



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

**for the first half of the year ended 30 June 2020**

prepared in Łomża on 17 September 2020, published  
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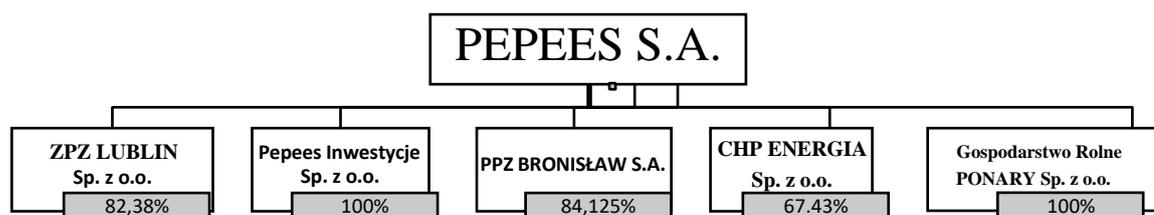
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## I. CHARACTERISTICS OF PEPEES CAPITAL GROUP

### 1. Structure of PEPEES Capital Group

Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" Spółka Akcyjna is the Holding Company of PEPEES Capital Group. On 30 June 2020 PEPEES Capital Group consisted of the following subsidiaries:



In the Consolidated Interim Report of PEPEES Capital Group for the 1<sup>st</sup> half of the year ended 30 June 2020, besides Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A., the consolidation covered the following associated entities:

Name business	Registered office	Registration Court	Subject of	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, fruit and vegetable processing Purchases and sales	District Court in Lublin, 11th Economic Department of the National Court Register District Court in	82,38	82,38
Pepees Inwestycje (former OZENERGY Sp. z o.o.)	Łomża	of real property on own account	in Białystok, 12th Economic Department of the National Court Register	100	100
PPZ BRONISŁAW S.A.	Bronisław	Starch production and starch products	District Court in Bydgoszcz 13th Economic Department of the National Court Register	84,125	84,125
CHP ENERGIA Sp. z o.o.	Wojny Wawrzyńce	Production of energy electric and heat from gas acquired from biogas plant	District Court in in Białystok 12th Economic Department of the National Court Register District Court in Białystok	67,43	67,43
Gospodarstwo Rolne Ponary Sp. z o.o.	Łomża	Agricultural production combined with animal breeding	12th Economic Department	100	100

All subsidiaries were consolidated using the full method.

There were no changes in the Issuer's Capital Group structure in the reporting period and until this report was made.

## **1.1. Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A. w Łomży – the Parent Company**

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

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

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

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

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

The Statistical Office assigned statistical number (REGON): 450096365.

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

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

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

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

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

As at 30 June 2020 and the date of preparation of this report, the Company's share capital amounted to PLN 5 700 thousand and was divided into 95 000 ordinary bearer shares of the nominal value of PLN 0.06 each.

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

SHAREHOLDER	Number of shares [pcs]	Share in capital %	Number of votes	Share in total number of votes at General Meeting %
Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych*	27 759 032	29.22 %	6 356 799	6.69 %
Michał Skotnicki**	21 399 174	22.53%	21 399 174	22.53 %
Maksymilian Maciej Skotnicki**	20 703 282	21.79%	20 703 282	21.79 %
Newth Jonathan Reginald	7 995 200	8.42%	7 995 200	8.42 %
Richie Holding Ltd.	6 133 100	6.46%	6 133 100	6.46 %
Other	11 010 212	11,59 %	11 010 212	11,59 %

\*Due to the failure to comply with the notification obligations about purchase of significant amounts of shares pursuant to the Public Offering and Public Companies Act of 29 July 2005, EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, which has - according to the information held by the Company - 27 759 032 shares of the Company, has lost and cannot exercise voting rights on 21 402 233 shares. The Management Board filed a lawsuit for determination to District Court in Białystok. Epsilon FIZ AN believes that they can exercise voting rights on 27.759.032 shares which is 29.22% of total votes at the General Meeting. The Chairman of Financial Supervision Commissions (KNF) presented his standpoint on the issue on 24 July 2019. The Management Board awaits the valid decision of the court of law. The Company informed about the issue in interim reports Nos 13/2019, 14- 23/2019 and 30/2019.

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

The shareholding structure as at the date of the previous periodical report is presented below:

SHAREHOLDING	Number of shares [pcs]	Share in capital %	Number of votes	Share in total number of votes at the General
Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych*	27 759 032	29.22 %	6 356 799	6.69 %
Michał Skotnicki**	21 399 174	22.53%	21 399 174	22.53 %
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Newth Jonathan Reginald	7 995 200	8.42%	7 995 200	8.42%
Richie Holding Ltd.	6 133 100	6.46%	6 133 100	6.46%
Other	11 010 212	11.59 %	11 010 212	11.59 %

In the period from the publication date of the previous periodical report, that is from 15 May 2020 until the publication date of this report, there were no changes in the structures of the Issuer's shareholder structure.

### 1.1.2. The Company's authorities

As at 30 June 2020 and the date of publication of this consolidated semi-annual report, the Management Board, the Supervisory Board and the Audit committee consisted of the following members:

#### *The Management Board*

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

**The Supervisory Board**

Maciej Kaliński Chairman of the Supervisory Board  
Tomasz Nowakowski Vice Chairman of the Supervisory Board  
Robert Malinowski Secretary of the Supervisory Board  
Krzysztof Stankowski Member of the Supervisory Board  
Piotr Marian Taracha Member of the Supervisory Board  
Agata Czerniakowska Member of the Supervisory Board

**The Audit Committee**

Maciej Kaliński Chairman of the Audit Committee  
Piotr Marian Taracha Vice Chairman of the Audit Committee  
Krzysztof Stankowski Member of the Audit Committee  
Robert Malinowski Member of the Audit Committee (elected on 14 April 2020)  
Tomasz Nowakowski Member of the Audit Committee (elected on 14 April 2020)

**1.2. Zakłady Przemysłu Ziemniaczanego „LUBLIN” Spółka z ograniczoną odpowiedzialnością with registered office in Lublin – a subsidiary****1.2.1. Basic information on ZPZ LUBLIN Sp. z o.o.**

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

The Company has tax identification number NIP: 9461580419.

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

The subject of the Company's business comprises mainly production and sale of starch syrup and dried potatoes.

As at 30 June 2020, the Company's share capital amounted to PLN 2 761 200 , and the shareholders were as follows:

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

### **1.2.2. The authorities of ZPZ LUBLIN Sp. z o.o. as at 30 June 2020**

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

Piotr Kaniowski	President of the Management Board
Małgorzata Grażyna Dudzic	Member of the Management Board, Financial Director

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

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

### **1.3. Pepees Inwestycje Spółka z ograniczoną odpowiedzialnością with registered office in Łomża (former OZENERGY) – a subsidiary**

#### **1.3.1. Basic information about Pepees Inwestycje**

The Company's registered office is located in Łomża, ul. Poznańska 121. The Company was established with a notary deed (Repertory A no 12369/2010) on 18 October 2010 in front of notary Tomasz Poreda Łomża.

The company was entered to the register of entrepreneurs kept by the District Court in Białystok , 12th Economic Department of the National Court Register in Białystok under number KRS 0000370060.

The Company has tax identification number NIP: 7182123627.

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

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

As at 30 June 2020, the Company's share capital amounted to PLN 95000 and was divided into 1 900 equal and indivisible shares of PLN 50 each share .

#### **1.3.2. The authorities of Pepees Inwestycje as at 30 June 2020**

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

Roman Adam Miniński	President of the Management Board.
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#### **1.4. Przedsiębiorstwo Przemysłu Ziemniaczanego „BRONISŁAW” Spółka Akcyjna in Bronisław – a subsidiary**

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

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

The Company's registered office is located in Bronisław 41, 88-320 Strzelno. The company runs the business in form of a joint stock company, which was established with a notary deed on 31.07.2017 Repertory A No 1989/2017 for unlimited duration. The company was entered to the register of entrepreneurs kept by the District Court in Bydgoszcz, 13th Economic Department of the National Court Register in Bydgoszcz under number KRS 0000708945.

The Company has tax identification number NIP: 5571595182.

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

The subject of the Company's business comprises:

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

As at 30 June 2020, the Company's share capital amounts to PLN 800 000 and is divided into 800 000 shares of the nominal value of PLN 1 each share. Shares are not privileged.

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

##### **1.4.2. The authorities of PPZ BRONISŁAW S.A. as at 30 June 2020**

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

Wojciech Faszczewski President of the Management Board

Roman Adam Miniński Vice President of the Management Board

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

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

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

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

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

The Company has tax identification number (NIP): 7721624470.

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

The subject of the Company's business comprises:

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

As at 30 June 2020, the Company's share capital amounted to PLN 5 298 000 and was divided into 10 596 equal and indivisible shares of PLN 500 each share. The Company's main shareholder is "PEPEES" S.A., that holds 67.43% of the capital. The remaining shareholders are individuals.

### **1.5.2. The authorities of CHP ENERGIA Sp. z o.o. as at 30 June 2020**

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

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

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

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

## **1.6. Gospodarstwo Rolne Ponary Spółka z ograniczoną odpowiedzialnością with registered office in Łomża - subsidiary**

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

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

The Company has tax identification number (NIP): 1132898091.

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

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

As at 30 June 2020, the Company's share capital amounted to PLN 1 620 000 and was divided into 32 400 equal and indivisible shares of PLN 500 each share .

The company's sole shareholder is PEPEES.

### **1.6.2. The authorities of Gospodarstwa Rolne Ponary Sp. z o.o. as at 30 June 2020**

#### *The Management Board*

Tomasz Krzysztof Rogala President of the Management Board .

