CAPITAL GROUP'S

ACTIVITY REPORT

for the year 2017

(taking into account the disclosures required for Management Board's activity report for the above period)

28 March 2018

Łomża

TABLE OF CONTENTS

List of Tables:

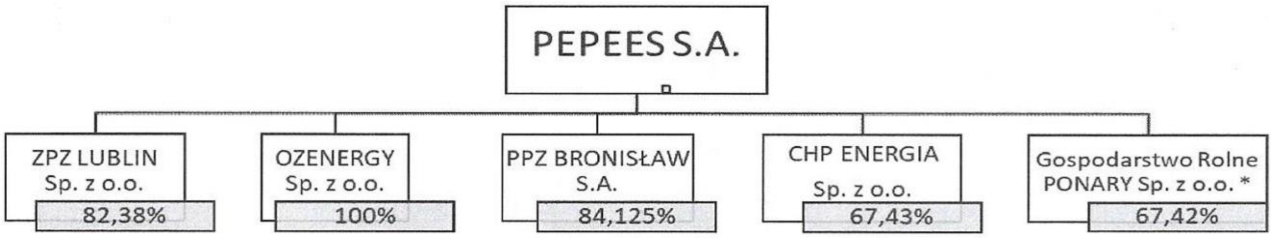
Introduction

This Management Board's report on activities of the PEPEES Capital Group for 2017 contains information whose scope has been specified in § 91 - 92 of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities [...] (Regulation). The annual consolidated report, an element of which is the aforementioned financial statement and this activity report, was drawn up on the basis of § 91 and § 92 in relation to par. 1 item 3 and par. 2 § 82 of the Regulation.
Based on § 83 par. 7 of the Regulation, this report also contains disclosures of information required for the Parent Company's Activity Report referred to in § 91 par. 1 item 4 of the Regulation.
The principles of drawing up financial statements are presented in appropriate reports, i.e. in the financial statement of the Parent Company and in the financial statement of the Capital Group for 2017.

I. Structure of the PEPEES Capital Group

Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. is a parent company for Zakłady Przemysłu Ziemniaczanego "ZPZ Lublin" Sp. z o.o., Przedsiębiorstwo Przemysłu Ziemniaczanego "BRONISŁAW" S.A., OZENERGY Sp. z o.o. and CHP Energia Sp. z o.o.

The structure of the Capital Group as at 31 December 2017 looks as follows:



** after the reporting period had ended the Issuer acquired 32.58% of shares in Gospodarstwo Rolne PONARY sp. z o.o. and thus, on the day this report was prepared, the Issuer held 100% of shares/votes in that company.*

The subsidiaries are covered by full consolidation method.

1. Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" Spółka Akcyjna in Łomża - parent company

1.1 Basic information about the Company

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

The business activity is pursued in the form of a joint-stock company established by a notarial deed of 21 June 1994 before the notary public Paweł Błaszczyk in Warsaw (Repertory No. A 14126/94).

The Company is registered in the Register of Entrepreneurs kept by the District Court in Białystok, 12th Commercial Department of the National Court Register under the number KRS 000038455.

It holds a Tax Identification Number [NIP]: 718-10-05-512 issued by the Inland Revenue Office in Łomża on 20 January 2000.
The Statistical Office assigned it a REGON statistical number: 450096365.

The Company operates on the basis of the provisions of the Commercial companies code. It is a single-entity enterprise - it has no branches.

According to the Company's articles of association, its line of business is:

- processing of potatoes,
- production of starch and starch products,
- services associated with processing and canning of vegetables and fruits,
- production of fruit and vegetable juices.

During the reporting period activities involving production of starch and starch products and processing of potatoes were pursued.

The Company's share capital as at 31 December 2017 amounted to PLN 5,700 thousand and was divided into:
- series A - 83,000 thousand ordinary bearer shares of a face value of PLN 0.06 each,
- series B - 12,000 thousand ordinary bearer shares of a face value of PLN 0.06 each,

To the best knowledge, as at 31.12.2017 the shareholding structure looked as follows:

- Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych - number of votes: 21,444,561; share in the total number of votes at the General Meeting - 22.57%,
- Maksymilian Maciej Skotnicki - number of votes: 20,395,465; share in the total number of votes at the General Meeting - 21.47%,
- Michał Skotnicki - number of votes: 10,700,011; share in the total number of votes at the General Meeting - 11.26%,
- Newth Jonathan Reginald - number of votes: 7,995,200; share in the total number of votes at the General Meeting - 8.42%,
- Krzysztof Borkowski (indirectly through subsidiaries, including, among other things
- Mazowiecka Korporacja Finansowa Sp. z o.o., which holds 5,397,343 shares/votes accounting for 5.68% of the share capital/total number of votes) - total number of votes: 7,923,409; share in the total number of votes at the General Meeting - 8.34%,
- Richie Holding Ltd - number of votes 6,133,100, share in the total number of votes at the General Meeting - 6.46%

To the Company's best knowledge, none of the other shareholders reported possession of at least 5% share in the share capital and in the total number of votes at the General Meeting.
After the reporting period had ended the Company received information according to which significant changes in the shareholding structure occurred on 15.02.2018, as a result of which Krzysztof Borkowski and the entity related to him, i.e. Mazowiecka Korporacja Finansowa Sp. z o.o., are no longer shareholders in the Company and Mr. Michał Skotnicki and Mr. Maksymilian Maciej Skotnicki increased their shareholding in the Company. Thus, as at the day this report was drawn up, the shareholding structure looked as follows:

- Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych - number of votes:
- 21,444,561; share in the total number of votes at the General Meeting - 22.57%,
- Michał Skotnicki - number of votes: 21,325,780; share in the total number of votes at the General Meeting - 22.45%,
- Maksymilian Maciej Skotnicki - number of votes: 20,703,282; share in the total number of votes at the General Meeting - 21.79%,
- Newth Jonathan Reginald - number of votes: 7,995,200; share in the total number of votes at the General Meeting - 8.42%,
- Richie Holding Ltd - number of votes 6,133,100, share in the total number of votes at the General Meeting - 6.46%

The Issuer reminds that Mr. Maksymilian Maciej Skotnicki and Mr. Michał Skotnicki are persons referred to in Article 87 par. 4 item 1 of the Act on public offering [...] and thus the overall possession by the aforementioned persons is 42,029,062 shares/votes, which accounts for 44.24% share in the share capital/total number of votes in the Company.

To the Company's best knowledge, as at the day this report was prepared, none of the other shareholders reported possession of at least 5% share in the share capital and in the total number of votes at the General Meeting.

1.2 Company's governing bodies

Management Board

During the period from 1 January 2017 to 31 December 2017 the Management Board of PEPEES S.A. was composed of:

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

No changes in the composition of the Company's Management Board occurred after the reporting period had ended.
The Management Board is composed of one to five persons. The Supervisory Board appoints the President of the Management Board; at the request of the President of the Management Board it appoints the other Members of the Management Board. The managing persons are recalled by the Supervisory Board. The Management Board exercises all powers related to management of the Company, excluding those reserved for the Supervisory Board or the General Meeting. The decision on issuing or redeeming the shares is taken by the General Meeting of Shareholders by way of a resolution. The Issuer's Management Board does not have the powers to issue or redeem shares - no authorized and unissued capital has been established at the Company.

Supervisory Board

During the period from 1 January 2017 to 31 December 2017 the Supervisory Board of PEPEES S.A. was composed of:

1.	Maciej Kaliński	Chairman of the Supervisory Board
2.	Piotr Marian Taracha	Deputy Chairman of the Supervisory Board
3.	Krzysztof Stankowski	Secretary of the Supervisory Board
4.	Agata Czerniakowska	Member of the Supervisory Board
5.	Robert Malinowski	Member of the Supervisory Board

No changes in the composition of the Company's Supervisory Board occurred as at the day this

report was prepared.
Members of the Supervisory Board are appointed and recalled by the General Meeting of Shareholders.

2. Zakłady Przemysłu Ziemniaczanego “LUBLIN” Spółka z ograniczoną odpowiedzialnością in Lublin - subsidiary

2.1 Basic information about the Company

The Company’s registered office is located in Lublin, ul. Betonowa 9. The Company pursues its business activity in the form of a limited liability company established by a notarial deed of 8 November 1996, drawn up at the Notary’s Office of Antonina Renata Bednar in Lublin, ul. Spokojna 8, Repertory A No. 6437/96 for an unlimited period of time. The Company is registered in the Register of Entrepreneurs kept by the District Court in Lublin, 11th Commercial Department of the National Court Register under the number KRS 0000050886.

The Company holds a Tax Identification Number [NIP]: 946-15-80-419.

The Company operates on the basis of the provisions of the Commercial companies code.

Its main line of business is processing of potatoes and production and sale of glucose syrup.

The Company’s share capital as at 31 December 2017 amounted to PLN 2,761,200.00, and the shareholders were:

- PEPEES S.A. - 22,748 shares of a value of PLN 2,274,800.00, i.e. 82.38%
- Company’s employees - 3,244 shares of a value of PLN 324,400.00, i.e. 11.75%
- Farmers - 1,620 shares of a value of PLN 162,000.00, i.e. 5.87%

2.2 Company’s governing bodies *Management Board*

During the period from 1 January 2017 to 31 December 2017 the Company’s Management Board was composed of:

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

Supervisory Board

The composition of the Supervisory Board as at 31.12.2017 looked as follows:

- Wojciech Faszczewski - Chairman
- Piotr Taracha - Deputy Chairman
- Piotr Łojko - Secretary
- Mariusz Świetlicki - Member
- Agata Czerniakowska - Member

3. OZEnergy Spółka z ograniczoną odpowiedzialnością in Łomża - subsidiary

The Company’s registered office is located in Łomża, ul. Poznańska 121. The Company was

established by a notarial deed (Repertory A 12369/2010) of 18 October 2010 before the notary public Tomasz Poreda in Łomża.
The Company is registered in the Register of Entrepreneurs kept by the District Court in Białystok, 12th Commercial Department of the National Court Register uder the number KRS 0000370060.

The Company holds a Tax Identification Number [NIP]: 7182123627.
The Company operates on the basis of the provisions of the Commercial companies code.

Pursuant to the articles of association, the line of business of this company are any activities associated with producing and supplying electricity, managing sewage and waste, activities associated with recultivation, plant cultivation, manufacturing, trade, service activities, including import and export. The Company has not commenced operations by the balance sheet date.

The Company’s share capital as at 31 December 2017 amounted to PLN 95,000.00 and was divided into 1,900 equal and undividable shares of value of PLN 50.00 each.

