



REPORT CONCERNING THE ACTIVITIES OF PEPEES CAPITAL GROUP

for the period of 12 months ended 31 December 2022

**(including disclosures required for the Report of the Management Board
concerning the Issuer's activity in the above-indicated period)**

INDEX TO THE REPORT OF THE MANAGEMENT BOARD CONCERNING THE ACTIVITIES OF THE CAPITAL GROUP

INTRODUCTION⁴

I.	DESCRIPTION OF PEPEES CAPITAL GROUP.....	4
1.	Composition of PEPEES Capital Group.....	5
1.1.	Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A. in Łomża - Parent Company	5
1.2.	Zakłady Przemysłu Ziemniaczanego „LUBLIN” Spółka z ograniczoną odpowiedzialnością in Lublin - subsidiary	8
1.3.	Pepees Inwestycje Spółka z ograniczoną odpowiedzialnością in Łomża - subsidiary	8
1.4.	Przedsiębiorstwo Przemysłu Ziemniaczanego “BRONISŁAW” Spółka Akcyjna in Bronisław - subsidiary	9
1.5.	Gospodarstwo Rolne Ponary Spółka z ograniczoną odpowiedzialnością in Łomża - subsidiary.....	10
2.	Operations of PEPEES Capital Group’s companies.....	10
3.	Changes in the organisation of PEPEES Capital Group 11	
II.	DESCRIPTION OF THE OPERATIONS OF PEPEES CAPITAL GROUP.....	11
1.	Description of the market environment	11
2.	Information on core products, goods and services sold in the Group.....	12
3.	Sales volume and structure	14
4.	Information on domestic and foreign selling markets	16
4.1.	Domestic sales by sector and territory.....	17
4.2.	Export and intra-Community sales.....	18
5.	Information on production materials, goods and services supply sources	19
6.	Information on contracts significant to the activities of the Capital Group.....	19
6.1.	Business agreements	19
6.2.	Credit agreements.....	20
6.3.	Loan agreements	20
6.4.	Lease contracts concluded in 2022.....	20
6.5.	Insurance contracts.....	20
6.6.	Agreements between Shareholders.....	21
7.	Information on organisational and capital links of the Issuer with other entities and specification of its main domestic and foreign investments	21
8.	Description of transactions with related parties.....	22
9.	Information on contracted credits and loans.....	23
10.	Information on granted loans, guarantees and sureties	24
11.	Off-balance items in PEPEES Capital Group.....	25
12.	Description of utilisation of receipts from the issuance of shares or acquisition of own shares.....	25
13.	Explanation of differences between profit or loss shown in the report and previously published profit or loss forecasts for the given year	26
14.	Assessment of financial resources management.....	26
15.	Information on financial instruments to the extent of risk and financial risk management purposes and methods.....	27
16.	Information on completed and intended investments	27
17.	Information on issues related to the natural environment.....	28
18.	Information on employment in the Group	29
19.	Major achievements in research and development	29
20.	Non-material aspects	29
21.	Untypical events significantly affecting the Group’s income from operations in 2022 30	
22.	Structure of main capital deposits or main capital investments	31
23.	Adjustment of errors from previous periods and changes in accounting principles and presentation of statements 31	
24.	Changes in the Group’s principal rules of management	31
25.	List of changes in the Issuer’s shareholding status or title to such shares held by the Issuer’s managers and supervisors	31
26.	Contracts concluded between the Issuer and managers, providing for compensation in the event of resignation or dismissal from the position held without a valid reason or when they are recalled or dismissed due to the merger of the Issuer’s business through acquisition	31

*Report of the Management Board concerning the activities
of the Capital Group for the period of 12 months ended 31 December 2022
(in kPLN)*

27.	Remuneration, awards and other benefits paid and payable to managers and supervisors at the Issuer's enterprise in 2022.....	31
28.	Information on any retirement and similar benefits payable to former managers, supervisors or former members of the administration authorities and liabilities incurred in connection with such retirement pensions	32
29.	Parent Company's listings in 2022	32
30.	Information on agreements known to the Issuer as possibly giving rise to future changes in the proportion of shareholdings and changes regarding the existing shareholders and bondholders	33
31.	Identification of holders of all securities with special rights of control in relation to the Issuer including a description of such rights	33
32.	Information on the employee share scheme control system	33
33.	Brief description of significant achievements or failures of PEPEES Capital Group in 2022, including the specification of major events	33
34.	Other information that, in the Capital Group's opinion, is significant in order to evaluate its human resources, property and financial standing, financial performance and changes thereof, and information considered significant in order to evaluate the chances of fulfilment of the Group's obligations	34
35.	Identification of factors which, according to the Issuer and the Group, will continue to affect its performance at least over the following year	34
36.	Information on the entity authorised to audit and review the Issuer' financial statements	34
37.	Summary of activities in the reporting period	35
38.	Information on proceedings pending in courts, arbitration courts or before public administration authorities	36
III.	PROPERTY AND FINANCIAL STANDING	37
1.	Property standing of the Capital Group	37
2.	Financing sources of the Capital Group	37
3.	Financial performance of the Capital Group	39
3.	Cash flows	40
4.	Economic ratios	40
5.	Property standing of the Parent Company	42
6.	Financing sources of the Parent Company	43
7.	Financial performance of the Parent Company	44
8.	Untypical events affecting the financial performance of the Parent Company	44
IV.	DEVELOPMENT OF THE ISSUER AND THE CAPITAL GROUP	45
1.	Description of basic risks and hazards and characteristics of external and internal factors significant to the development of the Parent Company and PEPEES Capital Group	45
1.1.	Risks and hazards	45
1.2.	External factors determining successful development of the Issuer and the Group	47
1.3.	Internal factors determining successful development of the Issuer and the Group	47
2.	Prospects for the development of the Issuer and the Group	48
3.	Development strategy of the Company and PEPEES Capital Group	48
4.	Description of the policy regarding the Issuer's Capital Group's development lines	49
V.	APPLICATION OF CORPORATE GOVERNANCE	50
I.	Identification of the principles of corporate governance applicable to the Issuer and the location where the collection of such principles is publicly available	50
II.	Specification of the extent to which the Issuer departed from the principles of corporate governance, indicating specific provisions, and reasons for such departure	50
III.	Report concerning the remuneration policy	54
IV.	Sponsorship	55
V.	Main characteristics of internal control and risk management systems used in preparing financial statements and consolidated financial statements	56
VI.	Shareholders directly or indirectly holding considerable blocks of shares	56
VII.	Holders of all securities bearing special rights	56
VIII.	Limitations on voting rights	57
IX.	Limitations on transfers of ownership rights to securities	57
X.	Rules for appointing and dismissing managers and their rights	57
XI.	Rules for amending the Company's Articles of Association	58
XII.	Operation and rights of the General Meeting	58
XIII.	Members and description of activities of managerial and supervisory authorities	59
XIV.	Policy of diversity	63
VI.	DECLARATION OF THE MANAGEMENT BOARD	63

INTRODUCTION

This Report of the Management Board concerning the activities of PEPEES Capital Group for 2022 contains information the scope of which is set out in Article 70 and 71 of the Regulation of the Minister of Finance of 29 March 2018 concerning current and periodic information provided by issuers of securities [...] (Regulation).

The consolidated annual report, consisting of the above-mentioned financial statements and this report on the activities, was prepared according to Article 70 and Article 71 in connection with Article 60 paragraph 1 section 3 and paragraph 2 of the Regulation.

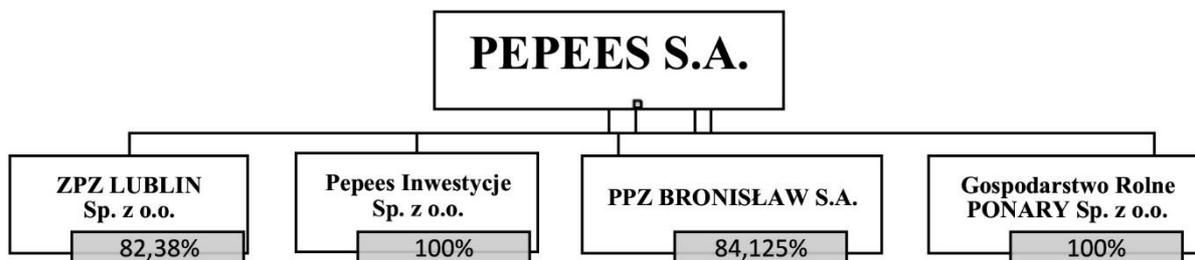
According to Article 71 paragraph 8 of the Regulation, this report also contains disclosures of information required for the Report on the activities of the Parent Company mentioned in Article 70 paragraph 1 section 4 of the Regulation.

The rules for preparing financial statements are presented in respective statements, that is, in the financial statements of the Parent Company and in the financial statements of the Capital Group for 2022.

I. DESCRIPTION OF PEPEES CAPITAL GROUP

Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. (here also: the Issuer, the Company, "PEPEES" S.A., and PEPEES) is the parent company of: Zakłady Przemysłu Ziemniaczanego (Potato Processing Plant) ZPZ „LUBLIN” Sp. z o.o., Przedsiębiorstwo Przemysłu Ziemniaczanego "BRONISŁAW" S.A., Pepees Inwestycje Sp. z o.o. and Gospodarstwo Rolne Ponary Sp. z o.o.

The structure of the Capital Group at 31 December 2022 was as follows:



Name	Register	Business area	District court	Issuer's share of capital (%)	Share in total number of votes (%)
ZPZ LUBLIN Sp. z o.o.	Lublin	Production and sale of potato syrup and dried potato products, fruit and vegetable processing	District Court in Lublin, 11 th Commercial Division of the National Court Register (KRS)	82.38	82.38
Pepees Inwestycje	Łomża	Buying and selling of own real estate	District Court in Białystok, 12 th Commercial Division of the National Court Register (KRS)	100	100
PPZ BRONISŁAW S.A.	Bronisław	Manufacture of starches and starch products	District Court in Bydgosz, 13 th Commercial Division of the National Court Register (KRS)	84.125	84.125
Gospodarstwo Rolne Ponary Sp. z o.o.	Łomża	Mixed farming	District Court in Białystok, 12 th Commercial Division of the National Court Register (KRS)	100	100

All subsidiaries were fully consolidated.

No changes in the structure of the Issuer's Capital Group occurred in the reporting period.

1. Composition of PEPEES Capital Group

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

1.1.1. General information about the Company

The Company operates under the name: Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. (here: the "Company", "Parent Company", "Issuer"). Its registered address is Łomża, ul. Poznańska 121.

It operates as a joint stock company incorporated by notarial deed on 21 June 1994 before Paweł Błaszczyk, Civil-Law Notary in Warsaw (Reg. No. A 14126/94).

The Company is entered into the register of businesses maintained by the District Court in Białystok, 12th Commercial Division of the National Court Register (KRS) in Białystok under KRS number 000038455.

Its taxpayer's identification number (NIP) 7181005512 was assigned by the Tax and Revenue Office in Łomża on 20 January 2000.

The statistical office assigned the national business registration number (REGON) 450096365.

The Company operates based on the provisions of the Code of Commercial Companies and Partnerships. It is a single-establishment business with no divisions.

"PEPEES" S.A. in Łomża is one of the major starch potato processing plants in Poland. The integrated management system implemented and certified from 2007 ensures high quality and full safety of the products to health. The Company's products are widely used in the food, pharmaceutical, animal feed, chemical, textile and paper-making industry.

According to the Memorandum and Articles of Association, the Company operates in the following business areas:

- ✓ potato processing,
- ✓ manufacture of starches and starch products,
- ✓ services related to vegetable and fruit processing and preservation,

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

The Supervisory Board

Maciej Kaliński	Chairperson of the Supervisory Board
Robert Malinowski	Secretary of the Supervisory Board
Agata Czerniakowska	Member of the Supervisory Board.
Jacek Okoński	Member of the Supervisory Board
Kajetan Rościszewski	Member of the Supervisory Board.

On 14 April 2022, the Ordinary General Meeting appointed the Supervisory Board for a new term of office effective on 4 May 2022.

From 14 April 2022 the composition of the Supervisory Board was as follows:

Maciej Kaliński	Chairperson of the Supervisory Board
Tomasz Nowakowski	Vice-Chairperson 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

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

The Audit Committee

Maciej Kaliński	Chairperson of the Audit Committee
Agata Czerniakowska	Member of the Audit Committee
Robert Malinowski	Member of the Audit Committee
Kajetan Rościszewski	Member of the Audit Committee.

A new Audit Committee was appointed, effective from 4 May 2022. Until 14 April 2022, the composition of the Audit Committee was as follows:

Maciej Kaliński	Chairperson of the Audit Committee
Krzysztof Stankowski	Vice-Chairperson of the Audit Committee
Piotr Marian Taracha	Member of the Audit Committee
Robert Malinowski	Member of the Audit Committee
Tomasz Nowakowski	Member of the Audit Committee.

Tomasz Nowakowski died on 3 December 2022. He had been Vice-President of the Supervisory Board and Vice-President of the Audit Committee from 4 May 2022 until death.

On 27 February 2023, the Supervisory Board appointed Jacek Okoński as Deputy Chairperson of the Audit Committee.

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

The company is entered into the register of businesses maintained by the District Court in Białystok, 12th Commercial Division of the National Court Register (KRS) in Białystok under KRS number 0000370060.

The company's taxpayer's identification number (NIP) is 7182123627. The company operates in accordance with the provisions of the Code of Commercial Companies and Partnerships.

According to the articles of association, its core activity is buying and selling of own real estate.

At 31 December 2022, the company's share capital amounted to PLN 95 000 and was divided into 1 900 equal and indivisible shares of PLN 50 each.

1.3.2. Authorities of Pepees Inwestycje at 31 December 2022 and at the date of publication of the Management Board's report

Roman Adam Miniński President of the Management Board.

1.4. Przedsiębiorstwo Przemysłu Ziemiaczanego "BRONISŁAW" Spółka Akcyjna in Bronisław - subsidiary

1.4.1. Basic information on PPZ BRONISŁAW S.A.

Przedsiębiorstwo Przemysłu Ziemiaczanego Bronisław S.A. has been in operation since 23.11.2001. On 12.12.2017 (date of registration with the National Court Register), the limited liability company Przedsiębiorstwo Przemysłu Ziemiaczanego Spółka z ograniczoną odpowiedzialnością was transformed into the joint stock company Przedsiębiorstwo Przemysłu Ziemiaczanego Bronisław Spółka Akcyjna.

The company's registered address is Bronisław 41, 88-320 Strzelno. It operates as a joint stock company incorporated by notarial deed on 31.07.2017, Reg. A No. 1989/2017 for unlimited time. The company is entered into the register of businesses maintained by the District Court in Bydgoszcz, 13th Commercial Division of the National Court Register (KRS) in Bydgoszcz under KRS number 0000708945.

The Company's taxpayer's identification number (NIP) is 5571595182.

The Company operates in accordance with the provisions of the Code of Commercial Companies and Partnerships.

The business areas of the Company include:

- manufacture of starches and starch products,
- potato processing,
- support activities for crop production.

At 31 December 2022, the company's share capital amounts to PLN 800 000 and is divided into 800 000 equal and indivisible shares of PLN 1 each. The shares are not preferred shares.

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

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

1.4.2. Authorities of PPZ BRONISŁAW S.A. at 31 December 2022 and at the date of publication of the Management Board's report

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

The Supervisory Board

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

Tomasz Nowakowski was the Supervisory Board's Chairperson from 01.01.2022 to 03.12.2022.

1.5. Gospodarstwo Rolne Ponary Spółka z ograniczoną odpowiedzialnością in Łomża - subsidiary

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

The Company's registered address is Łomża, ul. Poznańska 121. The Company operates as a limited liability company incorporated by the deed of company formation on 10 November 2015 for an unlimited period. The Company is entered into the register of businesses maintained by the District Court in Białystok, 12th Commercial Division of the National Court Register (KRS) under KRS number 0000585975.

The Company's taxpayer's identification number (NIP) is 1132898091. The Company operates in accordance with the provisions of the Code of Commercial Companies and Partnerships.

The business area of the Company is mixed farming (crop production and animal rearing and breeding).

At 31 December 2022, the company's share capital amounts to PLN 1 620 000 and is divided into 32 400 equal and indivisible shares of PLN 500 each.

The company's sole shareholder is "PEPEES" S.A.

1.5.2. Authorities of Gospodarstwo Rolne Ponary Sp. z o.o. at 31 December 2022 and at the date of publication of the Management Board's report

Management Board

Tomasz Krzysztof Rogala	President of the Management Board.
-------------------------	------------------------------------

2. Operations of PEPEES Capital Group's companies

PEPEES Capital Group is formed by Companies specialising primarily in potato processing for the manufacture of potato starch, maltodextrin and potato flakes etc. The Group also comprises facilities dealing with starch potato growing, and buying and selling of own real estate.

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

Each company fulfils specific functions and significantly participates in creating value within PEPEES Capital Group.

“PEPEES” S.A. is a Parent Company. The Management Board of “PEPEES” S.A. develops the Group's development strategy and makes key operating and financial decisions for the companies making PEPEES Capital Group.

“PEPEES” S.A. owns one of the biggest starch making plants that produce potato starch in Poland. It can process up to 2400 tonnes of potatoes per day. The engaged significant assets include starch-making machinery, specialised workers and storage surfaces.

ZPZ Lublin Sp. z o.o. in Lublin focuses on processing edible potatoes into potato grits and potato flakes and produce glucose syrups from starch.

PPZ “BRONISŁAW” S.A. in Bronisław primarily produces starch and processes edible potatoes into potato flakes.

