



REPORT OF THE MANAGEMENT BOARD OF PEPEES CAPITAL GROUP

for the first half of the year ended 30 June 2021

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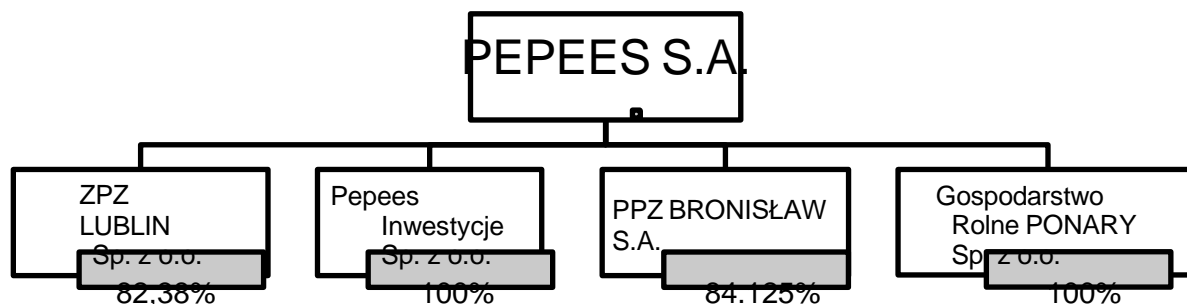
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I. CHARACTERISTICS OF PEPEES CAPITAL GROUP

1. Structure of PEPEES Capital Group

Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" Spółka Akcyjna is the Holding Company of PEPEES Capital Group. On 30 June 2021, the PEPEES Capital Group (hereinafter also: "the Group") comprised the following subsidiaries:



In addition to Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A., the Consolidated Semi-annual Report of PEPEES Capital Group for the first half of the year ended 30 June 2021, the following associated entities were subject to consolidation:

Name business	Registered office Registration Court	Subject of	Issuer's share in capital (%)	Share in the total number of shares (%)
ZPZ LUBLIN Sp. z o.o.	Lublin	Production and sale of potato syrup and dried potatoes, fruit and vegetable processing	82.38	82.38
Pepees Inwestycje Sp. z o.o.	Łomża	Sale and purchase of real property for own account	100	100
PPZ BRONISŁAW S.A.	Bronisław	Starch production and starch products	84.125	84.125
Gospodarstwo Rolne Ponary Sp. z o.o.	Łomża	Agricultural production combined with animal breeding	100	100

All subsidiaries were consolidated using the full method.

In the reporting period the structure of the Issuer's Capital Group changed – as from 30.06.2021 CHP Energia company has not been a related party. On 18.03.2021 PEPEES sold all its shares in CHP Energia company. The shares were bought by ORLEN Południe S.A., a subsidiary of PKN ORLEN S.A.

Assets and liabilities of CHP Energia Sp. z o.o. were presented in the consolidated financial statements prepared as at 31.12.2020 in compliance with IFRS 5 as held for sale.

1.1. Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. in Łomża - the Holding Entity

1.1.1. Basic information about the Holding Entity

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

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

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

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

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

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

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

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

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

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

The share capital of the Company as at 30 June 2021 and as at the date of this report amounted to PLN 5,700 thousand. It was divided into 95,000 thousand of ordinary bearer shares of a nominal value of PLN 0.06 each.

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The shareholding structure has not changed as compared to the shareholding structure at the date of the previous interim report, that is 17 May 2021.

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

SHAREHOLDER	Number of shares [pcs]	Share in capital %	Number of votes	Share in total
				number of votes at General Meeting %
Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych *27	759 032	29.22 %6	356 799	6.69 %
Michał Skotnicki**	21 399 174	22.53%	21 399 174	22.53 %
Maksymilian Maciej Skotnicki**	20 703 282	21.79%	20 703 282	21.79 %
Newth Jonathan Reginald	7 995 200	8.42%	7 995 200	8.42 %
Richie Holding Ltd.	6 133 100	6.46%	6 133 100	6.46 %
Others	11 010 212	11.59 %	11 010 212	11.59 %

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

*** Mr Maksymilian Maciej Skotnicki and Michał Skotnicki are persons referred to in article 87 sec. 4 point 1 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005, and therefore the accumulative ownership of the above mentioned persons comprises 42 102 456 shares, which accounts for 44.32% share in the share capital and 57.21% in the number of entitled votes in the Company (taking into account the loss of the possibility to exercise the voting right by EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych).*

1.1.2. The Company's authorities

As at 30 June 2021 and the date of publication of this consolidated semi-annual report, the Management Board, the Supervisory Board and the Audit committee consisted of the following members:

The Management Board

Wojciech Faszczewski President of Management Board

Tomasz Krzysztof Rogala Member of the Management Board

The Supervisory Board

Maciej Kaliński Chairman of the Supervisory Board

Tomasz Nowakowski Vice Chairman of the Supervisory Board

Robert Malinowski Secretary of the Supervisory Board

Krzysztof Stankowski Member of the Supervisory Board

Piotr Marian Taracha Member of the Supervisory Board

Agata Czerniakowska Member

**The Audit
Committee**

Maciej Kaliński Chairman of the Audit Committee

Krzysztof Stankowski Vice Chairman of the Audit Committee

Piotr Marian Taracha Member of the Audit Committee

Robert Malinowski Member of the Audit Committee

Tomasz Nowakowski Member of the Audit Committee

**1.2. Zakłady Przemysłu Ziemniaczanego „LUBLIN” Spółka z ograniczoną odpowiedzialnością
with registered office in Lublin - a subsidiary**

1.2.1. Basic information on ZPZ LUBLIN Sp. z o.o.

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

The Company has tax identification number (NIP): 9461580419. The Company operates in compliance with the provisions of the Code of Commercial Companies.

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

As at 30 June 2021, the Company's share capital amounted to PLN 2 761 200, and the shareholders were as follows:

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

1.2.2. The authorities of ZPZ LUBLIN Sp. z o.o. as at 30 June 2021

The Management Board

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

The Supervisory Board

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

1.3. Pepees Inwestycje Spółka z ograniczoną odpowiedzialnością with seat in Łomża-subsiary

1.3.1. Basic information about Pepees Inwestycje

The Company's registered office is located in Łomża, ul. Poznańska 121. The Company was established with a notary deed (Repertory A 12369/2010) on 18 October 2010 in front of notary Tomasz Poreda in Łomża.

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

The Company has tax identification number (NIP): 7182123627. The Company operates in compliance with the provisions of the Code of Commercial Companies.

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

As at 30 June 2021, the Company's share capital amounted to PLN 95000 and was divided into 1 900 equal and indivisible shares of PLN 50 each share.

1.3.2. The authorities of Pepees Inwestycje as at 30 June 2021

The Management Board

Roman Adam Minierski	President of the Management Board.
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**1.4. Przedsiębiorstwo Przemysłu Ziemniaczanego "BRONISŁAW" Spółka
Akcyjna z with registered office in Bronisław - a subsidiary**

1.4.1. Basic information about PPZ BRONISŁAW S.A.

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

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

The Company has tax identification number (NIP): 5571595182. The Company operates in compliance with the provisions of the Code of Commercial Companies.

The subject of the Company's business comprises:

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

As at 30 June 2021, the Company's share capital amounts to PLN 800 000 and is divided into 800 000 shares of the nominal value of PLN 1 each share. Shares are not privileged.

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

1.4.2. The authorities of PPZ BRONISŁAW S.A. as at 30 June 2021

The Management Board

Wojciech Faszczewski President of Management Board

Roman Adam Minierski Vice President of the Management Board

The Supervisory Board

Tomasz Nowakowski Chairman of the Supervisory

Board Stanisław Bukowski Secretary of the Supervisory

Board

Agata Czerniakowska Vice Chairperson of the Supervisory Board

Grzegorz Dobrowolski Member of the Supervisory Board

Robert Malinowski Member of the Supervisory Board.

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

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

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

The Company has tax identification number (NIP): 1132898091. The Company operates in compliance with the provisions of the Code of Commercial Companies.

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

As at 30 June 2021, the Company's share capital amounted to PLN 1 620 000 and was divided into 32 400 equal and indivisible shares of PLN 500 each share .
The company's sole shareholder is PEPEES.

1.5.2. The authorities of Gospodarstwa Rolne Ponary Sp. z o.o. as at 30 June 2021

The Management Board

Tomasz Krzysztof Rogala President of the
Management Board .

2. Business of the companies belonging to PEPEES Capital Group

PEPEES Capital Group is established by companies specialising mainly in potato processing for the purpose of production of potato starch, maltodextrin, potato flakes, etc.

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

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

PEPEES owns one of the biggest starch producing plants in Poland. Its processing capacity reaches up to 2400 tons of potatoes per day. The significant involved assets include machinery used for starch production, specialised staff and warehouse space.