## **2. Business of the companies belonging to PEPEES Capital Group**

PEPEES Capital Group is established by companies specialising mainly in potato processing for the purpose of production of potato starch, maltodextrin, potato flakes, etc. In the Group there are also companies related to energy production from renewable sources.

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

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

PEPEES has one of the biggest potato starch plants in Poland. Its production capacity reach 1000 - 2400 tons of potatoes per 24 hours. The significant involved assets include machinery used for starch production, specialised staff and warehouse space.

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

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

CHP Energia Sp. z o.o. with registered office in Wojny Wawrzyńce is a company whose strategy assumes use of the biogas plant together with its integrated plant producing solid fuel of biomass and production of green electricity in cogeneration. The main business of CHP Energia comprises production of electricity of biogas and heat in highly efficient cogeneration. The heat generated in the plant was used by the Company for its own purposes, that is to dry animal feed. Dried feed was sold to external recipients.

In PEPEES Capital Group, CHP Energia is an enterprise ensuring mainly collection of potato pulp (the main waste product from starch production) from PEPEES. Therefore , it plays a key role in PEPEES's production cycle.

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

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

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

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

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

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

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

The segment of "agricultural farming combined with animal breeding" includes all assets and liabilities of Gospodarstwo Rolne Ponary. Because during the 1st half of 2020 Ponary did not generate any revenues from sale, the segment of "agricultural farming combined with animal breeding" was not separated in revenues and results of the segments. Due to the value of land owned by Ponary, the third segment was separated in this consolidated financial statement exclusively to show its assets and liabilities.

The segment of "purchases an sales of real properties for own account" includes all assets and liabilities of Pepees Inwestycje Sp. z o.o.

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

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

The biggest potato starch markets in the world exist in China, Germany and USA, and they account for almost 50% of the global demand.

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

Characteristics of competitive companies on the EU market:

- ✓ large share of starch products of non-potato origin (mainly corn),
- ✓ very large concentration of production (the biggest plants produce 150-250 thousand tons a year),
- ✓ longer starch production period (up to 200 days, that is twice as long as in Poland), which allows for  
more effective use of production assets and increase in production volume,
- ✓ more possibilities to contract raw materials,
- ✓ significant share in production of processed products (modified starch),
- ✓ large share of non-food markets in sales.

GK PEPEES's biggest competitors in the potato starch processing industry are Luboń Group and Trzemeszno. The other competitors include: Zakłady Przemysłu Ziemniaczanego "ZETPEZET" w Pile sp. z o.o., Przedsiębiorstwo Przemysłu Ziemniaczanego NOWAMYŁ S.A., Przedsiębiorstwo Przemysłu Ziemniaczanego S.A. in Niechlowo.

The potato starch market in Poland is saturated and mature, which is proven by domination of the three biggest entities (Luboń Group, Trzemeszno, GK PEPEES).

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

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

- ✓ potato starch to be used in food, pharmaceutical, paper, textile and chemical industries;
- ✓ a few types of glucose used in food, sugar and pharmaceutical industries;
- ✓ maltodextrin which is an essential additive to powdered products (ice cream, sauces, soups, fruit solids, flavours) and vitamin and mineral nutrients for children and athletes;
- ✓ a wide range of starch syrups used in confectionery and bakery;
- ✓ potato grits used in food industry;
- ✓ potato flakes used in food industry .

### **Potato starch**

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

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

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

### **Starch**

Starch is extracted from potato tubers crashed into pulp, through rinsing followed by cleaning, drying and sieving. The commercial product contains up to 40% of water. Starch is made of industrial potatoes characterised by appropriate qualitative features, that is high starch contents and as large as possible content of large starch grains, small amount of non-starch substances, small protein contents, round tubers, crisp flesh, shallow potato eyes. .

### **Potato protein**

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

### **Grits**

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

### **Potato flakes**

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

**Starch hydrolisates**✓ **Crystalline glucose**

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

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

✓ **Anhydrous glucose**

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

✓ **Maltodextrin**

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

✓ **Glucose syrups**

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

✓ **Hydrol**

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

Besides the foregoing products, in the 1st half of 2020 revenues from sales in the Group were also generated in the following groups of products:

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

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

- ✓ electricity from agricultural biogas,
- ✓ heat for own needs, that is used, for instance, to dry animal feed.

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

### 3. Volume and structure of sales

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

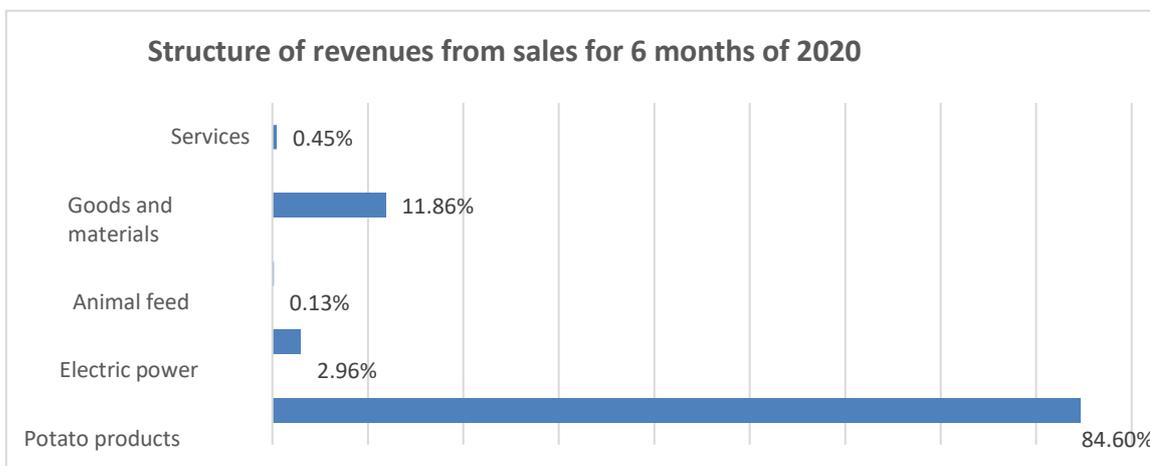
Table no 1 and Fig. no 1 and 2 present the structure of sales in the period from 1 January 2020 to 30 June 2020 as compared to the corresponding period from 1 January 2019 to 30 June 2019.

**Table no 1: Structure of net revenues from sales for 6 months of 2020 and 6 months of 2019**

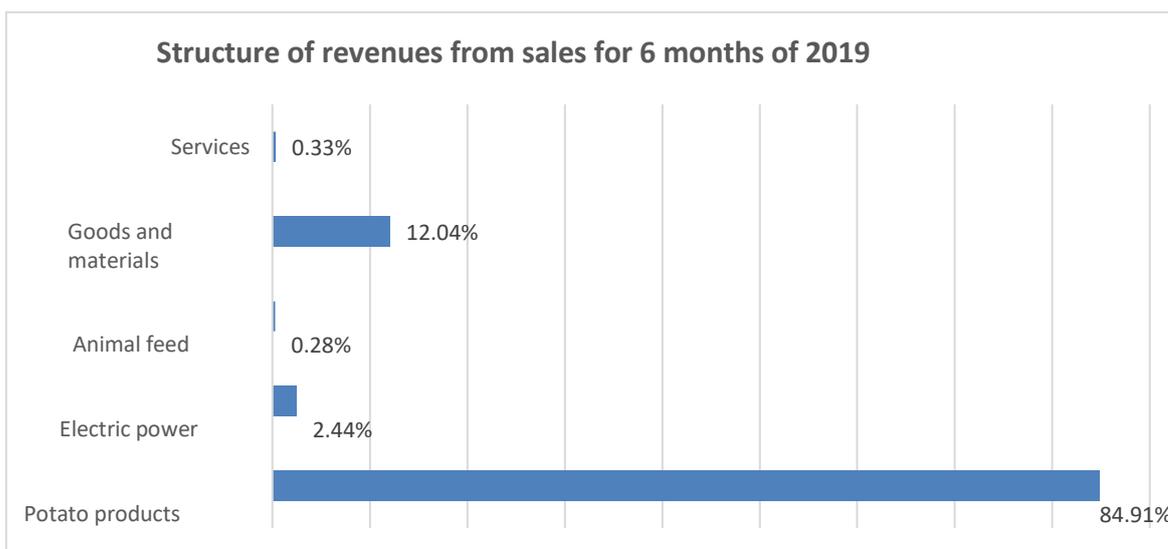
*(data in PLN '000)*

Product offer	For 6 months ended on 30 June 2020	Structure in 2020	For 6 months ended on 30 June 2019	Structure in 2019	Dynamics
Potato products	96 835	84.60%	107 915	84.91%	89.73%
Electric power	3 393	2.96%	3 097	2.44%	109.56%
Animal feed	150	0.13%	355	0.28%	42.25%
<b>Other sales, including:</b>	14 087	12.31%	<b>15 720</b>	<b>12.37%</b>	89.61%
<i>a) services</i>	511	0.45%	414	0.33%	123.43%
<i>b) goods and materials</i>	13 576	11.86%	15 306	12.04%	88.70%
<b>Total revenues from sales</b>	<b>114 465</b>	<b>100.00%</b>	<b>127 087</b>	<b>100.00%</b>	<b>90.07%</b>