Pepees Inwestycje Sp. z o.o. in Łomża deals with buying and selling of own real estate.

Gospodarstwo Rolne Ponary Sp. z o.o. in Łomża has arable land leased by the Parent Company at its disposal for, among other things, growing starch potatoes.

3. Changes in the organisation of PEPEES Capital Group

No changes occurred in the organisation of PEPEES Capital Group in the reporting period.

II. DESCRIPTION OF THE OPERATIONS OF PEPEES CAPITAL GROUP

1. Description of the market environment

In the reporting period, the core activity of PEPEES Capital Group was production, trade and services related mainly to potato processing.

Three operating segments were identified in PEPEES Capital Group, including: “Potato processing”, “Mixed farming”, and “Buying and selling of own real estate”.

All the assets and liabilities of Gospodarstwo Rolne Ponary are assigned to the “Mixed farming” segment. Since in 2022 Ponary did not generate any revenue from sales, the “Mixed farming” segment was not included separately in the segments’ revenues and results. Due to the value of land held by Ponary, the segment was included separately in the consolidated financial statements only to present its assets and liabilities.

The “Buying and selling of own real estate” segment covers all the assets and liabilities of Pepees Inwestycje Sp. z o.o.

And the “Potato processing” segment carries all the remaining assets and liabilities presented in the consolidated financial statements.

The “Potato processing” segment manufactures:

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

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

PEPEES Capital Group processes starch potatoes and edible potatoes. Potatoes are the fundamental source of starch in Poland and in all Europe. Starch potatoes are potatoes containing at least 13% of starch. Food starch and technical starch is produced from such potatoes by mechanical separation from other potato components, rinsing, cleaning, drying and sieving.

The potato growing area in the EU has been decreasing for some time. The crop surface area has shrunk nearly by half in 2000-2022, and - among the main producer countries - the decline has been particularly rapid in Poland and Romania. According to data provided by the Agency for Restructuring and Modernisation of Agriculture, in 2022, the potato growing in Poland decreased to ca. 182 000 ha - from 236 000 ha in 2021, and 308 000 ha in 2019. The systematic drop in potato growing is due to production unprofitability. Prices of starch potatoes are too low in relation to growing costs, including high prices of fertilisers. In addition, the approach of the European Commission to plant protection product has become increasingly problematic.

Europe is the largest producer of potato starch in the world. The major producer of potato starch in the European Union is Germany, followed by the Netherlands, France and Denmark. EU businesses are big starch making plants with a daily processing capacity from 3000 to 5000 tonnes of potatoes. Three European leaders (Emsland - Germany, Avebe - the Netherlands, Roquette - France) account for about 65% of the European production of starch. They have very well-developed research and development departments equipped with mini-plants and product testing and development laboratories. Thanks to this, the EU starch industry manufactures more than six hundred products, starting from native starch, through physically and chemically modified starches, to liquid and solid starches. They are so versatile that they are used as ingredients and enriching supplements of a huge group of foodstuffs, non-food, technical and animal feed products.

Polish starch industry consists of 10 businesses producing potato starch and its derivatives. The domestic starch industry is strongly fragmented. On the Polish market five largest starch making plants with a daily processing capacity ranging from 1000 to 3000 tonnes of potatoes operate. These facilities are located in Łomża ("PEPEES" S.A. in Łomża), Luboń, Trzemeszno, Piła and Łobez. The remaining starch making plants in Poland are much smaller and can process from 300 to 800 tonnes of potatoes daily.

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

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

The "Potato processing" segment manufactures:

- ✓ potato starch with a wide range of uses in the food, pharmaceutical, paper-making, textile and chemical industry;
- ✓ several ranges of glucose for use in the food, confectionery, and pharmaceutical industries;
- ✓ maltodextrin, being a significant component of powdered products (ice cream, sauces, soups, fruit extracts, flavoured sprinkles) as well as nutrition supplements and vitamin and mineral formulas for children and athletes,
- ✓ a wide range of starch syrups used in the confectionery and bakery industry;
- ✓ potato grits for use in the food industry;
- ✓ potato flakes for use in the food industry.

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

Potato starch

Potato starch (potato flour) is obtained by mechanical grinding of potatoes, extracting, refining, dehydrating, drying, and screening.

Starch is one of the most multi-functional raw materials in the food industry. Some of its applications are based on its natural gelling and thickening properties (food, chemical, textile, and paper-making industry).

The food industry and the pharmaceutical sector use starch for improving product texture, appearance (form), humidity, consistency and shelf-life.

Starch

Starch is extracted from crushed cells of potato tubers by rinsing and then cleaning, drying, and sieving. The commercial product contains about 40% of water. Starch is produced from industrial potatoes of the right quality, that is: rich in starch with the highest possible share of coarse grains, poor in non-starch substances, low protein, with round tubers, crispy flesh, and shallow eyes.

Potato protein

This product is obtained from the cellular juice of potatoes by coagulation, separation, and drying. The finished product is a loose grey powder with a smell typical of dried potato protein and humidity not exceeding 10%. A characteristic feature of the product is high (more than 80%) content of total protein, where digestible protein accounts for more than 70% of dry weight. This highly valuable, easily digested vegetable protein is a precious component of animal feed rations and makes an excellent substitute for animal protein.

Grits

Grits is a by-product from the starch making plant. It consists of clots of glued gruelled starch separated from dried potato flour.

Potato flakes

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

Hydrolysed starches✓ **Crystalline glucose**

Crystalline glucose is the end product of potato starch hydrolysis. It is white, fine, sweet-tasting crystalline powder with a very high degree of microbiological purity, containing ca. 99.5% of pure glucose. Crystalline glucose is a calorie-rich monosaccharide easily assimilated by the human body. It is a valuable natural source of energy. Glucose is widely used in the production of pharmaceutical and dietary products (medicines, nutritional supplements). Its consumption is particularly important during increased physical effort and convalescence.

The food industry uses glucose mainly for improving the perception of sweets and enhancing products' flavour. It is used in the production of confectionery products, ice cream, desserts, dried food mixes, soft drinks, and fruit and vegetable products. In addition, glucose is used in the brewery, winemaking, bakery and meat processing industry.

✓ **Anhydrous glucose**

Anhydrous glucose is obtained from fluidised bed drying of crystalline glucose to humidity below 1%. The product fulfils strict

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

microbiological requirements. All the produced anhydrous glucose is utilised by the pharmaceutical industry. It is mainly used in the production of infusion fluids.

✓ **Maltodextrin**

Maltodextrin is a product of potato starch depolymerisation, obtained by enzymatic

hydrolysis. It is white, slightly sweet-tasting powder. The properties of maltodextrin change depending on the starch hydrolysis degree. Higher DE (dextrose equivalent) increases sweetness, which is accompanied by improved solubility and hygroscopic properties, and lower viscosity, binding strength and resistance to crystallisation. Due to its binding, filling, texture-improving and flavour stabilising properties, maltodextrin has a range of uses in food production. It is an essential ingredient of powdered products (ice cream, sauces, soups, fruit extracts, and flavoured sprinkles) and nutrition supplements and vitamin and mineral formulas for children and athletes. It is an important source of carbohydrates in infant formulas and nutritional meals. Maltodextrin is very often used to produce low-calorie food.

✓ **Glucose syrups**

Glucose syrups are thickened water-based solutions of monosaccharides (glucose, maltose) and low-molecular polysaccharides, obtained by enzymatic hydrolysis of starch.

They have good temperature and chemical stability, and high osmotic pressure. Glucose syrups are used in the production of hard and soft candy, chewing gum, fruit jellies, ice cream, desserts, and confectionery products. The use of glucose syrup increases mass plasticity, affects colour and flavour durability and gives food transparency and gloss. Added syrup ensures the desirable structure and soft sweetness, improves structural properties, impedes sugar crystallisation, makes it possible to maintain natural colour of fruit, gives soft taste and emphasises flavour.

✓ **Glucose hydrol**

Glucose hydrol is a by-product. It is intercrystalline fluid remaining after separation of glucose crystals from the thickened glucose syrup. It is thick brown fluid with specific odour. Due to its high content of carbohydrates, glucose hydrol is used in the spirit making, animal feed and chemical (e.g. skin tanning) industries.

Apart from the above-described products, in 2022 the Group also derived revenues from sales generated by the following categories:

- ✓ seed potatoes,
- ✓ plant protection products,
- ✓ sales of materials.

All the assets and liabilities of Gospodarstwo Rolne Ponary Sp. z o.o. are assigned to the “Mixed farming” segment. Due to the value of land held by GR Ponary Sp. z o.o., the segment was included separately in this report only for the needs of presenting its assets and liabilities. The third segment includes buying and sales selling of own real estate by Pepees Inwestycje Sp. z o.o.

3. Sales volume and structure

The Capital Group operates in a strongly competitive market in Poland and abroad in the environment of domestic entities and major international concerns. It is one of the leaders on the Polish market in terms of value and quantity.

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

Table 1 and Figures 1 and 2 present the structure of revenues from sales from 1 January 2022 to 31 December 2022 and in the corresponding period in 2021.

Table 1: Structure of net revenues from sales over 12 months in 2022 and 2021

Range	For the period of 12 months ended 31 December 2022	Structure in 2022	For the period of 12 month ended 31 December 2021	Structure in 2021	Dynamics
Potato products	243 751	95.61%	208 930	94.07%	116.67%
Electricity	-		188	0.08%	0.00%
Property rights (electricity and heat)	-		397	0.18%	0.00%
Other sales, of which	11 201	4.39%	12 575	5.66%	89.07%
<i>a) services</i>	1 489	0.58%	1 490	0.67%	99.93%
<i>b) goods and materials</i>	9 712	3.81%	11 085	4.99%	87.61%
Total net sales of products, of which:	254 952	100.00%	222 090	100.00%	114.80%
<i>Discounted operations</i>			1 264		

Fig. 1: Structure of revenues from sales over 12 months in 2022

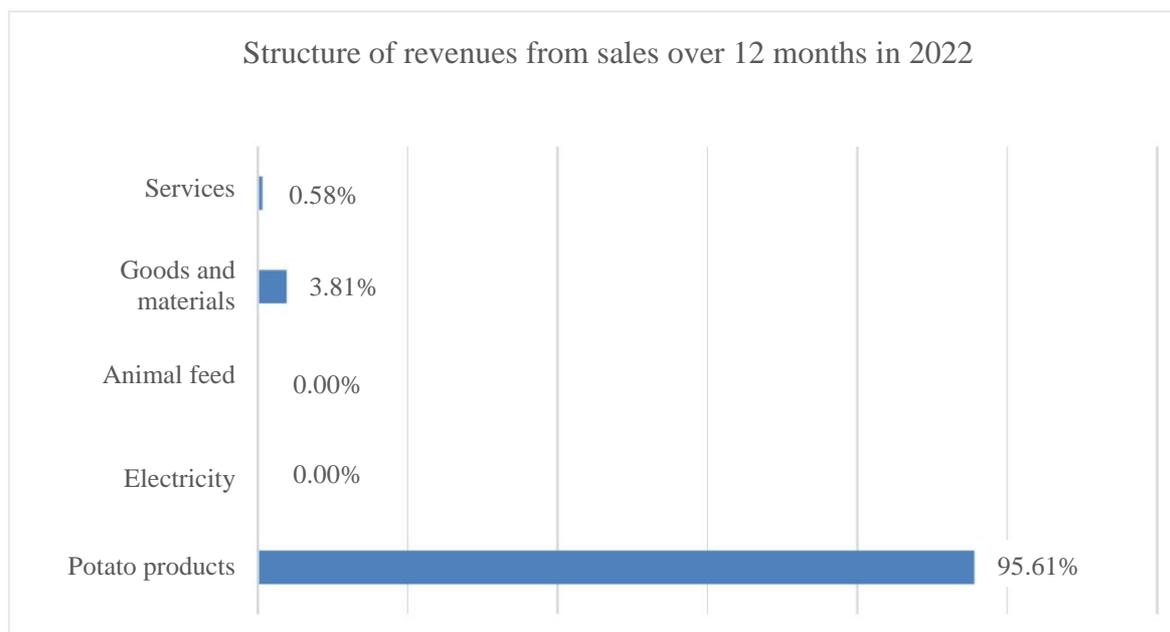


Fig. 2: Structure of revenues from sales over 12 months in 2021

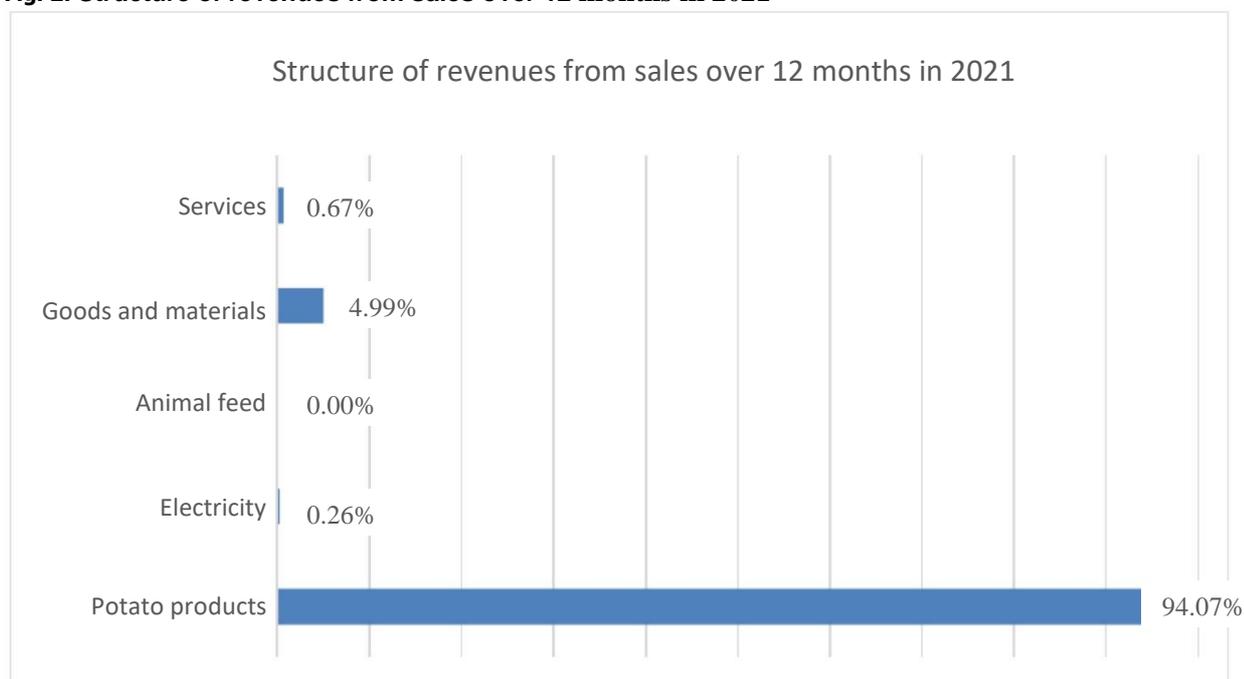


Table 2: Volume of sales over 12 months in 2022 and 2021

Range	Unit	Year 2022	Year 2021	Dynamics %
Potato product (Group)	tonne	55 669	76 532	72.7
- of which Parent Company	tonne	44 987	56 128	80.2

In 2022, the value of sales increased by 15%, and its quantity decreased by 28% compared with the preceding year. The sales value increased more than the sales volume due to the increase in selling prices in 2022 compared with the preceding year.

4. Information about domestic and foreign selling markets

High quality of products, and continuing improvement of production and management methods make the Group's brand a recognised trademark in Poland and abroad. The Group is developing cooperation with the existing and new customers.

The Group distributes through a network of wholesalers and trading companies supplying the food industry, as well as supplying products directly to production plants mainly in the meat processing, food, confectionery, bakery and pharmaceutical industries, for which starch products are the raw material for further processing or a component in the production process. Packaging products for retail sale allows the producer to work with major retail chains and the so-called conventional market buyers. This is how the products of PEPEES Capital Group reach customers buying starch products for their own needs.

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

Distribution channels of PEPEES Capital Groups

The distribution channels are:

Comp \Longrightarrow customer (manufacturer - wholesale)

Comp \Longrightarrow wholesaler \Longrightarrow customer (manufacturer - small volume buyer)

Comp \Longrightarrow wholesaler \Longrightarrow store \Longrightarrow consumer

Comp \Longrightarrow retail chain \Longrightarrow consumer

The most popular form of settlement is transfer with 30-, 45- and 60-day payment term. Payment deferrals depend on how long the company cooperates with the specific customer, the buyer's financial standing and volume of goods purchased. The assessment of financial credibility by the insurance provider and of the financial limit granted is also crucial. For new customers the standard payment form is prepayment. Letters of credit are often used as a payment form for export sales.

The following table presents revenues from sales by selling market.

Table 3: Revenue from sales by selling market

Net revenue from sales	For the period of 12 months ended 31 December 2022	Structure 2022	For the period of 12 months ended December 2021	Structure 2021
Poland, of which	163 248	64.03%	136 048	61.26%
- products	156 213	61.27%	126 407	56.92%
- goods and materials	5 546	2.18%	8 151	3.67%
- services	1 489	0.58%	1 490	0.67%
EU member states – intra-Community supplies, of which	21 145	8.29%	15 897	7.16%
- products	21 145	8.29%	15 612	7.03%
- goods and materials	0	0.00%	285	0.13%
Other countries – export, of which	70 559	27.68%	70 145	31.58%
- products	66 393	26.04%	67 496	30.39%
- goods and materials	4 166	1.63%	2 649	1.19%
Total, of which	254 952	100.00%	222 090	100.00%
Discounted operations			1 264	

Energia are recognised under “Profit/ (loss) from discontinued operations”.