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

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

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

3. Changes in organisation of PEPEES Capital Group

There was an organizational change in PEPEES Capital Group in the reporting period. On 18.03.2021, the Issuer sold all its shares in CHP Energia. The shares were bought by ORLEN Południe S.A., a subsidiary of PKN ORLEN S.A.

CHP Energia is therefore no longer a related party.

There were no other organizational changes in PEPEES Capital Group in the reporting period than mentioned above.

II. CHARACTERISTICS OF THE BUSINESS OF PEPEES CAPITAL GROUP

1. Characteristics of the business market

The main business activities of PEPEES Capital Group in the reporting period comprised production, commercial activities and services focused mainly on potato processing.

Four branches have been specified in PEPEES Capital Group that is: "potato processing", "production of electricity", "agricultural farming combined with animal breeding" and "purchases and sales of real properties for own account". Upon the sale of the shares of CHP Energia, which belonged to the "electricity generation" segment, three segments remained in the Group.

The segment of "agricultural farming combined with animal breeding" includes all assets and liabilities of Gospodarstwo Rolne Ponary. Because during the 1st half of 2021 Ponary did not generate any revenues from sale, the segment of "agricultural farming combined with animal breeding" was not separated in revenues and results of the segments. Due to the value of land owned by Ponary, the third segment was separated in this consolidated financial statement exclusively to show its assets and liabilities.

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

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

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

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

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

Characteristics of competitive companies on the EU market:

- ✓ high share of starch products of other botanical origin (maize starch, tapioca starch, wheat starch),
- ✓ very large concentration of production (the biggest plants produce 150-250 thousand tons a year),
- ✓ a longer starch production period (up to 200 days, i.e. twice as long as in Poland), which allows for more efficient use of production assets and an increase in production volumes,
- ✓ more possibilities to contract raw materials,
- ✓ significant share in production of processed products (modified starch),

- ✓ large share of non-food markets in sales.

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

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

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

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

- ✓ potato starch to be used in food, pharmaceutical, paper, textile and chemical industries;
- ✓ a few types of glucose used in food, confectionery and pharmaceutical industries;
- ✓ maltodextrin which is an essential additive to powdered products (ice cream, sauces, soups, fruit, solids, flavours) and vitamin and mineral nutrients for children and athletes;
- ✓ protein obtained from potato cellular sauce by coagulation, separation and drying; it is a valuable component of food mixes for animals and an excellent substitute for animal protein;
- ✓ a wide range of starch syrups used in confectionery and bakery;
- ✓ granulated dehydrated potatoes, potato flakes, potato cubes and dumplings used in food industry.

Potato starch

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

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

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

Starch

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

Potato protein

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

a great substitute for animal protein.

Grits

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

Potato flakes

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

Starch hydrolysates

✓ Crystalline glucose

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

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

✓ Anhydrous glucose

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

✓ Maltodextrin

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

✓ Glucose syrups

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

✓ **Hydrol**

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

Besides the foregoing products, in the 1st half of 2021 revenues from sales in the Group were also generated in the following groups of products:

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

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

3. Volume and structure of sales

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

Table no 1 and Fig. no 1 and 2 present the structure of sales in the period from 1 January 2021 to 30 June 2022 as compared to the corresponding period of 2021.

Table no 1: Structure of net revenues from sales for 6 months of 2021 and 6 months of 2020

(data in PLN '000)

Product offer	For 6 months ended on 30 June 2021	Structure in 2021	For 6 months ended on 30 June 2020	Structure in 2020	Dynamics
Potato products	90 106	87,91	96 835	84.60	93.05
Electric power	982	0,96	3 393	2.96	28.94
Animal feed	-	0.00	150	0.13	-
Other sales, including:	11 415	11.13	14 087	12.31	81.03
a) services	522	0.51	511	0.45	102.15
b) goods and materials	10 893	10,62	13 576	11.86	80.24
Total revenues from sales	102	100.00	114	100.00	89.55

Fig. 1: Structure of revenues from sales for 6 months of 2021

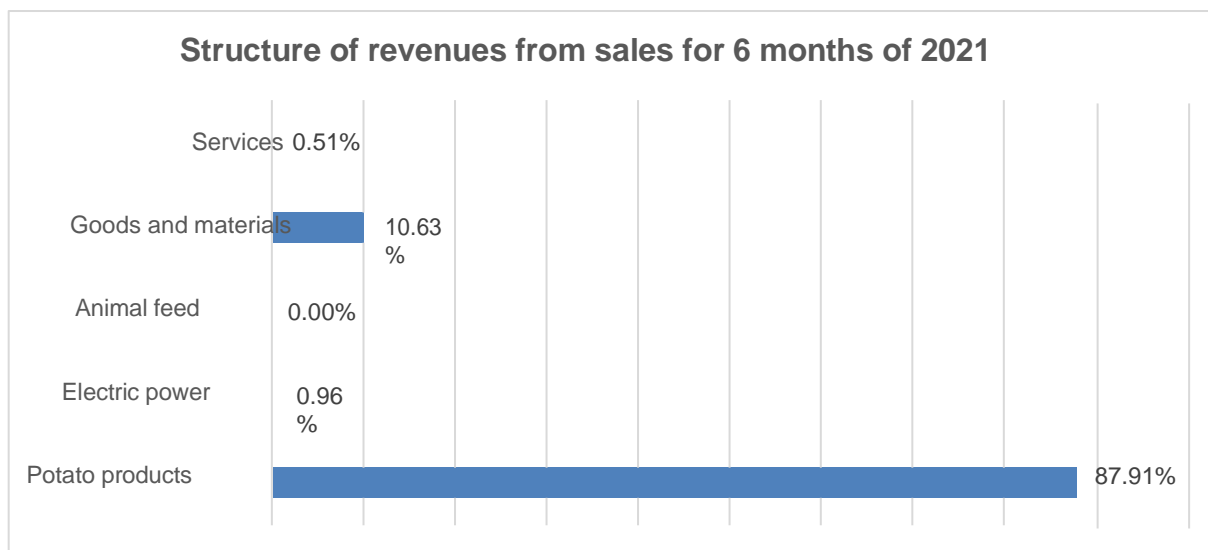
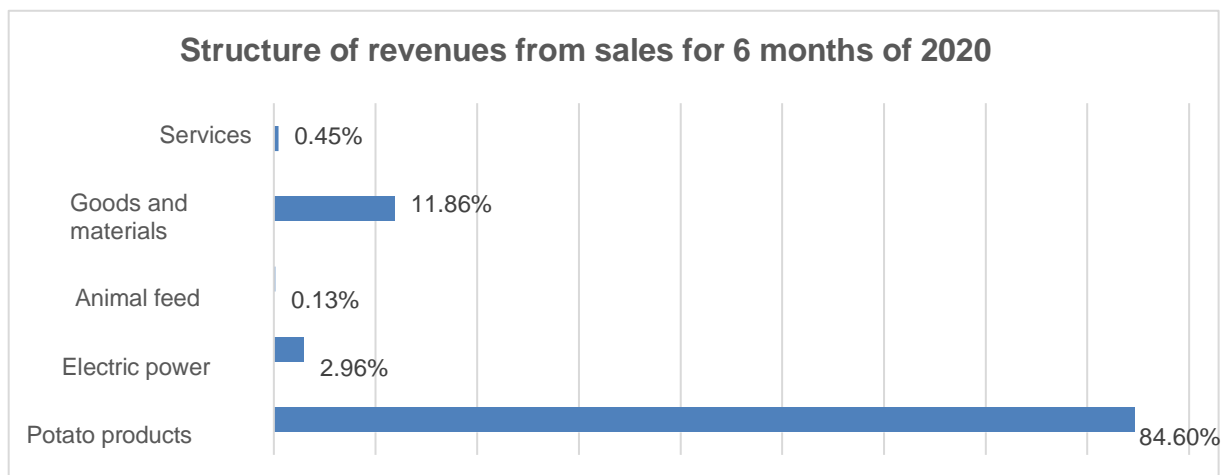


Fig. 2: Structure of revenues from sales for 6 months of 2020



4. Information on domestic and foreign outlets

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

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

Charts of distribution channels in PEPEES Capital Group

Distribution channels are as follows :

Company ~~customer~~ → (producer - wholesale recipient)

Company ~~wholesaler~~ → customer (producer → recipient of smaller volumes)

Company ~~wholesaler~~ → store consumer →

Company ~~commercial chain~~ → consumer →

Most often used form of settlements used are bank transfers with payment period of 30, 45 and 60 days. Payment prolongation period depends on the period of cooperation with a given recipient, its financial ability and volume of purchased goods. The assessment of financial credibility by the insurer and the financial limit granted is also decisive. In the case of a new recipient, a prepayment is used as the form of payment used. In the case of export sales, a letter of credit is often used as a form of payment.

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

Table no 2. Revenues from sales by outlets.

