



REPORT ON ACTIVITIES OF PEPEES CAPITAL GROUP

for the period of 12 months ended 31 December 2019

**(including disclosures required in the Report of the Management
Board
on activities in the above
mentioned period)**

prepared in Łomża on 19 March 2020, published on
20 March 2020

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INTRODUCTION

This Report of the Management Board on activities of PEPEES Capital Group for year 2019 contains information, the scope of which is defined in §70 and 71 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodical information disclosed by issues of securities [...] (the Regulation).

The consolidated annual report that comprises the above mentioned financial statement and this report on activities was prepared on the basis of §70 and §71 in relation to sec. 1 point 3 and sec. 2 § 60 of the Regulation.

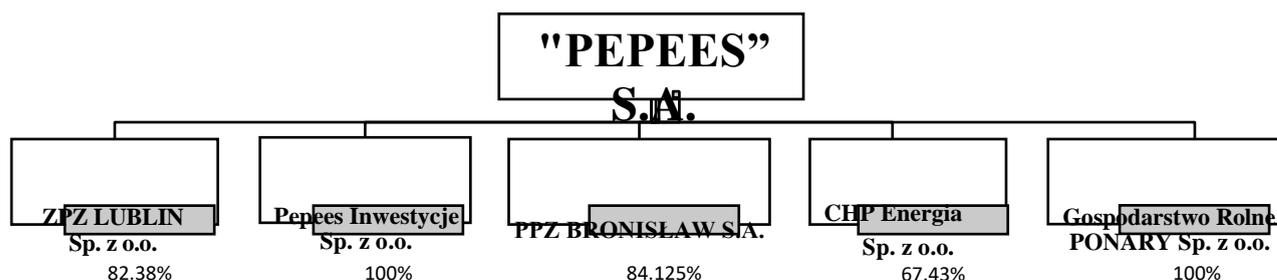
Pertaining to §71 sec. 8 of the Regulation, this report contains also disclosures of information required from a Report on Activity of the Holding Entity, as referred to in §70 sec. 1 point 4 of the Regulation.

The principles of preparation of financial statements were presented in respective statements, that is the financial statements of the Holding Entity and financial statements of the Capital Group for 2019.

I. CHARACTERISTICS OF PEPEES CAPITAL GROUP

PRZEDSIĘBIORSTWO PRZEMYSŁU SPOŻYWCZEGO "PEPEES" SPÓŁKA AKCYJNA (hereinafter referred to also as the Issuer, the Company, "PEPEES" S.A., PEPEES) is the holding entity in relation to: Zakłady Przemysłu Ziemniaczanego ZPZ „LUBLIN” Sp. z o.o., Przedsiębiorstwo Przemysłu Ziemniaczanego „BRONISŁAW” S.A., Pepees Inwestycje Sp. z o.o. (former OZENERGY Sp. z o.o.), Gospodarstwo Rolne Ponary Sp. z o.o. and CHP Energia Sp. z o.o.

As at 31 December 2019, the structure of the Capital Group was as follows:



Name	Registered office	Subject of business	Registration Court	Issuer's share in capital (%)	Share in the total number
ZPZ LUBLIN Sp. z o.o.	Lublin	Production and sale of potato syrup and dried potatoes, processing of fruit and vegetables	District Court in Lublin 11th Economic XI Wydział Department of the	82.38	82.38
Pepees Inwestycje (former OZENERGY Sp. z o.o.)	Łomża	Purchase and sales of real properties on own account	District Court in Białystok 12th Economic Department of the National Court Register	100	100
PPZ BRONISŁAW S.A.	Bronisław	Production of starch and starch products	District Court in Bydgoszcz 13th Economic Department of the National Court	84.125	84.125
CHP Energia Sp. z o.o.	Wojny Wawrzyńce	Production of electricity and heat from gas acquired from the biogas plant	District Court in Białystok 12th Economic Department	67.43	67.43
Gospodarstwo Rolne Ponary Sp. z o.o.	Łomża	Agricultural production together with animal breeding	District Court in Białystok 12th Economic Department	100	100

All subsidiaries were subject to consolidation by means of the full method.

1. Structure of PEPEES Capital Group

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

1.1.1. Basic information about the Company

The Company operates under name: Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. Its registered office is located in Łomża, ul. Poznańska 121

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

The Company was entered into 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 granted by the Tax Office in Łomża on 20 January 2000.

The Statistical Officer granted the statistical number (REGON) : 450096365.

The company operates on the basis of the provisions of the Code of Commercial Companies. It consists of one plant, it has no branches.

"PEPEES" S.A. with registered office in Łomża is the biggest starch potato processing plant in Poland and the only Polish producer of crystalline glucose. Thanks to the integrated management system that was implemented and has been certified since 2007, the Company ensures high quality and full safety of manufactured goods for health. The Company's products are widely used in food, pharmaceutical, animal feed, chemical, textile and paper industries.

According to the Articles of Association, the Company's subject of business comprises:

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

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

As at 31 December 2019 and as at the date of this report, the Company's share capital amounted to PLN 5 700 thousand and was divided into 95 000 thousands of ordinary bearer shares of the nominal value of PLN 0.06 each.

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

SHAREHOLDING	Number of shares [shar]	Share in capital %	Number of votes	Share in the total number of shares at the Annual General Meeting
Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych*	27 714 832	29.17%	6 312 599	6.64%
Michał Skotnicki**	21 399 174	22.53%	21 399 174	22.53%
Maksymilian Maciej Skotnicki**	20 703 282	21.79%	20 703 282	21.79%
Newth Jonathan Reginald	7 995 200	8.42%	7 995 200	8.42%
Richie Holding Ltd.	6 133 100	6.46%	6 133 100	6.46%
Other	11 054 412	11.63%	11 054 412	11.63%

*Due to the failure to fulfil the reporting obligation on purchase of a significant package of shares, according to the Act of 29 July 2005 on public offer and the conditions of introduction of financial instruments to organised trading system and on public companies, EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, holding - according to the information know to the Company - 27 714 832 shares of the Company, has lost and cannot exercise rights to vote in relation to 21 402 233 shares. Therefore, the Company's Management Board files and action to the Regional Court in Białystok to determine the issue. Epsilon FIZ AN holds a contrary position claiming that is is entitled to the right to vote in relation to 27 714 832 shares accounting for 29.17% of the total number of votes at the General Annual Meeting. The case was joined by the Chairperson of the Polish Financial Supervision Authority, who presented his opinion on 24 July 2019 r. The Management Board expects for valid and binding decision of the Court of Law. The Company informed on the issue in current reports no 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 of 29 July 2005 on public offer and the conditions of introduction of financial instruments to organised trading system and on public companies, and therefore the total shareholding of the above mentioned persons comprises 42 102 456 shares/votes, which accounts for 44.32% share in shareholder capital/total number of votes in the Company.

1.1.2. Company's authorities

As at 31 December 2019 and as the date of publication of this Report on the activities of PEPEES Capital Group, the members of the Management Board, the Supervisory Board and the Audit Committee were as follows:

The Manag ement Board

Wojciech Faszczewski President of the Management Board

Tomasz Krzysztof Rogala Member of the Management Board

The Supervisory Board

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

Audit Committee

Maciej Kaliński Chairperson of the Audit Committee
Piotr Marian Taracha Deputy Chairperson of the Audit Committee
Krzysztof Stankowski 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 about the company

The Company is seated in Lublin, ul. Betonowa 9. The Company conducts its business activity in form of a limited liability company that was established with a notary deed drafted in the Notary Office of Antonina Renata Bednara in Lublin, ul. Spokojna 8, Repertory A no 6437/96 for indefinite duration. The Company was entered into 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 the tax identification number (NIP):



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9461580419.

The Company operates on the basis of the provisions of the Code of Commercial Companies.

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

As at 31 December 2019, the company's share capital amounted to PLN 2 761 200,

and its shareholders were as follows:

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

1.2.2. The Company's authorities as at 31 December 2019

The Management Board

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

The Supervisory Board

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

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

1.3.1. Basic information about the company

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

The Company was entered into 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 the tax identification number (NIP): 7182123627.

The Company operates on the basis of the provisions of the Code of Commercial Companies.

The subject of the company's business, according to the articles of association, comprises purchase and sale of real properties on own account.

As at 31 December 2019, the company's share capital amounted to PLN 95 000, and was divided into 1 900 equal and indivisible shares, each of the value of PLN 50.

1.3.2. The Company's authorities as at 31 December 2019

*The
Manag
ement
Board*

Roman Adam Minierski the President of the Management Board.

1.4. Przedsiębiorstwo Przemysłu Ziemniaczanego „BRONISŁAW” Spółka Akcyjna in Bronisław - a subsidiary

1.4.1. Basic information about the company

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

The company's registered office is located in Bronisław 41, 88-320 Strzelno. The Company conducts activities in form of a joint stock company thatw as established with a notary deed on 31.07.2017, Repertory A no 1989/2017, fpr indefinite duration. The Company was entered into 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 the tax identification number (NIP): 5571595182.

The Company operates on the basis of the provisions of the Code of Commercial Companies.

The Company's subject of business comprises:

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

As at 31 December 2019, the company's share capital amounted to PLN 800 000, and was divided into 800 000 shares of nominal value of PLN 1.00 each. Shares are not preferential.

"PEPEES" S.A. is the main shareholder and it holds 84.125% of the capital. Other shareholders are individuals.

1.4.2. The Company's authorities as at 31 December 2019

*The
Manag
ement
Board*

Wojciech Faszczewski President of the Management

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Board

Roman Adam Minierski Vice President of the Management
Board.

***The Supervisory
Board***

Piotr Marian Taracha	Chairperson of the Supervisory Board
Agata Czerniakowska	Deputy Chairperson of the
Supervisory Board Dobrowolski	Member of the Supervisory Board

Stanisław Bukowski Member of the Supervisory Board
Elżbieta Trandziuk Member of the Supervisory Board
Robert Malinowski Member of the Supervisory Board
Tomasz Nowakowski Member of the Supervisory Board

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

1.5.1. Basic information about the company

The company with registered office in located in Wojny Wawrzyńcach was established on 27 April 2011 on the basis of a notary deed Repertory A no 1163/2011. The company conducts its business in form of a limited liability company. The Company was entered into the register of entrepreneurs kept by the District Court in Białystok, 12th Economic Department of the National Court Register under number KRS 0000390180.

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

The Company operates on the basis of the provisions of the Code of Commercial Companies.

The Company's subject of business comprises:

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

As at 31 December 2019, the company's share capital amounted to PLN 5 298 000 and was divided into 10 596 equal and indivisible shares, each of nominal value of PLN 500. "PEPEES" S.A. is the main shareholder and it holds 67.43% of the capital. The other shareholders are individuals.

1.5.2. The Company's authorities as at 31 December 2019

The Management Board

Andrzej Bogdan Wyszyński President of the
Management Board

Mirosław Siemieniako Vice President of the Management
Board

The Supervisory Board

Wojciech Faszczewski Chairperson of the Supervisory

Board Tomasz Krzysztof Rogala Member of the Supervisory Board

Wojciech Zagdański Member of the Supervisory

Board.

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

1.6.1. Basic information about the company

The company's registered office is located in Łomża, ul. Poznańska 121. The Company pursues activity in form of a limited liability company established with the articles of association on 10 November 2015 for indefinite duration. The Company was entered into 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 the tax identification number (NIP): 1132898091.
The Company operates on the basis of the provisions of the Code of Commercial Companies.

The subject of the company's business comprises agricultural production together with animal breeding.

As at 31 December 2019, the company's share capital amounted to PLN 1 620 000 and was divided into 32 400 equal and indivisible shares, each of nominal value of PLN 500.
"PEPEES" S.A. is the only shareholder of the company.

1.6.2. The Company's authorities as at 31 December 2019

The Manag ement Board

Tomasz Krzysztof Rogala President of the
Management Board

2. Activities of companies belonging to PEPEES Capital Group 12

PEPEES Capital Group is created by Companies specialising mainly in potato processing for the purpose of production, e.g. potato starch, maltodextrin and potato flakes. The Group comprises also plants producing energy from renewable sources, growing starch potatoes, purchase and sale of real properties for own account.

Every company fulfils specific functions and contributes essentially to creation of value within PEPEES Capital Group.

"PEPEES" S.A. performs the function of the holding company. The Management Board of "PEPEES" S.A. prepares the development strategy of the Group and makes key decisions on both the scope of activities and finances of entities constituting PEPEES Capital Group.

"PEPEES" S.A. has one of the biggest potato starch plants in Poland. Its processing capacity reaches the level of 1000 - 2400 tons potatoes a day. Among significant involved assets, one should mention the machinery used for production of starch, specialised staff and warehouse space.

ZPZ Lublin Sp. z o.o. with registered office in Lublin focuses on processing of ware potatoes into potato grit and potato flakes.

PPZ „BRONISŁAW” S.A. with registered office in Bronisław produces mainly starch, and also

processes ware potatoes into potato flakes.

CHP Energia Sp. z o.o. with registered office in Wojny Wawrzyńce is a company that ensures mainly collection of potato pulp (the main waste product from production of starch) from the Holding Company. Thus, it plays the key function in PEPEES's production chain. In its strategy it assumes exploitation of biogas plant and integrated production plan of solid fuel from biomass, and generation of green electricity

in cogeneration. Generated surplus of heat is used for drying of biomass used as agricultural fertiliser.

Pepees Inwestycje Sp. z o.o. with registered office in Łomża buys and sells real properties for own market

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Gospodarstwo Rolne Ponary Sp. z o.o. with registered office in Łomża has own agricultural land that is leased by the Holding Company, for instance for the purpose of growing of starch potatoes.

3. Changes in organisation of PEPEES Capital Group

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

II. CHARACTERISTICS OF THE ACTIVITIES OF PEPEES CAPITAL GROUP

1. Characteristics of the market of operation

The main activities of PEPEES Capital Group in the reporting period comprised production, commercial and service activities focused mainly on processing of potatoes and production of electricity. Within PEPEES Capital Group 4 industry segments may be separated, that is "potato processing", "production of electricity", "agricultural production with animal breeding" and "purchase and sale of real property for own market".

All assets and liabilities of CHP Energia Sp. z o.o are allocated to the segment of "production of electricity".

All assets and liabilities of Gospodarstwo Rolne Ponary are allocated to "agricultural production with animal breeding". Due to the fact, that in 2019 Ponary company did not generate any revenues from sales, the segment of "agricultural production with animal breeding" was not separated in revenues and results of the segments. Because of the value of land owned by Ponary, the third segment was separated in the financial statements only for the purpose of presentation of its assets and liabilities.

The segment of "purchase and sale of real property for own market" comprises all assets and liabilities of Pepees Inwestycje Sp. z o.o.

All other assets and liabilities specified in the consolidated financial statements are allocated to "potato processing".

The segment of "potato processing" produces:

- potato starch,
- a few offers of glucose,
- a wide offer of potato syrup,
- potato grit,
- potato flakes.

PEPEES Capital Group processes both ware and starch potatoes. Potatoes serve as the main source of starch in Poland and in the entire Europe. Starch potatoes are potatoes that contain not less than 13% of starch. Starch is received from such potatoes through mechanical separation of other elements of a potato, their rinsing, cleaning, drying and sieving, and it is used for food and technical purposes.

Europe produces the biggest volumes of potato starch in the world. The biggest producers of potato starch in the European Union are: Germany, Netherlands, followed by France and Denmark. The EU enterprises are big starch plants processing 3 000 to 5000 tons potatoes a day. The 3 main European companies (Emsland - Germany, Avebe - Netherlands, Roquette - France) account for ca. 65% of the EU production of starch.

In the EU the production in recent years amounted to ca. 1.9 million tons a year, including 92% in the countries of UE 15, and almost 8% in the new member states. Poland's share in production of potato starch in the EU amounts to ca. 6%.

The Polish starch industry comprises 10 enterprises producing potato starch and its derivative products. The Polish starch industry is very much divided. On the Polish market there are 5 biggest starch plants with processing capacity of 1 000-2 400 tons potatoes a day. Those plants are located in Łomża ("PEPEES" S.A. in Łomża), Luboń, Trzemeszno, Piła and Łobez. Other Polish starch plants are much smaller and capable of processing of ca. 300-800 tons potatoes a day.

Ware potatoes are proceeded in ZPZ Lublin Sp. z o.o., a subsidiary, mainly to potato grit and flakes, ad partially in PPZ Bronisław S.A. into potato flakes.

CHP Energia Sp. z o.o. operates in the segment of "production of electricity" and its strategy is based on exploitation of biogas plant and an integrated plan producing stolid fuel of biomass, and production of green electricity in cogeneration. Generated surplus of heat is used for drying of biomass used as agricultural fertiliser. Additionally, the company conducts commercial activities related to purchase and baling of beet pulp. Development of agricultural biogas plants contributes to fulfilment of obligations towards the European Union. Newly implemented legal provisions and a support system will result in accelerated development of this sector in Poland.

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

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The segment of "potato processing" produces:

- ✓ potato starch that is widely sued in food, pharmaceutical, paper, textile and chemical industries;
- ⌚ a few selections of glucose used in food, confectionery and pharmaceutical industries,
- ⌚ maltodextrin that is an essential element of powder products (ice cream, sauces, soups, fruit extracts, flavoured toppings) and nutritional supplements and vitamin and mineral supplements for children and athletes.
- ⌚ wide offer of starch syrups used in the confectionery and bakery industries.
- ✓ potato grit used in food industry;
- ✓ potato flakes used in food industry.

Potato starch

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

Starch is one of most multifunctional raw materials in the food industry. Some applications use its natural properties related to creation of gels and thickening of products (food, chemical, textile and paper industries).

