

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

REPORT OF THE MANAGEMENT BOARD ON THE OPERATIONS OF THE CAPITAL GROUP

for the period of 12 months ended on 31 December 2021

(including disclosures requisite for the Report of the Management Board on operations in the
said period)

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

**INDEX TO THE REPORT OF THE MANAGEMENT BOARD ON THE OPERATIONS OF
THE CAPITAL GROUP**

INTRODUCTION	6
I CHARACTERISTICS OF THE PEPEES CAPITAL GROUP	6
1. Structure of the PEPEES Capital Group	7
1.1. Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A. in Łomża – Parent Company.....	7
Zakłady Przemysłu Ziemniaczanego "LUBLIN" Spółka z ograniczoną odpowiedzialnością, with its registered office in Lublin – subsidiary;	10
1.3. Pepees Inwestycje Spółka z ograniczoną odpowiedzialnością, with its registered office in Łomża – subsidiary;	11
1.4 Przedsiębiorstwo Przemysłu Ziemniaczanego "BRONISŁAW" Spółka Akcyjna in Bronisław – subsidiary	12
1.5 Gospodarstwo Rolne Ponary Spółka z ograniczoną odpowiedzialnością, with its registered office in Łomża – subsidiary	13
2. Operations of companies belonging to PEPEES Capital Group	13
II. CHARACTERISTICS OF THE OPERATIONS OF THE PEPEES CAPITAL GROUP	14
1. Characteristics of the market of operation.....	14
2. Information on primary products, goods and services sold in the Group	16
3. Volume and structure of sales	19
4. Information on domestic and foreign outlets.....	21
4.1. Domestic sales by industry and geographical area.....	22
4.2. Export and intra-Community sales.....	22
5. Information on sources of supplies of the materials for manufacturing, goods and services	23
6. Information on agreements significant for the business activity of the Capital Group	24
6.1. Economic agreements.....	24
Loan facility agreements	24
6.3 Borrowing agreements	24
6.4. Lease agreements executed in 2021.....	25
6.5. Insurance agreements.....	25

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

6.6. Agreements by and between Shareholders.....	25
7. Information on the Issuer's organisational or capital relations with other entities and determination of its main domestic and foreign investments	26
8. Description of transactions with related entities	27
9. Information on loans incurred	28
10. Information on granted borrowings, guarantees and sureties	30
11. Off-balance sheet items in the PEPEES Capital Group.....	31
12. Description of using revenues from the issue of shares or repurchase of treasury shares	31
13. Explanation of differences between financial results presented in the report, and forecasts of results for a specific year as published earlier	32
14. Assessment of the management of financial resources	32
15. Information on financial instruments with respect to risk and purposes and methods of financial risk management	32
16. Information on executed investments and investment plans	33
17. Information on issues related to the natural environment.....	34
18. Information on employment in the Group	35
19. Major achievements in research and development	36
20. Intangible aspects	36
21. Unusual events that had significant impact on the result of the Group's operations in 2021.....	37
22. Structure of main capital deposits or main capital investments	38
23. Adjustments of errors from previous periods and changes in the principles of accounting and presentation of statements	38
24. Changes in the Group's basic management principles. In 2021, there were no significant changes in the basic management principles of the Issuer and its Group.	39
25. Specification of changes in the Issuer's shares or rights to shares held by the members of the Issuer's management and supervisory bodies.....	39
26. All agreements executed by and between the Issuer and the management members, which agreements provide for a compensation in case of their resignation or dismissal from their position without good reason, or when they are recalled or dismissed due to Issuer's merger through acquisition.....	39
27. Amount of remuneration, awards and other benefits paid to and due to the members of the management and supervisory bodies in the Issuer's enterprise in 2021	39
28. Information on all liabilities arising from pensions and similar benefits on behalf of the former members of management, supervisory or administrative bodies and liabilities incurred in relation to such pensions.....	40

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

29. Quotations of the Parent Company in 2021	40
30. Information on agreements known to the Issuer as a result of which changes in proportions of shares held by current shareholders and bondholders may occur in future	41
31. Specification of holders of all securities offering control rights in relation to the Issuer together with the description of such rights	41
32. Information on the system of control of employee share schemes.....	41
33. The brief description of significant achievements or failures of the PEPEES Capital Group in 2021 together with the list of the most important events related thereto	41
34. Other information that in the Capital Group's opinion is essential for the assessment of its personnel, economic, financial standing, financial result and their changes, and information significant for the assessment of the Group's options to fulfil obligations	42
35. Identification of factors that in the Issuer's and the Group's opinion will impact the results achieved by them at least during the next quarter	42
36. Information on the entity authorised to audit and review the Issuer's financial statements.....	43
37. Summary of operations during the reporting period	44
38. Information on litigations, proceedings before an arbitration or administrative body	45
III. ECONOMIC AND FINANCIAL STANDING	46
1. Economic standing of the Capital Group	46
2. Funding sources of the Capital Group.....	47
3. Financial results of the Capital Group.....	48
4. Cash flows	50
5. Economic indicators.....	50
6. Economic standing of the Parent Company.....	52
7. Funding sources of the Parent Company.....	52
8. Financial results of the Parent Company	53
9. Unusual events affecting the financial result of the Parent Company	54
IV. Development of the Issuer and the Capital Group.....	54
1. Description of major risks and threats and characteristics of external and internal factors essential for the development of the Parent Company and PEPEES Capital Group.....	54
1.1. Risks and threats	54
1.2 External factors affecting the successful development of the Issuer and the Group.....	57
1.3 Internal factors affecting the successful development of the Issuer and the Group	58
2. Perspectives on the development of the Issuer and the Group.....	58

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

3. Development strategy of the Company and PEPEES Capital Group	59
4. Characteristics of the policy with respect to the development vectors of the Issuer's Capital Group	60
5. Additional disclosures in relation to the pandemic	60
V. COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES	61
I. Specification of the corporate governance principles which are followed by the Issuer and the place where the set of rules is publicly available	61
II. Specification of the scope within which the Issuer has waived the provisions of corporate governance principles together with the specification of such provisions and explanation of such a waiver.....	62
III. Report on the remuneration policy	70
IV. Sponsorship	72
V. Description of main features of internal control and risk management systems as regards the process of preparing financial statements and consolidated financial statements	73
VI. Shareholders who hold, directly or indirectly, significant packages of shares.....	73
VII. Holders of all securities offering special rights.....	74
VIII. Restrictions concerning exercising of the right to vote	74
IX. Restrictions related to transfers of ownership rights to securities	75
X. Principles of the appointment and dismissal of members of management bodies and their rights .	75
XI. Principles of amendments to the Articles of Association	76
XII. Mode of operation of the General Meeting and its rights	76
XIV. Diversity policy.....	83
VI. STATEMENT OF THE MANAGEMENT BOARD	83

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

INTRODUCTION

This Report of the Management Board on the operations of the PEPEES Capital Group for 2021 contains information whose scope is defined in Sections 70 and 71 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities [...] (the "Regulation").

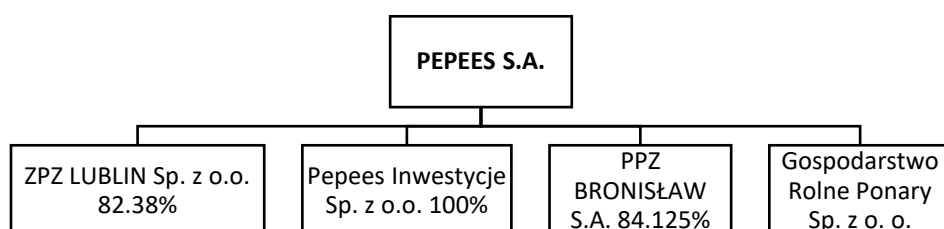
The consolidated annual report that comprises the aforementioned financial statements and this report on operations was prepared on the basis of Sections 70 and 71 in relation to Sections 1(3) and 2(60) of the Regulation.

Pursuant to Section 71(8) of the Regulation, this report also contains disclosures of information required from a Report on the Operations of the Parent Company, as referred to in Section 70(1)(4) of the Regulation. The principles of preparation of the financial statements were presented in respective statements, that is to say the financial statements of the Parent Company and financial statements of the Capital Group for 2021.

I CHARACTERISTICS OF THE PEPEES CAPITAL GROUP

Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. (hereinafter also referred to as the Issuer, Company, "PEPEES" S.A., PEPEES) is the parent company 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 of 31 December 2021, the structure of the Capital Group presented itself as follows:



Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

Name	Registered office	Objects of business	Registration Court	Issuer's share in capital (%)	Share in the total number of shares
ZPZ LUBLIN Sp. z o.o.	Lublin	Production and sales of syrup and dried potatoes, processing of fruit and vegetables	District Court in Lublin, 11th Commercial Division of the National Court	82.38	82.38
Pepees Inwestycje	Łomża	Purchase and sales of real properties on own account	District Court in Białystok 12th Commercial Division of the National Court	100	100
PPZ "Bronisław" S.A.	Bronisław	Production of starch and starch products,	District Court in Bydgoszcz 13th Commercial Division of the National Court	84.125	84.125
Gospodarstwo Rolne Ponary	Łomża	Agricultural production combined with animal	District Court in Białystok 12th	100	100

All subsidiaries were subject to consolidation based on the full method.

During the reporting period, there was a change in the structure of the Issuer's Capital Group – as of 31/12/2021 CHP Energia is no longer a related entity. On 18/03/2021, PEPEES sold all of its shares in CHP Energia. The shares were purchased by ORLEN Południe S.A., a subsidiary of PKN ORLEN S.A.

1. Structure of the PEPEES Capital Group

1.1. Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A. in Łomża – Parent Company

1.1.1. Background information about the Company

The Company operates under the business name: Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. (hereinafter referred to as the "Company", "Parent Company" or "Issuer"). Its registered office is located in Łomża, at ul. Poznańska 121.

It conducts its business as a joint stock company, established by a notarial deed on 21 June 1994 before Paweł Błaszczuk, a notary in Warsaw (Repertory No. A 14126/94). The Company was entered into the register of entrepreneurs maintained by the District Court in Białystok, 12th Economic Division of the National Court Register in Białystok under KRS 000038455.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

Its tax identification number (NIP) is: 7181005512, as granted by the Tax Office in Łomża on 20 January 2000.

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

The business operates under the provisions of the Code of Commercial Partnerships and Companies. It consists of one plant, without branches.

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

Pursuant to the Articles of Association, the Company's objects of business comprise:

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

During the reporting period, the Company performed operations within the scope of manufacturing starch and starch products, and potato processing.

As of 31 December 2021 and as of the date hereof, 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 of the date of approval of this periodical report, the structure of the Company's shareholding presented itself as follows:

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

*Due to the failure to fulfil the reporting obligation on the 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

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

Inwestycyjny Zamknięty Aktywów Niepublicznych, holding – pursuant to the information known to the Company – 27,759,032 shares of the Company, has lost and cannot exercise the 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 decide on the issue. Epsilon FIZ AN is of the contrary opinion, claiming that it is entitled to vote in relation to 27,759,032 shares accounting for 29.22% of the total number of votes at the AGM. The case was joined by the Chairperson of the Polish Financial Supervision Authority, who presented his opinion on 24 July 2019. The Management Board expects a valid and binding decision of the Court of Law. The Company discussed 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(4)(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 aforementioned 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 of 31 December 2021 and as of the date of publication of this Report on the operations of the Capital Group, the composition of the Management Board, the Supervisory Board and the Audit Committee presented itself as follows:

The Management Board

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

The Management Board consists of one to five persons. The Supervisory Board appoints the President of the Management and the remaining Members of the Management Board at the request of the President. Managing persons are dismissed by the Supervisory Board. The Management Board exercises all powers in the management of the Company except for those reserved to the Supervisory Board or the General Meeting. The decision on issuing or repurchasing shares is made by the General Meeting by way of a resolution. The Issuer's Management Board has no authority to issue or buy back shares – no authorised capital has been established in the Company.

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

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

Agata Czerniakowska Member of the Supervisory Board
The Supervisory Board Members are appointed and dismissed by the General Meeting of Shareholders.

The Audit Committee

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

Zakłady Przemysłu Ziemniaczanego "LUBLIN" Spółka z ograniczoną odpowiedzialnością, with its registered office in Lublin – subsidiary;

1.2.1 Background Information on ZPZ LUBLIN Sp. z o.o.

The Company has its registered office in Lublin, at ul. Betonowa 9. The Company conducts its business as a limited liability company and was established with a notarial deed drafted in the Notary Office of Antonina Renata Bednara in Lublin, at ul. Spokojna 8, Repertory A no 6437/96 for indefinite duration. The Company was entered into the register of entrepreneurs maintained by the District Court in Lublin, 11th Economic Division of the National Court Register in Białystok under KRS 0000050886.

The Company has the tax identification number (NIP): 9461580419.
The Company operates based on the provisions of the Code of Commercial Partnerships and Companies.

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

As of 31 December 2021, the Company's share capital amounted to PLN 2,761,200, whereas the shareholders were:

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

1.2.2 The Authorities of ZPZ LUBLIN Ltd.

The Management Board

From 1 January 2021 to 6 April 2021, the Management Board consisted of one person – the President of the Management Board Piotr Kaniowski.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

From 6 April 2021 to 31 December 2021, the Management Board operated in the following composition:

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

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 its registered office in Łomża – subsidiary;

1.3.1. Background information about Pepees Inwestycje

The Company's registered office is located in Łomża, at ul. Poznańska 121. The Company was incorporated under a notarial deed (Repertory A12369/2010) on 18 October 2010 before notary Tomasz Poreda in Łomża.

The Company was entered in the register of entrepreneurs maintained by the District Court in Białystok, 12th Economic Division of the National Court Register in Białystok under KRS 0000370060.

The Company has the following tax identification number (NIP): 7182123627.
The Company operates based on the provisions of the Code of Commercial Partnerships and Companies.

The objects of the Company's business, according to the articles of association, comprise the purchase and sale of real properties on own account.

As of 31 December 2021, the Company's share capital amounted to PLN 95,000 and was divided into 1,900 equal and indivisible shares, PLN 50 each.

1.3.2 The authorities of Pepees Inwestycje as of 31 December 2021

The Management Board	
Roman Adam Miniński	President of the Management Board

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

1.4 Przedsiębiorstwo Przemysłu Ziemniaczanego "BRONISŁAW" Spółka Akcyjna in Bronisław
– subsidiary

1.4.1 Background information on PPZ BRONISŁAW S.A.

Przedsiębiorstwo Przemysłu Ziemniaczanego Bronisław S.A. has been operating since 23/11/2001. On 12/12/2017 (date of registration with the National Court Register), it was transformed from Przedsiębiorstwo Przemysłu Ziemniaczanego Spółka z ograniczoną odpowiedzialnością to Przedsiębiorstwo Przemysłu Ziemniaczanego Bronisław Spółka Akcyjna.

The Company's registered office is located at Bronisław 41, 88-320 Strzelno. The Company conducts its business as a joint stock company and was established with a notarial deed on 31/07/2017, Repertory A no 1989/2017, for indefinite duration. The Company was entered in the register of entrepreneurs maintained by the District Court in Bydgoszcz, 13th Economic Division of the National Court Register in Bydgoszcz under KRS 0000708945.

The Company has the following tax identification number (NIP): 5571595182.
The Company operates under the provisions of the Code of Commercial Partnerships and Companies.

The Company's objects of business comprise:

- production of starch and starch products,
- potato processing,
- service activities supporting the production of plants.

As of 31 December 2021, the Company's share capital amounted to PLN 800,000 and was divided into 800,000 shares, each of nominal value of PLN 1. These shares are not preferential.

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

1.4.2 The authorities of PPZ BRONISŁAW S.A. as of 31 December 2021

The Management Board

Wojciech Faszczeński	President of the Management Board
Roman Adam Minierski	Vice President of the Management Board

The Supervisory Board

Tomasz Nowakowski	Chairperson of the Supervisory Board
Agata Czerniakowska	Deputy Chairperson of the Supervisory Board
Stanisław Bukowski	Secretary of the Supervisory Board

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

Grzegorz Dobrowolski
Robert Malinowski

Member of the Supervisory Board
Member of the Supervisory Board

1.5 Gospodarstwo Rolne Ponary Spółka z ograniczoną odpowiedzialnością, with its registered office in Łomża – subsidiary

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

The Company's registered office is located in Łomża, at ul. Poznańska 121. The Company conducts its business as a limited liability company and was established under the articles of association of 10 November 2015 for indefinite duration. The Company was entered in the register of entrepreneurs maintained by the District Court in Białystok, 12th Economic Division of the National Court Register in Białystok under KRS 0000585975.

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

The Company operates under the provisions of the Code of Commercial Partnerships and Companies.

The objects of the Company's business comprise agricultural production combined with animal breeding.

As of 31 December 2021, 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.

1.5.2 Authorities of Ponary Farming Ltd as of 31 December 2021

The Management Board
Tomasz Krzysztof Rogala

President of the Management Board

2. Operations of companies belonging to PEPEES Capital Group

The 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 also includes plants related to growing starch potatoes, purchase and sale of real properties for own account.

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

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

"PEPEES" S.A. serves the role of the Parent Company. The Management Board of "PEPEES" S.A. prepares the development strategy of the Group and makes key decisions on both the scope of operations and finances of entities constituting PEPEES Capital Group.