Net revenues from sales	For 6 months ended on 30 June 2021	Structure in 2021	For 6 months ended on 30 June 2020	Structure in 2020
Poland, including	68 578	66.90%	83 636	73.07%
- products	59 126	57.68%	72 315	63.18%
- goods and materials	8 930	8.71%	10 810	9.44%
- services	522	0.51%	511	0.45%
EU countries - intra-Community supplies,	7 082	6.91%	7 296	6.37%
- products	6 797	6.63%	7 296	6.37%
- goods and materials	285	0.28%	0	0.00%
Remaining countries - export	26 843	26.19%	23 533	20.56%
- products	25 165	24.55%	20 767	18.14%
- goods and materials	1 678	1.64%	2 766	2.42%
Total	102 503	100.00%	114 465	100.00%

4.1. Domestic sale by industry and geographical structure

Sales of products of the potato industry in H1 2021 were realized throughout the country. The largest share in terms of value in domestic sales was accounted for by sales of the core product in the offer, i.e. potato starch (56.6%). As far as the value is concerned, potato starch was followed by maltodextrin (9.3%), dried potatoes - grits and flakes (8.0%) , glucose (6.5%) and potato protein (5.3%). The main recipients of the products of the Parent Company in the Polish market comprise mainly renowned domestic companies, that are often linked by capital with large European and global companies.

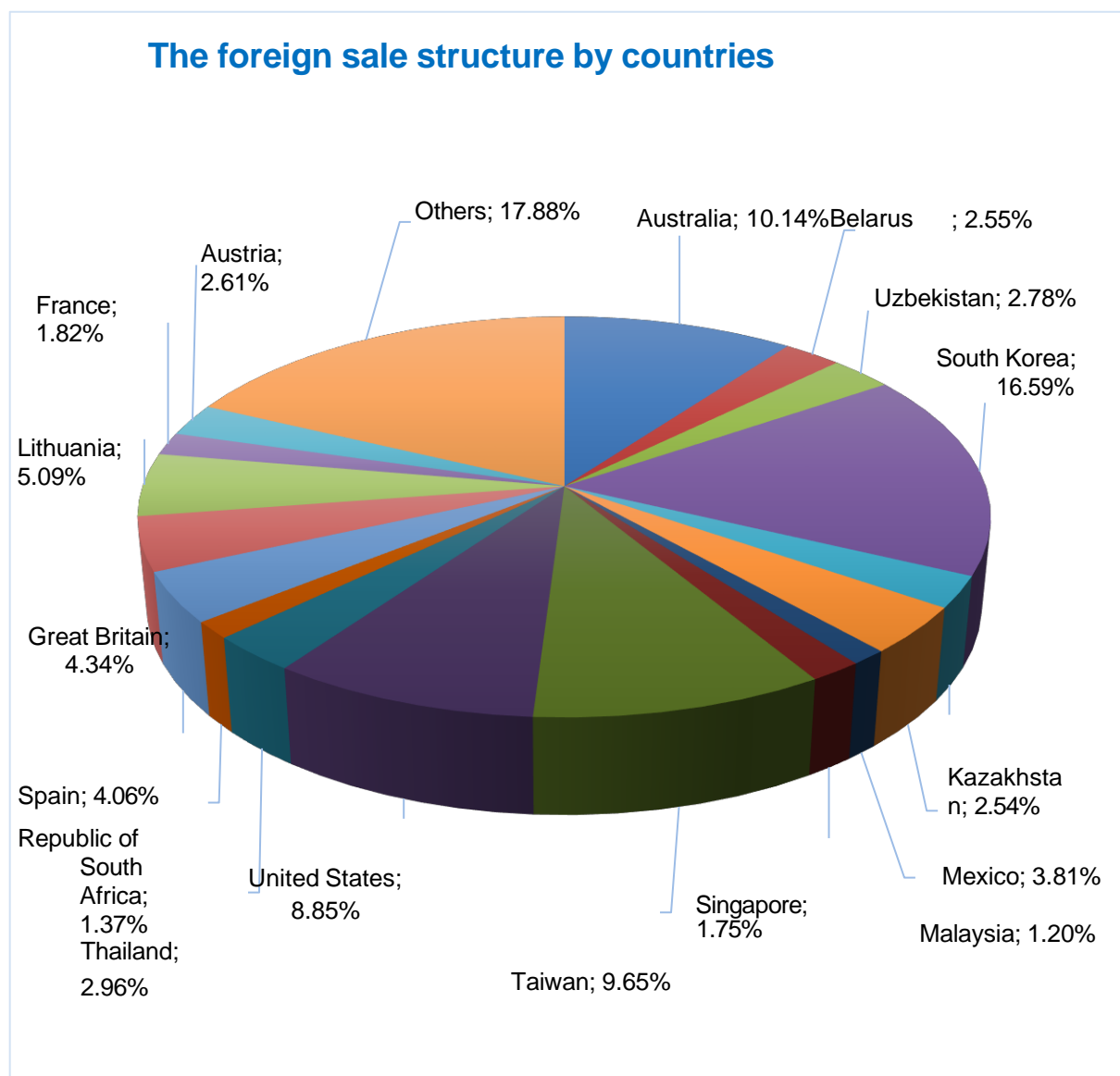
The Group distributes products through the chain of wholesalers and commercial companies that provide supplies to the food industry, and provides its products directly to production plants, mainly in the

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

4.2. Exports and intra-Community sales

In the 1st half of 2021, the value of exports and intra-Community sales amounted to PLN33 925 thousand, that is grew by 10 % as compared to the previous year. In the 1st half of 2021 the Group exported its products, mainly potato starch, to 50 countries. Most products were sold to South Korea, Australia, United States, Taiwan and the EU countries.

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



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

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

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

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

The main source of supplies of materials, goods and services in the 1st half of 2021 were Polish companies or representative branches of foreign companies. As far as enzymes and filtration materials were concerned, the Group is dependent on one suppliers because these are the only representatives of foreign companies in Poland, that produce raw materials needed by the Group.

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

- more than 42% of maltodextrin was sold to three domestic counterparties (19.9%; 12.7% and 10% respectively),
- 27% of protein was sold to two domestic customers (15% and 12% respectively),

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

6.1. Economic agreements

In the 1st half of 2021 PEPEES Capital Group did not conclude economic agreement of significant value or significant agreements on cooperation.

Regardless of the foregoing, the Issuer points out to the following agreements concluded in 2021

- agreement on purchase of pesticides for protection of potato crops of PLN 1.8 million,
- commercial agreements,
- agreements on purchase and modernisation of machines and production equipment, and refurbishment works.

6.2. Credit facility agreements

In the 1st half of 2021 the companies of the Capital Group did not enter into new credit agreements.

6.3. Loan agreements

PEPEES S.A. granted the following loans in the first half of 2021:

- Loan agreement of 10.02.2021 granted to CHP Energia Sp. z o.o. in the amount of PLN 200 thousand - this was a special purpose loan granted on arm's length terms, which was repaid on 1 July 2021.
- loan agreement dated 26.02.2021 granted to the subsidiary PPZ BRONISŁAW S.A. in the amount of PLN 1,100 thousand - this is a special purpose loan, granted on arm's length conditions, which is to be repaid by the end of the current year,

- loan agreement of 16.03.2021 granted to CHP Energia Sp.z o. o in the amount of PLN 100 thousand - this was a special purpose loan granted on arm's length terms , which was repaid on 1 July 2021.
- Loan agreement dated 31.05.2021 granted to the subsidiary PPZ BRONISŁAWS.A. in the amount of PLN 900 thousand - this is a special purpose loan, granted on arm's length conditions ,which is to be repaid by the end of the current year,
- loan agreement dated 30.06.2021 granted to the subsidiary PPZ BRONISŁAW S.A. in the amount of PLN1,300 thousand - this is a special purpose loan, granted on arm's length conditions, which is to be repaid by the end of the current year.

6.4. Lease agreements concluded in the 1st half of 2021

- Lease agreements of two passenger cars concluded with Volkswagen Leasing of the total value of PLN667 thousand.
- Lease agreement of farm machines concluded with Santander Leasing and PKO Leasing of the total value of PLN 844 thousand;

6.5. Insurance agreements

The companies entered into the following insurance agreements:

- property insurance against fire and other elements;
- business interruption insurance;
- property insurance against burglary and robbery;
- insurance of electronic equipment;
- general liability insurance, including:
 - o tort liability
 - o contractual liability
 - o product liability
 - o civil liability of management board members
- insurance of mechanical vehicles (third party insurance, theft and accident insurance).

6.6. Agreements between Shareholders

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

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

As at 30 June 2021, the main investments of PEPEES S.A. are shares and bonds in consolidated subsidiaries and 4,000 shares in Warszawski Rolno- Spożywczy Rynek Hurtowy S.A. (WRSRH), whose estimated value, according to the valuation performed by means of the method of discounted future cash flows by an independent actuary, is - as at 31 December 2020 - PLN 6,970 thousand , and as at 30 June 2021 - PLN 6,916 thousand.