In the food and pharmaceutical industries, starch is used to ensure appropriate texture, appearance (form), humidity, consistency and durability during storage.

**Starch
with water
content**

Starch with water is extracted from a potato pulp through rinsing, and then cleaning, drying and sieving. The commercial product contains ca. 40% of water. Starch with water contents is produced of industrial potatoes of respective quality, that is high starch contents with possibly biggest content of big starch grains, low content of non-starch substances, low protein contents, round tubers, crispy flesh, shallow eyes.

Potato protein

This product is received from cell cytoplasm by means of coagulation, separation and drying. The ready product has a form of grey flowing power with typical flavour for dried potato protein and humidity that does not exceed 10%. The product characterises with high, over 80% content of general protein, and digestible protein accounts for more than 70% of the dry product. As high-quality and easily digestible plant protein, the product is a valuable component of animal feed mixtures and an excellent substitute of animal protein.

Grit

Grit is a waste product in the starch plant. It consists of glued clods of starch separated from dried potato flour.

Potato flakes

Potato flakes are produced of edible types of potatoes. They are steamed and then dehydrated flakes of 0.2-0.5 mm of size.

Starch hydrolysates**✓ Crystalline glucose**

Crystalline glucose is the end product of potato starch hydrolysis. It has a form of white fine crystalline sweet powder. It is characterised by a very high level of microbiological purity and contains ca. 99.5% of pure glucose. Crystalline glucose is a mono-saccharide, very energetic and easily digestible by the organism. It is a valuable, natural source of energy. Glucose is widely used in production of pharmaceutical and dietetic products (medicines, nutritional supplements). Its consumption is particularly important during strong physical efforts and during convalescence.

In the food industry, mainly the following features of glucose are used: it strengthens perception of sweets and emphasizes taste of products. It is used for production of confectionery products, ice cream, desserts, dry food mixtures, non-alcoholic beverages, fruit and vegetable products. Moreover, crystalline glucose is used in breweries, wineries, bakery and meat industries.

✓ Anhydrous glucose

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

✓ Maltodextrin

Maltodextrin is the product of depolymerization of potato starch and is received in result of enzymatic hydrolysis. It has a form of white lightly sweet powder. Maltodextrin properties change depending on the level of hydrolysis of starch. Increase of DE (dextrose equivalent) results in increase of sweetness that is accompanied by increase solubility and hygroscopicity, reduction of viscosity, tie strength and resistance to crystallisation. Due to bonding, filling, improvement of texture and stabilisation of flavour and aroma,

maltodextrin is used for production of food. It is an essential element of powder products (ice cream, sauces, soups, fruit extracts, flavoured toppings) and nutritional supplements and vitamin and mineral supplements for children and athletes. It is an important carbohydrate ingredient of infant formulas and nutritional powder meals for infants. Maltodextrin is very important for production of reduced calorie food.

✓ **Glucose syrups**

Glucose syrups are thickened water solutions of mono-saccharides (glucoses, maltoses) and low-molecular polysaccharides received in enzymatic hydrolysis of starch. They are characterised by good temperature and chemical stability, high osmotic pressure. Glucose syrups are used for production of hard and soft candies, chewing gums, fruit jellies, ice cream, desserts, confectionery products. Glucose syrup increases plasticity of mass, durability of colour and taste, and contributes to transparency and glitter. Syrup addition ensures proper structure and delicate sweetness, improves structural properties, impedes sugar crystallisation, enables preservation of natural colour of fruit, adds delicate taste and emphasizes aroma.

✓ **Hydrol**

Hydrol is a waste product. It is inter-crystalline juice left after separation of glucose crystals thickened glucose syrup - saccharification. It is a thick brown liquid with characteristic odour. Due to high contents of carbohydrates, hydrol is used in distillery, animal feed and chemical industry (e.g. tanning of skins).

Besides the above mentioned products, in 2019 the revenues from sales were generated in the Group also from the following groups of products:

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

In the segment of "production of electricity", the following products are produced:

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

All assets and liabilities of Gospodarstwo Rolne Ponary Sp. z o.o. are allocated to "agricultural production with animal breeding". Because of the value of land owned by GR Ponary Sp. z o.o., the third segment was separated in this report only for the purpose of presentation of its assets and liabilities. The fourth segment comprises purchase and sale of real property on own market, that are executed by Pepees Inwestycje Sp. z o.o.

3. Volume and structure of sales

The Capital Group operates on strongly competitive market both in Poland and abroad in the environment of Polish entities and the biggest international concerns. It occupies one of the leading positions on the Polish market, both in respect to values and volumes.

Specification of revenues from sale in the period from 1 January 2019 to 31 December 2019 as compared to the analogical period of 2018 is presented in table no 1 and charts no 1 and 2.

Table no 1: Structure of net revenues from sales for a periods of 12 months of 2019 and 2018

(data in PLN thousand)

Product offer	for the period of 12 months ended 31 December 2019	Structure 2019	for the period of 12 months ended 31 December 2018	Structure 2018	Dynamics
Potato products	204 089	87.98%	218 667	91.13%	93.33%
Electricity	3 540	1.53%	4 460	1.86%	79.37%
Property rights (electricity and heat)	2 626	1.13%	3 185	1.33%	82.45%
Animal feed	727	0.31%	961	0.40%	75.65%
Other sales, including:	20 999	9.05%	12 668	5.28%	165.76%
<i>a) services</i>	<i>1 823</i>	<i>0.79%</i>	<i>1 184</i>	<i>0.49%</i>	<i>153.97%</i>
<i>b) goods and materials</i>	<i>19 176</i>	<i>8.27%</i>	<i>11 484</i>	<i>4.79%</i>	<i>166.98%</i>
Total net revenues from sales	231 981	100.00%	239 941	100.00%	96.68%

Chart no 1: Structure of revenues from sales for a periods of 12 months of 2019

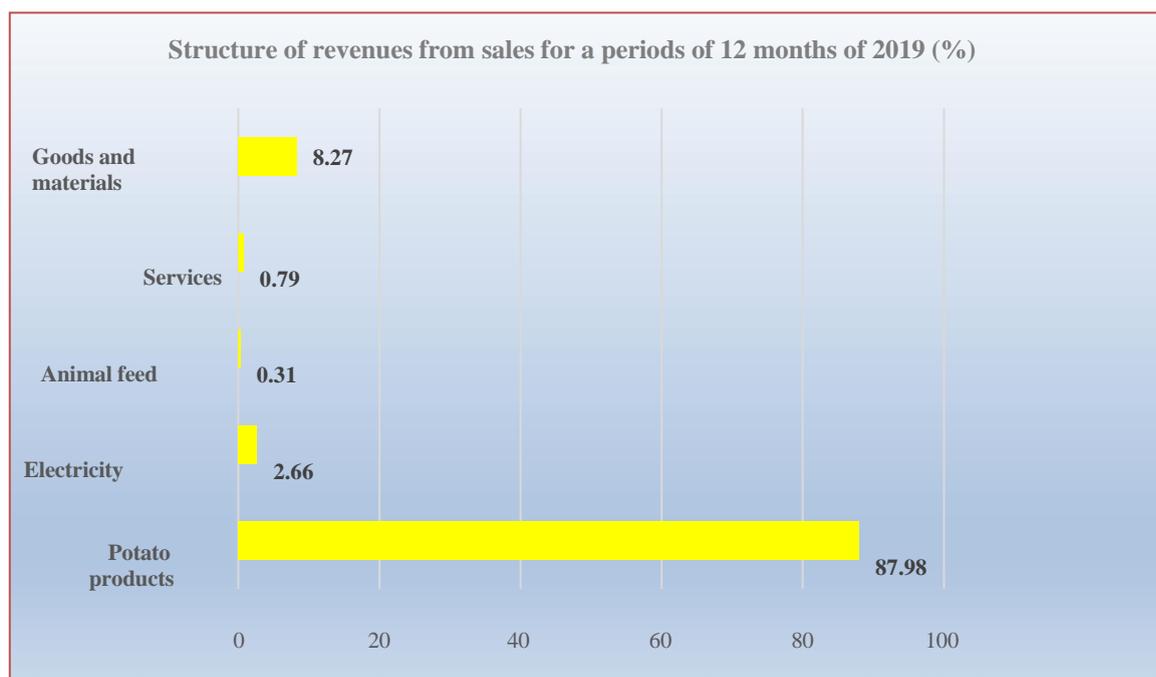


Chart no 2: Structure of revenues from sales for a periods of 12 months of 2018

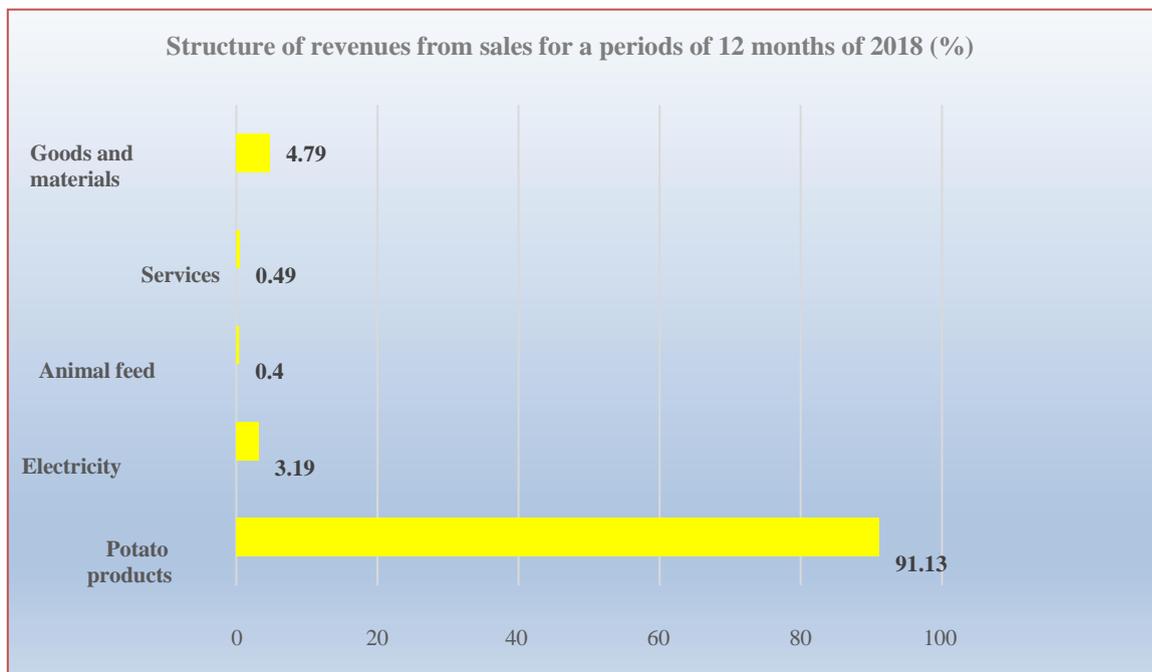


Table no 2: Volume of revenues from sales for a periods of 12 months of 2019 and 2018

Product offer	Unit of measure	Year 2019	Year 2018	Dynamics in %
potato products (Group)	ton	67 465	82 741	81.54
- including the Holding Entity	ton	51 538	61 341	84.02

In 2019 the value of revenues from sales fell by 3.32%, and volume - by 18.46% as compared to the previous year.

4. Information on domestic and foreign outlets

Due to high product quality, continuous improvements of production and management methods, the Group's brand is a significant trademark in Poland and abroad. The Group develops cooperation of present and new customers, and offers them high standard services.

The Group distributes products both through a chain of warehouses and commercial companies supplying products to the food industry, and directly to manufacturing plants, mainly in mean, food, confectionery, bakery and pharmaceutical industries, for which starch products are the raw material for further processing and a component in the production process. Packing products in packaging for retail sale enables cooperation with the biggest commercial chains operating on so called traditional market. In this way products under the brand of PEPEES Capital Group reach customers that purchase starch products for own needs.

Schemes of distribution channels of PEPEES Capital Group

Distribution channels are as follows:

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

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

Company → wholesaler → store ~~consumer~~

Company ~~retail~~ → network consumer →

The most popular payment form are bank transfer with dues date of 14, 21, 31, 45 and 60- days. Payment deferral depends on the length of the cooperation period with a given recipient, its financial capacity and volume of purchased goods. The financial reliability assessment made by the insurer, and granted financial limit are also decisive. Prepayment is a form of payment in case of a new recipient. A letter of credit is often applied in case of export sales.

Revenues from sales with division into outlets are presented in the following table.

Table no 3: Revenues from sales with division into outlets .

Net revenues from sales	for the period of 12 months ended 31 December 2019	Structure 2019	for the period of 12 months ended 31 December 2018	Structure 2018
Poland, including	154 696	66.68%	154 019	64.19%
- products	141 062	60.81%	145 319	60.56%
- goods and materials	11 811	5.09%	7 516	3.13%
- services	1 823	0.79%	1 184	0.49%
EU states - supplies intra-Community, including:	19 299	8.32%	23 249	9.69%
- products	19 149	8.25%	23 223	9.68%
- goods and materials	150	0.06%	26	0.01%
Other countries - exports, including:	57 986	25.00%	62 673	26.12%
- products	50 771	21.89%	58 731	24.48%
- goods and materials	7 215	3.11%	3 942	1.64%
Total	231 981	100.00%	239 941	100.00%

4.1. Domestic sales by industry and geographical areas

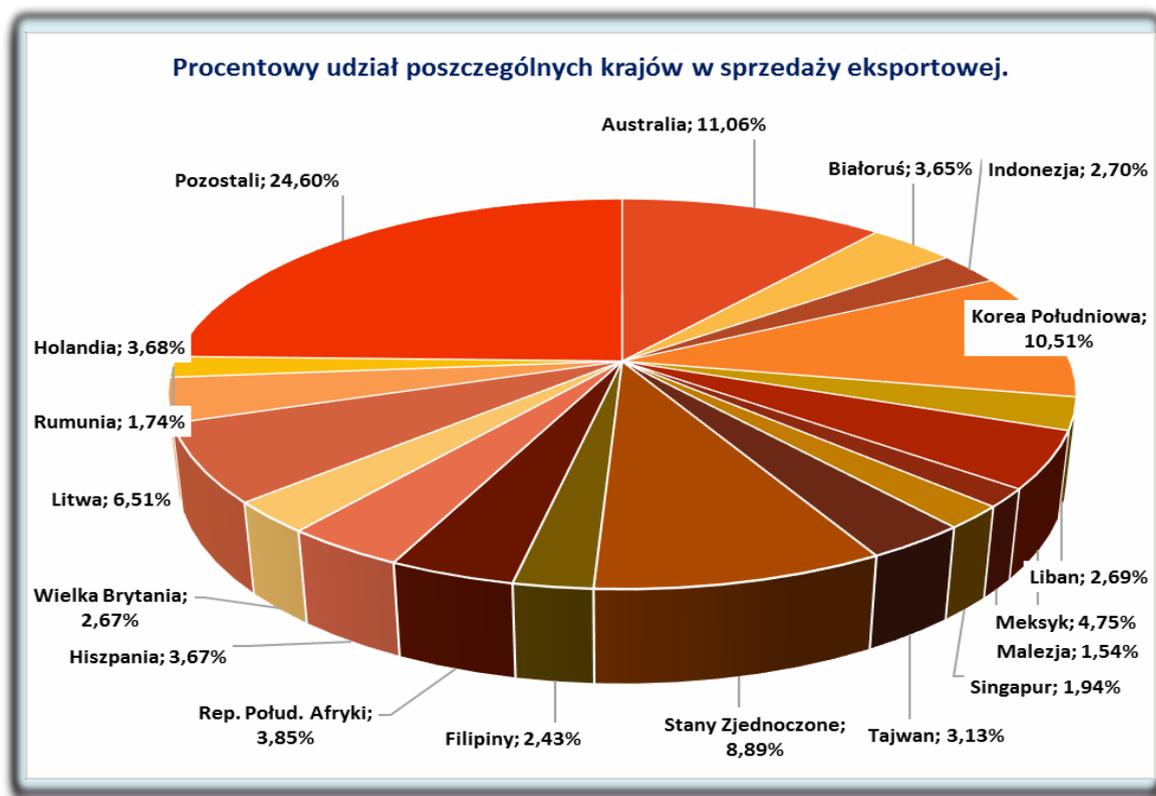
Sales of products of the potato industry in 2019 was performed in the whole territory of the country. The sale of the main product in the offer that is potato starch accounted for the biggest share in sale, in respect to value, on the domestic market (52.25%). Further products in respect to the value included maltodextrin (10.37%), glucose (5.50%) and dried potatoes (5.70%). The main recipients of the products of the Holding Entity on the domestic market include mainly renown domestic companies that are often capitally related with large European and global companies.

The Group distributed products both through a chain of warehouses and commercial companies supplying products to the food industry, and supplied directly to manufacturing plants, mainly in food, confectionery, meat and pharmaceutical industries, for which starch products are the raw material for further processing and a component in the production process. None of the recipients exceeded 10% of revenues from sales of the Group and the Holding Entity.

4.2. Export and intra-Community sales

In 2019 the value of export and intra-Community sale amounted to PLN 77 285 thousand, and recorded a fall of 10.05% as compared to the previous year. In 2019 the Issuer sold its products, mainly potato starch, to 57 countries all over the world. The biggest volume of products was sold to Australia, South Korea, United States and Lithuania.

Chart no 3 : Percentage share of individual countries in export sales



5. Information on sources of supplies of the materials for productions, goods and services

Industrial and ware potatoes are the main raw material for productions of products in PEPEES Capital Group. They are bought in autumn on the basis of cultivation contracts concluded in spring. Since early 1990's the negative tendency concerning potato production in Poland has been observed. In the late 1990's, the share of potatoes in the crop structure amounted to 10%, now it is only 3%. 300 000 hectares is allocated in Poland for potatoes, and in case of starch potatoes it is almost 25 000 hectares, that is only 8% of total potato crops.