During the period from 1 January 2017 to 31 December 2017 the Company’s Management Board was composed of: Roman Minierski - President of the Management Board

4. Przedsiębiorstwo Przemysłu Ziemniaczanego BRONISŁAW Spółka Akcyjna in Bronisław - subsidiary

4.1 Basic information about the Company

The Company’s registered office is located in Bronisław 41, 88-320 Strzelno. The Company pursues its business activity in the form of a limited liability company established by a notarial deed of 23 November 2001, Repertory A No. 8625/2001 for an unlimited period of time. The Company is registered in the Register of Entrepreneurs kept by the District Court in Bydgoszcz, 13th Commercial Department of the National Court Register under the number KRS 0000099072.

The Company holds a Tax Identification Number [NIP]: 557-15-95-182.
The Company operates on the basis of the provisions of the Commercial companies code.

Its main line of business is:
- production of starch and starch products,
- sale of potato products on the domestic and foreign markets,
- services associated with agricultural crops,

The Company’s share capital as at 31 December 2017 amounted to PLN 800,000.00 and was divided into 1,600 equal and undividable shares of a face value of PLN 500.00 each.
The main shareholder is PEPEES, which holds 84.125% of the share capital. Other shareholders are natural persons.

4.2 Company's governing bodies

Management Board

During the period from 1 January 2017 to 31 December 2017 the Company's Management Board was composed of:

- Wojciech Faszczewski - President of the Management Board
- Roman Minierski - Vice-president of the Management Board

Supervisory Board

The composition of the Supervisory Board as at 31.12.2017 looked as follows:

- Piotr Taracha - Chairman
- Agata Czerniakowska - Deputy Chairwoman
- Grzegorz Dobrowolski - Member
- Stanisław Bukowski - Member

5. CHP Energia Sp. z o.o. - subsidiary

5.1 Basic information about the Company

The Company, with its registered office in Wojny-Wawrzyńce was established on 27 April 2011 by a notarial deed Repertory A No. 1163/2011. The Company pursues its business activity in the form of a limited liability company. The Company is registered in the Register of Entrepreneurs kept by the District Court in Białystok, 12th Commercial Department of the National Court Register under the number KRS 0000390180.

The Company holds a Tax Identification Number [NIP]: 772-162-44-70
The Company operates on the basis of the provisions of the Commercial companies code.

Its main line of business is:

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

The Company's share capital as at 31 December 2017 amounted to PLN 5,298,000.00 and was divided into 10,596 equal and undividable shares of a face value of PLN 500.00 each. The main shareholder is PEPEES, which holds 67.43% of the share capital. Other shareholders are natural persons.

5.2 Company's governing bodies

Management Board

During the period from 1 January 2017 to 31 December 2017 the Company's Management Board was composed of:

- Andrzej Wyszyński - President of the Management Board
- Mirosław Siemieniako - Vice-president of the Management Board

Supervisory Board

The composition of the Supervisory Board as at 31.12.2017 looked as follows:

- Wojciech Faszczewski- Chairman

- Tomasz Rogala - Member
- Wojciech Zagdański - Member.

6. Gospodarstwo Rolne Ponary Sp. z o.o. - subsidiary

6.1 Basic information about the Company

The Company's registered office is located in Łomża, ul. Poznańska 121. The Company pursues its business activity in the form of a limited liability company established by articles of association of 10 November 2015 for an unlimited period of time. The Company is registered in the Register of Entrepreneurs kept by the District Court in Białystok, 12th Commercial Department of the National Court Register under the number KRS 0000585975.

The Company holds a Tax Identification Number [NIP]: 113-28-98-091
The Company operates on the basis of the provisions of the Commercial companies code.

Its line of business are agricultural crops combined with animal breeding and husbandry.
-
The Company's share capital as at 31 December 2017 amounted to PLN 1,620,000.00 and was divided into 32,400 equal and undividable shares of a face value of PLN 500.00 each. The main shareholder is PEPEES, which holds 67.42% of the share capital. Other shareholders are natural persons.

6.2 Company's governing bodies

Management Board

During the period from 1 January 2017 to 24 November 2017 the Company's Management Board was composed of:

- Piotr Niciński - President of the Management Board

During the period from 25 November 2017 to 31 November 2017 the Company's Management Board was composed of:

- Tomasz Rogala - President of the Management Board

7. Changes in the organization of the PEPEES Capital Group

On 24 October 2016 the Extraordinary General Meeting of Shareholders of CHP Energia sp. z o.o. (CHP Energia) decided to raise the company's share capital by way of creating 6,000 new shares, which have been fully taken up by the Issuer. The aforementioned shares were taken up at the price of PLN 850.00 per share, i.e. for a total price of PLN 5.1 million. The increase in the aforementioned share capital was recorded by a competent registration court on 13 January 2017.

On 27.04.2017 the Company concluded with a natural person, the Company's shareholder, a conditional sales agreement on the basis of which the Company acquired 34.9167% of shares in Gospodarstwo Rolne PONARY. At the same time, the Company concluded preliminary agreements guaranteeing it the right to acquire all remaining shares in PONARY. The purchase price was established on market terms based on the valuations performed by three independent appraisers at PLN 11.7 million.

Gospodarstwo Rolne PONARY owns agricultural properties located in the commune of Miłakowo of a total area of 425.6547 hectares. The Company is a party to lease agreements concerning those properties. On 19.09.2017, as a result of performance of the preliminary agreement, the Company concluded with a natural person, the Company's shareholder, a second conditional sales agreement on the basis of which the Company acquired 32.5% of shares ("2nd Shareholding Package") in Gospodarstwo Rolne PONARY.
Thus, as at 31.12.2017 the Company held 67.4167% of shares in Gospodarstwo Rolne PONARY, which is reflected in the structure of the Capital Group presented in section I of this report.