"PEPEES" S.A. has one of the largest potato starch plants in Poland. Its processing capacity reaches the level of up to 2,400 tons of potatoes per day. Among significant assets involved, one should mention the machinery for the production of starch, specialised staff and warehouse space.

ZPZ Lublin Sp. z o.o., based in Lublin, focuses on processing edible potatoes into potato grits and potato flakes, as well as manufacturing potato glucose syrups.

PPZ "BRONISŁAW" S.A., with its registered office in Bronisław, produces mainly starch, and also processes edible potatoes into potato flakes.

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

Gospodarstwo Rolne Ponary Sp. z o.o., with its registered office in Łomża, has its own agricultural land leased by the Parent Company to grow starch potatoes, among other things.

Changes in the organisation of the PEPEES Capital Group

During the reporting period, there was a change in the organisation of the PEPEES Capital Group.

On 18/03/2021, the Issuer sold all its shares in CHP Energia.

The shares were purchased by ORLEN Południe S.A., a subsidiary of PKN ORLEN S.A.

CHP Energia is, therefore, no longer a related party.

Aside from the foregoing, in the reporting period no changes were introduced in the organisation of the PEPEES Capital Group.

II. CHARACTERISTICS OF THE OPERATIONS OF THE PEPEES CAPITAL GROUP

1. Characteristics of the market of operation

The primary operations of the PEPEES Capital Group in the reporting period comprised production, commercial and service activities focused mainly on the processing of potatoes and production of electricity.

Within PEPEES Capital Group four industry segments were distinguished, that is to say "potato processing," "production of electricity," "agricultural production combined with animal breeding"

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

and "purchase and sale of real property on own account." Upon the sale of the shares in CHP Energia, which operates in the "electricity production" segment, three segments remained in the Group.

All assets and liabilities of Gospodarstwo Rolne Ponary are allocated to "agricultural production combined with animal breeding." Due to the fact, that in 2021 Ponary did not generate any revenues from sales, the segment of "agricultural production combined 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 solely 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 disclosed in the consolidated financial statements are attributed to the "potato processing" segment.

The segment of "potato processing" produces:

- potato starch,
- several ranges of glucose,
- wide range 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 whole of Europe. Starch potatoes are ones containing no less than 13% of starch. Starch is made from such potatoes through the mechanical separation of other elements of a potato, their rinsing, cleaning, drying and sieving, and it is used for food and technical purposes.

The potato area in the EU has been on the decline for a long time. The cultivated area almost halved between 2000 and 2021, with particularly sharp declines among the main producing countries in Poland (-71.3%) and Romania (-41.4%). According to the Central Statistical Office, the area under potato cultivation in Poland in 2021 did not change significantly compared to 2020 and made 236,000 hectares. There is a sharp reduction in the area under this species compared to 2019, while the area under potato was 308,000 hectares.

Europe produces the largest volumes of potato starch in the world. The largest manufacturers of potato starch in the European Union are: Germany, the Netherlands, followed by France and Denmark. The EU enterprises are large starch plants processing 3,000 to 5,000 tonnes potatoes per day. The main three European companies (Emsland – Germany, Avebe – the Netherlands, Roquette – France) contribute to ca. 65% of the EU production of starch. These companies have very extensive research and development departments with mini lines, laboratories for product

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

testing, as well as product development. As a result, the EU starch industry manufactures six hundred-plus products, ranging from native starch to physically and chemically modified starches, liquid and solid. Their versatility is such that they are used as ingredients and enriching supplements in a huge range of food, non-food, technical and feed products.

The Polish starch industry comprises 10 enterprises manufacturing potato starch and its derivative products. The Polish starch industry is very much fragmented. As far as the Polish market is concerned, there are 5 biggest starch plants with the processing capacity of 1,000-2,400 tonnes of potatoes per 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 tonnes of potatoes per day.

Ware potatoes are processed at ZPZ Lublin Sp. z o.o., a subsidiary, mainly to potato grit and flakes, and partially at PPZ Bronisław S.A. to potato flakes.

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

The "potato processing" segment manufactures:

- ✓ potato starch that is widely used in the food, pharmaceutical, paper, textile and chemical industries;
- ✓ several ranges of glucose used in the food, confectionery and pharmaceutical industries;
- ✓ maltodextrin, which 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 range of starch syrups used in the confectionery and bakery industries;
- ✓ potato grit used in the food industry;
- ✓ potato flakes used in the food industry.

Potato starch

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

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

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

Starch with water content

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

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

Potato protein

This product is made of cell cytoplasm by means of coagulation, separation and drying. The ready-made product is in the form of grey flowing power with a flavour peculiar for dried potato protein and humidity that does not exceed 10%. The product is characterised by a high (over 80%) content of general protein, and digestible protein accounts for more than 70% of the dry product. As a high-quality and easily digestible plant protein, the product proves a valuable component of animal feed mixtures and an excellent substitute for 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 are made of edible types of potatoes. These are steamed and then dehydrated flakes of 0.2-0.5 mm in size.

Starch hydrolysates

✓ Crystalline glucose

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

The food industry mainly takes advantage of these features of glucose: it strengthens the perception of sweets and emphasises the taste of products. It is used for manufacturing confectionery products, ice cream, desserts, dry food mixtures, non-alcoholic beverages, fruit and vegetable products. Furthermore, crystalline glucose is used in breweries, wineries, bakery and meat industries.

✓ Anhydrous glucose

Anhydrous glucose is a product made as a result of the fluid drying of crystalline glucose to the humidity level of 1%. The product meets high microbiological requirements. The entire

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

manufacturing process of anhydrous glucose is used in the pharmaceutical industry. For the most part, it is used for manufacturing infusion fluids.

✓ Maltodextrin

Maltodextrin is a product of the depolymerisation of potato starch and is made as a result of enzymatic hydrolysis. It is in the form of white lightly sweet powder. The properties of maltodextrin vary depending on the level of starch hydrolysis. The increased level of DE (dextrose equivalent) results in increased sweetness, accompanied by increased solubility and hygroscopicity, reduced viscosity, tie strength and resistance to crystallisation. Due to bonding, filling, improvement of texture and stabilisation of flavour and aroma, maltodextrin has found its way into food production. 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 the production of reduced calorie food.

✓ Glucose syrups

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

✓ Hydrol

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

Besides the aforementioned products, the revenues from sales in 2021 were also generated in the Group on the following groups of products:

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

All assets and liabilities of Gospodarstwo Rolne Ponary Sp. z o.o. are allocated to "agricultural production combined with animal breeding." Due to the value of land owned by GR Ponary Sp. z

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

o.o., the third segment was separated in this report solely for the purpose of presentation of its assets and liabilities. The third segment includes the purchase and sales of real property on own market, as executed by Pepees Inwestycje Sp. z o.o.

3. Volume and structure of sales

The Capital Group operates on a highly competitive market both in Poland and abroad in the environment of Polish entities and the largest international corporations. It occupies one of the leading positions on the Polish market, both with respect to values and volumes.

The summary of the structure of sales revenue in the period from 1 January 2021 to 31 December 2021 compared to the same period in 2020 is shown in Table 1 and Charts 1 and 2.

Table 1: Structure of net revenues from sales for a periods of 12 months of 2021 and 2020

Product range	For the period of 12 months ended on 31	Structure 2021	For the period of 12 months ended on 31	Structure 2020	Dynamics
Potato products	208,930	94.07%	187,803	89.03%	111.25%
Electricity	188	0.08%	3,711	1.76%	5.07%
Property rights (electricity and heat)	397	0.18%	2,496	1.18%	15.91%
Animal feed	—	0.00%	257	0.12%	0.00%
Other sales, including:	12,575	5.66%	16,668	7.90%	75.44%
a) services	1,490	0.67%	1,668	0.79%	89.33%
b) goods and materials	11,085	4.99%	15,000	7.11%	73.90%
Total net revenues from sales, including*	222,090	100.00%	210,935	100.00%	105.29%
On discontinued operations	1,264		6,856		

In the consolidated financial statements, revenues from the sale of CHP Energia are included under "Profit (loss) from discontinued operations"

Chart 1: Structure of revenues from sales for the period of 12 months of 2021

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

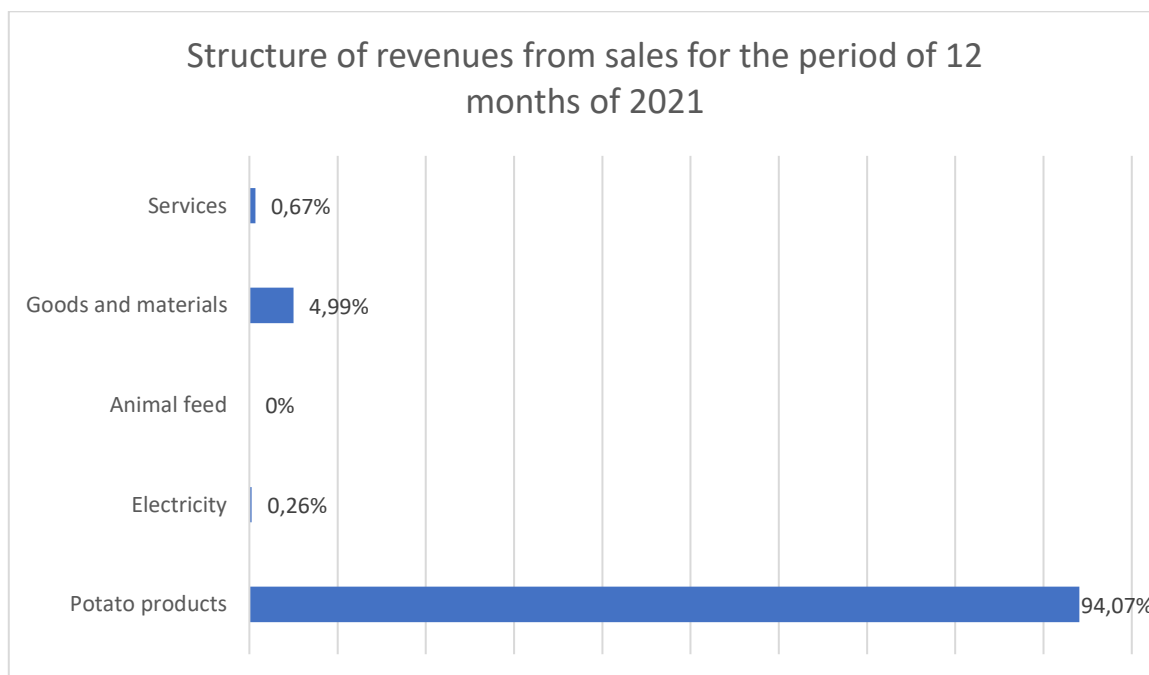


Chart 2: Structure of revenues from sales for the period of 12 months of 2020

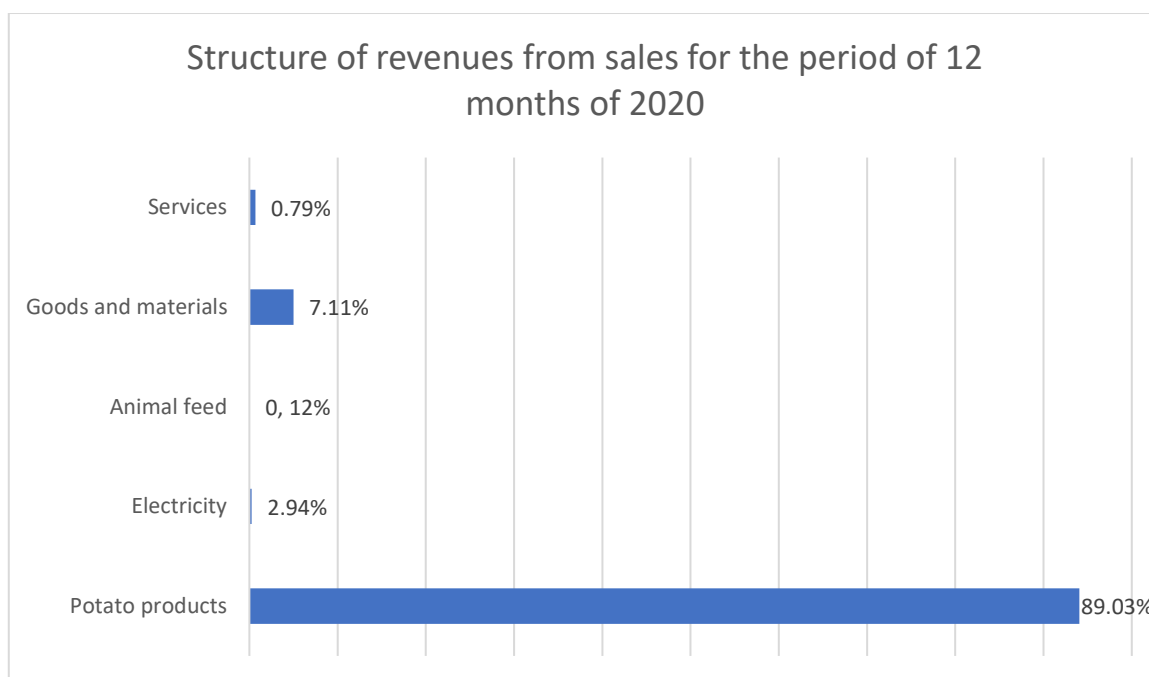


Table 2: Volume of revenues from sales for the period of 12 months of 2021 and 2020

Product range	Unit of measure	2021	2020	Dynamics in %
---------------	-----------------	------	------	---------------

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

Potato products (Group)	tonnes	76,532	61,887	124
- including the Parent Company	tonnes	56,128	47,579	118

In 2021, sales revenues by value increased by 5% and by volume by 24% compared to the previous year. The lower increase in sales value than volume is attributable to lower selling prices in 2021 than in the previous year.

4. Information on domestic and foreign outlets

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

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 the meat, food, confectionery, bakery and pharmaceutical industries, for which starch products are the raw material for further processing and a component in the manufacturing process. Packing products in packaging for retail sale enables cooperation with the largest commercial chains operating on what is referred to as the traditional market. In this manner, products under the PEPEES Capital Group brand reach customers that purchase starch products for own needs.

Schemes of distribution channels of the PEPEES Capital Group

The distribution channels present themselves as follows:

Company – customer (manufacturer – wholesale customer)

Company – wholesaler – customer (manufacturer – recipient of smaller volumes)

Company – wholesaler – retailer – consumer

Company – retail network – consumer

The most popular payment method is the wire transfer with dues date of 30, 45 and 60 days. Payment deferral depends on the length of the cooperation period with a specific recipient, its financial capacity and volume of goods purchased. The financial reliability assessment made by the insurer, and granted financial limit are also of key importance. The prepayment is a payment method in case of a new recipient. The letter of credit is often applied in case of export sales.

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

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

Table 3: Revenues from sales with the division into outlets

Net revenues from sales	For the period of 12 months ended on 31 December 2021	Structure 2021	For the period of 12 months ended on 31 December 2020	Structure 2020
Poland, including	136,048	61.26%	149,404	70.83%
- products	126,407	56.92%	137,656	65.26%
- goods and materials	8,151	3.61%	10,080	4.78%
- services	1,490	0.67%	1,668	0.79%
EU states – intra-Community supplies,	15,897	7.16%	12,984	6.16%
- products	15,612	7.03%	12,922	6.13%
- goods and materials	285	0.13%	62	0.03%
Other countries – exports, including:	70,145	31.58%	48,547	23.02%
- products	67,496	30.39%	43,689	20.71%
- goods and materials	2,649	1.19%	4,858	2.30%
Total, of which:	222,090	100.00%	210,935	100.00%
On discontinued operations	1,264		6,856	

In the consolidated financial statements, revenue from the sale of CHP Energia has been included under "Profit (loss) from discontinued operations"

4.1. Domestic sales by industry and geographical area

Sales were made throughout the country on behalf of approximately 360 counterparties. During the analysed period, the sales of the primary product in the range, i.e. potato starch in the "wholesale channel," accounted for the largest share in domestic market sales and represented 48.63% in terms of volume and 39.82% in terms of value of total sales. This was followed by retail potato starch (pre-packed) at 19.15% and 19.46% respectively, maltodextrin at 11.96% and 16.72%, crystalline glucose at 11.19% and 12.97% and potato protein at 5.28% and 8.93%. Other products accounted for 3.79% of the sales volume representing 2.1% of the total. The main recipients of the products of the Parent Company on the domestic market mainly include renown domestic companies which are often capitally related with large European and global companies.