Biomass is the main raw material for electricity production by CHP Energia. It is made mainly from plant waste that is bought from farmers and from PEPEES - waste from starch production (potato pulp).

Furthermore, the following materials and raw materials are bought for production: paper packaging, enzymes, starch, glucose syrup, technical gases, electric materials, fine coal, metal parts, bags, sulphur dioxide, wrapping hydrochloric acid, labels, carton boxes, diatomaceous earth, adhesives, solvents, enamels, steel tape, pesticides, etc.

The source of supply in the main raw material, that is industrial potatoes, are individual farms who are not grouped in any organisations of significant meaning for the Group's operations.

The main source of supply in materials, goods and services in 2019 was provided by Polish companies and representative branches of foreign companies. In case of enzymes and filtration materials, the Group became dependant on one supplier, because these are the only Polish representatives of foreign companies that produce the raw materials needed by the Group.

There are no suppliers, whose share in the Group's revenues would account for at least 10%.

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

6.1. Economic agreements

In 2019 PEPEES Capital Group did not enter into economic agreements of significant value, and into essential cooperation agreements.

Regardless of the foregoing, the Issuer points out to the following agreements concluded in 2019

- agreement on purchase of pesticides for potato plantations for the value of ca. PLN 2.5 million;
- agreement on installation of a sand trap of the higher value than PLN 4 million;
- agreement on purchase of belt dryer of the value of PLN 1.8 million;
- agreement on purchase of 2-row potato harvester of the value of ca. PLN 1 million;
- commercial agreements;
- agreement on purchase and modernisation of production machines and devices, and refurbishment works.

6.2. Credit facility agreements

a) with Santander Bank Polska S.A.:

On 16 April 2019 Annex no 13 to the Multi-Line Agreement dated 07.10.2014 between Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A. with registered office in Łomża, Zakłady Przemysłu Ziemniaczanego „LUBLIN” Sp. z o.o. with registered office in Lublin, Przedsiębiorstwo Przemysłu Ziemniaczanego „BRONISŁAW” S.A. with registered office in Bronisław and a Santander Bank Polska S.A. with registered office in Warsaw was signed.

Under this Annex, an amount of PLN 2 million of the revolving credit was shifted between companies of the Group, that is from "PEPEES" S.A. to PPZ "BRONISŁAW" S.A. The total amount of the revolving credit granted to the companies of PEPEES Capital Group did not change.

On 5 August 2019 Annex no 14 to the Milti-Line Agreement dated 07.10.2014 was signed to increase the limit for the companies of the Capital Group to PLN 55.5 million and the repayment

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date was postponed to 31.08.2020.

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

On 5 August 2019 Annex no 2 to Multi-purpose Credit Line Agreement with Powszechna Kasa Oszczędności Bank Polski S.A of 10 August 2017 was signed. The Annex raised the credit limit granted to PEPEES and subsidiaries to PLN 55.5 million and the repayment date was postponed to 31.08.2020.

**6.3. Lease agreements concluded in
2019**

- Lease agreements of 11 passenger cars with BNP PARIBAS Leasing, Santander Leasing and PKO Leasing for the total value of PLN 862 thousand;
- The lease agreement of a construction machine with PKO Leasing of the value of PLN 123 thousand;
- Lease agreement of a farm machine with BNP PARIBAS Leasing of the value of PLN 339 thousand;
- Lease agreements for forklifts concluded with BNP PARIBAS Leasing Services of the value of EUR 92.5 thousand;
- The lease agreement of a farm machine with PKO Leasing of the value of PLN 275 thousand;

6.4. Insurance agreements

The company concluded the following insurance agreements:

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

6.5. Surety agreements

- On 03.01.2019 the Issuer granted an endorsement in favour of bank SBR in Szepietowo in relation to repayment of working capital credit in the amount of PLN 300 thousand, granted to its subsidiary, CHP Energia Sp. z o.o.;
- On 20 September 2019 "PEPEES" S.A. the Issuer granted an endorsement in favour of bank SBR in Szepietowo in relation to repayment of working capital credit in the amount of PLN 1 000 thousand, granted to its subsidiary, CHP Energia Sp. z o.o.;

6.6. Agreements between Shareholders

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

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

As at 31 December 2019, the main investments of "PEPEES" S.A. comprise shares and bonds in the subsidiaries that were subject to consolidation, and 3 000 shares of Warszawski Rolno-Spożywczy Rynek Hurtowy S.A., and their estimated value, according to measurement made by means of the discounted future cash flow method by an independent actuary, amounted to PLN 5838 thousand as at 31.12.2019. The shares account for 2.5% of WRSRH's equity and 1.6% share of votes at the General Annual Meeting. The State Treasury is WRSRH's major owner and it holds a 59% share in equity. PEPEES does not control WRSRH.

The Group also holds shares in 3 other domestic entities (ZM Ostrołęka, Agencja Rozwołu and BPS) that account for less than 5% of the total number of votes at the general meetings and are not significant from the perspective of the value and the Group's investment policy..

In February 2019 the Holding Company purchased shares in for PLN 250 thousand and bonds of SBR Spółdzielczy Bank Rozwoju in Szepietowo of the value of PLN 250 thousand.

Basic financial data of the subsidiaries

Name (legal name) of a subsidiary	Equity	Assets	Liabilities	Revenues from	Profit/loss
Year 2018					
ZPZ LUBLIN Sp. z o.o.	2 582	16 702	14 120	20 632	509
PPZ BRONISŁAW	14 092	57 172	43 080	46 189	5 019
CHP Energia Sp. z o.o.	(5 196)	22 772	27 968	9 249	(1 732)
OZENERGY Sp. z o.o.	(41)	1 429	1 470	-	(44)
Gospodarstwo Rolne Ponary Sp. z o. o.*	11 884	21 347	9 463	-	107
Year 2019					
ZPZ LUBLIN Sp. z o.o.	3 652	18 569	14 917	19 769	1 070
PPZ BRONISŁAW	19 291	67 445	48 154	45 342	5 199
CHP Energia Sp. z o.o.	(6 187)	19 919	26 106	7 473	(991)
Pepees Inwestycje Sp. z o.o. (former OZENERGY Sp. z o.o.)	69	155	86	284	110
Gospodarstwo Rolne Ponary Sp. z o. o.	12 727	21 446	8 719	-	100

ZPZ Lublin Sp. z o.o. generated higher net profit than in 2018.

PPZ Bronisław S.A. generated better profit than in 2018.

CHP Energia improved the result from the previous year by PLN 741 thousand, but still it closed the financial year with a loss of PLN 991 thousand.

Pepees Inwestycje Sp. z o.o. earned revenues from sales of real property on own market and closed the financial year 2019 with net profit of PLN 110 thousand.

Ponary Sp. z o.o. did not generate any revenues from sale. Net profit earned in 2019 results from financial revenues received every month, that is fees for surety granted to the Holding Company.

Methods of subsidiary funding in 2019

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

8. Description of transactions with related entities

In the reporting period, "PEPEES" S.A., the Holding Entity, entered into transactions with related entities, which were typical in nature, resulted from current operating activities performed by "PEPEES" S.A. and its subsidiaries. These were arm's length transactions. Moreover, a part of concluded transactions result from existing agreements with financial institutions, under which mutual sureties of the entities of PEPEES Capital Group that are parties of such agreement are one the securities.

The aim of cooperation of companies belonging to the Capital Group is to raise the level of use of the resources and restrict risk related to performed activities.

Allocation of risk and division of functions of an enterprise enable reduction of costs of operations and effective use of financial resources. Granting surety to liabilities, as well as security of their repayment within the scope of related entities enables quicker execution of a contract, which may contribute to more efficient management of entities belonging to PEPEES Capital Group.

Issuer's transactions with related entities*Transactions between "PEPEES" S.A. in Łomża and ZPZ „LUBLIN” Sp. z o.o. in Lublin*

Transactions between "PEPEES" S.A. in Łomża and ZPZ „LUBLIN” Sp. z o.o. in Lublin included purchase of starch from the subsidiary for PLN 2 090 thousand and grit for an amount of PLN 14 thousand. Total value of purchases from ZPZ "LUBLIN" amounted to PLN 2 104 thousand.

In 2019, "PEPEES" S.A. sold starch to ZPZ "LUBLIN" Sp. z o.o. for an amount of PLN 135 thousand, maltodextrin for PLN 26 thousand and a service for PLN 283 thousand. Total value of sales in favour of ZPZ "LUBLIN" Sp. z o.o. amounted to PLN 444 thousand.

The sale price is determined on the basis of cost plus method or on the basis of price lists applicable in relation to unrelated entities.

Moreover, ZPZ "LUBLIN" paid interests to the Issuer in the amount of PLN 117 thousand on a loan granted in preceding years. The outstanding amount of the loan as at the balance sheet date amounted to PLN 1 800 thousand.

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

In the reporting period, the Issuer bought starch from the subsidiary for an amount of PLN 6 295 thousand and services for PLN 26 thousand. The total value of purchases in PPZ "BRONISŁAW" S.A. amounted to PLN 6 321 thousand.

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In 2019 "PEPEES" S.A. sold potatoes to PPZ "BRONISŁAW" S.A. in the amount of PLN 2 789 thousand, potato starch of the value of PLN 1 079 thousand, service for PLN 18 thousand and fixed asset for PLN 28 thousand. The total value of sales in favour of PPZ "BRONISŁAW" S.A. amounted to PLN 3 913 thousand.

The sale price is determined on the basis of cost plus method or on the basis of price lists applicable in relation to unrelated entities.

Moreover, PPZ "BRONISŁAW" S.A. paid interests to the Issuer in the amount of PLN 127 thousand on loans that have been earlier granted. During 2019 the company repaid two granted loans in the amount of PLN 4 million.

Transactions between "PEPEES" S.A. in Łomża and CHP Energia Sp. z o.o.

Transactions of "PEPEES" S.A. in Łomża with subsidiary CHP Energia Sp. z o.o. were related to purchase of biocompost from the subsidiary of the value of PLN 198 thousand, services for the amount of PLN 161 thousand, fixed assets in amount of PLN 2 720 thousand. PLN The total value of purchases from CHP Energia amounted to PLN 3 079 thousand.

"PEPEES" S.A. sold potato pulp to CHP Energia in the amount of PLN 39 thousand, beet pulp for the amount of PLN 559 thousand and services for the amounts of PLN 99 thousand. Total value of sales in favour of CHP Energia amounted to PLN 697 thousand.

As at the balance sheet date, there are outstanding loans in the total amount of PLN 4 788 thousand, interests on granted sureties in the amount of PLN 307 thousand, interests on granted loans in the amount of PLN 169 thousand, prepayment in the amount of PLN 480 thousand and trade receivables in the amount of PLN 1 023 thousand.

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

"PEPEES" S.A. sold to Gospodarstwo Rolne Ponary a service for an amount of PLN 10 thousand. While Gospodarstwo Rolne Ponary granted earlier a credit security to the Issuer, on which the fees were charged in 2019 in the amount of PLN 158 thousand.

Moreover, PONARY paid interests to the Issuer in the amount of PLN 19 thousand on a loan granted in 2018. The outstanding amount of the loan as at the balance sheet date was PLN 553 thousand.

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

In 2019 the Issuer sold a service to Pepees Inwestycje Sp. z o.o. in the amount of PLN 2.1 thousand.

Interests on the loan granted earlier to the subsidiary amounted to PLN 35 thousand. In 2019 the loan was repaid.

As at the balance sheet date there are trade receivables in the amount of PLN 7 thousand.

9. Information on incurred credits

As at 31.12.2019 the Capital Group had credit liabilities in PLN, which are presented in the following table:

Table no 4: Credit liabilities as at 31 December 2019

Type of a credit	Bank that granted a credit	Borrower	Credit amount defined in an agreement	Debt according to the condition	Maturity date
Credit on the current account	Santander Bank Polska S.A.	"PEPEES" S.A.	4 000	-	31.08.2020
Revolving credit	Santander Bank Polska S.A.	"PEPEES" S.A.	13 000	13 000	31.08.2020
Working capital credit	Santander Bank Polska S.A.	"PEPEES" S.A.	17 000	17 000	31.08.2020
Credit on the current account	Powszechna Kasa Oszczędności Bank Polski S.A.	"PEPEES" S.A.	4 000	-	31.08.2020
Revolving credit	Powszechna Kasa Oszczędności Bank Polski S.A.	"PEPEES" S.A.	13 000	13 000	31.08.2020
Working capital credit for potato purchase	Powszechna Kasa Oszczędności Bank Polski S.A.	"PEPEES" S.A.	17 000	16 914	31.08.2020
Investment credit for construction of starch drying plant, unloading hub	BNP Paribas Bank Polska S.A.	"PEPEES" S.A.	9 822	3 001	25.02.2022
Investment credit for modernisation of steam boiler de-dusting installation	BOŚ	"PEPEES" S.A.	1 200	279	31.12.2020
Investment credit for funding and refunding of purchase of 100% of shares in company Gospodarstwo	Powszechna Kasa Oszczędności Bank Polski S.A.	"PEPEES" S.A.	10 530	8 274	30.06.2025
Working capital credit	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ Lublin Sp. z o.o.	2 000	1 841	31.08.2020
Working capital credit	Santander Bank Polska S.A.	ZPZ „LUBLIN” Sp. z o.o.	2 000	1 946	31.08.2020
Revolving credit	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ „LUBLIN” Sp. z o.o.	3 000	2 688	31.08.2020
Working capital credit	Santander Bank Polska S.A.	ZPZ „LUBLIN” Sp. z o.o.	3 000	2 774	31.08.2020
Credit on the current account	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ „LUBLIN” Sp. z o.o.	750	-	31.08.2020
Credit on the current account	Santander Bank Polska S.A.	ZPZ „LUBLIN” Sp. z o.o.	750	-	31.08.2020
Credit on the current account	Santander Bank Polska S.A.	PPZ „Bronisław” S.A.	750	552	31.08.2020
Credit for purchase	Santander Bank Polska S.A.	PPZ „Bronisław” S.A.	10 000	6 522	31.08.2020
Revolving credit	Santander Bank Polska S.A.	PPZ „Bronisław” S.A.	5 000	5 000	31.08.2020
Credit on the current account	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ „Bronisław” S.A.	750	633	31.08.2020
Credit for purchase	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ „Bronisław” S.A.	10 000	9 998	31.08.2020

Type of a credit	Bank that granted a credit	Borrower	Credit amount defined in an agreement	Debt according to the state of	Maturity date
Revolving credit	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ „Bronisław” S.A.	5 000	5 000	31.08.2020
Investment credit	Santander Bank Polska S.A.	PPZ „Bronisław” S.A.	800	310	30.11.2021
Investment credit	BOŚ	PPZ „Bronisław” S.A.	8 456	7 505	31.12.2027
Investment syndicate credit	Spółdzielczy Bank Rozwoju in Szepietowo and Bank Spółdzielczy in Ostrów Mazowiecka	CHP Energia Sp. z o.o.	12 830	9 643	31.12.2023
Working capital credit related to pursued business activity	Spółdzielczy Bank Rozwoju in Szepietowo	CHP Energia Sp. z o.o.	1 000	850	14.09.2020
Working capital credit for funding of current liabilities	Spółdzielczy Bank Rozwoju in Szepietowo	CHP Energia Sp. z o.o.	3 000	1 741	31.05.2022
Working capital credit related to pursued business activity	Spółdzielczy Bank Rozwoju in Szepietowo	CHP Energia Sp. z o.o.	2 500	1 133	31.08.2021
Total			161 138	129 604	

Interest rate of short term credits is based on WIBOR rate for 1-month deposit plus bank margins, and in case of long-term credits - on WIBOR rate for 3-month deposit plus bank margins. All credits are in PLN.

During 2019 none of the credit agreement of the Group was terminated by a bank or by any company of the Group.

10. Information on granted loans, guarantees and sureties

Loans

According to the state as at 31 December 2019 there were the following loans in the Group that were granted by the holding entity to subsidiaries and individuals:

- Loan dated 31 August 2012 granted to subsidiary ZPZ Lublin Sp. z o.o. in the amount of PLN 2 000 thousand. Outstanding amount of the credit: PLN 1 800 thousand. Repayment date 31.12.2020.
- Loan dated 28 December 2016 granted to an individual in the amount of PLN 304 thousand. Outstanding amount of the credit: PLN 153 thousand. Repayment date 30.11.2019
 - Loan dated 12 January 2017 granted to the subsidiary, CHP Energia Sp. z o.o. in the amount of PLN 1 538. Outstanding amount of the credit: PLN 769 thousand. Repayment date 31.12.2020.
- Loan dated 27 January 2017 granted to an individual in the amount of PLN 240 thousand. Outstanding amount of the credit: PLN 240 thousand. Repayment date 30.11.2019
- Loan dated 28 February 2017 granted to the subsidiary, CHP Energia Sp. z o.o. in the amount of PLN 450 thousand. Outstanding amount of the credit: PLN 300 thousand. Repayment date 31.12.2020.
- Loan dated 14 December 2017 granted to the subsidiary, CHP Energia Sp. z o.o. in the amount

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PLN 550 thousand. Outstanding amount of the credit: PLN 550 thousand. Repayment date
31.12.2020.