4.1. Domestic sales by sector and territory

Domestic sales were carried out in all Poland to ca. 330 contracting parties.

In the analysed period, the wholesale of the core product, that is, potato starch, accounted for the highest share of total domestic sales, amounting to 48.76% by volume and 40.62% by value. The following products are retail (packaged) potato starch, accounting for 20.10% and 16.59%, respectively, maltodextrin - 12.06% and 17.11%, crystalline glucose - 12.10% and 18.22%, and potato protein - 2.56% and 4.81%. Other

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

products accounted for 4.42% of the sales volume and 2.65% of total sales value. The main buyers of the Parent Company’s products on the domestic market are mostly renowned domestic businesses, often having capital links with large European and global companies.

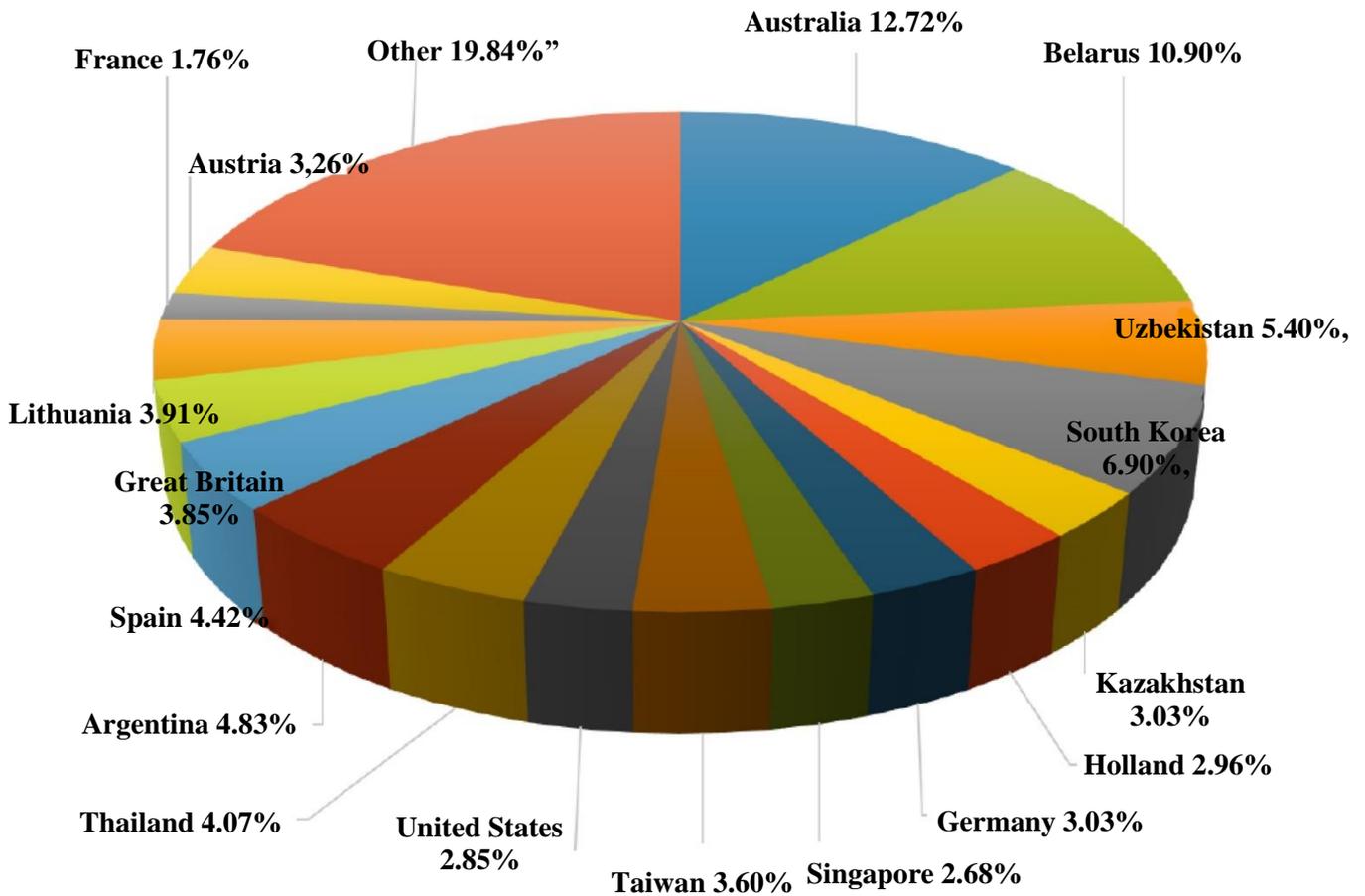
The Group distributed through a network of wholesalers and trading companies supplying the food industry, and supplied products directly to production plants mainly in the food, confectionery, meat processing and pharmaceutical industries, for which starch products are the raw material for further processing or a component in the production process. None of the buyers generated more than 10% of revenues from sales either for the Group or for the Parent Company.

4.2. Export and intra-Community sales

In 2022 the value of export and intra-Community sales was PLN 91 704 000, which corresponds to a 6.6% increase compared with the preceding year. In 2022, the Issuer sold its products, including mainly potato starch, to 57 countries all over the world. Most products were sold to Australia, Belarus, South Korea, and Uzbekistan.

Fig. 3: Percentage of export sales by country

Percentage of export sales by country



*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

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

The principal raw material used for production by PEPEES Capital Group is industrial and edible potato bought in autumn based on agricultural production contracts concluded in spring. From the beginning of the 1990s, there has been a downward trend in potato production in Poland. At the end of the 1990s the share of potatoes in the crop sowing structure was above 10%, and now it is only 2%. The crop sowing structure in 2022 was affected by many factors, including the geopolitical situation, inflation, high prices, and the climate. The crisis did not spare farmers who, faced with the high prices of means of production, searched for alternatives on their own farms. Undoubtedly, the past season was one of the most difficult seasons in recent years and it largely affected the decisions on plant production. In 2022, Poland allocated 182 000 ha of land for potato growing (decrease by 54 000 ha compared with the preceding year), including less than 12 000 ha for starch potato growing, which corresponds to only 6.5% of the total potato growing surface area. High labour consumption in potato growing and low buying prices lead contribute to gradual decline in domestic starch potato crops.

In addition, the following production materials are purchased: paper packaging, enzymes, starch, glucose syrup, process gases, electrical materials, coal dust, metal parts, bags, sulphur dioxide, heat shrink film, hydrochloric acid, labels, cardboard boxes, diatomite, adhesives, varnishes, solvents, enamels, steel tape, plant protection products etc.

The basic raw material - industrial potatoes - is supplied by individual farmers not associated in any organisations of significant importance to the Group's operations.

In 2022, the main suppliers of materials, goods and services were Polish companies or foreign business agencies. The Group is dependent on a single supplier of enzymes and filtration materials due to the fact that this supplier is the only entity in Poland representing foreign producers of raw materials required by the Group

No suppliers have at least 10% share in the Group's revenues.

6. Information about contracts significant to the activities of the Capital Group**6.1. Business agreements**

In 2022, PEPEES Capital Group did not conclude business contracts of material value or material collaboration/cooperation agreements.

Irrespective of the aforementioned, the Issuer mentions the following contracts and agreements concluded in 2022:

- contract for the purchase of potato crop protection products with the value of about PLN 1.3 million;
- contract for the delivery of gaseous fuel – the aggregate volume of fuel ordered is 3,830,063.34 kWh
- contracts for the lease of agricultural land with a total surface area of 475 ha.
- commercial agreements;
- contracts for the purchase and modernisation of production machinery and equipment and repair works.

6.2. Credit agreements

- a) with Santander Bank Polska S.A.:

Annex to the multi-line facility agreement of 07.10.2014 with Santander Bank Polska signed on 6 July 2022. The annex increased the credit limit granted to PEPEES and its subsidiaries up to PLN 67.5 million. The repayment term was also extended to 31.08.2023.

- b) with Powszechna Kasa Oszczędności Bank Polski S.A.

Annex to the multi-purpose credit facility agreement with Powszechna Kasa Oszczędności Bank Polski S.A. signed on 6 July 2022. The annex increased the credit limit granted to PEPEES and its subsidiaries up to PLN 67.5 million. The repayment term was also extended to 31.08.2023.

Annex to the investment credit agreement of 12.12.2017 signed on 6 July 2022. The annex changes additional provisions regarding the value of the Net Debt/EBIDTA reference ratio. Other provisions of the agreement remain unchanged.

- c) With BNP Paribas S.A.

On 19 December 2022, PEPEES concluded an overdraft facility agreement with BNP Paribas S.A. up to EUR 1 million until 19 December 2023.

6.3. Loan agreements

PEPEES S.A. granted the following loans:

- loan agreement of 30.05.2022 granted to its subsidiary PPZ BRONISŁAW S.A. in the amount of PLN 1 400 000 - this is an earmarked loan granted at arm's length to be repaid by the end of this year,
- loan agreement of 30.06.2022 granted to its subsidiary ZPZ LUBLIN Sp. z o.o. in the amount of PLN 1 000 000 at arm's length, to be repaid by the end of this year.

6.4. Lease contracts concluded in 2022

- > Contracts of lease of five passenger cars concluded with PKO Leasing and Santander Leasing, totalling ca. PLN 840 000 ;
- > Contracts of lease of agricultural machinery concluded with Santander Leasing and PKO Leasing, totalling PLN 4 356 000.

6.5. Insurance contracts

Companies from the Capital Group concluded the following insurance contracts:

- > property insurance against fire and other natural elements;
- > business interruption insurance;
- > property insurance against burglary and robbery;
- > insurance of electronic equipment;
- > general liability insurance, including:
 - o tort liability
 - o contractual liability

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

- product liability
 - civil liability of members of the management board
- motor insurance (third party liability, theft and accident insurance).

6.6. Agreements between Shareholders

At the date of these statements, the Parent Company is not aware of any agreements between its Shareholders.

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

At 31 December 2022, the main investments of PEPEES S.A. are shares and obligations in the consolidated subsidiaries and 4 000 shares of Warszawski Rolno- Spożywczy Rynek Hurtowy S.A. (WRSRH), the value of which estimated at 31.12.2022 according to the valuation based on discounted future cash flows by an independent actuary is PLN 6 893 000.

The shares of WRSRH account for 3.34% of the capital of WRSRH. The main owner of WRSRH is the State Treasury holding more than 70% of equity. PEPEES does not control WRSRH.

The Group also holds the shares of SBR Spółdzielczy Bank Rozwoju in Szepietowo totalling PLN 270 000, and has interest in three other domestic entities (ZM Ostrołęka, Agencja Rozwoju and BPS), accounting for less than 5% of the total number of votes at the general meeting and are not significant to the Groups value and investment policy.

Basic financial data of subsidiaries

Name (business name) of the subsidiary	Equity capital	Assets	Liabilities	Revenues from sales	Profit/ Loss
2021					
ZPZ LUBLIN Sp. z o.o.	4 659	21 793	17 134	18 863	(600)
PPZ BRONISŁAW	14 173	76 744	62 571	48 398	(5 310)
Pepees Inwestycje Sp. z o.o.	71	71	-	-	(11)
Gospodarstwo Rolne PONARY Sp. z o.o.	14 367	21 634	7 267	-	75
2022					
ZPZ LUBLIN Sp. z o.o.	3 971	21 557	17 586	23 005	(688)
PPZ BRONISŁAW	16 486	82 550	66 064	59 427	2 313
Pepees Inwestycje Sp. z o.o.	58	58	-	-	(12)
Gospodarstwo Rolne PONARY Sp. z o.o.	15 117	21 655	6 537	-	24

ZPZ Lublin Sp. z o.o. incurred a loss due to the increase in general and administrative expenses by 18% and nearly threefold increase in financial expenses.

PPZ Bronisław S.A. achieved high profit due to a high increase in the prices of starch.

Pepees Inwestycje Sp. z o.o. did not derive any revenues and closed the financial year 2022 with net loss of PLN 12 000.

Ponary Sp. z o.o. did not generate any revenues from sales either. Net profit generated in 2022 derived from monthly financial revenues - payments for credit surety granted to the Parent Company.

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

Subsidiary financing methods in 2022

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

8. Description of transactions with related parties

In the period covered by the statements, the Parent Company - "PEPEES" S.A. and its subsidiaries concluded typical transactions due to the current operating activities of "PEPEES" S.A. and its subsidiaries. The transactions were concluded at arm's length. In addition, some transactions stem from agreements with financial institutions, where one of the collaterals is mutual surety from PEPEES Capital Group's companies being parties to particular agreements.

Collaboration between companies forming the Capital Group aims to increase the utilisation of resources and reduce the risk accompanying the operations.

The allocation of risks and division of business functions makes it possible to reduce the operating costs and efficiently utilise financial resources. The surety for the liability and the repayment collateral of the subsidiaries accelerate contract execution, which may contribute to more effective management of companies forming PEPEES Capital Group.

Transactions of the Issuer with subsidiaries

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

Transactions between "PEPEES" S.A. in Łomża and ZPZ "LUBLIN" Sp. z o.o. in Lublin comprised purchase of starch from the subsidiary for a price of PLN 1 972 000 and potato flakes for a price of PLN 31 000. The total amount of purchases in ZPZ "LUBLIN" was PLN 2 003 000.

In 2022, "PEPEES" S.A. sold potato starch to ZPZ "LUBLIN" Sp. z o.o. for a price of PLN 278 600, maltodextrin for PLN 21 000, glucose for PLN 14 000, potatoes for PLN 275 000, and services for PLN 283 000. The total value of sales to ZPZ "LUBLIN" Sp. z o.o. amounted to PLN 871 000.

In addition, ZPZ "LUBLIN" Sp. z o.o. paid the Issuer PLN 42 000 by way of loan interest.

The selling price is determined using the "cost plus" method or based on price lists used in transactions with unrelated parties.

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

In the reporting period the Issuer purchased potato starch from the subsidiary for a price of PLN 6 711 000 PLN, starch (for use in the textile industry) for a price of PLN 160 000, potatoes for a price of PLN 156 000 and services for a price of PLN 64 000. The total value of purchases from PPZ "BRONISŁAW" S.A. amounted to PLN 7 091 000.

In 2022, "PEPEES" S.A. sold to PPZ "BRONISŁAW" S.A. potatoes worth PLN 2 918 000, potato starch worth PLN 1 075 000, a fixed asset worth PLN 16 000 and service for a price of PLN 20 000. The total values of sales to PPZ "BRONISŁAW" S.A. amounted to PLN 4 029 000.

The selling price is determined using the "cost plus" method or based on price lists used in transactions with unrelated parties.

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

In addition, PPZ "BRONISŁAW" S.A. paid the Issuer PLN 284 000 by way of interest on loans and sureties granted, and PLN 320 000 of interest on bonds. In 2022, the Issuer granted a loan to PPZ "BRONISŁAW" S.A. amounting to PLN 1 400 000.

Transactions between "PEPEES" S.A. in Łomża and Gospodarstwo Rolne Ponary Sp. z o.o. in Łomża
"PEPEES" S.A. sold a service to its subsidiary Gospodarstwo Rolne Ponary for a price of PLN 10 000. In turn, Gospodarstwo Rolne Ponary had previously granted a surety to the Issuer in relation to a credit on which in 2022 the amount of PLN 158 000 was charged by way of fees.

In addition, PONARY paid the Issuer PLN 16 000 of interest on a loan granted in 2018. At the balance sheet date, the outstanding loan amount was PLN 550 000.

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

In 2022, the Issuer sold a service to Pepees Inwestycje Sp. z o.o. for a price of PLN 4 200. At the balance sheet date, trade receivables exist amounting to PLN 400.

9. Information on contracted credits and loans

At 31.12.2022, the Capital Group had credit liabilities presented in the following table:

Table 4: Credit liabilities at 31 December 2022 in kPLN

Type of credit/ loan	Lending bank	Borrower	Contractual amount of credit	Debt at 31.12.2022	Maturity
Overdraft facility	Santander Bank Polska S.A.	„PEPEES" S.A.	4 000	-	31.08.2023
Revolving credit facility	Santander Bank Polska S.A.	„PEPEES" S.A.	19 000	19 000	31.08.2023
Revolving facility	Santander Bank Polska S.A.	„PEPEES" S.A.	17 500	17 500	31.08.2023
Overdraft facility	Powszechna Kasa Oszczędności Bank Polski S.A.	„PEPEES" S.A.	4 000	-	31.08.2023
Kredyt rewolwingowy	Powszechna Kasa Oszczędności Bank Polski S.A.	„PEPEES" S.A.	19 000	19 000	31.08.2023
Revolving facility for potato procurement	Powszechna Kasa Oszczędności Bank Polski S.A.	„PEPEES" S.A.	17 500	17 500	31.08.2023
Overdraft facility in EUR	BNP Paribas Bank Polska S.A.	„PEPEES" S.A.	1 000 EUR	207 EUR	19.12.2023
			4 886	1011	
Investment loan for financing and refinancing the acquisition of 100% shares in the company Gospodarstwo Rolne Ponary Sp. z o.o	Powszechna Kasa Oszczędności Bank Polski S.A.	„PEPEES" S.A.	10 530	3 887	30.06.2025
Loan for the purchase of a fixed asset - farming tractor Deutz Fahr	BNP Paribas Lease Group	„PEPEES" S.A.	937	733	13.08.2024
Revolving facility	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ „LUBLIN" Sp. z o.o.	1500	1510	31.08.2023.
Revolving credit facility	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ „LUBLIN" Sp. z o.o.	5 000	4 833	31.08.2023
Revolving credit facility	Santander Bank Polska S.A.	ZPZ „LUBLIN" Sp. z o.o.	6 500	6 341	31.08.2023
Overdraft facility	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ „LUBLIN" Sp. z o.o.	2 000	-	31.08.2023

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

Type of credit/ loan	Lending bank	Borrower	Contractual credit amount	Debt by 31.12.2022	Maturitu
Overdraft facility	Santander Bank Polska S.A.	ZPZ „LUBLIN” Sp. z o.o.	2 000	-	31.08.2023
Overdraft facility	Santander Bank Polska S.A.	PPZ „Bronisław” S.A.	700	-	31.08.2023
Procurement credit	Santander Bank Polska S.A.	PPZ „Bronisław” S.A.	8 500	8 500	31.08.2023
Revolving credit facility	Santander Bank Polska S.A.	PPZ „Bronisław” S.A.	9 300	7 596	31.08.2023
Overdraft facility	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ „Bronisław” S.A.	700	-	31.08.2023
Procurement credit	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ „Bronisław” S.A.	8 500	8 500	31.08.2023
Revolving credit facility	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ „Bronisław” S.A.	9 300	8 534	31.08.2023
Investment loan	BOŚ	PPZ „Bronisław” S.A.	8 456	4 776	31.12.2027
PLN			154 923	128 210	
EUR			1 000	207	
Razem po przeliczeniu na PLN			159 809	129 221	

Interest on short-term credits (loans) is based on WIBOR reference rate for 1M (1-month) deposits plus bank’s margin, and for long-term credits it is WIBOR for three-month deposits plus bank’s margin. All credits and loans, except the overdraft facility in BNP Paribas, are denominated in PLN.