**Fig. 1: Structure of revenues from sales for 6 months of 2020**



**Fig. 2: Structure of revenues from sales for 6 months of 2019**



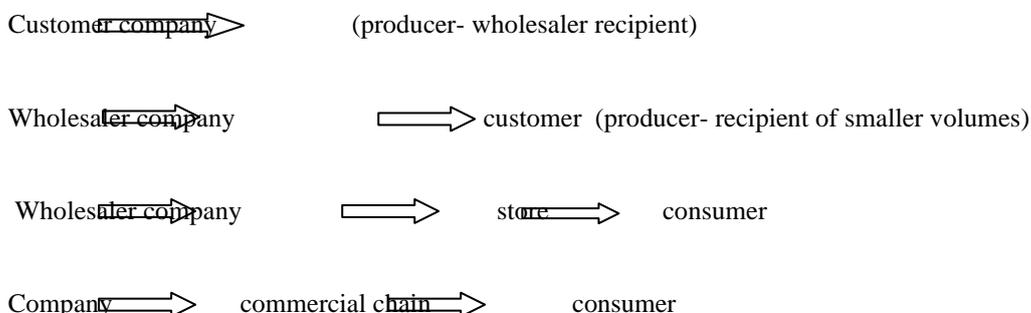
#### **4. Information on domestic and foreign outlets**

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

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

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

Distribution channels are as follows:



Most often used form of settlements used are bank transfers with payment period of 7, 14, 21, 31, 45 and 60 days. Payment prolongation period depends on the period of cooperation with a given recipient, its financial ability and volume of purchased goods. Also the creditworthiness assessment, which is made by insurer of granted financial limit, has the decisive meaning. In case of a new recipient, a prepayment is applied as a form of payment. In case of export sales, payments are made through a letter of credit.

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

*Table no 2. Revenues from sales by outlets.*

Net revenues from sales	For 6 months ended on 30 June 2020	Structure in 2020	For 6 months ended on 30 June 2019	Structure in 2019
<b>Poland, including</b>	<b>83 636</b>	<b>73.07%</b>	<b>83 905</b>	<b>66.02%</b>
- products	72 315	63.18%	73 281	57.66%
- goods and materials	10 810	9.44%	10 210	8.03%
Services	511	0.45%	414	0.33%
<b>EU countries - intra-Community supplies,</b>	<b>7 296</b>	<b>6.37%</b>	<b>12 519</b>	<b>9.85%</b>
- products	7 296	6.37%	12 369	9.73%
- goods and materials	0	0.00%	150	0.12%
<b>Remaining countries - export</b>	<b>23 533</b>	<b>20.56%</b>	<b>30 663</b>	<b>24.13%</b>
- products	20 767	18.14%	25 717	20.24%
- goods and materials	2 766	2.42%	4 946	3.89%
<b>total</b>	<b>114 465</b>	<b>100.00%</b>	<b>127 087</b>	<b>100.00%</b>

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

Sales of products in the potato industry in the 1<sup>st</sup> half of 2020 was performed in the whole territory of Poland. As far as the value of sales on the domestic market is concerned, sales of the main product in the offer that is potato starch (54.97%) accounted for the biggest market share. As far as the value is concerned, potato starch was followed by maltodextrin (13.03%), glucose (6.78%) and potato protein (5.30%). The main recipients of the products of the Parent Company in the Polish market comprise mainly renowned domestic companies, that are often linked by capital with large European and global companies.

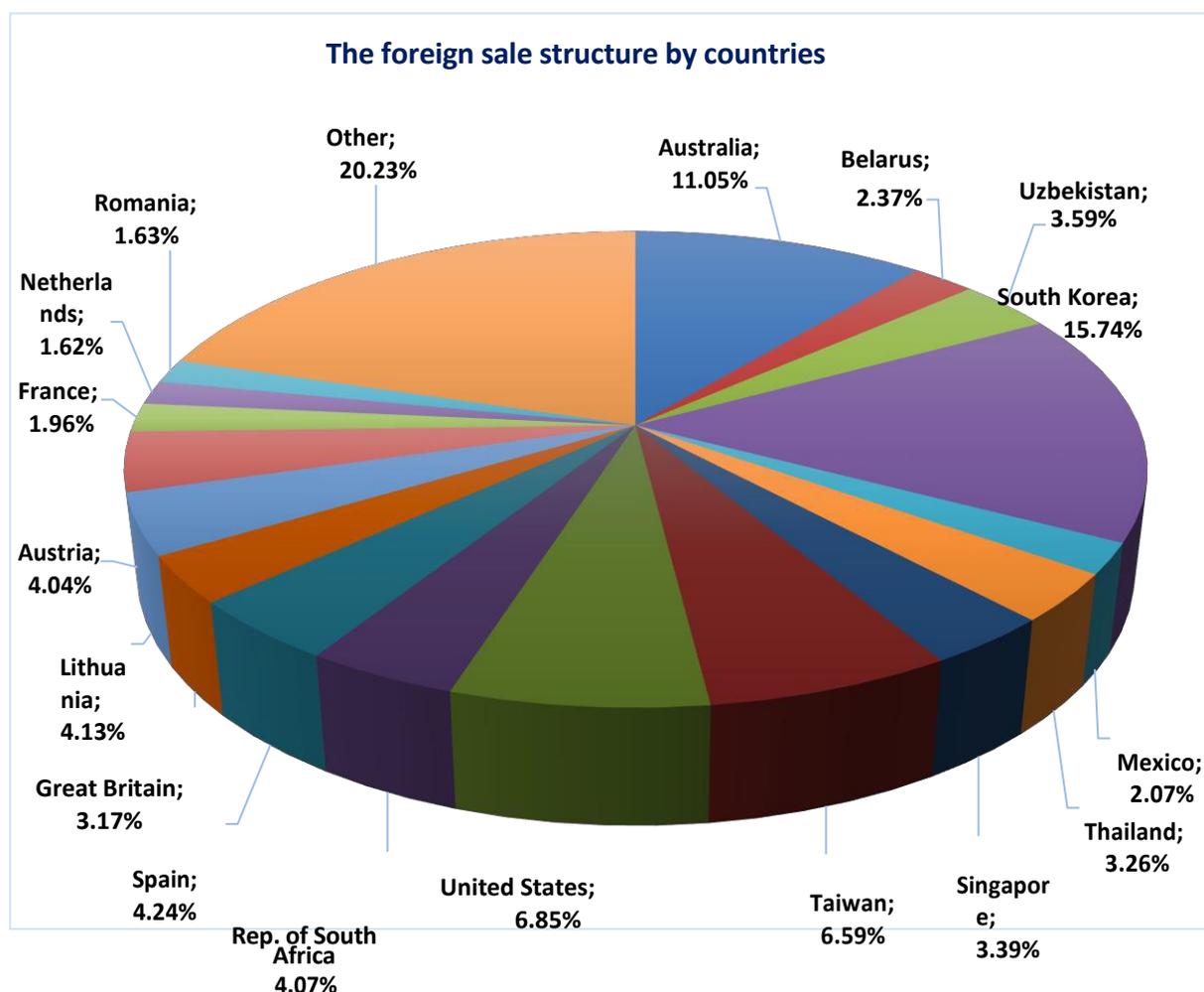
The Group distributed products both through a chain of wholesalers and commercial companies providing supplies to the food industry

provided its products directly to production plants, mainly in the food, confectionery, meat and pharmaceutical industries, where starch products serve as a raw material for further processing or component in the production process. {2} None of the recipient exceeded 10% of revenues from sales of both the Group and the Parent Company.

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

In the 1st half of 2020, the value of exports and intra-Community sales amounted to PLN 30 829 thousand, that is fell by 28.6% as compared to the previous year. In the 1st half of 2020 the Group exported its products, mainly potato starch, to 51 countries. Most products were sold to South Korea, Australia, United States, Taiwan and the EU countries.

*Fig. no 3: Share of individual countries in total sales to the EU and outside EU*



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

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

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

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

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

The main source of supplies of materials, goods and services in the 1st half of 2020 were Polish companies or representative branches of foreign companies. As far as enzymes and filtration materials were concerned, the Group is dependent on one supplier because these are the only representatives of foreign companies in Poland, that produce raw materials needed by the Group.

The Group has no recipient with a share in revenues of at least 10%. However, in the group of individual products, there are customers accounting for more than 10% of sale of a given product. And so:

- more than 52% of maltodextrin was sold to three domestic counterparties (25.9%; 13.9% and 12.9% respectively),
- 37% of protein was sold to two domestic customers (22% and 15% respectively),
- 11% of glucose was sold to one domestic counterparty.

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

### **6.1. Economic agreements**

In the 1st half of 2020 PEPEES Capital Group did not conclude economic agreement of significant value or significant agreements on cooperation.

Regardless of the foregoing, the Issuer points out to the following agreements concluded during the 1st half of 2020

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

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

In the 1st half of 2020 the companies of the Capital Group did not enter into new credit agreements.

### **6.3. Loan agreements**

PEPEES S.A. granted a loan for ongoing activities to its subsidiary, PPZ BRONISŁAW S.A., in the amount of PLN 1 200 thousand. The loan was granted on arm's length terms and it to be repaid by the end of this year.

### **6.4. Lease agreements concluded in the 1st half of 2020**

Lease agreements of 4 passenger cars concluded with PKO Leasing and Volkswagen Leasing of the total value of PLN 402 thousand.

### **6.5. Insurance agreements**

The companies entered into the following insurance agreements:

- > property insurance against fire and other elements;
- > business interruption insurance;
- > property insurance against burglary and robbery;

- insurance of electronic equipment;
- general liability insurance, including:
  - tort liability
  - contractual liability
  - product liability
  - civil liability of management board members
- insurance of mechanical vehicles (third party insurance, theft and accident insurance).

