



DIRECTORS' REPORT FOR PEPEES GROUP

for the first half of the year ended on 30 June 2019

prepared in Łomża on 12 September 2019,

published on 13 September 2019

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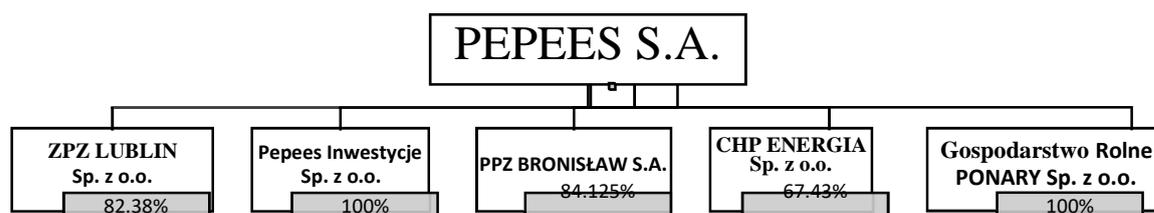
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I. CHARACTERISTICS OF PEPEES GROUP

1. PEPEES Group structure

Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" Spółka Akcyjna is the Parent Company for PEPEES Group. On 30 June 2019, PEPEES Group comprised the following subsidiaries:



In the Semi-Annual Consolidated Report of PEPEES Group for the period of the first half of the year ended on 30 June 2019, apart from Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A., the following related parties were subject to consolidation:

Name	Registered office	Objects	Registry court	Issuer's percentage of capital (%)	Percentage of total votes (%)
ZPZ LUBLIN Sp. z o.o.	Lublin	Production and sales of potato syrup and dried potatoes; fruit and vegetable processing	District Court in Lublin, XI Economic Division of the National Court Register (NCR)	82.38	82.38
Pepees Inwestycje (former: OZENERGY Sp. z o.o.)	Łomża	Buying and selling of own real estate	District Court in Białystok, XII Economic Division of the NCR	100	100
PPZ BRONISŁAW S.A.	Bronisław	Production of starch and starch products	District Court in Bydgoszcz, XIII Economic Division of the NCR	84.125	84.125
CHP ENERGIA Sp. z o.o.	Wojny Wawrzyńce	Generation of power and heat from gas produced in a biogas plant	District Court in Białystok, XII Economic Division of the NCR	67.43	67.43
Gospodarstwo Rolne Ponary Sp. z o.o.	Łomża	Growing of crops combined with farming of animals (mixed farming)	District Court in Białystok, XII Economic Division	100	100

All subsidiaries were consolidated with the full method.

In the reporting period and until the date of this report, there were no changes in the structure of the Issuer's Group.

1.1. Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" Spółka Akcyjna in Łomża – the Parent Company

1.1.1. General information about the company

The Company's business name is: Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. (hereinafter: "the Company", "the Parent Company", "the Issuer"). Its registered office is in Łomża, at the address: ul. Poznańska 121.

It operates as a joint stock company incorporated under a notarial deed on 21 June 1994 signed before the notary public Mr Paweł Błaszczuk in Warsaw (Notarial Record Book A No. 14126/94).

The Company is entered in the Register of Entrepreneurs kept by the District Court in Białystok, XII Economic Division of the National Court Register (KRS) in Białystok under No. KRS 000038455.

It has its Tax Identification Number (NIP): 7181005512, assigned by the Tax Office in Łomża on 20 January 2000.

The statistical office assigned the following identification number (REGON) to the Company: 450096365. The Company operates pursuant to the Polish Commercial Code. It is a single-establishment company; it does not have any branches.

PEPEES S.A. in Łomża is the largest starch potato processing plant in Poland and the only Polish manufacturer of crystalline glucose. Owing to the integrated management system implemented and certified since 2007, the Group ensures high quality and full health safety of products. The Company's products are widely used in the food, pharmaceutical, feed, chemical, textile and paper industries.

According to the Company's Articles of Association, the Company's objects are as follows:

- ✓ processing of potatoes;
- ✓ manufacture of starches and starch products;
- ✓ services related to the processing and preserving of fruit and vegetables;
- ✓ manufacture of fruit and vegetable juice.

During the reporting period, the Company carried out activities related to the manufacture of starches and starch products, and the processing of potatoes.

The Company's share capital as at 30 June 2019 and as at the date of this report was PLN 5,700 thousand and was divided into 95,000 thousand ordinary bearer shares with the nominal value of PLN 0.06 each.

*Directors' Report on the Group's operations
for the period of 6 months ended on 30 June 2019
(in PLN 000s)*

As at the date of authorising this interim report, the shareholding structure of the Company was as follows:

SHAREHOLDERS	Number of shares	Percentage of share capital %	Number of votes	Percentage of total number of votes at GMS %
Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych*	27,714,832	29.17%	6,312,599	6.64%
Mr Michał Skotnicki**	21,399,174	22.53%	21,399,174	22.53%
Mr Maksymilian Maciej Skotnicki**	20,703,282	21.79%	20,703,282	21.79%
Mr Newth Jonathan Reginald	7,995,200	8.42%	7,995,200	8.42%
Richie Holding Ltd.	6,133,100	6.46%	6,133,100	6.46%
Others	11,054,412	11.63%	11,054,412	11.63%

*Due to the breach of the obligation to notify of the acquisition of qualifying holdings resulting from Polish Act of 29 July 2005 on public offering and the conditions for introducing financial instruments to an organised trading system, and on public companies, EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych ("Epsilon FIZ AN"), which, according to the information available to the Company, holds 27,714,832 shares of the Company, has lost and may not exercise its voting rights attached to 21,402,233 shares. Therefore, the Company's Board of Directors filed a lawsuit with the Regional Court in Białystok to assert the facts. Epsilon FIZ AN takes a different position and maintains that it has the right to vote from 27,714,832 shares accounting for 29.17% of the total number of votes at the General Meeting of Shareholders. The Chairman of the Polish Financial Supervision Authority entered the case presenting their position on 24 July 2019. The Board of Directors is awaiting the final and valid court decision. The Company informed about the issue in current reports Nos. 13/2019, 14-23/2019 and 30/2019.

** Mr Maksymilian Maciej Skotnicki and Mr Michał Skotnicki are persons referred to in Article 87(4)(1) of the Polish Act of 29 July 2005 on public offering and conditions governing the introduction of financial instruments to organised trading, and on public companies, and, thus, together they hold the total of 42,102,456 shares/votes representing 44.32% of the share capital of/the total number of votes in the Company.

The table below presents the shareholding structure as at the date of the previous interim report:

SHAREHOLDERS	Number of shares	Percentage of share capital %	Number of votes	Percentage of total number of votes at GMS %
Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych*	27,609,982	29.06%	2,205,252	2.32%
Mr Michał Skotnicki**	21,325,780	22.45%	21,399,174	22.45%
Mr Maksymilian Maciej Skotnicki**	20,703,282	21.79%	20,703,282	21.79%
Mr Newth Jonathan Reginald	7,995,200	8.42%	7,995,200	8.42%
Richie Holding Ltd.	6,133,100	6.46%	6,133,100	6.46%
Others	11,232,656	11.82%	11,232,656	11.82%

*Due to the breach of the obligation to notify of the acquisition of qualifying holdings resulting from Polish Act of 29 July 2005 on public offering and the conditions for introducing financial instruments to an organised trading system, and on public companies, EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych ("Epsilon FIZ AN"), which, according to the information available to the Company, holds 27,714,832 shares of the Company, has lost and may not exercise its voting rights attached to 21,402,233 shares. Therefore, the Company's Board of Directors filed a lawsuit with the Regional Court in Białystok to assert the facts. Epsilon FIZ AN takes a different position and maintains that it has the right to vote from 27,714,832 shares accounting for 29.17% of the total number of votes at the General Meeting of Shareholders. The Chairman of the Polish Financial Supervision Authority entered the case presenting their position on 24 July 2019. The Board of Directors is awaiting the final and valid court decision. The Company informed about the issue in current reports Nos. 13/2019, 14-23/2019 and 30/2019.

** Mr Maksymilian Maciej Skotnicki and Mr Michał Skotnicki are persons referred to in Article 87(4)(1) of the Polish Act of 29 July 2005 on public offering and conditions governing the introduction of financial instruments to organised trading, and on public companies, and, thus, together they hold the total of 42,102,456 shares/votes representing 44.32% of the share capital of/the total number of votes in the Company.

1.1.2. The company's authorities

As at 30 June 2019 and as at the date of the publication of this semi-annual consolidated report, the compositions of the Board of Directors Supervisory Board and Audit Committee were as follows:

Board of Directors

Mr Wojciech Faszczewski	President of the Board of Directors
Mr Tomasz Krzysztof Rogala	Member of the Board of Directors

Supervisory Board

Mr Maciej Jacek Kaliński	Chairman
Mr Tomasz Nowakowski	Vice-Chairman
Mr Piotr Marian Taracha	Secretary
Mr Krzysztof Stankowski	Member
Mr Robert Malinowski	Member
Ms Agata Czerniakowska	Member

Audit Committee

Mr Maciej Jacek Kaliński	Chairman
Mr Piotr Marian Taracha	Vice-Chairman
Mr Krzysztof Stankowski	Member

1.2. Zakłady Przemysłu Ziemiaczanego „LUBLIN” Spółka z ograniczoną odpowiedzialnością with its registered office in Lublin – a subsidiary

1.2.1. General information about the company

The Company's registered office is in Lublin, at the address: ul. Betonowa 9. The company is a limited liability company established by virtue of a notarial deed on 8 November 1996 signed in the notary public's firm run by Ms Antonina Renata Bednara in Lublin, at ul. Spokojna 8, Notarial Record Book A No. 6437/96, for an indefinite lifetime. The company is entered in the Register of Entrepreneurs kept by the District Court in Lublin, XI Economic Division of the National Court Register (KRS) in Białystok under No. KRS 0000050886.

The company has its Tax Identification Number (NIP): 9461580419.

The company operates pursuant to the Polish Commercial Code.

The company's core objects are the production and sale of starch syrup and dried potatoes.

The company's share capital as at 30 June 2019 amounted to PLN 2,761,200, and its shareholders were as follows:

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

1.2.2. The company's authorities as at 30 June 2019

Board of Directors

Mr Piotr Kaniowski	President
Ms Małgorzata Grażyna Dudzic	Member/Chief Financial Officer

Supervisory Board

Mr Wojciech Faszczewski	Chairman
Mr Piotr Marian Taracha	Vice-Chairman
Mr Tomasz Nowakowski	Member
Mr Mariusz Świetlicki	Member
Ms Agata Czerniakowska	Member

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

1.3.1. General information about the company

The company's registered office is in Łomża, at the address: ul. Poznańska 121. The company was established by virtue of a notarial deed (Notarial Record Book A No. 12369/2010) on 18 October 2010 signed before a notary public Tomasz Poreda in Łomża.

The company is entered in the Register of Entrepreneurs kept by the District Court in Białystok, XII Economic Division of the National Court Register (KRS) in Białystok under No. KRS 0000370060.

The company has its Tax Identification Number (NIP): 7182123627.