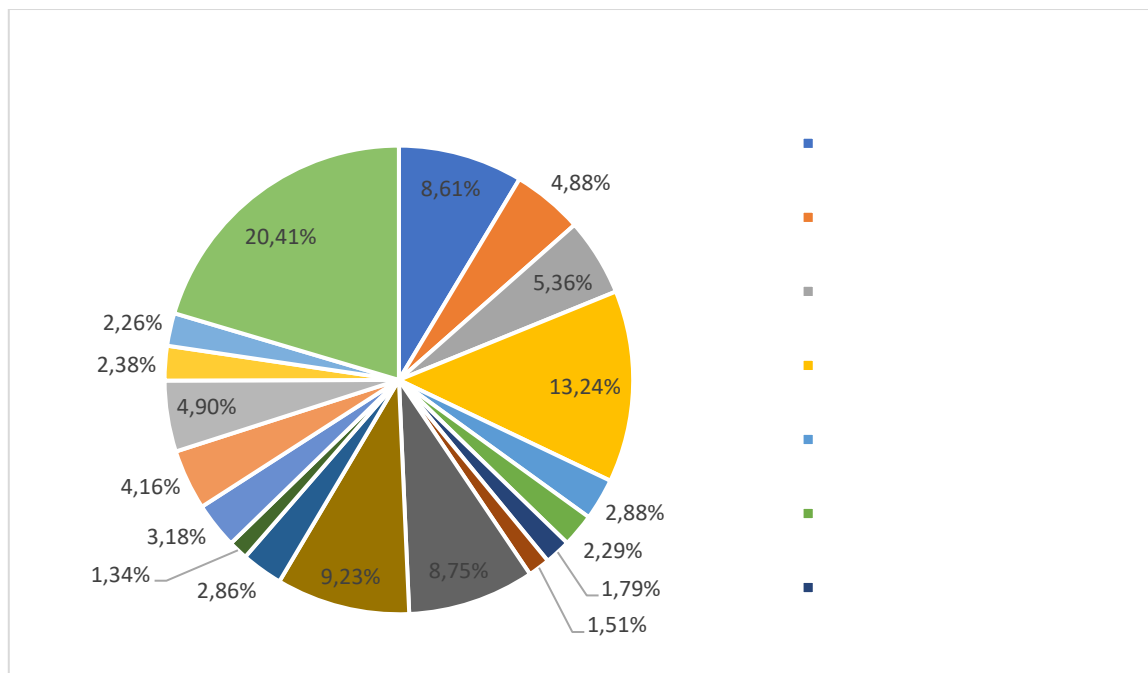
The Group distributed products both through a chain of warehouses and commercial companies supplying products to the food industry, and supplied directly to manufacturing plants, mainly in the food, confectionery, meat and pharmaceutical industries, for which starch products are the raw material for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

4.2. Export and intra-Community sales

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

In 2021, the value of export and intra-Community sale amounted to PLN 86,042 thousand, and recorded a fall of 39.8% when compared to the previous year. In 2021, the Issuer sold its products, mainly potato starch, to 61 countries the world over. The largest volume of products was sold to South Korea, the United States, Australia and Taiwan.

Chart 3: Percentage share of respective countries in export sales



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

Industrial and ware potatoes are the main raw material for manufacturing products in the PEPEES Capital Group. They are bought in autumn based on cultivation contracts executed in spring. Since the early 1990s, we have been noticing a decline in the Polish potato production. In the late 1990s, the share of potatoes in the crop structure amounted to 10%; nowadays, it makes 3% only. As many as 236,000 hectares are allocated in Poland for potatoes; in case of starch potatoes, it is almost 18,000 hectares, that is to say only 7% of total potato crops. The high labour consumption of potato cultivation and limited options for processors to raise prices contribute to a gradual decline in domestic starch potato cultivation.

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.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

The source of supply of the primary raw material, that is to say industrial potatoes, are individual farmers, who do not associate with any organisation important for the Group's operations.

The main source of supply of materials, goods and services in 2021 were Polish businesses and representative branches of foreign companies. In case of enzymes and filtration materials, the Group became dependent on one supplier, because these are the sole Polish representatives of foreign companies manufacturing the raw materials requisite for the Group to conduct its business.

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

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

6.1. Economic agreements

In 2021, 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 executed in 2021

- agreement on purchase of pesticides for potato plantations for the value of ca. PLN 1,8 million;
- agricultural land lease agreements
- commercial agreements;
- agreement on the purchase and modernisation of production machinery and equipment, and refurbishment works.

Loan facility agreements

a) with Santander Bank Polska S.A.: On 5 July 2021, an annex was signed to the multi-line agreement of 07/10/2014 executed with Santander Bank Polska. Pursuant to the annex, the overdraft was raised which was granted to PEPEES and subsidiaries to PLN 62.5 million and the repayment date was adjourned to 31/08/2022.

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

On 5 July 2021, an annex was signed to the multi-purpose credit line agreement with Powszechna Kasa Oszczędności Bank Polski S.A. Pursuant to the annex, the overdraft was raised which was granted to PEPEES and subsidiaries to PLN 62.5 million and the repayment date was adjourned to 31/08/2022.

6.3 Borrowing agreements

PEPEES S.A. has granted the following borrowings:

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

- borrowing agreement of 10/02/2021 granted to CHP Energia Sp. z o. o in the amount of PLN 200 thousand – this was a special purpose borrowing granted on market terms and conditions, which was repaid on 1 July 2021.
- borrowing agreement of 26/02/2021 granted to the subsidiary PPZ BRONISŁAW S.A. in the amount of PLN 1,100 thousand – this is a special purpose borrowing, granted on market terms and conditions, which is to be repaid by 31/12/2022,
- borrowing agreement of 16/03/2021 granted to CHP Energia Sp. z o. o in the amount of PLN 100 thousand – this was a special purpose borrowing granted on market terms and conditions, which was repaid on 1 July 2021.
- borrowing agreement of 31/05/2021 granted to the subsidiary PPZ BRONISŁAW S.A. in the amount of PLN 900 thousand – this is a special purpose borrowing, granted on market terms and conditions, which is to be repaid by 31/12/2022,
- borrowing agreement of 30/06/2021 granted to the subsidiary PPZ BRONISŁAW S.A. in the amount of PLN 1,300 thousand – this is a special purpose borrowing, granted on market terms and conditions, which is to be repaid by 31/12/2022,

6.4. Lease agreements executed in 2021

- Lease agreements for two passenger cars executed with Volkswagen Leasing with the total value of approximately PLN 667 thousand;
- Agricultural machinery lease agreements executed with Santander Leasing and PKO Leasing, with the total value of PLN 844 thousand.

6.5. Insurance agreements

The Capital Group Companies executed the following insurance agreements:

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

6.6. Agreements by and between Shareholders

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

As of the date of preparation hereof, the Parent Company is not aware of any agreements executed by and 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 of 31 December 2021, PEPEES S.A.'s main investments are shares and bonds in consolidated subsidiaries and 4,000 shares in Warszawski Rolno-Spożywczy Rynek Hurtowy S.A. (WRSRH), the estimated value of which, according to the valuation made using the method of discounted future cash flows by an independent actuary, is on 31/12.2021 PLN 7,125 thousand.

WRSRH shares represent 3.34% of WRSRH's capital. The State Treasury is WRSRH's major owner and it holds a 70% share in equity. PEPEES does not control WRSRH.

The Group also holds shares in SBR Spółdzielczy Bank Rozwoju, with its registered office in Szepietowo, with the total value of PLN 270 thousand, as well as shares in 3 other domestic entities (ZM Ostrołęka, Agencja Rozwołu and BPS), accounting for less than 5% of the total number of votes at the general meeting and insignificant from the perspective of the value and the Group's investment policy.

Background financial data of the subsidiaries

Subsidiary (business) name	Equity	Assets	Liabilities	Revenues from sales	Profit/Loss
2020					
ZPZ LUBLIN Sp. z o.o.	5,259	19,568	14,309	19,634	1,607
PPZ BRONISŁAW	19,483	77,706	58,223	43,132	192
CHP Energia Sp. z o.o.	(7,500)	18,247	25,747	7,646	(1,291)
Pepees Inwestycje Sp. z o.o.	52	235	153	-	(9)
Gospodarstwo Rolne Ponary Sp. z o. o.	13,566	21,557	7,991	-	106
2021					
ZPZ LUBLIN Sp. z o.o.	4,659	21,793	17,134	18,863	(600)
PPZ BRONISŁAW	14,173	76,744	62,571	48,398	(5,310)
Pepees Inwestycje Sp. z o.o.	71	71	-	-	(U)
Gospodarstwo Rolne Ponary Sp. z o. o.	14,367	21,634	7,267	-	75

For the first time in several years, ZPZ Lublin Sp. z o.o. incurred a loss due to a fall in the prices of the products sold.

The profit of PPZ Bronislaw S.A. suffered a large loss due to the decline in starch prices.

Pepees Inwestycje Sp. z o.o. did not generate any revenues and closed the financial year of 2021 with the net loss of PLN 11 thousand.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

Similarly, Ponary Sp. z o.o. did not generate any revenues from sale. Net profit earned in 2021 results from financial revenues received each month, that is to say fees for the surety granted to the Parent Company.

Methods of funding the subsidiaries in 2021

ZPZ LUBLIN Sp. z o.o.	self-funding and loan funding (bank loans)
PPZ BRONISŁAW S.A.	self-funding and loan funding (bank loans and borrowings granted by PEPEES)
Pepees Inwestycje Sp. z o.o.	self-funding
Gospodarstwo Rolne Ponary Sp. z o. o.	self-funding and borrowings granted by PEPEES

8. Description of transactions with related entities

During the reporting period, "PEPEES" S.A., the Parent Company, entered into transactions with related entities, which transactions were typical in nature, as resulting from current operating activities performed by "PEPEES" S.A. and its subsidiaries. These were arm's length transactions. Furthermore, a part of the transactions executed arise from existing agreements with financial institutions, under which agreements mutual sureties of the entities of the PEPEES Capital Group that are parties to such agreements are one of the types of security.

The aim of cooperation of the Capital Group companies is to raise the level of resources used and restrict such risk as may be attributable to performed operations.

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

Issuer's transactions with related entities

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

Transactions by and between "PEPEES" S.A. in Łomża and ZPZ „LUBLIN” Sp. z o.o. in Lublin included purchasing starch from the subsidiary for PLN 2,257 thousand and grit for an amount of PLN 3 thousand. The total value of purchases from ZPZ "LUBLIN" amounted to PLN 2,260 thousand.

In 2021, "PEPEES" S.A. sold starch to ZPZ "LUBLIN" Sp. z o.o. for the amount of PLN 88 thousand, maltodextrin for PLN 21 thousand, glucose for PLN 6 thousand and service for PLN 283 thousand. The total value of sales on behalf of ZPZ "LUBLIN" Sp. z o.o. amounted to PLN 398 thousand.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

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

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

During the reporting period, the Issuer bought starch from the subsidiary for the amount of PLN 3,993 thousand and services for the amount of PLN 50 thousand. The total value of purchases in PPZ "BRONISŁAW" S.A. amounted to PLN 4,043 thousand.

In 2021, "PEPEES" S.A. sold to PPZ "BRONISŁAW" S.A. potatoes worth PLN 2,576 thousand, potato starch worth PLN 955 thousand, a fixed asset worth PLN 345 thousand and a service for PLN 17 thousand. The total value of sales on behalf of PPZ "BRONISŁAW" S.A. amounted to PLN 3,893 thousand.

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

Furthermore, PPZ "BRONISŁAW" S.A. paid interest to the Issuer in the amount of PLN 190 thousand on borrowings granted earlier. In 2021, the Issuer granted three borrowings to PPZ "BRONISŁAW" S.A. in the total amount of PLN 3,300 thousand.

Transactions by and 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 the amount of PLN 10 thousand. Meanwhile, Gospodarstwo Rolne Ponary granted earlier a loan security to the Issuer, on which the fees were charged in 2021 in the amount of PLN 158 thousand.

Furthermore, PONARY paid interest to the Issuer in the amount of PLN 16 thousand on the borrowing granted in 2018. The outstanding amount of the borrowing as of the balance sheet date was PLN 550 thousand.

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

In 2021, the Issuer sold a service to Pepees Inwestycje Sp. z o.o. in the amount of PLN 4.2 thousand.

As of the balance sheet date, there are trade receivables in the amount of PLN 0.4 thousand.

9. Information on loans incurred

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

As of 31/12/2021, the Capital Group had loan liabilities in PLN, which are presented in the table below:

Table 4: Loan liabilities as of 31 December 2021

Type of loan	Lending bank	Borrower	Loan amount as defined under the agreement	Debt as of 31/12/2021	Repayment date
Loan on the current account	Santander Bank Polska S.A.	"PEPEES" S.A.	4,000	-	31/08/2022
Revolving loan	Santander Bank Polska S.A.	"PEPEES" S.A.	16,500	16,500	31/08/2022
Working capital loan	Santander Bank Polska S.A.	"PEPEES" S.A.	17,000	17,000	31/08/2022
Loan on the current account	Powszechna Kasa Oszczędności Bank Polski	"PEPEES" S.A.	4,000	-	31/08/2022
Revolving loan	Powszechna Kasa Oszczędności Bank Polski	"PEPEES" S.A.	16,500	16,500	31/08/2022
Working capital loan for potato purchase	Powszechna Kasa Oszczędności Bank Polski	"PEPEES" S.A.	17,000	17,000	31/08/2022
Investment loan for the construction of a starch drying facility, unloading hub and	BNP Paribas Bank Polska S.A.	"PEPEES" S.A.	9,522	231	25/02/2022
Investment loan to finance and refinance the purchase of 100% shares in Gospodarstwo Rolne Ponary Sp. z o.o.	Powszechna Kasa Oszczędności Bank Polski S.A.	"PEPEES" S.A.	10,530	5,265	30/06/2025
Working capital loan	Powszechna Kasa Oszczędności Bank Polski	ZPZ "LUBLIN" Sp. z o.o.	2,000	1,655	31/08/2022.
Working capital loan	Santander Bank Polska S.A.	ZPZ "LUBLIN" Sp. z o.o.	2,000	1,662	31/08/2022
Revolving loan	Powszechna Kasa Oszczędności Bank Polski	ZPZ "LUBLIN" Sp. z o.o.	4,000	3,380	31/08/2022
Revolving loan	Santander Bank Polska S.A.	ZPZ "LUBLIN" Sp. z o.o.	4,000	3,448	31/08/2022
Loan on the current account	Powszechna Kasa Oszczędności Bank Polski	ZPZ "LUBLIN" Sp. z o.o.	2,000	-	31/08/2022
Loan on the current account	Santander Bank Polska S.A.	ZPZ "LUBLIN" Sp. z o.o.	2,000	-	31/08/2022
Loan on the current account	Santander Bank Polska S.A.	PPZ "Bronisław" S.A.	700	-	31/08/2022
Purchase loan	Santander Bank Polska S.A.	PPZ "Bronisław" S.A.	9,000	8,999	31/08/2022
Revolving loan	Santander Bank Polska S.A.	PPZ "Bronisław" S.A.	7,300	7,300	31/08/2022
Loan on the current account	Powszechna Kasa Oszczędności Bank Polski	PPZ "Bronisław" S.A.	700	197	31/08/2022
Purchase loan	Powszechna Kasa Oszczędności Bank Polski	PPZ "Bronisław" S.A.	8,000	7,999	31/08/2022

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

Revolving loan	Powszechna Kasa Oszczędności Bank Polski	PPZ "Bronisław" S.A.	8,300	8,300	31/08/2022
Investment loan	BOŚ	PPZ "Bronisław" S.A.	8,456	5,637	31/12/2027
Total			153,808	121,073	

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

During 2021, no loan agreement of the Group was terminated by a bank or by any company of the Group.

10. Information on granted borrowings, guarantees and sureties

Borrowings

As of 31 December 2021, there were the following borrowings in the Group granted by the parent company to its subsidiaries:

- Borrowing of 26 February 2021, granted to the subsidiary PPZ Bronisław S.A. in the amount of PLN 1,100 thousand. Outstanding amount: PLN 1,100 thousand. Repayment date 31/12/2022.
- Borrowing of 31 May 2021, granted to the subsidiary PPZ Bronisław S.A. in the amount of PLN 900 thousand. Outstanding amount: PLN 900 thousand. Repayment date 31/12/2022.
- Borrowing of 30 June 2021, granted to the subsidiary PPZ Bronisław S.A. in the amount of PLN 1,300 thousand. Outstanding amount: PLN 1,300 thousand. Repayment date 31/12/2022r.
- Borrowing of 10 January 2018, granted to the subsidiary GR Ponary Sp. z o.o. in the amount of PLN 550 thousand. Outstanding amount: PLN 550 thousand. Repayment date 31/12/2022.

Sureties

Sureties granted by the Parent Company "PEPEES" S.A., as of 31/12/2021:

Agreement of 30 July 2018 on terms and conditions of loan repayment security executed by and between "PEPEES" S.A. in Łomża and PPZ Bronisław Sp. z o.o. Under the agreement, "PEPEES" S.A. grants the repayment security of the Investment Loan from Funds of the Foreign Loan Lines incurred by PPZ Bronisław S.A. The value of the investment loan incurred by PPZ Bronisław S.A. as of 31/12/2021 amounts to PLN 5,637 thousand. "PEPEES" S.A. granted a security in form of notarial submission to enforcement up to the amount of PLN 12,684 thousand.

Sureties granted on behalf of the Parent Company "PEPEES" S.A. as of 31/12/2021:

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

Agreement of 12/12/2017 on establishing a mortgage on the real properties of GR Ponary Sp. z o.o. in the amount of PLN 15,795 thousand, on behalf of "PEPEES" S.A., as the repayment security of the loan granted to "PEPEES" S.A. by PKO BP in the amount of PLN 10,530 thousand for a period from 12/12/2017 - 30/06/2025.

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

During the reporting period and until the date of preparation hereof, the companies of the PEPEES Capital Group did not grant any borrowings or sureties other than those indicated.

