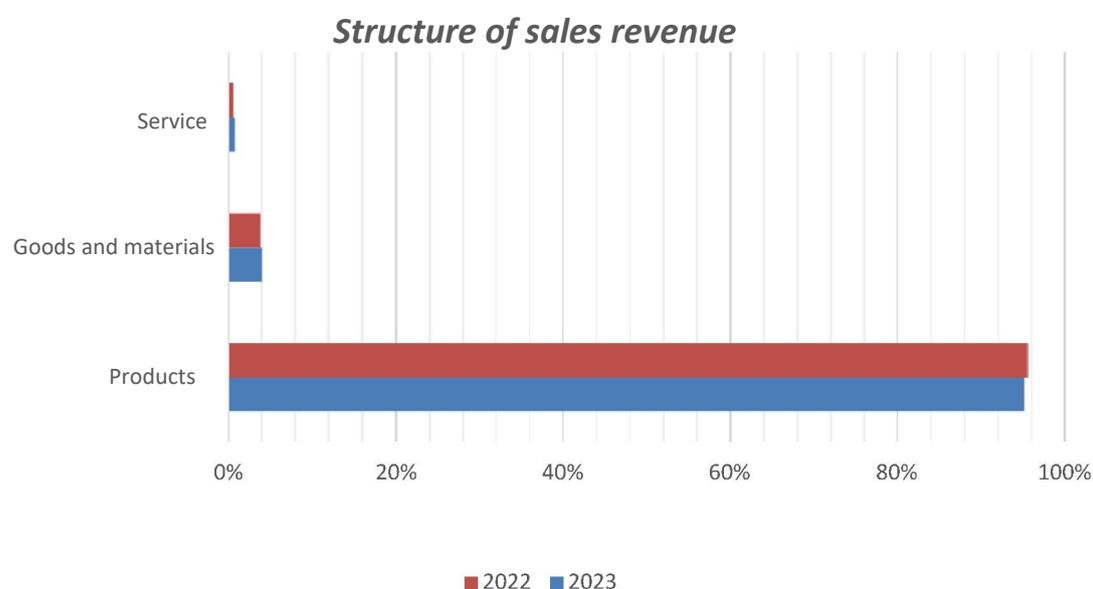
A summary of the structure of sales revenue in the period from 1 January 2023 to 31 December 2023 compared with the same period in 2022 is shown in Table No. 1 and Chart No. 1.

**Table 1: Structure of net sales revenue for the 12-month period of 2023 and 2022**

(data in PLN thousand)

Product range	For the 12-month period ended 31 December 2023	Structure 2023	For the 12-month period ended 31 December 2022	Structure 2022	Change
Potato products	211,476	95.17%	243,751	95.61%	86.76%
<b>Other sales, including:</b>	10,742	4.83%	11,201	4.39%	95.90%
<i>a) services</i>	1,754	0.79%	1,489	0.58%	117.80%
<i>b) goods and materials</i>	8,988	4.04%	9,712	3.81%	92.55%
<b>Total net sales revenue, including:</b>	<b>222,218</b>	<b>100.00%</b>	<b>254,952</b>	<b>100.00%</b>	<b>87.16%</b>
<i>from discontinued operations</i>	-	-	-	-	-

Chart 1: Structure of sales revenue for the 12 months of 2023 compared to the 12 months of 2022



**Table 2: Sales revenue volume for the 12-month period of 2023 and 2022**

Product range	Unit of measure	2023	2022	Dynamics in %
potato products (Group)	tonne	41,298	55,669	74.18
- including Parent Company	tonne	29,734	44,987	66.23

In 2023, sales revenue by volume decreased by 25.82% compared to the previous year.

#### 4. Information on domestic and foreign markets

The high quality of products and continuous improvement of production and management methods make the Group's brand a significant trademark domestically and abroad. The Group is developing cooperation with both existing and new customers.

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:

Compa  $\longrightarrow$  customer (producer - wholesale customer)

Compa  $\longrightarrow$  wholesaler  $\longrightarrow$  customer (manufacturer - smaller volume customer)

Compa  $\longrightarrow$  wholesaler  $\longrightarrow$  shop  $\longrightarrow$  consumer

Compa  $\longrightarrow$  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 assessment of financial credibility and the granted financial limit carried out by the insurer is also the deciding factor. Prepayment is the form used in the case of a new customer. Letter of credit is the established payment form for export sales.

Sales revenue by market is presented in the table below.

Table 3: Sales revenue by market

Net sales revenue	For the 12-month period ended 31 December 2023	Structure 2023	For the 12-month period ended 31 December 2022	Structure 2022
<b>Poland, including</b>	<b>163,056</b>	<b>73.38%</b>	<b>163,248</b>	<b>64.03%</b>
- products	155,111	69.80%	156,213	61.27%
- goods and materials	6,191	2.79%	5,546	2.18%
- services	1,754	0.79%	1,489	0.58%
<b>EU countries - intra-Community deliveries, including:</b>	<b>16,875</b>	<b>7.59%</b>	<b>21,145</b>	<b>8.29%</b>
- products	16,875	7.59%	21,145	8.29%
- goods and materials	0	0.00%	0	0.00%
<b>Other countries - export, including:</b>	<b>42,287</b>	<b>19.03%</b>	<b>70,559</b>	<b>27.68%</b>
- products	39,490	17.77%	66,393	26.04%
- goods and materials	2,797	1.26%	4,166	1.63%
<b>Total, including:</b>	<b>222,218</b>	<b>100.00%</b>	<b>254,952</b>	<b>100.00%</b>
<i>From discontinued operations</i>	-	-	-	-

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

In 2023, the value of domestic sales was PLN 163,056 thousand, showing a slight decrease in relation to the previous year (PLN 163,248 thousand). Domestic sales were made throughout the country to approx. 320 business partners. In the analysed period, sales of the Issuer's main product on the domestic market, i.e. potato starch in the so-called wholesale channel, accounted for the largest share in the Issuer's sales and represented 57.44% in terms of volume and 49.93% in terms of value of total sales. This is followed by retail potato starch (packaged), respectively 16.29% and 14.97%, maltodextrin 13.60% and 18.09%, crystalline glucose 6.96% and 10.94% and potato protein 3.07% and 4.30%. The main customers for the Parent Company's products on the domestic market are mostly renowned domestic companies, often with equity links to large European and global companies.

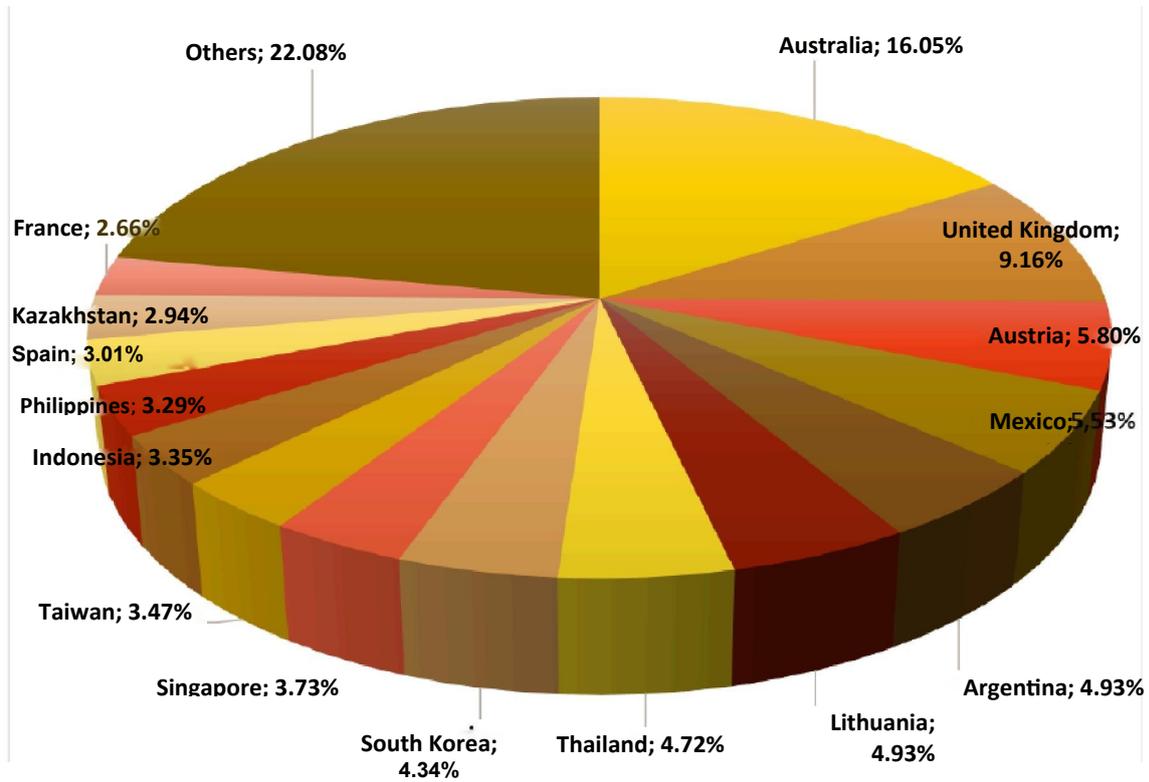
The Group distributed both through a network of wholesalers and trading companies supplying the food industry, as well as supplied products directly to production plants mainly in the food, confectionery, meat and pharmaceutical industries, for which starch products are a raw material used for further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

#### 4.2. Export and intra-Community sales

In 2023, export and intra-Community sales amounted to PLN 59,162 thousand, showing a decrease of 35.5% compared to last year. In 2023, the Issuer sold its products, mainly potato starch, to 41 countries worldwide. Most products were sold to Australia, the UK, Austria, Mexico and Argentina.

**Chart 2: Percentage share of export sales by country**

Percentage 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 Capital 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 barely 2%. The 2022 sowing structure has been influenced by many factors, including the geopolitical situation, inflation, high prices, and the current climate. The crisis also affected farmers who, faced with high production material prices, looked for alternatives on their own farms.

According to data from the Agency for Restructuring and Modernisation of Agriculture, the area for potato cultivation in Poland in 2023 decreased to approx. 182.4 thousand hectares, while it was 236 thousand hectares in 2021 and 308 thousand hectares in 2019. Currently, the starch potato area is less than 12 thousand hectares, i.e. just 6.5% of the total potato area. The high labour intensity of potato cultivation and low purchase prices are causing a gradual decline in the domestic starch potato crops.

Poland's annual potato harvest declined by 9% in 2023, to 5.5 million tonnes, even though the 2022 harvest was already 25% lower than the average of the last five years. A similar phenomenon of declining crop yields is observed worldwide.

Also, unfortunately, according to long-term forecasts, global potato crop yields will continue to decline at a rate of approx. 2% per year until 2050, with climate change being the cause.

Potatoes need certain conditions for proper growth and large amounts of water, and climate change has a negative impact on potato cultivation. Experts from the Warsaw University of Life Sciences (SGGW) predict that in a decade or so we can expect an increase in the crop area for maize, soya, sorghum and even grapevines instead of potatoes.

In addition to potatoes, the PEPEES Capital Group also purchases the following raw materials and materials for production: paper packaging, enzymes, starch, glucose syrup, technical gases, electrical materials, coal fines, metal parts, bags, sulphur dioxide, heat shrink film, hydrochloric acid, labels, cartons, diatomaceous earth, adhesives, varnishes, thinners, enamels, steel strip, plant protection products, 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 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 supplier with a share of 10% or more in the Group's revenue.

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

### **6.1. Business contracts**

In 2023, the PEPEES Capital Group did not conclude business agreements of significant value or significant cooperation/collaboration agreements.