The company operates pursuant to the Polish Commercial Code.

The company's objects according to its Articles of Association is buying and selling of own real estate.

The company's share capital as at 30 June 2019 amounted to PLN 95,000 and was divided into 1,900 equal and indivisible shares, each with the value of PLN 50.

1.3.2. The company's authorities as at 30 June 2019***Board of Directors***

Mr Roman Adam Minierski President

1.4. Przedsiębiorstwo Przemysłu Ziemniaczanego BRONISŁAW Spółka Akcyjna in Bronisław – a subsidiary**1.4.1. General information about the company**

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

The company's registered office is in Bronisław 41, 88-320 Strzelno. The company is a joint stock company established by virtue of a notarial deed on 31.07.2017, Notarial Record Book A No. 1989/2017, for an indefinite lifetime. The company is entered in the Register of Entrepreneurs kept by the District Court in Bydgoszcz, XIII Economic Division of the National Court Register (KRS) in Bydgoszcz under No. KRS 0000708945.

The company has its Tax Identification Number (NIP): 5571595182.

The company operates pursuant to the Polish Commercial Code.

The company's objects are as follows:

- manufacture of starches and starch products;
- processing and preserving of potatoes;
- support activities for crop production.

The company's share capital as at 30 June 2019 amounted to PLN 800,000 and was divided into 800,000 shares, each with the nominal value of PLN 1. The shares are not preference shares.

PEPEES is the major shareholder; it holds 84.125% of the share capital. Other shareholders are natural persons.

1.4.2. The company's authorities as at 30 June 2019***Board of Directors***

Mr Wojciech Faszczewski President
Mr Roman Adam Minierski Vice-President

Supervisory Board

Mr Piotr Marian Taracha Chairman
Ms Agata Czerniakowska Vice-Chairman
Mr Grzegorz Dobrowolski Member

Mr Stanisław Bukowski	Member
Ms Elżbieta Trandziuk	Member
Mr Robert Malinowski	Member
Mr Tomasz Nowakowski	Member

1.5. CHP Energia Spółka z ograniczoną odpowiedzialnością with its registered office in Wojny-Wawrzyńce – a subsidiary

1.5.1. General information about the company

The company with its registered office in Wojny-Wawrzyńce was established on 27 April 2011 on the basis of the notarial deed, Notarial Record Book A No. 1163/2011. The company operates in the form of a limited liability company. The company is entered in the Register of Entrepreneurs kept by the District Court in Białystok, XII Economic Division of the National Court Register (KRS) under No. KRS 0000390180.

The company has its Tax Identification Number (NIP): 7721624470.

The company operates pursuant to the Polish Commercial Code.

The company's objects are as follows:

- power generation;
- electricity transmission and distribution.

The company's share capital as at 30 June 2019 amounted to PLN 5,298,000 and was divided into 10,596 equal and indivisible shares, each with the nominal value of PLN 500. "PEPEES" S.A. is the major shareholder; it holds 67.43% of the share capital. Other shareholders are natural persons.

1.5.2. The company's authorities as at 30 June 2019

Board of Directors

Mr Andrzej Bogdan Wyszynski	President
Mr Mirosław Siemieniako	Vice-President

Supervisory Board

Mr Wojciech Faszczewski	Chairman
Mr Tomasz Krzysztof Rogala	Member
Mr Wojciech Zagdański	Member

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

1.6.1. General information about the company

The company's registered office is in Łomża, at the address: ul. Poznańska 121. The company is a limited liability company established by virtue of a notarial deed on 10 November 2015 for an indefinite lifetime. The company is entered in the Register of Entrepreneurs kept by the District Court in Białystok, XII Economic Division of the National Court Register (KRS) in Białystok under No. KRS 0000585975.

The company has its Tax Identification Number (NIP): 1132898091.
The company operates pursuant to the Polish Commercial Code.

The company's objects comprise growing of crops combined with farming of animals (mixed farming).

The company's share capital as at 30 June 2019 amounted to PLN 1,620,000 and was divided into 32,400 equal and indivisible shares, each with the nominal value of PLN 500.
PEPEES is the sole shareholder of the company.

1.6.2. The company's authorities as at 30 June 2019

Board of Directors

Mr Tomasz Krzysztof Rogala President

2. Activities of PEPEES Group companies

PEPEES Group comprises companies specialising primarily in the processing of potatoes for the production of, among others, potato starch, maltodextrin and potato flakes. The Group also has plants producing energy from renewable sources.

Each of the companies performs specific functions and has a significant share in creating value within PEPEES Group.

“PEPEES” S.A. acts as the Parent Company. The Board of Directors of “PEPEES” S.A. prepares the Group's development strategy and takes key decisions regarding both the scope of operations and the finances of entities belonging to PEPEES Group.

PEPEES has one of the largest starch-producing units producing potato starch in Poland. Its processing capacity is 1,000 - 2,400 tonnes of potatoes per day. Significant assets involved include the machines used in the production of starch, specialised employees and storage areas.

ZPZ Lublin Sp. z o.o. based in Lublin focuses on processing food potatoes into potato grits and potato flakes.

PPZ Bronisław S.A. based in Bronisław processes mainly food potatoes into potato flakes and starch.

CHP Energia Sp. z o.o. based in Wojny-Wawrzyńce is an enterprise that mainly collects potato pulp (the main waste from starch production) from the Parent Company. This way, it plays the key role in Pepees' production chain. In its strategy, it provides for the running of a biogas plant and of the integrated plant producing solid fuel from biomass, and power generation in green co-generation. The excess heat energy produced is used for drying biomass, which is used later as an agricultural fertilizer.

Gospodarstwo Rolne Ponary Sp. z o.o. based in Łomża has farmland which is leased by the Parent Company in order to cultivate starch potatoes etc.

3. Changes in the organisation of PEPEES Group

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

II. CHARACTERISTICS OF PEPEES GROUP'S OPERATIONS

1. The market

Production, trade and rendering of services related mainly to the processing of potatoes and power generation were the main revenue-generating activities of PEPEES Group in the reporting period. There are three business segments in PEPEES Group, i.e.: 'processing of potatoes', 'power generation' and 'growing of crops combined with farming of animals (mixed farming)'.

Within the segment: 'the processing of potatoes', the Company produces:

- potato starch;
- a few varieties of glucose;
- a wide range of starch syrups;
- potato grits;
- potato flakes.

PEPEES Group processes both starch potatoes and food potatoes. Potatoes are the primary source of starch, not only in Poland, but throughout Europe. Starch potatoes are potatoes containing at least 13 % of starch. One can obtain starch from such potatoes, for food-related and technical purposes, by its mechanical separation from other potato components, washing out, purifying, drying and screening.

Europe is the largest manufacturer of potato starch in the world. In the EU, in recent years, the output amounted to ca. 1.85 million tonnes p.a.; 92% of that amount was produced by EU-15 states and almost 8% by new Member States. Poland's share in the potato starch production in the EU amounts to ca. 6%.

Food potatoes are processed in the subsidiary ZPZ Lublin Sp. z o.o., mainly to obtain potato grits and potato flakes, and partially in PPZ Bronisław S.A., to obtain potato flakes.

CHP Energia Sp. z o.o. operates in 'power generation' segment; it is an enterprise which, in its strategy, provides for the running of a biogas plant and of the integrated plant producing solid fuel from biomass, and power generation in green co-generation. The generated excess heat is used to dry the biomass used as a fertiliser in agriculture. In addition, the Company carries out trading activities related to the purchase and bailing of pulp. The establishment of agricultural biogas plants is part of the implementation of commitments towards the European Union. New legal regulations already implemented and the support system will accelerate the development of this sector in Poland.

All assets and liabilities of Gospodarstwo Rolne Ponary Sp. z o.o. are allocated to 'growing of crops combined with farming of animals (mixed farming)' segment, but as Ponary did not generate any revenue in the first half of 2019, this segment was not separated in revenue and results.

2. Basic products, trade goods and services sold by the Group

Within the segment: 'the processing of potatoes', the Company produces:

- ✓ potato starch, used for many applications in the food, pharmaceutical, paper, textile and chemical industries;
- ✓ a few varieties of glucose used by the food industry, confectionery industry and pharmaceutical industry;
- ✓ maltodextrin, which is an essential ingredient of powdered products (ice cream, sauces, soups, fruit extracts, flavoured sprinkles) and vitamin and mineral preparations and supplements for children and athletes;
- ✓ a wide range of starch syrups used in confectionery and baking industries.
- ✓ potato grits used by the food industry;
- ✓ potato flakes used in the food industry.

Potato starch

Potato starch is obtained through mechanical crushing of potatoes, extraction, refining, dehydration, drying and sifting.

Starch is one of the most multifunctional raw materials in the food industry. In some applications, its natural properties enabling the production of gels and thickening are exploited (food, chemical, textile, paper industries).

In the food and pharmaceutical industries, starch is used to give products proper texture, appearance (form), moisture, consistence and durability during their storing.

Food starch

Food starch is obtained from pulped cells of potato bulbs in the process of rinsing and then purifying, drying and sifting. Commercial product contains ca. 40 % of water. Food starch is produced from potatoes for industrial use with appropriate quality properties, i.e. high starch content with the highest possible percentage of large starch grains, small quantities of non-starch substances, low protein content, round potato bulbs, crisp pulp, shallow "eyes".

Potato protein

This product is obtained from potato intracellular fluid in the process of coagulation, separation and drying. Final product is a loose grey powder with the aroma typical for dried potato protein and moisture content not higher than 10 %. The product is characterised with a high total protein content (over 80 %), and the digestible protein constitutes over 70 % of dry substance. It is a high quality, easily digestible, vegetable protein; therefore, it is a valuable ingredient of feedstuff mixes for animals and an excellent substitute for animal protein.

Grits

Grits are a waste product from the food starch-producing unit. These are lumps of lumpy and gruelled starch separated from dried potato starch.

Potato flakes

Potato flakes are produced from edible varieties of potatoes. These are ca. 0.2-0.5mm flakes first hydrated with steam and then dehydrated.

Starch hydrolysates✓ **Crystalline glucose**

Crystalline glucose is the end product of the hydrolysis of potato starch. It is a white, fine-crystalline powder with sweet taste. Its microbiological purity is very high and it contains ca. 99.5 % of pure glucose. Crystalline glucose is a high-calorie monosaccharide, easily absorbed by human organism. It is a valuable and natural source of energy. Glucose is often used in the production of pharmaceutical and dietary products (drugs, dietary supplements). Its consumption is particularly important during intense physical workout and recovery.

The food industry takes advantage primarily of the following glucose properties: sweet flavour, and enhancing the flavour of products. It is used in the production of confectionery, ice-cream, desserts, dry food mixes, non-alcoholic beverages, fruit and vegetable products. In addition, crystalline glucose is applied in the brewing, baking, wine and meat industries.

✓ **Anhydrous glucose**

Anhydrous glucose is a product obtained in the process of the fluidized bed drying of crystalline glucose until its moisture content is below 1 %. The product meets high microbiological requirements. The entire production of anhydrous glucose is used by the pharmaceutical industry. It is used mainly in the production of infusion liquids.