After the reporting period had ended, i.e. on 04.01.2018, the Company concluded with two natural persons, the Company's shareholders, conditional agreements on the basis of which the Company acquired a package of the remaining shares in Gospodarstwo Rolne PONARY, covering a total of approx. 32.6% of shares ("3rd Shareholding Package"). In connection with the fulfilment of the condition stipulated in the aforementioned agreements in the 1st quarter of 2018, the Company became the holder of 100% of shares in PONARY.

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 PONARY will guarantee the implementation of the Company's strategy regarding access to the raw materials thanks to own sources of starch potatoes.

II. Factors and events affecting the Capital Group's activities

1. Nature of the business market.

The basic line of business of the PEPEES Capital Group during the reporting period was production, trade and services focused on processing of potatoes and production of electricity. As part of the PEPEES Capital Group the Parent Company pursues production and trade activities concerning starch industry products and goods.
Until the day control was taken over the subsidiary CHP Energia sp. z o.o. (i.e. until 24 October 2016) The Group operated in one main reporting segment covering processing of potatoes into starch, dried vegetable and starch hydrolysate. Thus, until that time, one segment in the daily records and internal reports called "processing of potatoes" was identified on the Capital Group's as well as the Parent Company's level.
At the same time, in connection with the take-over of control over CHP Energia, starting with the consolidated report for 2016, another segment "production of electricity" was established, to which the activities of the above subsidiary belong.

The following are produced as part of the segment "processing of potatoes":

- potato starch,
- several types of glucose,
- wide range of starch syrups,
- potato grits,
- potato flakes.

The Capital Group processes both starch potatoes as well as edible potatoes. Potatoes are a source of starch not only in Poland but in entire Europe. Starch potatoes are potatoes containing not less than 13% of starch. Starch from such potatoes is obtained through mechanical separation from other parts of the potatoes, washing, cleaning, curing and sieving, intended for consumption and technical purposes.

Europe is the largest producer of potato starch in the world. Production in the EU in recent years amounted to approx. 1.85 million tonnes a year, out of which 92% is produced in EU-15 countries, and only 8% in new member states. Poland's share in EU's potato starch production is approx. 6%.

Edible potatoes are processed at the subsidiary ZPZ Lublin, mainly potato grits and potato flakes, and partially at PPZ BRONISŁAW where they are made into potato flakes.

CHP Energia Sp. z o.o. is an enterprise which, in its strategy, intends to operate a biogas plant and the integrated facility producing solid fuel from biomass and to produce green electricity in co-generation. The generated surplus heat energy is used to cure biomass used a fertilizer. Additionally, the Company pursues trade activities associated with buying and baling of pulp. Development of agricultural biogas plants is a part of the process of fulfilling obligations towards the European Union. Newly implemented laws and the support system cause the development of this sector to accelerate in Poland.

2. Information about the basic products, goods and services being sold by the Group

The following are produced as part of the segment "processing of potatoes":

- potato starch, widely used in the food, pharmaceutical, paper, textile and chemical industries;
- several types of glucose, used by the food, confectionary and pharmaceutical industries;
- maltodextrin, which is an important ingredient of powdered products (ice cream, sauces, soups, fruit extracts, flavoured toppings) as well as vitamin and mineral supplements for children and athletes;
- wide range of starch syrups, used in the confectionary and baking industries;
- potato grits, used by the food industry;
- potato flakes, used in the food industry.

Potato starch

Potato starch (potato flour) is obtained by mechanical fragmentation of potatoes, extraction, refinement, dehydration, curing and sieving.
Starch is one of the most functional raw materials in the food industry. In some cases its natural properties of forming gel and thickening are used (food, chemical, textile and paper industries).
In the food and pharmacology industries it is used to give product appropriate texture, appearance (shape), moisture, consistence and shelf life.

Starch hydrolysate

- Crystalline glucose

Crystalline glucose is the final product of hydrogenation of potato starch. It has the form of white, fine-crystalline, sweet powder. It has a very high degree of microbiological purity and contains approx. 99.5% of pure glucose. Crystalline glucose is a calorie-rich monosaccharide, easily digestible by the body. It is a precious, natural source of energy. Glucose is widely used in the production of pharmaceutical and dietary products (medications, supplements). Consumption thereof is particularly important during increased physical exertion and during recovery.
In the food industry it is mainly used as an agent fostering the perception of sweetness and

highlighting the taste of products. It is used in the production of confectionary, ice cream, desserts, dried food mixes, non-alcoholic beverages, fruit and vegetable products. Moreover, crystalline glucose is used in the beer, wine, baking and meat industries.

- Glucose anhydrous

Glucose anhydrous is a product which is obtained as a result of fluidized dehydration of crystalline glucose to a moisture level below 1%. The product meets high microbiological requirements. The entire production of glucose anhydrous is used by the pharmaceutical industry. It is mainly used to produce infusion fluids.

- Maltodextrin

Maltodextrin is a product of depolymerization of potato starch obtained as a result of enzymatic hydrolysis. It has a form of a slightly sweet white powder. The properties of maltodextrin change depending on the degree of hydrolysis of starch. Higher DE (dextrose equivalent) causes increased sweetness, accompanied by higher solubility and hygroscopicity, but decreased viscosity, binding strength and resistance to crystallization. Thanks to the binding and filling properties and properties improving the texture and stabilizing the taste and smell, maltodextrin is used in food production. It is an important ingredient of powdered products (ice cream, sauces, soups, fruit extracts, flavoured toppings) as well as vitamin and mineral supplements for children and athletes. It constitutes an important carbohydrate ingredient in modified milk and lacteal flour for infants. Maltodextrin plays a very important role in low calorie foods.