In the course of 2022 no credit was terminated for the Group and the Group’s companies did not terminate credit agreements.

10. Information on granted loans, guarantees and sureties

Loans

At 31 December 2022 the Group had the following loans granted by the parent company to subsidiaries:

- > Loan of 26 February 2021 granted to the subsidiary PPZ Bronisław S.A., amounting to PLN 1 100 000. The outstanding amount is PLN 1 100 000. Repayment date 31.12.2023
- > Loan of 31 May 2021 granted to the subsidiary PPZ Bronisław S.A., amounting to PLN 900 000. The outstanding amount is PLN 900 000. Repayment date 31.12.2023
- > Loan of 30 June 2021 granted to the subsidiary PPZ Bronisław S.A., amounting to PLN 1 300 000. The outstanding amount is PLN 1 300 000. Repayment date 31.12.2023
- > Loan of 30 May 2022 granted to the subsidiary PPZ Bronisław S.A., amounting to PLN 1 400 000. The outstanding amount is PLN 1 400 000. Repayment date 31.12.2023
- > Loan of 30 June 2022 granted to the subsidiary ZPZ Lublin Sp. z o.o., amounting to PLN 1 000 000. The outstanding amount is PLN 1 007 000. Repayment date 31.12.2023
- > Loan of 10 June 2018 granted to the subsidiary GR Ponary Sp. z o.o., amounting to PLN 550 000. The outstanding amount is PLN 550 000. Repayment date 31.12.2023

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

Sureties

Sureties granted by the Parent Company "PEPEES" S.A. at 31.12.2022:

Agreement of 30 July 2018 concerning the terms and conditions of granting credit sureties between "PEPEES" S.A. in Łomża and PPZ Bronisław S.A. Based on the agreement, "PEPEES" S.A. granted a collateral for the repayment of the Investment Loan from Foreign Credit Facilities incurred by PPZ Bronisław S.A. The amount of the investment loan incurred by PPZ Bronisław S.A. at 31.12.2022 was PLN 4 776 000. The collateral was granted by "PEPEES" S.A. in the form of notarised declaration of submission to enforcement up to PLN 12 684 000.

Sureties granted to the Parent Company "PEPEES" S.A. at 31.12.2022:

Agreement of 12.12.2017 concerning the establishment of mortgage on the real estate of GR Ponary Sp. z o.o. amounting to PLN 15 795 000, for the benefit of "PEPEES" S.A., as a credit collateral repayment granted to "PEPEES" S.A. by PKO BP in the amount of PLN 10 530 000 for the period from 12.12.2017 to 30.06.2025

A consideration for sureties granted and received is charged monthly according to the concluded contracts and agreements setting out the terms of surety.

In the reporting period, and by the date of this report, PEPEES Capital Group's companies did not grant any loans or sureties other than mentioned above.

At 31.12.2022, the total value of sureties or guarantees granted by PEPEES to PEPEES Capital Group's companies is ca. PLN 12.7 mln.

Guarantees

At 31.12.2022, the Company did not have any sureties granted to other entities, including subsidiaries.

11. Off-balance items in PEPEES Capital Group

Off-balance sheet assets (in kPLN)	2022	2021
Guarantees received	-	-
Off-balance sheet liabilities		
Mortgages on the assets of companies	131 734	147 529
Pledge on the assets	123 050	107 956
Credit surety	-	-
Assignment of rights under the insurance policy	355 906	313 000
Indemnity due to non-compete obligation, if any	1 767	1 765
Guarantees granted	-	-

12. Description of utilisation of receipts from the issuance of shares or acquisition of own shares

In 2022, the Company and the Group did not issue securities.

On 28 December 2021, the Management Board of PEPEES S.A. issued an invitation to tender for the sale of shares based with the authorisation granted by the Ordinary General Meeting of Shareholders in Resolution No. 24

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

of 25 April 2017 and the resolution of the Management Board of 23 December 2021. The invitation referred to not more than 2 000 000 ordinary bearer shares of the Company, identified as PLPEPES00018, in total representing 2.11% of the Company's share capital and the total number of votes at the Company's general meeting.

The purchasing price of own shares was established as PLN 1.20 per share. The invitation was sent to all the shareholders in the Company. The purchase of shares was intermediated by the brokerage house Dom Maklerski Banku Ochrony Środowiska S.A. Due to the invitation, 32 828 own shares were purchased from 29 December 2021 to 11 January 2022. Therefore, on 14 February 2022, the Management Board issued another invitation to submit share selling offers. In the second round, 34 295 shares were purchased. According to Resolution No. 24 of 25 April 2017, the total number of own shares was 67 123, which corresponded to 0.071% of the share capital and the total number of votes attached to all shares of the Issuer.

On 29 June 2022, the Management Board of PEPEES S.A. decided to launch a share repurchase programme under Resolution No. 28 of the Ordinary General Meeting of 14 April 2022. The share repurchase programme will continue until 31 December 2023. The repurchase programme covers not more than 7 125 000 (seven million one hundred twenty five thousand) own bearer shares, each with a par value of PLN 0.06 (six groszy), labelled with the securities code ISIN: PLPEPES00018, fully paid-up, listed on the primary market of the Warsaw Stock Exchange (Giełda Papierów Wartościowych S.A. w Warszawie), or purchased outside the WSE regulated market. Funds allocated to financing the repurchase programme will not exceed PLN 14 250 000 (fourteen million two hundred fifty thousand zloty 00/100). Under the repurchase programme the Company can purchase shares accounting for not more than 7.5% of share capital.

Under this programme, 119 364 own shares were purchased. At 31 December 2022, the Company holds 186 487 own shares, which corresponds to 0.196% of the share capital and the total number of votes attached to all shares of the Issuer (at the report publication date).

On 17 January 2023, the Management Board of PEPEES S.A. issued an invitation to submit share selling offers based with the authorisation granted by the Ordinary General Meeting of Shareholders in Resolution No. 24 and the resolution of the Supervisory Board of 17 January 2023. The invitation referred to the purchase of not more than 1 000 000 own shares of the Company identified as PLPEPES00018, representing in total 1.05% of the Company's share capital and the total number of votes at the Company's general meeting.

The purchasing price of own shares was established as PLN 1.65 per share. The invitation was sent to all the stockholders in the Company. The purchase of shares was intermediated by the brokerage house Dom Maklerski Banku Ochrony Środowiska S.A. Due to the invitation, 1 000 000 own shares were purchased, each for PLN 1.65.

The total number of own shares held by the Company at the date of this report is 1 186 487, which accounts for 1.25% of the Company's share capital and the total number of votes at the Company's general meeting. The purchasing cost of all the shares amounted to PLN 1 970 000.

The Company purchases own shares for the purposes indicated in the Resolution of the General Meeting of Shareholders, that is, for resale against compensation or for use in acquisition transactions, alternatively.

13. Explanation of differences between financial results disclosed in the report and the previously published forecast for the respective year

The Capital Group did not publish financial forecasts for 2022.

14. Assessment of the financial resources management

In 2022, both the Parent Company and the Group was fully capable of fulfilling its liabilities towards suppliers and financial institutions. No risks to the repayment of liabilities occurred either.

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

The following reporting period should also be free from risks to the Group's financial liquidity. Cash surplus is allocated to short-term deposits.

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

The information on the financial instruments in use and on the financial risk is identical for the Capital Group and the Parent Company coordinating the management of this risk at the Group's level.

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

The Group did not enter into transactions involving derivative instruments in the reporting period. It did not apply hedge accounting.

Other instruments arising directly in the course of its operations were trade receivables and payables.

The main financial risk in 2022 was the risk associated with price variations on the raw materials, materials, energy and fuel markets. The Company took up measures to optimise the operation of the boiler house by diversifying fuels.

The risk to the Group's operations is strictly linked with changes in product prices on the domestic market and fluctuations in foreign exchange rates affecting revenues from export sales. In parallel, purchasing prices of imported production materials also depend on the level of currency risk.

Financing the operating and investing activities with bank credits and loans based on the WIBOR reference rate exposes the Group to the risk of interest rate change. In addition, the Group has debt due to leasing based on variable rates of interest. In connection with the increasing interest rates the Group's financial expenses increased more than two times compared with the preceding year.

The Group's financial liquidity risk is not deemed high. This is due to an efficient mercantile credit management policy. The assessment of contracting parties and insurance of receivables is the responsibility of KUKI. High-risk foreign transactions are secured by letters of credit.

Cash surplus is allocated to short-term deposits, which facilitates timely settlement of liabilities. In the times of increased requirement for current assets, for instance, during the so-called "potato campaign", the main financial instrument used by the Group's companies is the short-term bank credit for potato procurement with respective tranches strictly correlated with the schedule of purchasing the raw material for production.

The companies' management boards verify and agree on the rules for managing each type of risk. They monitor the risk of market prices for all financial instruments in place.

16. Information on completed and intended investments

The year 2022 was another year in which PEPEES Capital Group implemented its investment plans focusing on improving production standards and the quality of its technical infrastructure.

Detailed objectives of the investment projects included:

- ✓ improvement of the efficiency of production and operations by modernising the park of machinery,
- ✓ adaptation of production plants to hygiene standards and the requirements of the Integrated Management System (IMS) implemented by the Company,

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

- ✓ development of technical facilities necessary to grow potatoes,
- ✓ optimisation of the work environment,
- ✓ and measures to increase the production capacity.

The key investments completed by the Group in 2022 included:

- Modernisation of the works boiler house
- Modernisation of the starch melting station
- Modernisation of the protein recovery plant

- Modernisation of electrical and lighting and water and sewerage systems
- Modernisation of pipelines
- Purchase of machines and equipment (agricultural machinery, loading platform, laboratory equipment, computer hardware etc.).

In 2023, the Group will continue investments commenced in 2022 and plans several new investment projects, the most important ones being:

- construction of the modified starch production plant,
- modernisation of other production facilities,
- purchase of production and agricultural machinery and equipment.

The investments will be financed from own funds and through leasing. The Issuer has not identified any risks to the above-mentioned investment plans.

17. Information on issues related to the natural environment

Legal regulations referring to the environment and the use of natural resources are constantly changing, and related standards have recently tended to become stricter. Therefore, it is possible that the Group will not be able to comply with the future changes in legislation or such changes in legislation may adversely affect the Group's operations. In addition, changes in the environmental protection law can necessitate adapting the operations of the Group's companies to new requirements (e.g. applying changes in technologies used by the Group to reduce air emissions or in the Group's waste management methods and water and sewerage management), including obtaining new permissions or change of the terms and conditions of the existing permissions held by the Group's companies. This can require specific additional investment expenditure from the Group, hence affecting its financial standing by increasing the operating costs. The Group aims to mitigate the risks constantly monitoring the legal requirements related to environmental protection and fulfilling necessary investment tasks to meet all the environmental requirements. Conscious and responsible activity based on the strictest environmental standards and consistent fulfilment of environmental tasks are the Group's priority tasks. These activities provide high chances of reducing the level of risk and costs of adaptation of the Group's environmental protection activities to the new conditions.

In its production activity the Group takes every effort to comply with the environmental protection requirements. It has a regulated formal and legal status to the extent of pollutant emissions, water intake, sewage disposal and waste generation. It monitors its environmental impact in the system of periodic measurement and registration of the volume and characteristic parameters of the streams of air pollution and wastes and the volume of water intake and sewage disposal. The present form of monitoring, approved by administrative permits held by the Company, should be considered sufficient for evaluating the plant's operation. Wastes are handled in a manner preventing environmental pollution

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

and ensuring human safety and health. PEPEES Capital Group has an Integrated Management System in place, comprising quality management, environmental protection, worker health and safety procedures, and the quality management system for laboratories. Companies forming the Capital Group maintain quality and quantity records of waste turnover according to the adopted classification and document templates provided for by relevant legislation. However, it should be highlighted that in connection with the increasing environmental protection requirements, PEPEES Capital Group anticipates, in the Strategy adopted for 2019-2024, undertaking necessary measures related to water and sewage management to improve the natural environment protection.

18. Information about employment in the Group

Table 6: Employment in PEPEES Capital Group

Specification	Average headcount in 2022	At 31.12.2022		Average headcount in the preceding financial year 2021
		Women	Men	
White-collar workers	148	72	71	146
Blue-collar workers	280	41	227	288
Employees on parental or unpaid leaves	3	-	2	2
Total	431	113	300	436

19. Major achievements in research and development

In 2022, the Group did not carry out any major research and development.

20. Non-material aspects

- > The implemented Quality and Food Safety Management System certified by:
 - Certificate of compliance of the Quality Management System with EN ISO 9001:2015
 Scope of the Quality Management System: Production of starch, hydrolysed starch, starch preparations and potato protein.
 Certificate number: 070509
 Date of first issue: 19.06.2017 Certificate expires on: 19.06.2025
 - Certificate of compliance of the Food Safety Management System with EN ISO 22000:2018.
 Scope of certification: Production of starch, hydrolysed starch, starch preparations and potato protein.
 Certificate number: 0087878
 Date of first issue: 13.07.2007

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

- Certificate expires on: 25.07.2025
- Certificate of compliance with the standard: Food Safety Global Standard, rev. 8, February 2019

Scope of certification: Starch extraction and hydrolysis, glucose crystallisation, drying of potato starch, glucose and maltodextrin, packing in paper bags, big-bags and tanks. Packing potato starch in flat-bottomed paper bags. Filling syrups into unit PE/PP containers. Product category: 15.

Rank: AA.

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

Audit date: 14-16.11.2022

Required re-auditing: from 31.10.2023 to 28.11.2023

Expires on: 09.01.2024
 - GMP certificate of compliance with the Good Manufacturing Practice requirements set out in Directive 2003/94/EC, Directive 91/412/EEC and Article 47 of Directive 2001/83/EC referring to GMP requirements for active ingredients

Scope of certification: Anhydrous glucose, glucose monohydrate
Inspection date: 11-12.01.2022

Issued on: 06.04.2022

Expires: 3 years of the last inspection day
 - Certificate of compliance with the standard: GMP+B1 Production, Trade and Services

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

Certificate number: GMP657

Audit date: 10-11.12.2021

Certificate issued on: 29.01.2022

Expires on: 28.01.2025
- > Sedex presence (support for business ethics practices in the supply chain)
 - > Prepared and implemented technologies for obtaining hydrolysed starch (glucose, maltodextrin, glucose syrups), potato starch and potato protein.
 - > Know-how and professional experience of workers.
 - > Promotional emblem licences.

21. Untypical events significantly affecting the Group's income from operations in 2022

The invasion of Ukraine by the Russian Federation and the response to this armed conflict have also indirectly affected PEPEES Group's performance, in relation to increasing prices of oil, natural gas and other resources. Another indirect consequence of the conflict is a considerable rise of inflation and interest rates. In addition, the mean selling price of starch - the core product - increased by 50% compared with the preceding year. High prices of agricultural fertilisers increased the loss on agricultural activity.

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

22. Structure of main capital deposits or main capital investments

Investments and capital deposits	2022	2021
Short-term bank deposits in PLN	41242	11530
Other financial assets	6 893	7 125

23. Adjustment of errors from previous periods and changes in accounting principles and presentation of statements

The Group did not make any voluntary changes to the accounting principles and did not adjust errors relating to previous years.

The Group's financial statements (respectively, separate and consolidated) are prepared according to IAS/IFRS.

No adjustments of previous years' errors occurred.

24. Changes in the Group's principal rules of management

In 2022, no significant changes in the Issuer's and its Group's management rules were recorded.

25. List of changes in the Issuer's shareholding status or title to such shares held by the Issuer's managers and supervisors

In the reporting period no changes occurred in the Issuer's shareholding status or title to such shares held by the Issuer's managers and supervisors. At 31.12.2022 and at the date of this report, the President of the Management Board - Wojciech Faszczewski held 701 000 Issuer's shares, each with a par value of PLN 0.06, totalling PLN 42 060.

None of the managers and supervisors holds shares in subsidiaries.