✓ **Maltodextrin**

Maltodextrin is a product of the depolymerization of potato starch produced as a result of enzymatic hydrolysis. It is a white powder with a slightly sweet flavour. Maltodextrin properties depend on the degree of starch hydrolysis. An increase in DE (dextrose equivalent) results in greater sweetness, which is accompanied by increased solubility and hygroscopicity, and the reduction of viscosity, bonding power and resistance to crystallization. Due to its binding and filling properties, and its ability to improve texture and stabilise flavour and aroma, maltodextrin is applied in food production. It is an essential ingredient of powdered products (ice cream, sauces, soups, fruit extracts, flavoured sprinkles) and vitamin and mineral preparations and supplements for children and athletes. Is an important carbohydrate ingredient of milk-based formulas and nutritional powders for infants. The share of maltodextrin in the reduced-calorie food production is substantial.

✓ **Glucose syrups**

Glucose syrups are concentrated, aqueous solutions of monosaccharides (glucose, maltose) and low molecular weight polysaccharides obtained in the process of the enzymatic hydrolysis of starch. They are temperature and chemically stable, and are characterised with high osmotic pressure. Glucose syrups are used in the production of hard and soft caramel drops, chewing gums, fruit jellies, ice cream, desserts, confectionery. Glucose syrup increases plasticity, affects the durability of the colour and flavour, and provides transparency and gloss. The syrup ensures the appropriate structure and delicate sweetness, improves structural properties, inhibits sugar crystallization, preserves the natural colour of fruit, adds delicate flavour, enhances the aroma.

✓ **Hydrol**

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

In the first half of 2019, apart from the above products, the Group also generated sales revenue in the following groups:

- ✓ seed potatoes;
- ✓ pesticides;
- ✓ the sales of heat;
- ✓ the sales of materials.

In the 'power generation' segment, the Company produces:

- ✓ electricity from agricultural biogas;
- ✓ heat for its own needs used e.g. to dry animal feeds.

All assets and liabilities of Gospodarstwo Rolne Ponary Sp. z o.o. are allocated to 'growing of crops combined with farming of animals (mixed farming)' segment. Due to the value of land owned by GR Ponary Sp. z o.o., the third segment has been separated in this report only to present its assets and liabilities.

3. Sales volume and structure

The Group operates on a highly competitive market both in Poland and abroad, and competes with Polish entities as well as the largest international corporations. On the Polish market, both in terms of value and volume, it is one of leading companies.

Table 1 and Figures 1 and 2 present the structure of sales revenue in the period from 1 January 2019 to 30 June 2019 as compared to the corresponding period in 2018.

Table 1: Structure of net sales revenue for 6 months of 2019 and of 2018

(amounts in PLN 000s)

Range of products	For the period of 6 months ended on 30 June 2019	Structure in 2019	For the period of 6 months ended on 30 June 2018	Structure in 2018	Growth rate
Potato-based products	107,915	84.91%	96,331	82.51%	112.03%
Electricity	3,097	2.44%	3,608	3.09%	85.84%
Animal feeds	355	0.28%	170	0.15%	208.82%
Other sales, including:	15,720	12.37%	16,648	14.26%	94.43%
<i>a) services</i>	<i>414</i>	<i>0.33%</i>	<i>586</i>	<i>0.50%</i>	<i>70.65%</i>
<i>b) trade goods and materials</i>	<i>15,306</i>	<i>12.04%</i>	<i>16,062</i>	<i>13.76%</i>	<i>95.29%</i>
Total net sales revenue	127,087	100.00%	116,757	100.00%	108.85%

Figure 1: Structure of sales revenue for 6 months of 2019

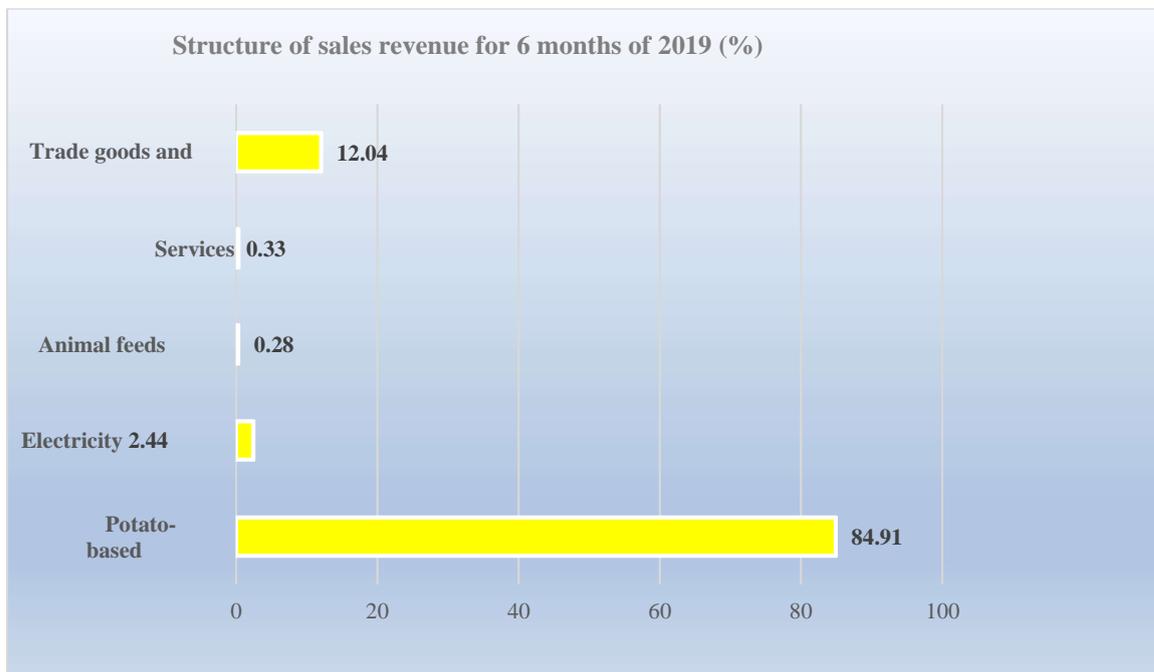


Figure 2: Structure of sales revenue for 6 months of 2018



4. Polish and foreign markets for the Group's products

Due to the high quality of products and continuous improvement of manufacturing and management methods, the Group's brand is an important trademark in Poland and abroad. The Group has developed cooperation with both existing and new customers offering them a high standard of service.

The Group distributes its products both through the network of wholesalers and trading companies making deliveries to the food industry; and it supplies its products directly to production plants, mainly from the meat, food, confectionery, bakery and pharmaceutical industries, for which starch products are the raw material for further processing or a component in the manufacturing process. Due to packing products in packaging intended for retail sales, the Group can cooperate with the largest shopping chains and customers operating on the so-called 'traditional market'. This way, products of PEPEES Group reach customers who purchase starch products to meet their own needs.

PEPEES Group distribution channels

Distribution channels are as follows:

Company \Rightarrow customer (producer-wholesaler buyer)

Company \Rightarrow wholesaler \Rightarrow customer (producer- small volumes buyer)

Company \Rightarrow wholesaler \Rightarrow shop \Rightarrow consumer

Company \Rightarrow sales network consumer

Bank transfers with 7-, 14-, 21-, 31-, 45- and 60-days' payment deadline are the most commonly used forms of settlement. Payment deferral periods depend on the length of the cooperation with a given customer, his financial situation and the volumes of purchased goods. The assessment of the financial credibility carried out by the insurer and of the granted financial limit, is also crucial. In the case of new customers, advance payments are applied.

Sales revenue by markets is presented in the table below.

Table 2: Sales revenue by markets

Net sales revenue	For the period of 6 months ended on 30 June 2019	Structure in 2019	For the period of 6 months ended on 30 June 2018	Structure in 2018
Poland, including	83,905	66.02%	79,683	68.25%
- products	73,281	57.66%	65,274	55.91%
- trade goods and materials	10,210	8.03%	13,821	11.84%
- services	414	0.33%	588	0.50%
EU countries - intra-Community supplies, including:	12,519	9.85%	9,524	8.16%
- products	12,369	9.73%	9,498	8.13%
- trade goods and materials	150	0.12%	26	0.02%
Other countries – export, including:	30,663	24.13%	27,550	23.60%
- products	25,717	20.24%	25,335	21.70%
- trade goods and materials	4,946	3.89%	2,215	1.90%
Total	127,087	100.00%	116,757	100.00%

4.1. Sales in Poland by industries and geographical regions

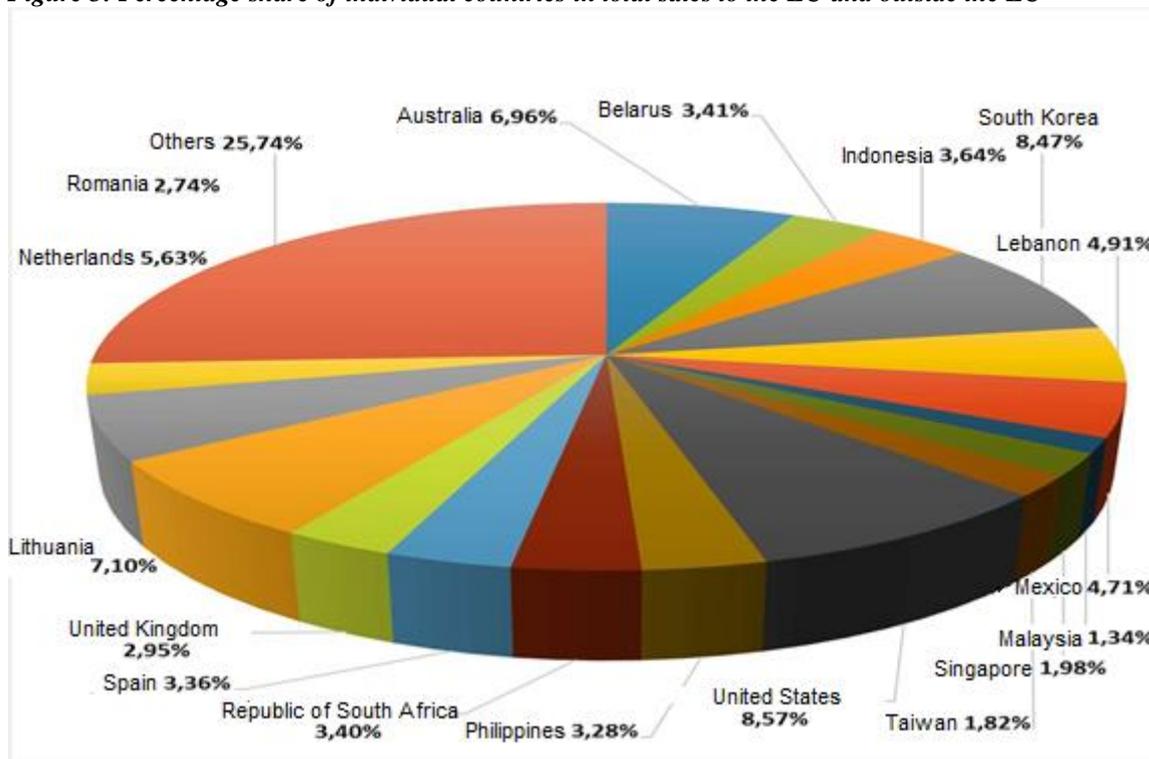
Products from the potato industry in the first half of 2019 were sold throughout Poland. The sales of the basic product on offer, i.e. potato starch, generated the largest percentage of the sales value on the Polish market (56.66%). Further products in terms of the percentage of the sales value are maltodextrin (11%), glucose (6.21%) and potato protein (4.77%). The majority of the main customers for the Parent Company's products on the Polish market are reputable Polish companies, which often have capital ties with large European and global companies.