- Loan dated 15 December 2017 granted to the subsidiary, CHP Energia Sp. z o.o. in the amount of PLN 1 000 thousand. Outstanding amount of the credit: PLN 1 000 thousand. Repayment date 31.12.2020.
- Loan dated 10 January 2018 granted to the subsidiary, GR Ponary Sp. z o.o. in the amount of PLN 550 thousand. Outstanding amount of the credit: PLN 550 thousand. Repayment date 31.12.2020.
- Loan dated 1 February 2018 granted to an individual in the amount of PLN 140 thousand. Outstanding amount of the credit: PLN 140 thousand. Repayment date 30.11.2020.
 - Loan dated 30 April 2018 granted to the subsidiary, CHP Energia Sp. z o.o. in the amount of PLN 500 thousand. Outstanding amount of the credit: PLN 500 thousand. Repayment date 31.12.2020.
 - Loan dated 26 June 2018 granted to the subsidiary, CHP Energia Sp. z o.o. in the amount of PLN 700 thousand. Outstanding amount of the credit: PLN 700 thousand. Repayment date 31.12.2020.
 - Loan dated 24 September 2018 granted to the subsidiary, CHP Energia Sp. z o.o. in the amount of PLN 900 thousand. Outstanding amount of the credit: PLN 900 thousand. Repayment date 31.12.2020.
- Loan dated 22 May 2019 granted to an individual in the amount of PLN 150 thousand. Outstanding amount of the credit: PLN 150 thousand. Repayment date 30.11.2020.

Sureties

Sureties granted by the Holding Entity, "PEPEES" S.A., as at 31.12.2019:

Agreement dated 9 June 2014 on terms and conditions of credit repayment security concluded between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o. Under the agreement "PEPEES" S.A. gave security of an investment credit incurred by CHP Energia Sp. z o.o. The investment credit incurred by CHP Energia Sp. z o.o. amounts to PLN 12 830 thousand. "PEPEES" S.A. granted a surety in form of endorsement up to the amount of PLN 12 224 thousand until 25.05.2024.

Agreement dated 14 September 2017 on terms and conditions of credit repayment security concluded between "PEPEES" S.A. in Łomża and CHP Energia Sp. z o.o. Under the agreement "PEPEES" S.A. gave security of an working capital credit incurred by CHP Energia Sp. z o.o. The working capital credit incurred by CHP Energia Sp. z o.o. amounts to PLN 3 000 thousand. "PEPEES" S.A. granted a surety in form of endorsement up to the amount of PLN 2 800 thousand (debt amount on the date of the surety).

Agreement dated 14 September 2017 on terms and conditions of credit repayment security concluded between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o. Under the agreement "PEPEES" S.A. gave security of an working capital credit incurred by CHP Energia Sp. z o.o. The working capital credit incurred by CHP Energia Sp. z o.o. amounts to PLN 800 thousand. "PEPEES" S.A. granted a surety in form of endorsement up to the amount of PLN 710 thousand (debt amount on the date of the surety).

Agreement dated 14 September 2017 on terms and conditions of credit repayment security concluded between "PEPEES" S.A. in Łomża and CHP Energia Sp. z o.o. Under the agreement "PEPEES" S.A. gave security of an working capital credit incurred by CHP Energia Sp. z o.o. The working capital credit incurred by CHP Energia Sp. z o.o. amounts to PLN 2.500 thousand. "PEPEES" S.A. granted a surety in form of endorsement up to the amount of PLN 2 500 thousand.

Agreement dated 30 July 2018 on terms and conditions of credit repayment security concluded between "PEPEES" S.A. in Łomża and PPZ Bronisław Sp. z o.o. Under the agreement "PEPEES" S.A. grants security of repayment of the Investment Credit from Funds from the Foreign Credit Lines incurred by

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PPZ Bronisław S.A. The investment credit concluded by PPZ Bronisław S.A. amounts to PLN 8 456 thousand. "PEPEES" S.A. granted a security in form of notary submission to enforcement up to the amount of PLN 12 684 thousand.

In the reporting period "PEPEES" S.A. granted an endorsement dated 03.01.2019 in favour of SBR in Szepietowo for repayment of working capital credit in the amount of PLN 300 thousand granted to the subsidiary, CHP Energia Sp. z o.o. Endorsement was granted until 15.12.2019.

□ On 20 September 2019 "PEPEES" S.A. the Issuer granted an endorsement in favour of bank SBR in Szepietowo in relation to repayment of working capital credit in the amount of PLN 1 000 thousand, granted to its subsidiary, CHP Energia Sp. z o.o.;

Sureties granted in favour of the Holding Entity, "PEPEES" S.A., as at 31.12.2019:

Surety of an individual dated 28 December 2016 in favour of "PEPEES" S.A., in relation to a loan granted to an individual in the amount of PLN 304 thousand.

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

A fee was set for granted and received sureties and it is charged monthly in compliance with concluded agreements that determine the terms and conditions of sureties.

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

The total value of sureties or guarantees granted as 31.12.2019 by PEPEES company in favour of the entities belonging to PEPEES Capital Group amounts to PLN 32 million.

Guarantees

Guarantees received as at 31.12.2019

As at 31.12.2019 the Holding Company has 10 guarantees (performance bonds and guarantees of repayment of deposit or prepayment) for the total amount of PLN 285.5 thousand and EUR 90.5 thousand.

Guarantees granted as at 31.12.2019

PKO S.A.'s bank guarantee dated 04.10.2018 for the amount of PLN 287 thousand The guarantee is valid until 02.04.2020.

11. Off-balance sheet items in PEPEES Capital Group

Off-balance sheet assets	2019	2018
Received guarantees	671	1 202
Off-balance liabilities		
Mortgages on the assets of the companies	180 975	180 975
Pledge on the assets	114 512	114 512
Surety of a credit	32 218	30 918
Assignment of receivables under insurance policy	254 630	254 630
Possible compensations in relation to non-compete clauses	1 563	1 224
Granted guarantees	287	287

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

In 2019 the Company and the Group did not issue shares and did not purchase own shares.

13. Explanation of differences between financial results presented in the report and forecast of the results for a given year that were published earlier

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

14. Assessment of financial resources management

In 2019 the Holding Entity and the entire Group had full capacity to fulfil incurred liabilities, both in respect to suppliers and financial institutions. There were no threats to repayment of liabilities.

For the entire year, PEPEES Capital Group had full capacity to fulfil incurred liabilities.

In 2019 during the "potato campaign" the Group continued the policy of diversification of structure and sources of working capital fund, that had been adopted in earlier years and was based on increase of the share of the credit on current account and revolving credit in respect to renewable working capital credit and split of working capital funding into two banks. These activities contributed to optimisation of costs of interests on bank credits.

In 2019 the Holding Entity deposited free funds on bank deposits and corporate bonds of bank SBR in Szepietowo, and it was not involved in other financial instruments.

Also in the next reporting period, there should be no threats to the Group's financial liquidity. Occurring surpluses of funds are transferred to short-term bank deposits.

15. Information on financial instruments in respect to risk and purposes and methods of financial risk management

Information on use of financial instruments and financial risk are the same for the Capital Group and the Holding entity that coordinates the process of above mentioned risk management on the Group's level.

The main financial instruments used by the Group were: bank credits, lease agreements, short-term deposits, cash.

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

Other instruments that occurred directly in the course of performed activities were trade liabilities.

The main financial risks present in 2019 included: the risk of changing market prices of products produced by the Group and the foreign exchange risk. The main objective of the enterprise in respect to management of the above risks is their reduction.

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

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

Financial liquidity risk present in the Group is not considered high. It results from efficient policy of merchant credit management. Assessment of counterparties and insurance of receivables is provided by KUKA company.

Surpluses of funds are placed on short-term deposits enabling timely payment of liabilities. In the periods of stronger demand for working capital, that is during "the potato campaign", a short-term bank credit for potato purchase is the main financial instrument used by the companies of the Group, and its individual tranches are closely correlated with the time schedule of purchase of raw material for the purpose of production.

The management boards of companies verify and agree on principles of each risk management. They monitor the market price risk related to all held financial instruments.

16. Information on executed investments and investment plans

2019 was another year when PEPEES Capital Group consistently fulfilled investment plans focused on improvement of production and quality standards of the technical infrastructure of the plants.

The main objective of the executed package of investment projects was to increase competitiveness of the Group and maintain and strengthen the stable leading position on the demanding market of starch products.

The specific objectives of executed investment projects included:

- improvement of production efficiency and functioning of the enterprise through modernisation of machinery,
- adjustment of production installations to sanitary standards and requirements of the Integrated Management System (IMS) implemented in the Company,
- increase of the efficiency of purification of raw materials in order to improve the quality of manufactured products and circulated transport water,

- optimisation of activities related to storage of a by-product - potato pulp that is a commercial product,
- development of the technical base necessary to ensure own potato crops,
- optimisation of the conditions of work,
- undertaking activities aimed at elimination of the bottleneck in order to increase production capacity.

The list of key investments executed by the Group in 2019 included the following undertakings:

- Modernisation of the raw material washing and feeding system - stage 3.
- Modernisation of the hub where starch is packed into 25 kg bags and palletized- stage 3- the packing machine
INTEGRA FD 2.
- Modernisation of the steering and visualisation system of the Wet Section of the Starch Plant.
- Replacement of glucose syrup process tanks.
- Modernisation of potato grater TPZ700.
- Treatment station of water for the purpose of production.
- Modernisation of 4 tanks of starch milk in the starch plant.
- Container station of compressed air.

Besides the main investments mentioned above, the Group executed also multi-branch projects necessary to ensure production continuity:

- modernisation of the steering system of pulp centrifuges,
- modernisation of chemical warehouse in respect to the steering system,
- modernisation of the main switch gear in Pumping Station no 1 in the premises located in Kupiski - Jednaczewo,
- development of the fire alarm system in transformer chambers,
- modernisation of heating, technological team and industrial hot water networks,
- modernisation of the filtered water feeding installation,
- purchases of agricultural machines to handle company potato and grain crops,
- completion of construction works in the social and administrative building in GR Ponary,
- modernisation of the biological household waste treatment plant BIOBLOK (environmental effect - possible reduction of breakdown risk in case of company household treatment plant),
- construction of roof under pulp tank,
- launch of the construction project of a new gas boiler K2-KG in the company's boiler room (in the course of construction)
- environmental effect: smaller emission of dust and CO₂,
- launch of the project: a new packing line added to the packing facility (in the course of construction).

In 2019 many refurbishment and construction works were performed in production facilities, warehouses,

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auxiliary and office buildings in order to improve their technical condition, adjust to requirements of work safety and fire protection requirements, and the Integrated Management Systems in the Company, including all works specified in recommendations prepared after audits and controls.

The scope of performed works covered mainly refurbishment of facades, walls, floors, ceilings, replacement of window and door frames, as well as installing works, including in relation of electric and sanitary installations.

In 2020 the Group will continue investments commenced in 2019 (that is another starch packing line (into 0,5 and 1 kg packagings) will be added to the packing facility, gas boiler K2-KG will be constructed) and is planning a number of new investments in the scope of modernisation of production installations, technical premises and transfer of utilities.

These works will be financed with one funds and lease.

17. Information on issues related to natural environment

In its production activities, the Group endeavour to comply with the requirements of environment protection. Its formal and legal condition is regulated in the area of emission of pollution, collection of water, waste water disposal and generation of waste. Environmental impacts are monitored in the system of periodical measurements and registration of volumes and characteristic parameters of streams of emission of air pollution and waster, as well as volume of collected water and disposed waste water. The current scope of monitoring, defined by administrative permits held by the Group, should be considered sufficient for assessment of operation of the installations.

Waste is handled in compliance with the conditions aimed at prevention of pollution of the natural environment and ensuring security and health of people.

PEPEES Capital Group has Integrated Management System that comprises management of quality, environment, activities to ensure health and safety of the staff and the quality management system is laboratories. The quantitative and qualitative records of waste handling takes place in the companies belonging to the Capital Group in compliance with adopted classification and forms of documents defined in respective legal provisions.

However, it should be emphasized that in relation to growing requirements related to the environmental protection, PEPEES Capital Group expects in the Strategy adopted for years 2019-2024 that it will undertake necessary activities in the scope of water and waste water management in order to ensure better protection of the natural environment.

18. Information on employment in the Group

Table 6: Employment in PEPEES Capital Group

Specification	Average number of employees in 2019	State as at 31.12.2019		Average number of employees in the previous financial year 2018
		Women	Men	
White collar workers	154	87	75	150
Blue collar workers	315	23	249	347
Persons on unpaid holidays	1	-	-	-
Total	470	110	324	497

19. Major achievements in research and development

In 2019 the Group performed research on the pilot waste water treatment line from potato protein production line by means of membrane filters. Costs incurred in relation to the research - PLN 34.4 thousand.

20. Intangible aspects

➤ Implemented System of Food Quality and Safety Management System confirmed with the following certificates:

- *Certificate of compliance of the Quality Management System with norm EN ISO 9001:2015*
The scope of the Quality Management System: Production of starch, hydrolysates, starch preparations and potato protein.
Certificate number: 070509.
Granted for the first time on: 2007-06-19. Accreditation: UKAS.
- *Certificate of compliance of the Quality Management System with HACCP system*
The scope of the Quality Management System: Production of starch, hydrolysates, starch preparations and potato protein.
Certificate number: IP-05-2019.
Granted for the first time on: 2007-06-19.
- *Certificate of compliance of the Food Safety Management System with norm EN ISO 22000:2005.*
Scope of certification: Designing, production and sale of starch, hydrolysates, starch preparations and potato protein.
Certificate number: 0087878.
Granted for the first time on: 2007-07-13.
Accreditation: UKAS.
- *Certificate of compliance with: Global Norm of Food Safety, edition 8, January 2015*
Scope of the certificate: Extraction and hydrolysis of starch, crystallisation of glucose, drying of potato starch, glucose and maltodextrin, packing potato starch in paper block bags, paper bags, big-bags and trunk cars; packing maltodextrin and glucose in paper bags and big-bags.
Categories of products:
15.
Rating: AA.
Certificate registration number: 30951397 BRC 8.
Date of issue: 08.01.2020.
Date of audit:
27.11.2019.
Required re-audit date: between 31.10.2020 and 28.11.2020.
Validity period until:

09.01.2021.

Accreditation:
UKAS.

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

Scope of the certificate: anhydrous glucose, dextrose monohydrate. Certificate number: IWSC.405.15.2019.IPIO.1

Inspection date: 29-30.01.2019.

Issue date: 24.04.2019.

Validity period: 3 years from the last day of inspection.

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

Scope of the certificate: Production of animal feed materials. Trading in animal feed materials.

Certificate number: GMP

453. Date of inspection:

18.12.2018. Issue date:

29.01.2019. Validity period

until: 28.01.2022.

- Presence on Sedex platform (supporting ethical business practices in the supply chain).
- Prepared and implemented technologies of starch hydrolysate (glucose, maltodextrin, glucose syrup), starch and potato protein production.
- Staff knowledge and professional experience.
- Licences from promotional emblems.
- Implemented IT system.

21. Non-typical events that had significant impact on the result of the Group's business activity in 2019

In the period of 12 months ended on 31 December 2019, there were no non-typical events in PEPEES Capital Group that had significant impact on the result of the business activity

In 2019 dividend was disbursed to shareholders in the amount of PLN 11 400 thousand, which has significant impact on the Group's equity and cash.

22. Structure of main capital deposits or main capital investments

Capital investments and deposits	2019	2018
Short-term bank deposits in PLN	32 443	31 891
Other financial assets	5 838	5 436

23. Corrections of errors from preceding periods and changes of accounting principles

The Group did not change voluntarily the accounting principles and did not correct errors made in previous years.

The Group's financial statements (separate and consolidated respectively) are prepared in compliance with

IAS/IFRS provisions.

There were no corrections of errors from previous years.

24. Changes in basic management principles of the Group

In 2019 there were no significant changes in basic management principles of the Issuer and its Group.

25. Specification of changes in the Issuer's shares or rights to shares held by members of the Issuer's management and supervisory bodies

In the reporting period there were no changes in the Issuer's shares or rights to shares held by members of the Issuer's management and supervisory bodies. As at 31.12.2019 and date of publication of this report, Wojciech Faszczewski, the President of the Management Board, held the Issuer's shares in the total number of 701 thousand shares of the nominal value of PLN 0.06 each and total value of PLN 42 060.

None of the members of management and supervisory bodies hold shares in any subsidiary of the Capital Group.

26. All agreements concluded between the Issuer and members of the management, that provide for a compensation in case of their resignation or dismissal from their position without an important reason, or when they are recalled or dismissed due to Issuer's merger through acquisition

Managerial contracts concluded between the Issuer and members of the management define compensation under non-compete clause for a period of 12 months from the date of termination of a contract in the amount of 100% average monthly salary with bonuses for the last 12 months.

27. Amount of salaries, awards and other benefits paid to and due to members of management and supervisory bodies in the Issuer's company in 2019**The
Management
Board:**

Wojciech Faszczewski PLN 1 044.5 thousand Tomasz Krzysztof Rogala PLN 775.0 thousand

Total salary of the Management Board Members PLN 1 819.5 thousand

**The Supervisory
Board:**

Maciej Kaliński PLN 206.0 thousand Tomasz Nowakowski PLN 138.8 thousand Piotr Marian Taracha PLN 96.0 thousand Krzysztof Stankowski PLN 93.3 thousand Robert Malinowski PLN 113.7 thousand Agata Czerniakowska PLN 91,5 tys. PLN

Total salary of the Management Board Members PLN 739.3 thousand

Salaries of the members of the Management Board and Supervisory Board for functions performed in subsidiaries:

Wojciech Faszczewski - President of PEPEES's Management Board - PLN 62.2 thousand for the position of a member of the Supervisory Board of Zakłady Przemysłu Ziemniaczanego "Lublin" Sp. z o.o., PLN 258 thousand for the position of the President of the Management Board of PPZ "BRONISŁAW" S.A., PLN 8 thousand for the position of the member of the Supervisory Board of CHP Energia.