26. Contracts concluded between the Issuer and managers, providing for compensation in the event of resignation or dismissal from the position held without a valid reason or when they are recalled or dismissed due to the merger of the Issuer's business through acquisition

The Issuer and managers have concluded management contracts providing for compensation due to the non-compete obligation for 12 months from the termination of the contract, corresponding to 100% of the mean monthly remuneration, including bonuses from the past 12 months.

27. Remuneration, awards and other benefits paid and payable to managers and supervisors at the Issuer's enterprise in 2022

Management Board:

Wojciech Faszczewski PLN 774 100.

Tomasz Krzysztof Rogala PLN 584 200.

Total remuneration for members of the Management Board PLN 1 358 300.

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

The Supervisory Board:

Maciej Kaliński	PLN 274 300 ;
Tomasz Nowakowski	PLN 174 400 ;
Piotr Marian Taracha	PLN 36 900 ;
Krzysztof Stankowski	PLN 36 900 ;
Robert Malinowski	PLN 163 400 ;
Agata Czerniakowska	PLN 101 200 ;
Jacek Okoński	PLN 65 500 ;
Kajetan Rościszewski	PLN 64 300 ;
Total remuneration for the Supervisory Board	PLN 916 900 ;

Remuneration for the Management Board and the Supervisory Board received for functions in the authorities of subsidiaries:

Wojciech Faszczewski - President of the Management Board of PEPEES – PLN 77 600 ; for membership in the Supervisory Board of Zakłady Przemysłu Ziemniaczanego “Lublin” Sp. z o.o. and PLN 182 700 for the function of President of the Management Board in PPZ “BRONISŁAW” S.A.,

Piotr Marian Taracha – PLN 69 800 for membership in the Supervisory Board of Zakłady Przemysłu Ziemniaczanego “Lublin” Sp. z o.o.

Agata Czerniakowska – PLN 38 800 for membership in the Supervisory Board of ZPZ “LUBLIN” Sp. z o.o. i PLN 75 500 for membership in the Supervisory Board of PPZ BRONISŁAW S.A.

Robert Malinowski PLN - 38 800 ; for membership in the Supervisory Board of ZPZ “LUBLIN” Sp. z o.o. and PLN 44 100 for membership in the Supervisory Board of PPZ BRONISŁAW S.A.

Tomasz Nowakowski - PLN 56 700 for membership in the Supervisory Board of ZPZ “LUBLIN” Sp. z o.o. and PLN 68 200 for membership in the Supervisory Board of PPZ BRONISŁAW S.A.

There are no retirement and similar benefits payable to former members of management and supervisory boards.

28. Information on any retirement and similar benefits

to former managers, supervisors or former members of the administration authorities and liabilities incurred in connection with the retirement pensions

In 2022, PEPEES Capital Group did not record any retirement and similar benefits payable to former managers, supervisors or former members of the administration authorities and liabilities incurred in connection with the retirement pensions.

29. Stock exchange listings of the Parent Company in 2022

Since 22 May 1997, the Company’s shares have been listed by the Warsaw Stock Exchange. The share price on 3 January 2022 (opening price on the first day of 2022) was PLN 1.15, and on 30 December it was PLN 1.20. The highest share price in the reporting period was PLN 1.70, and the lowest PLN 1.07

The mean share price in 2022 was PLN 1.40.

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

Fig. 4: Prices of PEPEES' shares in 2022



30. Information about agreements known to the Issuer as possibly resulting in future changes in the proportion of shareholdings and changes regarding the existing shareholders and bondholders

The Issuer is not aware of any agreements that could possibly result in future changes in the proportion of shares held by the existing shareholders. The Issuer has not issued any bonds.

31. Identification of holders of all securities with special rights of control in relation to the Issuer including a description of such rights

The Issuer's shareholders do not hold any securities with special rights of control over the Issuer.

32. Information on the employee share scheme control system

The Group does not have a system for the control of the employee share scheme in place.

33. Brief description of significant achievements or failures of PEPEES Capital Group in 2022, including the specification of major events

In 2022, the Group carried out its operations consistently focusing on measures to ultimately ensure a continued increase in the Group's scale of operations.

The Supreme Court dismissed the complaint in cassation filed by the shareholder Epsilon FIZAN to repeal the resolution on the distribution of the Issuer's profit for 2017.

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

In 2022, the Issuer commenced purchasing own shares under the share repurchase scheme according to Resolution No. 28 of the Ordinary General Meeting of 14 April 2022.

34. Other information that, in the Capital Group's opinion, is significant in order to evaluate its human resources, property and financial standing, financial performance and changes thereof, and information considered significant in order to evaluate the chances of fulfilment of the Group's obligations.

In 2022, no events were recorded other than those described herein that could be significant in evaluating the human resources, property, and financial standing, financial performance and changes thereof, and that could be significant in evaluating the chances of PEPEES Capital Group to fulfil its obligations.

35. Identification of factors which, according to the Issuer and the Group, will continue to affect its performance at least over the following year

The following factors will have a significant effect on the profit or loss:

- volume and value of purchased potatoes – the core raw material for production,
- demand for and price of potato starch on the Polish and global markets,
- foreign exchange rates – the Group is an exporter,
- interest rates – the Group uses credit and leasing products bearing interest based on the WIBOR reference rate,
- spread of the pandemic in Poland and in the world,
- warfare in Ukraine and sanctions imposed on Russia and Belarus and the economic effects of these measures.

In the following year, PEPEES Capital Group will execute the concluded contracts and run operations being its core activity, including production, trade and services.

The Management Board is monitoring the global situation in connection with the war in Ukraine. At the date of this report, the Board is not able to accurately specify the impact of the political and economic situation on the operations of PEPEES Capital Group. Potential risks related to the war in Ukraine are described in more detail in Section IV. Development of the Issuer and the Capital Group in 1.1 Risks and hazards.

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

“PEPEES” S.A. and its subsidiaries concluded an agreement concerning the review and audit of the financial statements for 2020-2022 with WBS Audyt Sp. z o.o. in Warsaw. The agreement was concluded on 29 July 2020. The audit firm was selected by the Supervisory Board.

The agreements cover the review of the separate and consolidated financial statements at 30 June 2020, 30 June 2021, and 30 June 2022 and the audit of the separate and consolidated financial statements for 2020-2022. The total fee payable under the agreement for 2022 amounts to PLN 77 800 plus VAT.

Two certification agreements specified in the table below were also concluded with the authorised auditing firm.

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

Specification	2022	2021
Compulsory audit of the annual financial statements	58.8	40.7
of which: PEPEES	34.1	23.5
Review of the semi-annual statements	19.0	19.0
of which: PEPEES	13.8	13.8
Tax consultancy services	-	-
Certification service - audit of the report on the remuneration for the management board and the supervisory board	5.0	6.0
Certification service - confirmation of the correct calculation of the electricity consumption intensity coefficient	6.0	6.0
Total fee	88.8	71.7

The auditing firm WBS Audyt Sp. z o.o. charged the following fees for respective works in 2022:
/in kPLN/

Review of the separate financial statements of PEPEES	Review of the consolidated financial statements	Review of the financial statements - ZPZ Lublin	Review of the financial statements - PPZ Bronisław	Review of the consolidation packages of non-audited subsidiaries (Pepees Inwestycje, GR Ponary)	Total fee for the review of statements at 30.06.2022
11 500	2 300	-	-	5 200	19 000

Audit of the separate financial statements - PEPEES	Audit of the consolidated financial statements - PEPEES	Audit of the separate financial statements - ZPZ Lublin	Audit of the separate financial statements - PPZ Bronisław	Review of the consolidation packages of non-audited subsidiaries (Pepees Inwestycje, GR Ponary)	Total fee for the review of statements at 30.12.2022
21 400	7 100	11 100	13 600	5 600	58 800

37. Summary of activities in the reporting period

In 2022, PEPEES Capital Group achieved revenues from sales amounting to PLN 254 952 000 in relation to PLN 222 090 000 in the corresponding period of the preceding year, which means a 15% increase.

In turn, the cost of goods sold remained at the preceding year's level, which increased the gross result on sales by 85% compared to the analogous period of the preceding year. A higher margin on products sold was due to the increase in prices on the domestic and foreign markets.

Selling and marketing costs in 2022 were similar to the previous year's costs, and general and administrative expenses increased by 9%.

The balance of other operating activities over twelve months in 2022 was closed with a negative figure of -PLN 1 118 000, while in a corresponding period it was positive and amounted to PLN 2 250 000.

In turn, the result on financing activities, understood as financial revenues less financial expenses in 2022 was minus PLN 6 281 000, and in a corresponding period - minus PLN 3 166 000. The increase in the loss on financing activities was due to the increase in the rate of interest on credits and leasing.

As a consequence, gross profit in 2022 was PLN 17 272 000, and the gross loss for the preceding year amounted to -PLN 3 727 000, and net profit in 2022 was PLN 10 843 000, with a net loss of -PLN 3 405 000 in the analogous period in 2021.

38. Information about proceedings pending in courts, arbitration courts or before public administration authorities

On 25.06.2019, the Management Board of Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. requested the court for establishing that the Company's shareholder EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, holding - according to information available to the Company - 27,714,832 shares, due to its failure to notify the sale of considerable blocks of shares according to article 89 paragraph 1 section 1 of the Act on Public Offering, Conditions Governing Admission of Financial Instruments to Organised Trading, and Public Companies, has lost and is not entitled to exercise the right to vote attached to 21,402,233 shares. Epsilon FIZ AN presents a different position claiming that it is entitled to a right to vote by virtue of 27,714,832 shares accounting for 29.17% of the total number of votes at the General Meeting of Shareholders. The Chairperson of the Polish Financial Supervision Authority became involved in the case by presenting his position on 24 July 2019. The Company informed about the case in its current reports number 13/2019, 14- 23/2019 and 30/2019. Proceedings before a trial court ended on 24 January 2023. The decree of the Regional Court will be announced on 21 April 2023.

At the date of his report, unsettled cases exist filed by EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in Warsaw against "PEPEES" S.A.:

- for repealing or invalidating resolutions no. 24-29 adopted on 28.06.2019 by the Ordinary General Meeting of Shareholders, including resolution no. 28 to amend the Company's Articles of Association and authorise the Company's Management Board to increase the Company's share capital within the target capital, including the Management Board's option to exclude the pre-emptive right of the Company's existing shareholders in full or in part if approved by the Company's Supervisory Board. The Regional Court suspended the proceedings until the final termination of proceedings filed by PEPEES against EPSILON for establishing the loss of voting rights,
- for repealing or invalidating two resolutions acknowledging the fulfilment of duties, adopted on 21.04.2020 by the General Meeting of Shareholders. The proceedings are pending before a trial court. The Regional Court suspended the proceedings until the final termination of proceedings filed by PEPEES against EPSILON for establishing the loss of voting rights,
- for repealing or invalidating four resolutions concerning: the review and approval of the financial statements for 2020, distribution of profit for 2020, and the acknowledgement of fulfilment of duties by members of the management board, adopted on 29.06.2021 by the general meeting of shareholders. The proceedings are pending before a trial court. On 11 January 2022, the Regional Court suspended the proceedings until the final termination of proceedings filed by PEPEES against EPSILON for establishing the loss of voting rights,
- for repealing or invalidating nine resolutions adopted on 14 April 2022 by the Ordinary General Meeting of Shareholders, concerning: the review and approval of the financial statements of the Company for the period from 01.01.2021 to 31.12.2021, consolidated statements, report concerning the Company's activity, allocation of the Company's net profit for the financial year 2021, granting an acknowledgement of the fulfilment of duties by members of the Management Board, appointment of two members of the Supervisory Board, purchase of own shares and formation of reserve capital. The proceedings are pending before a trial court. The date of the trial has not been appointed yet.

No other significant proceedings to the remaining extent are pending before court, a competent arbitration authority or public administration body referring to the liabilities and receivables of the Issuer or its subsidiaries.

III. PROPERTY AND FINANCIAL STANDING

1. Property standing of the Capital Group

The following table presents the balance of assets at 31 December 2022 compared with that at 31 December 2021.

Table 7: Balance of assets at 31.12.2022 and 31.12.2021

Designation of asset	At		Changes amounts + increases - decreases	Structure ratios in %	
	31.12.2022	31.12.2021		31.12.2022	31.12.2021
I. FIXED ASSETS	17 231	172 744	(1 513)	45.5	48.9
1. Property, plant and equipment	151 327	151 999	(672)	40,2	43,0
2. Intangible assets	644	184	460	0.2	0.1
3. Rights to assets	11 248	11 913	(665)	3.0	3.4
4. Investment property	563	573	(10)	0.1	0.2
5. Goodwill	1 320	1 320	0	0.4	0.4
6. Investments in other entities	383	383	0	0.1	0.1
7. Deferred tax assets	5 746	6 372	(626)	1,5	1.8
II. CURRENT ASSETS	204 783	180 745	24 038	54.5	51.1
1. Inventories	104 817	97 165	7 652	27.9	27.5
2. Biological assets	326	560	(234)	0.1	0.2
3. Trade receivables	35 059	33 922	1 137	9.3	9.6
4. Current tax receivables	1	-	1	0.0	0.0
5. Other financial assets	6 893	7 125	(232)	1.8	2.0
6. Cash and cash equivalents	57 687	41 973	15 714	15.4	11.9
Total assets	376 014	353 489	22 525	100.0	100.0

The Group's assets at 31 December 2022 totalling PLN 376 014 000 increased by PLN 22 525 000, i.e. by 6% in relation to the preceding year.

Fixed assets decreased due to higher amortisation of capital expenditure.

Fixed assets in 2022 increased by 13.3% compared with the year 2021. The largest increase occurred for cash due to an increase in the value of sales and an increase in credits and loans. The value of inventories at the end of 2022 also increased in comparison with 31.12.2021.

2. Financing sources of the Capital Group

The following table sets out the assets financing sources at 31 December 2022 compared with 31 December 2021.

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

Table 8: Assets financing sources at 31.12.2022 and 31.12.2021

Specification of financing sources	At		Changes amounts + increase - decrease	Structure ratios in %	
	31.12.2022	31.12.2021		31.12.2022	31.12.2021
Shareholders' equity	186 534	175 053	11481	49.6	49.5
Equity capital allocated to the Company's shareholders	183 219	171 983	11236	48.7	48.7
Initial (share) capital	5 700	5 700	0	1.5	1.6
Share premium	7 562	7 562	0	2.0	2.1
Own shares	(224)				
Revaluation reserve	31050	31027	23	8.3	8.8
Retained earnings	139 131	127 694	10 707	36.9	36.1
Non-controlling shares	3 315	3 070	245	0.9	0.9
Liabilities	189 480	178436	11044	50.4	50.5
Non-current liabilities	35 526	36 728	(1 202)	9.4	10.4
Credits and loans	6 508	8 459	(1 951)	1.7	2.4
Leased assets payable	17 648	16 496	1 152	4.7	4.7
Deferred tax reserve	6 518	6 242	276	1.7	1.8
Retirement and similar benefits payable	2 878	3 005	(127)	0.8	0.9
Subsidies (grants)	1974	2 086	(112)	0.5	0.6
Other non-current liabilities	-	440	(440)	0.0	0.1
Current payables	153 954	141 708	12 246	41.0	40.1
Trade and other current payables	22 881	24 111	(1 230)	6.1	6.8
Current tax payable	3 032	-	3 032	0.8	0.0
Credits and loans	122 713	112614	10 099	32.7	31.9
Leased assets payable	4 809	4 455	354	1.3	1.3
Retirement and similar benefits payable	519	528	(9)	0.1	0.1
Total liabilities	376 014	353 489	22 525	100.0	100.0

Throughout the presented period, the Group's equity had the the largest share in the assets financing sources. Its value increased by PLN 11 481 000, and its percentage share remained at the preceding year's level. The Ordinary General Meeting of "PEPEES" S.A. on 14 April 2022 adopted Resolution No. 10 concerning the coverage of loss for the financial year 2021, amounting to PLN 2 342 773.00, with supplementary capital.

Total liabilities increased by PLN 11 044 000 due to higher debt from credits and leasing.