#### **6.6. Agreements between Shareholders**

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

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

As at 30 June 2020, the main investments of PEPEES S.A. comprise shares and bonds in subsidiaries that are subject to consolidation and 3 000 shares of Warszawski Rolno- Spożywczy Rynek Hurtowy S.A., whose estimated value according to the discounted future cash flow method performed by an independent actuary amounted to PLN 5 838 thousand as at 31.12.2019.

Shares in WRSRH account for 2.5% of WRSRH's capital and 1.6% of votes at the Annual General Meetings. WRSRH's main owner is the State Treasury that holds more than 59% share in the capital. PEPEES does not exercise control over WRSRH.

The Group has also shares and bonds of SBR Spółdzielczy Bank Rozwoju with registered office in Szepietowo of the total value of PLN 512 thousand, and shares in 3 other domestic entities (ZM Ostrołęka, Agencja Rozwoju and BPS) that account for less than 5% of the total number of shares at the general meeting and are not significant, taking into account the value and investment policy of the Group.

#### **Basic financial data of the subsidiaries**

Name (legal name) of a subsidiary	Equity as at 30.06	Assets as at 30.06	Liabilities as at 30.06	Revenues from sales for the 1st half	Profit/loss for the 1st half of the year
<b>Year 2019</b>					
ZPZ LUBLIN Sp. z o.o.	3 011	13 328	10 317	10 571	428
PPZ BRONISŁAW	17 172	48 114	30 942	26 123	3 080
CHP Energia Sp. z o.o.	(5 578)	20 182	25 760	3 664	(382)
Pepees Inwestycje Sp. z o.o. (former OZENERGY Sp. z o.o.)	(70)	1 428	1 498	-	(29)
Gospodarstwo Rolne PONARY Sp. z o.o.	12 307	21 396	9 089	-	52
<b>Year 2020</b>					
ZPZ LUBLIN Sp. z o.o.	4 897	12 255	7 358	10 101	1 245
PPZ BRONISŁAW	19 774	52 800	33 026	26 830	483
CHP Energia Sp. z o.o.	(6 914)	17 773	24 687	4 061	(705)
Pepees Inwestycje Sp. z o.o. (former OZENERGY Sp. z o.o.)	89	95	6	-	(2)
Gospodarstwo Rolne PONARY Sp. z o.o.	13 154	21 513	8 359	-	57

ZPZ Lublin Sp. z o.o. generated net profit that was almost 3 times bigger than in 2019 .

PPZ Bronisław S.A. generated smaller profit than in 2019. CHP Energia recorded loss in the 1st half 2020 .

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

Ponary Sp. z o.o. did not generate any revenues from sales. The net profit earned in the 1st half of the year results from financial revenues received every month - fees for credit security granted to the Parent Company.

#### **Financing methods of subsidiaries in the 1st half of 2020**

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

### **8. Description of transactions with associated entities**

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

The operation of PEPEES Capital Group is based on specialized entities providing complementary services. Cooperation between the capital Group companies is intended to increase the level of utilization of resources at the disposal of the companies and to limit the operational risk.

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

According to the provisions of Chapter 4b of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005, the Supervisory Board performs periodical assessment of transactions with related entities. .

### **9. Information on contracted credits and loans**

As at 30 June 2020 PEPEES Capital Group had liabilities under loans presented in the following table:

**Table no 3: Liabilities under loans as at 30.06.2020 .**

Loan type	Bank that grants a loan	Borrower	Loan amount defined in an	Debt as at 30.06.2020	Repay ment date
Overdraft facility	Santander Bank Polska S.A.	PEPEES S.A.	4 000	232	31.08.2020
Revolving loan	Santander Bank Polska S.A.	PEPEES S.A.	13 000	4 875	31.08.2020
Working capital loan	Santander Bank Polska S.A.	PEPEES S.A.	17 000	4 250	31.08.2020
Overdraft facility	Powszechna Kasa Oszczędności Bank Polski S.A.	PEPEES S.A.	4 000	-	31.08.2020
Revolving loan	Powszechna Kasa Oszczędności Bank Polski S.A.	PEPEES S.A.	13 000	3 250	31.08.2020
Working capital loan for purchase of potatoes	Powszechna Kasa Oszczędności Bank Polski S.A.	PEPEES S.A.	17 000	4 229	31.08.2020
Investment loan for construction of the starch drying plant, unloading station	BNP Paribas Bank Polska S.A.	PEPEES S.A.	9 822	2 309	25.02.2022
Investment loan for modernization of steam boilers dust	BOŚ	PEPEES S.A.	1 200	140	31.12.2020
Investment loan to finance and refinance purchase of 100% shares in Gospodarstwo Rolne Ponary Sp. z o. o.	Powszechna Kasa Oszczędności Bank Polski S.A.	PEPEES S.A.	10 530	7 521	30.06.2025
Overdraft facility	Santander Bank Polska S.A.	ZPZ LUBLIN Sp. z o.o.	750	-	31.08.2020
Revolving loan	Santander Bank Polska S.A.	ZPZ LUBLIN Sp. z o.o.	3 000	1 125	31.08.2020
Working capital loan	Santander Bank Polska S.A.	ZPZ LUBLIN Sp. z o.o.	2 000	446	31.08.2020
Overdraft facility	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ LUBLIN Sp. z o.o.	750	135	31.08.2020
Revolving loan	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ LUBLIN Sp. z o.o.	3 000	744	31.08.2020
Working capital loan for purchase of potatoes	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ LUBLIN Sp. z o.o.	2 000	460	31.08.2020
Overdraft facility	Santander Bank Polska S.A.	PPZ BRONISŁAW	750	30	31.08.2020
Purchase loan	Santander Bank Polska S.A.	PPZ BRONISŁAW	10 000	1 728	31.08.2020
Revolving loan	Santander Bank Polska S.A.	PPZ BRONISŁAW	5 000	4 875	31.08.2020
Overdraft facility	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ BRONISŁAW S.A.	750	651	31.08.2020
Purchase loan	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ BRONISŁAW S.A.	10 000	2 500	31.08.2020
Revolving loan	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ BRONISŁAW S.A.	5 000	1 250	31.08.2020
Investment loan	Santander Bank Polska S.A.	PPZ BRONISŁAW	800	229	30.11.2021

Type of a loan	Bank that grants a loan	Borrower	Loan amount defined in an agreement	Debt as at 30.06.2020	Repayment date
Investment loan	BOŚ	PPZ „Bronisław” S.A.	8 456	7 036	31.12.2027
Syndicated investment loan	Spółdzielczy Bank Rozwoju in Szepietowo and Bank Spółdzielczy in Ostrów Mazowiecka	CHP ENERGIA Sp. z o.o.	12 830	9 620	31.12.2023
Revolving loan related to performed economic activity Working capital loan for	Spółdzielczy Bank Rozwoju in Szepietowo	CHP Energia Sp. z o.o.	1 000	321	14.09.2020
financing of current liabilities	Spółdzielczy Bank Rozwoju in Szepietowo	CHP ENERGIA Sp. z o.o.	3 000	1 426	31.05.2022
Revolving loan related to performed economic activity	Spółdzielczy Bank Rozwoju in Szepietowo	CHP Energia Sp. z o.o.	2 500	808	31.08.2021
<b>Total</b>			<b>161 138</b>	<b>60 220</b>	

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

During the 1st half of 2020 none of the loans of the Group was terminated, and the companies of the Group did not terminate loan agreements in this period.

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

- Loans
- As at 30 June 2020 there were the following loans in the Group, which were granted by the parent entity to subsidiaries and individuals:
- Loan of 31 August 2012 granted to subsidiary, ZPZ Lublin Sp. z o.o. in the amount of PLN 2 000 thousand. Outstanding amount is PLN 800 thousand. Repayment date 31.12.2020
- Loan dated 28 December 2016, granted to an individual, the company's farmer, in the amount of PLN 304 thousand. Outstanding amount is PLN 153 thousand. Repayment date on 30.11.2019. On 13.07.2020 the parties entered into an agreement on mutual settlements, which related to repayment of the loan.
- Loan of 12 January 2017, granted to subsidiary CHP Energia Sp. z o.o. in the amount of PLN 1 538 . Outstanding amount is PLN 769 thousand. Repayment date on 31.12.2020
- Loan dated 27 January 2017, granted to an individual, the company's farmer, in the amount of PLN 240 thousand. Outstanding amount is PLN 240 thousand. Repayment date on 30.11.2019. On 13.07.2020 the parties entered into an agreement on mutual settlements, which related to repayment of the loan.
- Loan of 28 February 2017, granted to subsidiary CHP Energia Sp. z o.o. in the amount of PLN 450 thousand Outstanding amount is PLN 300 thousand. Repayment date on 31.12.2020
- Loan of 14 December 2017, granted to subsidiary CHP Energia Sp. z o.o. in the amount of PLN 550 thousand Outstanding amount is PLN 550 thousand. Repayment date 31.12.2020
- Loan of 15 December 2017, granted to subsidiary CHP Energia Sp. z o.o. in the amount of PLN PLN 1 000 thousand. Outstanding amount is PLN 1 000 thousand. Repayment date 31.12.2020
- Loan of 10 January 2018, granted to subsidiary GR Ponary Sp. z o.o. in the amount of PLN 550 thousand Outstanding amount is PLN 550 thousand. Repayment date 31.12.2020

*Report of the Management Board on the activities of the  
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for the period of 6 months ended 30 June 2020 (PLN '000)*