The total value of sureties or guarantees existing as of 31/12/2021 granted by PEPEES to the entities of the PEPEES Capital Group amounts to approximately PLN 12.7 million.

Guarantees

As of 31/12/2021, the Company had no guarantees granted to other entities, including its subsidiaries.

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

Off-balance sheet assets (data in thousands of PLN)	2021	2020
Guarantees received	-	311
Off-balance liabilities		
Mortgages on company assets	147,529	169,339
Pledge on assets	107,956	120,430
Loan surety	-	32,218
Assignment of receivables under an insurance policy	313,000	254,630
Potential compensation as regards non-compete clauses	1,765	1,563
Guarantees granted	-	-

12. Description of using revenues from the issue of shares or repurchase of treasury shares

The Company and the Group have not issued securities in 2021.

On 28 December 2021, the Management Board of PEPEES S.A. announced an invitation to submit offers to sell shares based on the authorisation granted by the Annual General Meeting of Shareholders by way of Resolution No. 24 of 25 April 2017 and the resolution of the Supervisory Board of 23 December 2021. The invitation was related to the acquisition of no more than 2,000,000 ordinary bearer shares of the Company coded PLPEPES00018, representing in total 2.11% of the Company's share capital and the total number of votes at the general meeting of the Company.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

The purchase price for the treasury shares was set at PLN 1.20 per share. The invitation was addressed to all the shareholders of the Company. The repurchase was carried out through the agency of Dom Maklerski Banku Ochrony Środowiska S.A. As a result of the call, 32,828 treasury shares were purchased between 29 December 2021 and 11 January 2022. Accordingly, on 14 February 2022, the Management Board renewed its invitation to tender the shares. In the second round, 34,295 shares were acquired. The total number of treasury shares held by the Issuer as of the date of publication of the report is 67,123 shares, representing 0.071% of the share capital and the total number of votes attributable to all shares of the Issuer. The Company acquires treasury shares for the purposes indicated in the AGM Resolution, i.e. alternatively for redemption or resale against payment or for use in acquisition transactions or to offer to Eligible Persons.

13. Explanation of differences between financial results presented in the report, and forecasts of results for a specific year as published earlier

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

14. Assessment of the management of financial resources

In 2021, the Parent Company and the entire Group had full capacity to fulfil incurred liabilities, both with respect to suppliers and financial institutions. There were no risks as to the repayment of liabilities.

In 2021, the Parent Company deposited free funds on bank deposits, and it was not involved in other financial instruments.

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

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

Information on the use of financial instruments and financial risk are the same for the Capital Group and the Parent Company coordinating the process of aforementioned risk management on the Group's level.

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

During the reporting period, the Group did not enter into transactions related to derivative instruments. It did not use hedge accounting.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

Other instruments that occurred directly in the course of operations were trade receivables and trade liabilities.

The main financial risks in 2021 included: the risk of fluctuating market prices of products manufactured by the Group and the foreign exchange risk. The main objective of the enterprise with respect to the management of the risks mentioned above 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, the prices of imported materials for production depend on the level of foreign exchange risk.

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

The financial liquidity risk present in the Group is not considered high. It results from the efficient policy of trade credit management. The assessment of counterparties and insurance of receivables is provided by KUKI.

Surpluses of funds are transferred to short-term deposits enabling the timely payment of liabilities. In periods of increased demand for working capital, which is "the potato campaign", a short-term bank loan 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 purchasing raw material for production purposes.

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

16. Information on executed investments and investment plans

The year 2021 was yet another year when the PEPEES Capital Group consistently fulfilled its investment plans focused on the 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 the 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 the modernisation of the machinery park,
- adjustment of production installations to sanitary standards and requirements of the Integrated Management System (IMS) implemented in the Company,

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

- increased efficiency of the purification of raw materials in order to improve the quality of manufactured products and circulated transport water,
- optimisation of activities related to the storage of the by-product – potato pulp, which is a commercial product,
- development of the technical base requisite to provide own potato crops,
- optimisation of the working conditions,
- undertaking activities aimed at eliminating the bottleneck in order to increase production capacity.

The list of key investments executed by the Group in 2021 included the following undertakings:

- New starch packaging line completed and put into operation
- Modernisation of operator stations at the syrup plant
- Modernisation of the control system of the sampling and raw material evaluation station,
- Modernisation of electrical and lighting installations as well as water and sewage systems
- Modernisation of the raw material reception department, including the installation of a stone catcher, a storage tank for cleaned potatoes, a float water pipeline, etc.
- Modernisation of the pulp centrifuge unit,
- Pipeline modernisation
- Purchase of machinery and equipment (NaOH tank, laboratory apparatus, agricultural machinery, etc.).

In 2022, the Group will continue the investments started in 2021 and plans a number of new investment projects; the most important of them include:

- installation of heat recovery, therefore reducing the external heat input, - modernisation of the starch liquefaction station,
- modernisation of the plant boiler room,
- modernisation of other production facilities,
- purchase of production and agricultural machinery and equipment

These works will be financed with own funds and lease. The Issuer does not identify any threats to the implementation of the aforementioned investment plans.

17. Information on issues related to the natural environment

Legal regulations related to the environment and consumption of natural resources are constantly changing, and the trend in recent years has been to even tighten the existing standards. As a result, the Group may not be able to comply and act in accordance with future changes in the provisions of law or such changes may adversely affect the Group's operations. Additionally, changes in environmental law may necessitate adapting the operations of the Group's companies to new requirements (e.g. changes in the technologies used by the Group to reduce emissions into the air, or changes in the manner the Group manages waste, conducts water and sewage management), including the acquisition of new permits, or changing the terms and conditions of existing permits held by the Group's companies. Such an obligation may require the Group to incur certain

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

additional capital expenditures and, therefore, may affect the Group's financial standing by increasing the cost of its operations. The Group seeks to mitigate the risks by maintaining the constant surveillance of legal requirements related to the environmental protection and by carrying out necessary investment tasks to meet all the environmental requirements. Conscious and responsible action based on the highest environmental standards and consistency in fulfilling environmental tasks are among the Group's priorities. These activities create great opportunities to reduce the level of risk and costs of adapting the Group's environmental activities to new conditions.

PEPEES is a participant in the Community Greenhouse Gas Emission Trading Scheme in relation to carbon dioxide emissions. The potential need to purchase allowances at auction or the need to implement projects to reduce emissions could have a negative impact on the Company's financial standing. The positive aspect is that CO₂ emissions are on a downward trend. This is linked to the installation of gas boilers and reduced quantity of fine coal in the combustion process.

In its production activities, the Group endeavours to comply with the requirements of the environmental protection. Its formal and legal condition is regulated as regards the emission of pollution, collection of water, disposal of waste water and generation of waste. Environmental impacts are monitored in the system of periodical measurements and registration of volumes and characteristic parameters of emission streams of air pollution and waste, as well as the volume of collected water and disposed waste water. The current scope of monitoring, defined by administrative permits held by the Company, should be considered sufficient for assessing the operation of the installations. Waste is handled in compliance with the conditions aimed at preventing the pollution of the natural environment and ensuring the security and health of people. The PEPEES Capital Group has the Integrated Management System comprising the management of quality, environment, activities to ensure the health and safety of the staff and quality management system in the laboratories. The quantitative and qualitative records of waste handling are maintained in the companies of the Capital Group in compliance with adopted classification and forms of documents defined in the respective provisions of law. However, it should be emphasised that in relation to growing requirements of the environmental protection that the PEPEES Capital Group expects in the Strategy adopted for 2019-2024 that it will undertake necessary activities within the scope of water and waste water management in order to ensure the better protection of the natural environment.

18. Information on employment in the Group

Table 6: Employment in the PEPEES Capital Group

Specification	Average number of employees in 2021	State as of 31/12/2021		Average number of employees in the previous financial year of 2020
		Women	Men	
White collar workers	146	78	69	157

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

Blue collar workers	288	40	225	323
Persons on child-rearing and unpaid leaves	2	2	-	2
Total	436	120	294	482

19. Major achievements in research and development

The Group did not undertake any major research and development activities in 2021.

20. Intangible aspects

- Implemented System of Food Quality and Safety Management System confirmed with certificates,
- Certificate of compliance of the Quality Management System with EN ISO 9001:2015

The scope of the Quality Management System: production of starch, hydrolysates, starch preparations and potato protein.

Certificate no.: 070509.

Granted for the first time on: 2007/06/19.

- Certificate of compliance of the Food Safety Management System with EN ISO 22000:2018.

Scope of certification: production of starch, hydrolysates, starch preparations and potato protein.

Certificate number: 0087878.

Granted for the first time on: 2007/07/13.

- Certificate of compliance with: Global Standard 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 in paper bags, paper bags, big-bags and trunk cars. Packaging of potato starch in paper block bags. Packaging of syrups in PE/PP plastic wrapping. Product category: 15.

Rating: AA.

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

Audit date: 18-20/11/2021.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

Required re-audit date: from 31/10/2022 to 28/11/2022.

Validity period until: 09/01/2022.

- GMP certificate of compliance with the 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.

Date of inspection: 11-12/01/2022

The company is awaiting certification

- 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. Storage and transport of feed.

Certificate no.: GMP 657.

Audit date: 10-11/12/2021.

Certificate issue date: 29/01/2022

Validity period until: 28/01/2025.

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

21. Unusual events that had significant impact on the result of the Group's operations in 2021

The item "Profit on disposal of a subsidiary" in the amount of PLN 5,029 thousand, having a significant impact on the consolidated financial result of the Capital Group, was recognised in these statements (details in the consolidated financial statements).

In 2021, the companies of the PEPEES Group received a remuneration subsidy from the anti-crisis shield in the amount of: PLN 1,791 thousand.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

Furthermore, it should be emphasised that the ongoing pandemic and its impact on the economic situation continues to negatively affect sales volumes and margins. The coronavirus pandemic has significantly changed the situation on the global and local markets. The issue was initially seen in terms of disruption to supply chains, but as the pandemic continued, it triggered economic and social restrictions (referred to as the lockdown). The effects of the temporary closure of economies had a significant impact on the global economy.

In the Management Board's opinion, the aforementioned phenomena certainly affected the results of the Parent Company and the Group as a whole. The main risks are related to reduced industrial production in the Company's main export markets and the European Union (including meat and finished products), reduced demand for native potato starch and a significant fall in starch prices on the world markets. These elements are compounded by logistical issues, increased transport costs, longer payment terms, (increased receivables) and the resulting decrease in operating cash flow.

As a result of the pandemic, there was no loss of assets and no material changes to the statement of financial standing.

All the companies in the Group operated without any major disruption. There was no unused capacity due to the pandemic. The Management Boards of the companies assessed all the risks associated with the pandemic and concluded that they would not threaten the Group's going concern.

22. Structure of main capital deposits or main capital investments

Investments and capital investments	2021	2020
Short-term bank deposits in PLN	11,530	1,887
Other financial assets	7,125	6,772

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

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

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

There were no adjustments of errors from previous years.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

24. Changes in the Group's basic management principles. In 2021, there were no significant changes in the basic management principles of the Issuer and its Group.

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

During the reporting period, there were no changes in the Issuer's shares or rights to shares held by the members of the Issuer's management and supervisory bodies. As of 31/12/2021 and publication date hereof, 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 nominal value of PLN 42,060.

None of the members of management and supervisory bodies holds shares in any subsidiary.

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

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

27. Amount of remuneration, awards and other benefits paid to and due to the members of the management and supervisory bodies in the Issuer's enterprise in 2021

The Management Board:

Wojciech Faszczewski	PLN 799.1 thousand
Tomasz Krzysztof Rogala	PLN 601.9 thousand
Total remuneration of the Management Board Members	PLN 1,401.0 thousand

The Supervisory Board:

Maciej Kaliński	PLN 293.2 thousand
Tomasz Nowakowski	PLN 222.5 thousand
Piotr Marian Taracha	PLN 114.2 thousand
Krzysztof Stankowski	PLN 114.9 thousand
Robert Malinowski	PLN 178.6 thousand
Agata Czerniakowska	PLN 114.1 thousand
Total remuneration of the Supervisory Board	PLN 1037.5 thousand

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

The remuneration of the Management Board and Supervisory Board Members for the functions performed in subsidiaries:

Wojciech Faszczeński – President of PEPEES's Management Board - PLN 69 thousand for the position of the Supervisory Board Member of Zakłady Przemysłu Ziemniaczanego "Lublin" Sp. z o.o., PLN 241 thousand for the position of the President of the Management Board of PPZ "BRONISŁAW" S.A.,

Piotr Marian Taracha – PLN 62 thousand for the position of the Supervisory Board Member of Zakłady Przemysłu Ziemniaczanego "Lublin" Sp. z o.o.

Agata Czerniakowska – PLN 34.5 thousand for the membership in the Supervisory Board of ZPZ "LUBLIN" Sp. z o.o. and PLN 74.4 thousand for the membership in the Supervisory Board of PPZ BRONISŁAW S.A.

Robert Malinowski – PLN 34.5 thousand for the membership in the Supervisory Board of ZPZ "LUBLIN" Sp. z o.o. and PLN 43.4 thousand for the membership in the Supervisory Board of PPZ BRONISŁAW S.A.

Tomasz Nowakowski – PLN 55.2 thousand for the membership in the Supervisory Board of ZPZ "LUBLIN" Sp. z o.o. and PLN 74.4 thousand for the membership in the Supervisory Board of PPZ BRONISŁAW S.A.

There are no liabilities related to pensions or similar benefits in relation to the former members of the management board and the supervisory board.

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

In 2021 the PEPEES Capital Group had no liabilities related to pensions and similar benefits on behalf of the former members of management, supervisory or administrative bodies and liabilities incurred in relation to such pensions.

29. Quotations of the Parent Company in 2021

Since 22 May 1997, the Company's shares are quoted on the Warsaw Stock Exchange. The price of shares on 4 January 2021 (opening price on the first day of 2021) amounted to PLN 1.41, and on 30 December – PLN 1.145. The highest price during the reporting period amounted to PLN

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

1.64, whereas the lowest to PLN 1.06. The changing price of "PEPEES" S.A.'s shares in 2021 are presented on the following chart:

Chart 4: Changes in the price of "PEPEES" S.A.'s shares in 2021



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

The Issuer has no information on agreements as a result of which changes in proportions of shares held by current shareholders may occur in future The Issuer has no bonds in issue.

31. Specification of holders of all securities offering control rights in relation to the Issuer together with the 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. The brief description of significant achievements or failures of the PEPEES Capital Group in 2021 together with the list of the most important events related thereto

The unfolding pandemic caused by coronavirus is a significant factor to have affected business performance. Despite the development and application of vaccines, the third and fourth waves of infections came. The struggle against them was a blow to the slowly recovering economy. The reintroduction of lockdown for multiple industries, quarantine and isolation cut recovering

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

economic ties. The pandemic resulted in the closure of some markets to imports (mainly China and the USA) and reduced consumption of potato starch by the HoReCA market (the hotel and catering industry was significantly affected by lockdowns and tourism restrictions).

In 2021, there was a decline in starch prices due to the overproduction of starch in Europe and reduced consumption of potato starch by the HoReCA market. The large decline in prices contributed to the loss incurred by the PEPEES Group for 2021.

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

During 2021, no other events were recorded than the ones described herein, which events could have been essential for the assessment of its personnel, economic, financial standing, financial result and their changes, and information that could be significant for the assessment of the PEPEES Capital Group's options to fulfil their obligations.

35. Identification of factors that in the Issuer's and the Group's opinion will impact the results achieved by them at least during the next quarter

The following factors will have essential impact on the result:

- quantity and value of purchased potatoes – basic raw material for production, Management Report on the Group's operations for the 12-month period ended on 31 December 2021 (data in thousands of PLN) 34
- demand for and price of starch on the Polish and global market,
- foreign exchange rates – the Group is an exporter,
- basic interest rates,
- spread of the pandemic in Poland and the world over
- hostilities in Ukraine and sanctions against Russia and Belarus.

The Group has loans with interest based on WIBOR rate.

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

Similarly, PEPEES is in the middle of negotiating cooperation with Korean Daesang Corporation ("Daesang"), including the production of potato starch modifiers. On 5 November 2019, the Company sent a draft letter of intent to Daesang as regards the negotiations in good faith about cooperation in the production of potato starch modifiers and other starch derivatives, including necessary research and respective investments.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

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

The outbreak of the coronavirus pandemic was a key influence on these discussions. Restrictions imposed due to the coronavirus pandemic are causing the parties' discussions to prolong. As of the date hereof, the discussions with Daesang Corporation are still in progress.

The Management Board of the Parent Company is not capable of assessing the impact of potential cooperation on the results of the Group.

The Management Board is monitoring the global situation as regards the war in Ukraine. As of the publication date hereof, it is not in a position to accurately determine the impact of the political and economic situation on the operations of the PEPEES Capital Group. A broader description of the potential risks arising from the war in Ukraine is included in Chapter IV. Development of the Issuer and the Capital Group at 1.1. Risks and threats.

36. 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 the review and audit of the financial statements for 2020-2022 with WBS Audyt Sp. z o.o., with its registered office in Warsaw. The Agreement was executed on 29 July 2020. The auditing firm was selected by the Issuer's Supervisory Board.