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

- contract for the construction of a production line for modified products of starch;
- contracts for potato and seed potato deliveries;
- contract for the purchase of potato plant protection products;
- contract for the sale of electricity;
- gas supply contract;
- agricultural land lease contracts;
- agricultural service contracts;
- storage contracts (rental of warehouse space);
- contracts for the purchase and modernisation of production machinery and equipment, as well as repair works;
- trade agreements.

## 6.2. Credit facility agreements

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

On 6 July 2023, an annex was signed with Santander Bank Polska to the multi-line agreement of 07/10/2014. Under the annex, the credit limit of PLN 67.5 million granted to PEPEES and its subsidiaries was renewed and the repayment deadline was extended to 31/08/2024.

### b) with *Powszechna Kasa Oszczędności Bank Polski S.A.*

An annex to the multi-purpose credit line agreement with Powszechna Kasa Oszczędności Bank Polski S.A. was signed on 6 July 2023. Under the annex, the credit limit of PLN 67.5 million granted to PEPEES and its subsidiaries was renewed and the repayment deadline was extended to 31/08/2024.

### c) with *BNP Paribas Bank S.A.*

On 29 September 2023, PEPEES entered into a non-revolving credit agreement in the amount of EUR 3.5 million to finance and refinance the investment in the production line for modified products of starch. The parties to the agreement set the credit term at 84 months from the date of conclusion of the agreement, i.e. until 30/09/2030.

On 4 December 2023, PEPEES signed an annex to the overdraft facility agreement dated 19/12/2022. The subject of the annex is the renewal of the credit limit of EUR 1.0 million for another year. The repayment deadline is 04/12/2024.

## 6.3. Loan agreements

PEPEES S.A. has granted the following loans:

- loan agreement of 29/06/2023 granted to the subsidiary, PPZ BRONISŁAW S.A., in the amount of PLN 2,500 thousand - this is a special purpose loan for current operations, granted at arm's length, to be repaid by 31/12/2024;
- loan agreement of 05/04/2023 in the amount of PLN 500 thousand granted to Dariusz Dorożko Usługi Rolnicze for the purchase of a combine harvester to provide agricultural services for PEPEES; the loan is to be repaid by 30/11/2026;
- loan agreement of 01/08/2023 in the amount of PLN 1.160 thousand granted to KERA Arkadiusz Majchrzak to finance the costs of purchasing agricultural machinery (planter and cultivator) in order to provide agricultural services to PEPEES; the loan is to be repaid by 31/12/2024.

The following loans were granted to PEPEES S.A.:

- loan agreement of 05/10/2023 concluded with AGCO Finance Sp. z o.o. The subject of the agreement is a loan for the purchase of a Fendt 942 Vario Gen7 ProfiPlus agricultural tractor. The loan amount is PLN 1,260 thousand, the repayment deadline is 20/10/2025;
- loan agreement of 21/12/2023 with BNP Paribas Lease Group Sp. z o.o. The subject of the agreement is a loan for the purchase of a Deutz Fahr 9340 AGROTRON TTV agricultural tractor. The loan amount is PLN 924 thousand; the repayment deadline is 13/12/2026.

## 6.4. Lease contracts

> Lease contract of 02/08/2023 concluded with Santander Leasing with a value of EUR 126 thousand (leasing a stone picker machine).

## 6.5. Insurance contracts

Group 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:
  - o third party liability tort
  - o third party liability contract
  - o third party liability product
  - o third party liability management board members
- > motor vehicle insurance (third party liability, motor hull insurance).

## 6.6. Agreements between Shareholders

As at the date of this report, the Parent 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 31 December 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 9,318 thousand as at 31/12/2023.

WRSRH shares represent 3.34% of WRSRH's capital. The State Treasury is the main owner of WRSRH, holding more than 70% 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.

### Key financial data of subsidiaries

Name (business name) of subsidiary	Equity	Assets	Liabilities	Sales revenue	Profit/Loss
<b>2022</b>					
ZPZ LUBLIN Sp. z o.o.	3,971	21,557	17,586	23,005	(688)
PPZ BRONISŁAW	16,486	82,550	66,064	59,427	2313
Pepees Inwestycje Sp. z o.o.	58	58	-	-	(12)
Gospodarstwo Rolne PONARY Sp. z o.o.	15,117	21,655	6,537	-	24

Name (business name) of subsidiary	Equity	Assets	Liabilities	Sales revenue	Profit/Loss
<b>2023</b>					
ZPZ LUBLIN Sp. z o.o.	5211	22,832	17,621	24,289	1,241
PPZ BRONISŁAW	13,024	80,133	67,109	51,322	(3,462)
Pepees Inwestycje Sp. z o.o.	45	46	1	-	(13)
Gospodarstwo Rolne PONARY Sp. z o.o.	15,931	21,416	5,485	-	88

ZPZ Lublin Sp. z o.o. made a profit due to an increase in sales revenue accompanied by a simultaneous decrease in own cost of sales.

PPZ Bronisław S.A. incurred a loss due to a decrease in the prices of starch and potato protein and due to a decrease in the volume of potato flakes sold which translated into a decrease in sales revenue from this product which amounted to PLN 9,527 thousand in 2023 (in 2022 - PLN 15,283 thousand).

Pepees Inwestycje Sp. z o.o. did not generate any revenue and closed the financial year 2023 with a net loss of PLN 13 thousand.

Ponary Sp. z o.o. also did not generate any sales revenue. The net profit achieved in 2023 is due to the financial revenue received each month - fees for granting credit surety to the Parent Company.

### Methods of financing subsidiaries in 2023

ZPZ LUBLIN Sp. z o.o.	self-financing and credit financing (bank credits)
PPZ BRONISŁAW S.A.	self-financing and credit financing (bank credits and loans granted by PEPEES and ZPZ Lublin)
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 Company, "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.

The cooperation of Capital Group entities is aimed at increasing the level of utilisation of resources and reducing the risks associated with their operations.

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.

### **Issuer's transactions with subsidiaries**

#### Transactions between "PEPEES" S.A. in Łomża and ZPZ "LUBLIN" Sp. z o.o. in Łomża

Transactions between "PEPEES" S.A. in Łomża and its subsidiary, ZPZ "LUBLIN" Sp. z o.o. in Lublin, consisted of the purchase of starch from the subsidiary for the amount of PLN 2,025 thousand.

In 2023 "PEPEES" S.A. sold starch to ZPZ "LUBLIN" Sp. z o.o. for the amount of PLN 92.3 thousand and a service for PLN 282.7 thousand. The total value of sales realised for ZPZ "LUBLIN" Sp. z o.o. amounted to PLN 375 thousand.

The sales price is determined using the cost-plus method or on the basis of price lists in force with unrelated parties.

In addition, ZPZ "LUBLIN" Sp. z o.o. paid interest to the Issuer in the amount of PLN 62 thousand on the granted loan.

#### Transactions between "PEPEES" S.A. in Łomża and PPZ "BRONISŁAW" S.A. in Bronisław

During the reporting period, the Issuer purchased starch from a subsidiary for PLN 12,776.3 thousand, protein for PLN 608 thousand, warehouse lease services for PLN 87.3 thousand and property, plant and equipment of PLN 1,016.2 thousand. The total value of purchases at PPZ "BRONISŁAW" S.A. amounted to PLN 14,487.9 thousand.

"PEPEES" S.A. sold potatoes in 2023 to PPZ "BRONISŁAW" S.A. - seed potatoes for PLN 816.1 thousand, potatoes for processing for PLN 4,676.1 thousand, potato starch for PLN 1,260.8 thousand, property, plant and equipment of PLN 22 thousand and services for PLN 27.9 thousand. The total value of sales to PPZ "BRONISŁAW" S.A. amounted to PLN 6,802.8 thousand.

The sales price is determined using the cost-plus method or on the basis of price lists in force with unrelated parties.

In addition, PPZ "BRONISŁAW" Sp. z o.o. paid interest to the Issuer in the amount of PLN 604.7 thousand on granted loans and sureties and PLN 320 thousand of interest on bonds.

In 2023, the Issuer granted PPZ "BRONISŁAW" S.A. a loan in the amount of PLN 2,500 thousand. The total value of outstanding loans as at the balance sheet date amounted to PLN 7,200 thousand.

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

"PEPEES" S.A. sold a service to its subsidiary, Gospodarstwo Rolne Ponary, for PLN 10 thousand. On the other hand, Gospodarstwo Rolne Ponary had previously granted a surety to the Issuer, with fees charged for it in 2023, amounting to PLN 158 thousand.

In addition PONARY paid interest to the Issuer in the amount of PLN 22.8 thousand on the loan granted in 2018.

The outstanding loan amount as at the balance sheet date was PLN 220 thousand.

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

In 2023 the Issuer sold services to Pepees Inwestycje Sp. z o.o. in the amount of PLN 4.2 thousand.

## **9. Information on credits and loans taken out**

As at 31/12/2023, the Capital Group had credit liabilities as shown in the table below:

Table 4: Credit liabilities as at 31 December 2023 in PLN thousand

Credit type	Lending bank	Borrower	Contractually agreed credit amount	Currency	Debt as at 31/12/2023	Repayment deadline
Overdraft facility	Santander Bank Polska S.A.	“PEPEES” S.A.	4,000	PLN	-	31/08/2024
Working capital facility	Santander Bank Polska S.A.	“PEPEES” S.A.	36,500	PLN	36,500	31/08/2024
Overdraft facility	Powszechna Kasa Oszczędności Bank Polski S.A.	“PEPEES” S.A.	4,000	PLN	-	31/08/2024
Working capital facility	Powszechna Kasa Oszczędności Bank Polski S.A.	“PEPEES” S.A.	36,500	PLN	36,500	31/08/2024
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	2,383	30/06/2025
Loan for the purchase of property, plant and equipment - Deutz Fahr agricultural	BNP Paribas Lease Group	“PEPEES” S.A.	937	PLN	367	13/08/2024
Loan for the purchase of a Fendt 942 Vario Gen7 ProfiPlus agricultural tractor	AGCO Finance Sp. z o.o.	“PEPEES” S.A.	1,260	PLN	1,267	20/10/2025
Loan for the purchase of a Deutz Fahr 9340 AGROTRON TTV agricultural tractor	BNP Paribas Lease Group	“PEPEES” S.A.	924	PLN	924	13/12/2026
Investment credit to finance and refinance investment for production line for modified products of starch	BNP Paribas Bank Polska S.A.	“PEPEES” S.A.	3,500	EUR	2,098	30/09/2030
Overdraft facility	BNP Paribas Bank Polska SA	“PEPEES” S.A.	1,000	EUR	-	04/12/2024
Working capital facility	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ “LUBLIN” Sp. z o.o.	6,500	PLN	6,061	31/08/2024
Working capital facility	Santander Bank Polska S.A.	ZPZ “LUBLIN” Sp. z o.o.	6,500	PLN	5,956	31/08/2024
Overdraft facility	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ “LUBLIN” Sp. z o.o.	2,000	PLN	-	31/08/2024
Overdraft facility	Santander Bank Polska S.A.	ZPZ “LUBLIN” Sp. z o.o.	2,000	PLN	-	31/08/2024
Overdraft facility	Santander Bank Polska S.A.	PPZ “Bronisław” S.A.	700	PLN	-	31/08/2024

Credit type	Lending bank	Borrower	Contractually agreed credit amount	Currency	Debt as at 31/12/2023	Repayment deadline
Working capital facility	Santander Bank Polska S.A.	PPZ "Bronisław" S.A.	17,800	PLN	17,633	31/08/2024
Overdraft facility	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ "Bronisław" S.A.	700	PLN	-	31/08/2024
Working capital facility	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ "Bronisław" S.A.	17,800	PLN	17,800	31/08/2024
Investment credit	BOŚ	PPZ "Bronisław" S.A.	8,456	PLN	3,837	31/12/2027
<b>Credits in PLN</b>			<b>157,107</b>	<b>PLN</b>	<b>129,228</b>	
<b>Credits in EUR</b>			<b>4,500</b>	<b>EUR</b>	<b>2,098</b>	
<b>Total after conversion to PLN</b>			<b>176,673</b>	<b>PLN</b>	<b>138,350</b>	

The interest rate on short-term credits is based on WIBOR for 1M deposits plus bank margin, and on long-term loans on WIBOR for three-month deposits plus bank margins. The majority of credits and loans were granted in PLN. The exceptions are two foreign currency credits (an investment credit and an overdraft facility - both with BNP Paribas Bank Polska S.A.), granted in EUR.