WRSRH shares account for 3.34% of WRSRH's capital. WRSRH's main owner is the State Treasury that holds more than 70% share in the capital. PEPEES does not exercise control over WRSRH.

The Group also holds shares in SBR Spółdzielczy Bank Rozwoju with registered office in Szepietowo of total value of PLN 262 thousand, as well as shares in 3 other domestic entities (ZM Ostrołęka, Agency for Development

and BPS), which account for less than 5% of the total number of votes at the general meeting and they are not significant due to the Group's value and investment policy.

Basic financial data of subsidiaries

Name (legal name) of a subsidiary	Equity as at 30.06	Assets as at 30.06	Liabilities as at 30.06	Revenues from sale for 1st half of	Profit/loss for the 1st half of the
Year 2020					
ZPZ LUBLIN Sp. z o.o.	4 897	12 255	7 358	10 101	1 245
PPZ BRONISŁAW	19 774	52 800	33 026	26 830	483
CHP Energia Sp. z o.o.	(6 914)	17 773	24 687	4 061	(705)
Pepees Inwestycje Sp. z o.o.	89	95	6	-	(2)
Gospodarstwo Rolne PONARY Sp. z o.o.	13 154	21 513	8 359	-	57
Year 2021					
ZPZ LUBLIN Sp. z o.o.	5 781	13 069	7 288	8 675	522
PPZ BRONISŁAW	16 555	58 064	41 509	24 114	(2 928)
Pepees Inwestycje Sp. z o.o.	79	90	11	-	(3)
Gospodarstwo Rolne PONARY Sp. z o.o.	13 982	21 614	7 632	-	53

ZPZ Lublin Sp. z o.o. generated the net profit, but lower than in the comparative period last year. PPZ Bronisław S.A. incurred a loss, last year it generated a profit. Pepees Inwestycje Sp. z o.o. did not generate any revenues from sales.

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

Financing methods of subsidiaries in the 1st half of 2021

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

8. Description of transactions with associated entities

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

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

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

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

9. Information on contracted credits and loans

As at 30 June 20 21 PEPEES Capital Group had liabilities under loans presented in the following table:

Table no 3: Liabilities under loans as at 30.06.2021.

Loan type	Bank that grants a loan	Borrower	Loan amount determined in a contract	Debt as at 30.06.2021	Repayment date
Overdraft facility	Santander Bank Polska S.A.	PEPEES S.A.	4 000	3 607	31.08.2021
Revolving loan	Santander Bank Polska S.A.	"PEPEES" S.A.	14 500	3 625	31.08.2021
Working capital loan	Santander Bank Polska S.A.	PEPEES S.A.	17 000	4 250	31.08.2021
Overdraft facility	PowszechnaKasa Oszczędności Bank Polski S.A.	PEPEES S.A.	4 000	3 640	31.08.2021
Revolving loan	PowszechnaKasa Oszczędności Bank Polski S.A.	"PEPEES" S.A.	14 500	3 625	31.08.2021
Working capital loan for purchase of potatoes	PowszechnaKasa Oszczędności Bank Polski S.A.	PEPEES S.A.	17 000	4 250	31.08.2021
Investment loan for construction of the starch drying plant, unloading station and water	BNP Paribas Bank Polska S.A.	PEPEES S.A.	9 822	924	25.02.2022
Investment loan to finance and refinance the acquisition of 100% of shares in Gospodarstwo Rolne Ponary Sp. z o.o.	PowszechnaKasa Oszczędności Bank Polski S.A.	PEPEES S.A.	10 530	6 017	30.06.2025
Overdraft facility	Santander Bank Polska S.A.	ZPZ LUBLIN Sp. z o.o.	1 500	179	31.08.2021
Revolving loan	Santander Bank Polska S.A.	ZPZ LUBLIN Sp. z o.o.	4 000	1 500	31.08.2021
Working capital loan	Santander Bank Polska S.A.	ZPZ LUBLIN Sp. z o.o.	2 000	500	31.08.2021
Overdraft facility	PowszechnaKasa Oszczędności Bank Polski S.A.	ZPZ LUBLIN Sp. z o.o.	1 500	190	31.08.2021
Revolving loan	PowszechnaKasa Oszczędności Bank Polski S.A.	ZPZ LUBLIN Sp. z o.o.	4 000	909	31.08.20201
Working capital loan for purchase of potatoes	PowszechnaKasa Oszczędności Bank Polski S.A.	ZPZ LUBLIN Sp. z o.o.	2 000	500	31.08.2021
Overdraft facility	Santander Bank Polska S.A.	PPZ BRONISŁAW	700	0	31.08.2021
Purchase loan	Santander Bank Polska S.A.	PPZ BRONISŁAW	8 500	2 124	31.08.2021

Type of a loan	Bank that grants a loan	Borrower	Loan amount defined in an agreement	Debt as at 30.06.2021	Repayment date
Revolving loan	Santander Bank Polska S.A.	PPZ „Bronisław” S.A.	6 300	36 331	31.08.2021
Overdraft facility	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ „Bronisław” S.A.	700	615	31.08.2021
Purchase loan	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ BRONISŁAW S.A.	8 500	2 124	31.08.2021
Revolving loan	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ BRONISŁAW S.A.	6 300	1 575	31.08.2021
Investment loan Santander	Bank Polska S.A.	PPZ „Bronisław” S.A.	800	67	30.11.2021
Investment loan	BOŚ	PPZ „Bronisław” S.A.	8 456	6 107	31.12.2027
Total			146 608	48 691	

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

During the 1st half of 2021 none of the loans of the Group was terminated, and the companies of the Group did not terminate loan agreements in this period.

group companies did not terminate loan agreements during the period.

10. Information on granted loans, guarantees and securities

Loans

As at 30 June 2021, the Group had the following loans granted by the Holding Company to the subsidiaries and individuals:

Loan dated 27 January 2017, granted to an individual, PEPEES S.A.'s farmer, in the amount of PLN 240 thousand . Outstanding amount is PLN 120 thousand. Repayment date 30.11.2021

Loan of 10 January 2018, granted to subsidiary GR Ponary Sp. z o.o. in the amount of PLN 550 thousand Outstanding amount is PLN 550 thousand. Repayment date 31.12.2021

Loan dated 22 May 2019, granted to an individual, PEPEES S.A.'s farmer, in the amount of PLN 150 thousand. Outstanding amount is PLN 5,6 thousand. Repayment date 30.11.2021 r.

Loan dated 10 February 2021 granted to CHP Energia in the amount of PLN 200 thousand Fully repaid on 01.07.2021.

Loan of 26 February 2021 granted to subsidiary ,PPZ Bronisław S. A., in the amount of PLN 1100 thousand. Outstanding amount is PLN 1.100 thousand. Repayment date 31.12.2021

Loan dated 16 March 2021 granted to CHP Energia in the amount of PLN 100 thousand Fully repaid on 01.07.2021.

Loan of 31 May 2021 granted to subsidiary ,PPZ Bronisław S . A., in the amount of PLN 900 thousand Outstanding amount is PLN 900 thousand Repayment date 31.12.2021

Loan of 30 June 2021 granted to subsidiary, PPZ Bronisław S.A., in the amount of PLN 1 300 thousand. Outstanding amount is PLN 1.300 thousand. Repayment date 31.12.2021

Sureties

Sureties granted to subsidiaries by the Parent Entity, „PEPEES” S. A. , as at 30.06.2021.:

Agreement dated 30 July 2018 on the terms and conditions of loan repayment security concluded between PEPEES S.A. in Łomża and PPZ BRONISŁAW S.A. Under the agreement, "PEPEES" S.A. gives a security of the Investment Loan from Funds from Foreign Credit Lines that was incurred by PPZ Bronisław S.A. The value of the investment loan incurred by PPZ Bronisław S. A. amounts to PLN 8 456 thousand. The security granted by "PEPEES" S.A. is in the form of a notary statement on submission to enforcement up to the amount of PLN 12,684 thousand. PEPEES charges a monthly fee on the security in the amount of 1%.

In connection with the sale of shares in CHP Energia to Orlen Południe, on 15.04.2021 the Issuer received a letter from Spółdzielczy Bank Rozwoju (SBR), dated 14.04.2021 , in which the Bank informed about:

- release of PEPEES from its obligations under the avals in the total amount of PLN 18 234 thousand , established by the Company in the earlier years (on 09.06.2014 and 14.09.2017) in favour of SBR to secure the repayment of loans granted by the Bank to CHP Energia;
- release of the cash deposit in the amount of PLN 1.5 million, which was established by PEPEES on 22.09.2020 in favour of SBR in order to secure the repayment of loan granted by the Bank to CHP Energia.

PEPEES did not give guarantees in the reporting period.

Sureties granted to the Parent Entity, „PEPEES” S.A., as at 30.06.2021.:

Surety of an individual (farmer) dated 28 December 2016 for „PEPEES” S. A .under a loan granted to another individual, who is the company's farmer, in the amount of PLN 304 thousand.