The subject matter of the agreements comprised the review of the separate and consolidated financial statements as of 30 June 2020, 30 June 2021 and 30 June 2022, and audit of the separate and consolidated financial statements for years 2020-2022. The total value of the fee under the agreement, due for 2021, amounts to PLN 59,700 plus VAT.

Two attestation agreements were also entered into with the auditor, as detailed in the table below.

Specification	2021	2020
Mandatory audit of the annual financial statements	40.7	46.7
including: PEPEES	23.5	23.5
Review of the semiannual statements	19.0	19.0
including: PEPEES	13.8	13.8
Tax consulting services	-	-

Specification	2021	2020
Attestation engagement – audit of the remuneration report for the	6	
Attestation engagement – confirmation of the correct calculation of the electricity intensity factor for 2019-2021	6	-
Total fee	71.7	65.7

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

The fee for the auditing firm, WBS Audyt Sp. z o.o., for the respective works in 2021 presents itself 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 the subsidiaries not subject to auditing (Pepees Inwestycje, GR Ponary)	Total fee for the review of the statements as of 30/06/2021
11,500	2,300	-	-	5,200	19,000

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 the subsidiaries not subject to auditing (Pepees Inwestycje, GR Ponary)	Total fee for auditing the statements as of 31/12/2021
18,400	2,300	8,600	8,600	2,800	40,700

37. Summary of operations during the reporting period

In 2021, the PEPEES Capital Group achieved the sales revenue of PLN 222,090 thousand, which represents a 5% increase when compared to the same period last year PLN 210,935 thousand.

On the other hand, the cost of sales increased by 13.6% year-on-year, which reduced gross profit on sales by 25% compared to the same period last year. The lower margin on products sold was achieved as a result of falling prices in both domestic and foreign markets.

Sales and marketing expenses in 2021 increased by 36% compared to the comparative period, primarily driven by higher transport costs while general and administrative expenses increased by 1.9%.

The balance of other operating activities in the twelve months of 2021 closed at a positive level of PLN 2,250 thousand due to the received subsidies to salaries from the anti-crisis shield. In the comparative period, the balance was PLN 2,899.

In turn, the result on financing activities, construed as the balance of financial income less financial expenses, was minus 3,166 in 2021 and minus 482 in the comparative period. This result was mainly influenced by interest on loans and lease payments. In the consolidated financial statements, the result on the sale of the subsidiary in the amount of PLN 5,029 thousand was presented in financial revenue

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

As a consequence of the above, in 2021 the Group incurred the gross loss of PLN 3,926 thousand with the gross profit of PLN 8,905 thousand generated in the comparative period and the net loss in 2021 amounted to PLN 3,405 thousand with the net profit of PLN 6,206 thousand in 2020.

The report of the Management Board on the operations of the Capital Group for the period of 12 months ended on 31 December 2021 (data in thousands of PLN)

38. Information on litigations, proceedings before 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 to have a decision issued whether EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, the Company's shareholder having, pursuant to information known to the Company – 27,714,832 shares, due to the breach of the notification obligation related to the purchase of significant packages of shares in compliance with Article 89(1)(1) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, has lost and cannot exercise the voting rights attached to 21,402,233 shares. Epsilon FIZ AN is of a contrary opinion, claiming that it is entitled to vote in relation to 27,714,832 shares accounting for 29.17% of the total number of votes at the AGM. The case was joined by the Chairperson of the Polish Financial Supervision Authority, who presented his opinion on 24 July 2019. The Company discussed the issue in current reports 13/2019, 14-23/2019 and 30/2019.

As of the date hereof, there is an unresolved case of EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in Warsaw versus "PEPEES" S.A.:

- for revoking or rendering invalid two resolutions on the appointment of the Supervisory Board Members, adopted on 11 May 2018 by the General Meeting of Shareholders, and for revoking the resolution on the distribution of profit for 2017. With the judgement of 26/10/2018, the Regional Court rendered invalid the resolutions on the appointment of two members of the Supervisory Board and dismissed the action within the remaining scope. The appeals against the judgement were filed by both parties. The Court of Appeal in Białystok dismissed both of them. EPSILON filed a cassation appeal, which the Supreme Court accepted for examination on 21/11/2020,
- for revoking or rendering invalid resolutions no. 24-29 adopted on 28/06/2019 by the Annual General Meeting of Shareholders, 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 Company within the scope of the authorised capital and with the option to exclude the pre-emptive right of the current shareholders of the Company in whole or in part upon the consent of the Company's Supervisory Board. The Regional Court suspended the proceedings until the proceedings in the suit brought by PEPEES against EPSILON for determination of the loss of voting rights have been concluded in a legally binding manner,
- for revoking the declaration of invalidity of two resolutions on the acknowledgement of fulfilment of duties adopted on 21/04/2020 by the General Meeting of Shareholders. The litigation is pending before the Court of First Instance. The Regional Court suspended the proceedings until

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

the proceedings in the suit brought by PEPEES against EPSILON for determination of the loss of voting rights have been concluded in a legally binding manner,

- for revoking or rendering invalid four resolutions on: consideration and approval of the financial statements for 2020, distribution of the profit for 2020 and acknowledgement of fulfilment of duties of the Management Board Members, as adopted on 29/06/2021 by the General Meeting of Shareholders. The litigation is pending before the Court of First Instance. On 11 January 2022, the Regional Court suspended the proceedings until the proceedings in the suit brought by PEPEES against EPSILON for the determination of the loss of voting rights have been concluded in a legally binding manner,

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

III. ECONOMIC AND FINANCIAL STANDING

1. Economic standing of the Capital Group

Standing of assets as of 31 December 2021 and the state as of 31 December 2020 is presented in the following table.

Table 7: State of assets as of 31/12/2021 and 31/12/2020

Name of the asset	State as of		Changes in amounts increases decreases	Structure indicators in %	
	31/12/2021	31/12/2020		31/12/2020	31/12/2020
I. FIXED ASSETS	172,744	181,307	(8,563)	48.9	49.7
1. Property, plant and equipment	151,999	158,843	(6,844)	43.0	43.5
2. Intangible and legal assets	184	499	(315)	0.1	0.1
3. Rights to assets	11,913	11,431	482	3.4	3.1
4. Investment properties	573	583	(10)	0.2	0.2
5. Goodwill	1,320	3,095	(1,775)	0.4	0.8
6. Investments in other entities	383	625	(242)	0.1	0.2
7. Deferred income tax assets	6,372	6,231	141	1.8	1.7
H. CURRENT ASSETS	180,745	183,531	(2,786)	51.1	50.3
Current assets other than assets classified as held for sale	180,745	165,284	15,461	51.1	45.3
1. Stock	97,165	110,198	(13,033)	27.5	30.2
2. Biological assets	560	338	222	0.2	0.1
3. Trade receivables	33,922	27,872	6,050	9.6	7.6
4. Current income tax receivables	-	1,245	(1,245)	0.0	0.3

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

5. Other financial assets	7,125	7,281	(156)	2.0	2.0
6. Cash and cash equivalents	41,973	18,350	23,623	11.9	5.0
Fixed assets held for sale	-	18,247	(18,247)	0.0	5.0
Total assets	353,489	364,838	(11,349)	100.0	100.0

The Group's total assets as of 31 December 2021 amounting to PLN 353,489 thousand decreased by PLN 11,349 thousand, or 3%, from the previous year.

Non-current assets decreased due to higher depreciation on capital expenditure.

Current assets in 2021 decreased by 13.4% compared to 2020. The largest decrease occurred in assets held for sale due to the finalisation of the disposal of CHP Energia shares. Stock also declined as a result of lower purchases of raw material than in the previous year. There was a more than doubling of cash due to the sale of stock and an increase in loans.

2. Funding sources of the Capital Group

The comparison of sources of asset funding as of 31 December 2021 and the state as of 31 December 2020 is presented in the table below.

Table 8: State of sources of asset funding as of 31/12/2021 and 31/12/2020

Specification of funding sources	State as of		Changes in amounts	Structure indicators in %	
	31/12/2021	31/12/2020		31/12/2021	31/12/2020
Equity	175,053	175,422	(369)	49.5	48.1
Equity allocated to the shareholders of the Company	171,983	173,769	(1,786)	48.7	47.6
Share capital	5,700	5,700	0	1.6	1.6
Share premium	7,562	7,562	0	2.1	2.1
Revaluation capital	31,027	31,014	13	8.8	8.5
Retained earnings	127,694	129,493	(1,799)	36.1	35.5
Non-controlling shares	3,070	1,653	1,417	0.9	0.5
Liabilities	178,436	189,416	(10,980)	50.5	51.9
Long-term liabilities	36,728	39,373	(2,645)	10.4	10.8
Loans and borrowings	8,459	11,134	(2,675)	2.4	3.1
Liabilities due to assets under lease	16,496	16,062	434	4.7	4.4
Deferred income tax provision	6,242	6,662	(420)	1.8	1.8
Liabilities related to retirement benefits and similar ones	3,005	3,317	(312)	0.9	0.9
Subsidies	2,086	2,198	(112)	0.6	0.6
Other long-term liabilities	440		440	0.1	

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

Short-term liabilities	141,708	150,043	(8,335)	40.1	41.1
Short-term liabilities other than those related to assets held for sale	141,708	132,561	9,147	40.1	36.3
Trade and other short-term liabilities	24,111	23,990	121	6.8	6.6
Current income tax liabilities	-	76	(76)	0.0	0.0
Loans and borrowings	112,614	104,514	8,100	31.9	28.6
Liabilities due to assets under lease	4,455	3,616	839	1.3	1.0
Liabilities related to retirement benefits and similar ones	528%	365	163	0.1	0.1
Liabilities related to assets held for sale	-	17,482	(17,482)	0.0	4.8
Total liabilities	353,489	364,838	(11,349)	100.0	100.0

Throughout the presented period, the Group's equity accounted for the greatest share in funding sources, and its value decreased by PLN 369 thousand; as regards its share, it fell by 0.2 percentage points. Capital reserves and supplementary capitals increased as a result of the distribution of the previous year's result. They grew by PLN 7,328 thousand. On 29 June 2021, the Annual General Meeting of "PEPEES" S.A. adopted Resolution no. 9 on the allocation of profit for the financial year of 2020 in the amount of PLN 5,529,766.07 for reserve capital.

Total liabilities decreased by PLN 10,980 thousand, which was mainly affected by the item "Liabilities related to assets held for sale" in connection to the finalisation of the sale of CHP Energia shares. However, short-term liabilities increased by 8% year-on-year.

3. Financial results of the Capital Group

The financial results of the economic operations of the Capital Group in 2021 and 2020 are presented in the table and chart below.

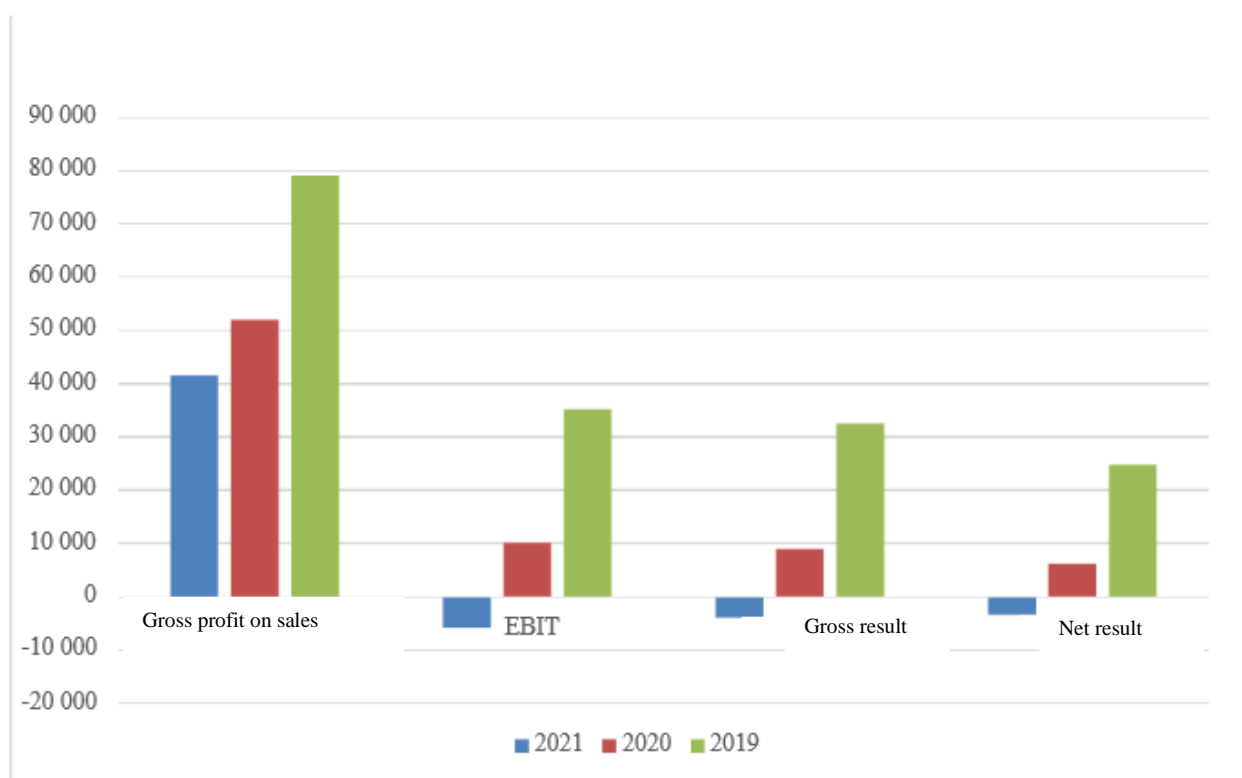
Table 9: Comparison of the financial result for 2021 and 2020

No.	Specification	For the period of 12 months ended on 31 December 2021	For the period of 12 months ended on 31 December 2020	Dynamics
1	Revenues from sales	222,090	210,935	105.3%
	- revenues from the sales of products	209,516	191,770	109.3%
	- revenues from the sales of services	1,490	1,668	89.3%
	- revenues from the sales of goods and materials	11,084	17,497	63.3%
2	Costs of products, goods and materials sold	(180,555)	(158,902)	113.6%
	- costs of products sold	(166,956)	(140,729)	118.6%

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

	- costs of services sold	(968)	(798)	121.3%
	- costs of goods and materials sold	(9,805)	(13,813)	71.0%
	- result of agricultural production	(2,826)	(3,562)	79.3%
3	Gross profit from sales	41,535	52,033	79.8%
	- costs of sales and marketing	(15,580)	(11,441)	136.2%
	- overheads	(33,994)	(33,365)	101.9%
	- other operating revenue	2,823	3,800	74.3%
	- other operating cost	573	(901)	63.6%
4	Profit from operating activities	(5,789)	10,126	(57.2)%
	- financial costs	(3,601)	(5,200)	69.3%
	- financial revenue	435	3,979	10.9%
	- profit (loss) on the disposal of a subsidiary	5,029		
5	Profit before tax	(3,926)	8,905	(44.1)%
	- income tax	521	(2,699)	(19.3)%
6	Net profit, including:	(3,405)	6,206	(54.9)%
7	Profit allocated to the shareholders of the parent	(2,397)	6,313	(38.0)%
8	Profit allocated to non-controlling shares	(1,008)	(107)	942.1%

Chart 5: Financial results of the PEPEES Capital Group between 2019 and 2021



During the analysed period, the indicators of growth of the financial result and its calculation components indicate a downward trend. During the reporting period, EBIT, gross result and net result are negative. This is attributable to the fall in prices of the main product, that is to say potato starch.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

4. Cash flows

In 2021, there was a high positive net cash flow balance in the PEPEES Capital Group, which was achieved mainly from operating activities – PLN 19,057 thousand. The balance from investing activities amounted to PLN 4,076 thousand due to the repayment of borrowings received. The balance of financial activities was positive and amounted to PLN 490 thousand, in particular as a result of incurred loans. The state of cash in the consolidated cash flow statement as of 31 December 2021 is PLN 41,973.

5. Economic indicators

The indicators presented below are Alternative Performance Measures (APMs) within the meaning of ESMA's Alternative Performance Measurement Guidelines. The Alternative Performance Measures are not ones of financial performance under International Financial Reporting Standards; neither should they be considered as measures of financial performance or cash flows. These indicators are not uniformly defined and may not be comparable to indicators presented by other companies, including companies operating in the same sector as the PEPEES Group. Alternative performance measurements should only be analysed as additional to, and not as a substitute for, the financial information presented in the Group's consolidated financial statements. These figures should be considered in conjunction with the Group's consolidated financial statements. The PEPEES Group presents selected APM indicators as, in its opinion, they provide additional (apart from the data presented in the financial statements) information about the financial and operating standing of the Group; they also

facilitate the analysis and evaluation of the Group's financial performance over the respective reporting periods. The Issuer presents these specific alternative performance measurements as they are applied cyclically and uniformly from one report to another. The selection of alternative performance measures was preceded by the analysis of their usefulness in terms of providing investors with useful information on the Group's financial standing, cash flows and financial efficiency and, in the Management Board's opinion allows the optimal assessment of the financial performance achieved. The results presented below should not be attributed to the higher level of materiality than measurements directly derived from the Company's financial statements or the Group's consolidated financial statements.