- Loan of 1 February 2018, granted to an individual in the amount of PLN 140 thousand. Outstanding amount is PLN 140 thousand Repayment date 30.11.2020
- Loan of 30 April 2018, granted to subsidiary CHP Energia Sp. z o.o. in the amount of PLN 500 thousand Outstanding amount is PLN 500 thousand. Repayment date 31.12.2020
- Loan of 26 June 2018, granted to subsidiary CHP Energia Sp. z o.o. in the amount of PLN 700 thousand Outstanding amount is PLN 700 thousand. Repayment date 31.12.2020
- Loan of 24 September 2018, granted to subsidiary CHP Energia Sp. z o.o. in the amount of PLN 900 thousand Outstanding amount is PLN 900 thousand. Repayment date 31.12.2020
- Loan dated 22 May 2019, granted to an individual, the company's farmer, in the amount of PLN 150 thousand. Outstanding amount is PLN 150 thousand. Repayment date 30.11.2020
- Loan of 29 May 2020 granted to subsidiary, PPZ Bronisław S.A., in the amount of PLN 1 200 thousand. Outstanding amount is PLN 1.200 thousand. Repayment date 31.12.2020
- Sureties

*Sureties granted to subsidiaries by the Parent Entity, „PEPEES” S.A., as at 30.06.2020.:*

- Agreement dated 9 June 2014 on the terms and conditions of loan repayment security concluded between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o. Under the agreement, „PEPEES” S.A. secures repayment of an investment loan concluded by CHP Energia Sp. z o.o. The value of the investment loan incurred by CHP Energia Sp. z o.o. amounts to PLN 12 830 thousand. „PEPEES” S.A. gave security in form of an aval up to the amount of PLN 12 224 thousand for the period until 25.05.2024. A fee is charged by PEPEES every month in the amount of 1.8% of the current debt under the loan determined on the basis of information on debt amount issued every quarter of the year by Spółdzielczy Bank Rozwoju in Szepietowo.
- Agreement dated 14 September 2017 on the terms and conditions of loan repayment security concluded between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o. Under the agreement, PEPEES S.A. secures repayment of an investment loan concluded by CHP Energia Sp. z o.o. The value of the working capital loan incurred by CHP Energia Sp. z o.o. amounts to PLN 3 000 thousand. „PEPEES” S.A. gave security in form of an aval up to the amount of PLN 2 800 thousand (debt about at the date of the security). A fee is charged by PEPEES every month in the amount of 1.8% of the current debt under the loan determined on the basis of information on debt amount issued every quarter of the year by Spółdzielczy Bank Rozwoju in Szepietowo.
- Agreement dated 14 September 2017 on the terms and conditions of loan repayment security concluded between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o. Under the agreement, „PEPEES” PEPEES S.A. secures repayment of an investment loan concluded by CHP Energia Sp. z o.o. The value of the working capital loan incurred by CHP Energia Sp. z o.o. amounts to PLN 800 thousand. „PEPEES” S.A. gave security in form of an aval up to the amount of PLN 710 thousand (debt about at the date of the security). A fee is charged by PEPEES every month in the amount of 1.8% of the current debt under the loan determined on the basis of information on debt amount issued every quarter of the year by Spółdzielczy Bank Rozwoju in Szepietowo.
- Agreement dated 14 September 2017 on the terms and conditions of loan repayment security concluded between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o. Under the agreement, „PEPEES” PEPEES S.A. secures repayment of an investment loan concluded by CHP Energia Sp. z o.o. The value of the working capital loan incurred by CHP Energia Sp. z o.o. amounts to PLN 2 500 thousand. „PEPEES” S.A. gave security in form of an aval up to the amount of PLN 2 500 thousand. A fee is charged by PEPEES every month in the amount of 1.8% of the current debt under the loan determined on the basis of information on debt amount issued every quarter of the year by Spółdzielczy Bank Rozwoju in Szepietowo.

- Agreement dated 30 July 2018 on the terms and conditions of loan repayment security concluded between between PEPEES S.A. in Łomża and PPZ BRONISŁAW S.A. Under the agreement, „PEPEES” gives a security of the Investment Loan from Funds from Foreign Credit Lines that was incurred by PPZ Bronisław S.A. The value of the investment loan incurred by PPZ Bronisław S.A. amounts to PLN 8 456 thousand. Security given by „PEPEES” S.A. has a form of a notary statement of submission to enforcement up to the amount of PLN 12 684 thousand. PEPEES charges a monthly fee on the security in the amount of 1%.
- On 3 January 2019 the Issuer granted an aval to bank SBR in Szepietowo for repayment of working capital credit in the amount of PLN 300 thousand, which was granted to its subsidiary CHP Energia Sp. z o.o. A fee is charged by PEPEES every month in the amount of 1.8% of the current debt under the loan determined on the basis of information on debt amount issued every quarter of the year by Spółdzielczy Bank Rozwoju in Szepietowo.
- On 20 September 2019 PEPEES S.A. granted an aval to bank SBR in Szepietowo for repayment of working capital credit in the amount of PLN 1 000 thousand, which was granted to its subsidiary CHP Energia Sp. z o.o. A fee is charged by PEPEES every month in the amount of 1.8% of the current debt under the loan determined on the basis of information on debt amount issued every quarter of the year by Spółdzielczy Bank Rozwoju in Szepietowo.

PEPEES did not give guarantees in the reporting period.

*Sureties granted to the Parent Entity, „PEPEES” S.A., as at 30.06.2020.:*

- Surety of an individual (farmer) dated 28 December 2016 for „PEPEES” S.A. under a loan granted to another individual, who is the company's farmer, in the amount of PLN 304 thousand.
- Agreement of 12.12.2017 on establishment of a mortgage on real properties owned by GR Ponary Sp. z o.o. in the amount of PLN 15 795 thousand for „PEPEES” S.A., as loan repayment security in respect to loan granted to „PEPEES” S.A. by PKO BP in the amount of PLN 10 530 thousand for period from 12.12.2017 to 30.06.2025 .
- A fixed fee in the amount of PLN 13 162.50 was set for the security received and it is charged monthly in compliance with concluded agreements that determine the terms and conditions of securities.
- As of 30.06.2020, the total value of guarantees given by PEPEES Company to entities of PEPEES Capital Group is PLN 32 million.
- In the reporting period and until this report was made the companies of PEPEES capital Group did not give significant guarantees.
- During the 1st half of 2020 one loan was granted by PEPEES S.A. - an agreement dated 29 May 2020, under which a loan in the amount of PLN 1 200 thousand was granted to a subsidiary PPZ Bronisław S.A. . Repayment date was set for 31.12.2020

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

Change of the off-balance sheet items of PEPEES Capital Group is presented in the following table:

**Table no 4: Change of the off-balance sheet items**

CHANGE OF VOLUME OF PROVISIONAL ASSETS (BY TYPE)	For 6 months ended on 30 June 2020	For 12 months ended on 31 December 2019	For 6 months ended on 30 June 2019
<b>a) beginning of the period, including</b>	<b>15 795</b>	<b>15 795</b>	<b>15 795</b>
- security of the investment loan by GR PONARY	15 795	15 795	15 795
<b>b) increase (due to)</b>	-		
- security of the investment loan by GR PONARY	-		
<b>c) use (due to)</b>	-	-	-
<b>d) end of period, including</b>	<b>15 795</b>	<b>15 795</b>	<b>15 795</b>
- security of the investment loan by GR PONARY	15 795	15 795	15 795

CHANGE OF VOLUME OF PROVISIONAL ASSETS (BY TYPE)	For 6 months ended on 30 June 2020	For 12 months ended on 31 December 2019	For 6 months ended on 30 June 2019
<b>a) beginning of the period, including</b>	<b>33 781</b>	<b>325</b>	<b>325</b>
- liabilities under non-compete agreements	1 563	1 407	1 407
- loan securities for related companies	32 218	30 918	30 918
<b>b) increase (due to)</b>	-	<b>1 456</b>	<b>39</b>
- liabilities under non-compete agreements	-	156	39
- loan securities for related companies	-	1 300	-
<b>d) end of period, including</b>	<b>33 781</b>	<b>33 781</b>	<b>32 364</b>
- liabilities under non-compete agreements	1 563	1 563	1 446
- loan securities for related companies	32 218	32 218	30 918

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

In the 1st half of 2020 the Company and the Group did not issue shares and did not purchase own shares.

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

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

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

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

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

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

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

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

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

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

The main financial risk present in the 1st half of 2020 is the risk of change of market prices of products produced by the Group and the foreign exchange risk. The main objective of the company in relation to the above risk management is to eliminate or restrict them.

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

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

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

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

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

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

In the 1st half of 2020 PEPEES Capital Group executed a few investment undertakings and refurbishment and construction works. Most important ones were:

Main investment projects:

- Modernisation of the steering system of the sampling and raw material assessment station.
- Modernisation of the steering system of pulp centrifuges
- Execution of the electric and steering systems in the Pumping Station
- Preparation of the design documents and execution of nN Siemens switchboard type Sivacon
- exchange of metal detector for Big-Bag filling
- Modernisation of lighting installations in the plants

- Purchase of machines and devices (pumps, electric trolley, forklift, centrifuges, refractometer, etc.)

In the next half of 2020 the Group will continue commenced investments and refurbishment and - construction works. Moreover, new investment projects will be commenced, such as:

- Delivery and assembly of commercial starch packing line (0.5 and 1.0 kg)
- Construction of new warehouse of packagings – stage 1
- Construction of a connection in form of a new gas station

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

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

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

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

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

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

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

## 18. Information on employment in the Group

Table No 5: Employment in PEPEES Capital Group

Description	Average number of employees in the 1st half of 2020	State as at 30.06.2020		Average number of employees in the previous financial year 2019
		Women	Men	
White collar	152	83	73	154
blue collar	261	25	232	315
unpaid	2	1	1	1
<b>Total</b>	<b>415</b>	<b>109</b>	<b>306</b>	<b>470</b>

## 19. Major achievements in research and development

In the 1st half of 2020 the Group did not perform major activities in the field of research and development. Pellet quality examination was performed in the period in respect to its usefulness for joint burning with fine coal in boiler units .