The Group distributed its products both through the network of wholesalers and trading companies making deliveries to the food industry; and it supplied its products directly to production plants, mainly from the food, confectionery, meat and pharmaceutical industries, for which starch products are the raw material for further processing or a component in the manufacturing process. None of the customers exceeded 10% of sales revenue of both the Group and the Parent Company.

4.2. Exports and intra-Community sales

In the first half of 2019, the value of exports and intra-Community sales amounted to PLN 43,182 thousand and it increased by 16.5% as compared to last year's figure. In the first half of 2019, the Group exported its products, mainly potato starch, to 48 countries. The highest volumes of products were sold to the USA, South Korea, Lithuania, Australia, Lebanon and the Netherlands.

Figure 3: Percentage share of individual countries in total sales to the EU and outside the EU



5. The sources of supplies of production materials, trade goods and services

Food potatoes and potatoes for industrial use are the main production material in PEPEES Group; they are purchased in the autumn on the basis of procurement contracts concluded in the spring.

Since the beginning of the 1990's, a downward trend in potato production in Poland has been observed. At the end of the 1990's, their share in the crop structure exceeded 10% and now it is only 3%. Ca. 400,000 ha are used in Poland to grow potatoes; however, the cultivation area for starch potatoes is less than 25,000 ha, i.e. only 6% of the total potato cultivation area.

The main raw material for power generation in CHP Energia is biomass produced primarily from plant waste bought from farmers and from PEPEES—waste from the production of starch (potato pulp).

In addition, the following raw materials are purchased for the production process: paper packaging, enzymes, starch, glucose syrup, industrial gases, electrical materials, fine coal, metal parts, bags, sulphur dioxide, shrink film, hydrochloric acid, labels, cardboard boxes, diatomaceous earth, glues and adhesives, varnishes, thinners, enamels, steel strip, pesticides, etc.

The basic raw material, i.e. potatoes for industrial use, is purchased from individual farmers who are not affiliated with any organisations important for the Group's business.

In the first half of 2019, materials, trade goods and services were purchased mainly from Polish companies or agencies of foreign companies. The dependence on a single supplier exists in the case of enzymes and filtering materials, as their suppliers are the only representatives in Poland of foreign companies producing the raw materials needed by the Group.

There is no single supplier whose share in the Group's revenue is at least 10 %.

6. Agreements material for the Group's business

6.1. Business agreements

In the first half of 2019, PEPEES Group did not enter into any business agreements of substantial value, and did not enter into any important cooperation/collaboration agreements.

Notwithstanding the foregoing, the Issuer indicates the following agreements concluded in the first half of 2019:

- a contract for the purchase of pesticides for potato plantations with the value of PLN 2.5 million;
- a contract for the assembly of a sand trap worth more than PLN 4 million;
- trading agreements;
- contracts for the purchase and upgrade of production machines and equipment as well as overhauls.

6.2. Loan agreements

a) with Santander Bank Polska S.A.:

On 16 April 2019, another annex to the Multi-line Agreement was signed between Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. with its registered office in Łomża, Zakłady Przemysłu Ziemniaczanego "LUBLIN" Sp. z o.o. with its registered office in Lublin, Przedsiębiorstwo Przemysłu Ziemniaczanego "BRONISŁAW" S.A. with its registered office in Bronisław, and Santander Bank Polska S.A. with its registered office in Warsaw.

Pursuant to the said annex, the amount of the revolving loan of PLN 2 million was transferred between the Group companies – from PEPEES S.A. to PPZ "BRONISŁAW" S.A. The total amount of the revolving loan limit granted to the companies of PEPEES Group has not changed.

Until the date of the publication of this report, another annex was signed on 5 August 2019, pursuant to which the limit for the Group companies was increased to PLN 55.5 million and the repayment date was extended to 31.08.2020.

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

Until the date of the publication of this report, on 5 August 2019, an annex to the multi-purpose credit line agreement was signed with Powszechna Kasa Oszczędności Bank Polski S.A. Under the annex, the credit limit granted to PEPEES S.A. and its subsidiaries was increased to PLN 55.5 million and the repayment date was extended until 31.08.2020.

6.3. Leases concluded in the first half of 2019

- Lease agreements for 8 passenger cars concluded with BNP PARIBAS Leasing, Santander Leasing and PKO Leasing with the total value of ca. PLN 700 thousand;
- A construction machine lease agreement concluded with PKO Leasing with the value of PLN 123 thousand;
- Agricultural machine lease agreement concluded with BNP PARIBAS Leasing with the value of PLN 339 thousand.

6.4. Insurance contracts

The companies concluded the following insurance contracts:

- fire insurance;
- business interruption insurance;
- burglary and robbery insurance;
- electronic equipment insurance;
- liability insurance, including:
 - Tort liability insurance
 - contractual liability insurance
 - product liability insurance
 - directors and officers liability insurance
- motor vehicle insurance (liability insurance, auto accident and theft insurance)

6.5. Agreements between Shareholders

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

7. Organisational or equity links between the Issuer and other entities; its major investments in Poland and abroad

As at 30 June 2019, major investments of PEPEES S.A. include shares and bonds in subsidiaries that have been consolidated and 3,000 shares of Warszawski Rolno-Spożywczy Rynek Hurtowy S.A. ('WRSRH') with the estimated value as at 31.12.2018, according to the valuation carried out using the discounted future cash flow method by an independent actuary, of PLN 5,436 thousand.

The shares of WRSRH represent 2.5% of the share capital of WRSRH and 1.6% of votes at the GMS. The State Treasury is the main owner of WRSRH with more than 59% of the share capital. PEPEES does not exercise control over WRSRH.

In addition, the Group holds interests in three other Polish entities (ZM Ostrołęka, Agencja Rozwoju and BPS) which ensure less than 5% of the total number of votes at the General Meeting of Shareholders, and they are not material in terms of their value and the Group's investment policy.

8. Related party transactions

In the period covered by the report, the Parent Company, i.e. "PEPEES" S.A., made with related parties transactions of typical nature resulting from current operating activities conducted by "PEPEES" S.A. and its subsidiaries. The transactions were made on an arm's length basis. In addition, some of the concluded transactions result from existing agreements with financial institutions, for which one of securities are mutual sureties of entities from PEPEES Group that are parties to particular agreements.

PEPEES Group operates on the basis of the activities of specialised entities; their business profiles comprise complementary types of services. Cooperation between enterprises forming the Group is aimed at increasing the level of the use of resources available to entities participating in the transaction and reducing the risk related to the conducted activities.

The allocation of risk and the division of the enterprise functions make it possible to reduce operating costs and use financial resources effectively. Granting sureties for payment obligations and ensuring securities for their payment in related parties make it possible to perform contracts faster, which may contribute to a more efficient management of entities forming PEPEES Group.

9. Loans and borrowings

As at 30 June 2019, PEPEES Group had borrowings, which are presented in the table below:

Table 3: Borrowings as at 30.06.2019

Loan type /Agreement/	Lending bank	Borrower	Contractual loan amount	Debt as at 30.06.2019	Repayment date
1	2		3	4	5
Overdraft facility	Santander Bank Polska S.A.	Pepees S.A.	4,000	272	31.08.2019
Revolving loan	Santander Bank Polska S.A.	Pepees S.A.	10,000	4,500	31.08.2019
Working capital loan	Santander Bank Polska S.A.	Pepees S.A.	16,500	6,188	31.08.2019
Overdraft facility	Powszechna Kasa Oszczędności Bank Polski S.A.	Pepees S.A.	4,000	383	31.08.2019
Revolving loan	Powszechna Kasa Oszczędności Bank Polski S.A.	Pepees S.A.	10,000	3,750	31.08.2019
Working capital loan for the purchase of potatoes	Powszechna Kasa Oszczędności Bank Polski S.A.	Pepees S.A.	16,500	6,187	31.08.2019
Investment loan for the construction of a starch drying room, an unloading node and a water treatment unit	BGŻ BNP Paribas S.A.	Pepees S.A.	9,822	3,694	25.02.2022
Investment loan to upgrade the dust removal system of coal boilers	BOŚ S.A.	Pepees S.A.	1,200	442	31.12.2020

Loan type /Agreement/	Lending bank	Borrower	Contractual loan amount	Debt as at 30.06.2019	Repayment date
1	2		3	4	5
Investment loan to finance and refinance the acquisition of 100% of shares in Gospodarstwo Rolne Ponary Sp. z o. o.	Powszechna Kasa Oszczędności Bank Polski S.A.	Pepees S.A.	10,530	9,151	30.06.2025
Overdraft facility	Santander Bank Polska S.A.	ZPZ Lublin Sp. z o.o.	750	-	31.08.2019
Revolving loan	Santander Bank Polska S.A.	ZPZ Lublin Sp. z o.o.	4,250	1,594	31.08.2019
Working capital loan	Santander Bank Polska S.A.	ZPZ Lublin Sp. z o.o.	2,000	388	31.08.2019
Overdraft facility	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ Lublin Sp. z o.o.	750	-	31.08.2019
Revolving loan	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ Lublin Sp. z o.o.	4,250	1,192	31.08.2019
Working capital loan for the purchase of potatoes	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ Lublin Sp. z o.o.	2,000	633	31.08.2019
Overdraft facility	Powszechna Kasa Oszczędności Bank Polski S.A.	Bronisław S.A.	700	-	31.08.2019
Revolving loan	Santander Bank Polska S.A.	Bronisław S.A.	4,000	1,500	31.08.2019
Working capital loan	Santander Bank Polska S.A.	Bronisław S.A.	7,800	2,538	31.08.2019
Overdraft facility	Powszechna Kasa Oszczędności Bank Polski S.A.	Bronisław S.A.	700	0	31.08.2019
Revolving loan	Powszechna Kasa Oszczędności Bank Polski S.A.	Bronisław S.A.	4,000	1,496	31.08.2019
Working capital loan for the purchase of potatoes	Powszechna Kasa Oszczędności Bank Polski S.A.	Bronisław S.A.	7,800	2,537	31.08.2019
Investment loan taken out to upgrade the starch drying department and build the protein recovery system	BOŚ S.A.	Bronisław S.A.	8,456	8,065	31.12.2027
Investment loan to finance/refinance the purchase of a real property by PPZ Bronisław	Santander Bank Polska S.A.	Bronisław S.A.	800	392	30.11.2021
Revolving loan	Santander Bank Polska S.A.	Bronisław S.A.	2,000	2,000	31.08.2019
Syndicated investment loan	Spółdzielczy Bank Rozwoju in Szepietowo and Bank Spółdzielczy in Ostrowia Mazowiecka	CHP Energia Sp. z o.o.	12,830	9,642	31.12.2023
Working capital loan associated with conducted business activities	Spółdzielczy Bank Rozwoju in Szepietowo	CHP Energia Sp. z o.o.	800	201	31.12.2019

Loan type /Agreement/	Lending bank	Borrower	Contractual loan amount	Debt as at 30.06.2019	Repayment date
1	2		3	4	5
Working capital loan to finance current liabilities	Spółdzielczy Bank Rozwoju in Szepletowo	CHP Energia Sp. z o.o.	3,000	2,007	31.05.2022
Working capital loan associated with conducted business activities	Spółdzielczy Bank Rozwoju in Szepletowo	CHP Energia Sp. z o.o.	2,500	1,250	13.09.2019
Working capital loan associated with business activities	Spółdzielczy Bank Rozwoju in Szepletowo	CHP Energia Sp. z o.o.	300	150	15.12.2019
Total		PLN	152,238	70,152	

Interest rates for short-term loans are based on WIBOR rate for one-month deposits plus the banks' margins, and for long-term loans on WIBOR rate for three-month deposits plus the banks' margins. All loans are denominated in PLN.