- Glucose syrups

Glucose syrups are condensed water solutions of monosaccharides (glucose, maltose) and low-molecular polysaccharides obtained as a result of enzymatic hydrolysis of starch. It is characterized by good temperature and chemical stability, high osmotic pressure. Glucose syrups are used in the production of hard and soft candies, chewing gums, fruit jellies, ice cream, desserts, confectionary products. Addition of a glucose syrup increases elasticity of the mass, affects the durability of the hue and taste and guarantees transparency and glossiness. It guarantees appropriate structure and delicate sweetness, improves the structural properties, inhibits the crystallization of sugar, makes it possible to maintain a natural colour of fruits, give a delicate taste, strengthens the aroma.

- Potato protein

This product is obtained from the potato's cell juice through coagulation, separation and curing. The finished product is a granular, gray powder, with a taste typical of dried potato protein and moisture level not higher than 10%. The characteristic property of the product is high level of general protein, reaching more than 80%, where palatable protein accounts for more than 70% of dry mass. Being a high-grade, easily digestible, plant-based protein, it constitutes a precious ingredient of compound feedingstuff for animals and an excellent alternative to animal-based protein.

- Laundry starch

Laundry starch is obtained from pulped cells of potato tubers by washing out, and then through cleaning, curing and sieving. The tradeable product contains approx. 40% of water. The raw material for producing laundry starch are industrial potatoes with appropriate quality properties, i.e. high starch content with the highest share of large starch grain, small quantity of non-starch content, small protein content, round shape of tubers, brittle pulp, shallowly embedded buds.

- Hydrol

Hydrol constitutes a waste product. This is a crystalline juice left over after secretion of glucose crystals from condensed glucose syrup - soft sugar. This a thick, dark liquid with a specific smell. Due to a high content of carbohydrates, hydrol is used in the spirit, animal feed and chemical industries (e.g. leather tanning).

- Grits

Grits are a waste product of the laundry starch production process. These are lumps of conglomerated and sprouted starch separated from cured potato flour.

- Potato flakes

Potato flakes are made from edible varieties of potatoes. These are steamed and then dehydrated flakes ranging from 0.2 to 0.5 mm.

Apart from the above products, in 2017, as part of the Group, revenues from sales were generated also in the following lines of business:

- seed potatoes,
- plant protection products,
- sale of heat energy,
- sale of materials.

The following are produced as part of the segment "production of electricity":

- electricity from agricultural biogas,
- heat energy for own needs, among other things, for curing feed for

animals

3. Sales volume and structure.

The summary of the structure of revenues from sales during the period from 01.01.2017 to 31.12.2017 in comparison to the analogical period of 2016 is presented in table 1.

Table 1: Structure of net revenues from sales for 2017 and 2016

Product line	2017	Structure 2017	2016	Structure 2016	Dynamics
potato products	197,564	88.09%	165,939	89.37%	119.06%
- *including sales of the Parent Company*	*140,790*	*62.78%*	*119,902*	*64.58%*	*117.42%*
heat energy	352	0.16%	3,429	1.85%	10.27%
electricity	7,440	3.32%	1,054	0.57%	705.88%
Animal feed	1,765	0.79%	112	0.06%	1,575.89%
other sales, including:	17,152	7.65%	15,141	8.15%	113.28%
a) services	*1,831*	0.82%	*1,014*	0.55%	180.57%
b) goods and materials	*15,321*	6.83%	*14,127*	7.61%	108.45%
Total net revenues from sales	**224,273**	100.00%	**185,675**	100.00**%**	**120.79%**

Table 2: Product sales volume in 2017 and 2016

Product line	UM	2017	2016	Dynamics in %
potato products	tonne	74,397	61,952	120.09
- including for the Parent Company	*tonne*	*56,872*	*45,859*	124.01

In 2017, revenues from the sale of products increased by 20.79%, whereas the volume grew by 20.09%.

4. Information about domestic and foreign sales markets

Table 3: Revenues from sales broken down by sales markets

Net revenues from sales	2017	Sales structure in 2017	2016	Sales structure in 2016
Poland, including	**144,518**	**64.44%**	**121,325**	**65.34%**
- products	133,222	59.40%	108,403	58.38%
- goods	9,465	4.22%	11,908	6.41%
- services	1,831	0.82%	1,014	0.55%
EU countries - intra-community deliveries, including:	**16,090**	**7.17%**	**15,542**	**8.37%**
- products	15,368	6.85%	14,212	7.65%
- goods	722	0.32%	1,330	0.72%
Other countries - export, including:	**63,665**	**28.39%**	**48,808**	**26.29%**
- products	58,531	26.10%	47,919	25.81%
- goods	5,134	2.29%	889	0.48%
Total	**224,273**	**100.00%**	**185,675**	**100.00%**

