

Letter from the President of the Management Board of the Parent Company of the PEPEES Capital Group

Ladies and gentlemen,

I am pleased to give you an annual report of the PEPEES Capital Group for 2017, which was another good year for the Group. It strengthened its business presence on the market, achieving revenues totalling more than PLN 224 million (growth by 20.8% in relation to the preceding year) and generating a sales profit of PLN 64 million (growth by 26.7% in relation to 2016).

These results were most affected by the sales achieved on the principal operations. It should be pointed out that the growing sales tendency was maintained largely thanks to exports.

This is an effect of implementation of the Strategy of the PEPEES Capital Group for the years 2013-2018 signalled in preceding years, which assumes, among other things, development of export sales. Last year PEPEES S.A. processed the largest volume of starch potatoes in its history thanks to increased supplies of potatoes from the growers.

The PEPEES Capital Group generated a net profit attributable to the shareholders of the parent company in the amount of PLN 13.4 million (24% lower than in the preceding year). The deterioration of the net profit in relation to 2016 was caused, above all, by the establishment of non-cash write-downs associated with the shares in the subsidiary CHP Energia. The Capital Group's statement contains a goodwill write-down determined at the moment this company was acquired in connection with the impairment in the amount of PLN 4,346 thousand, while the Issuer's standalone financial statement contains a write-down on the shares held, receivables and advances in that subsidiary totalling PLN 3,464 thousand, in connection with the negative equities of that company. The reactor's failure contributed to it, which caused a significant reduction of the capacity to produce electricity from renewable sources in the second half of 2017, in connection with which CHP Energia incurred a loss.

I would like to assure you though that the write-downs are only accounting operations and will not have an impact on the financial liquidity and on-going operations of the Issuer's Capital Group.

In 2017 another subsidiary - Gospodarstwo Rolne PONARY - joined the group, it owns agricultural properties located in the commune of Miłakowo of a total area of 425.6547 hectares. PEPEES is a party to agreements on leasing those properties and acquisition of PONARY will make it possible to continue agricultural investments without the risk of losing them once the lease agreement expires. Acquisition of shares in Gospodarstwo Rolne PONARY will make it possible to implement the strategy regarding access to the raw materials thanks to own sources of starch potatoes.

Apart from the above capital investment the Group ran a number of other undertakings associated with the modernization of production machines and equipment and completed a project associated with the start-up of a gas-operated boiler house and the associated installation.

The main aim of the Group is to achieve a maximum rate of return from investments while maintaining a moderate level of the investment risk. The Group's strategy is to increase the effectiveness of the Capital Group's companies and to minimize the risks to which they are exposed.

I am deeply convinced that we will jointly achieve success again for which - on behalf of the Management Board - I would like to thank: the Shareholders - for supporting our decisions, Customers - for trusting us, Suppliers - for excellent cooperation and, of course, the Group's Employees - for professionalism and involvement, which are the key driving forces of our good results and guarantee

achievement of such results in the future. I am convinced about positive forecasts of growth of the Group's values in 2018 and in the years to follow thanks to the development strategy being consistently implemented over the years.

*Sincerely yours,
Wojciech Faszczyński
President of the Management
Board*