In the first half of 2019, none of the Group's loans were terminated and the Group companies did not terminate any loan agreements during that period.

10. Cash loans, guarantees and sureties granted

In the reporting period, PEPEES S.A. issued one endorsement of 03.01.2019 to SBR in Szepletowo to repay a working capital loan of PLN 300 thousand granted to the subsidiary CHP Energia Sp. z o.o. The endorsement was issued until 15.12.2019.

In addition, as at the balance sheet date, the sureties granted and received in previous reporting periods remain valid.

Sureties granted by the parent company PEPEES S.A. as at 30.06.2019:

The agreement of 9 June 2014 concerning the conditions of granting a security for a loan repayment concluded between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o. Pursuant to the agreement, PEPEES S.A. grants the security for the repayment of the investment loan taken out by CHP Energia Sp. z o.o. The value of the investment loan taken by CHP Energia Sp. z o.o. amounts to PLN 12,830 thousand. The security granted by PEPEES S.A. is in the form of an endorsement to the amount of PLN 12,224 thousand for the period until 25.05.2024.

The agreement of 14 September 2017 concerning the conditions of granting a security for a loan repayment concluded between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o. Pursuant to the agreement, PEPEES S.A. grants the security for the repayment of the working capital loan taken out by CHP Energia Sp. z o.o. The value of the working capital loan taken by CHP Energia Sp. z o.o. amounts to PLN 3,000 thousand. The security granted by PEPEES S.A. is in the form of an endorsement on bills of exchange up to the amount of PLN 2,800 thousand. (the amount of debt as at the endorsement day).

The agreement of 14 September 2017 concerning the conditions of granting a security for a loan repayment concluded between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o. Pursuant to the agreement, PEPEES S.A. grants the security for the repayment of the working capital loan taken out by CHP Energia Sp. z o.o. The value of the working capital loan taken by CHP Energia Sp. z o.o. amounts to PLN 800 thousand.

The security granted by PEPEES S.A. is in the form of an endorsement up to the amount of PLN 710 thousand (the amount of debt as at the endorsement day).

The agreement of 14 September 2017 concerning the conditions of granting a security for a loan repayment concluded between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o. Pursuant to the agreement, PEPEES S.A. grants the security for the repayment of the working capital loan taken out by CHP Energia Sp. z o.o. The value of the working capital loan taken by CHP Energia Sp. z o.o. amounts to PLN 2,500 thousand. The security granted by PEPEES S.A. is in the form of an endorsement up to the amount of PLN 2,500 thousand.

The agreement of 30 July 2018 concerning the conditions of granting a security for a loan repayment concluded between PEPEES S.A. in Łomża and PPZ Bronisław S.A. Pursuant to the agreement, PEPEES S.A. provides security for the Investment Loan from Foreign Credit Lines taken out by PPZ Bronisław S.A. The value of the investment loan taken out by PPZ Bronisław S.A. amounts to PLN 8,456 thousand. The security granted by PEPEES S.A. is in the form of the statement on the submission to execution certified by a notary public up to PLN 12,684 thousand.

Sureties granted to the Parent Company PEPEES S.A. as at 30.06.2019:

Short-term loans are secured with e.g. mortgages on the assets of the subsidiaries: ZPZ LUBLIN Sp. z o.o. and PPZ BRONISŁAW S.A.

The investment loan for the purchase of shares from Gospodarstwo Rolne PONARY is secured by a mortgage of PLN 15.8 million established on land properties of PONARY.

A compensation has been set for granted and received sureties, which is calculated on a monthly basis in accordance with the concluded agreements specifying the terms of such sureties.

In the reporting period and until the date of this report, the companies of PEPEES Group have not granted any material loans, sureties or guarantees.

The total value of sureties or guarantees granted by PEPEES to entities from PEPEES Group as at 30.06.2019 amounts to PLN 31 million.

11. Off-balance sheet items in PEPEES Group

Movement on off-balance sheet items of PEPEES Group is presented in the table below:

Table 4: Movement on off-balance sheet items

MOVEMENT ON CONTINGENT ASSETS (BY TITLES)	For the period of 6 months ended on 30 June 2019	For the period of 12 months ended on 31 December 2018	For the period of 6 months ended on 30 June 2018
a) opening balance, including:	28,731	13,603	13,603
- value of land used under the right of perpetual usufruct	12,936	13,603	13,603
- surety of GR PONARY for investment loan	15,795	-	-
b) increases (due to)	-	25,528	15,795
- value of land used under the right of perpetual usufruct	-	9,733	-
- surety of GR PONARY for investment loan	-	15,795	15,795
c) utilisation (due to)	-	-	-
d) closing balance, including:	28,731	39,131	29,398
- value of land used under the right of perpetual usufruct	12,936	23,336	13,603
- surety of GR PONARY for investment loan	15,795	15,795	15,795

MOVEMENT ON CONTINGENT LIABILITIES (BY TITLES)	For the period of 6 months ended on 30 June 2019	For the period of 12 months ended on 31 December 2018	For the period of 6 months ended on 30 June 2018
a) opening balance, including:	32,142	19,052	19,052
- liabilities related to non-competition agreements	1,224	818	818
- loan sureties to related parties	30,918	18,234	18,234
b) increases (due to)	222	13,090	-
- liabilities related to non-competition agreements	222	406	-
- loan sureties to related parties	-	12,684	-
c) closing balance, including:	32,364	32,142	19,052
- liabilities related to non-competition agreements	1,446	1,224	818
- loan sureties to related parties	30,918	30,918	18,234

12. The use of proceeds from shares issued or the acquisition of treasury shares

In the first half of 2019, the Company and the Group did not issue any shares and did not acquire any Treasury shares.

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

The Company and the Group did not publish financial forecasts for 2019.

14. Financial resources management assessment

In the first half of 2019, the Parent Company and the Group were fully capable of meeting their obligations towards both suppliers and financial institutions. There was no risk of default.

Throughout the first half of 2019, PEPEES Group had the full capacity to meet its obligations throughout the year.

In the first half of 2019, the Company invested its surplus cash in bank term deposits and in corporate bonds of SBR in Szepietowo, and did not use any other financial instruments.

Also, in the next reporting period, there should be no risk of losing financial liquidity by the Group. Any cash surpluses are invested in short-term deposits.

15. Risk-related financial instruments, and the objectives and methods of financial risk management

The information on used financial instruments and the financial risk are the same for the Group and the Parent Company, which coordinates the process of managing the aforementioned risk at the Group level.

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

In the reporting period, the Group did not conclude transactions involving derivatives.

It also did not apply hedge accounting.

Other instruments arising directly in the course of business comprised trade receivables and payables.

The main financial risks in the first half of 2019 include the risk of changes in market prices of products manufactured by the Group, and the currency risk. The Company's main objective in the area of the management of these risks is their elimination or mitigation.

The Group's business risk is closely related to changes in product prices on the Polish market and foreign exchange rates, whose fluctuations affect the revenue from export sales. Also, the purchase prices of imported materials for the production process depend on the level of currency risk.

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

The liquidity risk in the Group is not deemed high. This is due to the proper implementation of the trade credit management policy. KUKE S.A. evaluates counterparties and insures receivables.

Any cash surpluses are invested in short-term deposits, which make it possible to pay obligations when due. In periods of greater demand for working capital, i.e. during the 'potato campaign', the short-term bank loan for the purchase of potatoes, whose individual tranches are closely correlated with the schedule of the purchases of the raw material for the production process, is the main financial instrument used by the companies in the Group.

Boards of Directors of the companies verify and agree on the management policies for each of the risks. They monitor the market price risk for all financial instruments held by them.

16. Completed and planned investment projects

In the first half of 2019, PEPEES Group carried out many investment projects as well as overhaul and construction works. The most important of them are as follows:

Main investment projects:

- Stage III of the upgrade of the Raw Material Washing and Feeding Station.
- Assembly and launch of an automatic machine for packing starch in 25-kg bags.
- Rebuilding of a part of the existing boiler room and the construction of a gas boiler, an indoor gas supply system with the above-ground outdoor part and the construction of a steel chimney.
- Purchase, assembly and launch of a line for packing starch in 0.5 kg and 1 kg packaging with associated equipment and systems.
- Migration of the automation system controlling the washout and fine fibrin system.
- Purchase, assembly and launch of a compressed air container station.
- Construction, delivery and assembly of two production tanks in the Syrup Production Unit.
- Upgrade of the system of controlling the receipt and distribution of concentrated agents for CIP system.
- Upgrade of the potato rasps.
- Construction of structures (a tent hall, a steel umbrella roof, the extension of the commercial building).
- Upgrade of the heat distribution networks.
- Upgrade of the power supply system for Pumping Station No. 1 at Kupiski-Jednaczewo facility.
- Upgrade of the household sewage pre-treatment system.
- Purchase of laboratory equipment (climatic chamber, incubator, moisture analyzer, electrical conductivity meter).
- Expansion of the Water Treatment Station with two filtering towers.
- Implementation of the fire detection and alarm system in transformer stations.
- Upgrade of the filtered water pipeline.

In the next half of 2019, the Group will continue commenced investment projects as well as overhaul and construction works.

17. Environmental issues

When doing its business, the Group makes every effort to observe environmental requirements. The Company complies with all applicable legal regulations and laws, and holds all applicable permits related to emissions of pollutants, water intake, wastewater disposal or waste production. The Company monitors environmental impacts through periodical measurements and recording of the size and characteristic parameters of the streams of air pollutant emissions and waste, and of the water intake and discharged wastewater. The present scope of the monitoring, determined in the administrative permits held by the Company, should be regarded as sufficient to assess the operation of the systems.

Waste is managed in conditions which prevent the contamination of the environment and ensure human health and safety.

The Group maintains quantitative and qualitative waste management records in accordance with the adopted classification and model documents referred to in relevant regulations.

PEPEES Group operates the Integrated Management System, including quality management, environmental management and H&S management, and the quality management system in laboratories. The Group's companies maintain quantitative and qualitative waste management records in accordance with the adopted classification and model documents referred to in relevant regulations.