Tomasz Krzysztof Rogala - Member of PEPEES's Management Board - PLN 6 thousand for the position of the member of the Supervisory Board of CHP Energia.

Piotr Marian Taracha - PLN 56 thousand for the position of a member of the Supervisory Board of Zakłady Przemysłu Ziemniaczanego "Lublin" Sp. z o.o. and PLN 46 thousand for the position of the member of the Supervisory Board of PPZ "BRONISŁAW" S.A.

Agata Czerniakowska - PLN 31.0 thousand for the position of a member of the Supervisory Board of ZPZ „LUBLIN” Sp. z o.o. and PLN 43 thousand for the position of the member of the Supervisory Board of PPZ "BRONISŁAW" S.A.

Robert Malinowski - PLN 31.0 thousand for the position of a member of the Supervisory Board of ZPZ „LUBLIN” Sp. z o.o. and PLN 20 thousand for the position of the member of the Supervisory Board of PPZ "BRONISŁAW" S.A.

Tomasz Nowakowski - PLN 24,4 thousand for the position of a member of the Supervisory Board of ZPZ „LUBLIN” Sp. z o.o. and PLN 14 thousand for the position of the member of the Supervisory Board of PPZ "BRONISŁAW" S.A.

There are no liabilities related to pensions or similar benefits in relation to former Members of the Management Board and the Supervisory Board.

28. Information on all liabilities related to pensions and similar benefits for former members of management, supervisory or administrative bodies and liabilities incurred in relation to such pensions

In 2019 in PEPEES Capital Group there were no liabilities related to pensions and similar benefits for former members of management, supervisory or administrative bodies and liabilities incurred in relation to such pensions

29. Quotations of the Holding Entity in 2019

Since 22 May 1997 the Company's shares are quoted on the Warsaw Stock Exchange. Price of shares on 2 January 2019 (opening prices on the first day of 2019) amounted to PLN 1.25, and on 30 December - to PLN 1.73. The highest price in the reporting period amounted to PLN 1.94, the lowest to PLN 1.20. Changes in the price of "PEPEES" S.A.'s shares in 2019 are presented on the following chart:

Chart no 4 : Changes in the price of "PEPEES" S.A.'s shares in 2019



30. Information on agreements known to the Issuer, in result of which changes in proportions of shares held by current shareholders and bondholders may take place in the future

The Issuer has no information on agreements, in result of which changes in proportions of shares held by current shareholders and bondholders may take place in the future

31. Specification of holders of all securities offering control rights in relation to the Issuer together with description of such rights

The Issuer's shareholders have no securities offering control rights in relation to the Issuer.

32. Information on the system of control of employee share schemes

The Group has no system of control of employee share schemes.

33. Specification of all restrictions related to transfer of property rights to the Issuer's securities and all restrictions in exercising of the rights to vote assigned to the Issuer's shares

The Company's shareholder, EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych with registered office in Warsaw, due to breach the obligation of notification of purchase of a significant package of shares, according to art. 89 sec. 1 point 1 of the Act on public offer and the conditions of introduction of financial instruments to organised trading system and on public companies, has lost and cannot exercise rights to vote in relation to 21 402 233 shares. Therefore, the Company's Management Board filed an action to the Regional Court in Białystok to determine the issue. Epsilon FIZ AN holds a contrary position claiming that is is entitled to the right to vote in relation to 27 714 832 shares accounting for 29.17% of the total number of votes at the General Annual Meeting. The case was joined by the Chairperson of the Polish Financial Supervision Authority, who presented his opinion on 24 July 2019. The Management Board waits for valid and binding ruling of the court. The Company informed on the issue in current reports no 13/2019, 14-23/2019 and 30/2019.

34. Summary of activities in the reporting period

In 2019 PEPEES Capital Group received revenues from sales in the amount of PLN 231 981 thousand, which means a slight decreases of 3.3% in comparison with the same period of the previous year that closed with amount of PLN 239 941 thousand.

The decrease of the dynamics of own cost of sales in relation to the previous year by 8.7% and slight decrease of dynamics of revenues from sales resulted in the satisfactory gross result from sales at the level of PLN 79 050 thousand, which means even a growth by 9.2% as compared to the analogical period of the previous year. It should be emphasized that the costs of the product sold fell by 12 percentage points as compared to the previous year.

The costs of sales and marketing in the period of 2019 decreased by 2.7% in relation to the comparable period, while overheads grew by 5.6%.

The balance of other operating activities in the period of twelve months of 2019 closed at the negative level of PLN 235 thousand, while in the comparable period the negative result amounted to PLN 392 thousand.

In turn, the result of financial activities understood as the balance of financial revenues minus financial costs in 2019 decreased as compared to the analogical period of the previous year.

In consequence of the foregoing, the gross profit in 2019 amounted to PLN 32 536 thousand, as compared to PLN 30 419 thousand of the gross profit in the comparative period, while the net profit in 2019 amounted to PLN 24 782 thousand, and compared to PLN 23 414 thousand of net profit in the analogical period of 2018, which means a growth by 5.8%.

35. Brief description of achievements or failures of PEPEES Capital Group in the period of 2019 together with a list of major events related to them

In the period of 2019 in PEPEES Capital Group there were no significant achievements or failures, to which this report refers.

36. Other information that in the opinion of the Capital Group is essential for assessment of its personnel, economic, financial condition, financial result and their changes, and information that is significant for assessment of the Group's possibilities to fulfil obligations

In the period of 2019 no other events were recorded that the ones described in this report, that could be essential for assessment of its personnel, economic, financial condition, financial result and their changes, and information that could be significant for assessment of the PEPEES Capital Group's possibilities to fulfil their obligations.

37. Specification of factors that in the opinion of the Issuer and the Group will have impact on the results achieved by them in the perspective of at least the next year

The following factors will have essential impact on the result:

- volume and value of purchased potatoes, that is the main raw material for production,
- demand for and price of starch on the Polish and global market,
- foreign exchange rates, the Group is an exporter,
- basic interest rate.

The Group has credits with interest rates based on WIBOR rate.

In the next year PEPEES Capital Group will execute concluded agreements and will conduct operating activities that is the core of its functioning, including productive, commercial and service activities.

PEPEES participates in negotiations with Korean Daesang Corporation ("Daesang") on potential cooperation, including in production of potato starch modifiers. On 5 November 2019 the Company sent a draft letter of intend to Daesang in respect to negotiations in good faith about cooperation in production of potato starch modifiers and other starch derivatives, including necessary research and investments.

On 25 February 2020 the Company and Daesang signed the Letter of Intent, in which the parties undertook to continue their cooperation. After the Letter of Intent is signed, the parties will start to implement it.

At the date of publication of this report, the Management Board of the Holding Company is not able to assess the impact of possible cooperation on the results of the Group.

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

"PEPEES" S.A. and the subsidiaries entered into an agreement on review and audit of the financial statements for years 2018-2019 with **WBS Audyt Sp. z o.o.** with registered office in Warsaw. The Agreement was concluded on 4 July 2018. The auditing company was selected by the Issuer's Supervisory Board.

The subject of the agreements comprised review of the separate and consolidated financial statements as at 30 June 2018 and 30 June 2019, and audit of the separate and consolidated financial statements for years 2018-2019. Total value of the fee under the agreement, due for 2019, amounts to PLN 59 700 plus VAT.

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

Specification	2019	2018
Mandatory audit of the annual financial statements	41	41
<i>including: PEPEES</i>	21	21
Review of the semiannual statements	19	19
<i>including: PEPEES</i>	14	14
Tax consulting services	-	-
Other services	-	-
Total fee	60	60

The fee of the auditing company, WBS Audyt Sp. z o.o., for individual works in 2018 is as follows:

Review of the separate financial statements - PEPEES	Review of the consolidated financial statements	Review of the financial statements - ZPZ Lublin	Review of the financial statements - PPZ Bronisław	Review of consolidation packages of subsidiaries that are not subject to the audit (CHP Energia, Pepees Inwestycje, GR Ponary)	Total fee for review of the statements as at 30.06.2018
11 500.00	2 300.00	5 200.00			19 000.00

Audit of the separate financial statements - PEPEES	Audit of the consolidated financial statements	Audit of the separate financial statements - ZPZ Lublin	Audit of the separate financial statements - PPZ Bronisław	Review of consolidation packages of subsidiaries that are not subject to the audit (CHP Energia, Pepees Inwestycje, GR Ponary)	Total fee for audit of the statements as at 31.12.2018
18 400.00	2 300.00	8 600.00	8 600.00	2 800.00	40 700.00

The fee for the auditing company, WBS Audyt Sp. z o.o., for individual works in 2019 is as follows:

Review of the separate financial statements - PEPEES	Review of the consolidated financial statements	Review of the financial statements - ZPZ Lublin	Review of the financial statements - PPZ Bronisław	Review of consolidation packages of subsidiaries that are not subject to the audit (CHP Energia, Pepees Inwestycje, GR Ponary)	Total fee for review of the statements as at 30.06.2019
11 500.00	2 300.00		5 200.00		19 000.00

Audit of the separate financial statements - PEPEES	Audit of the consolidated financial statements	Audit of the separate financial statements - ZPZ Lublin	Audit of the separate financial statements - PPZ Bronisław	Review of consolidation packages of subsidiaries that are not subject to the audit (CHP Energia, Pepees Inwestycje, GR Ponary)	Total fee for audit of the statements as at 31.12.2019
18 400.00	2 300.00	8 600.00	8 600.00	2 800.00	40 700.00

39. Information on litigations, proceedings in front of an arbitration or administrative body

On 25.06.2019 the Management Board of Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. filed an action to the court of law, asking for a decision whether EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, the Company's shareholder holding, according to information known to the Holding Entity,

27 714 832 shares, due to breach the obligation of notification of purchase of a significant package of shares, according to art. 89 sec. 1 point 1 of the Act on public offer and the conditions of introduction of financial instruments to organised trading system and on public companies, has lost and cannot exercise rights to vote in relation to 21 402 233 shares. Epsilon FIZ AN holds a contrary position claiming that it is entitled to the right to vote in relation to 27 714 832 shares accounting for 29.17% of the total number of votes at the General Annual Meeting. The case was joined by the Chairperson of the Polish Financial Supervision Authority, who presented his opinion

24 July 2019. The Management Board expects for valid and binding decision of the Court of Law. The Holding Entity informed on the issue in current reports no 13/2019, 14-23/2019 and 30/2019.

As at the date of this report, the case filed by EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in Warsaw against "PEPEES" S.A. is still pending in respect to repealing or annulment of resolutions no 24-29, adopted on 28.06.2019 by the Ordinary Annual General Meeting, including resolution no 28 on amendments to the Articles of Association and authorisation of the Company's Management Board to raise the share capital of the Holding Entity within the scope of the authorised capital and with the possibility to exclude the pre-emptive right of the current shareholders of the Company in whole or in part upon consent of the Company's Supervisory Board.

In the remaining scope, there no other significant litigations or proceedings in court of law, an arbitration body or public administration authority in respect to liabilities or receivables of the Issuer or its subsidiaries.

III. ECONOMIC AND FINANCIAL CONDITION

1. Economic conditions of the Capital Group

The state of the assets as at 31 December 2019 as compared to the state of 31 December 2018 is presented in the following table.

Table 7: State of assets as at 31.12.2019 and 31.12.2018

Name of an asset	State as at		Changes in amounts + increase	Structure indicators in %	
	31.12.2019	31.12.2018		31.12.2019	31.12.2018
I. FIXED ASSETS	200 342	173 688	26 654	55.1	52.0
1. Property, plant and equipment	179 454	164 885	14 569	49.4	49.4
2. Intangible and legal assets	416	534	(118)	0.1	0.2
3. Rights to assets	11 076	47	11 029	3.0	0.0
4. Investment properties	593	-	593	0.2	-
5. Goodwill	3 140	3 140	-	0.9	0.9
6. Investments in other entities	613	113	500	0.2	0.0
7. Deferred income tax assets	5 050	4 969	81	1.4	1.5
II. CURRENT ASSETS	163 280	160 237	3 043	44.9	48.0
1. Stock	85 893	78 065	7 828	23.6	23.4
2. Biological assets	322	330	(8)	0.1	0.1
3. Trade receivables	20 506	27 651	(7 145)	5.6	8.3
4. Other receivables	6 227	6 044	183	1.7	1.8
5. Prepayments	1 740	1 964	(224)	0.5	0.6
6. Loans	721	941	(220)	0.2	0.3
7. Other financial assets	5 838	5 436	402	1.6	1.6
8. Cash and cash equivalents	42 033	39 806	2 227	11.6	11.9
Total assets	363 622	333 925	29 697	100.0	100.0

The Group's total assets amounted to PLN 363 622 thousand as at 31 December 2019, and grew by PLN 29 697 thousand, that is by 8.9% as compared to the previous year.

Mainly fixed assets grew by PLN 26 654 thousand. It resulted in particular in recognition of the rights to assets (the perpetual usufruct right of land) in result of compliance with IFRS 16 for the first time. Also increase of property, plant and equipment had also significant impact. . It means that the Group invests in fixed assets.

Current assets also increased (the growth by PLN 3 043 thousand), in particular in relation to stock, due to seasonal processing of potatoes, and cash. The value of trade receivables decreased because of timely payments made by recipients. Cash increased.

2. Funding sources of the Capital Group

Comparison of sources of asset funding as at 31 December 2019 and the state as at 31 December 2018 is presented in the following table.

Table 8: State of sources of asset funding as at 31.12.2019 and 31.12.2018

Specification of funding	State as at		Changes in amounts + increase	Structure indicators in %	
	31.12.2019	31.12.2018		31.12.2019	31.12.2018
I. Equity	180 541	166 476	14 065	49.7	49.9
<i>Equity for shareholders of the holding entity</i>	<i>178 773</i>	<i>165 399</i>	13 374	49.2	49.5
1. Share capital	5 700	5 700	-	1.6	1.7
2. Capital reserve and supplementary	152 918	141 857	11 061	42.1	42.5
3. Revaluation capital	(65)	(26)	(39)	(0.0)	(0.0)
4. Undivided profit from previous years	(3 871)	(5 223)	1 352	(1.1)	(1.6)
5. Result of the current year	24 091	23 091	1 000	6.6	6.9
<i>Non-controlling shares</i>	<i>1 768</i>	<i>1 077</i>	691	0.5	0.3
II. Long term liabilities	54 664	50 293	4 371	15.0	15.1
1. Credits and loans	24 789	30 398	(5 609)	6.8	9.1
2. Liabilities due in relation to assets under lease	15 014	4 775	10 239	4.1	1.4
3. Deferred income tax provision	6 447	6 470	(23)	1.8	1.9
4. Liabilities related to retirement and similar benefits	2 782	2 381	401	0.8	0.7
5. Subsidies	5 632	6 269	(637)	1.5	1.9
III. Short-term liabilities	128 417	117 156	11 261	35.3	35.1
1. Trade liabilities	7 424	13 063	(5 639)	2.0	3.9
2. Current income tax liabilities	2 528	1 712	816	0.7	0.5
3. Other short-term liabilities	5 190	4 749	441	1.4	1.4
4. Credits and loans	104 815	90 644	14 171	28.8	27.1
5. Liabilities under financial lease	3 728	2 876	852	1.0	0.9
6. Liabilities related to retirement benefits	413	296	117	0.1	0.1
7. Provisions for remaining liabilities and other	4 319	3 816	503	1.2	1.1
Total liabilities	363 622	333 925	29 697	100.0	100.0

In the entire presented period, the Group's entity accounted for the biggest share in funding sources, and its value grew by PLN 14 065 thousand, and in respect to its share it fell by slightly more than 0.2 percentage points. Capital reserves and supplementary capitals increased in result to the distribution of the result of the current year. They grew by PLN 11 061 thousand. On 28 June 2019 the Ordinary General Annual Meeting of "PEPEES" S.A. adopted Resolution no 15 on allocation of profit for 2018 in the amount of PLN 17 442 179.57 in such a way that a part of the profit, that is the amount of PLN 11 400 000 is to allocated to dividend payment in the amount of PLN 0.12 (twelve grosz) per share, while the remaining part of the profit in the amount of PLN 6 042 179.57 is allocated to the capital reserve of the Holding Entity. 8 July 2019 was decided to be the date

when a list of shareholder entitled to dividend payment is to be determined. Dividend payment date was set at 27 September 2019. Dividend was paid on that day.

Long-term liabilities grew by PLN 4 371 thousand, in particular due to increase of liabilities related to assets subject to lease. It results mainly from application of IFRS 16 and inclusion of liabilities under the perpetual usufruct right in the ledgers of companies of PEPEES Capital Group.

Short-term liabilities grew by PLN 11 261 thousand. It resulted mainly from an increase in the amount of short-term credits.