Table 10: Economic indicators

Indicator	Economic contents	2021	2020
Return on assets	Net profit attributable to the shareholders of the parent company x100 Total assets	(0.67)%	1.73%
Return on equity	Net profit attributable to the shareholders of the parent company x100 Equity	(1.39)%	3.64%
Net profitability of sales	Net profit attributable to the shareholders of the parent company x100 Total sales revenues	(1.07)%	2.95%

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

Gross profitability of sales	Gross profit on sales } - x100 Total sales revenues	18.70%	24.67%
EBIT	Operating profit, i.e. profit before interest (finance costs less finance income) and tax (income tax)	(5,788)	10,126
EBITDA	Operating profit (EBIT) plus depreciation and amortisation	9,403	25,611
EBIT margin	EBIT x 100 Total revenues from sales	(2.61)%	4.80%
EBITDA margin	EBITDA x 100 Total revenues from sales	4.23%	12.14%
Liquidity ratio I	Current assets (short-term) Current liabilities	1.28	1.25
Liquidity ratio II	Current assets (short-term) – stock Current liabilities	0.59	0.42
Turnover ratio* of receivables in days	average trade receivables x 365 Sales revenue	56.82	34.32
Period of the repayment of liabilities	average trade payables - x 365 Cost of sales	30.85	25.31
Turnover ratio of stock in days*	average stock x 365 Cost of sales	209.60	225.21
Coverage of fixed assets	Equity allocated to the shareholders of the Company x 100 Non-current assets (long-term)	1.00	0.96
Sustainability of the funding structure	Equity allocated to the shareholders of the Company – long-term liabilities x 100 Total liabilities	0.59	0.51

* The states at the beginning and end of each reporting period were adopted for calculating rotation indicators.

Based on the analysis of the indicators, the synthetic assessment of the economic and financial standing of the PEPEES Group was made. The basic indicators from the areas of profitability, liquidity, operating efficiency (effectiveness) and capital structure (debt) were selected.

In 2021, such indicators as the return on assets, equity, net sales and EBIT margins are negative due to the Group's incurring a loss. This is attributable to the fall in prices of products sold.

However, the liquidity indicators improved due to the increase in cash.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

The receivables and payables turnover indicators increased, while the stock turnover ratio decreased slightly. This indicator is always high in the Group due to the seasonality of production.

6. Economic standing of the Parent Company

Table 11: Economic standing

No.	ASSETS	State as of 31/12/2021	State as of 31/12/2020
A.	Fixed assets (long-term)	130,861	142,587
1.	Plant, property and equipment	88,103	98,004
2.	Intangible assets	184	499
3.	Rights to assets	15,761	15,844
4.	Investment properties	373	383
5.	Investments in subsidiaries	23,586	23,586
6.	Investments in other entities	383	625
7.	Deferred income tax assets	2,471	3,646
B	(Short-term) current assets	136,720	126,203
I	Current assets other than assets classified as held for sale	136,720	116,564
1.	Stock	63,277	71,924
2.	Biological assets	560	338
3.	Trade receivables and other short-term receivables	28,238	23,602
4.	Current income tax receivables	-	1,245
5.	Other financial assets	10,975	7,976
6.	Cash and cash equivalents	33,670	11,479
III	Assets held for sale	-	9,639
	Total assets	267,581	268,790

7. Funding sources of the Parent Company

Table 12: Funding sources

No.	LIABILITIES	State as of 31/12/2021	State as of 31/12/2020
A	Equity	156,200	158,530
1.	Share capital	5,700	5,700
2.	Share premium	7,562	7,562
3.	Revaluation capital	30,507	30,494
4.	Retained earnings	112,431	114,774
B	Liabilities	111,381	110,260
I	Long-term liabilities	25,643	29,734
1.	Loans and borrowings	3,761	5,496
2.	Liabilities due to assets under lease	11,088	13,036

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

3.	Deferred income tax provision	5,957	6,486
4.	Liabilities related to retirement benefits and similar ones	2,472	2,693
5.	Subsidies	1,925	2,023
6.	Other long-term liabilities	440	-
II	Short-term liabilities	85,738	80,526
IIa	Short-term liabilities other than those related to assets held for sale	85,738	80,525
1.	Trade and other short-term liabilities	13,280	11,146
2.	Current income tax liabilities	-	-
3.	Loans and borrowings	68,735	65,889
4.	Liabilities due to assets under lease	3,371	3,237
5.	Liabilities related to retirement benefits and similar ones	352	253
IIb	Liabilities related to assets held for sale	-	1
	Total liabilities	267,581	268,790

8. Financial results of the Parent Company

Table 13: Financial results

No.	Specification	For the period of 12 months ended on 31 December 2021	For the period of 12 months ended on 31 December 2020
I	Revenues from sales	163,943	155,182
1.	Revenues from the sales of products	148,501	136,229
2.	Revenues from the sales of services	1,141	1,178
3.	Revenues from the sales of goods and materials	14,301	17,775
II	Own cost of sales	(128,292)	(117,135)
1.	Costs of sold products	(110,718)	(95,567)
2.	Costs of services sold	(868)	(780)
3.	Costs of goods and materials sold	(13,880)	(17,226)
4.	Result of agricultural production	(2,826)	(3,562)
III	Gross profit (loss) from sales (I-II)	35,651	38,047
1.	Costs of sales and marketing	(12,558)	(9,257)
2.	Overheads	(25,040)	(24,346)
3.	Other operating revenue	1,944	2,489
4.	Other operating costs	(298)	(515)
IV	Profit (loss) on operating activities	(301)	6,418
1.	Financial costs	(2,355)	(3,722)
2.	Financial revenue	992	4,851
V.	Profit (loss) before tax	(1,664)	7,547
VI	Income tax	(679)	(2,017)
VII	Net profit (loss)	(2,343)	5,530

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

VIII	Other comprehensive income	13	(43)
1.	Results of the measurement of financial assets available for sale	-	-
2.	Reassessment of liabilities under employee benefits	13	(43)
IX	Total comprehensive income, including	(2,330)	5,487
X	Net profit (loss) per 1 share	(0.02)	0.06

9. Unusual events affecting the financial result of the Parent Company

In 2021, the Parent Company received a remuneration subsidy from the anti-crisis shield in the amount of PLN 1,184 thousand.

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 the development of the Parent Company 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 conditions reduce potato crops and starch content.

✓ No balance of the product portfolio

The introduction of new products to the range is requisite to balance the product portfolio. In this context, it should be emphasised that several plants being the direct competitors of GK PEPEES declare the production of starch modifiers that are increasingly more popular on the European and Polish markets.

✓ Globalisation

The globalisation process can, for the most part, be observed in the field of competitiveness. At the moment, we are witnessing strong competition as far as substitutes are concerned. In the food industry, there are multiple products which serve 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.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

During the period of the limited potato starch supply, these substitutes gradually enter the trades that have been hitherto "reserved" for our products. Therefore the threat of us losing outlets partially. This is why the Group introduced other types of starch to its range, so that it does not lose control over its subordinate market.

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

✓ Dependence on the profitability of potato production

Due to the high costs of potato production, potatoes are replaced by other more profitable crops. Furthermore, the region of north and eastern Poland has become strongly focused on dairy production, which takes over the agricultural areas from other types of production. As a result, it is increasingly difficult to attract new farmers from the areas nearest to the plant. In consequence, the Group has to buy raw materials from more distant regions of the country, which contributes to lower profitability.

✓ Foreign exchange risk

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

✓ Interest rate risk

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

✓ Liquidity risk

During the analysed period, the liquidity risk is assessed to have been low. Sale under trade credit, both domestic and exports, is covered with the insurance of trade receivables. Higher-risk foreign transactions are protected by means of letters of credit.

✓ Fluctuations of the economic situation

The state of economic operations in the world, in a country and in a specific sector affects the functioning of an enterprise through various indicators (inflation, prices, remuneration, employment).

✓ Too expensive instruments that increase trading security

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

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

✓ Sales of a product threatening to the consumer's life and health

The Group is a manufacturer of food products. In case of sales of a product causing a threat to life or limb, the company would jeopardise its reputation and face an obligation to pay compensation to customers and consumers, as well as costs related to the recall and disposal of the product.

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

Traceability and recall procedures have been implemented. Traceability tests and recall simulations are conducted several times a year.

✓ Bad quality of the product detected by the customer at production

The risk may entail costs related to compensation for the damage done, and potential loss of the customer. The risk is slim due to the implementation of the Integrated Management System, and particularly to the system of control of finished products, semi-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.

Ensuring the proper conditions of storage and supervision of transport reduces the risk of defects at these stages.

✓ Improper management of information security/IT infrastructure

The risk is related to the disclosure of company and customer data. Potential loss of data as a result of a breakdown.

The risk is not high because of security levels applied, both in relation to the operating system as well as the ERP system. To avoid the loss of data, backups are made. The network is secured with hardware and software solutions. All the aspects are governed by a specifically implemented procedure.

✓ Risks related to the spread of the pandemic

Coronavirus pandemic and its potential impact on business continuity disruptions or business restrictions:

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

- due to possible infections and increased absenteeism among employees in the main process line,
- due to possible disruptions in the supply chain for materials and services and logistical constraints, especially in international transport,
- due to the potential closure of some sales markets, decrease in demand and optimisation of raw material and finished product stocks at contractors
- due to extraordinary amendments to legislation.

✓ Risk due to the situation in Ukraine

In relation to the aggression of the Russian Federation against Ukraine, the Management Board anticipates the following risks:

1. Increase in the current costs of the company's operations as related to changes in the fuel markets (coal, gas) – expected reduction of supplies from the East, the trend of increasing raw material reserves in Europe, resulting in increased raw material prices and reduced availability, increased transport prices
2. Difficulties in access to markets – due to the warfare and economic sanctions imposed, difficult access to markets in Central Asia (Uzbekistan, Kazakhstan) and rail transport restrictions by Ukraine (warfare) and Russia (sanctions) are expected
3. Global restrictions on access to major export markets – impediments to container traffic on the company's main export destinations, trade insurance restrictions.
4. Currency crisis – the likelihood of significant fluctuations in the company's export settlement currencies (EUR, USD).

The Management Board monitors the aforementioned risks on an ongoing basis and analyses the global political and economic situation. As of the publication date hereof, the war-related situation does not threaten operations of the Company or the Group as a going concern.

1.2 External factors affecting the successful development of the Issuer and the Group

The development of the Issuer and its Group in the potato trade mainly depends on the agricultural policy of the European Union and the Republic of Poland, and creation of proper conditions of operations in the agricultural and food industry.

The main opportunities for development are provided by the following factors:

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

- ✓ development of the domestic food industry (in the long-term assessment of market analysts, the food industry is a growing one),
- ✓ option to acquire funds for investments,
- ✓ market demand for modified products of potato starch,
- ✓ access to new and modern technologies,
- ✓ development of markets in international trade,
- ✓ development of specialised farms,
- ✓ wide spectrum of the application of starch and its modifiers,
- ✓ area payments to starch potatoes.

1.3 Internal factors affecting the successful development of the Issuer and the Group

The most important internal factors affecting its further development are:

- ✓ systematic investments and modernisations of production departments in order to raise the efficiency and innovation of production and reduce operation costs,
- ✓ finding new markets,
- ✓ implemented System of Food Quality and Safety Management System confirmed with certificates,
- ✓ implemented GMP (Good Manufacturing Practice) system for manufacturers of active substances,
- ✓ operations compliant with the Smeta requirements; presence on the SeDeX platform,
- ✓ smooth cooperation with farmers all year long,
- ✓ option to manufacture hydrolysates meeting specific expectations of customers,
- ✓ high production capacities,
- ✓ low costs of production waste water disposal,
- ✓ implementation of the strategy and undertaking investment activities,
- ✓ expanding the range of products,
- ✓ staff knowledge and professional experience,

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

The Group is in the middle of implementing its 2019-2024 strategy, as adopted on 12 June 2019. The Group also negotiates potential cooperation with the Korean Daesang Corporation ("Daesang"), including the production of potato starch modifiers.

At the same time, the Group's objective is the maximum return on investments, while maintaining the moderate level of investment risk. PEPEES Group assumes parallel activities to be conducted in the area of development, by increasing the efficiency of operations of the Capital Group companies and maximum reduction of risks to which they are exposed, and through further

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

investment activities. If attractive market quotations appear, such investment activities will be continued in the Group and beyond.

As a result of the spread of COVID-19 and relevant actions taken by the government administration in Poland and other countries, the current pandemic affects the Group's development negatively. New investments have been put on hold. The year 2021 remained affected by the struggle against the effects of the pandemic. All the Group's companies have been adjusting their operations to the situation related to the COVID-19 pandemic in Poland and globally on ongoing basis, verifying all information in terms of its impact on the economic standing of the Group and undertaking ad-hoc activities to minimise the consequences of these extraordinary circumstances.

3. Development strategy of the Company and PEPEES Capital Group

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

- Increasing the value and market share of the PEPEES Capital Group.
- Expanding the target markets and product range, for instance to include starch modifiers.
- Establishing cooperation with an industry investor.
- Intensification and improvement of raw material acquisition.
- Optimisation of operations of the PEPEES Capital Group.

Market penetration strategy

In the long term – until 2024 – the PEPEES Capital Group, using its own resources, loans, issue of shares and other external sources, plans on increasing sales value and market share through organic growth and acquisitions, putting warehouse management in order, carrying out the modernisation of the starch plant (Pepees S.A.), transferring the production of ZPZ Lublin and optimising the use of real estate which ensures the development of the Capital Group.

New product and diversification strategy

In the long term – until 2024 – using its own resources, loans, issue of shares and other external sources as well as assuming the option of gaining capital from an industry investor, the PEPEES Capital Group plans on implementing actions to enable the introduction of an attractive product range on the market. The options under consideration are the introduction of starch modifiers into the European food and pharmaceutical markets.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

4. Characteristics of the policy with respect to the development vectors of the Issuer's Capital Group

The Policy of the PEPEES Capital Group is aimed at the continuous development and optimisation of the product range, taking into account changing expectations and preferences of recipients.

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

The PEPEES Capital Group seeks to increase starch production, thanks to which it will be capable of competing with foreign companies. The Group's Strategy assumes short-term tasks, for instance the one related to improving the conditions of the starch production market in Poland and conditions of operation for farmers, as well as long-term activities aimed at commencing cooperation with an industry investor. The Group cares for good and long-term relations with farmers to guarantee them the stability and profitability of their crops, which will consequently allow the Group to ensure regular supplies of raw materials thanks to a 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 the intensification of sales on external markets (in particular markets in Eastern Asia, South-Eastern Asia, South America and developing European countries).

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

The strategy of the PEPEES Group assumes the systematic improvement of competitiveness in terms of quality and costs in relation to the leading Polish companies operating in the potato processing industry.

5. Additional disclosures in relation to the pandemic

The ongoing pandemic has caused the economic environment to deteriorate. This also had an impact on the Group's results. Reduced industrial production in the main export markets has resulted in lower demand for native potato starch than before.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

There were also logistical problems. The stagnation observed in the logistics sector has been causing significant delays in the delivery of goods and the risk of late deliveries to recipients. There is also the issue of increased transport costs due to the requirement to meet strict epidemiological standards. Higher transport costs and the risk of delays may prompt recipients on global markets to gradually replace potato starch with starch raw materials of a different botanical origin, available on local markets (tapioca, corn, wheat, rice).

There were also new costs associated with the purchase of disinfectants and personal protective equipment for employees, as well as the adaptation of areas for safe work. However, all the companies in the Group operated without any major disruption. There was no unused capacity due to the pandemic. The Management Boards of the companies assessed all the risks associated with the pandemic and concluded that they would not affect the Group's going concern.

The Group benefited from what is referred to as the Anti-Crisis Shield in the form of remuneration subsidies in the amount of PLN 1,791 thousand

V. COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

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

The Company, as the issuer of securities admitted to trading on the Warsaw Stock Exchange S.A. based on the resolution of the Stock Exchange Council No. 26/1413/2015 of 13 October 2015, was obliged to apply the corporate governance principles in the form of the "Good Practices of Companies Listed on the WSE 2016" – in force until 30 June 2021. From 1 July 2021, the Company was obliged to apply the "Good Practices of Companies Listed on the WSE 2021" based on the resolution of the Stock Exchange Board No. 13/1834/2021 of 29 March 2021. The contents of the Good Practice Principles are available on the website:

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

The Company's Management Board represents that, appreciating the meaning of the corporate governance principles presented in the aforementioned document and the role played by them in strengthening quoted companies, it did the utmost to ensure that the aforementioned principles are applied in the Company within 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 the explanation of their waiver.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

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

In 2021, "PEPEES" S.A. complied with all the principles of the Good Practices with the exception of the following:

INFORMATION POLICY AND COMMUNICATION WITH INVESTORS

1.3. The company also includes ESG topics in its business strategy, in particular covering:

1.3.1. environmental issues, including metrics and risks pertaining to climate change and sustainability issues;

This rule is not complied with.