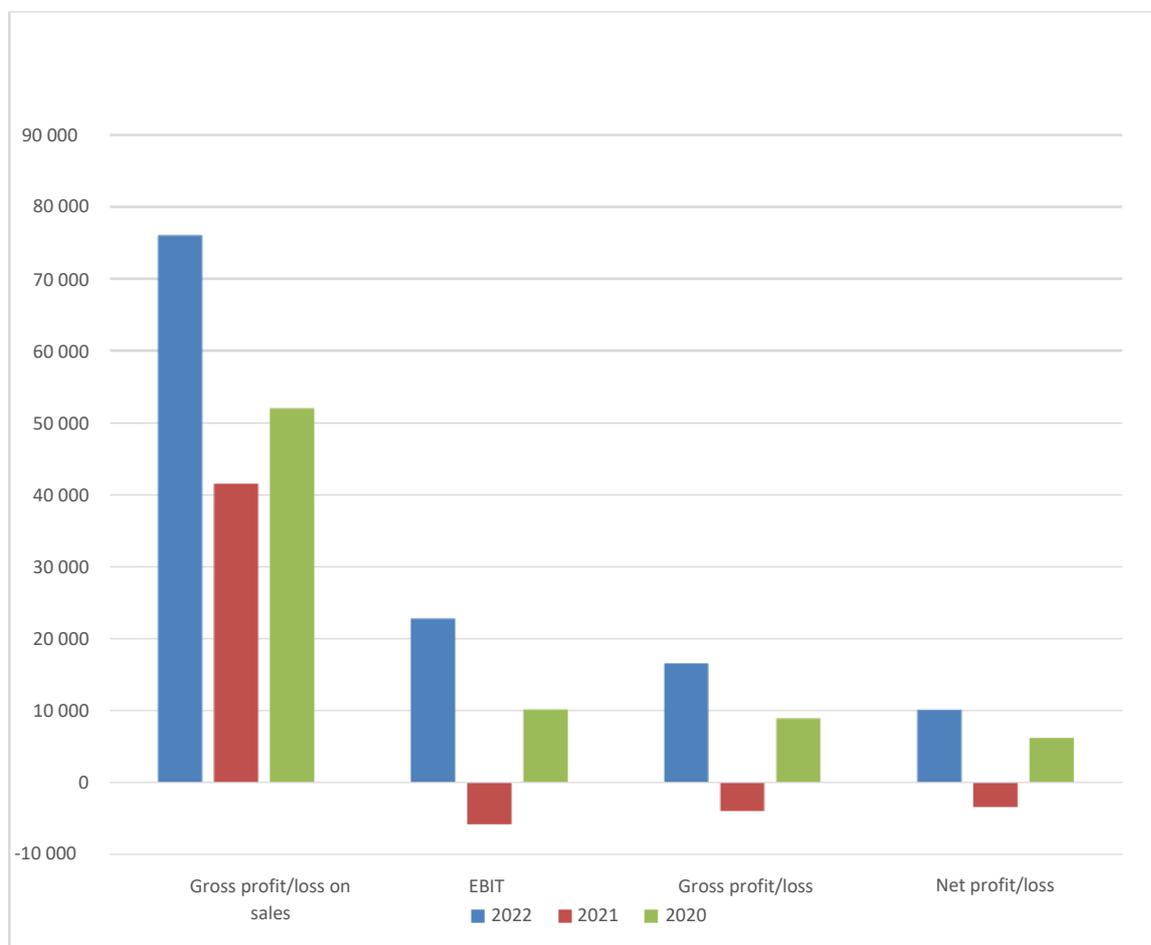
3. Financial performance of the Capital Group

The following table and figure illustrate the financial performance of the Capital Group in 2022 and 2021.

Table 9: Profit/loss for 2022 and 2021

No.	Specification	For the period of 12 months ended 31	For the period of 12 months ended 31	Dynamics
1	Revenues from sales*	254 952	222 090	115%
	- revenues from the sale of products	243 751	209 516	116%
	- revenues from the sale of services	1 489	1 490	100%
	- revenues from the sale of goods and materials	9 712	11 084	88%
2	Cost of products, goods and materials sold	(178 114)	(180 555)	99%
	- cost of products sold	(163 035)	(166 956)	98%
	- cost of services sold	(1 018)	(968)	105%
	- cost of goods and materials sold	(6 993)	(9 805)	71%
	- profit/loss from agricultural production	(7 086)	(2 826)	250%
3	Gross profit from sales	176 838	41 535	185%
	- selling and marketing cost	(15 334)	(15 580)	98%
	- general and administrative expenses	(36 833)	(33 994)	108%
	- other operating revenues	834	2 823	30%
	- other operating expenses	(1 952)	(573)	341%
4	Profit (loss) from operating activities	23 553	(5 789)	(407)%
	- financial expenses	(7 603)	(3 601)	211%
	- financial revenues	1 322	435	304%
	- profit (loss) from the sale of a subsidiary	-	5 029	
5	Profit (loss) before tax	17 272	(3 926)	(440)%
	- income tax	(6 429)	521	(1234)%
6	Net profit (loss), of which:	10 843	(3 405)	(318)%
7	Net profit (loss) allocated to shareholders of the parent company	10 595	(2 397)	(442)%
8	Profit (loss) allocated to non-controlling shares	248	(1 008)	(25)%

Fig. 5: Financial performance of PEPEES Capital Group in 2020-2022



4. Cash flows

In 2022, a high positive balance of net cash flows was recorded in PEPEES Capital Group, derived mainly from the operating activity – PLN 28 166 000. Cash flows from investing activities were negative and amounted to -PLN 10 044 000 due to expenditure on the purchase of property, plant and equipment. Cash flows from financing activities were negative - PLN 2 408 000, in particular, due to contracted credits. Cash in the consolidated statement of cash flows at 31 December 2022 amounts to PLN 57 687 000.

5. Economic ratios

The following ratios are Alternative Performance Measures (APM) within the meaning of ESMA Guidance on Alternative Performance Measures. Alternative Performance Measures are not a measure of financial performance according to the International Financial Reporting Standards nor should they be deemed measures of financial performance or cash flows. These measures have no uniform definition and do not compare with ratios presented by other companies, including companies operating in the same sector as PEPEES Group. Alternative Performance Measures should be analysed solely as additional ratios and not as substitutes for financial information presented

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

in the consolidated financial statements of the Group. These data should be analysed in conjunction with the consolidated financial statements of the Group. PEPEES Group presents selected APM since it believes that provide additional (apart from data presented in the financial statements) information on the Group's financial standing and operations, and facilitate analysing and evaluating the Group's financial performance over particular reporting periods. The Issuer presents these specific alternative performance measurements since they are used on a cyclic basis, consistently to subsequent reports. The selection of alternative performance measurements was preceded by an analysis of their usefulness as a source of information on the financial standing, cash flows and financial efficiency of the Group for investors, and in the opinion of the Management Board, allows the optimum assessment of the financial performance. The results presented below should not be assigned higher significance level than the direct measures following from the financial statements of the Company or from the consolidated financial statements of the Group.

Table 10: Economic ratios

Ratio	Designation	2022	2021
Return on assets	$\frac{\text{Net profit allocated to the Parent Company's shareholders} \times 100}{\text{Total assets}}$	2.82%	(0.67)%
Return on equity	$\frac{\text{Net profit allocated to the Parent Company's shareholders} \times 100}{\text{Equity}}$	5.78%	(1.39)%
Net return on sales	$\frac{\text{Net profit allocated to the Parent Company's shareholders} \times 100}{\text{Total revenues from sales}}$	4.16%	(1.07)%
Gross return on sales	$\frac{\text{Gross profit from sales} \times 100}{\text{Total revenues from sales}}$	30.14%	18.70%
EBIT	Operating profit, that is, earnings before interest (financial expenses minus financial revenues) and before tax (income tax)	23 5533	(5 788)
EBITDA	Operating profit (EBIT) increased by amortisation	40 715	9 403
EBIT margin	$\frac{\text{EBIT} \times 100}{\text{Total revenues from sales}}$	9.24%	(2.61)%
EBITDA margin	$\frac{\text{EBITDA} \times 100}{\text{Total revenues from sales}}$	15.97%	4.23%
Quick ratio	$\frac{\text{Current assets (short-term)}}{\text{Current liabilities}}$	1.33	1.28
Current ratio	$\frac{\text{Current assets (short-term)} - \text{inventories}}{\text{Assets}}$	0.65	0.59
Receivables turnover* in days	$\frac{\text{average balance of trade receivables} \times 365}{\text{Revenues from sales}}$	35.96	56.82
Days payable outstanding*	$\frac{\text{average balance of trade payables} \times 365}{\text{Cost of goods sold}}$	31.54	30.85

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

Ratio	Designation	2022	2021
Inventory turnover in days*	$\frac{\text{Average balance of inventories} \times 365}{\text{Cost of goods sold}}$	206.96	209.60
Coverage of fixed assets with shareholders' equity	$\frac{\text{Company's shareholders' equity} \times 100}{\text{Fixed assets (long-term)}}$	1.07	1.00
Sustainability of financing ratio	$\frac{(\text{Company's shareholders' equity} + \text{non-current payables}) \times 100}{\text{Total liabilities}}$	0.58	0.59

*Turnover in each reporting period was calculated according to the opening and closing balance.

Ratio analysis was used for synthetic assessment of the economic and financial standing of PEPEES Group. Basic ratios of return, liquidity, efficiency (effectiveness) and capital structure (debt) were selected.

In 2022, all the return ratios were positive due to the generated profit. The receivables turnover in days decreased due to an increase in revenues from sales.

The inventory turnover in days decreased slightly. This ratio is always high in the Group due to the seasonality of production.

Liquidity ratios increased due to an increase in current assets, and, in particular, cash.

6. Property standing of the Parent Company

Table 11: Property standing.

No.	ASSETS	AT 31.12.2022	AT 31.12.2021
A.	Fixed assets (long-term)	127 642	130 861
1.	Property, plant and equipment	85 012	88 103
2.	Intangible assets	644	184
3.	Rights to assets	14 576	15 761
4.	Investment property	363	373
5.	Investments in subsidiaries	23 586	23 586
6.	Investments in other entities	383	383
7.	Deferred tax assets	3 078	2 471
B	Current assets (short-term)	161 778	136 720
1.	Inventories	67 050	63 277
2.	Biological assets	326	560
3.	Trade and other receivables	29 733	28 238
4.	Current tax receivables		-
5.	Other financial assets	13 150	10 975
6.	Cash and cash equivalents	51 519	33 670
	Total assets	289 420	267 581

7. Financing sources of the Parent Company

Table 12: Funding sources

No.	LIABILITIES	At 31.12.2022	At. 31.12.2021
A	Shareholders' equity	165 203	156 200
1.	Initial (share) capital	5 700	5 700
2.	Share premium	7 562	7 562
3.	Own shares	(224)	-
4.	Revaluation reserve	30 530	30 507
5.	Retained earning	121 635	112 431
B	Payables	124 217	111 381
I	Non-current payables	24 814	25 643
1.	Credits and loan	2 750	3 761
2.	Leased assets payable	12 492	11 088
3.	Deferred tax reserve	5 450	5 957
4.	Retirement and similar benefits payable	2 295	2 472
5.	Subsidies	1 827	1 925
6.	Other non-current payables	-	440
II	Current payables	99 403	85 738
1.	Trade and others current payables	16 257	13 280
2.	Current income tax payable	3 032	-
3.	Credits and loans	75 881	68 735
4.	Leased assets payable	3 737	3 371
5.	Retirement and similar benefits payable	496	352
	Total liabilities	289 420	267 581

8. Financial performance of the Parent Company

Table 13: Financial performance

No.	Specification	For the period of 12 month ended 31 December 2022	For the period of 12 months ended 31 December 2021
I	Revenue from sales	186 512	163 943
1.	Revenues from sales of products	172 147	148 501
2.	Revenues from sales of services	1246	1 141
3.	Revenues from sales of goods and materials	13 119	14 301
II	Cost of goods sold	(130 953)	(128 292)
1.	Cost of products sold	(111 410)	(110 718)
2.	Cost of services sold	(872)	(868)
3.	Cost of goods and materials sold	(11 603)	(13 880)
4.	Profit/loss from agricultural production	(7 068)	(2 826)
III	Gross profit (loss) from sales (I-II)	55 529	35 651
1.	Selling and marketing cost	(12 536)	(12 558)
2.	General and administrative expenses	(25 549)	(25 040)
3.	Other operating revenues	560	1944
4.	Other operating expenses	(1 645)	(298)
IV	Profit (loss) from operating activities	16 389	(301)
1.	Financial expenses	(4 674)	(2 355)
2.	Financial revenues	1901	992
V	Profit (loss) before tax	13 616	(1 664)
VI	Income tax	(4 412)	(679)
VII	Net profit (loss)	9 204	(2 343)
VIII	Other comprehensive income	23	13
1.	Effects of valuation of financial assets available for sale		-
2.	Reassessment of employee benefits payable	23	13
IX	Total comprehensive income, of which	9 227	(2 330)
X	Net earnings (loss) per share	0.10	(0.02)

9. Untypical events affecting the financial performance of the Parent Company

The Company's high net profit was due to an increase in product selling prices. In 2022, the Parent Company suffered a big loss on its agricultural activity due to the increase in prices of fertilisers and plant protection products. Furthermore, from the balance sheet date the Issuer purchased 186487 own shares for a total price of PLN 294 400, and at 31.12.2022 their fair value was PLN 223 800.

IV. Development of the Issuer and the Capital Group

1. Description of basic risks and hazards and characteristics of external and internal factors significant to the development of the Parent Company and PEPEES Capital Group

1.1. Risks and hazards

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

Potatoes are the main raw material used in production. Therefore, the volume and quality of production depends on potato yield. Adverse weather reduces potato yield and reduces their starch content.

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

High cost of potato production contributes to displacement of potatoes by other, more profitable crops. Potato growing surface area decreases year on year.

✓ **Imbalance of the product portfolio**

Necessary for the sustainability of the product portfolio and the growth of the Group is the introduction of new products. In this context, it should be highlighted that several direct competitors of PEPEES CG declare producing modified starch that becomes increasingly popular on the European and domestic markets.

✓ **Globalisation**

The process of globalisation is primarily evident to the extent of competition. At present, starch substitutes are highly competitive. In the food industry, there are many products with similar functions (filling and thickening) to 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.

During a limited supply of potato starch, these substitutes are gradually entering the sector previously “reserved” for our products. This leads to a risk of losing part of the selling markets. Therefore, not to lose control of the subordinate market, the Group has put other types of starch on its offer.

There is also a lot of competition within the starch sector in the European Union.

✓ **Foreign exchange risk**

Such a risk arises from international trade transactions in currency other than Polish zloty. Strong variations in currency prices negatively affect foreign transaction viability and raise concerns among potato growers (settlements with the growers are based on EUR prices).

✓ **Interest rate risk**

Financing the operating and investing activities with bank credits and loans and leasing exposes the Group to the risk of changing interest rates.

✓ **Risk of losing financial liquidity**

During the period under review, the risk of losing financial liquidity was low. Sales using mercantile credit, both domestic and export, are covered by trade receivables insurance. High-risk foreign transactions are secured by letters of credit.

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

- ✓ **Excessive cost of instruments increasing turnover safety**

Customer credits increase the risk of non-payment for deliveries. Financial products offered on the market are expensive and make transactions longer.
- ✓ **Selling products posing a hazard to consumer health and lives**

The Group is a manufacturer of foodstuffs. Should any product sold pose a hazard to human health or life, the Group's brand would be compromised, the Group would be required to compensate customers and consumers, and would incur product recall and disposal costs.

The risk is low due to the Quality and Food Safety Management System in place, the effectiveness of which is verified during audits and inspections by independent third parties and the company's internal auditors, and due to the system of laboratory tests carried out by the company's laboratories.

Traceability and recall procedures have been implemented. Traceability tests and recall simulations are carried out several times a year.
- ✓ **Product quality defects discovered by the customer at the manufacturing stage**

The risk may involve the costs of compensation for losses or the loss of customers.

The risk is low due to the Integrated Management System in place, in particular the quality control system for finished goods, semi-finished products, raw materials and materials used in production, and the supervision of the process by production operators in accordance with the applicable standard operating procedures (SOP).

Ensuring adequate storage conditions and transport supervision reduces the risk of defects at these stages.
- ✓ **Incorrect management of information security/IT infrastructure The risk is company and customer data leaks. Potential loss of data due to breakdown.**

The risk is low due to the operating system and the ERP system security levels. Backups are created to avoid data loss. The network is secured with hardware and software solutions. A special procedure regulates all the aspects.
- ✓ **Risk related to the spread of the pandemic**

The COVID-19 pandemic and its potential impact on business continuity disruption or business curtailment:

 - due to potential infections and increased absenteeism of mainline workers,
 - due to potential disruptions in the supply chain of materials and services and logistics constraints, particularly in international transport,
 - due to potential closure of some selling markets, decline in demand and optimisation of raw material and finished product stocks at contractors',
 - due to extraordinary changes in legislation
- ✓ **Risk related to the situation in Ukraine**

The following risks are anticipated in connection with the Russian Federation's aggression against Ukraine:

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

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

2. Difficulties accessing the selling markets - due to warfare and economic sanctions imposed, access to Central Asian markets (Uzbekistan, Kazakhstan), and rail transport through Ukraine (warfare) and Russia (sanctions) is restricted
3. Global restrictions on access to major export markets - container traffic difficulties at the company's main export destinations, restrictions on trade insurance.
4. Currency crisis - significant fluctuations of the company's export settlement currencies (EUR, USD).

The Management Board monitors these risks and analyses the global political and economic situation on an ongoing basis. At the date of this report, the war situation poses no risk to the Company or the Group continuing as a going concern.

Risk related to macroeconomic situation

The Group's development is closely correlated with the general economic situation in Poland and the countries where it is offering its products. The main general economic factors affecting the Group's operations include the level of GDP in Poland and the countries of the Group's counterparties, average gross wages, inflation level, exchange rate risk (mainly EUR and USD), business investment level, and the degree of indebtedness of businesses and households. There is a risk that economic slowdown and growing inflation could have an adverse impact on the Group's operations, its financial standing and financial performance.

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

The development of the Issuer and its Group in the potato sector depends primarily on the agricultural policy of the European Union and Poland and suitable conditions for the operation of the agri-food industry.

The fundamental opportunities for development include:

- ✓ the growth of the domestic food industry (in the long-term assessment of market analysts, the food industry is a growing one),
- ✓ market requirement for modified potato starch products,
- ✓ access to new and state-of-the-art technology,
- ✓ development of international trade markets,
- ✓ a wide spectrum of potato starch applications – new customer segments,
- ✓ area payments to starch potatoes.