None of the Group's credits were terminated in 2023 nor did the Group companies terminate their loan agreements during this period.

## 10. Information on loans, guarantees and sureties granted

### Loans

As at 31 December 2023, the Group had the following loans granted by the parent company to subsidiaries:

- > 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 deadline: 31/12/2024
- > 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 deadline: 31/12/2024
- > 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 deadline: 31/12/2024
- > Loan of 30 May 2022 granted to the subsidiary PPZ Bronisław S.A. in the amount of PLN 1.400 thousand. Outstanding amount: PLN 1,400 thousand. Repayment deadline: 31/12/2024
- > Loan of 29 June 2023 granted to the subsidiary PPZ Bronisław S.A. in the amount of PLN 2,500 thousand. Outstanding amount: PLN 2,500 thousand. Repayment deadline: 31/12/2024
- > 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 220 thousand. Repayment deadline: 31/12/2024

Additionally, as at 31 December 2023, there were following loans granted by the Issuer to other entities:

- > Loan of 5 April 2023 granted to Dariusz Dorozko Usługi Rolnicze, a service business supporting agricultural production, in the amount of PLN 500 thousand. Outstanding amount: PLN 500 thousand. Repayment deadline: 30/11/2026
- > Loan of 1 August 2023 granted to KERA Arkadiusz Majchrzak, a service business supporting agricultural production, in the amount of PLN 1,160 thousand. Outstanding amount: PLN 898 thousand. Repayment deadline: 31/12/2024

### **Sureties**

*Sureties granted by the "PEPEES" S.A. Parent Company, as at 31/12/2023:*

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. As at 31/12/2023 the value of the investment credit taken out by PPZ Bronisław S.A. amounts to PLN 3,837 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.

*Sureties granted to the "PEPEES" S.A. Parent Company, as at 31/12/2023:*

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.

Remuneration 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 or sureties other than those indicated above.

The total value of sureties or guarantees existing as at 31/12/2023 granted by PEPEES to PEPEES Capital Group entities amounted to approximately PLN 12.7 million.

### **Guarantees**

As at 31/12/2023, the Company had no guarantees granted to other entities, including subsidiaries.

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

<b>Off-balance-sheet assets (data in PLN thousand)</b>	<b>2023</b>	<b>2022</b>
Guarantees received	-	-
<b>Off-balance-sheet liabilities</b>		
Mortgages on companies' assets	139,827	131,734
Asset pledge	212,500	123,050
Credit surety	-	-
Assignment of claims under insurance policy	371,151	355,906
Possible compensation under prohibition of competition	2,036	1,767
Guarantees granted	-	-

## **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 Company and the Capital Group did not publish financial forecasts for 2023.

## **14. Assessment of financial resources management**

In 2023, both the Parent Company and the Capital Group had full 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 Company 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 trade liabilities.

The main financial risks in 2023 were associated with price volatility in the raw materials, materials, energy and fuel markets. The Company has optimised the operation of the boiler room in terms of fuel diversification.

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 investment 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 financial costs increased compared to the previous year.

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. In the case of higher-risk foreign transactions, letters of credit are used to secure them.

Surplus cash is moved to short-term deposits to enable timely payment of liabilities. During periods of increased demand for working capital, such as the "potato campaign", the main financial instrument used by companies in the Group is a short-term bank credit for the purchase of potatoes, the individual tranches of which are closely correlated with the schedule for the purchase of raw material for production.

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

2023 was another year in which the PEPEES Capital Group implemented its investment plans focusing on raising the production and quality standards of the plants' technical infrastructure.

The specific objectives of investment projects carried out included:

- ✓ improving the efficiency of the Company's production and operations by modernising the machinery stock;
- ✓ adaptation of production facilities to hygiene standards and the requirements of the Integrated Management System (IMS) implemented in the Company;
- ✓ development of technical base required to maintain own potato crops;
- ✓ optimising working conditions;
- ✓ taking steps to increase production capacity.

The following projects were included in the list of key investments completed by the Group in 2023:

- construction of a plant for modified products of starch;
- replacement of the reactor at the starch liquefaction station;
- modernisation of control of the pulp feed section of the starch plant centrifuge;
- modernisation of plant lighting systems;
- modernisation of the GEA SDA130 centrifuge control system - phase II;
- replacement of the frequency converter for the drive of the submersible pump at well No. 3;
- replacement of control valve drives - protein line;
- upgrading the ASIX system structure in the boiler room;
- acquisition of data on industrial utilities consumption and process parameters as well as their visualisation and remote provision;

- installation and commissioning of a new blowdown tank in the boiler room;
- replacement of filters including treated water filter rinsing system as part of the modernisation of the SUW station of the plant boiler room;
- commissioning of a container boiler room running on fuel oil;
- installation of a screw pump in the potato pulp building;
- purchase of machinery and equipment (agricultural machinery, laboratory fume hood and laboratory apparatus for analysing quality and physico-chemical parameters of finished products and environmental tests, computer and office equipment, etc.).

In 2024, the Group will continue the investments started in 2023 and plans a number of new investment projects, the most important of which include:

- modernisation of other production facilities;
- purchase of production and agricultural machinery and equipment (e.g. an external freight lift for the storage area for modified products of starch, anhydrous glucose screening machine, agricultural tractor for the farm);
- creation of a laboratory for modified products of starch.

The source of funding will be own cash and an investment credit taken out in 2023 to finance and refinance the investment in the line for modified products of starch. The Issuer does not identify any threats to the implementation of the investment assumptions indicated above.

## **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 5: Employment in the PEPEES Capital Group*

Item	Average headcount in 2023	As at 31/12/2023		Average headcount in the previous financial year 2022
		Women	Men	
White-collar workers	141	72	68	148
Blue-collar workers	271	46	220	280
Persons on parental leave and unpaid leave	3	-	1	3
<b>Total</b>	<b>415</b>	<b>118</b>	<b>289</b>	<b>431</b>

## 19. Major achievements in research and development

In 2023, the Issuer pursued the following research and development activities:

- > development of modified starch formulas based on laboratory-scale research;
- > analysis of factors affecting the quality of modified starch and its functional properties;
- > organisation of a laboratory for modified products of starch, including the provision of the control and measurement equipment required for research.

## 20. Non-material aspects

- > Implemented certified Quality and Food Safety Management System;
- Quality Management System certificate in accordance with EN ISO 9001:2015  
Scope of the Quality Management System: Production of starch, hydrolysates, starch preparations and potato protein.  
Certificate number: 070509.  
First certification date: 19/06/2007.  
Certificate validity date: 19/06/2025.
- Certificate of compliance of the Food Safety Management System with the EN ISO 22000:2018 standard.

Scope of certification: Production of starch, hydrolysates, starch preparations and potato protein.

Certificate number: 0087878.

First certification date: 13/07/2007.

Certificate validity date: 25/07/2025.

- *Certificate of compliance with: Global Standard for Food Safety, 9th Edition; August 2022*

Scope of certification: Extraction and hydrolysis of starch, crystallisation of glucose, drying of potato starch, glucose and maltodextrin, packing in paper bags, big-bag and tank packaging. Packing potato starch in block bottom paper bags. Packing syrups in PE/PP plastic packaging. Product category: 15.

Grade: AA.

Certificate registration number: AC 103274/0194/5277/2021

Audit date: 16-17/11/2023

Required re-audit date: 31/10/2024 to 28/11/2024.

Validity date: 09/01/2025.

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

Scope of certification: Anhydrous glucose, glucose monohydrate.

Inspection date: 11-12/01/2022

Date of issue: 06/04/2022

Validity date: 3 years from the last day of inspection

- *Certificate of compliance with: GMP+B1 Production, Trade and Services*

Scope of certification: Production of feed materials. Trade in feed materials. Feed storage and transport.

Certificate number: GMP657.

Audit date: 10-11.12.2021

Certificate issue date: 29/01/2022

Validity date: 28/01/2025.

- > Presence on Sedex platform (supporting ethical business practices in the supply chain).
- > Developed and implemented technologies for obtaining starch hydrolysates (glucose, maltodextrin, glucose syrups), starch and potato protein.
- > Professional knowledge and experience of staff.
- > Licences for promotional emblems.
- > Implemented IT system.

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

The Russian Federation's invasion of Ukraine and the reaction to these military actions also have an indirect impact on the PEPEES Group's performance. Significant increase in inflation and interest rates is also an indirect effect of the conflict. High prices for agricultural fertilisers and plant protection products have increased losses from farming operations. In the second half of 2023, the average sales price of starch, the core product, also dropped significantly compared to the first half of the year, which translated into decreased sales revenue.

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

Equity investments and deposits	2023	2022
Short-term bank deposits in PLN	28,700	41,242
Other financial assets	10,390	6,893

## 23. Adjustments of prior period errors and changes in accounting policies and presentation of statements

The Group did not voluntarily change accounting policies or correct previous years' errors.

The Group's financial statements (separate and consolidated, respectively) are prepared in accordance with IAS/IFRS regulations.

There were no adjustments of previous years' errors.

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

There are no significant changes to the governance arrangements of the Issuer and its Group in 2023.

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

During the reporting period, the management and supervisory staff made no changes to the ownership of the Issuer's shares or rights to shares. As at 31/12/2023 and the publication date of this report, 701 thousand Issuer shares with a nominal value of PLN 0.06 each and a total nominal value of PLN 42,060 were held by the President of the Management Board, Wojciech Faszczewski.

None of the management and supervisory staff hold shares in subsidiaries.

## 26. Contracts concluded between the Issuer and the management staff, providing for compensation in the case of their resignation or termination of employment in a particular position without an important reason, or when they are recalled or have their employment terminated as a result of the merger of the Issuer by acquisition

There are managerial contracts in force between the Issuer and the management staff which provide for compensation under prohibition of competition for a period of 12 months from the date of termination of the contract in the amount of 100% of the average monthly remuneration including bonuses for the last 12 months.

## 27. The value of remuneration, rewards and other benefits paid and due to the management and supervisory staff at the Issuer's company in 2023

### Management Board:

Wojciech Faszczewski	PLN 926.7 thousand
Tomasz Krzysztof Rogala	PLN 714.0 thousand
<b>Total remuneration of the Members of the Management Board</b>	<b>PLN 1,640.7 thousand</b>

### Supervisory Board:

Maciej Kaliński	PLN 267.4thousand
Robert Malinowski	PLN 159.1thousand
Agata Czerniakowska	PLN 127.9thousand
Jacek Okoński	PLN 99.3thousand
Kajetan Rościszewski	PLN 99.3thousand
<b>Total remuneration of the Supervisory Board</b>	<b>PLN 753.0thousand</b>

### **Remuneration of the Management Board and Supervisory Board received for service in governing bodies of subordinated entities:**

Wojciech Faszczewski - President of the Management Board of PEPEES - PLN 86.9 thousand for being a member of the Supervisory Board of Zakłady Przemysłu Ziemniaczanego "Lublin" Sp. z o.o. and PLN 209.9 thousand for holding the position of President of the Management Board at PPZ "BRONISŁAW" S.A.;

Agata Czerniakowska - PLN 43.5 thousand for being a member of the Supervisory Board of ZPZ "LUBLIN" Sp. z o.o. and PLN 75.5 thousand for being a member of the Supervisory Board of PPZ "BRONISŁAW" S.A.;

Robert Malinowski - PLN 65.4 thousand for being a member of the Supervisory Board of ZPZ "LUBLIN" Sp. z o.o. and PLN 44.1 thousand for being a member of the Supervisory Board of PPZ "BRONISŁAW" S.A.;

Maciej Kaliński - PLN 31.0 thousand for being a member of the Supervisory Board of PPZ "BRONISŁAW" S.A.;

There are no liabilities arising from retirement pensions and benefits of a similar nature to former management and supervisory board members.