Agreement of 12.12.2017 concerning the establishment of a mortgage on the real estate of GR Ponary Sp. z o.o. in the amount of PLN 15,795 thousand, in favour of "PEPEES" S.A, as a security for the repayment of the loan granted to "PEPEES" S.A. by PKO BP in the amount of PLN 10,530 thousand for the period 12.12.2017 - 30.06.2025.

A fixed fee in the amount of PLN 13 162.50 was set for the security received and it is charged monthly in compliance with concluded agreements that determine the terms and conditions of securities.

In the reporting period and until this report was made, the companies of PEPEES capital Group did not give other loans , sureties or guarantees than listed above.

As of 30.06.2021, the total value of sureties and guarantees given by PEPEES Company to entities of PEPEES Capital Group is PLN 12.7 million.

11. Off-balance sheet items in PEPEES Capital Group

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

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

CHANGE OF VOLUME OF PROVISIONAL ASSETS (BY TYPE)	For 6 months ended on 30 June 2021	For 12 months ended on 31 December 2020	For 6 months ended on 30 June 2020
a) beginning of the period, including	15 795	15 795	15 795
- security of the investment loan by GR PONARY	15 795	15 795	15 795
b) increase (due to)	-		
- security of the investment loan by GR PONARY	-		
c) use (due to)	-	-	-
d) end of period, including	15 795	15 795	15 795
- security of the investment loan by GR PONARY	15 795	15 795	15 795

CHANGE OF VOLUME OF PROVISIONAL ASSETS (BY TYPE)	For 6 months ended on 30 June 2021	For 12 months ended on 31 December 2020	For 6 months ended on 30 June 2020
a) beginning of the period, including	32 481	33 781	33 781
- liabilities under non-compete agreements	1 563	1 563	1 563
- loan securities for related companies	30 918	32 218	32 218
b) increase (due to)	29		
- liabilities under non-compete agreements	29		
- loan securities for related companies			
c) dissolution (due to)	18 234	1 300	-
- liabilities under non-compete agreements	-	-	-
- loan securities for related companies	18 234	1 300	
d) end of period, including	14 276	32 481	33 781
- liabilities under non-compete agreements	1 592	1 563	1 563
- loan securities for related companies	12 684	30 918	32 218

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

In the 1st half of 2021 the Holding Company and the Group did not issue shares and did not purchase own shares.

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

The Holding Company and PEPEES Capital Group did not publish financial forecasts for 2021.

14. Description of financial resources management

In the first half of 2021 both the Holding Company and the Group were able to fulfill incurred liabilities, in relation to supplies and financial institutions. There were no threats to repayment of liabilities.

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

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

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

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

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

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

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

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

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

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

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

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

16. Information on performed investments and investment plans

In the 1st half of 2021 PEPEES Capital Group executed a few investment undertakings and refurbishment and construction works. Most important ones were:

Main investment projects:

- Delivery and installation of a line for starch packaging in 1.0 and 0.5kg retail packages (completion status as at 30.06.2021: completed).
- Thermomodernisation of production buildings (completion status as at 30.06.2021: completed)

- Modernisation of the steering system of Kapro raw material sampling and assessment station (completion status as at 30.06.2021: in progress).
- Purchase of laboratory equipment for performance of analyses of quality and physical-chemical parameters of finished products and environmental tests (completion status as at 30.06.2021: in progress)
- Modernisation of the steering installation for pulp centrifuges at the Starch Plant (completion status as at 30.06.2021: in progress)
- Delivery and installation of a horizontal tank for NaOH storage (completion status as of 30.06.2021: in progress)
- Modernisation of the SCADA system controlling the Syrup Plant (completion status as at 30.06.2021: in progress)
- Construction of a storage building on a farm in Roje (completion status as at 30.06.2021: in progress)

In the next half of 2021 the Group will continue commenced investments and refurbishment and construction works.

17. Information on environmental issues

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

PEPEES is a participant of the Community greenhouse gas emission allowance trading scheme in relation to emission of carbon dioxide. A need to buy emission allowance on an auction or a need to execute projects aimed at reduction of the emission may have negative impact on the Company's financial condition. What is positive, CO₂ emission is decreasing. It is related to assembly of gas boilers and reduction of fine coal in the burning system.

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

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

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

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

18. Information on employment in the Group

Table No 5: Employment in PEPEES Capital Group

Description	Average number of employees in the 1st half of 2021	State as at 30.06.2021		Average number of employees in the previous financial year 2020
		Women	Men	

White collar workers	147	78	68	156
blue collar 238		22	201	324
unpaid	2	1	2	2
Total 387		101	271	482

19. Major achievements in research and development

In the 1st half of 2021 the Group did not perform major activities in the field of research and development. Pellet quality examination was performed in the period in respect to its usefulness for joint burning with fine coal in boiler units .

20. Non-typical events that had significant impact on the results of the Group's business activity in the 1st half of 2021

This report includes the item "Gain on disposal of a subsidiary" in the amount of PLN 5,029 thousand , which has a significant impact on the consolidated financial result of the Capital Group (details in the condensed interim consolidated financial statements).

In addition, it should be emphasized that the ongoing pandemic continues to have a negative impact on sales volumes and margins.

The outbreak of the Coronavirus epidemics changed considerably the situation on global and local markets. In the beginning the problem was perceived as distortions in the supply chain but together with the development of the pandemics it entailed economic and social restrictions (so called lockdown). The effects of the temporary closure of economies have had a significant impact on the global economy.

In the opinion of the Management Board, the above phenomena have surely influenced the results of the Parent Company and the entire Group. Major threats are related to reduction of industrial production on the Company's main export markets and the European Union (including the meat industry and ready products), reduction of demand for native potato starch, and significant fall of starch prices on

markets. The above elements coincide with logistic problems, increased costs of transportation, longer payment periods (increase in the amount of receivables) and the fall of operating cash flows resulting from this.

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

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

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

Mr Wojciech Faszczewski, the President of the Management Board, has 701,000 of shares of the Holding Company. The above-mentioned person has no rights for Company shares.

Mr Tomasz Rogala, a Member of the Management Board and supervisory persons do not have the Holding

Company's shares or rights to them.

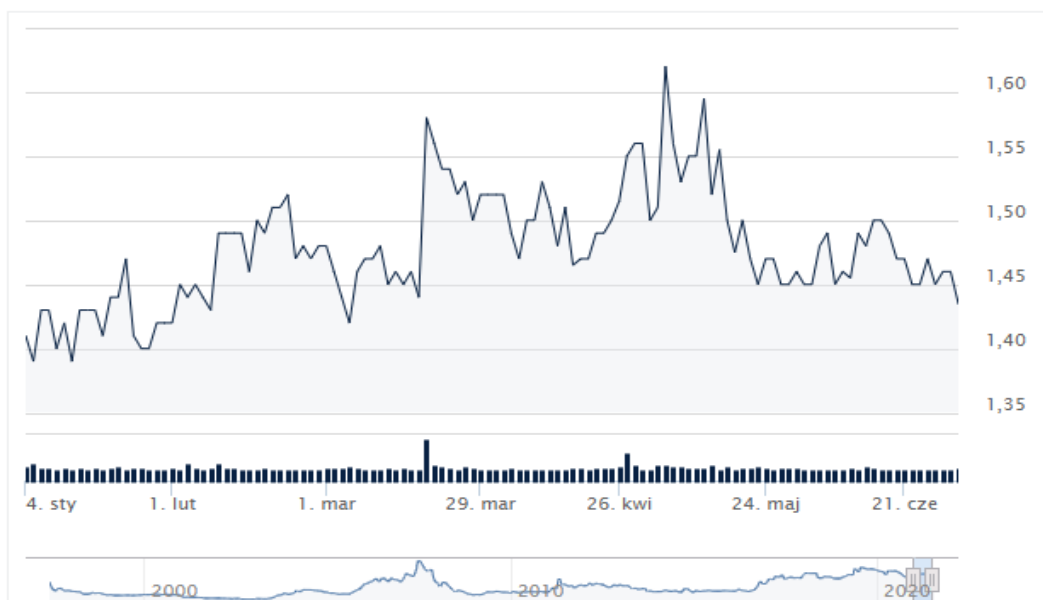
During the period from the publication of the previous interim report, that is 17 May 2021 to the publication of this report the management and supervisory persons do not made transactions involving Company shares or rights to them. .

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

23. Quotations of the Holding Entity in the 1st half of 2021

Since 22 May 1997, the Company's shares are quoted on the Warsaw Stock Exchange. The share price on 4 January 2021 (the opening price on the first day of 2021) was PLN 1.41 and on 30 June 2021 - PLN 1.435. The highest price in the reporting period was PLN 1.64 and the lowest was PLN 1.32. Changes of the prices of PEPEES's shares in the 1st half of 2021 is presented in the following figure:

Fig. 4: Changes of the prices of PEPEES's shares in the 1st half of 2021



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

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

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

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

26. Information on the control system of employee share schemes

The Group has no control system of employee share schemes.