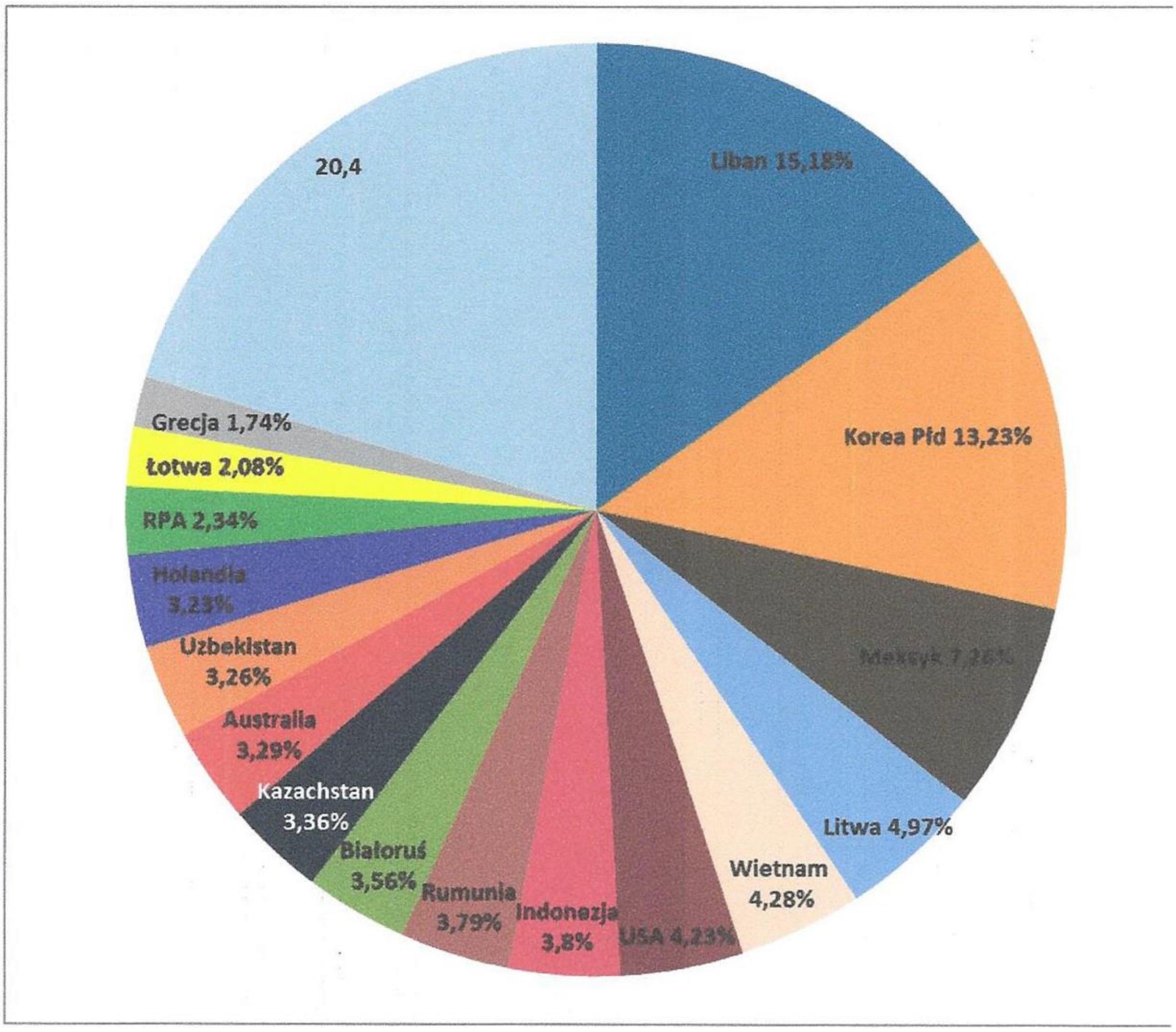
1) Domestic sales by sectors and geographical structure

Potato sector products were sold in 2017 throughout the entire country. Sale of the basic product in the offer, i.e. potato starch, held the highest share in the market in terms of value (48.04%). Subsequent products in terms of value were maltodextrin (10.41%), crystalline glucose (6.22%) and potato protein (6.12%). The Company's main customers on the domestic market were mainly renown domestic companies, frequently related by equity to large European or international companies.

The Group conducted its distribution through a chain of wholesalers and trading companies supplying the food industry, supplied the products directly to production facilities, mainly from the food, confectionary, meat and pharmaceutical industries, for which starch products constitute raw materials for further processing or a component in the production process. None of the customers exceeded 10% of revenues from sales both of the Group and the Parent Company.

2) Export and intra-community sales

In 2017 the value of export and intra-community sales amounted to PLN 79,755 thousand, which meant a 24% growth in relation to the preceding year. Most products were sold to Lebanon, South Korea and Mexico. In 2017 the main sales markets were Asia and Eastern Europe, i.e.: Russia, Latvia and Lithuania.



5. Information about sources of supply of materials for production, goods and services

In the "PEPEES" S.A. Group the main raw material for making the products are industrial and edible potatoes which are bought during the autumn on the basis of the contracts concluded in the spring with the growers. A downward tendency in potato production in Poland can be observed from the beginning of the 90s. At the end of the 90s their share in the seeding structure exceeded 10% while currently it is just around 3%. The potato growing area in 2017 amounted to 337 thousand hectares (according to the Institute of Agricultural and Food Economics), where the starch potato growing area accounted for approx. 5% of the overall potato growing area.

The main raw material for producing electricity at CHP Energia is the biomass generated, above all, by plant waste which is bought from the farmers and from PEPEES - waste coming from starch production (potato pulp).