## 28. Information on any liabilities arising from pensions and benefits of a similar nature for former members of the management, supervisory or administrative bodies, and on liabilities incurred in connection with those pensions

In 2023, the PEPEES Capital Group did not have any liabilities arising from retirement pensions and benefits of a similar nature for former management and supervisory staff or former members of administrative bodies, or liabilities incurred in connection with such retirement pensions.

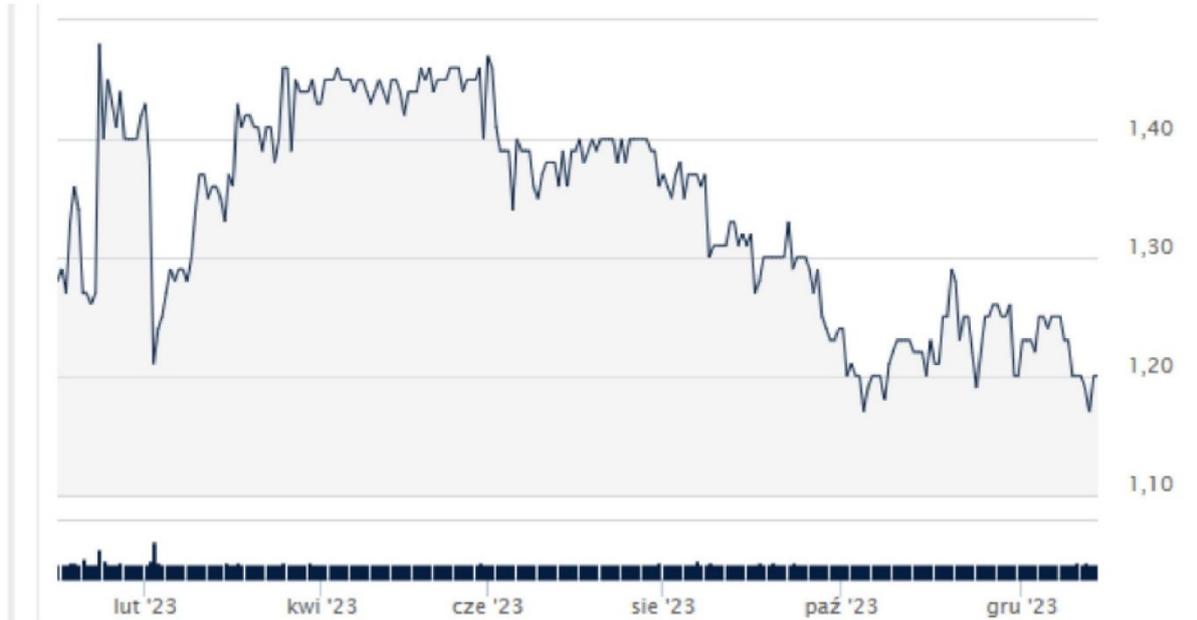
## 29. Parent Company listings in 2023

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 1.20 on 29 December.

The highest price in the reporting period was PLN 1.52 and the lowest was PLN 1.05.

The average share price in 2023 was PLN 1.34.

**Chart 3: Development of PEPEES share price in 2023**



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

The Issuer is not aware of any agreements which may result in future changes in proportions of shares held by the existing shareholders. The Issuer holds no issued bonds.

**31. 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.

**32. 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.

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

Throughout 2023, the Group operated with a consistent focus on activities with the ultimate aim of further increasing the scale of the Group's business.

On 21 April 2023 the District Court in Białystok has issued a decision establishing that EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych with its registered office in Warsaw, which is a shareholder of the Company, has lost and cannot exercise voting rights from 21,402,233 ordinary bearer shares in the Company. This ruling is not final, as EPSILON has filed an appeal.

In 2023, the Issuer continued to buy back its own shares under the share buy-back programme conducted on the basis of Resolution No. 28 of the Ordinary General Meeting of 14 April 2022.

**34. 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**

There were no events in 2023 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.

**35. 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 year**

The following factors will have a significant impact on the result:

- the quantity and value of bought potatoes - the basic raw material for production;
- demand for and price of starch on the Polish and global markets;
- exchange rates - the Group is an exporter;
- interest rates - the Group uses credits and leases, the interest rate of which is based on WIBOR;
- hostilities in Ukraine and sanctions against Russia and Belarus and the economic impact of these actions.

In the following year, 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.

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

"PEPEES" S.A. and its subsidiaries entered into an agreement 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 agreement was concluded on 9 January 2023. The audit firm was selected by the Issuer's Supervisory Board.

The subject of the agreement 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 contractual remuneration due for 2023 is PLN 124,000 plus VAT. "

Additional assurance agreements were also concluded with the auditor, as detailed in the table below.

Item	2023	2022
Mandatory audit of the annual report	88.00	58.8
<b>including: PEPEES</b>	<b>45.00</b>	<b>34.1</b>
Review of the interim report	36.00	19.0
<b>including: PEPEES</b>	<b>27.00</b>	<b>13.8</b>
Tax advisory services	-	-
Assurance engagement - audit of the remuneration report of the management board and supervisory board	6.80	5.0
Assurance engagement - confirmation of the correct calculation of the electricity consumption intensity factor	8.50	6.0
Assurance engagement - assessment of the correctness of the beneficiary's report (government programme for subsidising energy-intensive sectors)	8.50	-
<b>Total remuneration</b>	<b>147.80</b>	<b>88.8</b>

The remuneration of the WBS Audyt Sp. z o.o. audit firm for individual assignments in 2023 is as follows:

*/data in PLN thousand/*

Separate FS review - PEPEES	Consolidated FS review	FS review - ZPZ Lublin	FS review - PPZ Bronisław	Review of consolidation packages of subsidiaries not subject to audit (Pepees Inwestycje, GR Ponary)	<b>Total remuneration for the review of reports as at 30/06/2023</b>
20,000	7,000	3,000	3,000	3,000	<b>36,000</b>

Separate FS audit - PEPEES	Consolidated FS audit	Separate FS audit - ZPZ Lublin	Separate FS audit - PPZ Bronisław	Review of consolidation packages of subsidiaries not subject to audit (Pepees Inwestycje, GR Ponary)	<b>Total remuneration for the audit of reports as at 31/12/2023</b>
35,000	10,000	16,000	21,000	6,000	<b>88,000</b>

### 37. Summary of activities during the reporting period

In 2023, the PEPEES Capital Group generated sales revenue of PLN 222,218 thousand which means a decrease of 12.8% compared to the corresponding period of the previous year, when sales revenue amounted to PLN 254,952 thousand.

Own cost of sales, on the other hand, decreased by 9.2% year-on-year, resulting in a gross profit on sales of PLN 60,490 thousand, meaning a decrease of 21.3% compared to the corresponding period of the previous year. The lower margin on sold products is the result of dropping prices in domestic and foreign markets.

Sales and marketing costs decreased by 28.9% in 2023, while overheads increased by 2.5%.

The balance of other operating activities in the twelve-month period of 2023 amounted to a plus result of PLN 325 thousand with a result of minus PLN (-1,118) thousand in the comparative period.

On the other hand, the financial activities result, understood as the balance of financial revenue less financial costs in 2023 was negative, showing PLN (-4,543) thousand, and also negative in the comparative period, amounting to PLN (-6,281) thousand. The decrease in the loss from financial activities was due to the revaluation of the block of shares in "Warszawski Rolno-Spożywczy Rynek Hurtowy" Spółka Akcyjna with its registered office in Bronisze ("WRSRH") to fair value.

Revaluation of the aforementioned shares in the amount of PLN 2,425 thousand was recognised in 2023 in the Issuer's financial revenue.

As a consequence of the above, the gross profit in 2023 was PLN 7,627 thousand with net profit of PLN 17,272 thousand for the previous year. On the other hand, the net profit in 2023 was PLN 3,668 thousand with net profit of PLN 10,843 thousand in the corresponding period of 2022.

### **38. 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 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 No. 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 or its subsidiaries.

### III. ECONOMIC AND FINANCIAL POSITION

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

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

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

Asset name	As at		Changes in amounts + increases - decreases	Structure ratios in %	
	31/12/2023	31/12/2022		31/12/2023	31/12/2022
<b>NON-CURRENT ASSETS</b>	<b>180,779</b>	<b>171,231</b>	<b>9,548</b>	<b>47.8</b>	<b>45.5</b>
Tangible fixed assets	159,494	151,327	8,167	42.1	40.2
Intangible assets	165	644	(479)	0.0	0.2
Rights to assets	13,145	11,248	1,897	3.5	3.0
Investment property	553	563	(10)	0.1	0.1
Goodwill	1,320	1,320	0	0.3	0.4
Investments in other parties	713	383	330	0.2	0.1
Deferred income tax assets	5,389	5,746	(357)	1.4	1.5
<b>CURRENT ASSETS</b>	<b>197,714</b>	<b>204,783</b>	<b>(7,069)</b>	<b>52.2</b>	<b>54.5</b>
Inventories	109,850	104,817	5,033	29.0	27.9
Biological assets	34	326	(292)	0.0	0.1
Trade and other short-term receivables	32,707	35,059	(2,352)	8.6	9.3
Current income tax receivables	1	1	0	0.0	0.0
Other financial assets	10,390	6,893	3,497	2.7	1.8
Cash and cash equivalents	44,732	57,687	(12,955)	11.8	15.4
<b>Total assets</b>	<b>378,493</b>	<b>376,014</b>	<b>2,479</b>	<b>100.0</b>	<b>100.0</b>

The Group's property, as at 31 December 2023 amounting in total assets of PLN 378,493 thousand, increased by PLN 2,479 thousand, i.e. by 0.66% compared to the previous year.

Fixed assets increased mainly due to the Issuer's capital expenditure on the plant for modified products of starch.

Current assets in 2023 decreased by 3.45% compared to 2022. The largest decrease was in the cash and trade receivables items due to a decrease in sales value.

## 2. Capital Group funding sources

A summary of the sources of funding for assets as at 31 December 2023 compared to the balance as at 31 December 2022 is shown in the table below.