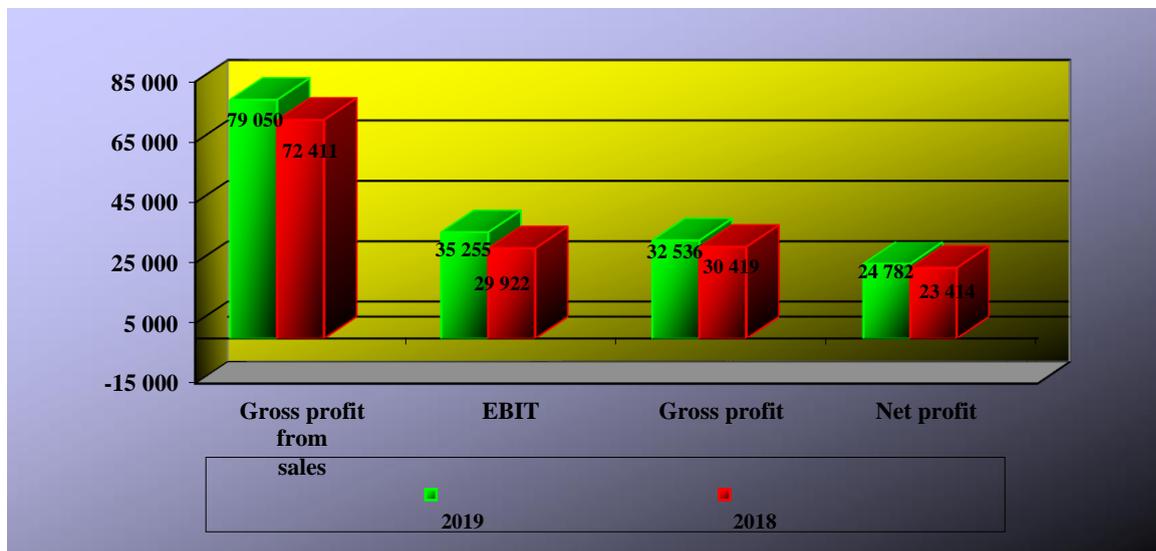
3. Financial results of the Capital Group

Financial results of the economic activities of the Capital Group in 2019 and 2018 are presented in the following table and the chart.

Table 9: Comparison of the financial result for 2019 and 2018

No.	Specification	For the period of 12 months ended 31	For the period of 12 months ended 31	Dynamics in %
1	Revenues from sales	231 981	239 941	96.7
	- revenues from sales of products	208 355	224 087	93.0
	- revenues from sale of services	1 823	1 184	154.0
	- revenues from sales of goods and materials	21 803	14 670	148.6
2	Costs of sold products, goods and materials	(152 931)	(167 530)	91.3
	- costs of sold products	(134 447)	(152 775)	88.0
	- costs of sold services	(736)	(241)	305.4
	- costs of sold goods and materials	(14 075)	(12 393)	113.6
	- result of agricultural production	(3 673)	(2 121)	173.2
3	Gross profit from sales	79 050	72 411	109.2
	- costs of sales and marketing	(10 461)	(10 746)	97.3
	- overheads	(33 099)	(31 351)	105.6
	- other operating revenue	1 141	1 376	82.9
	- other operating cost	(1 376)	(1 768)	77.8
4	Profit from operating activities	35 255	29 922	117.8
	- financial costs	(3 700)	(3 074)	120.4
	- financial revenue	981	3 571	27.5
5	Profit before tax	32 536	30 419	107.0
	- income tax	(7 754)	(7 005)	110.7
6	Net profit, including:	24 782	23 414	105.8
7	Profit allocated to shareholders of the holding entity	24 091	23 091	104.3
8	Profit allocated to non-controlling interests	691	323	213.9

Chart no 5: Financial results of PEPEES Capital Group



In the analysed period, the indicators of growth of the financial result and its calculation components point out to differentiated tendencies, that is both growing and falling. In the reporting period, the result on operating activities, EBIT, grew by 17.8%. It results from a slower fall of total revenues from sales (3.3%) than the fall of total own cost of sales by 8.7% as compared to the previous year. In 2019 the Company recorded satisfactory positive gross margin on sales and margin on sales.

In relation to the foregoing, gross profit from sale grew by 9.2% in comparison to the previous year. Despite growth of overheads, financial costs, the gross profit amounted to PLN 32 536 thousand, which means a growth by 7.0% in relation to the previous reporting period. In 2019 the net result amounted to PLN 24 782 thousand, which means growth by 5.8 percentage points.

4. Cash flows

In 2019 the positive balance of net cash flows was recorded in PEPEES Capital Group. Balance of operating activities is positive and amounts to PLN 36 688 thousand. Balance of investment activities was negative and amounted to PLN 36 933 thousand, mainly in result of purchase of intangible assets and plant, property and equipment, and payment of the dividend to shareholders. Balance of financial activities was positive and amounted to PLN 1 407 thousand, in result in particular from incurred credits and loans. The state of cash in the consolidated statement of cash flows as at 31 December 2019 amounts to PLN 40 926 thousand.

5. Economic indicators

Specification of indicators characterising activities and condition of the Capital Group in 2019 is presented in table 10 below.

Table no 10: Economic indicators

Indicator	Economic contents	Year 2019	Year 2018
Return on assets	$\frac{\text{net financial result allocated to the Company's shareholders} \times 100}{\text{total assets}}$	6.63%	6.92%
Return on equity	$\frac{\text{net financial result allocated to the Company's shareholders} \times 100}{\text{equity}}$	13.48%	13.96%
Net profitability of sales	$\frac{\text{net financial result allocated to the Company's shareholders} \times 100}{\text{net revenues from sales of products, goods and materials}}$	10.38%	9.62%
Gross profitability of sales	$\frac{\text{gross result of sales} \times 100}{\text{net revenues from sales of products, goods and materials}}$	34.08%	30.18%
Liquidity ratio I	$\frac{\text{total current assets}}{\text{current liabilities}}$	1.27	1.37
Liquidity ratio II	$\frac{\text{total current assets} - \text{stock}}{\text{current liabilities}}$	0.60	0.70
Rotation** of receivables	$\frac{\text{average amount of trade receivables} \times 365}{\text{net revenues from sales of products, goods and materials}}$	37.89	38.76
Period of repayment of liabilities	$\frac{\text{average amount of trade liabilities} \times 365}{\text{cost of production of goods and services sold} + \text{value of goods and materials}}$	24.45	30.60
Rotation of stock** in days**	$\frac{\text{average amount of stock} \times 365}{\text{cost of production of products and services sold} + \text{value of goods and services sold}}$	195.66	176.69
Coverage of fixed assets with equity	$\frac{\text{equity assigned to shareholders of the Company} \times 100}{\text{total fixed assets}}$	0.89	0.95
Durability of the finding structure	$\frac{(\text{equity assigned to shareholders of the Company} = \text{long-term provisions} + \text{long-term liabilities}) \times 100}{\text{total liabilities}}$	0.56	0.59

*The states at the beginning and end of every reporting period were adopted for calculation of rotation indices.

In 2019 the ratio of return on assets and return of equity were on slightly lower level than in 2018. The indices of gross and net profitability of sales reached higher levels as compared to the previous year due to the fact that the Group reached higher results than in the previous year.

The indices of receivables rotation and liabilities repayment were improved because the Group has appropriate policy in respect to collection of receivables and financial policy. The ratio of stock rotation increased. This ratio is always high in the Group due to seasonal nature of production.

Liquidity ratios remained on similar level to the previous year.

6. Economic condition of the Holding Entity

Table no 11: Economic condition

No.	ASSETS	State as at 31 December	State as at 31 December
I.	(Long-term) fixed assets	151 766	134 271
1.	Plant, property and equipment	103 464	95 368
2.	Intangible assets	413	534
3.	Rights to assets	16 717	8 212
4.	Investment properties	393	-
5.	Investments in subsidiaries	26 632	26 632
6.	Investments in other entities	613	113
7.	Granted loans	-	-
8.	Deferred income tax assets	3 534	3 412
II.	(Short-term) current assets	123 896	123 505
1.	Stock	55 712	52 180
2.	Biological assets	322	330
3.	Trade receivables	16 340	23 791
4.	Other receivables	4 310	3 866
5.	Prepayments	1 302	1 309
6.	Granted loans	5 593	8 412
7.	Other financial assets	5 961	5 436
8.	Cash and cash equivalents	34 356	28 181
	Total assets	275 662	257 776

7. Funding sources of the Holding Entity

Table no 12: Funding sources

No.	LIABILITIES	State as at 31 December	State as at 31 December
I.	Equity	164 443	156 700
1.	Share capital	5 700	5 700
2.	Capital reserve and supplementary capital	139 626	133 584
3.	Revaluation capital	(65)	(26)
4.	Undivided profit from previous years	-	-
5.	Result of the current year	19 182	17 442
II.	Long term liabilities	30 815	26 611
1.	Credits and loans	8 385	11 554
2.	Liabilities due in relation to assets under lease	11 714	4 601
3.	Deferred income tax provision	6 312	6 350
4.	Liabilities related to retirement benefits and similar ones	2 284	1 888
5.	Subsidies	2 120	2 218
III.	Short-term liabilities	80 404	74 465
1.	Trade liabilities	5 436	8 623
2.	Current income tax liabilities	2 394	1 362
3.	Other short-term liabilities	2 576	2 263
4.	Credits and loans	63 083	56 204
5.	Liabilities due in relation to assets under lease	3 192	2 670
6.	Liabilities related to retirement benefits and similar ones	204	202
7.	Provisions for remaining liabilities and other charges	3 519	3 141
	Total liabilities	275 662	257 776

8. Financial results of the Holding Entity

Table no 13: Financial results

No.	Specification	For the period of 12 months ended 31	For the period of 12 months ended 31
I	Revenues from sales	172 934	175 798
1.	Revenues from sales of products	150 874	158 257
2.	Revenues from sale of services	1 054	792
3.	Revenues from sales of goods and materials	21 006	16 749
II	Own cost of sales	(112 274)	(119 340)
1.	Costs of sold products	(90 393)	(101 319)
2.	Costs of sold services	(481)	(446)
3.	Costs of sold goods and materials	(17 727)	(15 454)
4.	Result of agricultural production	(3 673)	(2 121)
III	Gross profit (loss) from sales (I-II)	60 660	56 458
1.	Costs of sales and marketing	(8 495)	(9 115)
2.	Overheads	(25 246)	(23 866)
3.	Other operating revenue	447	649
4.	Other operating cost	(2 042)	(1 477)
IV	Profit (loss) on operating activities	25 324	22 649
1.	Financial costs	(2 252)	(4 498)
2.	Financial revenue	2 100	4 306
V.	Profit (loss) before tax	25 172	22 457
VI	Income tax	(5 990)	(5 015)
VII	Net profit (loss)	19 182	17 442
VIII	Other comprehensive income	(39)	(146)
1.	Results of measurement of financial assets available for sale	-	-
2.	Reassessment of liabilities under employee benefits	(39)	(146)
IX	Total comprehensive income, including	19 143	17 296
X	Net profit (loss) per 1 share	0.20	0.18

9. Non-typical events that affect the financial result of the Holding Entity

In 2019 the Holding Entity created revaluation write-offs for trade receivables due from the subsidiary, CHP Energia, in the amount of PLN 817 thousand and prepayments in the amount of 263 thousand, that affected "PEPEES" S.A.'s financial result.

In 2019 the dividend in the amount of PLN 11 400 thousand was paid to shareholders, which had impact on the Company's equity and cash.

IV. Development of the Issuer and the Capital Group

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

1.1. Risks and threats

✓ **The production is dependant on weather conditions and seasonality**

Potatoes are the main raw material for production. Therefore, the volume and quality of production depends on potato crops. Unfavourable weather reduces potato crops and starch content.

✓ **No balance of the product portfolio**

Introduction of new products to the offer is necessary to balance the product portfolio. In this context it should be emphasized that a few plants that are direct competitors of GK PEPEES declare production of starch modifiers that are increasingly more popular on the European and Polish markets.

✓ **Globalisation**

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

In the period of limited supply of potato starch, these substitutes gradually enter the branches that have been so far "reserved" for our products. It entails a threat of partial loss of outlets. Therefore, the Group introduced other types of starch to its offer, so it does not lose control over its subordinated market.

Moreover, there is a strong competition inside the starch sector in the European Union.

✓ **Dependence on profitability of potato production**

Due to high costs of potato production, potatoes are replaced by other more profitable crops. Moreover, the region of north-eastern Poland has become strongly focused on dairy production and it takes over the agricultural areas from other types of production. Therefore, it is increasingly difficult to attract new farmers from the areas closest to the plant. Therefore, the Group has to buy raw materials at more distant regions of the country, which translates into lower profitability.

✓ **Foreign exchange risk**

Such risk arises in result of international trade that is executed in other currencies than zloty. Strong fluctuations of foreign currency prices have a negative impact on profitability of foreign transactions, and they raise strong concerns among farmers (settlements with farmers are executed in relation to EUR rate).

✓ **Interest rate risk**

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

✓ Liquidity risk

In the analysed period, the liquidity risk was assessed to be low. It results from the fact that the Group has surplus of cash and efficient policy of merchant credit management. All cash surpluses are invested by the Group in financial instruments connected with possibly low risk. The Group tries to reduce maximally the risk of insolvency of counterparties and failure to comply with due dates for payments for supplied products. A large part of the Group's sales is based on prepayments. Sale under merchant credit, both in Poland and exports, is covered with insurance of trade receivables. Higher-risk foreign transactions are protected by means of letters of credit and documentary collections.

✓ Fluctuations of the economic situation

The economic activity in the world, in Poland and in specific sector affects operation of the enterprise by means of various indices (GDP, prices, salaries, employment).

✓ Too expensive instruments that increase trading security

Crediting of recipients raises the risk of failure to receive payments for supplies. Financial products offered at the market are expensive and they significantly prolong the stage of conclusion of a transaction.

✓ Sales of product threatening for consumer's life and health

The Group is a producer of food products. In case of sale of a product that imposes threats for life or health, the company would lose its reputation and had an obligation to pay compensation to customers and consumers, as well as costs related to recall and disposal of the product.

The risk is small due to implemented System of Food Quality and Safety Management.

The market recall procedure has been implemented, recall simulations have been performed.

✓ Bad quality of the product detected at a customer at the state of production

The risk may entail costs related to compensations for caused damages, possible loss of a customer.

The risk is small due to implemented Integrated Management System, and particularly to the system of control of ready products, semil-finished products, raw materials and materials used for production, and supervision of the process by production operators in compliance with applicable instructions for their positions of work.

Ensuring proper conditions of storage and supervision of transpiration reduces the risk of defects caused during these stages.

✓ Improper managements with information security/IT infrastructure

The risk has a form of disclosure of company and customer data. Possible loss of data in result of a breakdown. The risk is not high because of security levels applied, both in relation to the operating system and the ERP system. To avoid loss of data, backups are made. The network is protected with hardware and software solutions. All aspects are governed by a specially implemented procedure.

1.2. External factors deciding on successful development of the Issuer and the Group

The development of the Issuer and its Group in the potato branch depends mainly on the agricultural policy

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for the period of 12 months ended 31 December 2019*

of the European Union and the Republic of Poland, and creation of appropriate conditions of operation of the agricultural and food industry.

The main chances of development are offered by the following factors:

- ✓ development of the national potato industry. The Polish potato industry has been at the stage of deep structural reconstruction for many years. These changes have led to professionalism of potato production, and in the future it may increase competitiveness of the Polish potato branch. At the same time, the total number of potato growing farms decrease with simultaneous focus and specialisation in production.
- ✓ possibility to acquire financial funds for funding investments,
- ✓ market demand for modified products of potato starch,
- ✓ access to new and modern technologies,
- ✓ development of markets in the international trade,
- ✓ development of specialised farms,
- ✓ a wide spectrum of application of starch and its modifiers,
- ✓ area payments to starch potatoes.

1.3. Internal factors deciding on successful development of the Issuer and the Group

The most important internal factors that have impact for its further development are:

- ✓ continued industry consolidation process,
- ✓ systematic investments and modernisations of production departments in order to raise efficiency and innovation of production and reduce costs of operations,
- ✓ active reaction to market needs and requirements,
- ✓ active policy of sales and acquisition of new outlets,
- implemented System of Food Quality and Safety Management System confirmed with certificates,
- ✓ implemented GMP (Good Manufacturing Practice) system for producers of active substances,
- ✓ activities compliant with Smeta requirements; presences on SeDeX platform,
- ✓ very good cooperation with farmers for the whole year,
- ✓ possibility to produce hydrolysates that meet specific expectations of customers,
- ✓ high production capacities,
- ✓ low costs of disposal of production waste water,
- ✓ realisation of the strategy and undertaking investment activities,
- ✓ ensuring necessary level of funding of the Group's development investments,
- ✓ widening the product offer,
- staff knowledge and professional experience,
- ✓ maximum reduction of the costs of the Group's operations.

2. Perspectives the Issuer's and Group's development

Still, potato processing will be the most important activity of PEPEES Capital Group, and a large growth of production and sale was observed in this segment last year. The Group started expansion to new foreign markets, mainly to Eastern Asia, South-Eastern Asia, Australia, Africa, South America and developing European countries. This objective is achieved

through implementation of the export development programme, that constitutes a part of the

published Strategy. The Group will continue research and development works and cooperate with scientific entities that specialise in research in processing of starch and its derivatives, both in the subjects related to the operations of the company and a new product offer.

Due to the growing competitive pressure related to activities of other processors, both on the domestic and European markets, it is necessary to ensure development of the Group so it can maintain its position on the market. It was the purpose to adopt, on 12 June 2019, the Strategy of PEPEES Capital Group for years 2019-2024, that is described in point 3 below. The Group also negotiates possible cooperation with Korean Daesang Corporation ("Daesang"), including in relation to production of potato starch modifiers.

At the same time, the Group's objective is the maximum return on investments, while maintaining moderate level of investment risk. PEPEES Group assumes parallel activities to be conducted in the area of development, through increase of efficiency of operations of the companies belonging to the Capital Group and maximum reduction of risks, to which they are exposed, and through further investment activities. If attractive market offers appear, the investment activities will be continued in the Group and outside.