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

Due to the failure to comply with the notification obligations about purchase of significant amounts of shares pursuant to the Public Offering and Public Companies Act of 29 July 2005, EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, which has - according to the information held by the Company - 27 759 032 shares of the Company, has lost and cannot exercise voting rights on 21 402 233 shares. The Management Board filed a lawsuit for determination to District Court in Białystok. Epsilon FIZ AN believes that they can exercise voting rights on 27.759.032 shares which is 29. 22% of total votes at the General Meeting. The Chairman of Financial Supervision Commissions (KNF) presented his standpoint on the issue on 24 July 2019. The Management Board awaits the valid decision of the court of law. The Company informed about the issue in interim reports Nos 13/2019, 14- 23/2019 and 30/2019.

28. Summary of operations in the reporting period

The sales revenues of PEPEES Capital Group in the first half of 2021 were PLN 102 503 thousand, a 10% decrease year to year (PLN 114,465 thousand).

The decrease in the dynamics of sales revenue resulted in a lower gross result from sales at the level of PLN 16 371 thousand, a decrease of 42.4% year on year. The Company reports a reduction in revenue and financial results due to a decline in potato starch prices on the domestic and foreign markets.

The Parent Company has recorded a loss of PLN 3,875 thousand since the beginning of 2021.

The sales and marketing costs in the first half of 2021 increased by 22% year to year, while overheads remained at the same level.

The balance of remaining operations in the six months of 2021 was closed at the level of PLN 2.010 thousand with a profit of PLN 349 thousand in the comparative period. Higher other operating income was achieved due to the subsidy for salaries received from the Labour Office in connection with the COVID-19 epidemic.

The result on financial operations understood as a balance of financial revenues less the financial costs improved in the first half of 2021 decreased by 15% as compared to the same item in the comparative period.

The Capital Group suffered the gross loss after the first half of 2021 in the amount of PLN 1 374 thousand as compared to gross profit of PLN 5 693 thousand generated in the comparison period, while net loss in period from January to June 2021 amounted to PLN 1 378 thousand, as compared to the net profit of PLN 3 985 thousand in the same period of 2020.

29. Concise description of major successes or failures at PEPEES Capital Group in the first half of 2021

In the first half of 2021, there were no other major successes or failures at PEPEES Capital Group than presented in this report.

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

In the first half of 2021, there were no events other than those described in this report, which could be important for assessment of its human resources, property, financial situation, financial result, and could be pertinent to the assessment of the PEPEES Capital Group's capability of fulfilling its obligations.

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

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

- Coronavirus pandemic,
- volume and value of purchased potatoes, that is the basic raw material for production,
- starch price on the Polish and global markets,
- sales volume and margins;
- foreign exchange rate - the Group is an exporter of products,
- weather,
- basic interest rates - The Group has loans whose interest rates are based on WIBOR.

The Group's activity is based mainly on the domestic raw material provided by Polish farmers, so the pandemics will not disrupt supplies. In the next half of 2021, PEPEES Capital Group will perform the executed contracts and continue its basic operations, including production, trade and services.

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

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

The subject of the agreements comprises review of the separate and consolidated financial statements dated 30 June 2020, 30 June 2021 and 30 June 2022 and audit of the separate and consolidated financial statements for years 2020-2022. The total value of the fee under the agreement, to be due for 2021 amounts to PLN59 700 plus VAT.

In addition, an agreement dated 17.05.2021 was concluded with the entity authorised to audit the financial statements during the reporting period, concerning the performance of an attestation service consisting in the preparation of an independent auditor's report on the assessment of the report on the remuneration of the Management Board and Supervisory Board prepared jointly for the years 2019-2020 by PEPEES's Supervisory Board. The remuneration for the performance of the indicated service was agreed at PLN 6,000 plus VAT.

33. Information on court, administrative or arbitration proceedings

On 25 June 2019 the Management Board of "PEPEES" S.A. filed a lawsuit to the court to rule that due to the failure to comply with the notification obligations about purchase of significant amounts of shares pursuant to the Public Offering and Public Companies Act of 29 July 2005 the shareholder EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, which has- according to the information held by the Company - 27 714 832 shares of the Company, has lost and cannot exercise voting rights on 21 402 233 shares. Epsilon FIZ AN believes that they can exercise voting rights on 27.714.832 shares which is 29.17% of total votes at the General Meeting. The Chairman of Financial Supervision Commissions (KNF) presented his standpoint on the issue on 24 July 2019. The Company informed about the case in current reports no 13/2019, 14-23/2019 and 30/2019.

As of the statement date, there is an undecided lawsuit by EPSILON Investment Fund in Warsaw against „PEPEES” S.A.:

- for the annulment or declaration of invalidity of two resolutions on the appointment of the Supervisory Board members, adopted on 11 May 2018 by the General Meeting of Shareholders, and for the annulment of the resolution on the distribution of profit for 2017. By judgment of 26.10.2018 the Regional Court annulled the resolutions on the appointment of two Supervisory Board members and dismissed the claim in the remaining scope. Appeals against the judgment were filed by both parties. The Court of Appeal in Białystok dismissed both appeals. EPSILON filed a cassation appeal, which was accepted for examination by the Supreme Court on 21.11.2020,

for invalidation of resolutions 24-29 on 28.06.2019 by the General Meeting of Shareholders, including resolution 28 on the Company Articles of Association and authorizing the Management Board to increase the Holding Company's share capital within the target capital along with the option to exclude by the Management Board the pre-emptive rights of current shareholders with the consent of the Supervisory Board. The Regional Court suspended the proceedings until the proceedings related to the suit brought by PEPEES against EPSILON for determination the loss of voting rights,

- cancellation or declaration of invalidity of two resolutions on discharging of fulfillment of obligation, adopted taken on 21.04.2020 by the General Meeting of Shareholders have been concluded in a legally binding manner. The proceedings are pending before the Court of First Instance. The District Court suspended the proceedings until

the proceedings related to the suit brought by PEPEES against EPSILON for determination the loss of voting rights ,

–for invalidation or cancellation of resolutions of the General Meeting : resolution no 4 on examination and approval of the Company's financial statements for the period from 01.01.2020 to 21.12.2020, resolution no 9 on allocation of the net profit of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. for financial year 2020, resolution no 10 on acknowledgement of fulfillment of duties by the President of the Company's Management Board for financial year 2020, resolution no 11 on acknowledgement of fulfillment of duties by the Member of the Company's Management Board for financial year 2020, which were adopted on 29 June 2021 by the General Meeting. is finally completed. The legal action was filed to the Regional Court on 28 July 2021. The contents of resolution subject to litigation were published in the current report no 8/2021.

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

There are a few court cases for unpaid invoices, for which the Company made 100 % revaluation write-offs. Amounts are not significant in relation to total receivables.

III. ECONOMIC AND FINANCIAL CONDITION

1. Economic condition of the Capital Group

State of the assets as at 30 June 2021 as compared to 31 December 2020 is presented in the following table.

Table 6: State of the assets as at 30.06.2021 and 31.12.2020

Name of an asset	State as at		Changes in amounts - decreases 30	Structure indices %	
	30.06.2021	31.12. 2021		30.06.2021	30.06.2020
I. FIXED ASSETS	177 456	181 307	(3 851)	62.1	49.7
1. Tangible fixed assets	157 437	158 843	(1 406)	55.1	43.5
2. Intangible assets	193	499	(306)	0.1	0.1
3. Rights to assets	11 322	11 431	(109)	3.9	3.1
4. Investment property	578	583	(5)	0.2	0.2
5. Goodwill	1 365	3 095	(1 730)	0.5	0.8
6. Investment in other units	375	625	(250)	0.1	0.2
7. Assets from deferred income tax	6 186	6 231	(45)	2.2	1.7
II. CURRENT ASSETS	108 444	183 531	(75 087)	37.9	50.3
Current assets other than assets classified as held for sales	108 444	165 284	(56 840)	37.9	45.3
1. Stocks	57 687	110 198	52 511	20.2	30.2
2. Biological assets	2 669	338	2 331	0.9	0.1
3. Trade receivables and other short-term receivables	37 180	27 872	9 308	13.0	7.6
4. Current income tax receivables	0	1 245	(1 245)	0.0	0.3
5. Other financial assets	7 391	7 281	110	2.6	2.0
6. Cash assets and equivalents	3 517	18 350	(14 833)	1.2	5.0
Assets held for sale	-	18 247	(18 247)	0.0	5.0
Total assets	285 900	364 838	(78 938)	100.0	100.00

The Group's assets with the totals at 30 June 2021 in the amount of 285 900 thousand decreased by PLN 78 938 thousand, that is by PLN 21.6% as compared to the end of the year. Mainly the current assets decreased (fall by PLN 75 087 thousand), in particular for inventories, due to seasonal processing of potatoes. In addition, the Group's assets decreased as a result of the sale of the shares in the subsidiary, CHP Energia.