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

Specification of funding sources	As at		Changes in amounts + increases - decreases	Structure ratios in %	
	31/12/2023	31/12/2022		31/12/2023	31/12/2022
<i>Equity</i>	<b>180,296</b>	<b>186,534</b>	<b>(6,238)</b>	<b>47.6</b>	<b>49.6</b>
<b>Equity attributable to shareholders of the Company</b>	<b>177,312</b>	<b>183,219</b>	<b>(5,907)</b>	<b>46.8</b>	<b>48.7</b>
Share capital	5,700	5,700	0	1.5	1.5
Issue price surplus over nominal value of shares	7,562	7,562	0	2.0	2.0
Treasury shares	(1,424)	(224)	(1,200)	(0.4)	
Revaluation capital	30,985	31,050	(65)	8.2	8.3
Retained profit	134,489	139,131	(4,642)	35.5	36.9
<b>Non-controlling shares</b>	<b>2,984</b>	<b>3,315</b>	<b>(331)</b>	<b>0.8</b>	<b>0.9</b>
<i>Liabilities</i>	<b>198,197</b>	<b>189,480</b>	<b>8,717</b>	<b>52.4</b>	<b>50.4</b>
<b>Long-term liabilities</b>	<b>39,996</b>	<b>35,526</b>	<b>4,470</b>	<b>10.6</b>	<b>9.4</b>
Credits and loans	12,988	6,508	6,480	3.4	1.7
Liabilities for leased assets	14,677	17,648	(2,971)	3.9	4.7
Deferred income tax provision	5,609	6,518	(909)	1.5	1.7
Retirement and similar benefit liabilities	3,574	2,878	696	0.9	0.8
Subsidies	1,864	1,974	(HO)	0.5	0.5
Other long-term liabilities	1,284	-	1,284	0.3	0.0
<b>Short-term liabilities</b>	<b>158,201</b>	<b>153,954</b>	<b>4,247</b>	<b>41.8</b>	<b>41.0</b>
Trade liabilities and other short-term liabilities	24,474	22,881	1,593	6.5	6.1
Current income tax liabilities	3,499	3,032	467	0.9	0.8
Credits and loans	125,395	122,713	2,682	33.1	32.7
Liabilities for leased assets	4,350	4,809	(459)	1.1	1.3
Retirement and similar benefit liabilities	483	519	(36)	0.1	0.1
<b>Total liabilities</b>	<b>378,493</b>	<b>376,014</b>	<b>2,479</b>	<b>100.0</b>	<b>100.0</b>

Liabilities accounted for the largest share of sources of asset financing throughout the presented period, increasing by a total of PLN 8,717 thousand. This resulted from an increase in loan debt. The Issuer has taken out a new investment credit for the construction of a plant for modified products of starch.

The Group's equity decreased in value by PLN (6,238) thousand, which is largely a consequence of the loss incurred by PPZ Bronisław.

### 3. Capital Group's financial results

The table below presents the financial results from the Capital Group's business activities for 2023 and 2022.

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

### 4. Cash flows

Item	Item	For the 12-month period ended 31 December 2023	For the 12-month period ended 31 December 2022	Change
1	Sales revenue	222,218	254,952	87.2
	- revenue from sales of products	211,476	243,751	86.8
	- revenue from sales of services	1,754	1,489	117.8
	- revenue from sales of goods and materials	8,988	9,712	92.5
2	Costs of products, goods and materials sold	(161,728)	(178,114)	90.8
	- costs of products sold	(148,063)	(163,035)	90.8
	- costs of services sold	(1,081)	(1,018)	106.2
	- costs of goods and materials sold	(4,670)	(6,993)	66.8
	- agricultural production result	(7,914)	(7,068)	112.0
3	Gross profit on sales	60,490	76,838	78.7
	- sales and marketing costs	(10,896)	(15,334)	71.1
	- overheads	(37,749)	(36,833)	102.5
	- other operating revenue	1,538	834	184.4
	- other operating costs	(1,213)	(1,952)	62.1
4	Operating profit (loss)	12,170	23,553	51.7
	- financial costs	(8,598)	(7,603)	113.1
	- financial revenue	4,055	1,322	306.7
5	Pre-tax profit (loss)	7,627	17,272	44.2
	- income tax	(3,959)	(6,429)	61.6
6	Net profit (loss), including:	3,668	10,843	33.8
7	Profit (loss) attributable to shareholders of the parent company	3,999	10,595	37.7
8	Profit (loss) attributable to non-controlling shares	(331)	248	(133.5)

In 2023, the PEPEES Capital Group had a negative cash flow balance despite positive operating cash flow balance of PLN 24,083 thousand. This was the result of a high negative balance from investment activities of PLN (-23,973) thousand due to significant expenditure on the acquisition of fixed assets (mainly the Issuer's expenditure on the plant for production of modified products of starch). The balance from financing activities was negative, amounting to PLN (-13,065) thousand, resulting in particular from the payment of dividends to the Issuer's shareholders and from credits and loans. As a result, the cash balance in the consolidated statement of cash flows as at 31 December 2023 was PLN 44,732 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 9: Economic indicators**

Indicator	Economic content	2023	2022
Return on assets	$\frac{\text{Net profit attributable to shareholders of the Parent Company}}{\text{Total assets}} \times 100$	1.06%	2.82%
Return on equity	$\frac{\text{Net profit attributable to shareholders of the Parent Company}}{\text{Equity}} \times 100$	2.26%	5.78%
Net return on sales	$\frac{\text{Net profit attributable to shareholders of the Parent}}{\text{Total sales revenue}} \times 100$	1.80%	4.16%
Gross return on sales	$\frac{\text{Gross profit on sales}}{\text{Total sales revenue}} \times 100$	27.22%	30.14%
EBIT	Profit on operating activities, i.e. profit before interest (financial costs less financial revenue) and tax (income tax)	12,170	23,553
EBITDA	Profit on operating activities (EBIT) plus amortisation	27,656	40,715
EBIT margin	$\frac{\text{EBIT}}{\text{Total revenue from sales}} \times 100$	5.48%	9.24%
EBITDA margin	$\frac{\text{EBITDA}}{\text{Total revenue from sales}} \times 100$	12.45%	15.97%

Indicator	Economic content	2023	2022
<b>Liquidity ratio I</b>	$\frac{\text{Current assets (short-term)}}{\text{Short-term liabilities}}$	1.25	1.33
<b>Liquidity ratio II</b>	$\frac{\text{Current assets (short-term) - inventories}}{\text{Short-term liabilities}}$	0.56	0.65
<b>Receivables turnover rate* in days</b>	$\frac{\text{average balance of trade receivables} \times 365}{\text{Sales revenue}}$	38.45	35.96
<b>Liability repayment rate in days*</b>	$\frac{\text{average trade liabilities} \times 365}{\text{Own cost of sales}}$	34.87	31.54
<b>Inventory turnover rate in days*</b>	$\frac{\text{average inventory} \times 365}{\text{Own cost of sales}}$	242.24	206.96
<b>Equity-to-fixed-assets ratio</b>	$\frac{\text{Equity attributable to shareholders of the Company}}{\text{Fixed assets (long-term)}}$	0.98	1.07
<b>Funding structure durability</b>	$\frac{(\text{Equity attributable to shareholders of the Company} + \text{long-term liabilities})}{\text{Total liabilities}}$	0.57	0.58

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

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

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

The receivables turnover ratio increased due to the drop in sales revenue.

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

Liquidity ratios have dropped due to a reduction in current assets, particularly cash.

## 6. Economic position of the Parent Company

*Table 10: Economic position*

Item	ASSETS	As at 31/12/2023	As at 31/12/2022
<b>A.</b>	<b>(Long-term) fixed assets</b>	<b>139,355</b>	<b>127,642</b>
1.	Tangible fixed assets	96215	85,012
2.	Intangible assets	158	644
3.	Rights to assets	15,898	14,576
4.	Investment property	353	363
5.	Investments in subsidiaries	23,586	23,586
6.	Investments in other parties	713	383
7.	Deferred income tax assets	2,432	3,078
<b>B</b>	<b>(Short-term) current assets</b>	<b>153,211</b>	<b>161,778</b>
1.	Inventories	72,302	67,050
2.	Biological assets	34	326
3.	Trade and other short-term receivables	25,191	29,733
4.	Other financial assets	17,810	13,150
5.	Cash and cash equivalents	37,874	51,519
	<b>Total assets</b>	<b>292,566</b>	<b>289,420</b>

## 7. Parent Company financing sources

*Table 11: Financing sources*

Item	LIABILITIES	As at 31/12/2023	As at 31/12/2022
<b>A</b>	<b>Equity</b>	<b>162,335</b>	<b>165,203</b>
1.	Share capital	5,700	5,700
2.	Issue price surplus over nominal value of shares	7,562	7,562
3.	Treasury shares	(1,424)	(224)
4.	Revaluation capital	30,465	30,530
5.	Retained profit	120,032	121,635
<b>B</b>	<b>Liabilities</b>	<b>130,231</b>	<b>124,217</b>
<b>I</b>	<b>Long-term liabilities</b>	<b>31,563</b>	<b>24,814</b>
1.	Credits and loans	10,169	2,750
2.	Liabilities for leased assets	10,681	12,492
3.	Deferred income tax provision	4,904	5,450
4.	Retirement and similar benefit liabilities	2,795	2,295
5.	Subsidies	1,730	1,827
<b>6.</b>	<b>Other long-term liabilities</b>	<b>1,284</b>	<b>-</b>
<b>II</b>	<b>Short-term liabilities</b>	<b>98,668</b>	<b>99,403</b>
1.	Trade liabilities and other short-term liabilities	14,995	16,257
2.	Current income tax liabilities	3,497	3,032
3.	Credits and loans	76,894	75,881
4.	Liabilities for leased assets	2,878	3,737
5.	Retirement and similar benefit liabilities	404	496
	<b>Total liabilities</b>	<b>292,566</b>	<b>289,420</b>

## 8. Financial results of the Parent Company

Table 12: Financial results

Item	Item	For the 12-month period ended 31 December 2023	For the 12-month period ended 31 December 2022
<b>I</b>	<b>Sales revenue</b>	<b>169,273</b>	<b>186,512</b>
1.	Revenue from sales of products	149,554	172,147
2.	Revenue from sales of services	1,469	1,246
3.	Revenue from sales of goods and materials	18,250	13,119
<b>II</b>	<b>Own cost of sales</b>	<b>(123,228)</b>	<b>(130,953)</b>
1.	Costs of products sold	(96,353)	(111,410)
2.	Costs of services sold	(961)	(872)
3.	Costs of goods and materials sold	(18,000)	(11,603)
4.	Agricultural production result	(7,914)	(7,068)
<b>III</b>	<b>Gross profit (loss) on sales (I - II)</b>	<b>46,045</b>	<b>55,529</b>
1.	Sales and marketing costs	(8,627)	(12,536)
2.	Overheads	(25,668)	(25,549)
3.	Other operating revenue	1,607	560
4.	Other operating costs	(678)	(1,645)
<b>IV</b>	<b>Operating profit (loss)</b>	<b>12,679</b>	<b>16,389</b>
1.	Financial costs	(5,512)	(4,674)
2.	Financial revenue	4,909	1,901
<b>V</b>	<b>Pre-tax profit (loss)</b>	<b>12,076</b>	<b>13,616</b>
<b>VI</b>	<b>Income tax</b>	<b>(4,298)</b>	<b>(4,412)</b>
<b>VII</b>	<b>Net profit (loss)</b>	<b>7,778</b>	<b>9,204</b>
<b>VIII</b>	<b>Other comprehensive income</b>	<b>(65)</b>	<b>23</b>
1.	Effects of measurement of available-for-sale financial assets		
2.	Revaluation of employee benefit liabilities	(65)	23
<b>IX</b>	<b>Total comprehensive income, including:</b>	<b>7,713</b>	<b>9,227</b>
<b>X</b>	<b>Net profit (loss) per share</b>	<b>0.08</b>	<b>0.10</b>

## 9. Unusual events affecting the Parent Company's financial result

The Issuer's profit was significantly affected by the revaluation of shares of "Warszawski Rolno-Spożywczy Rynek Hurtowy" Spółka Akcyjna with its registered office in Bronisze ("WRSRH"). The revaluation of the block of shares held by "PEPEES" S.A. to fair value was recognised in the Company's financial revenue and increased its profit by PLN 2,425 thousand.

In 2023, the Parent Company incurred a loss from its agricultural operations (PLN 7,914 thousand) due to increases in the prices of fertilisers, plant protection products and agricultural services.

In addition, the Issuer holds 1,186,487 treasury shares with a purchase value of PLN 1,970.4 thousand, while the fair value as at 31/12/2023 was PLN 1,435.6 thousand.

## **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 Company and the PEPEES Capital Group**

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

✓ **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.

✓ **Dependence on profitability of potato production**

The high cost of potato production is causing it to be displaced by other more profitable crops. The potato crop area is decreasing year by year.