It should be emphasised, however, that due to the higher and higher environmental protection requirements, PEPEES Group, in the adopted Strategy for 2019-2024, provides for necessary measures related to water and wastewater management. This will involve the planning and implementation of investment projects resulting from such requirements.

18. Employment in the Group

Table 5: Headcount in PEPEES Group

Specification	Average number of employees in the first half of 2019	As at 30.06.2019		Average number of employees in the previous financial year 2018
		Women	Men	
Administrative employees	155	87	71	150
Workers	299	23	225	347
Employees on unpaid leaves	2	-	1	-
Total	456	110	297	497

19. Major R&D accomplishments

In the first half of 2019, the Group did not carry out any major R&D works.

20. Non-typical events with a significant impact on the Group's profit/loss on business activities in the first half of 2019

During the reporting period, there were no non-typical items affecting the financial result.

21. Corrections of errors from previous periods and changes in accounting policies

The Group did not change voluntarily its accounting policies and did not correct errors from previous years.

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

22. The statement of changes in the holding of the Issuer's shares or rights to them by members of the Issuer's Board of Directors and the Supervisory Board

Mr Wojciech Faszczewski, President of the Board of Directors, holds 701,000 shares of the Company. The person referred to above does not have rights to the Company's shares.

Mr Tomasz Krzysztof Rogala and members of the Supervisory Board do not hold any shares of the Company or any rights to them.

From the date of the publication of the previous interim financial statements, i.e. from 15 May 2019, until the date of the publication of these financial statements, managing and supervisory personnel have not made transactions related to the Company's shares or rights to them.

None of the members of the management and supervisory personnel hold shares in the Group's subsidiaries.

23. The Parent Company's quotations in the first half of 2019

The Company's shares have been listed on the Warsaw Stock Exchange since 22 May 1997. The share price on 2 January 2019 (the opening share price on the first day of 2019) was PLN 1.25, and on 28 June 2019, PLN 1.65. The highest share price in the reporting period was PLN 1.86 and the lowest share price was PLN 1.20. The following chart shows share prices of PEPEES in the first half of 2019.

Figure 4: Share prices of PEPEES in the first half of 2019



24. Agreements, known to the Issuer, which may result in future changes in the proportions of the shares held by existing shareholders

The Issuer does not possess any information about any agreements which may result in future changes in the proportions of the shares held by existing shareholders.

25. The holders of any securities with special control rights related to the Issuer, and a description of those rights

The Issuer's shareholders do not have any securities with special control rights related to the Issuer.

26. The system of control of any employee share schemes

The Group does not have any system of control of employee share schemes.

27. Any restrictions on the transfer of the Issuer's securities, and any restrictions on voting rights incorporated in the Issuer's shares

One of the Company's shareholders: EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych with its registered office in Warsaw, due to the breach of the obligation to notify of the acquisition of qualifying holdings pursuant to Article 89(1)(1) of the Polish Act on public offering and the conditions for introducing financial instruments to an organised trading system, and on public companies, has lost and may not exercise its voting rights attached to 21,402,233 shares. Therefore, the Company's Board of Directors filed a lawsuit with the Regional Court in Białystok to assert the facts. Epsilon FIZ AN takes a different position and maintains that it has the right to vote from 27,714,832 shares accounting for 29.17% of the total number of votes at the General Meeting of Shareholders. The Chairman of the Polish Financial Supervision Authority entered the case presenting their position on 24 July 2019. The Board of Directors is awaiting the final and valid court decision. The Company informed about the issue in current reports Nos. 13/2019, 14-23/2019 and 30/2019.

28. Summary of activities in the reporting period

In the period of the first half of 2019, PEPEES Group generated sales revenue of PLN 127,087 thousand as compared to the same period in the previous year – PLN 116,757 thousand, which denotes a 8.8% increase.

Lower growth rate of the cost of sales as compared to the previous year by 4.2% against an increase in the sales revenue growth rate resulted in the achievement of a satisfactory gross profit on sales of PLN 43,999 thousand, which means an increase by 46.4% as compared to the same period in the previous year.

Selling and marketing expenses in the first half of 2019 increased by 3.7% as compared to the comparative period and general administrative expenses also increased by 7.5%.

The balance of other operating activities in the period of six months of 2019 closed at PLN 43 thousand against PLN 52 thousand in the comparative period.

In turn, in the period from January to June 2019, the result on financing activities (understood as the balance of finance income less finance costs) deteriorated as compared to the corresponding item in the comparative period.

As a result of the above, gross profit after the first half of 2019 amounted to PLN 21,917 thousand against PLN 9,884 thousand of gross profit generated in the comparative period, and net profit in the period from January to June 2019 amounted to PLN 16,696 thousand against PLN 7,454 thousand of net profit in the corresponding period of 2018, i.e. it increased by 124%.

29. Concise description of major accomplishments or failures of PEPEES Group in the first half of 2019, and the list of the most important events pertaining to them

During the first half of 2019, there were no major accomplishments or failures in PEPEES Group, subject to this report.

30. Other information, which, in the opinion of the Group, is material for the assessment of its staff, assets, financial standing, financial performance and their changes, and information material for the assessment of the potential satisfaction of the Group's commitments

In the first half of 2019, there were no events other than those described in this report, which could be material for the assessment of the staff, assets, financial standing, financial performance and their changes, and material for the assessment of the potential satisfaction of commitments by PEPEES Group.

31. Factors likely, in the Issuer's and the Group's opinion, to influence the results accomplished by them in the period of at least one subsequent half of the year

In the next half of the year, the following factors will exert significant impact upon results:

- quantity and value of purchased potatoes – the basic raw material for production;
- the price of starch on the Polish and global markets;
- exchange rates – the Group is an exporter;
- basic interest rates.

The Group has loans bearing interest rate based on WIBOR.

In the next half of 2019, PEPEES Group will perform concluded agreements and conduct operations being the basis of its functioning, including production, trade and service provision activities.

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

PEPEES S.A. and its subsidiaries concluded the agreement concerning the review and audit of the financial statements for 2018-2019 with **WBS Audyt Sp. z o.o.** with its registered office in Warsaw, Poland.

The agreements provide for the review of the separate and consolidated financial statements as at 30 June 2018 and 30 June 2019, and for the audit of the separate and consolidated financial statements for the years 2018-2019. The total remuneration under the agreement payable for 2019 is PLN 59,700 plus VAT.

There were no other agreements concluded in the reporting period and in the previous period with the entity authorised to audit financial statements.

33. Information about proceedings before a court, a competent arbitration authority or a public administration body

On 25.06.2019, the Board of Directors of Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A. filed a lawsuit to court to assert that the Company's shareholder: EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (“Epsilon FIZ AN”), which — according to the information available to the Company — holds 27,714,832 shares, due to the breach of the obligation to notify of the acquisition of qualifying holdings pursuant to Article 89(1)(1) of the Polish Act on public offering and the conditions for introducing financial instruments to an organised trading system, and on public companies, has lost and may not exercise its voting rights attached to 21,402,233 shares. Epsilon FIZ AN takes a different position and maintains that it has the right to vote from 27,714,832 shares accounting for 29.17% of the total number of votes at the General Meeting of Shareholders. The Chairman of the Polish Financial Supervision Authority entered the case presenting their position on 24 July 2019. The Board of Directors is awaiting the final and valid court decision. The Company informed about the issue in current reports Nos. 13/2019, 14-23/2019 and 30/2019.

As at the date of this report, there is an unresolved legal action brought by EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych with its registered office in Warsaw against PEPEES S.A. to repeal or to declare the invalidity of resolutions Nos. 24-29 adopted on 28.06.2019 by the Annual General Meeting of Shareholders, including resolution No. 28, on the amendment to the Company's Articles of Association and authorising the Company's Board of Directors to increase the Company's share capital within the limits of the authorised capital, with the possibility of depriving existing shareholders by the Board of Directors of all or part of their pre-emptive rights with the consent of the Company's Supervisory Board.

Within the remaining scope, there are no other significant proceedings before a court, a competent arbitration authority or a public administration body regarding liabilities and receivables of the Issuer or its subsidiaries.

III. ASSETS AND FINANCIAL STANDING

1. The Group's assets

Assets as at 30 June 2019 as compared to 31 December 2018 are shown in the table below.

Table 6: Assets as at 30.06.2019 and 31.12.2018

Asset	As at		Changes in amounts + increases - decreases	Structure ratios in %	
	30.06.2019	31.12.2018		30.06.2019	31.12.2018
I. NON-CURRENT ASSETS	194,147	173,688	20,459	62.4	52.0
1. Property, plant and equipment	173,726	164,885	8,841	55.9	49.4
2. Intangible assets	227	534	(307)	0.1	0.2
3. Rights to assets	11,110	47	11,063	3.6	-
4. Investment properties	400	-	400	0.1	-
5. Goodwill	3,140	3,140	-	1.0	0.9
6. Investments in other entities	613	113	500	0.2	-
7. Cash loans	-	-	-	-	-
8. Advances	35	-	35	-	-
9. Deferred tax assets	4,896	4,969	(73)	1.6	1.5
II. CURRENT ASSETS	116,860	160,237	(43,377)	37.6	48.0
1. Inventories	35,886	78,065	(42,179)	11.5	23.4
2. Biological assets	2,148	330	1,818	0.7	0.1
3. Trade receivables	32,908	27,651	5,257	10.6	8.3
4. Other receivables	2,803	6,044	(3,241)	0.9	1.8
5. Advances	7,680	1,964	5,716	2.5	0.6
6. Cash loans	895	941	(46)	0.3	0.3
7. Other financial assets	5,436	5,436	-	1.7	1.6
8. Cash and cash equivalents	29,104	39,806	(10,702)	9.4	11.9
Total assets	311,007	333,925	(22,918)	100.00	100.00

The Group assets being the total balance of the assets as at 30 June 2019 and amounting to PLN 311,007 thousand decreased by PLN 22,918 thousand, i.e. by 6.9%, as compared to the end of the year.

Mainly current assets decreased (a decrease by PLN 43,377 thousand), in particular related to inventories, due to seasonal processing of potatoes. Also cash decreased as a result of the repayment of short-term loans. The value of other receivables decreased. On the other hand, trade receivables increased in connection with the sales of seed potatoes and pesticides with the payment deadline until the time of delivering potatoes for processing. Non-current assets increased by PLN 20,459 thousand. This was caused in particular by the recognition in the financial statements of the right to assets (the right to perpetual usufruct of land) resulting from the first-time adoption of IFRS 16. The increase in property, plant and equipment also had a significant impact. This means that the Group invests in the company's assets.

2. Sources of financing for the Group

Sources of financing assets as at 30 June 2019 as compared to the assets as at 31 December 2018 are shown in the table below.