## **20. Non-typical events that had significant impact on the results of the Group's business activity in the 1st half of 2020**

In connection with coronavirus pandemic in Poland since mid-March 2020, the Management Board took immediate actions to limit potential health and safety hazard for employees and ensure business continuity. Appropriate safety and hygiene procedures according to the Ministry of Health guidelines were implemented. They covered both employees as well as all persons present in the territory of the plant in relation to performed professional duties, and respective plans ensuring continuity of production and supplies. The Management Board also decided to support the healthcare facilities, local communities and business partners who suffered damage as a result of epidemic. In addition to providing staff safety, which remain the priority, all actions focus on flexible response to changing circumstances and activities aiming to limit the epidemic impact on business, including to maintain the revenues with simultaneous tight control of costs.

The outbreak of the Coronavirus epidemics changed considerably the situation on global and local markets. In the beginning the problem was perceived as distortions in the supply chain but together with the development of the pandemics it entailed economic and social restrictions (so called lockdown). The consequences of closed economies at the turn of the first and second quarters had impact on the global economy.

In the opinion of the Management Board, the above phenomena surely influence the results of the Company and the entire Group. Major threats are related to reduction of industrial production on the company's main export markets and the European Union (including the meat industry and ready products), reduction of demand for native potato starch, fall of starch prices on global markets. The above elements coincide with logistic problems, increased costs of transportation, longer payment periods (increase in the amount of receivables) and the fall of operating cash flows resulting from this. In result of the pandemic, no assets were lost and no significant changes in the statement on the financial condition occurred.

## **21. Corrections of errors in previous periods and changes of accounting principles**

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

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

- Mr Wojciech Faszczewski, the President of the Management Board, has 701 000 of Company shares. The above-mentioned person has no rights for Company shares.
- Mr Tomasz Rogala and supervisory persons do not have Company shares or rights to them. In the period from the date of publication of the previous periodical report, that is from 15 May 2020 until the date of publication of this periodical report, the members of management and supervisory bodies did not enter into transactions involving Company shares or rights to them..

None of the management and supervisory board members has shares in any subsidiary of the Capital Group.

### **23. Quotations of the Holding Entity in the 1st half of 2020**

Since 22 May 1997, the Company's shares are quoted on the Warsaw Stock Exchange. The prices of shares on 2 January 2020 (opening prices in the first day of 2020) amounted to PLN 1.77 , and on 30 June - to PLN 1.68. The highest price in the reporting period amounted to PLN 1.88 , and the lowest to PLN 1.20 . Changes of the prices of PEPEES's shares in the 1st half of 2020 is presented in the following figure:

*Fig. 4: Changes of the prices of PEPEES's shares in the 1st half of 2020*



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

The Issuer does not know Information on agreements, in result of which the proportions of shares held by the current shareholders may change in the future

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

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

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

The Group has no control system of employee share schemes.

### **27. Specification of all restrictions concerning transfer of rights to the Issuer's securities and all restrictions in execution of the rights to vote assigned to the Issuer's shares**

Due to the failure to comply with the notification obligations about purchase of significant amounts of shares pursuant to the Public Offering and Public Companies Act of 29 July 2005

EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, which has - according to the information held by the Company - 27 759 032 shares of the Company, has lost and cannot exercise voting rights on 21 402 233 shares. The Management Board filed a lawsuit for determination to District Court in Białystok. Epsilon FIZ AN believes that they can exercise voting rights on 27.759.032 shares which is 29.22% of total votes at the General Meeting. The Chairman of Financial Supervision Commissions (KNF) presented his standpoint on the issue on 24 July 2019. The Management Board awaits the valid decision of the court of law. The Company informed about the issue in interim reports Nos 13/2019, 14- 23/2019 and 30/2019.

## **28. Summary of operations in the reporting period**

The sales revenues of PEPEES Capital Group in the first half of 2020 were PLN 114 465 thousand, a 10% decrease year to year (PLN 127 087 thousand).

Growth of the dynamics of own cost of sale as compared to the previous year by 3.5%, with simultaneous fell of the dynamics of revenues from sales had impact on lower gross result from sales at the level of PLN 28 460 thousand, which means a decrease by 35.3% as compared to the same period of the previous year.

The sales and marketing costs in the first half of 2020 increased by 4.6% year to year, and overheads by 5.3%.

The balance of remaining operations in the six months of 2020 was PLN 349 thousand, while in the comparison period it was PLN 43 thousand.

The result on financial operations understood as a balance of financial revenues less the financial costs improved in the first half of 2020 compared to the first quarter of 2019 .

In result of the foregoing, the gross profit after the first half of 2020 amounted to PLN 5 693 thousand as compared to gross profit of PLN 21 917 thousand generated in the comparison period, while net profit in period from January to June -2020 amounted to PLN 3 985 thousand, as compared to the net profit of PLN 16 696 thousand in the same period of 2019 .

## **29. Concise description of major successes or failures at PEPEES Capital Group in the first half of 2020**

On 25 February 2020 PEPEES signed a letter of intent with Korean Daesang Corporation, where the parties undertook to continue discussions in good faith on cooperation concerning production of modified products of potato starch and other starch derivatives and to prepare and agree on respective documentation. These discussions in the 1st half of 2020 were affected strongly by the outbreak of coronavirus pandemic. At the date of publication of this report, negotiations with Daesang Corporation continue.

## **30. Other information which in the opinion of Capital Group is important for assessment of its human resources, property, financial situation, financial result, and information pertinent to the assessment of the Group's capability of fulfilling its obligations**

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

### **31. Factors which in the Issuer's and Group's opinion will affect their results at least in the next half a year**

During the next half a year, the following actors will have significant impact on the results:

- Coronavirus pandemics and its possible impact on disruptions of continuity of operations or restrictions of operations:
  - due to possible infection with virus SARS-CoV-2 and more frequent absences of the employees employed at the main technological process,
  - due to possible disruptions in the supply chain of materials and services and logistic restriction, in particular in international transportation,
  - due to possible closure of some outlets, decreased demand and optimisation of counterparties' inventories of raw materials and ready products
  - in result of extraordinary amendments of legal provisions,
- volume and value of purchased potatoes, that is the basic raw material for production,
- starch price on the Polish and global markets,
- foreign exchange rate - the Group is an exporter of products,
- basic interest rates - The Group has loans whose interest rates are based on WIBOR.

The Group's activity is based mainly on the domestic raw material provided by Polish farmers, so the pandemics will not disrupt supplies. In the 2<sup>nd</sup> half of 2020 PEPEES Capital Group will execute concluded agreements and perform its operational activities that serve as the grounds of its functioning, including production, commercial and service activities.

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

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

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

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

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

On 25 June 2019 the Management Board of "PEPEES" S.A. filed a lawsuit to the court to rule that due to the failure to comply with the notification obligations about purchase of significant amounts of shares pursuant to the Public Offering and Public Companies Act of 29 July 2005 the shareholder EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, which has - according to the information held by the Company - 27.759.032 shares of the Company, has lost and cannot exercise voting rights on 21.402.233 shares - Epsilon FIZ AN has different opinion and claims it is entitled to

*Report of the Management Board on the activities of the  
Capital Group  
for the period of 6 months ended 30 June 2020 (PLN '000)*

the voting rights on 27 714 832 shares accounting for 29.17% of the total number of shares at the General Meeting. The case was joined by the Chairman of Financial Supervision Commissions (KNF), who presented his standpoint on the issue on 24 July 2019. The Management Board awaits the valid decision of the court of law. The Company informed about the issue in interim reports Nos 13/2019, 14-23/2019 and 30/2019.

As of the statement date, there is an undecided lawsuit by EPSILON Investment Fund in Warsaw against „PEPEES” S.A. on repealing or cancellation of resolutions no 24-29, adopted on 28.06.2019 by the Ordinary General Meeting and resolutions no 9 and 10, adopted on 21 April 2020 by the Ordinary General Meeting .

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

### III. ECONOMIC AND FINANCIAL CONDITION

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

State of the assets as at 30 June 2020 as compared to 31 December 2019 is presented in the following table.

Table 6: State of the assets as at 30.06.2020 and 31.12.2019

Name of an asset	State as at		Changes in amounts - decrease	Structure indices %	
	30.06.2020	31.12. 2019		30.06.2020	31.12.2019
<b>I. FIXED ASSETS</b>	<b>196 791</b>	<b>200 342</b>	<b>(3 551)</b>	<b>66.0</b>	<b>55.1</b>
1. Tangible fixed assets	175 550	179 454	(3 904)	58.9	49.4
2. Intangible assets	214	416	(202)	0.1	0.1
3. Rights to assets	11 603	11 076	527	3.9	3.0
4. Investment property	588	593	(5)	0.2	0.2
5. Goodwill	3 140	3 140	-	1.1	0.9
6. Investment in other units	625	613	12	0.2	0.2
7. Assets from deferred income tax	5 071	5050	21	1.7	1.4
<b>II CURRENT ASSETS</b>	<b>101 349</b>	<b>163 280</b>	<b>(61 931)</b>	<b>34.0</b>	<b>44.9</b>
1. Inventory	44 165	85 893	(41 728)	14.8	23.6
2. Biological assets	2 479	322	2 157	0.8	0.1
3. Trade receivables	32 077	20 506	11 571	10.8	5.6
4. Current income tax receivables	845	-	845	0.3	
5. Other receivables	1 947	6 227	(4 280)	0.7	1.7
6. Prepayments	7 717	1 740	5 977	2.6	0.5
7. Loans	723	721	2	0.2	0.2
8. Other financial assets	5 869	5 838	31	2.0	1.6
9. Cash assets and equivalents	5 527	42 033	(36 506)	1.9	11.6
<b>Total assets</b>	<b>298 140</b>	<b>363 622</b>	<b>(65 482)</b>	<b>100.00</b>	<b>100.00</b>

The Group's assets with the totals at 30 June 2020 in the amount of PLN 298 140 thousand decreased by PLN 65 482 thousand, that is by PLN 18.01% as compared to the end of the year. Mainly the current assets decreased (fall by PLN 61 931 thousand), in particular for inventories, due to seasonal processing of potatoes.