✓ **Product portfolio imbalance**

Introducing new products is a necessity to balance the product portfolio and to ensure the Group's growth. It should be noted in this context that several plants directly competing with the PEPEES CG declare the production of modified products of starch which are becoming increasingly popular on the European and domestic markets.

✓ **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.

At a time of limited potato starch supply, these substitutes are gradually entering the industry which was until now "reserved" for our products. This creates the threat of a partial loss of markets. Therefore, the Group has introduced other types of starch so as not to lose control of the subordinate market.

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

✓ **Foreign exchange risk**

Such risks arise from international trade in currencies other than the Polish zloty. Strong fluctuations in currency prices negatively affect the profitability of foreign transactions and cause concern among growers (settlements with growers are made with reference to the EUR price). ‘

✓ **Risk of significant changes in interest rates**

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

✓ **Liquidity risk**

The liquidity risk is assessed as low during the period under review. Sales on trade credit terms, both domestic and export, are covered by trade receivables insurance. In the case of higher-risk foreign transactions, letters of credit are used to secure them.

✓ **Over-priced instruments to increase trading safety**

Crediting customers increases the risk of non-payment for delivery. The financial products available on the market are expensive and make the transaction stage much longer.

✓ **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, the effectiveness of which is checked during audits and inspections by independent external bodies, the company's internal auditors, as well as a system of laboratory tests carried out in the company's laboratories.

Traceability and recall procedures have been implemented. Traceability tests and recall simulations are carried out several times a year.

✓ **Poor product quality detected at the customer at the manufacturing stage**

The risk may be the costs associated with compensation for causing losses and the possible loss of a customer.

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

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

✓ **Inadequate management of information security/IT infrastructure**

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

The risk is low due to the application of security levels relating to both the operating system and the ERP system. Backups are created to avoid data loss. Network is secured with hardware and software solutions. All aspects are governed by a procedure implemented for this purpose.

✓ **Risks associated with the spreading pandemic**

The coronavirus pandemic and its potential impact on business continuity disruption or curtailment:

- due to possible infections and increased absenteeism among main process line workers;
- due to possible disruptions in the supply chain of materials and services and logistical restrictions, especially in international transport;
- due to the possible closure of certain sales markets, a decline in demand and optimisation of raw material and finished product stocks at business partners;
- as a result of extraordinary changes in legislation.

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

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

1. An increase in the company's current operating costs due to changes in the fuel markets (coal, gas) - a reduction in supplies from the East, a trend towards increasing raw material reserves in Europe, resulting in an increase in raw material prices and reduced availability, an increase in transport prices.

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

The Management Board monitors the aforementioned risks on an ongoing basis and analyses the global political and economic situation. As at the date of publication of the report, the war does not threaten the Company or the Group continuing as a going concern.

#### **Risk related to the macroeconomic situation**

The Group's development is closely correlated with the general economic situation in Poland and the countries where the Group sells its products. The main factors of a general economic nature affecting the Group's operations include the level of national GDP as well as that of the Group's business partner countries, the level of average gross wages, the inflation level, exchange rate risk (mainly EUR and USD), the level of investment by business entities, and the degree of indebtedness of business units and households. There is a risk that a slowdown in economic growth and an increase in inflation could have a negative impact on the Group's operations and financial position, as well as on its financial results.

## **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);
- ✓ market demand for modified potato starch products;
- ✓ access to new and modern technologies;
- ✓ development of markets in international trade;
- ✓ wide range of starch applications - new customer segments;
- ✓ 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;
- ✓ the possibility of producing hydrolysates tailored to specific customer requirements;

- ✓ high production capacity;
- ✓ low production waste water disposal costs;
- ✓ implementing the strategy and undertaking investment activities,
- ✓ expanding the product range;
- ✓ the professional knowledge and experience of staff.

## 2. Development prospects of the Issuer and the Group

Starch will continue to be the Group's most important product, as it has versatile applications for food and industrial purposes. The food processing, pharmaceutical and industrial bioproducts sectors create a huge demand for starches. Demand for starch products is characterised by systematic growth. According to industry estimates, the starch market is projected to grow at a compound annual growth rate (CAGR) of 4.2% between 2021 and 2030. This growth can be attributed to several factors, including a growing demand for convenience foods and increased health awareness among consumers. Potato starch is a natural and gluten-free alternative to other thickening agents, making it a popular choice for people with dietary restrictions. Therefore, the growth prospects for the potato starch industry continue to be promising. Increasing demand for natural and sustainable ingredients will be another growth driver for the potato starch market.

Furthermore, it should be noted that potato protein products are also gaining ground as a sustainable alternative to animal proteins. Potato protein is used in pet food and increasingly often in plant-based meat substitutes.

Due to the need for product diversification, the PEPEES Company began construction of a modified products of starch plant. This is a response to market expectations, as it should be noted that sales of packaged food are steadily increasing as a result of fast, chaotic lifestyle, limited time for meal preparation, growing e-commerce and rising disposable incomes. The use of modified starch in the food industry offers the advantage of shorter processing times. This factor is expected to drive the modified starch market. During the production of foodstuffs, food-grade modified starches are added to provide a number of benefits, such as a longer shelf life, better texture and appearance and improved flavour.

Modified starches are widely used by pharmaceutical companies around the world at various stages of drug development. Modified starch is also a source of natural carbohydrates in animal feed due to its unique digestibility properties. Modified starches work well as binding and thickening agents, providing wet and dry feeds the stability needed, for example, to make sauces and meat gravies in moist feeds and giving dry and semi-moist products greater flexibility, crunchiness or crispness.

The geographical location of the PEPEES Group companies and the diversity of production combined with the highest quality of raw materials, a focus on innovation and transparency in relations with suppliers, make the Group a leading player in the starch industry market and allow for further development not only in local and national markets, but also in the global market.

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

According to the PEPEES Capital Group 2019-2024 Strategy, the strategic objectives include:

- *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 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 (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

The PEPEES Capital Group is planning to implement measures that will enable it to launch an attractive product range on the market. Options under consideration are the introduction of starch modifiers into the European food and pharmaceutical markets.

#### **4. Characteristics of the 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 its starch production 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. APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES**

### **I. Indication of the corporate governance principles the Issuer is subject to and the venue where the text of the set of principles is available to the public**

As an issuer of securities admitted to trading on the Warsaw Stock Exchange S.A. on the basis of Stock Exchange Board Resolution No. 13/1834/2021 of 29 March 2021, the Company was obliged to apply the “Best Practices for Companies Listed on the WSE 2021”. The content of Best Practices is available at:

<https://www.gpw.pl/dobre-praktyki2021>

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

Section II identifies the editorial units and a description of the principles in accordance with the Best Practices that are not applied by the Company and an explanation of the reasons for not applying them.

### **II. Indication of the extent to which the Issuer has departed from the provisions of the corporate governance principles, together with an indication of those provisions and an explanation of the reasons for doing so**

In 2022 “PEPEES” S.A. complied with all the principles of the Best Practices with the exception of the following:

#### **1. INFORMATION POLICY AND COMMUNICATION WITH INVESTORS**

##### **1.3.** The Company also integrates ESG factors in its business strategy, including in particular:

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

*This principle is not applied.*

*The Company’s note: The principle is partially applied. The PEPEES Capital Group’s strategy for 2019-2024 envisages, among other things, sustainable growth including taking a number of measures to meet environmental requirements. In carrying out its production activities, the Company has a regulated formal and legal status with regard to the use of environmental resources. 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, energy and raw material consumption. Measurements of emissions to the environment are carried out by certified laboratories, using reference methods. The results of the monitoring form the basis for the periodic analyses carried out to increase resource management efficiency. Waste handling is carried out under conditions that prevent environmental pollution and ensure human health and safety. The Company keeps quantitative and qualitative records of waste rotation in accordance with the classification adopted and the specimen documents defined by the relevant regulations. The Company has a division responsible for the correct operation of the plant in terms of environmental protection. Also in place is an Integrated Management System which includes quality management, environmental protection, activities to ensure the health and safety of employees and a quality management system for laboratories. While the company respects all requirements and legislation relating to the above areas, the adopted strategy on environmental issues does not include indicators in this respect. The Company will endeavour to take into account the indicators and risks associated with climate change.*

- 1.3.2. social and employee factors, concerning, among others, actions taken and planned to ensure gender equality, proper working conditions, respect for employees' rights, dialogue with local communities, and customer relations.

*This principle is not applied.*

*The Company's note: The principle is partially applied by the Company. Social and labour issues, as well as dialogue with local communities and building long-term relations with customers, are taken into account in the Company's activities, while the areas indicated have not been formally integrated into the business strategy. Nevertheless, the Company respects all requirements and regulations relating to the above areas by, among other things, supporting organisations involved in activities for people in need, supporting the development of physical culture and sports education, promoting initiatives for the development of science and education or sponsoring local and regional events.*

- 1.4. To ensure quality communication with stakeholders on the adopted business strategy, the Company publishes on its website information concerning the framework of the strategy, measurable goals, including in particular long-term goals, planned activities and their status, defined by measures, both financial and non-financial. Information on ESG strategy should, among other things:

*This principle is not applied.*

*The Company's note: The principle is partially applied. The PEPEES Capital Group's strategy for 2019-2024 has been made available on the website. While the strategy includes, among other things, long-term goals and pathways to achieve the strategic objectives, the adopted non-financial strategy does not include indicators. In addition, information on implementing activities in the existing strategy is included in periodically published reports.*

- 1.4.1. explain how climate change issues are taken into account in the decision-making processes of the Company and its Group entities, indicating the resulting risks; *This principle is not applied.*

*The Company's note: While the Company strives to respect all requirements and legislation relating to climate issues in its decision-making processes, this area has not been formally covered by the Company's adopted strategy.*

- 1.6. The company organises a meeting for investors, inviting in particular shareholders, analysts, industry experts and media representatives once a quarter in the case of a company included in the WIG20, mWIG40 or sWIG80 index, and in the case of other companies, at least once a year. During the meeting, the Management Board of the Company presents and comments on the adopted strategy and its implementation, the financial results of the company and its group, as well as the most important events affecting the company's and its group's operations, achieved results and future prospects. During the meetings, the company's management board publicly provides answers and explanations to questions.

*This principle is not applied.*

*The Company's note: Given that the Company communicates with investors in particular through its website, where it publishes all relevant information on its operations, strategy and financial results, the Company does not hold any organised meetings for shareholders or investors outside general meetings. In accordance with the provisions of generally applicable law, within the framework of their corporate rights shareholders may also ask the Company questions outside the general meeting, thus ensuring ongoing contact with the Company. Therefore, the Company does not identify any significant risks of not applying this principle.*

## **2. MANAGEMENT BOARD AND SUPERVISORY BOARD**

- 2.1. The Company should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board or the general meeting, respectively. The diversity policy sets out diversity objectives and criteria in areas such as gender, field of study, specialist knowledge, age and work experience, among others, and indicates when and how the achievement of these objectives will be monitored. With regard to gender diversity of corporate bodies, the participation of the minority group in each body should be at least 30%.

*This principle is not applied.*

*The Company's note: The Company has not developed and does not implement a diversity policy. In the selection of persons holding the position of members of the Management Board and the Supervisory Board, the Company is invariably guided by the highest standards and, in this respect, does not differentiate between candidates on the basis of their gender or other features indicated in the principle. The basic criteria for the selection of the authorities in the Company are high competence, skills and professionalism of the candidates.*

- 2.2. Decisions to elect members of the management board or the supervisory board of the company should ensure that the composition of those bodies is diverse by appointing persons ensuring diversity, among others in order to achieve the target minimum participation of the minority group of at least 30% according to the goals of the established diversity policy referred to in principle 2.1.