Table 7: Sources of financing assets as at 30.06.2019 and 31.12.2018

Sources of financing	As at		Changes in amounts + increases - decreases	Structure ratios in %	
	30.06.2019	31.12.2018		30.06.2019	31.12.2018
I. Equity	172,168	166,476	5,692	55.4	49.9
<i>Equity attributable to equity holders of the parent</i>	170,622	165,399	5,223	54.9	49.5
1. Share capital	5,700	5,700	-	1.8	1.7
2. Reserve capital and other reserves	152,918	141,857	11,061	49.2	42.5
3. Revaluation reserve	(44)	(26)	(18)	-	-
4. Retained earnings/loss	(4,179)	(5,223)	1,044	(-1.3)	(-1.6)
5. Profit/loss for the year	16,227	23,091	(6,864)	5.2	6.9
<i>Non-controlling interests</i>	1,546	1,077	469	0.5	0.3
II. Non-current liabilities	57,157	50,293	6,864	18.4	15.1
1. Loans and borrowings	27,367	30,398	(3,031)	8.8	9.1
2. Liabilities related to leased assets	14,822	4,775	10,047	4.8	1.4
3. Deferred tax liabilities	6,378	6,470	(92)	2.1	1.9
4. Retirement and similar benefits obligations	2,640	2,381	259	0.8	0.7
5. Grants	5,950	6,269	(319)	1.9	1.9
6. Other liabilities	-	-	-	-	-
III. Current liabilities	81,682	117,156	(35,474)	26.3	35.1
1. Trade payables	11,396	13,063	(1,667)	3.7	3.9
2. Current income tax liabilities	2,694	1,712	982	0.9	0.5
3. Other current liabilities	17,233	4,749	12,484	5.5	1.4
4. Loans and borrowings	42,786	90,644	(47,858)	13.8	27.1
5. Finance lease payables	3,812	2,876	936	1.2	0.9
6. Retirement benefits obligations	270	296	(26)	0.1	0.1
7. Provisions for other liabilities and other charges	3,491	3,816	(325)	1.1	1.1
Total equity and liabilities	311,007	333,925	(22,918)	100.0	100.0

In the entire reporting period, the Group's equity was the largest source of financing assets; its value increased by PLN 5,692 thousand, i.e. by 5.5 percentage points. Reserve capital and other reserves increased due to the distribution of the present year's profit. They increased by PLN 11,061 thousand. On 28 June 2019, the Annual General Meeting of Shareholders of "PEPEES" S.A. adopted Resolution No. 15 on the allocation of profit for the financial year 2018 of PLN 17,442,179.57 in such a way that a portion of the profit, i.e. PLN 11,400,000 is allocated to the payment of dividend of PLN 0.12 (twelve groszes) per share, while the rest of the profit of PLN 6,042,179.57 is allocated to the Company's reserve capital.

The day on which the list of shareholders entitled to dividend payment is established has been set for 8 July 2019. The dividend payment date has been set for 27 September 2019.

Non-current liabilities increased by PLN 6,864 thousand, in particular due to an increase in liabilities related to leased assets. This is mainly due to the adoption of IFRS 16 and the recognition of a liability related to perpetual usufruct in the books of account of companies from PEPEES Group.

Current liabilities decreased by PLN 35,474 thousand. This was mainly due to the repayment of short-term loans and borrowings.

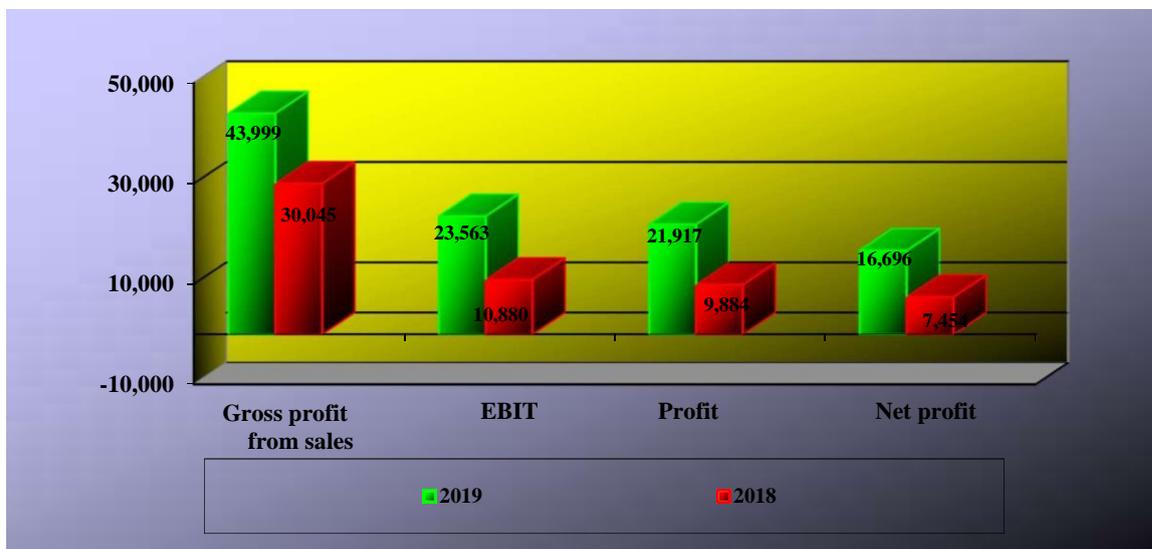
3. The Group's financial results

The financial results from the Group's business activities for the first half of 2019 and 2018 are shown in the table and figure below.

Table 8: Financial result for the first half of 2019 and of 2018

No.	Specification	Actual results for the first half of 2019	Actual results for the first half of 2018	Growth rate in %
1	Sales revenue	127,087	116,757	108.8
	- revenue from the sales of products	109,972	101,963	107.9
	- revenue from the sales of services	414	586	70.6
	- revenue from the sales of trade goods and materials	16,701	14,208	117.5
2	Costs of sold products, trade goods and materials	(83,088)	(86,712)	95.8
	- costs of products sold	(68,053)	(73,649)	92.4
	- costs of services sold	(202)	(90)	224.4
	- costs of trade goods and materials sold	(12,740)	(12,066)	105.6
	- profit/loss from agricultural production	(2,093)	(907)	230.8
3	Gross profit from sales	43,999	30,045	146.4
	- selling and marketing expenses	(4,964)	(4,789)	103.7
	- administrative expenses	(15,515)	(14,428)	107.5
	- other operating income	579	590	98.1
	- other operating expenses	(536)	(538)	99.6
4	Profit on operating activities	23,563	10,880	216.6
	- finance costs	(1,904)	(1,523)	125.0
	- finance income	258	527	49.0
5	Profit before tax	21,917	9,884	221.7
	- income tax expense	(5,221)	(2,430)	214.9
6	Net profit, including:	16,696	7,454	224.0
7	Profit attributable to equity holders of the parent company	16,227	7,487	216.7
8	Profit attributable to non-controlling interests	469	(33)	(-1,421.2)

Figure 5: PEPEES Group's financial results



In the analysed period, the growth rates of the financial result and its computational elements show differentiated, i.e. both upward and downward, tendencies. In the reporting period, EBIT increased by 116.6%. This is due to a higher growth rate by 8.8% in the case of the revenue from the sales of products, and trade goods and materials and, at the same time, a decrease in the total costs of products, trade goods and materials sold by 4.2% as compared to the previous year.

As a result, gross profit on sales increased by 46.4% as compared to the previous year. Despite the increase in selling and marketing expenses, general administrative expenses and finance costs, gross profit was PLN 21,917 thousand, which means an increase by 121.7% as compared to the previous reporting period. In the first half of the year, net profit was PLN 16,696 thousand, which means an increase by 124.0 percentage points.

4. Cash flows

In the first half of 2019, PEPEES Group recorded negative net cash flow balance due to the high repayment level of short-term loans. The balance from operating activities is positive and amounts to PLN 56,749 thousand. The balance from investing activities was negative at the level of PLN 13,090 thousand mainly due to the acquisition of intangible assets and property, plant and equipment. The balance from financing activities was a negative amount, i.e. PLN 54,934 thousand mainly due to the repayment of loans and borrowings. Cash in the consolidated statement of cash flows as at 30 June 2019 is positive and amounts to PLN 28,489 thousand.

5. Economic ratios

The summary of ratios characterising the Group's business and situation in the first half of 2019 is presented in Table 9 below.

Table 9: Economic ratios

Ratio	Commercial substance	2019	2018
Return on Assets	$\frac{\text{net profit/loss attributable to equity holders of the Company} \times 100}{\text{total assets}}$	5.22%	2.88%
Return on Equity	$\frac{\text{net profit/loss attributable to equity holders of the Company} \times 100}{\text{equity}}$	9.51%	5.03%
Net Profit Margin	$\frac{\text{net profit/loss attributable to equity holders of the Company} \times 100}{\text{net revenue from the sales of products, services, trade goods and materials}}$	12.77%	6.41%
Return on Sales	$\frac{\text{gross profit/loss from sales} \times 100}{\text{net revenue from the sales of products, services, trade goods and materials}}$	34.62%	25.73%
Cash Ratio	$\frac{\text{total current assets}}{\text{current liabilities}}$	1.43	1.63
Quick Ratio	$\frac{\text{total current assets} - \text{inventories}}{\text{current liabilities}}$	0.99	1.05
Receivables Turnover** in days	$\frac{\text{average trade receivables} \times 180}{\text{net revenue from the sales of products, services, trade goods and materials}}$	42.89	44.50
Accounts Payable Turnover in days**	$\frac{\text{average trade payables} \times 180}{\text{costs of trade goods and services sold} + \text{value of trade goods and materials}}$	26.49	32.17
Inventory Turnover in days**	$\frac{\text{average inventories} \times 180}{\text{costs of products and services sold} + \text{value of trade goods and materials}}$	123.43	125.57
Equity to Fixed Assets	$\frac{\text{equity attributable to the shareholders of the Company} \times 100}{\text{total non-current assets}}$	0.88	0.95
Gearing Ratio	$\frac{(\text{equity attributable to equity holders of the Company} + \text{non-current provisions} + \text{non-current liabilities}) \times 100}{\text{total equity and liabilities}}$	0.64	0.67

*To calculate turnover ratios, amounts as at the beginning and as at the end of each reporting period were used.

IV. The development of the Issuer and of the Group

1. Description of underlying risks and threats and of external and internal drivers of the development of the Parent Company and PEPEES Group

1.1. Risks and threats

✓ **The dependence of the production on weather and seasonality**

Potatoes are the main raw material for the production process. As a result, the volume and quality of the production depends on the potatoes harvest. Adverse weather conditions contribute to the reduction of potatoes harvest and of the starch content.

✓ **Product portfolio imbalance**

The introduction of new products to the mix is necessary to balance the product portfolio and to ensure the Group's development. It should be emphasised in this context that several plants competing directly with Pepees Group declare the production of starch-based modified products, which become more and more popular on the European and Polish markets.

✓ **Globalisation**

Globalisation is noticeable mainly in terms of competitiveness. At present, there is strong competition from substitutes. In the food industry, there are a lot of products that perform similar functions (fillers and thickeners) as potato starch, i.e. wheat starch, corn starch, imported natural hydrocolloids such as guar gum, xanthan gum, gum arabic, locust bean gum and gelatin.

In addition, there is a lot of competition on the internal starch market in the European Union.