Commentary of the Company: The rule is partially applied. The PEPEES Capital Group strategy for 2019-2024 provides for, among other things, sustainable growth including a number of measures to meet environmental requirements. As it conducts its production activities, the Company has a regulated formal and legal status with regard to the use of the environment. Environmental impacts are monitored in the system of periodical measurements and registration of volumes and characteristic parameters of emission streams of air pollution and waste, as well as the volume of collected water, disposed waste water and consumed energy and raw materials. Measurements of emissions into the environment are carried out by accredited laboratories, using the techniques of reference. Results of the monitoring carried out are the basis for periodic analyses to increase resource efficiency. Waste is handled in compliance with the conditions aimed at preventing the pollution of the natural environment and ensuring the security and health of people. The quantitative and qualitative records of waste handling are maintained in the Company in compliance with adopted classification and forms of documents defined in the respective provisions of law. The Company has a unit liable for the proper operation of the plant as far as the environmental protection is concerned. There is also the Integrated Management System comprising the management of quality, environment, activities to ensure the health and safety of the staff and quality management system in the laboratories. The Company complies with all requirements and legislation related to the areas mentioned above, while the adopted strategy on environmental issues does not include indicators in this respect. The Company will seek to address the metrics and risks associated with climate change.

1.3.2. social and labour issues, concerning, for instance, measures taken and planned to ensure gender equality, proper working conditions, respect for employees' rights, dialogue with local communities, customer relations.

This rule is not complied with.

Company commentary: The rule is partially applied by the Company. Social and labour issues, as well as dialogue with local communities and building long-term relations with customers, are taken

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

into account in the Company's activities, while the areas indicated have not been formally incorporated into the business strategy. Nevertheless, the Company complies with all requirements and regulations related to the areas mentioned above by, for instance, supporting organisations engaged in activities for the benefit of the needy, supporting the development of fitness and sports education, promoting initiatives for the development of science and education or sponsoring local and regional events.

1.4. In order to ensure proper communication with stakeholders as regards the business strategy adopted, the company shall publish on its website information on the assumptions of its strategy, measurable objectives, particularly including long-term objectives, planned activities and progress in its implementation, defined by means of metrics, financial and non-financial. Information on ESG strategies should, for instance:

This rule is not complied with.

Company commentary: The rule is partially applied. The PEPEES Capital Group strategy for 2019-2024 has been made available on the website. The strategy includes, for instance, long-term objectives and roads to achieve strategic objectives, while the adopted non-financial strategy does not include indicators. Additionally, information on the implementation of activities under the existing strategy is included in interim reports published from time to time.

1.4.1. explanation on how climate change considerations are taken into account in decision-making processes of the company and its group entities, highlighting the resulting risks;

This rule is not complied with.

Commentary of the Company: In its decision-making processes, the Company seeks to respect all requirements and legislation related to climate issues, but this area is not formally included in the strategy adopted by the Company

1.6. In the case of a company included in the WIG20, mWIG40 or sWIG80 index, the company holds an investors' meeting once a quarter and in the case of other companies at least once a year, inviting in particular shareholders, analysts, industry experts and media representatives. During the meeting, the company's management presents and comments on the adopted strategy and its implementation, the financial results of the company and its group, as well as the most important events affecting the company's and its group's operations, achieved results and future prospects. During the meetings organised by the company, its management publicly provides answers and explanations to questions being asked.

This rule is not complied with.

Commentary of the Company: Due to the fact that the Company communicates with investors in particular through its website, where it publishes all relevant information on its operations, strategy and financial results, the Company does not hold any scheduled meetings for shareholders or investors, except for general meetings. In accordance with the generally applicable provisions of law, shareholders may ask the Company questions outside the general meeting as part of their corporate rights, which ensures the option to maintain ongoing contact with the Company, and therefore the Company does not identify any significant risks of not applying this principle.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

2. MANAGEMENT BOARD AND SUPERVISORY BOARD

2.1. The Company should have a diversity policy in place for the management board and the supervisory board, adopted by the supervisory board or the general meeting respectively. The diversity policy sets out diversity objectives and criteria in such areas as gender, field of study, specialist knowledge, age and work experience, among others, and indicates when and how the achievement thereof will be monitored. In terms of gender diversity, the condition for ensuring the diversity of the company's governing bodies is that the minority participation in the respective body is no less than 30%.

This rule is not complied with.

Commentary of the Company: The Company has not prepared and does not comply with any diversity policy. When electing persons for the functions of the Management Board and the Supervisory Board Members, the Company acts in compliance with the highest standards and, in this respect, it does not discriminate against candidates due to their gender or other features indicated in the aforementioned principle. The primary election criteria for the Company's governing bodies are high competences, skills and professional conduct of candidates.

2.2. The persons electing the members of the company's management or supervisory board should ensure the comprehensiveness thereof by selecting diversity in their composition, making it possible, for instance, to achieve the target ratio of a minimum minority shareholding set at no less than 30%, in line with the objectives set out in the adopted diversity policy referred to in Rule 2.1.

This rule is not complied with.

Commentary of the Company: The Company has not prepared and does not comply with any diversity policy. When electing persons for the functions of the Management Board and the Supervisory Board Members, the Company acts in compliance with the highest standards and, in this respect, it does not discriminate against candidates due to their gender or other features indicated in the aforementioned principle. The primary election criteria for the Company's governing bodies are high competences, skills and professional conduct of candidates.

2.3. The chairperson of the supervisory board should not combine their function with the chairperson of the audit committee within the board.

This rule is not complied with.

Commentary of the Company: The members of the Audit Committee meet all the statutory requirements as regards the criteria for the composition of the Audit Committee, while in the current composition the Chairperson of the Supervisory Board also acts as the Chairperson of the Audit Committee. The combination of the aforementioned functions is primarily due to the experience and knowledge of the current Chairperson of the Supervisory Board. Therefore, in the Company's opinion, the combination of these two functions by the same person does not compromise the independence of the Audit Committee. The Company will consider possible amendments to internal regulations in order to incorporate this rule into the Company's corporate

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

regulations after the expiry of the current term of the Supervisory Board and the election of new members.

3. SYSTEMS AND INTERNAL FUNCTIONS

In its structure, the Company separates units liable for tasks in individual systems or functions, unless it is not reasonable due to volume or type of its operations.

The rule does not apply to the company. Commentary of the Company: The Supervisory Board has evaluated individual systems or functions, while the separation of organisational entities liable for internal control, risk management, supervising the compliance, or internal audit is not reasonable due to the volume of operations performed by the company.

3.6. The head of internal audit reports organisationally to the chairperson of the management board and functionally to the chairperson of the audit committee, or to the chairperson of the supervisory board if the board acts as the audit committee.

This rule is not complied with.

Commentary of the Company: The Company does not have a separate internal audit function. In the Supervisory Board's opinion, there is no need for a separate internal audit at the Company.

3.7. Principles 3.4 - 3.6 also apply to entities within the company's group that are material to the company's operations, if they have designated persons to perform these tasks.

The rule does not apply to the company.

Commentary of the Company: This rule does not apply to the Issuer

3.10. At least every five years, a company included in the WIG20, mWIG40 or sWIG80 index has its internal audit function reviewed by an independent auditor selected with the participation of the audit committee.

The rule does not apply to the company.

Commentary of the Company: This rule does not apply to the Issuer

GENERAL MEETING AND RELATIONS WITH SHAREHOLDERS

4.1. The Company should facilitate the participation of shareholders in the General Meeting via means of electronic communication, if it is reasonable due to the shareholders' expectations presented to the company, as long as the Company is capable of ensuring technical infrastructure for the efficient organisation of such a General Meeting.

This rule is not complied with.

Commentary of the Company: In the Management Board's opinion, it is not necessary to broadcast the General Meeting or ensure two-way communication in real time. General Meetings are held at the Company's registered office, at convenient time, so that the participation in them is in no way

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

hindered for shareholders interested in the meeting, speaking or exercising the right to vote (personally or via a proxy). It is proven by exceptionally high presence of the shareholders at General Meetings. Furthermore, in the Company's opinion, despite advanced technology, there can be always risk that, due to various reasons (also beyond the control of the Company, shareholders and also third parties), the technical safety or safety of two-way communication in real time, or exercising the right to vote via means of electronic communication is not guaranteed, and potential damage resulting from disruptions in this respect could result in unreasonably increased costs of activities performed by the Company.

4.2. The Company provides publicly available broadcasting of the General Meeting in real time,

This rule is not complied with.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

Commentary of the Company: This rule is not applied for the reasons indicated in the commentary to rule 4.1; furthermore, in the Issuer's opinion, the regulations in force for public companies as regards information on General Meetings sufficiently protect the rights of shareholders, and through published stock exchange reports guarantee access to essential information on the course of General Meetings.

CONFLICT OF INTERESTS AND TRANSACTIONS WITH RELATED ENTITIES

The Company has clear procedures for managing conflicts of interest and for entering into transactions with related parties under circumstances where conflicts of interest may arise. The procedures provide for how such situations are to be identified, disclosed and dealt with. The Issuer applies all rules as regards conflicts of interest and related party transactions.

5. REMUNERATION

The Company and its Group are committed to the stability of its executives, including through transparent, fair, consistent and non-discriminatory rules on their remuneration, manifested, for instance, by equal pay for men and women. The remuneration policy adopted by the company for members of the company's bodies and its key managers sets out, in particular, the form, structure, method of determining and paying remuneration. The Issuer complies with all remuneration policies.

In the first half of 2021, "PEPEES" S.A. complied with all the principles of the Good Practices 2021, except for the following:

1. Information policy and communication with investors

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

I.Z.1. The Company runs a corporate website and posts information on it in an easily readable form and in a separate section, in addition to such information as may be required by law:

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

The assignment of responsibilities is included in the rules of procedure of the management board available on the Company's website.

I.Z.1.10 "financial forecasts – if the company has decided to publish them – published for at least the past 5 years, together with information on the extent to which they have been achieved,"

The rule does not apply.

I.Z.1.15 „information with the description of diversity policy applied by the company with respect to the company's authorities and its key managers; such description should take account of such elements of the diversity policy as gender, education, age, professional experience, and point out to objectives of applied diversity policy and the manner of their accomplishment in a specific reporting period; if the company has not prepared and does not comply with any diversity policy, it publishes an explanation of such a decision on its website.” The company has not developed and does not implement any diversity policy. When electing persons for the functions of the Management Board and the Supervisory Board Members, the Company acts in compliance with the highest standards and, in this respect, it does not discriminate against candidates due to their gender or other non-substantive features. The primary election criteria for the Company's governing bodies are high competences, skills and professional conduct of candidates.

I.Z.1.19 "shareholders' questions addressed to the Management Board pursuant to Article 428(1) or (6) of the Code of Commercial Partnerships and Companies, together with the Management Board's replies to the questions asked, or a detailed indication of the reasons for failure to answer, in accordance with Rule IV.Z.13"

The aforementioned information is published in accordance with the requirements arising from the Regulation. The Company's reports are published on the website under Investor Relations » Current Reports. The Company does not include them in a separate section on the website.

The report of the Management Board on the operations of the Capital Group for the period of 12 months ended on 31 December 2021 (data in thousands of PLN)

II. The Management Board and the Supervisory Board II.Z.1.

The internal division of responsibilities for various areas of the company's operations among the management board members should be formulated in a clear and transparent manner and the division scheme should be available on the company's website.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

The division of responsibilities is contained in the rules of procedure of the management board.

II.Z.2. Membership of the company's management board members in management boards of supervisory boards of companies from beyond the capital group requires the consent of the supervisory board.

Issues of conflicts of interests are considered in compliance with Article 380 of the Code of Commercial Partnerships and Companies.

III. Systems and internal functions

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

The separation of organisational units liable for internal control, risk management, supervising the compliance, or internal audit is not reasonable due to the volume of business performed by the company.

III.Z.4. At least once a year, a person liable for internal audit (if such a function is separated at 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 relations with shareholders

IV.R.2. If reasonable due to the structure of shareholders or shareholders' expectations presented to the company, if the company is capable of ensuring technical infrastructure requisite for the efficient organisation of the General Meeting via means of electronic communication, it should facilitate the participation of shareholders in the General Meeting via such means, in particular via:

- 1) broadcasting of the General Meeting in real time,
- 2) two-way communication in real time, thanks to which the shareholders may speak during the General Meeting, while being a place other than the where the General Meeting is being held,
- 3) exercising the right to vote at the General Meeting personally or through a proxy

In the Management Board's opinion, it is not requisite to broadcast the General Meeting or ensure two-way communication in real time. General Meetings are held at the Company's registered office, at convenient time, so that the participation in them is in no way hindered for shareholders

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

interested in the meeting, speaking or exercising the right to vote (personally or via a proxy). All the necessary safeguards associated with the restrictions due to the pandemic are provided – disinfectants, masks, distancing among the participants, etc. Furthermore, in the Company's opinion, despite advanced technology, there can be always risk that, due to various reasons (also beyond the control of the Company, shareholders and also third parties), the technical safety or safety of two-way communication in real time, or exercising the right to vote via means of electronic communication is not guaranteed, and potential damage resulting from disruptions in this respect could result in unreasonably increased costs of activities performed by the Company.

IV.R.2 The Company aims to ensure that, when securities issued by the Company are traded in various countries (or markets) and under various legal systems, corporate events related to the acquisition of rights on the part of the shareholder occur on the same dates in all countries where listed.

Securities issued by the company are traded only in Poland.

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

In the Management Board's opinion, the presentation and discussion of the results are not necessary. The Company's financial results are fully available through the publication of periodic reports.

IV.Z.16. The dividend record date and the dividend payment dates should be set so that the interval between them is no longer than fifteen (15) working days. The setting of a longer period between these deadlines needs justification.

The timing of dividend payments always depends on the Company's financial standing.

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 conduct when such a conflict of interests occurs or may occur. The internal regulations of the Company include, for instance, methods of preventing, identifying and solving conflicts of interests, as well as principles of excluding a member of the Management Board or Supervisory Board from discussion on an issue subject to or threatened with a conflict of interests.

The Company's current practice does not indicate that such regulations are necessary. As regards the conflict of interests, the Company operates under the applicable provisions of law.

VI. Remuneration

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

VI.R.1. Remuneration of the members of the Company's governing bodies and key managers should result from a remuneration policy. On 21 April 2020, the General Meeting of Shareholders adopted the Remuneration Policy.

VI.R.3 If the supervisory board has a remuneration committee, rule II.Z.7 applies to its operation. There is no remuneration committee on the supervisory board.

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

- 1) general information on the remuneration system adopted by the company,
- 2) information on the terms and conditions and amounts of the remuneration of each and every member of the Management Board divided into regular and variable elements of such remuneration, with the specification of key parameters for determining variable elements of remuneration and principles of payment of severance pays and other payments due to the termination of an employment relationship, contract of mandate or another relationship of similar nature – with a division by the company and each entity of the capital group,
- 3) information on non-financial elements of remuneration, to which the respective Management Board Members and key managers are entitled,
- 4) indication of significant changes that during the last year took place in the remuneration policy of information on the lack thereof

Each member of the management and supervisory boards' remuneration is stated in the reports, but the remuneration policy is not described. The report on the Remuneration Policy is prepared by the Supervisory Board pursuant to Article 90g of the Act on Public Offering.

III. Report on the remuneration policy

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

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

The remuneration of the Supervisory Board Members consists of fixed remuneration set at a monthly rate and fringe benefits.

The Supervisory Board determines by way of a resolution the fixed remuneration of the Company's Management Board Members, taking into account the qualifications, experience, duties and responsibilities of each member of the Management Board as a governing body of a listed company and the need to ensure the competitive level of remuneration.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

The General Meeting adopts the resolution to determine the remuneration of the Supervisory Board Members. The General Meeting of Shareholders determines varied amounts of remuneration of the Supervisory Board Members depending on the function performed, taking into account the degree of involvement of the Supervisory Board Members in duties performed and the principles of responsibility of the Supervisory Board Member of a listed company.

The variable part of such remuneration of the Management Board Members, in the form of quarterly and annual bonuses, depends on the level of achievement of the key objectives under the rules established by the Supervisory Board, taking into account the financial results achieved and the degree of achievement of the objectives set by the Supervisory Board.

Objectives are determined by the Supervisory Board based on the current operational and strategic goals of the Company for a given period along with the measures of their implementation, including the performance of the planned sales budget, the achievement of planned profit or EBIDTA level.

The Supervisory Board evaluates the achievement of the targets after the end of the respective bonus period.

The date of payment of the bonus should be linked to the publication of the financial results and, in relation to the annual bonus, to the completion of the audit of the consolidated and separate financial statements of the Company for the financial year constituting the bonus period.

There are no deferral periods for the payment of bonuses and no option for the Company to demand the return of bonuses paid.

The maximum total amount of remuneration components constituting a bonus for the Company's Management Board Member may depend, for instance, on the level of generated profit and constitute a percentage share in the net profit generated above the planned level, taking into account the functions performed.

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

Such an incentive scheme for the Management Board Members and key executives should grant the right (option) to receive shares of the Company in order to create in the Company and its subsidiaries such incentive mechanisms for activities as may ensure both a long-term increase in the value of the Company and its shares, a stable increase in the Company's results and dividends for shareholders and its subsidiaries, as well as the implementation of the Pepees Group Strategy. The incentive scheme may be set up for a limited period for a specific group of people. The incentive scheme may be implemented by issuing financial instruments granting the right to receive shares in the Company or through the purchase of treasury shares subsequently offered to participants in the scheme, whereby the sale price of the shares to participants may not be lower than the purchase price of the shares by the Company.