*This principle is not applied.*

*The Company's note: The Company has not developed and does not implement a diversity policy. In the selection of persons holding the position of members of the Management Board and the Supervisory Board, the Company is invariably guided by the highest standards and, in this respect, does not differentiate between candidates on the basis of their gender or other features indicated in the principle. The basic criteria for the selection of the authorities in the Company are high competence, skills and professionalism of the candidates.*

- 2.3. The chairperson of the supervisory board should not combine their function with heading the board's audit committee.

*This principle is not applied.*

*The Company's note: The members of the Audit Committee meet all statutory requirements with regard to the criteria relating to the composition of the Audit Committee. However, in the current composition the Chairperson of the Supervisory Board also acts as Chairperson of the Audit Committee. Combining these functions is primarily due to the experience and knowledge of the current Chairperson of the Supervisory Board. Therefore, in the Company's view, combining these two functions by the same person does not compromise the independence of the Audit Committee. The Company will consider possible amendments to its internal regulations in order to incorporate the principle in question into the Company's corporate regulations after the expiry of the current term of office of the Supervisory Board and the election of new members.*

## **3. INTERNAL SYSTEMS AND FUNCTIONS**

- 3.2 The Company shall separate in its structure the units responsible for the tasks of particular systems or functions, unless this is not justified by the size of the company or the nature of its activities.

*The rule does not apply to the Company.*

*The Company's note: While the Supervisory Board has assessed the individual systems or functions, the separation of organisational units responsible for internal control, risk management, compliance or internal audit is not justified in view of the size of the company's business.*

- 3.6. The head of internal audit reports organisationally to the president of the management board and functionally to the chairperson of the audit committee, or to the chairperson of the supervisory board if this body serves as the audit committee.

*This principle is not applied.*

*The Company's note: There is no separate internal audit function within the Company. In the opinion of the Supervisory Board, there is no need for a separate internal audit unit at the Company.*

- 3.7. Principles 3.4 to 3.6 also apply to entities in the company's group which are material to the company's operations, if they have designated individuals to perform these tasks.

*The rule does not apply to the Company.*

- 3.10. A company traded on the WIG20, mWIG40 or sWIG80 index has its internal audit function reviewed at least once every five years by an independent auditor appointed with the participation of the audit committee.

*The rule does not apply to the Company.*

#### **4. GENERAL MEETING AND RELATIONS WITH SHAREHOLDERS**

- 4.4. . The Company should enable its shareholders to participate in a general meeting by means of electronic communication (e-meeting) if justified by the expectations of shareholders notified to the company, provided that the company is in a position to provide the technical infrastructure necessary for such general meeting to proceed.

*This principle is not applied.*

*The Company's note: In the opinion of the Management Board, there is no need to broadcast general meetings or provide real time two-way communication. General Meetings are held on the Company's premises at convenient times so as not to impede in any way the participation of shareholders who wish to attend, speak or exercise their voting rights (either in person or by proxy). This is evidenced by the extremely high attendance at general meetings. The Company also believes that, despite the advanced technology, there is always a risk that the technical and legal security of real time two-way communication or the exercise of voting rights by electronic means for various reasons (including those beyond the control of the Company, the shareholders or third parties) may not be guaranteed and that the potential damage resulting from any disruption in this respect may cause an unjustified increase in the cost of the Company's business.*

- 4.3. The Company provides a public real-life broadcast of the general meeting.

*This principle is not applied.*

*The Company's note: The principle in question is not applied for reasons indicated in the note to principle 4.1. Moreover, it is the Issuer's opinion that the public companies' rules in force regarding informing of the proceedings of general meetings adequately protect the rights of shareholders, and through published stock exchange reports they have guaranteed access to relevant information on the proceedings of general meetings.*

#### **4. CONFLICTS OF INTEREST AND TRANSACTIONS WITH RELATED PARTIES**

The Company has clear procedures for managing conflicts of interest and entering into transactions with related parties in circumstances where conflicts of interest may arise. The procedures provide ways to identify such situations, how to disclose them and how handle them if they occur.

*The Issuer applies all principles on conflicts of interest and transactions with related parties.*

## 5. PAYROLL

The Company and its group are committed to ensuring stability of its management staff, including through transparent, fair, consistent and non-discriminatory principles on their remuneration, manifested, among other things, by equal pay for men and women. The Company's remuneration policy for members of the Company's governing bodies and its key managers defines, in particular, the form, structure, manner of determining and payment of remuneration.

*The Issuer complies with all remuneration principles.*

### III. Report on remuneration policy

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

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

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

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

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

The variable part of the remuneration of the members of the Management Board in the form of quarterly and annual bonuses depends on the level of achieving key objectives based on principles determined by the Supervisory Board, taking into account the achieved financial results and the degree of achievement of the objectives set by the Supervisory Board.

Objectives are set by the Supervisory Board on the basis of the Company's current operational and strategic goals for a given period together with indicators of their achievement, including the execution of the planned sales budget, the achievement of the planned profit or the EBIDTA level.

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

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

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

The maximum total amount of remuneration components constituting a bonus for a member of the Company's Management Board may depend, among others, on the level of profit generated and stand for a percentage share in the net profit generated above the planned level, taking into account the functions held.

Members of the Management Board may be entitled to fringe benefits in the form of financial instruments granted by the Company as part of an incentive scheme.

The incentive scheme for members of the Management Board and key executives should grant the right (option) to receive the Company's shares to create mechanisms within the Company and its subsidiaries that motivate actions ensuring both a long-term increase in the value of the Company and its shares, a stable increase in the Company's results and dividends for shareholders and its subsidiaries, as well as the implementation of the Pepees Group Strategy.

The incentive scheme can be set for a fixed period of time for a defined group of people. The incentive scheme may be implemented by issuing financial instruments granting the right to receive shares in the Company or through the buyback of treasury shares subsequently offered to participants in the scheme, whereby the price of shares sold to participants may not be lower than the price of shares when purchased by the Company.

Conditions for the exercise of the right to shares should include remaining in the employment of the Company or its subsidiary, compliance with the non-competition or other loyalty conditions and the achievement of the individual and financial objectives set by the Supervisory Board.

A minimum two-years' period should be allowed between granting the right to acquire or subscribe for shares in the Company under the incentive scheme and the possibility to exercise it.

Members of the Supervisory Board may not participate in incentive schemes.

Members of the Management Board and Supervisory Board are entitled to fringe benefits in the form of:

- 1.1. a company car with driver for business or private use;
- 1.2. a personal computer and company telephone;
- 1.3. a medical care package, also for immediate family members;
- 1.4. company accommodation granted when the permanent place of work is significantly distant from the place of permanent residence;
- 1.5. participation in training courses funded by the Company;
- 1.6. third party liability insurance for companies' authorities;
- 1.7. other benefits in accordance with the Company's regulations granting them to all employees.

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

#### **IV. Sponsorship activities**

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

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

The Company is involved in the following areas of life:

1. Sports and education
  - Promoting initiatives for the development of science and education;
  - Promoting development of physical culture and sports education.
2. Culture
  - Sponsorship of local and regional events.
3. Charitable activities
  - Supporting organisations that help people in need.

## V. Description of the main features of internal control and risk management systems in place in relation to the process of preparing the financial statements and consolidated financial statements

The effectiveness of the internal control and risk management system in the consolidated financial statements process is ensured by the development, implementation and supervision of application of consistent accounting principles in the PEPEES Capital Group companies. The Capital Group companies submit the required data in the form of reporting packages to prepare the Group's consolidated financial statements. The scope of disclosures within the Group is defined and follows the information obligations set out by IAS/IFRS. Ongoing monitoring of changes in accounting standards is carried out to identify the need to update the scope of reporting. All financial statements are reviewed by the Management Board of the PEPEES Parent Company. Group companies submit their financial statements for interim reviews and annual audits by an independent statutory auditor. The consolidated financial statements are also audited. Until the publication of the financial statements and the consolidated financial statements, data is made available only to those involved in their preparation, verification and approval, while ensuring data confidentiality.

## VI. Shareholders with directly or indirectly significant share packages

To the best of our knowledge, the shareholder structure as at 31/12/2023 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 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 April 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).

## VII. Holders of any securities conferring special rights

The Company has not issued securities conferring special rights.

## VIII. Restrictions on the exercise of the voting right

The Company's Articles of Association do not provide for such restrictions. In contrast, prohibition for a shareholder to exercise their voting rights may arise from Article 89 of the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies (hereinafter referred to as the "**Act on Public Offering**"), in the event that such shareholder violates certain provisions contained in Chapter 4 of the Act on Public Offering. In turn, pursuant to Article 6 § 1 of the Commercial Companies Code, if the parent company fails to notify the subsidiary capital company of the establishment of a dominance relationship within two weeks of the date on which the relationship is established, the exercise of voting rights from shares in the parent company representing more than 33% of the subsidiary capital shall be suspended.

The Company's shareholder, EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych with its registered office in Warsaw, 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 public companies. The Company's Management Board has therefore brought an action 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 April 2023 the District Court in 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.

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

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

## X. Principles of appointment and removal of management staff and their powers

1. The Management Board consists of between one and five persons. The term of office of the Management Board is three years, except for the term of office of the first Management Board, which is two years. The Supervisory Board appoints the President of the Management Board, while the other members of the Management Board are appointed by it upon request of the President of the Management Board. The Supervisory Board determines the number of members of the Management Board. The Supervisory Board may dismiss the President of the Management Board, a member of the Management Board or all members of the Management Board before the expiry of the term of office of the Management Board. The Management Board shall exercise all the powers of managing the Company except those reserved by law or the Articles of Association to the other authorities of the Company.
2. The operating procedure of the Management Board and the matters that may be entrusted to individual members shall be specified in detail in the By-laws of the Management Board. The By-laws of the Management Board shall be adopted by the Management Board of the Company and approved by the Supervisory Board.
3. The following persons are entitled to submit declarations and sign documents on behalf of the Company: (i) in the case of a one-person Management Board, the President of the Management Board; (ii) in the case of a multi-person Management Board, two members of the Management Board acting jointly or one member of the Management Board acting jointly with a proxy.
4. The Supervisory Board concludes agreements with members of the Management Board on behalf of the Company and represents the Company in disputes with members of the Management Board. By way of resolution the Supervisory Board may authorise one or more of its members to perform such legal acts.

5. The Company's employees report to the Management Board. The Management Board concludes and terminates their employment contracts and sets their remuneration.
6. The decision to issue or buy back shares is taken by the General Meeting by way of resolution.

## **XI. Principles for amending the Articles of Association**

The Company's Articles of Association are amended by way of a resolution of the general meeting of shareholders. Such resolutions shall be adopted by a majority of three-quarters of votes. Resolutions on amendments to the Company's Articles of Association increasing the benefits of shareholders or depleting the rights granted personally to individual shareholders require the consent of all shareholders concerned.

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

The basic principles of operation of the General Meeting are as follows:

1. The General Meeting of PEPEES S.A. acts on the basis of the Commercial Companies Code, the Company's Articles of Association and the By-laws of the General Meeting.
2. The Ordinary General Meeting shall be convened by the Management Board no later than in June each year.
3. The agenda for the General Meeting shall be set by the Management Board in consultation with the Supervisory Board.
4. The Supervisory Board and shareholders representing at least 5% of the share capital may request inclusion of specific issues on the agenda of the General Meeting.
5. General Meetings are held at the Company's registered office.
6. The General Meeting may adopt resolutions irrespective of the number of shareholders present or shares represented.
7. Resolutions at the General Meeting are adopted by voting.
8. Resolutions of the General Meeting are adopted by a simple majority of the votes cast, unless the Articles of Association or the law provide otherwise.
9. Resolutions of the General Meeting are adopted by a majority of 3/4 of the votes cast on the following matters:
  - a) amendments to the Articles of Association, including the issue of new shares;
  - b) issue of bonds;
  - c) disposal of the Company's business;
  - d) merger of the Company with another company;
  - e) dissolution of the Company.
10. Voting at the General Meeting is open. A secret ballot shall be ordered during elections and when voting on motions for the dismissal of members of the governing bodies or liquidators of the Company or for holding them liable, as well as in personal matters. Resolutions on changing the core business of the Company shall be passed in an open roll-call vote.
11. Voting is carried out using magnetic cards and vote counting using digital machines. Voting with magnetic cards and counting with digital machines shall be carried out in a manner consistent with the technical requirements of the equipment used for voting and counting. In the absence of digital equipment or technical faults, voting may take place using uniform printed ballot papers stamped with the Company's seal and containing the following details:
  - sequential voting order number;
  - open vote ballot papers - indication of the name and surname (company name and registered office) of the shareholder and the number and type of shares and the corresponding number of votes;

- secret ballot papers - indication of the number and type of shares and the corresponding number of votes.