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

Due to high costs of potato production, it is being supplanted by other more profitable agricultural crops. In addition, the north-eastern part of Poland became a large production region for the dairy industry, which 'steals' agricultural areas from other industries. For this reason, it is getting more and more difficult to find new growers in the areas near the plant. As a result, the Group is forced to purchase raw materials from remote regions of Poland, which results in reduced profitability.

✓ **Currency risk**

Such risk arises as a result of the international trade in currencies other than the Polish złoty. Substantial fluctuations of currency exchange rates adversely affect the profitability of foreign transactions.

✓ **Interest rate risk**

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

✓ **Economic fluctuations**

The state of the economic activity in the world, in Poland and in a particular sectors, affects the operations of a company through a variety of indicators and ratios (GDP, prices, wages, employment).

✓ **Too expensive instruments that increase sales safety**

Granting credits to customers increases the risk of the failure to get paid for deliveries. Financial products offered on the market are expensive and significantly prolong transactions.

✓ **The sale of a product posing a risk to consumer health and life**

The Group manufactures food. In the case of the sale of a product posing a risk to consumer health or life, the Group's image would be severely tarnished, and the Group would have the obligation to pay compensations to customers and consumers, and to cover the costs related to the product recall and disposal.

The risk is very limited due to the Corporate Food Quality and Safety Management System.

The product recall procedure has been implemented, and recall simulations are carried out.

1.2. External drivers of the successful development of the Issuer and the Group

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

The main drivers of the successful development are as follows:

- ✓ The development of the Polish potato industry. For many years now, the Polish potato industry has been undergoing thorough structural remodelling. These changes result in greater professionalism of the potato production, which, in the future, may contribute to greater competitiveness of the Polish potato industry. The total number of farms producing potatoes is on the decrease, while, at the same time, the production is more concentrated and specialised.
- ✓ the possibility of obtaining financial means to finance investment projects;
- ✓ the market demand for modified potato starch products;
- ✓ the access to new and modern technologies;
- ✓ the development of markets in international trade;
- ✓ the development of specialised agricultural holdings;
- ✓ a wide range of the applications of starch and its derivatives;
- ✓ area payments for starch potatoes.

1.3. Internal drivers of the successful development of the Issuer and the Group

The most vital internal drivers important for their further development are as follows:

- ✓ Regular investments in and gradual upgrade of production departments in order to boost the efficiency and innovation of products, and to reduce operating costs.
- ✓ Active response to market needs and requirements.
- ✓ Implemented Corporate Food Quality and Safety Management System with appropriate certificates.
- ✓ Implemented GMP (good manufacturing practice) system for manufacturers of active substances.
- ✓ The Company's compliance with Smeta; the presence on SeDeX platform.
- ✓ Very good cooperation with growers throughout the year.
- ✓ the possibility of producing hydrolysates to meet specific customers' needs;
- ✓ High production capabilities.
- ✓ The implementation of investment strategies and taking investment measures.
- ✓ Ensuring the necessary level of financing for the Group's development investments.
- ✓ The expansion of the product range.
- ✓ Employees' expertise and experience.

2. Development prospects for the Issuer and the Group

The processing of potatoes will still remain PEPEES Group's most important line of business; last year, this segment recorded a major increase in its production and sales. The Group has begun to expand into new foreign markets, especially in East Asia, Southeast Asia, Africa, South America and developing European countries. This objective is being accomplished through the implementation of the export growth programme as part of the announced strategy. The Group will continue its research and development works in the cooperation with research institutes which specialise in research on the processing of starch and its derivatives, both as regards issues related to the company's current business and a new range of products.

The Company is in the development phase, is focused on investing in new technologies and products as well as on technological expansion and modernisation. In 2013-2018, the Company allocated the generated profit to achieve these goals. The continuation of this ambitious investment plan will require significant external financing.

Due to the growing competitive pressure related to the activities of other processors, both in Poland and Europe, it is necessary however to ensure the Group's development in order to maintain its position on the market. This objective is the core goal of the Strategy of the Pepees Group for 2019-2024 adopted on 12 June 2019 as described in section 3 below.

At the same time, the maximum rate of return on investment while maintaining a moderate level of investment risk remains the Group's objective. PEPEES Group's strategy assumes carrying out parallel development activities by increasing the efficiency of the operations of the Group companies and minimising the risks to which they are exposed as well as carrying out further investing activities. In the case of the emergence of attractive offers on the market, we will continue investing activities both in and outside the Group.

The Parent Company and the Group link their development not only with the processing of potatoes, but also with power generation in a biogas plant located in a subsidiary CHP Energia Sp. z o.o. This company combines the generation of electricity and heat (the so-called 'co-generation'), which is characterised with the highest efficiency of the conversion of primary energy into final energy. Moreover, the generation of biogas results in the production of digestate, which is a very good fertiliser for cultivation purposes. In addition, weather-independent efficiency of the production of this fuel is a great advantage of power generation from biogas. The present global situation poses new challenges in terms of the reduction of costs of heat and electricity consumption. Energy carriers are rapidly becoming more and more expensive. Investors must face an important issue of abandoning traditional sources and using instead, for example, renewable energy from biogas, which is becoming more and more popular with Polish investors and enterprises. In addition, in the area of ecological security, the disposal of waste from agricultural production and the agricultural and food processing industry is also an advantage. CHP Energia ensures the collection of potato pulp (the main waste from starch production) from the Parent Company.

3. The development strategy of the Company and PEPEES Group

In the reporting period, a strategy until 2024 was adopted.

In accordance with the Strategy, the Company's mission is to build up its position of the leader in the agricultural and food processing industry, which offers a wide range of starchy products and implements innovative products. Of the leader, which owing to that can offer a satisfying shareholder value, ensure employee satisfaction and enable the development of agricultural production in Poland by establishing long-term relationships with growers, ensuring the stability and profitability of their cultivation of input plants. As part of the implementation of the Strategy, the Company promotes the development of its customers by offering them high-quality natural starch products manufactured from agricultural raw materials and implementing innovative products.

The Company has defined the following strategic objectives:

- ✓ Increasing the value and market share of the PEPEES Group through organic growth and acquisitions.
- ✓ Expanding target markets and the product portfolio, including starch-based modified products.
- ✓ Establishing cooperation with an industry investor.
- ✓ Intensifying and improving the raw material sourcing process.
- ✓ Optimising the operation of the PEPEES Group.

Establishing the cooperation with an industry partner, in particular from the food, pharmaceutical, food supplements and children products industry, provided for in the Strategy, will be the key to further development of the Pepees Group. To implement the Strategy, proper *know-how* and considerable investments in the development of new products, particularly modified products, and state-of-the-art technologies must be ensured.

The Company, using its own funds, loans, share issues and other external sources and assuming that some capital will be provided by an industry investor, is planning to carry out activities that will enable the marketing of attractive products, including, but not limited to, the marketing of starch-based modified products on the European food and pharmaceutical market.

Detailed information about the new strategy was published in current report No. 12/2019.

4. The policy regarding directions of the development of the Issuer's Group

The policy of PEPEES Group based on the adopted Strategy for 2019-2024 is to ensure continuous development and optimisation of the product range, taking into account changing expectations and preferences of customers.

The Strategy provides for a higher sales value and bigger market share owing to organic growth and acquisitions. It envisages, among other things, the expansion and enhancement of the attractiveness of a diversified product portfolio; the expansion of target markets and the acquisition of new customers; the establishment of the cooperation with an industry partner in particular from the sectors of foodstuffs, dietary supplements and products intended for children and from the pharmaceutical industry. To implement the Strategy, proper *know-how* and considerable investments in the development of new products, particularly modified products, and state-of-the-art technologies must be ensured.

At present, the Company's financial situation is stable, the Company has been generating profit for several years now, while continuously investing and modernising its means of production. However, generated profits are not sufficient to meet the Company's needs at the high level identified presently. The expenditure on the ongoing maintenance and upgrade of machines and on the growth thought the implementation of the Strategy will be considerably higher.

At present, the issue of shares is the best way to obtain financing. For this purpose, on 28 June 2019, the Annual General Meeting of Shareholders adopted the resolution on increasing the share capital within the limits of the authorised capital. So far none of the shareholders has been able to ensure appropriate funding taking into account the challenges, level and manner of the Company's development. At present, there are no entities from the industry among the Company's shareholders. The establishment of the cooperation with an industry partner in particular from the sectors of foodstuffs, dietary supplements and products intended for children and from the pharmaceutical industry, which could provide the Company with the appropriate *know-how* and establish capital ties with the Company, would enable the acquisition of appropriate resources necessary to implement the adopted Strategy.

The Company is able to achieve these goals also due to its numerous innovative activities, primarily new production lines ensuring higher production efficiency. The Group intends to expand the range of products on offer (first of all, to add modified products to the range), diversify target markets and, above all, expand the base of materials used.

PEPEES Group intends to significantly increase starch production, which will allow it to compete with foreign enterprises. The Group's strategy provides for short-term tasks, such as those related to the improvement of the starch market in Poland and conditions for the functioning of growers, but also long-term activities to establish cooperation with an industry investor. The Group is interested in good and long-term relations with growers ensuring their stability and profitability of growing raw materials, which will make it possible for the Group to have a group of permanent suppliers of raw materials thanks to the application of a clear and understandable contract farming system.

Surplus products will be sold on foreign markets, with particular emphasis on developing markets, e.g. Asian markets. The new market strategy of the Group is based on the intensification of sales on external markets (especially on the markets of East Asia, Southeast Asia, South America and developing European countries).

This objective should be accomplished through the continuation of the Export and Domestic Market Development Programme project, which will encompass the identification of foreign outlets key for the Group and the development of the distribution system for them. The global demand for starch has been growing, so PEPEES Group is creating effective tools for the distribution and sales of domestic products.

The Strategy of PEPEES Group provides for the steady improvement of quality and cost competitiveness in relation to the leading Polish companies from the potato processing industry.

V. DECLARATION OF THE BOARD OF DIRECTORS

The Board of Directors of Przedsiębiorstwo Przemysłu Spożywczego PEPEES Spółka Akcyjna in Łomża hereby declare that to the best of their knowledge:

- the condensed consolidated financial statements for the first half of 2019 and comparative data were prepared according to the applicable accounting policies and they present a true and fair view of the financial standing and assets of PEPEES Group as well as the Group's net profit;
- the condensed financial statements of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. for the first half of 2019 and comparative data were prepared according to the applicable accounting policies and they present a true and fair view of the financial standing, assets and net profit;
- the Directors' Report on the operations of the Group for the first half of 2019 presents a true and fair view of the development, accomplishments and situation of PEPEES Group, including the description of basic threats and risks.

PERSONS REPRESENTING

Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" Spółka Akcyjna in Łomża

President of the Board of Directors – Wojciech Faszczewski



Signed by:

Wojciech Faszczewski
Przedsiębiorstwo
Przemysłu Spożywczego
PEPEES S.A.

Date: 2019-09-12 16:32

Member of the Board of Directors – Tomasz Rogala



Signed by:

Tomasz Krzysztof Rogala
Przedsiębiorstwo
Przemysłu Spożywczego
PEPEES S.A.

Date: 2019-09-12 07:46