The exercise of the right to shares should be conditional on remaining in the employment at the Company or its subsidiary, compliance with the non-competition or other loyalty terms and conditions and the achievement of the individual and financial objectives set by the Supervisory Board.

The period between granting the right to purchase or subscribe for the Company's shares under the incentive scheme and the option to exercise the same should be at least 2 years.

The Supervisory Board Members may not participate in incentive schemes.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

The Management Board and Supervisory Board Members are entitled to Additional Benefits in the form of:

- 1.1. a company car with a driver intended for business or private use;
- 1.2. a personal computer and a company telephone;
- 1.3. a medical care package, including for immediate family members;
- 1.4. company housing granted where the permanent place of work is substantially distant from the place of residence;
- 1.5. participation in training courses funded by the Company;
- 1.6. insurance against civil liability of company authorities;
- 1.7. other benefits in accordance with the regulations adopted by the Company granting them to all employees.

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

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

IV. Sponsorship

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

FIELDS OF ACTIVITIES

The Company is engaged in the following spheres of life:

1. Sports and education

- Promoting initiatives in support of the development of science and education,
- Support of the development of fitness and sports education

2. Culture

- Sponsorship of local and regional events

3. Charitable activities

- Support of organisations working on behalf of the needy,
- Providing hospitals with masks and protective suits.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

V. Description of main features of internal control and risk management systems as regards the process of preparing 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 the preparation, implementation and supervision of compliance with accounting principles in the PEPEES Capital Group Companies. The Capital Group Companies provide required data in the form of reporting packages in order to prepare the Group's consolidated financial statements. The scope of disclosed data within the Group is defined and results from disclosure obligations defined under IAS/IFRS. The monitoring of changes to accounting standards is performed on an ongoing basis in order to determine the need of updating the reporting scope. All financial statements are verified by the Management Board of the Parent Company, PEPEES. The Group Companies submit their financial statements to semi-annual reviews and annual audits performed by an independent chartered auditor. Similarly, consolidated financial statements are audited. Until the publication of the financial statements and consolidated financial statements, data is disclosed solely to persons participating in the process of preparation, verification and approval of financial statements, guaranteeing data confidentiality.

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

To the best knowledge, as of 31/12/2021 and as of the date hereof, the shareholding structure presents itself as follows:

SHAREHOLDING	Number of shares [pcs.]	Share in capital %	Number of votes	Share in the total number of shares at the Annual General
EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych*	27,759,032	29.22%	6,356,799	6.69%
Michał Skotnicki**	21,399,174	22.53%	21,399,174	22.53%
Maksymilian Maciej	20,703,282	21.79%	20,703,282	21.79%

SHAREHOLDING	Number of shares [pcs.]	Share in capital %	Number of votes	Share in the total number of shares at the Annual General
Newth Jonathan Reginald	7,995,200	8.42%	7,995,200	8.42%
Richie Holding Ltd.	6,133,100	6.46%	6,133,100	6.46%
Other	11,010,212	11.59%	11,010,212	11.59%

*Due to the failure to fulfil the reporting obligation on the 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 – pursuant to the information known

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

to the Company – 27,759,032 shares of the Company, has lost and cannot exercise the 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 decide on the issue. Epsilon FIZ AN is of the contrary opinion, claiming that is entitled to vote in relation to 27,759,032 shares accounting for 29.22% of the total number of votes at the AGM. 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 discussed 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(4)(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 aforementioned 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 granting special rights.

VIII. Restrictions concerning exercising of the right to vote

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

The Company's shareholder, EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, with its registered office in Warsaw, due to breaching the notification obligation related to the purchase of a significant package of shares, pursuant to Article 89(1)(1) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, has lost and cannot exercise the voting rights in relation to 21,402,233 shares. Therefore, the Company's Management Board filed an action to the Regional Court in Białystok to decide on the issue. Epsilon FIZ AN is of a contrary opinion, claiming that it is entitled to vote in relation to 27,714,832 shares accounting for 29.17% of the total number of votes at the AGM. 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

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

binding ruling of the court. The Company informed on the issue in current reports no 13/2019, 14-23/2019 and 30/2019.

IX. Restrictions related to transfers of ownership rights to securities

The Company's Articles of Association do not provide for restrictions of this type. Instead, they arise from the provisions of law, including Chapter 4 of the Act on Offering referred to above, Articles 11 and 19 and Section VI of the Act of 29 July 2005 on Trading in Financial Instruments, 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.

The report of the Management Board on the operations of the Capital Group for the period of 12 months ended on 31 December 2021 (data in thousands of PLN)

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

The Management Board consists of one to five persons. The term in office of the Management Board takes three years except the first Management Board, whose term in office was two years long. The Supervisory Board appoints the President of the Management Board and at the request of the President – the remaining Members thereof. The Supervisory Board defines the number of the Management Board Members. 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 the end of the term in office thereof. The Management Board exercises all rights within the scope of managing the Company, except for such rights as may be reserved for other Company's authorities under law or the Articles of Association.

2. The mode of operation of the Management Board, and issues that may be entrusted to its respective members, are defined in detail in the Rules of Procedure of the Management Board. The Rules of Procedure of the Management Board are 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 members of the Management Board acting together or one member of the Management Board acting together through a proxy.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

4. The Supervisory Board enters into agreements by and between the Company and the Management Board Members and represents the Company in disputes with them. The Supervisory Board may authorise, by way of 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, as well as it sets their remuneration.
6. The decision on issuing or repurchasing shares is made by the General Meeting by way of a resolution.

XI. Principles of amendments to the Articles of Association

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

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

The basic principles of operation of the General Meeting present themselves as follows:

1. The General Meeting of PEPEES S.A. operates based on the Code of Commercial Partnerships and Companies, the Company's Articles of Association and the Regulations of the General Meeting.
2. The Annual General Meeting is convened by the Management Board no later than in June each year.
3. The agenda of the General Meeting is determined by the Management Board in agreement with the Supervisory Board.
4. 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.
5. The General Meetings are held in the Company's registered office.
6. The General Meeting may adopt resolutions irrespective of a number of shareholders present or shares represented.
7. Resolutions are adopted at the General Meeting by voting.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

8. Resolutions of the General Meeting are adopted with the ordinary majority of votes cast, unless the articles of association or the law provide otherwise.

9. Resolutions of the General Meeting are adopted with the majority of 3/4 votes cast, in case of:

a) amendments to the Articles of Association, including the issue of new shares,

b) issue of bonds,

(c) transfer of the Company's undertaking,

d) merger of the Company with another company,

(e) dissolution of the Company.

X. Voting on the General Meeting is open. Secret ballot is arranged in case of elections and petitions for the dismissal of members of authorities or liquidators of the Company, or request for the determination of their liability, and on personal issues. Resolutions on changing the objects of the Company's enterprise are votes in open roll-call vote.

11. Voting takes place by use of magnetic cards and the votes are counted with digital machines. Voting with magnetic cards and counting with digital machines are carried out in accordance with the technical requirements of the equipment used for voting and counting. In the absence of digital equipment or technical failures, voting may take place using uniform paper ballot papers stamped with the Company's stamp and containing the following details:

- serial number of the vote,

- ballot papers for the open vote

- indication of the full name (company and registered office) of the shareholder and the number and type of shares and the corresponding number of votes, - ballot papers for the secret ballot

- indication of the number and type of shares and corresponding voting rights.

Voting cards are handed out to the shareholders immediately after the Chairperson of the Meeting signs the attendance list. The shareholders fill in the cards with word "yes" in the case of voting for the adoption of a resolution or with word "no" in the case of voting against the adoption of a resolution or with the word "abstain" in case they abstain from voting and cast the cards thus filled in into a ballot box or hand them over to the Returning Committee, if appointed, in another manner determined by the Returning Committee. At the end of the voting, the Returning Committee, if appointed, counts the votes, totals the results and passes them on to the Chairperson of the Meeting.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

12. The shareholders listed on the list of shareholders prepared by the Management Board in compliance with principles arising from the applicable provisions of law, in particular Article 406(2) and Article 4061 - 4063 of the Code of Commercial Partnerships and Companies are authorised.

13. The General Meeting may be also attended by: each member of the Management Board, each 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 authorised by the Management Board, other persons specified by the authority convening the General Meeting. Other persons than listed above may be present only upon the consent of the Chairperson of the General Meeting, who has the right to order at any time and without a reason that any of those persons leaves the room of the General Meeting.

4. The General Meeting shall be opened by the Chairperson of the Supervisory Board or their deputy or, in their absence, by the President of the Management Board or another person appointed by the Management Board. The person opening the General Meeting orders the candidatures for the Chairperson of the Meeting to be put forward and, once gathered, orders the election of the Chairperson of the Meeting.

15. 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, they prepare and present the draft resolution on their own. A draft resolution on an issue included in the agenda may be submitted by each shareholder.

The Company's shareholders do not have any special rights other than those arising under generally applicable provisions of law, including those set out in the Code of Commercial Partnerships and Companies.

XIII. Members and description of the operations of management and supervisory bodies

1. Personal composition of the Management Board of "PEPEES" S.A. as of 31/12/2021:

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 Rules of Procedure of the Management Board.

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

2. Personal composition of the Supervisory Board of "PEPEES" S.A. as of 31/12/2021:

Maciej Kaliński	Chairperson of the Supervisory Board
-----------------	--------------------------------------

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

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 Rules of Procedure of the Supervisory Board. Pursuant to them, the Supervisory Board consists of five to nine members. Each term in office of the Supervisory Board takes 3 years. From among its members, the Supervisory Board elects the Chairperson and one or two Deputies, and the Secretary. The Supervisory Board Chairperson convenes and chairs the meetings of thereof. The Chairperson of the retiring Supervisory Board convenes and opens the first meeting of the newly elected Supervisory Board and chairs it until the new Chairperson is elected. The Supervisory Board holds meetings at least once a quarter. The Chairperson of the Supervisory Board, or one of their Deputies, are obliged to convene the meeting on a written request of at least two members of the Supervisory Board. The meeting should be convened during a week of the submission of such a request, on a date no later than within 2 weeks from the day when convened. Resolutions of the Supervisory Board are valid, if all the Supervisory Board Members were invited to the meeting. The Supervisory Board adopts resolutions by the absolute majority of votes of members of the Supervisory Board present at the meeting, if at least a half of its members are present. The Supervisory Board's Resolutions may also be adopted without a meeting, as a written vote, if all the Supervisory Board Members agree in writing on the adoption of resolutions in such a manner. The Supervisory Board adopts its rules by determining the detailed mode of operation of the Board. The Supervisory Board may assign its members to the individual performance of respective supervisory activities. The remuneration of the Supervisory Board Members is defined by the General Meeting.

Pursuant to the Company's Articles of Association, in addition to the matters indicated by the law, other provisions of the Articles of Association or resolutions of the General Meeting, the competence of the Supervisory Board includes:

- 1) examination of the annual balance sheet, the profit and loss account and ensuring their verification by chartered auditors of their choice,
- 2) examination and issue of an opinion on the Management Board's report,
- 3) annual examination and approval of business plans, financial and marketing plans of the Company and requesting detailed reports on the execution thereof from the Management Board,

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

- 4) issuing an opinion on proposals of the Management Board of the Company as regards profit distribution, including amounts allocated for dividends, dates of dividend payments or rules for loss coverage,
- 5) consents on transactions comprising sale of purchase of shares or other property, or contracting a cash borrowing, if a value of a given transaction exceeds 15% of the net value of the Company's assets based on the latest balance sheet,
- 6) appointing, suspending and dismissing members of the Management Board,
- 7) assigning members of the Supervisory Board to perform activities of the Management Board in case the entire Management Board is suspended or dismissed or when the Management Board cannot operate for other reasons,
- 8) approval of the regulation of share distribution among authorised employees as adopted by the Management Board.
- 9) approving the Rules of Procedure of the Company's Management Board,
- 10) defining the principles for remunerating the Company's Management Board Members
- 11) adopting the Rules of Procedure of the Company's Supervisory Board
- 12) appointment of the Audit Committee and adoption of its rules of procedure

During the reporting period, the Audit Committee operated in the Issuer's Supervisory Board and was composed as follows:

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

The statutory criteria of independence are fulfilled by all the aforementioned persons being of the Audit Committee Members.

Piotr Marian Taracha has knowledge and skills in accountancy; he graduated from postgraduate studies for financial directors and majored in company finance management; he also completed numerous courses in financing and accounting.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

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

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

The Issuer used other services of the selected auditing firm, i.e. attestation services for the audit of the remuneration reports and confirmation of the correctness of the energy intensity factor calculation.

Pursuant to the Act on Statutory Auditors, Audit Firms and Public Supervision (Polish Journal of Laws 2019, item 1421) and the European Parliament Regulation No. 537/2014 on detailed requirements for statutory audits of public-interest entities ("Regulation 537/2014"), the Audit Committee adopted and complies with "The Policy and Procedure of Selection of the Entity Authorised to Perform the Statutory Audit of the Financial Statements" and "The Policy of Rendering Acceptable Services other than the Audit to be Performed by an Auditing Firm and by a Member of Chain of the Auditing Company."

Pertaining to the policies mentioned above, the entity authorised to perform the audit is selected by the Supervisory Board acting pursuant to the recommendation of the Audit Committee. The policy defines periods of cooperation with auditing firms, criteria of selecting the auditor, such as previous experience, reputation and qualifications and experience of persons assigned to financial review by the auditing firm, knowledge of the Company's industry, price conditions and proposed time schedule of work, and assumes that the auditing firm should be selected in an independent manner, without the pressure or suggestion of third parties about the selection, and all limitations related to selection resulting from the applicable provisions of law.

The auditing firm's policy for the provision of allowed services provides mainly that all services rendered by the Auditing Firm or related entities require earlier risk and independence assessment by the Audit Committee, and furthermore it tries to limit potential conflicts of interests when acceptable services other than the audit are commissioned to the auditing firm, by defining prohibited services and acceptable services. Examples of acceptable services include, for instance, performing due diligence procedures related to the economic and financial standing, attestation services with respect to financial pro forma information, forecasts of results and estimated results presented in a prospectus of the 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

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

internal audit function. Rendering acceptable services is possible, however, only within the scope unrelated to the Company's fiscal policy, after the Audit Committee assesses threats to and protection of the independence of the auditing firm, key chartered auditor and other members of the team performing the audit.

The recommendation on selecting the auditing firm for the purpose of the audit fulfilled all applicable conditions and was performed as a result of the procedure organised by the Issuer that fulfilled the applicable criteria.

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 the annual report on its activities to the Supervisory Board.
- Monitoring of the financial reporting process.
- Monitoring of the financial review performance, in particular the examination of the Company's financial statements by the auditing firm, taking into account all requests and findings of the Committee of Audit Supervision, resulting from the control performed in the auditing firm,
- Controlling and monitoring of the independence of the chartered auditor or auditing company rendering services on behalf of the Company,
- Notifying the Board of the results of the audit of the Company's financial statements and to explain how the audit contributed to the integrity of the Company's financial reporting and the Committee's role in the audit process.
- Assessing the independence of the chartered auditor and granting consent for services rendered by them on behalf of the Company, • Preparation of the policy for the selection of the auditing firm to audit the Company's financial statements.
- Preparation of the policy of rendering acceptable services other than the audit of the financial statements by the auditing firm, entities related thereto and member thereof. • Defining the procedure of selecting the auditing firm by the Company.
- Presenting recommendations aimed at ensuring the reliability of the financial reporting process at the Company. The mode of the Audit Committee's operations:
 - The Audit Committee holds meetings when necessary, but at least twice a year.
 - Meetings of the Committee are convened by its Chairperson on his/her own initiative or at the request of a member of the Audit Committee, and request of the Management Board, an internal or external auditor. The meeting of the Audit Committee may also be convened by the Chairperson of the Supervisory Board.
 - The agenda of the Audit Committee's meeting is prepared by a person convening 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 act as members thereof.
 - Minutes are drafted on the meetings of the Audit Committee. Such minutes are signed by the Audit Committee Chairperson. • The Audit Committee adopts resolutions, if at least a half of its members are present at the meeting.

Report of the Management Board on the operations of the Capital Group
for the period of 12 months ended on 31 December 2021
(in thousands of PLN)

- The Audit Committee may adopt resolutions in writing, provided that all its members 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 the organisational and technical service of the Audit Committee.

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

XIV. Diversity policy

The Company has not prepared and does not comply with a diversity policy. When electing persons for the functions of the Management Board and the Supervisory Board Members, the Company acts in compliance with the highest standards and, in this respect, it does not discriminate against candidates due to their gender or other non-substantive features. The primary election criteria for the Company's governing bodies are high competences, skills and professional conduct of candidates.

VI. STATEMENT OF THE MANAGEMENT BOARD

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

- The annual separate and consolidated financial statements and the comparative data were prepared in accordance with the applicable accounting principles and reflect the true, fair and clear view of the property and financial standing of the Issuer and the PEPEES Capital Group and the financial performance of the entity and the Capital Group;
- the Management Board's report on the operations of the Capital Group for the 12-month period ended on 31 December 2021 reflect the true picture of the development, achievements and standing of the PEPEES Capital Group, including the description of the main threats and risks related thereto.

REPRESENTATIVES

of Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” Spółka Akcyjna in Łomża

Wojciech Faszczewski President of the Board

Tomasz Krzysztof Rogala Member of the Management Board