Voting cards are handed out to shareholders immediately after the attendance list is signed by the Chairperson of the Meeting. Shareholders write “yes” on the ballot papers when voting in favour of the resolution or “no” when voting against the resolution or “abstain” when abstaining from voting and throw the ballots thus filled in into the ballot box or hand them over to the Returning Committee, if such has been appointed, in another manner determined by the Returning Committee. At the end of the voting, the Returning Committee, if such has been appointed, counts the votes, sums up the results and presents them to the Chairperson of the Meeting.

12. The shareholders entitled to participate in the General Meeting are those indicated on the list of shareholders prepared by the Management Board in accordance with the principles of applicable legislation, in particular Article 406 § 2 and Articles 406<sup>1</sup> to 406<sup>3</sup> of the Commercial Companies Code.
13. Each member of the Management Board, each member of the Supervisory Board, the notary and the notary’s assisting staff, the statutory auditor, the members of the organisational and technical support of the General Meeting authorised by the Management Board, and other persons indicated by the body convening the General Meeting may also be present at the General Meeting. Persons other than those mentioned above may be present only with the consent of the Chairperson of the Meeting, who has the right to order any of these persons to leave the General Meeting room at any time and without stating any reason.
14. The General Meeting is opened by the Chairman of the Supervisory Board or their deputy or, in their absence, by the President of the Management Board or another person designated by the Management Board. The person opening the General Meeting orders the submission of nominations for the Chairperson of the Meeting and, once these have been collected, orders the election of the Chairperson of the Meeting.
15. The Chairperson of the Meeting presents to the shareholders the agenda as formulated by the Management Board in the notice convening the General Meeting and, in the absence of such drafts, personally formulates and presents the draft resolutions. Any shareholder may propose a draft resolution on a matter placed on the agenda.

The Company’s shareholders do not have any special rights other than those arising from generally applicable laws, including those set out in the Commercial Companies Code.

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

1. Composition of the Management Board of “PEPEES” S.A. as at 31/12/2023:

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

The principles of operation and the competences of the Company’s Management Board are set out in the Company’s Articles of Association and the By-laws of the Management Board.

The basic principles of the Management Board are set out in section X above.

2. Composition of the Supervisory Board of “PEPEES” S.A. as at 31/12/2023:

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 basic principles of operation of the Supervisory Board are set out in the Company's Articles of Association and the By-laws of the Supervisory Board. According to these regulations, the Supervisory Board consists of five to nine members. The term of office of the Supervisory Board is three years. The Supervisory Board elects from among its members a Chairperson, one or two Deputy Chairpersons and a Secretary. The Chairperson of the Supervisory Board convenes and chairs the Board meetings. The Chairperson of the Supervisory Board shall convene and open the first meeting of the newly elected Supervisory Board and shall chair it until a new Chairperson is elected. The Supervisory Board holds meetings at least once every quarter. The Chairperson of the Supervisory Board or one of the Deputies is obliged to convene the meeting at the written request of at least two members of the Supervisory Board. The meeting should be convened within one week of the date of the request, on a date no later than two weeks after the convening date. All members of the Supervisory Board must be invited to the meeting for the Supervisory Board's resolutions to be valid. The Supervisory Board adopts resolutions by an absolute majority of votes of the Supervisory Board members present at the meeting, with at least half of its members present. Resolutions of the Supervisory Board may also be adopted without convening a meeting by means of written voting, provided that all members of the Supervisory Board agree in writing to the adoption of resolutions in this manner. The Supervisory Board shall adopt its by-laws setting out the detailed procedure of the Board. The Supervisory Board may delegate its members to individually carry out specific supervisory activities. Remuneration of members of the Supervisory Board shall be determined by the General Meeting.

Pursuant to the Company's Articles of Association, in addition to the matters indicated by law, in other provisions of the Articles of Association or in resolutions of the General Meeting, the responsibilities of the Supervisory Board include:

- 1) examining the annual balance sheet, as well as the profit and loss account, and ensuring that they are reviewed by statutory auditors of its choice;
- 2) examining and issuing an opinion on the management report;
- 3) annually examining and approving the Company's business, financial and marketing plans and requesting detailed reports from the Management Board on the implementation of these plans;
- 4) issuing opinions on proposals of the Company's Management Board concerning the distribution of profit, including the amounts allocated for dividends, the dates of dividend payments or the principles of loss coverage;
- 5) approving transactions involving the disposal or acquisition of shares or other property, or the borrowing of money, if the value of the transaction in question exceeds 15% of the Company's net assets, according to the latest balance sheet;
- 6) appointing, suspending and dismissing members of the Executive Board;
- 7) delegating members of the Supervisory Board to perform the activities of the Management Board in the event of suspension or dismissal of the entire Management Board or when the Management Board is unable to act for other reasons;
- 8) approving the by-laws adopted by the Management Board for the distribution of shares to eligible employees;
- 9) approving the by-laws of the Company's Management Board;
- 10) determining the principles for remunerating members of the Company's Management Board;
- 11) adopting the by-laws of the Supervisory Board of the Company;
- 12) appointing the composition of the Audit Committee and adopting its operation by-laws.

During the reporting period, the **Audit Committee** functioned within the Issuer's Supervisory Board, and was composed of the following persons:

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.

All the above-mentioned members of the Audit Committee meet the statutory criteria for independence.

Mr. Kajetan Rościszewski has knowledge and skills in accounting as a result of finishing college with a Master's degree in Finance and Strategy, which included classes in accounting and corporate auditing.

Ms. Agata Czerniakowska has knowledge and skills in the PEPEES industry as a result of completing a two-year vocational course in agricultural production management conducted by the County Vocational Training Centre in Łańcut, which ended with a state vocational examination and obtaining a Certificate of Vocational Qualification in Agricultural Production.

PEPEES and its subsidiaries entered into an agreement for the term of reviewing and auditing the financial statements (including consolidation packages) for the years 2023 to 2027 with WBS Audyt Sp. z o.o. with its registered office in Warsaw. The agreement was concluded on 9 January 2023. The audit firm was selected by the Company's Supervisory Board.

The Issuer used other services of the selected audit firm, i.e. three assurance engagements relating to:

1. assessment of the Management Board and Supervisory Board remuneration report prepared for 2022 by the PEPEES Supervisory Board;
2. confirming the correctness of the Company's report as an applicant for aid granted from the government programme titled "Aid to energy-intensive industry related to natural gas and electricity prices in 2023";
3. confirming the correctness of calculation of the electricity consumption intensity factor (industrial customer - Energy Regulatory Office).

In accordance with the Act on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2022, item 1302) and the Regulation of the European Parliament No. 537/2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation No. 537/2014"), the Audit Committee has adopted and applies the "Policy and Procedure for the Selection of the Entity Authorised for the Statutory Audit of Financial Statements" and the "Policy for the Provision of Permitted Non-Audit Services by the Audit Firm Performing the Audit, by Affiliates of the Audit Firm and by a Member of the Audit Firm's Network".

In accordance with the aforementioned policies, the Supervisory Board selects the entity authorised for audit, acting on the recommendation of the Audit Committee. The policy defines the periods of cooperation with audit firms, the criteria for selection of the auditor such as previous experience, reputation and qualifications and experience of the persons delegated to carry out financial review activities by the audit firm, the knowledge of the industry in which the Company operates, the pricing conditions or the proposed work schedule, and assumes that the selection of the audit firm should take place in an independent manner, free from pressure or suggestions from third parties as to the selection, and that any restrictions related to the selection derive from generally applicable legislation.

The policy for the provision of permitted services by the audit firm primarily assumes that any services rendered by the audit firm or related parties require a prior risk and independence assessment by the Audit Committee, and furthermore seeks to reduce the potential for conflicts of interest when the audit firm is contracted to provide permitted non-audit services by defining prohibited services and permitted services.

Examples of permitted services include due diligence procedures on economic and financial condition, assurance engagements for pro forma financial information, result or estimated result forecasts included in the audited entity's prospectus, audit of historical financial information for the prospectus, and verification of consolidation packages. Prohibited services, on the other hand, are in particular tax services relating to the preparation of tax forms, payroll taxes, customs obligations, bookkeeping and the preparation of accounting records and financial statements, development and implementation of internal control or risk management procedures relating to the preparation or control of financial information, or the development and implementation of technological systems relating to financial information, or services relating to the internal audit function. Permitted services can only be provided to the extent not related to the Company's tax policy, after the Audit Committee has assessed the risks and safeguards for the independence of the audit firm, the key statutory auditor and other members of the audit team.

The recommendation for the selection of the audit firm to carry out the audit met the applicable conditions and was carried out following a selection procedure organised by the Issuer that met the applicable criteria.

The Committee's main tasks include:

- Discussing the audit process with the Auditor.
- Examining the Company's documents.
- Submitting an annual report on its activities to the Supervisory Board.
- Monitoring the process of financial reporting.
- Monitoring the performance of financial reviews, in particular the audit firm's review of financial statements, taking into account any and all conclusions and findings of the Audit Supervision Committee resulting from the audit carried out at the audit firm.
- Controlling and monitoring the independence of the statutory auditor or audit firm rendering services for the Company.
- Informing the Supervisory Board of the results of the audit of the Company's financial statements and explaining how the audit contributed to the integrity of the Company's financial reporting and the Committee's role in the audit process.
- Assessing the statutory auditor's independence and approving their performance of services to the Company.
- Developing a policy for the selection of an audit firm to audit the Company's financial statements.
- Developing a policy for the provision of permitted non-audit services by the audit firm performing the audit, by affiliates of the audit firm and by a member of the audit firm's network.
- Defining the procedure for the Company's selection of the audit firm.
- Submitting recommendations aimed at ensuring reliability of the financial reporting process in the Company.

Operating procedure of the Audit Committee:

- The Audit Committee holds meetings as required, at least twice a year.
- Meetings of the Committee shall be convened by its Chairperson on their own initiative or at the request of a member of the Audit Committee, as well as at the request of the Management Board, or the internal or external auditor. A meeting of the Audit Committee may also be convened by the Chairperson of the Supervisory Board.
- The agenda for the Audit Committee meeting shall be determined by the convenor of the meeting, but may be amended during the meeting.

- The Chairperson of the Audit Committee may invite persons from outside the Audit Committee to the meeting.
- The meetings of the Audit Committee are minuted. The minutes are signed by the Chairperson of the Audit Committee.
- The Audit Committee adopts resolutions if at least half of its members are present at the meeting.
- The Audit Committee may adopt resolutions in writing, provided that all members of the Audit Committee have been notified of the content of the draft resolutions.
- Resolutions of the Audit Committee are adopted by a simple majority of the cast votes.
- The Company provides organisational and technical support to the Audit Committee.

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

#### **XIV. Diversity policy**

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

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

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

- the annual separate and consolidated financial statements and the comparative data have been prepared in accordance with the applicable accounting principles and give a true, fair and clear view of the financial position of the Issuer and the PEPEES Capital Group and of the financial performance of the entity and the capital group;
- the Capital Group management report for the 12-month period ended 31 December 2022 gives a true view 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 Faszczewski**

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