The Holding Entity and the Group connect their development not only with potato processing, but also with generation of energy in the biogas plant located in the area of the subsidiary, CHP Energia Sp. z o.o. This company generates electricity together with heat production, it is co called cogeneration that characterises with the largest efficiency of initial energy into final energy. Moreover, digestate is produced during production of biogas and it has very good fertilising properties for crops. A possibility to produce energy regardless of the impact of weather on the production is also a large advantage of biogas. Moreover, the current global situation imposes new challenges concerning reduction of costs of heat and electricity. Energy media get more expensive very quickly. Investors face a very important problem of resignation from traditional energy sources, for instance to replace them with renewable energy made of biogas that is getting increasing more popular among Polish investors and entrepreneurs. Moreover, in the area of ecological safety, the treatment of waste from agricultural production and agricultural and food processing is advantageous. CHP Energia ensures collection of potato pulp (the main waste in production of starch) from the Holding Entity.

3. Development strategy of the Company and PEPEES Capital Group

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

According to the Strategy, the Company's mission is to strengthen its leading position in agricultural and food processing, providing a wide offer of starch products and implementing innovative products. Thanks to that, the Leader creates satisfactory value of shareholders, ensuring satisfaction of employees and enabling development of agricultural production in Poland thanks to creation of long-term relationships with farmers, guaranteeing them stability and profitability of crops. Under the Strategy, the Company supports development of its customers, offering them high quality starch products made of agricultural crops and implementing innovative products.

The Company defined the following strategic objectives:

- ✓ increase in the value and market share of PEPEES Capital Group through organic development and acquisitions,
- ✓ widening the target markets and product offer, for instance to include starch modifiers,
- ✓ establishing cooperation with a branch investor,
- ✓ intensification and improvement of raw material acquisition,
- ✓ optimisation of operations of PEPEES Capital Group.

The commencement of cooperation with a branch partner, in particular from food or pharmaceutical branch, dietary supplements and nutritional products for children, that is defined in the Strategy, will be of key importance for further development of GK PEPEES. The fulfilment of the Strategy requires appropriate know-how and significant investments in development of new products, in particular modifiers and modern technologies.

By means of own funds, credits, issue of shares, other external funding sources and assuming cooperation with a branch investor, the Company plans to implement activities enabling introduction of an attractive product offer at the market, e.g. through introduction of starch modifiers to the European food and pharmaceutical markets.

Detailed information on adopted strategy was described in current report no 12/2019.

4. Characteristics of the policy in respect to the directions of development of the Issuer's Capital Group

The Policy of PEPEES Capital Group, on the basis of the Strategy adopted for years 2019-2024, is aimed at continuous development and optimisation of the product offer taking into account changing expectations and preferences of recipients.

The Strategy assumes increase in the value of sale and market share through organic development and acquisitions. It assumes, for instance, extending and increasing attractiveness of diversified product offer, extending of target markets and acquisition of new customers, commencement of cooperation with a branch partners, including from the food or pharmaceutical branch, dietary supplements and nutritional products for children. The fulfilment of the Strategy requires appropriate know-how and significant investments in development of new products, in particular modifiers and modern technologies.

At the moment, the Company's financial situation is stable, the Company has generated profits for the last few years, while at the same time it has invested and modernised its means of production. Still, the generated profits are not sufficient to fulfil the Company's needs in the amount that is now identified. Expenditures on ongoing maintenance and modernisation of the machinery, and development of the Strategy will be much bigger.

At the moment, the issue of shares is the most beneficial way to obtain funding. For this purpose, the resolution of increase of the share capital within the scope of the authorised capital was adopted by the Ordinary Annual General Meeting on 28 June 2019. So far, non of the shareholders was able to ensure funding corresponding to challenges, level and way of the Company's development. At the moment, there are no entities from the Company's branch among its shareholders. Establishment of cooperation with a branch partner, in particular from the food or pharmaceutical branch, dietary supplements and nutritional products for children, that could ensure appropriate know-how to the Company and would be capitally related with the Company, would make it possible to acquire necessary resources to fulfil the adopted Strategy.

Also numerous innovative activities, mainly new production lines, ensuring higher production capacity also enable achievement of such objectives by the Company. The Group intends to extend the portfolio of offered products (mainly to introduce modifiers), diversify target markets, and mainly to extend the base of used raw material.

PEPEES Capital Group endeavours to increase the starch production, thanks to which it will be able to compete with foreign companies. The Group's Strategy assume short-term tasks, like for instance the once related to improvement of the condition of the starch production market in Poland and conditions of operation for farmers, as well as long-term activities aimed at commencement of cooperation with a branch investor. The Group cares for good and long-term relationships with farmers, that will guarantee them stability and profitability of their crops, which consequently will make possible for the Group to ensure regular supplies of raw materials thanks to clear and legible contracting system.

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

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

The Strategy of PEPEES Group assumes systematic increase of competitiveness in respect of quality and costs in relation to the leading Polish companies operating in potato processing industry.

5. Additional disclosures in relation to the pandemic

The first information from China about the coronavirus arrived in the late 2019. In the first months of 2020 the virus spread all over the world, and its negative impact started growing. The Management believes that it is not an event entailing adjustments to the financial statement for, but an event that has occurred after the balance sheet date and it need additional disclosures. At the time of publication of this statement that situation has been constantly changing and it seems that its negative impact on the global trade and the Entity may be more serious than initially expected. Exchange rate of currencies used by the Entity fell down, value of shares on stock markets fell down as well, prices of goods strongly fluctuate/are much lower. Since the situation is still developing, the Company's management believes that presentation of quantitative estimations of the impact of this situation on the Entity is not possible. Possible impact will be taken into account in impairment write-offs of assets and provisions for expected losses in 2020.

V. COMPLIANCE WITH PRINCIPLES OF CORPORATE GOVERNANCE

I. Specification of the corporate governance principles which are followed by the Issuer and the place, where the set of rules in publicly available

Pertaining to § 29 of the Regulation of Giełda Papierów Wartościowych w Warszawie S.A., its compliance with corporate governance principles presented in the document entitled "**Good Practices of Companies Quoted on Warsaw Stock Exchange 2016**", that is attached to Resolution no 26/1413/2015 of the Supervisory Board of Warsaw Stock Exchange of 13 October 2015 (hereinafter "Good Practices"), and is available at:

https://www.gpw.pl/pub/GPW/files/PDF/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf

The Company's Management Board declares that appreciating the meaning of the corporate governance principles presented in the above mentioned document and the role played by those principles in straightening of quoted companies, it undertook all possible endeavours to ensure that the above mentioned principles are applied in the Company in the broadest possible scope.

Point II presents editorial units and description of principles in compliance with the Good Practices, if they are not applied by the Company, together with explanation of their waiver.

II. Specification of the scope the Issuer has waived the provisions of corporate governance principles together with specification of such provisions and explanation of such waiver

In 2019 "PEPEES" S.A. complied with all recommendations and principles of the Good Practices except the following one:

I. Information polity and communication with investors

I.Z.1. The Company operates a corporate website and besides information required by law, it publishes in a separate location and in legible form:

I.Z.1.3 "scheme of distribution of tasks and responsibilities amount the management board members in compliance with principles II.Z.1"

This principle is not fully complied with. The assignment of responsibilities is included in the regulation of the management board that is available on the Company's website.

I.Z.1.15 „information containing description of diversity policy applied by the company in respect to the company's authorities and its key managers; the description should take account of such elements of the diversity policy like gender, education, age, professional experience, and point out to objectives of applied diversity policy and the manner of their accomplishment in a given reporting period; if the company has not prepared and does not comply with a diversity policy, its shall publish an explanation of such decision on its website"

The Company has not prepared and does not comply with a diversity policy. When selecting persons for functions of the members of the Management Board and Supervisory Board, the Company acts in compliance with the highest standards and in this respect it does not differentiate candidates in respect to their gender or other non-substantive features. The main criterion of selection of the Company's bodies are high competences, skills and professionalism of candidates.

I.Z.1.16. information on planned broadcasting of the general meeting - not later than 7 days before a date of the general meeting.

The Company does not plan a broadcasting of the general meeting.

I.Z.1.20. *audio or video recording of the General Meeting*

According to the applicable legal provisions, the company records the meeting in detail in form of a notary deed. Additional, publishing of required current reports and disclosing respective information on the company's website ensures insight for the shareholders to all essential information about general meetings. In the company's opinion, such principles guarantee transparency of general meetings.

II. The Management Board and the Supervisory Board

II.Z.2. *Membership of the company's Management Board Members in Management Boards of Supervisory Board of companies from outside the capital group requires consent of the Supervisory Board.*

Problems of conflicts of interests are decided in compliance with applicable legal provisions, in particular on the basis of article 380 of the Code of Commercial Companies. ...

II.Z.3. *At least two members of the Supervisory Board fulfils the criteria of independence referred to in rule II.Z.4.*

Decision on election of the members of the Supervisory Board is taken by the General Meeting. The Management Board has no impact on the decisions taken by them and does not have information on independence of the members of the Supervisory Board. In the Company's opinion, such manner of election of the Supervisory Board protects properly the interests of the Company's shareholders.

II.Z.4. *In respect to the criteria of independence of the Supervisory Board members, the Company applies Appendix no II to the Recommendation of the European Commission 2005/162/EC of 15 February 2005 on the role of non-executive directors or members of the Supervisory Board of quoted companies and a commission of the (supervisory) board. Regardless of the provisions of point 1 letter b) of the document referred to in the previous sentence, an employee of the company, a subsidiary or an associated entity, and a person related to such entities with a similar agreement, cannot be considered to fulfil the criteria of independence. A relationship with a shareholder that excludes the feature of independence of a Supervisory Board member according to this rule is also understood as real and significant relationship with a shareholder holding at least 5% of the total number of votes in the company.*

This principle is not complied with. The Supervisory Board acts mainly in compliance with applicable provisions, the Articles of Association and the Regulation of the Supervisory Board.

II.Z.5. *A members of the Supervisory Board gives a statement to the other members of the Supervisory Board and the Management Board on his/her fulfilment of the criteria of independence defined in rule II.Z.4.*

This principle is not complied with. The Supervisory Board acts mainly in compliance with applicable provisions, the Articles of Association and the Regulation of the Supervisory Board.

III. The systems and internal functions

III.R.1. *In its structure, the Company separates units that are responsible for fulfilment of tasks in individual systems or functions, unless such separation of organisational units is not reasonable due to volume or type of activities performed by the company.*

Separation of organisational entities responsible for internal control, risk management, supervising the compliance, or internal audit is not reasonable due to the volume of business performed by the company.

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III.Z.4. At least once a year a person responsible for internal audit (if such function is separated in the company) and the Management Board provide the Supervisory Board with own assessment of efficiency of operation of the systems and functions, referred to in rule III.Z.1, together with respective report.

In "PEPEES" S.A. the internal audit function was not separated.

IV. The General Meeting and relationships with shareholders

IV.R.2. If it is reasonable due to the structure of shareholders or shareholders' expectations presented to the company, if the company is able to ensure technical infrastructure necessary for efficient organisation of the General Meeting via means of electronic communication, it shall make possible participation of shareholders in the General Meeting via such means, in particular via:

- 1) broadcasting of the General Meeting in the real time,*
- 2) two-way communication in the real time, thanks to which shareholders may speak during the General Meeting, while being in another place than the place of the General Meeting,*
- 3) exercising of a right to vote at the General Meeting personally or via a plenipotentiary.*

In the opinion of the Management Board, it is not necessary to broadcast General Meeting or ensure two-way communication in the real time. General Meetings are held in the Company's registered office, at convenient time, so the participation in them is in no way hindered for shareholders interested in the meeting, speaking or exercising of the right to vote (personally or via a plenipotentiary). It is proven by exceptionally high presence of shareholders at the General Meetings. Moreover, in the Company's opinion, despite advance technique there can be always risk, due to various reasons (also independent from the Company, shareholders and also from third parties) the technical safety or safety of two-way communication in the real time, or exercising of the right to vote via means of electronic communication is not guaranteed, and possible damages resulting from any disruptions in this respect could result in unreasonable increase of costs of activities performed by the Company.

IV.Z.2. If it is reasonable due to the structure of shareholding, the company ensures publicly accessible broadcasting of the General Meeting in the real time.

In the opinion of the Management Board, it is not necessary to broadcast General Meeting or ensure two-way communication in the real time. General Meetings are held in the Company's registered office, at convenient time, so the participation in them is in no way hindered for shareholders interested in the meeting, speaking or exercising of the right to vote (personally or via a plenipotentiary). It is proven by exceptionally high presence of shareholders at the General Meetings. Moreover, in the Company's opinion, despite advance technique there can be always risk, due to various reasons (also independent from the Company, shareholders and also from third parties) the technical safety or safety of two-way communication in the real time, or exercising of the right to vote via means of electronic communication is not guaranteed, and possible damages resulting from any disruptions in this respect could result in unreasonable increase of costs of activities performed by the Company.

IV.Z.12. The Management Board should present financial results of the Company and other essential information to the participants of the Ordinary General Meeting, which are included in the financial statement subject to approval by the General Meeting.

In the opinion of the Management Board, presentation and discussion of the results are not necessary. The Members of the Management Board are present at the General Meetings and ready to answer to questions asked by shareholders.

V. Conflict of interests and transactions with related entities

V.Z.6. In its internal regulations, the Company defines criteria and circumstances that may lead to a conflict of interests, and principles of conducts when a conflict of interests occurs or may occur. The internal regulations of the Company include, for instance, the ways to prevent, identify and solve conflicts of interests, as well as principles of excluding a member of the Management Board or Supervisory Board from discussion of an issue subject to or threaten with a conflict of interests.

The Company's current practice does not show that such regulations are necessary. In respect of the conflict of interests, the Company operates on the basis of the provisions of the applicable legislation.

VI. Remuneration

VI.R.1. Remuneration of the members of the Company's authorities and key managers should result from adopted Remuneration Policy.

The Remuneration Policy was adopted in the Company, but it does not cover the members of the Company's authorities.

VI.Z.4. In its report on activities, the Company presents information on the remuneration policy, containing at least:

- 1) general information on the remuneration system adopted in the company,*
- 2) information on the conditions and amounts of the remuneration of every members of the Management Board divided into regular and variable elements of the remuneration, with specification of key parameters of determination of variable elements of the remuneration and principles of payment of severance pays and other payments due to termination of an employment relationship, contract of mandate or another relationship of similar nature - with a division by the company and each entity belonging to the capital group,*
- 3) information on non-financial elements of the remuneration, to which individual Management Board members and key managers are entitled,*
- 4) specification of significant changes that during the last year took place during the remuneration policy, or information that there were no such changes.*

The above principle was not fully followed by the Company. The reports include information on remuneration of every member of the Management Board and the Supervisory Board without division into regular and variable elements. The scope and form of published information on the remuneration policy results in particular from provisions of general provisions applicable to issuers of securities.

III. Report on the remuneration policy

"PEPEES" S.A. has a remuneration policy that determines the form, structure and level of salaries of the Company's employees together with elements depending on results of the Company and involvement of individual employees. Remuneration of the members of the Management Board is set by the Supervisory Board on the basis of qualification, experience and scope of obligations of a member of the Management Board. Remuneration of the members of the Management Board contain variable elements, whose amount depends on achieved financial results set and level of fulfilment of the objectives set by the Supervisory Board. Remuneration of the members of the Management Board is paid by the Company and the subsidiaries depending on the level of involvement of a given member in operating activities of individual subsidiaries. Salary of the members of the Supervisory Board is defined by the General Meeting, it does not contain variable elements IN the report on its activities, the Company presents the total amount of the

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remuneration of the Management Board members (without division into fixed and variable elements) and the Supervisory Board members divided into remuneration paid by the Company and altogether with all remaining entities of the Group.

Despite elements of the remuneration, the members of the Management Board and key manages use company cars and company mobile phones, and participate in trainings financed by the Company. In the last year there were no significant changes in the remuneration policy.

In the opinion of the Management Board, the remuneration policy is adjusted to the fulfilment of the Company's objectives, in particular long-term growth for shareholders and stability of operation of the enterprise.

IV. Sponsorship

"PEPEES" S.A. is the patron of many cultural, sport and community events. Answering the growing social, economic, cultural, educational and sport needs, the Company adopted rules, according to which the assistance is focused where it is efficiently used. Sponsorship ensured by the Company means financial and in kind support of regional and local initiative. The main direct purpose of PEPEES's sponsorship is construction and enforcement of the brand awareness and building the positive image of the undertaking, in which Pepees participates as a sponsor.

FIELDS OF ACTIVITIES

The Company engages in the following spheres of life:

1. Sports and education

- Promoting initiatives supporting development of science and education,
- Supporting development of physical and sports education

2. Culture

- Sponsoring of local and regional events

3. Charity

- Συμπορτινγ οργανισατιονσ τηατ ωορκ φορ πεοπλε ιν νεεδ •

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

The efficiency of the internal audit and risk management system in the process of consolidated financial statements is ensured by preparation, implementation and supervision of compliance with coherent accounting principles in the companies of PEPEES Capital Group. The Companies of the Capital Group provide required data in form of reporting packages in order to prepare the consolidated financial statements of the Group. The scope of disclosed data within the Group is defined and results from disclosure obligations defined by IAS/IFRS. The monitoring of changes of accounting standards is performed on ongoing basis in order to determine a need of updating of the reporting scope. All financial statements are verified by the Management Board of the Holding Entity, PEPEES. The Companies from the Group submit their financial statements to semi-annual reviews and annual audits performed by an independent chartered auditor. Also consolidated financial statements are audited. Until publication of the financial statements and the consolidated financial statements, data are disclosed only to persons participating in the process of preparation, verification and approval of financial statements, with guarantee of data confidentiality.