1.3. Internal factors determining successful development of the Issuer and the Group The most important internal factors relevant to further development are:

- ✓ regular investments and modernisation of production departments to increase the efficiency and innovativeness of production and reduce operating costs,
- ✓ finding new selling markets,
- ✓ the implemented and certified Quality and Food Safety Management System,
- ✓ the implemented GMP system (Good Manufacturing Practice) for the manufacturers of active ingredients,
- ✓ compliance with Smeta requirements; SeDeX presence,
- ✓ the possibility of producing hydrolysed starch according to specific customer requirements,

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

- ✓ high production capacity,
- ✓ low costs of disposing of process wastewater,
- ✓ implementation of the strategy and investment measures,
- ✓ extension of the product offer,
- ✓ know-how and professional experience of workers.

2. Prospects for the development of the Issuer and the Group

Potato starch will continue to be the Group's core product, as it has versatile applications for both food and industrial purposes. The food processing, pharmaceutical and industrial bioproducts sectors generate a huge requirement for starches. The demand for starches is systematically growing. It is estimated that the starch market will grow at a compound annual growth rate (CAGR) of 3.8% from 2023 to 2029.

In addition, the construction of a modified starch products manufacturing facility is planned. The sales of packaged food have increased due to fast-paced, chaotic lifestyles, reduced meal preparation time, growing e-commerce and rising disposable incomes. It is expected to contribute to the growth of the modified starch market. An advantage of using modified starch in the food industry is its shorter processing time. This factor is expected to drive the growth of the modified starch market. During the production of foodstuffs, modified starches are added to provide several benefits, such as longer shelf life and improved texture, appearance and taste.

Pharmaceutical companies all over the world use modified starches widely world at various stages of developing medicines.

Modified starch is also a source of natural carbohydrates in animal feed due to its unique digestibility. Modified starches work well as binders and thickeners, providing wet and dry animal feed with the stability needed, for example, for the preparation of sauces and meat gravies in moist feeds and giving dry and semi-moist products greater flexibility, crunchiness or crispness.

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

3. Development strategy of the Company and PEPEES Capital Group

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

- Increasing the value and market share of the PEPEES Capital Group.
- Expanding target markets and product offerings, including modified starch.
- Establishing a partnership with a professional investor.
- Intensifying and improving raw material procurement.
- Optimising the operations of PEPEES Capital Group.

Market penetration strategy:

PEPEES Capital Group, using its own funds, credits and loans and other third-party financing plans to increase the value of sales and its market share through organic growth and acquisitions, ordering its warehouse management, modernising the starch making plant (Pepees S.A.), transferring the production of ZPZ Lublin and optimising the use of real estates ensuring the development of the Capital Group.

New product and diversification strategy

PEPEES Capital Group is planning to implement measures to launch an attractive product offer on the market. Options under consideration include the introduction of modified starch to the European food and pharmaceutical markets.

4. Description of the policy regarding the Issuer's Capital Group's development lines

The policy of PEPEES Capital Group is to continuously develop and optimise its product range, considering the changing expectations and preferences of buyers.

PEPEES Capital Group aims to significantly increase its starch production to be able to compete with foreign businesses. The Group's strategy provides for short-term tasks, such as those related to improving the condition of the starch production market in Poland and the conditions for potato growers, and long-term steps aimed at establishing partnership with a professional investor. The Group takes care of good and long-lasting relationships with potato growers to ensure stable and profitable supplies of raw materials, thus providing the Group with a base of regular raw material suppliers thanks to a clear and transparent agricultural contracting system.

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

This should be achieved through the continuation of the *Export and Domestic Market Development Programme*, which will involve identifying the Group's key foreign markets and building a dedicated selling system. As the global demand for starch is growing, PEPEES Group is developing efficient tools for the distribution and sale of domestic products.

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

V. APPLICATION OF CORPORATE GOVERNANCE

I. Identification of the principles of corporate governance applicable to the Issuer and the location where the collection of such principles is publicly available

The Company, as an issuer of securities listed at the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.), according to the Stock Exchange Board's Resolution No. 13/1834/2021 of 29 March 2021, was obliged to apply the *Best Practices for GPW Listed Companies 2021*. The *Best Practices* are available at:

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

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

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

II. Specification of the extent to which the Issuer departed from the principles of corporate governance, indicating specific provisions, and reasons for such departure

"PEPEES" S.A. in 2022 complied with all Good Manufacturing Practices except following:

1. INFORMATION POLICY AND COMMUNICATION WITH INVESTORS

1.3. Companies integrate ESG factors in their business strategy, including in particular:

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

This principle is not applied.

Company's commentary: This principle is applied in part. PEPEES Capital Group's strategy for 2019-2024 envisages, among other things, sustainable growth, including several measures to meet the environmental requirements. In carrying out its production activities, the Company has a regulated formal and legal status with regard to the use of the natural environment. It monitors its environmental impact in the system of periodic measurement and registration of the volume and characteristic parameters of the streams of air pollution and wastes, the volume of water intake and sewage disposal, and the consumption of energy and resources. The level of emissions into the environment is measured by accredited laboratories, using reference techniques. The results of the monitoring are the basis for periodic analyses to increase resource management efficiency. Wastes are handled in a manner preventing environmental pollution and ensuring human safety and health. The Company maintains quality and quantity records of waste turnover according to the adopted classification and document templates provided for by relevant legislation. The Company has a special unit in charge of ensuring the correct operation of the plant in terms of environmental protection. It also has an Integrated Management System in place, comprising quality management, environmental protection, worker health and safety procedures, and the quality management system for laboratories. While the company respects all legal requirements and regulations relating to the above areas, the adopted strategy on environmental issues does not include respective indicators. The company will endeavour to take climate change metrics and risks into account.

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

- 1.3.2. social and employee factors, including among others actions taken and planned to ensure equal treatment of women and men, decent working conditions, respect for employees' rights, dialogue with local communities, customer relations.

This principle is not applied.

Company's commentary: This principle is applied by the Company in part. Social and labour issues, as well as dialogue with local communities and building long-lasting relationships with customers, are taken into account in the Company's operations, while the areas identified have not been formally incorporated in the business strategy. Nevertheless, the Company respects all the requirements and regulations relating to the above by, among other things, supporting organisations engaged in activities for people in need, supporting the development of physical culture and sports education, promoting initiatives for the development of science and education, and sponsoring local and regional events.

- 1.4. To ensure quality communications with stakeholders, as a part of the business strategy, companies publish on their website information concerning the framework of the strategy, measurable goals, including in particular long-term goals, planned activities and their status, defined by measures, both financial and non-financial. ESG information concerning the strategy should among others:

This principle is not applied.

Company's commentary: This principle is applied in part. PEPEES Group's strategy for 2019-2024 is available on the corporate website. While the strategy includes, among other things, long-term goals and ways to achieve the strategic objectives, the adopted non-financial strategy does not include indicators. In addition, information on activities implemented under the strategy in force is included in periodic reports published on a cyclic basis.

- 1.4.1. explain how the decision-making processes of the company and its group

members integrate climate change, including the resulting risks; This principle is not applied.

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

- 1.6. Companies participating in the WIG20, mWIG40 or sWIG80 index hold on a quarterly basis and other companies hold at least on an annual basis a meeting with investors to which they invite in particular shareholders, analysts, industry experts and the media. At such meetings, the management board of the company presents and comments on the strategy and its implementation, the financial results of the company and its group, and the key events impacting the business of the company and its group, their results and outlook. At such meetings, the management board of the company presents and comments on the strategy and its implementation, the financial results of the company and its group, and the key events impacting the business of the company and its group, their results and outlook. At such meetings, the management board of the company publicly provides answers and explanations to questions raised.

This principle is not applied.

Company's commentary: Given that the Company communicates with investors in particular through its website, where it publishes all relevant information on its business, strategy and financial performance, the Company does not hold any organised meetings for shareholders or investors outside general meetings. According to common law, shareholders within the scope of their corporate rights may also ask the Company questions outside the general meeting, which ensures the possibility of ongoing contact with the Company, so the Company does not identify any significant risks of not applying this principle.

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

2. THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

- 2.1. Companies should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the general meeting, respectively. The diversity policy defines diversity goals and criteria, among others including gender, education, expertise, age, professional experience, and specifies the target dates and the monitoring systems for such goals. With regard to gender diversity of corporate bodies, the participation of the minority group in each body should be at least 30%.

This principle is not applied.

Company's commentary: The Company has not adopted and implemented a diversity policy. In the selection of persons holding the positions of members of the Management Board and the Supervisory Board, the Company is invariably guided by the strictest standards and, to this extent, does not differentiate between candidates on the basis of their sex (gender) or other characteristics indicated above. The basic criterion for the selection of the Company's authorities is the high competence, skills and professionalism of the candidates.

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

This principle is not applied.

Company's commentary: The Company has not adopted and implemented a diversity policy. In the selection of persons holding the positions of members of the Management Board and the Supervisory Board, the Company is invariably guided by the strictest standards and, to this extent, does not differentiate between candidates on the basis of their sex (gender) or other characteristics indicated above. The basic criterion for the selection of the Company's authorities is the high competence, skills and professionalism of the candidates.

- 2.9 The chair of the supervisory board should not combine this function with that of chair of the audit committee of the supervisory board.

This principle is not applied.

Company's commentary: Members of the Audit Committee meet all statutory requirements regarding the composition of the Audit Committee, while in the current composition the Chairperson of the Supervisory Board also serves as Chairperson of the Audit Committee. The combination of the above functions is primarily due to the experience and expertise of the current Chairperson of the Supervisory Board. Therefore, the Company believes that the combination of both functions by the same person does not compromise the autonomy of the Audit Committee. The Company will consider possible amendments to its internal regulations to incorporate the principle in question into the Company's corporate governance after the expiry of the current term of office of the Supervisory Board and the election of new members.

3. INTERNAL SYSTEMS AND FUNCTIONS

- 3.2 Companies' organisation includes units responsible for the tasks of individual systems and functions unless it is not reasonable due to the size of the company or the type of its activity.

This principle does not apply to the Company.

Company's commentary: The Supervisory Board has assessed the particular systems or functions, but the separation of organisational units responsible for internal control, risk management, compliance supervision or internal audit is not justified due to the size of the company's business.

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

- 3.6. The head of internal audit reports organisationally to the president of the management board and functionally to the chair of the audit committee or the chair of the supervisory board if the supervisory board performs the functions of the audit committee.

This principle is not applied.

Company's commentary: The Company has no separate internal audit function. In the opinion of the Supervisory Board, the Company does not need a separate internal audit function.

- 3.7. Principles 3.4 to 3.6 apply also to members of the company's group which are material to its activity if they appoint persons to perform such tasks.

This principle does not apply to the Company.

- 3.10. Companies participating in the WIG20, mWIG40 or sWIG80 index have the internal audit function reviewed at least once every five years by an independent auditor appointed with the participation of the audit committee.

This principle does not apply to the Company.

4. GENERAL MEETING AND RELATIONS WITH STOCKHOLDERS

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

This principle is not applied.

Company's commentary: The Management Board does not deem it necessary to broadcast general meetings or provide two-way communication in real time. General meetings are held at the Company's premises at convenient times, so that participation is not in any way hindered for shareholders interested in attending, speaking or exercising their voting rights (in person or through a proxy). This is evidenced by the extremely high attendance at general meetings. The Company also believes that, despite the advancement of technology, there is always a risk that, for various reasons (including those beyond the control of the Company, the shareholders or third parties), the technical and legal security of real-time two-way communication or the exercise of voting rights by means of electronic communication will not be guaranteed, and that any damage resulting from any disruption in this respect could lead to an unjustified increase in the Company's operating costs.

- 4.3 Companies provide a public real-life broadcast of the general meeting.

This principle is not applied.

Company's commentary: The principle in question is not applied for reasons indicated in the commentary to principle 4.1; moreover, in the Issuer's opinion, the regulations in force for public companies regarding information on the proceedings of general meetings adequately protect the rights of shareholders and, through published stock exchange reports, guarantee access to relevant information on the proceedings of general meetings.

4. CONFLICT OF INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

Companies and their groups should have in place transparent procedures for managing conflicts of interest and for related party transactions where a conflict of interest may occur. The procedures should provide for ways to identify and disclose such cases and the course of action in the event that they occur.

The Issuer applies all the principles relating to the conflict of interests and transactions with related parties.

5. REMUNERATION

Companies and their groups protect the stability of their management teams, among others by transparent, fair, consistent and non-discriminatory terms of remuneration, including equal pay for women and men. Companies' remuneration policy for members of corporate bodies and key managers should in particular determine the form, structure, and method of determining and payment of the remuneration.

The Issuer complies with all the principles regarding remuneration.

III. Report on the remuneration policy

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

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

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

The Supervisory Board determines, by way of resolution, the fixed remuneration for members of the Company's Management Board, taking into account the qualifications, experience, duties and responsibilities of the particular member of the Management Board as a body of a listed company and the need for ensuring competitive remuneration.

The General Meeting determines, by way of resolution, the amount of remuneration for members of the Supervisory Board. The General Meeting determines the amount of remuneration for members of the Supervisory Board by their function, taking into account the degree of involvement of the Board members in performing duties and the responsibility of the Supervisory Board member of a listed company.

The variable remuneration for members of the Management Board in the form of quarterly and annual bonuses depends on the level of achievement of the key objectives as specified in the rules established by the Supervisory Board, taking into account the financial performance and the degree to which the targets set by the Supervisory Board have been achieved.

The Supervisory Board sets the targets on the basis of the Company's current operational and strategic goals for the given period, together with success metrics, including the execution of the planned sales budget, and the achievement of the planned profit or EBIDTA.

The Supervisory Board evaluates the accomplishment of the targets at the end of the respective bonus period. The date of payment of the bonus should be linked to the publication of the financial results and, in relation to the annual bonus, to the audit of the Company's consolidated and separate financial statements for the financial year constituting the bonus period.

The payment of bonuses cannot be deferred and the Company cannot demand reimbursement of the bonuses paid.

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

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

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

An incentive scheme can be set for a fixed period for a defined group of people. The incentive scheme can be implemented through the issue of financial instruments granting the right to

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

acquire shares in the Company or through the repurchase of own shares subsequently offered to participants under the scheme, whereby the share selling price offered to participants cannot be lower than the price for which the Company purchased such shares.

Conditions for exercising the title to shares should include continuing employment with the Company or its subsidiary, compliance with the non-compete or other loyalty obligations and the accomplishment of individual and financial targets set by the Supervisory Board.

The period between the granting of the right to acquire or subscribe for shares in the Company under an incentive scheme and the option to exercise such a right should be at least two years.

Members of the Supervisory Board cannot take part in incentive schemes. Members of the

Management Board and Supervisory Board are entitled to Fringe Benefits such as:

- 1.1. a company car with driver intended for business or private use;
- 1.2. a personal computer and a business mobile;
- 1.3. a medical care package, also for family members;
- 1.4. accommodation where the normal place of work is substantially distant from the normal place of residence;
- 1.5. participation in training financed by the Company;
- 1.6. liability insurance for company directors and officers;
- 1.7. other benefits in accordance with the Company's regulations awarding them to all employees.

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

IV. Sponsorship

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

AREAS OF ACTIVITY

The Company is involved in the following areas of life:

1. Sports and education
 - Promoting initiatives for the development of science and education,
 - Promoting the development of physical culture and sports education.
2. Culture
 - Sponsoring local and regional events.
3. Charitable activities
 - Support for organisations working with people in need,
 - Aid for Ukraine fighting for independence.

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

V. Main characteristics of internal control and risk management systems used in preparing financial statements and consolidated financial statements

The effectiveness of the internal control and risk management system in the consolidated financial statements process is ensured by the development, implementation and supervision of the application of consistent accounting policies in by PEPEES Group's companies. Companies forming the Capital Group submit the required data in the form of reporting packages for the preparation of the Group's consolidated financial statements. The scope of disclosures within the Group is defined and follows the disclosure obligations set out by IAS/IFRS. Changes in accounting standards are monitored on an ongoing basis to identify the need for updating the reporting scope. All financial statements are reviewed by the Management Board of the Parent Company PEPEES. The Group's companies submit their financial statements for interim review and annual audit by an independent statutory auditor. The consolidated financial statements are also audited. Until the financial statements and the consolidated financial statements are published, data are available only to parties involved in their preparation, verification and approval, while ensuring the confidentiality of the data.

VI. Shareholders directly or indirectly holding considerable blocks of shares

To the best of our knowledge, at 31.12.2022, the stockholding structure was as follows:

STOCKHOLDERS	Number of shares [units]	Share in capital %	Number of votes	Share in the overall number of votes for the Company Social Welfare Fund (WZA) %
Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych*	27 759 032	29,22 %	6 356 799	6.69 %
Michał Skotnicki**	21 443 105	22,57%	21 443 105	22.57%
Maksymilian Maciej Skotnicki**	20 703 282	21,79%	20 703 282	21.79%
Others	25 094 581	26,42 %	25 094 581	26.42%

*Due to failure to comply with the obligations to notify the acquisition of considerable blocks of shares stemming from the Act of 29 July 2005 on Public Offering, Conditions Governing Admission of Financial Instruments to Organised Trading, and Public Companies, EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (closed-end investment fund involving non-public assets), according to information available to the Company, held 27,759,032 shares of the Company, lost them and cannot exercise the right to vote on 21,402,233 shares. Therefore, the Company's Management Board brought action for establishment to the Regional Court in Białystok. Epsilon FIZ AN presents a different position claiming that it has the right to vote by virtue of 27,759,032 shares accounting for 29.22% of the total number of votes at the General Meeting of Shareholders. The Chairperson of the Polish Financial Supervision Authority became involved in the case by presenting his position on 24 July 2019. The Management Board is waiting for the court's valid judgement. The Company informed about the case in its current reports number 13/2019, 14- 23/2019 and 30/2019.