Also cash decreased in result of repayment of short-term loans. The value of other receivables decreased, while the trade receivables grew due to sale of seed potatoes and pesticides with due date until the time of delivery of potatoes for processing.

## 2. Funding sources of the Capital Group

Specification of the funding sources according to the state of the assets as at 30 June 2020 as compared to 31 December 2019 is presented in the following table.

*Table 7: State of funding sources as at 30.06.2020 and 31.12.2019*

Specification of funding sources	State as at		Changes in amounts - decrease	Structure indices %	
	30.06.2020	.2019		30.06.2020	31.12.2019
<b>I. Equity capital</b>	<b>173 470</b>	<b>180 541</b>	<b>(7 071)</b>	<b>58.2</b>	<b>49.7</b>
<i>Equity allocated to shareholder of the Parent Company</i>	<i>171 644</i>	<i>178 773</i>	<i>(7 129)</i>	<i>57.6</i>	<i>49.2</i>
1. Share capital	5 700	5 700	-	1.9	1.6
2. Supplementary and reserve capitals	161 591	152 918	8 673	54.2	42.1
3. Assets revaluation reserve	(112)	(65)	(47)	0.0	0.0
4. Retained earnings	545	(3 871)	4 416	0.2	(1.1)
5. Current year result	3 920	24 091	(20 171)	1.3	6.6
<i>Non-controlling shares</i>	<i>1 826</i>	<i>1 768</i>	<i>58</i>	<i>0.6</i>	<i>0.5</i>
<b>II. Long-term liabilities</b>	<b>51 263</b>	<b>54 664</b>	<b>(3 401)</b>	<b>17.2</b>	<b>15.0</b>
1. Credits and loans	22 558	24 789	(2 231)	7.6	6.8
2. Lease liabilities	14 076	15 014	(938)	4.7	4.1
3. Provisions for deferred income tax	6 264	6 447	(183)	2.1	1.8
4. Payables for pensions and similar benefits	3 051	2 782	269	1.0	0.8
5. Subsidies	5 314	5 632	(318)	1.8	1.5
<b>III. Short-term liabilities</b>	<b>73 407</b>	<b>128 417</b>	<b>(55 010)</b>	<b>24.6</b>	<b>35.3</b>
1. Trade payables	12 195	7 424	4 771	4.1	2.0
2. Current income tax payables	37	2 528	(2 491)	0.0	0.7
3. Other short-term liabilities	16 308	5 190	11 118	5.5	1.4
4. Credits and loans	37 662	104 815	(67 153)	12.6	28.8
5. Financial lease payables	3 095	3 728	(633)	1.0	1.0
6. Payables for pension benefits	476	413	63	0.2	0.1
7. Provisions for other liabilities and charges	3 634	4 319	(685)	1.2	1.2
<b>Total equity and liabilities</b>	<b>298 140</b>	<b>363 622</b>	<b>(65 482)</b>	<b>100.0</b>	<b>100.0</b>

In the entire presented period, the Group's equity that accounts for 58.2% of liabilities, had the biggest share in sources of asset funding. . Reserve and supplementary ca[pitals grew in result of distribution of the profit for previous year (growth by PLN 8 673 thousand).

On 21 April 2020, the General Meeting of Shareholders of PEPEES S.A. adopted resolution No. 8 on allocation of profit for the fiscal year 2019 amounting to PLN 19,181,930.51: PLN 11,400,000 PLN was allocated to dividend (PLN 0.12 PLN per share), and the remaining PLN 7,781,930.51 was allocated to capital reserve.

The day on which the list of shareholders authorized to receive dividend is decided

is 1 July 2020. The divided payment date is 31 July 2020.

Long-term payable fell by PLN 3 401 thousand, in particular in result of repayment of credits and loans and reduction of payables related to leased assets .

Short-term payables fell by PLN 55 010 thousand. It was caused mainly by repayment of short-term credits and loans.

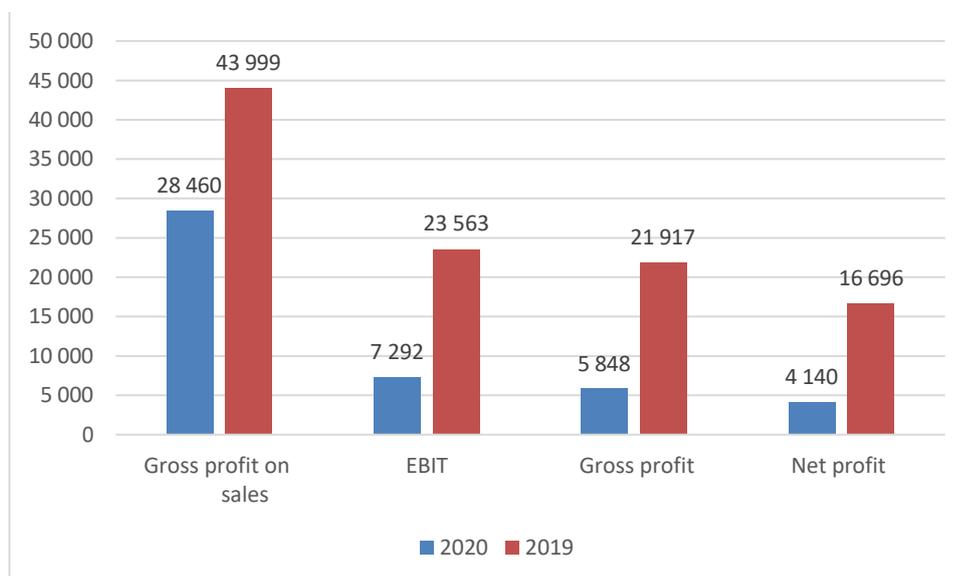
### 3. Financial results of the Capital Group

Financial results of the business activity of the Capital Group for the 1st half of 2020 and 2019 are presented in the following table and figure.

*Table 8: Specification of the financial result for the 1st half of 2020 and 2019*

<b>Item</b>	<b>Description</b>	<b>Execution for the 1st</b>	<b>Execution for the 1st</b>	<b>Dynamics in %</b>
<b>1</b>	<b>Revenues from sales</b>	<b>114 465</b>	<b>127 087</b>	<b>90.1</b>
	- revenues from sales of products	99 011	109 972	90.0
	- revenues from sales of services	511	414	123.4
	- revenues from sales of goods and materials	14 943	16 701	89.5
<b>2</b>	<b>Cost of products, goods and materials sold</b>	<b>(86 005)</b>	<b>(83 088)</b>	<b>103.5</b>
	- costs of products sold	(72 138)	(68 053)	106.0
	- costs of services sold	(390)	(202)	193.1
	- costs of goods and materials sold	(11 012)	(12 740)	86.4
	- result of agricultural production	(2 465)	(2 093)	117.8
<b>3</b>	<b>Gross profit on sales</b>	<b>28 460</b>	<b>43 999</b>	<b>64.7</b>
	- sales and marketing costs	(5 193)	(4 964)	104.6
	- overheads	(16 341)	(15 515)	105.3
	- other operating revenues	912	579	157.5
	-other operating costs	(563)	(536)	105.0
<b>4</b>	<b>Operating profit</b>	<b>7 275</b>	<b>23 563</b>	<b>30.9</b>
	Financial costs	(2 003)	(1 904)	105.2
	- financial revenues	421	258	163.2
<b>5</b>	<b>Profit before tax</b>	<b>5 693</b>	<b>21 917</b>	<b>26.0</b>
	- income tax	(1 708)	(5 221)	32.7
<b>6</b>	<b>Net profit,</b>	<b>3 985</b>	<b>16 696</b>	<b>23.9</b>
7	Profit allocated to the Parent Company shareholders	3 920	16 227	24.2
8	Profit allocated to non-controlling shares	65	469	13.9

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



In the analysed period the operating result EBIT fell by 69.1%. It results from higher pace of growth of the costs of products, goods and materials sold, as well as simultaneous fell of revenues from sales of products, goods and materials as compared to the previous year.

In relation to the foregoing, the gross profit on sales fell by 74.0% as compared to the previous year, while net profit allocated to the shareholders of the parent company fell by 76.1%.

The decrease of financial result was caused by the pandemic, and in particular decrease of starch prices on global markets, which translated into reduction of sale and lower profitability on foreign markets. At the same time costs of transportation and other logistic costs grew.

#### **4. Cash flows**

In the 1st half of 2020 PEPEES Capital Group recorded negative net cash flows due to large repayment amount of short-term loans. The balance of operating activities is positive and amounts to PLN 38 780 thousand. The balance of investment activities is negative and amounts to PLN 3 507 thousand, which results mainly from purchase of intangible and tangible fixed assets. The balance of financial activities was negative, that is PLN 72 898 thousand, and resulted mainly from repayment of credits and loans. The cash in the consolidated cash flow statement as at 30 June 2020 is positive and amounts to PLN 4 486 thousand.