Also cash decreased in relation to repayment of short-term loans. Trade receivables grew due to sale of seed potatoes and pesticides with the payment date by supplies of potatoes for processing.

2. Funding sources of the Capital Group

Specification of the funding sources according to the state of the assets as at 30 June 2021 as compared to 31 December 2020 is presented in the following table.

Table 7: State of funding sources as at 30.06.2021 and 31.12.2020

Specification of funding sources	State as at		Changes in amounts - decrease	Structure indices %	
	30.06.2021	2020		30.06.2021	31.12.2020
Equity capital	176 757	175 422	1 335	61.8	48.1
Equity for the Company shareholders	173 110	173 769	(659)	60.5	47.6
Share capital	5 700	5 700	0	2.0	1.6
Share premium	7 562	7 562	0	2.6	2.1
Assets revaluation reserve	31 021	31 014	7	10.9	8.5
Retained profits	128 827	129 493	(666)	45.1	35.5
Non-controlling shares	3 647	1 653	1 994	1.3	0.5
Liabilities	109 143	189 416	(80 273)	38.2	51.9
Long-term liabilities	39 410	39 373	37	13.8	10.8
Credits and loans	9 681	11 134	(1 453)	3.4	3.1
Lease liabilities	17 576	16 062	1 514	6.1	4.4
Provisions for deferred income tax	6 497	6 662	(165)	2.3	1.8
Payables for pensions and similar benefits	3 513	3 317	196	1.2	0.9
Subsidies	2 143	2 198	(55)	0.7	0.6
Short-term liabilities	69 733	150 043	(80 310)	24.4	41.1
Short-term liabilities other than related to assets held for sale	69 733	132 561	(62 828)	24.4	36.3
Trade payables and other short-term liabilities	25 929	23 990	1 939	9.1	6.6
Current income tax payables	28	76	(48)	0.0	0.0
Credits and loans	39 010	104 514	(65 504)	13.6	28.6
Lease liabilities	4 378	3 616	762	1.5	1.0
Payables for pensions and similar benefits	388	365	23	0.1	0.1
Liabilities related to assets held for sale	-	17 482	(17 482)	0.0	4.8
Total equity and liabilities	285 900	364 838	(78 938)	100	100.0

In the entire presented period, the Group's equity that accounts for 61.8% of liabilities, had the biggest share in sources of asset funding. Non-controlling interests increased as a result of the sale of shares in the subsidiary CHP Energia, which had negative equity.

On 29 June 2021 the Ordinary General Meeting of "PEPEES" S.A. adopted Resolution No .9 on the transfer of profit for the financial year 2020 in the amount of PLN 5,529,766.07 to the reserve capital.

Short-term payables fell by PLN 80 310 thousand. It was caused mainly by repayment of short-term credits and loans and the fact that CHP Energia left the Group.

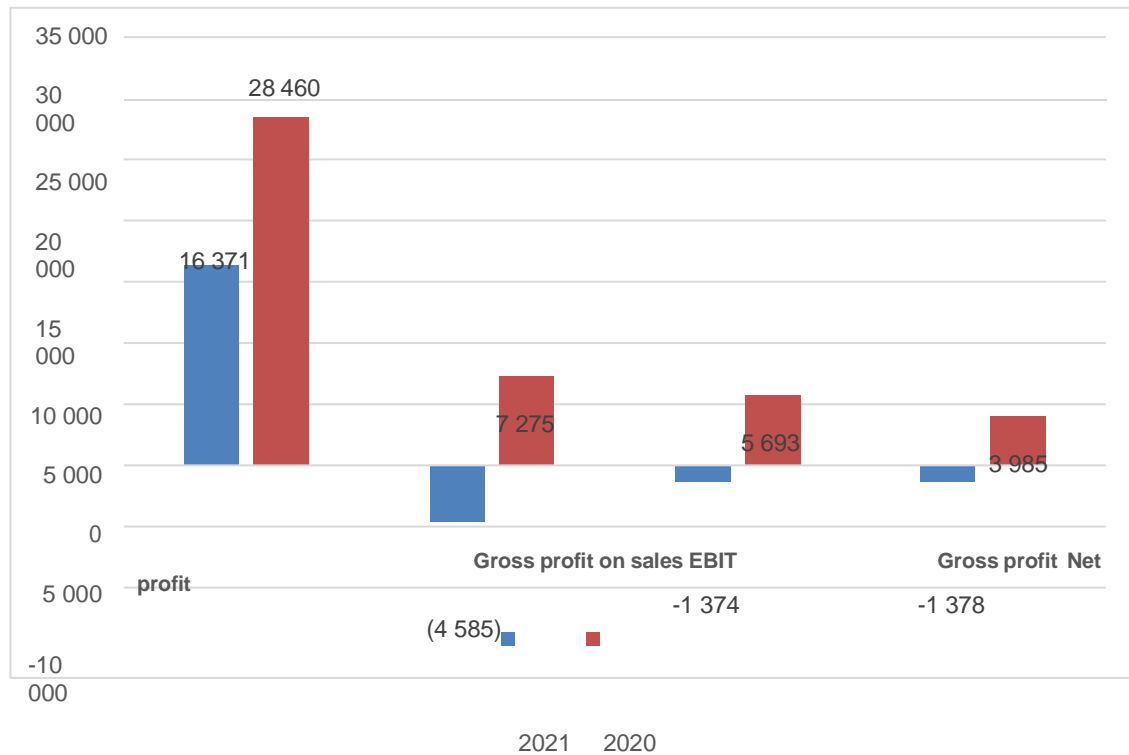
3. Financial results of the Capital Group

Financial results of the business activity of the Capital Group for the 1st half of 2021 and 2020 are presented in the following table and figure.

Table 8: Specification of the financial result for the 1st half of 2021 and 2020

Item	Description	Execution for the 1st	Execution for the 1st	Dynamics in %
1	Revenues from sales	102 503	114 465	89.5
2	Costs of goods sold	(86 132)	(86 005)	100.1
3	Gross profit on sales (I-II)	16 371	28 460	57.6
4	Sales and marketing costs	(6 343)	(5 193)	122.1
5	Overheads	(16 623)	(16 341)	101.7
6	Other operating revenues	2 419	912	265.2
7	Other operating costs	(409)	(563)	72.6
8	Operating profit (loss)	(4 585)	7 275	(63.0)
9	Financial costs	(1 838)	(2 003)	91.8
10	Financial revenues	20	421	4.8
11	Gain (loss) on disposal of a subsidiary	5 029	-	
12	Profit (loss) before tax	(1 374)	5 693	(24.1)
13	Income tax	(4)	(1 708)	0.2
14	Net profit (loss) from continued operations	(1 378)	3 985	(34.6)
15	Net profit (loss) from discontinued operations		-	
16	Net profit (loss), including:	(1 378)	3 985	(24.8)
17	-allocated to shareholders of the Holding Company	(946)	3 920	(24.1)
18	- for non-controlling shares	(432)	65	(664.6)
19	Other total income	7	(47)	(14.9)
20	Total income, including	(1 371)	3 938	(34.9)
21	-for shareholders of the Holding Company	(939)	3 873	(24.2)
22	- for non-controlling shares	(432)	65	(664.6)
23	Net profit (loss) per ordinary share	(0.01)	0.04	(25.0)
24	- from continued operations	(0.01)	0.04	(25.0)
25	- from discontinued operations	-	-	-
26	Diluted net profit (loss) per ordinary share	(0.01)	0.04	(25.0)
27	- from continued operations	(0.01)	0.04	(25.0)
28	- from discontinued operations	-	--	-

Fig. no 5: Financial results of PEPEES Capital Group



In the period under review, all results are significantly weaker as compared to the same period last year. Gross profit on sales fell by 42.4%. The operating result EBIT is negative.

In connection with the disposal of the subsidiary, CHP Energia, the Group generated profit on this transaction in the amount of PLN 5 029 thousand.

In the end, the Group incurred a gross and net loss, while profits were generated in the previous year. The decrease in financial results was mainly due to the pandemic, in particular a reduction in production at starch-producing plants, which has resulted in a fall in the prices of starch at on global markets, which translated into reduction of sale and lower profitability on foreign markets. At the same time costs of transportation and other logistic costs grew.

4. Cash flows

In the 1st half of 2021 PEPEES Capital Group recorded negative net cash flows due to large repayment amount of short-term loans. The balance from operating activities is positive, and amounts to PLN 52,367 thousand. The balance from investing activities is also positive, due to repayment of loans by CHP Energia. The balance from financing activities was generated in a negative amount, i.e. PLN 69,055 thousand, resulting in particular from the repayment of loans. The cash balance in the consolidated cash flow statement as at 30 June 2021 is positive and amounts to PLN 3,517 thousand.