** Mr Maksymilian Maciej Skotnicki and Mr Michał Skotnicki are the persons referred to in article 87 paragraph 4 point 1 of 29 July 2005 on Public Offering, Conditions Governing Admission of Financial Instruments to Organised Trading, and Public Companies, and thus, the above-named persons hold 42,146,387 shares/votes, which corresponds to 44.36% of share capital/ total number of votes in the Company.

VII. Holders of all securities bearing special rights

The Company did not issue any securities bearing special rights.

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

VIII. Limitations on voting rights

No such limitations are provided for the Company's Articles of Association. On the other hand, a shareholder can be banned from exercising his voting rights according to Article 89 of the Act of 29 July 2005 on Public Offering and Conditions Governing Admission of Financial Instruments to Organised Trading, and Public Companies (hereinafter the "Act on the Offering"), if such a shareholder is in breach of specific provisions contained in Chapter 4 of the Act on the Offering. In turn, under Article 6 paragraph 1 of the Code of Commercial Companies and Partnerships, if the parent company fails to notify its subsidiary that a dominance relationship arises, within two weeks of the date on which such relationship arose, the exercise of voting rights from shares in the parent company - representing more than 33% of the subsidiary's capital - is suspended.

The Company's Shareholder, EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in Warsaw, due to its failure to notify the sale of considerable blocks of shares according to article 89 paragraph 1 section 1 of the Act on Public Offering, Conditions Governing Admission of Financial Instruments to Organised Trading, and Public Companies, has lost and is not entitled to exercise the right to vote attached to 21,402,233 shares. Therefore, the Company's Management Board brought action for establishment to the Regional Court in Białystok. Epsilon FIZ AN presents a different position claiming that it is entitled to a right to vote by virtue of 27,714,832 shares accounting for 29.17% of the total number of votes at the General Meeting of Shareholders. The Chairperson of the Polish Financial Supervision Authority became involved in the case by presenting his position on 24 July 2019. The Management Board is waiting for the court's valid judgement. The Company informed about the case in its current reports number 13/2019, 14- 23/2019 and 30/2019.

IX. Limitations on transfers of ownership rights to securities

No such limitations are provided for the Company's Articles of Association. However, they stem from the provisions of law, including Chapter 4 of the Act on the Offering referred to above, Articles 11 and 19 and Section VI of the Act on Trading in Financial Instruments of 29 July 2005, the Act of 16 February 2007 on Competition and Consumer Protection and Council Regulation (EC) No 139/2004 of 20 January 2004 on the control of concentrations between undertakings.

X. Rules for appointing and dismissing managers and their rights

1. The Management Board of the Company is composed of one up to five persons. The term of office of the management board is three years, except for the term of office of the first board, which is two years. The Supervisory Board appoints President of the Management Board and at the request of the President of the Management Board, it appoints other members of the Management Board. The Supervisory Board determines the number of members to sit on the Management Board. The Supervisory Board can dismiss the President of the Management Board, a member of the Management Board or all members of the Management Board before the Management Board's term of office expires. The Management Board exercises all the powers related to management of the Company except those reserved by law or the Articles of Association for other authorities of the Company.
2. The operating mode of the Management Board, and the responsibilities of particular members, are specified in the Rules of the Management Board. The Rules of the Management Board are adopted by the Management Board with the approval of the Supervisory Board.
3. The following parties are entitled to make declarations and sign on behalf of the Company: (i) for a one-person Management Board - the President of the Management Board, (ii) for a collective Management Board - two members of the Management Board acting jointly or one member of the Management Board acting jointly with a proxy.
4. The Supervisory Board enters into agreements with members of the Management Board on behalf of the Company and represents the Company in disputes with members of the Management Board. The Supervisory Board can authorise, by resolution, one or more of its members to perform such legal transactions.
5. The Company's employees report to the Management Board. The Management Board concludes and terminates their employment contracts and sets the amount of their salary.
6. The decision to issue or redeem shares is made, by way of resolution, by the General Meeting.

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

XI. Amendments to the Company's Articles of Association

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

XII. Operation and rights of the General Meeting

The General Meeting's basic operating principles are:

1. The General Meeting of PEPEES S.A. acts on the basis of the Code of Commercial Companies and Partnerships, the Company's Articles of Association and the Rules of the General Meeting.
2. The Management Board convenes an Ordinary General Meeting every year, no later than June.
3. The agenda for the General Meeting is set by the Management Board in consultation with the Supervisory Board.
4. The Supervisory Board and the shareholders representing at least 10% of the share capital can request that particular issues be put on the agenda of the General Meeting.
5. General Meetings are held at the Company's registered office.
6. The General Meeting can pass resolutions irrespective of the number of shareholders present or shares represented.
7. Resolutions at the General Meeting are adopted by voting.
8. Resolutions of the General Meeting are adopted by a simple majority of the votes cast unless the Articles of Association or the law stipulate otherwise.
9. Resolutions of the General Meeting are adopted by a majority of 3/4 of the votes cast on:
 - a) amendments to the Articles of Association, including new shares issuance,
 - b) bonds issuance,
 - c) sale of the Company's enterprise,
 - d) merger of the Company with another company,
 - e) dissolution of the Company.
10. The voting at the General Meeting is open. Secret ballot can be ordered for elections and motions concerning dismissal of the members of the Company's authorities or liquidators of the Company, motions to hold them liable as well as personal motions. Resolutions on changing the object of the Company's business will be adopted by open roll-call voting.
11. Votes can be cast using magnetic cards and are counted by digital machines. Magnetic card voting and digital vote counting is consistent with the technical requirements of the equipment used for voting and counting. In the absence of digital equipment or technical faults, voting may take place using uniform paper ballots bearing the Company's stamp and containing the following details:
 - sequential voting order number,
 - ballot papers for open voting - full name (company and registered office) of the shareholder and the number and type of shares and the corresponding number of votes,
 - papers for a secret ballot - number and type of shares and the corresponding number of votes.Voting cards are handed out to shareholders immediately after the attendance list is signed by the Chairperson of the Meeting. Shareholders fill in "yes" in the ballot papers

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

if they vote in favour of a resolution or "no" against a resolution or "abstain" in the case of abstaining from voting and throw the ballots into the ballot box or hand them over to the Ballot Counting Committee, if any, as specified by the Ballot Counting Committee. At the end of voting, the Ballot Counting Committee, if any, counts the votes, sums up the results and passes them to the Chairperson of the Meeting.

12. The shareholders entitled to participate in the General Meeting are shareholders named in the list of shareholders prepared by the Management Board according to the applicable legal provisions, in particular, according to Article 406 paragraph 2 and Articles 406¹ - 406³ of the Code of Commercial Companies and Partnerships.
13. The following may also be present at the General Meeting: any member of the Management Board, any member of the Supervisory Board, a notary and the notary's auxiliary staff, an auditor, organisational and technical staff of the General Meeting authorised by the Management Board, and other parties indicated by the body convening the General Meeting. Persons other than mentioned above may be present only with the consent of the Chairperson of the Meeting, who has the right, at any time and without stating the reason, to order any of these persons to leave the room in which the General Meeting is held.
14. The General Meeting is opened by the Chairperson of the Supervisory Board or his/her deputy or, in their absence, the President of the Management Board or another person designated by the Management Board. The person opening the General Meeting orders the submission of nominations for the Chairperson of the Meeting and, once these have been collected, orders the election of the Chairperson of the Meeting.
15. The Chairperson of the Meeting presents the agenda to the shareholders as formulated by the Management Board in the notice convening the General Meeting and, in the absence of the draft, formulates the draft resolutions and puts them forward. Any shareholder can propose a draft resolution on a matter placed on the agenda.

The Company's shareholders have no special rights other than those arising from generally applicable laws, including those set out in the Code of Commercial Companies and Partnerships.

XIII. Members and description of activities of managerial and supervisory authorities

1. Composition of the Management Board of "PEPEES" S.A. at 31.12.2022:

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

The rules of operation and the competences of the Company's Management Board are regulated in the Company's Articles of Association and the Rules of the Management Board.

The basic operating principles of the Management Board are described in section X above.

2. Composition of the Supervisory Board of "PEPEES" S.A. at 31.12.2022:

Maciej Kaliński	Chairperson of the Supervisory Board
Robert Malinowski	Secretary of the Supervisory Board
Agata Czerniakowska	Member of the Supervisory Board
Jacek Okoński	Member of the Supervisory Board
Kajetan Rościszewski	Member of the Supervisory Board

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

The basic operating principles of the Supervisory Board are regulated in the Company's Articles of Association and the Rules of the Supervisory Board. According to these regulations, the Supervisory Board consists of: five to nine members. The term of office of the Supervisory Board is three years. The Supervisory Board elects, from among its members, the Chairperson and one or two deputy chairpersons, and a secretary. The Chairperson of the Supervisory Board convenes and takes the chair during the Board's meetings

The Chairperson of the retiring Supervisory Board convenes and opens the first meeting of the newly elected Supervisory Board and takes the chair until a new Chairperson is elected. The Supervisory Board meets at least quarterly. The Chairperson of the Supervisory Board or one of his/her deputies is obliged to convene a meeting at the written request of at least two members of the Supervisory Board. The meeting should be convened within one week of the date of the request, no later than two weeks after the date on which it was convened. In order for the Supervisory Board's resolutions to be valid, all members of the Supervisory Board should be invited to the meeting. The Supervisory Board adopts resolutions by an absolute majority of the votes of members of the Supervisory Board present at the meeting, with at least half of its members present. Resolutions of the Supervisory Board can also be adopted without a meeting by means of written voting, provided that all members of the Supervisory Board agree in writing to adopt resolutions in this manner. The Supervisory Board adopts its Rules setting out the detailed procedure for the operation of the Supervisory Board. The Supervisory Board can assign individual supervisory tasks to its members. The General Meeting determines the remuneration for members of the Supervisory Board.

According to the Company's Articles of Association, in addition to the matters mentioned in the Act, other provisions of the Articles of Association or in resolutions of the General Meeting, the responsibilities of the Supervisory Board include:

- 1) auditing the annual balance sheet, and the profit and loss account, and having them verified by statutory auditors of their choice,
- 2) auditing and issuing an opinion on the Management Board's report,
- 3) auditing, on an annual basis, and approving the Company's business, financial and marketing plans and requesting detailed reports regarding the implementation of such plans from the Management Board,
- 4) issuing opinions on the proposals of the Company's Management Board concerning the distribution of profit, including amounts allocated to dividends, dividend payment dates or loss coverage principles,
- 5) approving transactions involving the disposal or acquisition of shares or other property, or borrowing money, if the value of the transaction exceeds 15% of the Company's net assets, according to the latest balance sheet,
- 6) appointing, suspending and dismissing members of the Management Board,
- 7) delegating members of the Supervisory Board to act as Management Board if the entire Management Board is suspended or dismissed or when the Management Board is unable to act for other reasons,
- 8) approving the regulations adopted by the Management Board for the distribution of shares to eligible employees,
- 9) approving the Rules of the Company's Management Board,
- 10) determining the principles of remuneration for members of the Company's Management Board,
- 11) adopting the Rules of the Company's Supervisory Board,
- 12) appointing the Audit Committee and adopting its rules of procedure.

*Report of the Management Board concerning the
activities of the Capital Group for the period of 12
months ended 31 December 2022 (in kPLN)*

During the reporting period, the Issuer's Supervisory Board had an Audit Committee composed of:

Maciej Kaliński	Chairperson of the Audit Committee
Agata Czerniakowska	Member of the Audit Committee
Robert Malinowski	Member of the Audit Committee
Kajetan Rościszewski	Member of the Audit Committee

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

Kajetan Rościszewski is knowledgeable and has accounting skills as he graduated from Master's programme in Finance and Strategy, which included classes in accounting and corporate auditing.

Agata Czerniakowska is knowledgeable and has skills in the PEPEES industry as she completed a two-year vocational course in agricultural production management conducted by the District Vocational Training Centre in Łañcut, after which she passed the state vocational examination and obtained a Certificate of Vocational Qualification in Agricultural Production.

PEPEES and its subsidiaries concluded an agreement concerning the review and audit of the financial statements (including consolidation packages) for 2020-2022 with WBS Audyt Sp. z o.o. in Warsaw. The agreement was concluded on 3 July 2020. The audit firm was selected by the Company's Supervisory Board.

The Issuer also used other services of the selected audit firm, i.e. certification services for the audit of the reports concerning remuneration and confirmation of the correct calculation of the energy intensity factor.

According to the Act on Statutory Auditors, Audit Firms and Public Supervision (Dz. U. (Journal of Laws) 2022 item 1302) and Regulation No 537/2014 of the European Parliament on specific requirements for the statutory audit of public-interest entities ("Regulation No 537/2014"), the Audit Committee has adopted and applies the "Policy and Procedure for the selection of the statutory auditor" and the "Policy for the provision of permitted non-audit services by the audit firm, its affiliates and member of the audit firm's network".

In line with the aforementioned policies, the Supervisory Board selects the auditor upon the Audit Committee's recommendation. The policy defines the periods for cooperation with audit firms, the auditor selection criteria such as, for example, previous experience, reputation and qualifications and experience of persons delegated by the audit firm to perform auditing tasks, familiarity with the sector in which the Company operates, the pricing conditions, or the proposed work schedule, and assumes in doing so that the audit firm should be selected independently, free from third party pressure or suggestions as to the choice, and any restrictions related to the selection stem from generally applicable laws.

The policy for the provision of permitted services by the audit firm primarily provides that any services provided by the audit firm or related parties require a prior assessment of risks and independence by the Audit Committee, and furthermore, seeks to reduce the potential for conflicts of interest when the audit firm is contracted to provide permitted non-audit services by defining prohibited services and permitted services. Examples of permitted services include due diligence procedures on the economic and financial condition, pro forma certification services regarding financial information, forecasts of profit or loss or estimated results included in the audited entity's prospectus, audit of historical financial information for the prospectus, and verification of consolidation packages. Prohibited services, on the other hand, are, in particular, tax services relating to: the preparation of tax forms, payroll taxes, customs duties, book-keeping and the preparation of accounting records and financial statements, development and implementation of internal control or risk management procedures relating to the preparation

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

or control of financial information, or the development and implementation of technology systems relating to financial information, or services associated with the internal audit function. Permitted services can only be provided if they do not relate to the Company's tax policy, after the Audit Committee has assessed the risks and safeguards for the independence of the audit firm, the key statutory auditor and other members of the audit team.

The recommendation for the selection of the audit firm to carry out the audit met the applicable conditions and followed a selection procedure organised by the Issuer meeting the eligibility criteria.

The Audit Committee met twice between 1 January 2022 and 31 December 2022.

The Audit Committee's main tasks include:

- Discussing the audit process with the Auditor.
- Auditing the Company's records.
- Submitting an annual report on its activities to the Supervisory Board.
- Monitoring the financial reporting process.
- Monitoring the financial auditing activities, in particular the audit of the Company's financial statements by the audit firm, taking into account any conclusions and findings of the Audit and Supervisory Committee from the audit carried out at the audit firm.
- Controlling and monitoring the independence of the auditor or audit firm providing services to the Company.
- Notifying the Board on the results of the audit of the Company's financial statements and explaining how the audit contributed to the integrity of the Company's financial reporting and the Committee's role in the auditing process.
- Assessing the auditor's independence and approving the auditor's services provided to the Company.
- Preparing a policy for the selection of an audit firm to audit the Company's financial statements.
- Preparing a policy for the provision of permitted non-audit services by the audit firm, its affiliates and members of the audit firm's network.
- Determining how the Company should select the audit firm.
- Submitting recommendations to ensure the integrity of the Company's financial reporting process.

Operation of the Audit Committee:

- The Audit Committee meets as required, at least twice a year.
- Meetings of the Committee are convened by its Chairperson on his/her own initiative or at the request of any member of the Audit Committee, as well as at the request of the Management Board, an internal or external auditor. A meeting of the Audit Committee can also be convened by the Chairperson of the Supervisory Board.
- The agenda for the Audit Committee's meeting will be set by the convenor of the meeting, but may be amended during the meeting.
- The Chairperson of the Audit Committee can invite persons from outside the Audit Committee to the meeting.
- The meetings of the Audit Committee are recorded in the minutes of the meeting. The Chairperson of the Audit Committee signs the minutes of the meeting.
- The Audit Committee can pass resolutions if at least half of its members are present at the meeting.

Report of the Management Board concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 (in kPLN)

- The Audit Committee can adopt resolutions in writing, provided that all its members have been notified of the content of the draft resolutions.
- The Audit Committee adopts resolutions by a simple majority of the votes cast.
- The Company provides necessary organisational and technical support for the Audit Committee.

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

XIV. Diversity policy

The Company has not adopted and implemented a diversity policy. In the selection of persons holding the positions of members of the Management Board and the Supervisory Board, the Company is invariably guided by the strictest standards and, to this extent, does not differentiate between candidates on the basis of their gender or other non-substantive characteristics. The basic criterion for the selection of the Company's authorities is the high competence, skills and professionalism of the candidates.

VI. DECLARATION OF THE MANAGEMENT BOARD

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

- The annual separate and consolidated financial statements and the comparative data have been prepared in accordance with the applicable accounting principles and provide a true, fair and transparent presentation of the property and financial standing of the Issuer and of PEPEES Capital Group and of the financial performance of the company and the capital group;
- the Management Board's report concerning the activities of the Capital Group for the period of 12 months ended 31 December 2022 contains a true presentation of the development and achievements and the situation of PEPEES Capital Group, including a description of basic hazards and risks.

**REPRESENTATIVES OF
Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” Spółka Akcyjna in Łomża**

President of the Management Board - Wojciech Faszczeński

Member of the Management Board - Tomasz Krzysztof Rogala