#### **5. Economic indicators**

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

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

**Table no 9: Economic indicators**

Indicator	Economic contents	Year 2020	Year 2019
<b>Return on assets</b>	$\frac{\text{Net profit allocated to the Parent Company shareholders} \times 100}{\text{Total assets}}$	1.31%	5.22%
<b>Return on equity</b>	$\frac{\text{Net profit allocated to the Parent Company shareholders} \times 100}{\text{equity allocated to the Parent Company shareholders}}$	2.28%	9.51%
<b>Net return on sales</b>	$\frac{\text{Net profit allocated to the Parent Company shareholders} \times 100}{\text{Total revenues from sales}}$	3.42%	12.77%
<b>Gross return on sales</b>	$\frac{\text{Gross profit from sales} \times 100}{\text{Total revenues from sales}}$	24.86%	34.62%
<b>EBIT</b>	Operating profit, that is profit before interests (financial costs , minus financial revenues) and taxation (income tax)	7 275	23 563
<b>EBITDA</b>	Operating profit (EBIT) plus depreciation	14 334	29 745
<b>EBIT margin</b>	$\frac{\text{EBIT} \times 100}{\text{Total sales revenues}}$	6.36%	18.54%
<b>EBIT margin</b>	$\frac{\text{EBITDA} \times 100}{\text{Total sales revenues}}$	12.52%	23.41%
<b>1st liquidity ratio</b>	$\frac{\text{Current (short-term) assets}}{\text{Short-term liabilities}}$	1.38	1.43
<b>2nd liquidity ratio</b>	$\frac{\text{Current (short-term) assets} - \text{inventory}}{\text{Short-term liabilities}}$	0.78	0.99
<b>Receivables rotation ** in days</b>	$\frac{\text{average amount of trade receivables} \times 180}{\text{Revenues from sales}}$	41.34	42.89
<b>Payables payment period</b>	$\frac{\text{average amount of trade payables} \times 180}{\text{Own cost of sales}}$	20.53	26.49

<b>Indicator</b>	<b>Economic contents</b>	<b>Year 2020</b>	<b>Year 2019</b>
<b>Inventory rotation in days **</b>	$\frac{\text{average amount of inventory} \times 180}{\text{Own cost of sales}}$	136.10	123.43
<b>Coverage of fixed assets with equity</b>	$\frac{\text{Equity allocated to the Company shareholders}}{\text{Fixed (long-term) assets}}$	0.87	0.88
<b>Durability of the financing structure</b>	$\frac{\text{(Equity allocated to the Company shareholders + long-term payables)}}{\text{Total equity and}} \text{ Total}$	0.75	0.64

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

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

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

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

Liquidity ratios decreased due to the growth of receivables with simultaneous increase of short-term payables.

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

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

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

✓ **Coronavirus pandemic**

Possible development of the pandemic may have a negative impact on operating activities of the Group and production capacity of supplies, or the volume of sales to recipients. According to the current market predictions, in the 2nd half of this year we will observe further reduction of economic activities, although probably to a smaller extent than so far. It will be accompanied by uncertainty about form and pace of revival that should occur afterwards. The Issuer's Management Board has undertaken activities aimed at reduction of ongoing operating costs and optimises investment expenses in order to adjust the company to the changing environment and market condition as much as possible.

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

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

✓ **Globalisation**

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

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

✓ **Dependence on profitability of potato production**

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

✓ **Exchange rate risk**

Such risk arises in case of international trade performed in other currencies than zloty. Strong fluctuations of foreign currency prices have a negative impact on profitability of foreign transactions.

✓ **Interest rate risk**

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

✓ **Fluctuations of the economic situation**

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

- ✓ **Too expensive instruments raising security of the trade**  
Credits granted to recipients raise the risk of failure to pay supplies. Financial products offered on the market are expensive and significantly prolong the stage of a transaction.
- ✓ **Sale of a product threatening to consumer health and life**  
The Group is a producer of food products. In case of sale of a product threatening human health or life, the Group would lose its reputation, would be obliged to pay compensation to customers and consumers and cover costs related to product recall and its disposal.  
  
The risk is small due to the implemented Quality and Food Safety Management System.  
  
Product recall procedure has been implemented, recall simulations are performed.

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

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

Factors that serves as the main opportunities of development are:

- ✓ development of the domestic potato branch. The Polish potato branch has been in the state of deep structural reconstruction for many years. These change lead to professionalism of potato production, and it may increase competitiveness of the Polish potato branch in the future. The number of potato growing farm decreases, but it occurs simultaneously with concentration and specialisation of production.
- ✓ a possibility to obtain money from EU funds for funding of investments,
- ✓ market demand for modified products of potato starch,
- ✓ access to new and modern technologies,
- ✓ market development in international trade,
- ✓ development of specialist agricultural farms,
- ✓ wide spectrum of application of starch and its modified products,
- ✓ area payments related to starch potatoes.

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

Most important internal factors meaningful for its further development are:

- ✓ systematic investment and modernising activities of production departments to raise efficiency and innovation of production and reduce costs of operations,
- ✓ active reactions to the market needs and requirements,
- ✓ implemented Quality and Food Safety Management System that is confirmed with certificates,
- ✓ implemented GMP (Good Manufacturing Practice) system for producer of active substances,
- ✓ activity meets Smeta requirements; presence on SeDeX platform,
- ✓ very good cooperation with farmers during the whole year,
- ✓ possibility of hydrolysates production to meet specific expectations of customers,
- ✓ high production capacities,

- ✓ realisation of strategies and undertaking investment activities,
- ✓ developing the product offer,
- ✓ knowledge and professional experience of the staff.

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

The most important activity of PEPEES Capital Group will be still potato processing, where a large growth of production and sales has been observed in the recent years in relation to numerous application of starch and starch products. The Group continues expansion to new foreign markets, mainly in Eastern Asia, South-Eastern Asia, Africa, South America and developing European countries. This objective is achieved through implementation of the export development programme, that forms a part of the published strategy. The Group will continue research and development works, cooperating with scientific entities specialising in research on processing of starch and its derivatives, both in respect to topic related to the ongoing activities of the company and in respect to a new product offer .

In relation to growing competitive pressure related to activities of other processor, both in the Polish and the EU markets, it is necessary to ensure the Group's development in order to maintain its position on the market. For this purpose, the strategy of PEPEES Capital Group for years 2019-2024 was adopted on 12 June 2019. Also negotiations with Korean Daesang Corporation ("Daesang") are conducted in respect to potential cooperation in production of modified products of potato starch.

The Group's main objective its to achieve the maximum rate of return on investments while maintaining moderate level of investment risk. IN result of this, the strategy of PEPEES Group assumes performance of parallel activities in the field of development, through increase of efficiency of activities of the Capital Group companies and mitigation of risks to which they are exposed, as well as performance of further investment activities. In any attractive market offers occur, the investment activities will be continued both in the Group and outside.

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

According to the strategy of PEPEES Capital Group for years 2019-2024, the most important objectives are as follows:

- Increase of the value and market share by PEPEES Capital Group.
- Extension of the target markets and the product offer, including modified products.
- Commencement of cooperation with a branch investor.
- Intensification and improvement of raw material acquisition.
- Optimisation of functioning of PEPEES Capital Group.

Market penetration strategy:

In a very short period of time, by 2021, using own funds, loans, issue of shares and other external sources, PEPEES Capital Group plans to perform activities in order to increase purchases of the raw material, modernise production, improve management processes and adjustment of the water and sewage management to the needs of planned production value.

In the long term, that is by 2024, using own funds, loans, issue of shares and other external sources, PEPEES Capital Group plans to raise the value of sales and a share in the market through organic development and acquisition, arrangement of the warehouse management,

modernisation of the starch plant (Pepees S.A.), transfer of production of ZPZ Lublin and optimisation of use of real properties ensuring development of the Capital Group.

New product and diversification strategy:

In the short-term, by the end of 2020, PEPEES Capital Group plans negotiations with strategic investors who have respective know-how and access to the food or pharmaceutical markets.

In the long term, that is by 2024, using own funds, loans, issue of shares and other external sources and assuming a possibility to obtain capital from a branch investor, PEPEES Capital Group plans to undertake activities in order to introduce an attractive product offer to the market. . Considered options include: introduction of starch modified products to the European food and pharmaceutical markets.

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

The policy of PEPEES Capital Group is aimed at constant development and optimisation of the product offer, taking into account changing expectations and preferences of recipients.

This objectives main be achieved by the Company due to numerous innovations, mainly new production lines ensuring higher production efficiency. The Group intends to develop the scope of offered products (including introduce modified products), diversify target markets and, mainly, develop the base of used raw materials.

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

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

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

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

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

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

- the abbreviated consolidated financial statement for 1st half of 2020 and comparative data were prepared in compliance with applicable accounting principles, reflect truly, reliably and clearly the economic and financial situation of PEPEES Capital Group and net profit of the Capital Group,
- the abbreviated financial statement of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. for 1st half of 2020 and comparative data were prepared in compliance with applicable accounting principles, reflect truly, reliably and clearly the economic and financial situation and net profit, ,
- the report of the Management Board on activities of the Capital Group in the 1st half of 20 20 present the true picture of development and achievements and the situation of PEPEES Capital Group, including description of the main risks and threats.

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

President of Management Board - Wojciech Faszczeński

Member of Management Board - Tomasz Krzysztof Rogala