In addition, the following raw materials are bought for production: paper packaging, enzymes, starch, glucose syrup, technical gases, electrical materials, fine coal, metal parts, bags, sulphur dioxide, heat-shrinkable foil, hydrochloric acid, labels, boxes, diatomaceous earth, adhesives, paint, paint thinners, enamel, steel tapes, plant protection products, etc.

The source of supply of the principal raw material - industrial potatoes - are the farms of individual farmers who are not associated in any organizations having a significant impact on the company's activities.

The main source of supply of materials, goods and services in 2017 were Polish companies or representative offices of foreign companies. Dependence on a single supplier occurred in case of enzymes and filtration materials due to the fact that these are the only representatives of foreign companies in Poland which produce the raw materials needed by the Group.

There was no supplier whose share in the Group's or Parent Company's revenues would amount to 10% or more.

6. Information about agreements significant to the business activities of the Group

6.1 Commercial agreements

In 2017 the Issuer signed a package of agreements associated with the purchase of shares in Gospodarstwo Rolne PONARY for the total price of PLN 11.7 million. These agreements are described in item 6.

Apart from the aforementioned agreements the Group did not conclude commercial agreements of a significant value as well as significant cooperation agreements.

Regardless of the above, the Issuer indicates the following agreements concluded in 2017:

- agreement on the purchase of potato protection products worth PLN 3,075 thousand;
- agreement on the installation and assembly of a palleting line worth PLN 1,990 thousand;
- trade agreements;
- agreements on the modernization of buildings, structures, machines, equipment and renovation work.

6.2 Credit agreements

In 2017 the Group concluded and annexed the following credit agreements:

a) with bank BOŚ S.A.

Annex dated 23 May 2017 to the non-renewable credit agreement of 18 February 2016, concluded between PEPEES S.A. in Łomża and BOŚ S.A. The subject matter of the agreement is reduction of the value of the credit from PLN 1,200 thousand to PLN 1,024 thousand, and change of the repayment schedule. The other terms and conditions of the agreement remained unchanged.

b) with bank BGŻ BNP Paribas S.A.

Change to the multi-purpose credit line agreement of 21 June 2017, concluded between "PEPEES" S.A. and the subsidiaries, i.e. Zakłady Przemysłu Ziemniaczanego "Lublin" sp. z o.o. and Przedsiębiorstwo Przemysłu Ziemniaczanego Bronisław S.A and bank BGŻ BNP Paribas S.A. By virtue of an Annex the values of the limits available as part of a renewable and non-renewable credit were changed, in effect of which the total value of the credit limit currently available to the Issuer and his subsidiaries is PLN 37 million. The Annex change the limit of the renewable credit in such a way so that currently the renewable credit granted to the Parent Company, ZPZ Lublin sp. z o.o. and PPZ Bronisław S.A. amounts to respectively: PLN 3.75 million, PLN 1.125 million, PLN 1.125 million, whereas the non-renewable credit granted to the Parent Company, ZPZ Lublin sp. z o.o. and PPZ Bronisław S.A. amounts to respectively:

PLN 15 million, PLN 1.5 million and PLN 9.5 million. The Annex did not implement changes to the credit in current account and, in accordance with the original provisions of the agreement, the credit in current account granted to the Parent Company, ZPZ Lublin sp. z o.o. and PPZ Bronisław S.A. amounts to respectively: PLN 4 million, PLN 0.5 million and PLN 0.5 million. Additionally, by virtue of the Annex the scope of the purpose of the non-renewable credit was extended in such a way so that it currently includes financing and re-financing of potato purchases and financing of purchases of seed potatoes for farmers.

c) with bank WBK S.A.

Annex dated 10.08.2017 to the multi-line agreement concluded between “PEPEES” S.A. and subsidiaries, i.e. Zakłady Przemysłu Ziemniaczanego "Lublin" sp. z o.o. and Przedsiębiorstwo Przemysłu Ziemniaczanego Bronisław S.A., and Bank WBK S.A. By virtue of the Annex to the multi-line agreement the credit limit granted to the Issuer and his subsidiaries was increased to PLN 46.5 million in such a way so that overdraft facility granted to the Issuer, Lublin and Bronisław currently amounts to respectively: PLN 16 million, PLN 1.5 million and PLN 8 million. The Annex did not implement any changes with respect to the credit in current account and the revolving credit. Therefore, the credit in current account granted to the Issuer, Lublin and Bronisław amounts to respectively: PLN 4 million, PLN 0.5 million and PLN 0.5 million, and the revolving credit amounts to respectively: PLN 10 million, PLN 3 million and PLN 3 million. Moreover, the Annex to the multi-line agreement extended the repayment date for all of the above credits concluded with Bank Zachodni WBK S.A. until 31 August 2018.

d) with bank PKO BP S.A.

Multi-purpose credit line agreement of 10.08.2017 concluded between “PEPEES” S.A. and subsidiaries, i.e. Zakłady Przemysłu Ziemniaczanego "Lublin" sp. z o.o. and Przedsiębiorstwo Przemysłu Ziemniaczanego Bronisław S.A., and Bank PKO BP S.A.
By virtue of the agreement the Bank granted the Issuer and his subsidiaries a multi-purpose credit agreement up to the total amount of PLN 46.5 million for each company respectively: the Issuer - up to PLN 30 million, Lublin - up to PLN 5 million and Bronisław - up to PLN 11.5 million.