5. Economic indicators

The indicators presented below are the Alternative Performance Measures (APM) within the meaning of ESMA Guidelines concerning Alternative Performance Measures. The Alternative Performance

in compliance with the International Financial Reporting Standards, and should not be treated as meters of financial results or cash flows. These indicators are not uniformly defined and cannot be compared to indicators presented by other companies, including companies operating in the sector of PEPEES Group. Alternative Performance Measures should be analysed only as additional ones, and not substitutes of financial information presented in the Group's consolidated financial statements. These data should be examined together with the Group's consolidated financial statements. PEPEES Group presents selected APM indices, since in its opinion they are a source of additional (to presented in financial statements) information on the financial and operational position of the Group, and they facilitate analysis and assessment of financial results achieved by the Group in various reporting periods. The Issuer presents this specific alternative measurements of results, because they are applied in a cyclic and uniform way in subsequent reports. Selection of alternative measurements of results was preceded with an analysis of their usefulness from the perspective of delivery of useful information to investors on the financial position, cash flows and financial efficiency of the Group, and in the opinion of the Management Board it enables optimum assessment of achieved financial results. The results presented below should not be assigned a larger significance than measurements resulting directly from the Company's financial statement or the Group's consolidated financial statement.

Table no 9: Economic indicators

Indicator	Economic contents	Year 2021	Year 2020
Return on assets	<u>Net profit allocated to the Parent Company shareholders x 100 / Total assets</u>	(0.33)%	1.31%
Return on equity	<u>Net profit allocated to the Parent Company shareholders x 100 / equity allocated to the Parent Company shareholders</u>	(0.55)%	2.28%

*Report of the Management Board on the activities of the
Capital Group
for the period of 6 months ended 30 June 2021 (PLN '000)*

Net return on sales	$\frac{\text{Net profit allocated to the Parent Company shareholders} \times 100}{\text{Total revenues from sales}}$	(0.92)%	3.42%
Gross return on sales	$\frac{\text{Gross profit from sales} \times 100}{\text{Total revenues from sales}}$	15.97%	24.86%
EBIT	Operating profit (loss) , that is profit before interests (financial costs , minus financial revenues) and taxation (income tax)	(4 585)	7 275
EBITDA	Operating profit (loss) (EBIT) plus depreciation	2 127	14 334
EBIT margin	$\frac{\text{EBIT} \times 100}{\text{Total sales revenues}}$	(4.47)%	6.36%
EBIT margin	$\frac{\text{EBITDA} \times 100}{\text{Total sales revenues}}$	(2.08)	12.52%
1st liquidity ratio	$\frac{\text{Current (short-term) assets}}{\text{Short-term liabilities}}$	1.56	1.38
2nd liquidity ratio	$\frac{\text{Current (short-term) assets} - \text{inventory}}{\text{Short-term liabilities}}$	0.73	0.78

Indicator	Economic contents	Year 2021	Year 2020
Receivables rotation ** in days	$\frac{\text{average amount of trade receivables} \times 180}{\text{Revenues from sales}}$	57.12	41.34
Payables payment period	$\frac{\text{average amount of trade payables} \times 180}{\text{Own cost of sales}}$	52.16	20.53
Inventory rotation in days **	$\frac{\text{average amount of inventory} \times 180}{\text{Own cost of sales}}$	175.42	136.10
Coverage of fixed assets with equity	$\frac{\text{Equity allocated to the Company shareholders}}{\text{Fixed (long-term) assets}}$	0.98	0.87
Durability of the financing structure	$\frac{(\text{Equity allocated to the Company shareholders} + \text{long-term payables})}{\text{Total equity and}}$	0.74	0.75

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

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

In 2021, all profitability ratios except gross return on sales are negative, due to negative financial results.

Receivables turnover and payables repayment ratios increased, due to extended repayment terms. The inventory rotation indicator increased. This indicator is always high in the Group due to the seasonal nature of the production.

Liquidity ratios were at a similar level compared to the previous year.

IV. DEVELOPMENT OF THE ISSUER AND THE CAPITAL GROUP

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

1.1. Risks and threats

✓ Coronavirus pandemic

In connection with coronavirus pandemic in Poland, the Management Board took immediate actions to limit potential health and safety hazard for employees and ensure business continuity. Appropriate safety and hygiene procedures according to the Ministry of Health guidelines were implemented, as well as appropriate plans ensuring continuity of production of supplies. In addition to providing staff safety, which remain the priority, all actions focus on flexible response to changing circumstances and activities aiming to limit the epidemic impact on business, including to maintain the revenues with simultaneous tight control of costs.

The Group's objective has been to achieve the maximum rate of return on investments while maintaining moderate

level of investment risk. PEPEES Group assumes performance of parallel activities in the field of development, through increase of efficiency of activities of the Capital Group companies and mitigation of risks to which they are exposed, as well as performance of further investment activities.

The Issuer's Management Board has undertaken activities aimed at reduction of ongoing operating costs and optimises investment expenses in order to adjust the company to the changing environment and market condition as much as possible.

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

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

✓ **Globalisation**

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

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

✓ **Dependence on profitability of potato production**

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

✓ **Exchange rate risk**

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

✓ **Interest rate risk**

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

✓ **Fluctuations of the economic situation**

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

✓ **Too expensive instruments raising security of the trade**

Credits granted to recipients raise the risk of failure to pay supplies. Financial products offered on the market are expensive and significantly prolong the stage of a transaction.

✓ **Sale of a product threatening to consumer health and life**

The Group is a producer of food products. In case of sale of a product threatening human health or life, the Group would lose its reputation, would be obliged to pay compensation to customers and consumers and cover costs related to product recall and its disposal.

The risk is small due to the implemented Quality and Food Safety Management System. Product recall procedure has been implemented, recall simulations are performed.

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

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

Factors that serves as the main opportunities of development are:

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

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

Most important internal factors meaningful for its further development are:

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

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

The Group fulfils the assumptions of the strategy for years 2019-2024 adopted on 12 June 2019. Also negotiations with Korean Daesang Corporation ("Daesang") are conducted in respect to potential cooperation in production of modified products of potato starch.

The Group's main objective is to achieve the maximum rate of return on investments while maintaining moderate level of investment risk. PEPEES Group assumes performance of parallel activities in the field of development, through increase of efficiency of activities of the Capital Group companies and

mitigation of risks to which they are exposed, as well as performance of further investment activities. In any attractive market offers occur, the investment activities will be continued both in the Group and outside.

The existing epidemic condition as a result of the spread of the COVID- 19 coronavirus and related actions taken by the government administration in Poland and other countries negatively affect the Group's development. The year 2021 remains under influence of the fight against the effects of the pandemic. All Group companies monitor on an ongoing basis the development of the situation in Poland and worldwide, related to the COVID- 19 coronavirus pandemic, verifying all information with respect to its impact on the Group's economic situation and taking ad hoc actions to minimize the consequences related to the above-mentioned extraordinary circumstances.

3. Development strategy of the Company and PEPEES Capital Group

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

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

Establishing the cooperation with the industry partner, especially from the food, pharmaceutical, dietary supplements and children products sectors, will be crucial for the further development of the PEPEES Capital Group. The implementation of the Strategy requires ensuring appropriate know-how and significant investments in the development of new products, in particular modifications and modern technologies.

Detailed information on the adopted strategy is described in current report No. 12/2019.

The Company plans to review the assumptions and implementation of strategic objectives in view of the prolonged impact of the pandemic and the market situation.

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

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

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

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

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

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

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

5. Additional disclosures in relation to the pandemic

The ongoing COVID19 pandemic has caused the deterioration of the economic environment. This also had an impact on the Group's revenue, which decreased as a result of falling prices. There were also logistical problems, increased transport costs and also new costs related to the purchase of disinfectants and personal protective equipment for employees, as well as to the adaptation of work places to safe working conditions. Nevertheless, all companies in the Group operated without major disruptions. There was no unused capacity due to the pandemic. The management boards of the companies have assessed all risks associated with the pandemic and have determined that they will not jeopardize the Group's continued operations.

The Group benefited from the so-called Anti-Crisis Shield in the form of wage subsidies in the total amount of PLN 1,762 thousand.

V. STATEMENT OF THE MANAGEMENT BOARD

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

- the abbreviated consolidated financial statement for 1st half of 2021 and comparative data were prepared in compliance with applicable accounting principles, reflect truly, reliably and clearly the economic and financial situation of PEPEES Capital Group and net loss of the Capital Group,
 - the abbreviated financial statement of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S. A. for 1st half of 2021 and comparative data were prepared in compliance with applicable accounting principles, reflect truly, reliably and clearly the economic situation and net loss,
- the report of the Management Board on activities of the Capital Group in the 1st half of 2021 presents the true picture of development and achievements and the situation of PEPEES Capital Group, including description of the main risks and threats.

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

President of Management Board - Wojciech Faszczewski

Member of Management Board - Tomasz Krzysztof Rogala