VI. Shareholders who hold, directly or indirectly, significant packages of shares

According to the best knowledge, as at 31.12.2019 the shareholding structure was as follows:

SHAREHOLDING	Number of shares [shar]	Share in capital %	Number of votes	Share in the total number of votes at the
Epsilon Fundusz Inwestycyjny Zamknięty Zamknięty Aktywów	27 714 832	29.17%	6 312 599	6.64%
Michał Skotnicki**	21 399 174	22.53%	21 399 174	22.53%
Maksymilian Maciej Skotnicki**	20 703 282	21.79%	20 703 282	21.79%
Newth Jonathan Reginald	7 995 200	8.42%	7 995 200	8.42%
Richie Holding Ltd.	6 133 100	6.46%	6 133 100	6.46%
Other	11 054 412	11.63%	11 054 412	11.63%

*Due to the failure to fulfil the reporting obligation on purchase of a significant package of shares, according to the Act of 29 July 2005 on public offer and the conditions of introduction of financial instruments to organised trading system and on public companies, EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, holding - according to the information know to the Company - 27 714 832 shares of the Company, has lost and cannot exercise rights to vote in relation to 21 402 233 shares. Therefore, the Company's Management Board files and action to the Regional Court in Białystok to determine the issue. Epsilon FIZ AN holds a contrary position claiming that is is entitled to the right to vote in relation to 27 714 832 shares accounting for 29.17% of the total number of votes at the General Annual Meeting. The case was joined by the Chairperson of the Polish Financial Supervision Authority, who presented his opinion on 24 July 2019. The Management Board waits for valid and binding ruling of the court. The Company informed on the issue in current reports no 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 of 29 July 2005 on public offer and the conditions of introduction of financial instruments to organised trading system and on public companies, and therefore the total shareholding of the above mentioned persons comprises 42 102 456 shares/votes, which accounts for 44.32% share in shareholder capital/total number of votes in the Company.

The shareholding structure as at the date of this statement is presented below.

SHAREHOLDING	Number of shares [shar]	Share in capital %	Number of votes	Share in the total number of votes at the
Epsilon Fundusz Inwestycyjny Zamknięty Zamknięty Aktywów	27 714 832	29.17%	6 312 599	6.64%
Michał Skotnicki**	21 399 174	22.53%	21 399 174	22.53%
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expects for valid and binding decision of the Court of Law. The Company informed on the issue in current reports no 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 of 29 July 2005 on public offer and the conditions of introduction of financial instruments to organised trading system and on public companies, and therefore the total shareholding of the above mentioned persons comprises 42 102 456 shares/votes, which accounts for 44.32% share in shareholder capital/total number of votes in the Company.

VII. Holders of all securities offering special rights

The Company did not issue securities entitling to special rights.

VIII. Restrictions concerning exercising of the right to vote

The Company's Articles of Association do not provide for restrictions of such type. However, the prohibition to exercise a right to vote by a shareholder may result from article 89 of the Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading and Public Companies (hereinafter "**the Act on Offering**"), if the shareholder violates specific provisions defined in Chapter 4 of the Act on Offering. Furthermore, according to article 6 § 1 of the Code of Commercial Companies, if the holding company does not notify a subsidiary, being a capital company, on establishment of the superiority relationship within 2 weeks from establishment of such relation, the right to vote under shares of the holding company representing 33% of share capital of the subsidiary shall be suspended.

IX. Restrictions concerning transfers of ownership rights

The Company's Articles of Association do not provide for restrictions of such type. They result from legal provisions, including the above quoted Chapter 4 of the Act on Offering, articles 11 and 19 of section VI of the Act of 29 July 2005 on Trading in Financial Instruments, the Act of 16 February 2007 on Protection of Competition and Consumers and Regulation of the Council (EC) no 139/2004 of 20 January 2004 on the control of concentrations between undertakings.

X. Principles of appointment and dismissal of members of management bodies and their rights

1. The Management Board consists of one to five persons. The term of office of the Management Board takes three years except the first Management Board, whose term of office takes two years. The Supervisory Board appoints the President of the Management and on the request of the President - the remaining Members of the Management Board. The Supervisory Board defines the number of Members of the Management Board. The Supervisory Board may recall the President of the Management Board, a Member of the Management Board or all members of the Management Board before end of the term of office of the Management Board. The Management Board exercises all rights concerning management of the Company, except rights reserved for other Company's authorities by law or the Articles of Association.
2. The manner of operation of the Management Board, and issues that may be entrusted to its individual members, are defined in detail in the Regulation of the Management Board. The Regulation of the Management Board is adopted by the Company's Management Board and approved by the Supervisory Board.
3. The following persons are authorised to make declarations and sign documents on behalf of the Company: (i) in case of the Management Board consisting of one member - the President of the Management Board, (ii) in case of the Management Board consisting of more members - two

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members of the Management Board acting together or one member of the Management Board acting together with proxy.

4. The Supervisory Board enters on behalf of the Company into agreements with the Members of the Management Board and represents the Company in disputes with Members of the Management Board. The Supervisory Board may authorised, in a resolution, one or more members to perform such legal activities.
5. The Company's employees report to the Management Board. The Management Board enters into and terminates their employment agreements and determines their salary.

6. A decision on issue or repurchase of shares is taken by the General Meeting in form of a resolution.

XI. Principles of amendments of the Articles of Association

Amendments of the Articles of Association are made through a resolution of the General Meeting. Such resolutions are adopted with a majority of three fourths of votes. Resolutions on amendments of the Articles of Association of the Company, raising benefits for shareholders or reducing rights granted personally to certain shareholders require consent of all shareholders, to whom they refer.

XII. Manner of operation of the General Meeting and its rights

Basic principles of operation of the General Meeting are as follows:

1. The Ordinary General Meeting is convened by the Management Board no later than in June every year.
1. The agenda of the General Meeting is determined by the Management Board in agreement with the Supervisory Board.
2. The Supervisory Board and shareholders representing at least 5% of the share capital may demand individual issues to be included in the agenda of the General Meeting.
3. The General Meetings are held in the Company's registered office.
4. The General Meeting may adopt resolutions regardless of a number of present shareholders or represented shares.
5. Resolutions are adopted at the General Meeting through voting.
6. Resolutions of the General Meeting are adopted with the ordinary majority of votes cast, if the Articles of Association or the law do not provide otherwise.
6. Resolutions of the General Meeting are adopted with the majority of 3/4 votes cast, in case of:
 - a) amendments of the Articles of Association, including issue of new shares, b) issue of bonds,
 - c) sale of the Company's enterprise,
 - d) merger of the Company with another company, e) dissolution of the Company.
8. Voting on the General Meeting is open. Secret ballot is arranged in case of elections and petitions for dismissal of members of authorities or liquidators of the Company, or request for determination of their liability, and on personal issues. Resolutions on change of the subject of the Company's enterprise are votes in open roll-call vote.
9. Shareholders listed on the list of shareholders prepared by the Management Board in compliance with principles resulting from applicable legal provisions, in particular art. 406 § 2 and 406¹ - 406³ of the Code of Commercial Companies are authorised to participate in the General Meeting.
10. The General Meeting may be also attended by: every member of the Management Board, every member of the Supervisory Board, notary and notary's auxiliary staff, chartered auditor, members of the organisational and technical services of the General Meeting, if they are authorised by the Management Board, other persons specified by an authority convening the General Meeting. Other persons than listed above may be present only upon consent of the Chairperson of the General Meeting, who has the right to order any time and without a reason that any of those persons leaves

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the room of the General Meeting.

11. The General Meeting is opened by the Chairperson of the Supervisory Board, or his/her Deputy, and if they are absent,
by the President of the Management Board or another person appointed by the Management Board.
The person, who opens the General Meeting,

asks for presentation of candidates for the position of the Chairperson of the General Meeting, and after they have been collected, orders an election of the Chairperson of the General Meeting.

12. The Chairperson of the General Meeting presents the agenda prepared by the Management Board in the announcement on convening of the General Meeting, to the shareholders, and if there are no such drafts, he/she prepares and presents the draft resolution on his/her own. A draft resolution on an issue introduced the agenda may be submitted by every shareholder.

The Company's shareholders do not have any special rights other than defined in general legal provisions, including defined in the Code of Commercial Companies.

XIII. Members and description of operation of management and supervisory bodies

1. Members of the Management Board of "PEPEES" S.A. as at 31.12.2019: Wojciech Faszczewski President of the Management Board
Tomasz Krzysztof Rogala Member of the Management Board

The principles of operation and competencies of the Company's Management Board are regulated in the Articles of Association and the Regulation of the Management Board.

The basic principles of operation of the Management Board were described in clause X above.

2. Members of the Supervisory Board of "PEPEES" S.A. as at 31 December 2019 :
Maciej Kaliński Chairperson of the Supervisory Board
Tomasz Nowakowski Deputy Chairperson of the Supervisory Board
Robert Malinowski Secretary of the Supervisory Board
Krzysztof Stankowski Member of the Supervisory Board
Piotr Marian Taracha Member of the Supervisory Board
Agata Czerniakowska Member of the Supervisory Board

The main principles of operation of the Supervisory Board are defined in the Articles of Association and in the Regulation of the Supervisory Board. According to these regulations, the Supervisory Board consists of five to nine members. A term of office of the Supervisory Board takes 3 years. Out of its members, the Supervisory Board elects the Chairperson and one or two Deputies, and a Secretary. The Chairperson of the Supervisory Board convenes and chairs the meetings of the Supervisory Board. The Chairperson of the retiring Supervisory Board convenes and opens the first meeting of a newly elected Supervisory Board and chairs it until a new Chairperson is elected. The Supervisory Board holds meetings at least once a quarter. The Chairperson of the Supervisory Board, or one of his/her Deputies, are obliged to convene a

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meeting on a written request at least two members of the Supervisory Board. The meeting should be convened during a week from submission of a request, on a day that falls no later than within 2 weeks from the day, when it is convened. Resolutions of the Supervisory Board are valid, if all members of the Supervisory Board were invited to the meeting. The Supervisory Board adopts resolution by the absolute majority of votes of members of the Supervisory Board present at the meeting, if at least a half of its members is present. Resolutions of the Supervisory Board may be also adopted without a meeting, in form of a written vote, if all members of the Supervisory Board agree in writing on adoption of resolutions in such way. The Supervisory Board adopts its regulation determining the detailed mode

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of its activities. The Supervisory Board may assign its members to individual performance of individual supervisory activities. Salary of the members of the Supervisory Board shall be defined by the General Meeting.

According to the Articles of Association, besides the issues listed in the Act, other provisions of the Articles of Association or resolutions of the General Meeting, the competences of the Supervisory Board include:

- 1) examination of the annual balance sheet, the profit and loss account and ensuring their verification
by chartered auditors selected by the Supervisory Board,
- 2) examination and issuing of an opinion on the report of the Management Board,
- 3) annual examination and approval of business plans, financial and marketing plans of the Company and asking detailed reports on execution of those plans from the Management Board,
- 4) presenting a written report to the General Meeting on results of activities referred to in sections 1 - 3,
- 5) presenting opinions on proposals of the Company's Management Board on distribution of profit, including amounts
to be allocated to dividend, dates of dividend payment or principles of covering losses,
- 6) consents on transactions comprising sale of purchase of shares or other property, or contracting a cash loan, if a value of a give transaction is higher than 15% of the net value of the Company's assets according to the last balance sheet,
- 7) appointing, suspending and dismissing members of the Management Board,
- 8) assigning members of the Supervisory Board to perform activities of the Management Board in case of suspension or dismissal of the entire Management Board or when the Management Board cannot operate due to other reasons,
- 9) approval of the regulation of share distribution among authorised employees, that has been adopted by the Management Board.

In the reporting period, the **Audit Committee** operated in the Issuer's Supervisory Board and consisted of:

Maciej Kaliński Chairperson of the Audit Committee

Piotr Marian Taracha Deputy Chairperson of the Audit Committee

Krzysztof Stankowski Member of the Audit Committee .

These members worked uninterruptedly until 31 December 2019.

The statutory criteria of independence are fulfilled by all the above mentioned persons who are members of the Audit Committee.

Mr Piotr Marian Taracha has knowledge and skills in accountancy; he graduated from postgraduate studies for financial directors, with major in finance management in a company, and he completed numerous courses in financing and accounting.

Mr Krzysztof Stankowski has knowledge about the industry of the Issuer; he graduated from agricultural high school and performs supervisory functions in companies that process potatoes.

PEPEES and the subsidiaries entered into an agreement on the period of review and audit of the financial statements (including consolidation packages) for year 2019 with WBS Audyt Sp. z o.o. with

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registered office in Warsaw. The agreement was concluded on 4 July 2018. The auditing company was selected by the Company's Supervisory Board.

The Issuer did not use any other services of the selected auditor company.

According to the Act on Chartered Auditors, Auditor Companies and Public Supervision (Journal of Laws of 2019 item 1421) and

Regulation (EU) No 537/2014 of the European Parliament and of the Council of on specific requirements regarding statutory audit of public-interest entities ("Regulation 537/2014"), the Audit Committee adopted and complies with "The Policy and Procedure of Selection of an Entity Authorised to Perform the Statutory Audit of the Financial Statements" and "The Policy of Rendering of Acceptable Services other than the Audit to be Performed by an Auditing Company and by a Member of Chain of the Auditing Company".

Pertaining to the above policies, an entity authorised to perform the audit is selected by the Supervisory Board acting according to a recommendation prepared by the Audit Committee. The policy defines periods of cooperation with auditing companies, criteria of selection of an auditor, such as current experience, reputation and qualifications and experience of persons assigned for financial review by the auditing company, knowledge of the industry of the Company, price conditions and proposed time schedule of work, and assumes that the auditing company should be selected in an independent manner, without pressure or suggestion of third parties about the selection, and all limitations related to selection result from applicable legal provisions.

Policy of Rendering of Acceptable Services by an Auditing Company states mainly that all services rendered by an Auditing Company or related entities require earlier risk and independence assessment by the Audit Committee, and furthermore it tries to limit possibilities of a conflict of interests when acceptable services other than the audit are commissioned to an auditing company, through a definition of prohibited services and acceptable services. Examples of acceptable services include, for instance, performing due diligence procedures concerning the economic and financial condition, attestation services in respect to financial pro forma information, forecasts of results and estimated results presented in a prospectus of an audited entity, audit of historical financial information for the purpose of a prospectus, verification of consolidation packages. Furthermore, the prohibited services include in particular fiscal services related to: preparation of tax forms, taxes on salaries, custom duties, accounting services and preparation of accounting documents and financial statements, preparation and implementation of internal control procedures of risk management procedures related to preparation or control of financial information or preparation and implementation of technological system related to financial information, or services related to the internal audit function. Rendering of acceptable services is possible, however, only in the scope not related to the Company's fiscal policy, after the Audit Committee assess threats and securities for the independence of an auditing company, key chartered auditor and other members of the team performing the audit.

The recommendation on selection of an auditing company for the purpose of an audit fulfilled all applicable conditions and was performed in result of the procedure organized by the Issuer that fulfilled the applicable criteria.

In the period from 1 January 2019 to 31 December 2019, there were two meetings of the Audit Committee.

The main tasks of the Committee include:

- discussion of the audit process with the Auditor,
- examination of the Company's documents,
- presentation of an annual report on its activities to the Supervisory Board,
- monitoring of the financial reporting process,
- monitoring of performance of financial review, in particular examination of the Company's financial statements by the auditing company, taking into account all requests and findings of the Committee of Audit Supervision, resulting from a control performed in the auditing company,

- controlling and monitoring of independence of a chartered auditor or the auditing company that render services for the Company,
- informing the Supervisory Board on results of audit of the Company's financial statements and explaining, how the audit contributes to reliability of financial reporting in the Company, and what was the role of the Committee in the process of audit.,
- assessing independence of a chartered auditor and granting consent for services rendered by him/her for the Company,
- working out the policy of selection of an auditing company for audit of the Company's financial statements.
- working out the policy of rendering acceptable services other than the audit of the financial statement by an auditing company that audits the financial statements, by entities related to such auditing company and by member of an auditing company.
- defining the procedure of selection of an auditing company by the Company,
- presenting recommendations with an aim to ensure reliability of the financial reporting process in the Company.

The manner of operation of the Audit Committee:

- the Audit Committee holds meetings when necessary, but at least twice a year.
- The Meeting of the Committee are convened by its Chairperson on his/her own initiative or on request of a member of the Audit Committee, and on request of the Management Board, an internal or external auditor. The meeting of the Audit Committee may be also convened by the Chairperson of the Supervisory Board.
- An agenda of the meeting of the Audit Committee is prepared by a person who convenes the meeting, provided that it may be changed during the meeting.
- The Chairperson of the Audit Committee may invite persons from outside the Audit Committee to the meeting.
- Minutes are drafter on the meetings of the Audit Committee. Minutes are signed by the Chairperson of the Audit Committee.
- The Audit Committee adopts resolutions, if at least a half of its members are present at the meeting of the Audit Committee.
- The Audit Committee may adopt resolutions in writing, provided that all members of the Audit Committee have been notified on the contents of draft resolutions.
- Resolutions of the Audit Committee are adopted with the ordinary majority of votes cast.
- The Company ensures organisational and technical service of the Audit Committee.

Besides the Audit Committee, there are no other committees in the Company's Supervisory Board.

XIV. Diversity policy

The Company has not prepared and does not comply with a diversity policy. When selecting persons for functions of the members of the Management Board and Supervisory Board, the Company acts in compliance with the highest standards and in this respect it does not differentiate candidates in respect to their gender or other non-substantive features. The main criterion of selection of the Company's bodies are high competences, skills and professionalism of candidates.

VI. STATEMENT OF THE MANAGEMENT BOARD

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

- the report of the Management Board on activities of the Capital Group for a period of 12 months ended 31 December 2019 presents the true picture of development and achievements, and condition of PEPEES Capital Group, including the description of major threats and risks.

REPRESENTATIVES

of Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” Spółka Akcyjna in Łomża

Wojciech Faszczeński President of the Board

Tomasz Krzysztof Rogala Member of the Management Board