The following credits were granted as part of the above limit:
- credit in current account: the Issuer - PLN 4 million, Lublin - PLN 0.5 million and Bronisław - PLN 0.5 million
- renewable overdraft facility: the Issuer - PLN 10 million, Lublin - PLN 3 million and Bronisław - PLN 3 million
- non-renewable overdraft facility: the Issuer - PLN 16 million, Lublin - PLN 1.5 million and Bronisław - PLN 8 million

The limit was granted until 31 August 2018.

Moreover, on 12.12.2017 the Issuer concluded an investment credit agreement with PKO Bank Polski S.A. for the amount of PLN 10.53 million to finance and re-finance outlays concerning the purchase of 100% of shares in Gospodarstwo Rolne PONARY. The amount of the credit accounts for 90% of the price of purchasing shares in Ponary and the other 10% are the Issuer’s own contribution.
The credit was granted until 30 June 2025 and it will be repaid in equal monthly instalments.

In 2017 no credits or loans taken out by companies from the PEPEES Capital Group were cancelled.

6.3 Insurance contracts

The companies concluded the following insurance contracts:

1. property insurance against fire and other fortuities;
2. loss of risk insurance;
3. property insurance against burglary and robbery;
4. electronic equipment insurance;
5. third party liability insurance, including:
   - tort liability
   - contract liability
   - product liability
   - third party liability of management board members
6. motor vehicle insurance (TPL, comprehensive).

6.4 Lease agreements

- Lease agreement concerning a passenger car worth PLN 121 thousand, concluded on 7 March 2017 for a period of 60 months with BGŻ BNP Paribas S.A.
- Lease agreement concerning a passenger car worth PLN 39 thousand, concluded on 23 March 2017 for a period of 60 months with BGŻ BNP Paribas S.A.
- Lease agreement concerning a passenger car worth PLN 237 thousand, concluded on 24 April 2017 for a period of 36 months with Volkswagen Leasing.
- Three lease agreements concerning forklifts worth a total of PLN 265 thousand, concluded on 24 July 2017 for a period of 36 months with BZ WBK Leasing.
- Lease agreement concerning a passenger car worth PLN 52 thousand, concluded on 27 July 2017 for a period of 36 months with BZ WBK Leasing.
- Lease agreement concerning Fendt combine harvester worth PLN 520 thousand, concluded on 14 August 2017 for a period of 38 months with BGŻ BNP Paribas S.A.
- Lease agreement concerning a passenger car worth PLN 343 thousand, concluded on 31 August 2017 for a period of 24 months with Volkswagen Leasing.
- Lease agreement concerning a wheel loader worth PLN 524 thousand, concluded on 5 September 2017 for a period of 36 months with BZ WBK Leasing.
- Lease agreement concerning a passenger car worth PLN 395 thousand, concluded on 20 October 2017 for a period of 36 months with PKO Leasing S.A.
- Lease agreement concerning a passenger car worth PLN 52 thousand, concluded on 4 December 2017 for a period of 36 months with BZ WBK Leasing.
- Lease agreement concerning a passenger car worth PLN 60 thousand, concluded on 4 December 2017 for a period of 36 months with Volkswagen Leasing.
- Lease agreement concerning a passenger car worth PLN 40 thousand, concluded on 7 December 2017 for a period of 48 months with Volkswagen Leasing.
- Lease agreement concerning a high pressure gas steam boiler worth PLN 768 thousand, concluded on 11 December 2017 for a period of 72 months with PKO Leasing S.A.
- Lease agreement concerning a bag palleting line using an industrial robot worth PLN 2,367 thousand, concluded on 19 December 2017 for a period of 60 months with BZ

WBK Leasing.

6.5 Agreements between shareholders

As at the day this report was drawn up the Group was unaware of any agreements concluded between its shareholders.

7. Information about organizational or capital ties of the Issuer with other entities and identification of his main domestic and foreign investments.

As at 31.12.2017 the main investments of "PEPEES" S.A. are shares in subsidiaries which are consolidated and 3,000 shares in Warszawski Rolno-Spożywczy Rynek Hurtowy S.A. worth PLN 2,550 thousand.

Basic financial data of subsidiaries

Name of subsidiary	Equity	Assets	Liabilities	Revenues from sales	Profit/Loss
2016					
ZPZ LUBLIN Sp. z o.o.	2,525	14,427	11,902	17,815	(183)
PPZ BRONISŁAW	3,953	32,012	28,059	32,848	2,435
CHP Energia Sp. z o.o.	(471)	28,360	28,830	1,272	(174)
OZENERGY Sp. z o.o.	4	8	5	0	(1)
2017					
ZPZ LUBLIN Sp. z o.o.	2,073	14,637	12,564	17,625	(452)
PPZ BRONISŁAW	9,073	38,467	29,394	45,054	5,120
CHP Energia Sp. z o.o.	(3,464)	24,758	28,222	10,232	(2,758)
OZENERGY Sp. z o.o.	3	8	5	0	(1)
Gospodarstwo Rolne PONARY Sp. z o.o.	11,010	21,178	10,168	-	(29)

PPZ BRONISŁAW significantly improved its results in 2017 in relation to the preceding year. Revenues from sales increased and the net profit more than doubled.

ZPZ LUBLIN recorded a more than doubled loss in 2017 in relation to 2016 but financial forecasts for 2018 anticipate much better results thanks to higher revenues.

OZENERGY did not conduct business in 2017.

CHP Energia recorded a significant loss due to the malfunction of the reactor which led to a significant drop in the production of electricity from renewable sources in the second half of 2017.

PONARY did not generate any revenues from sales. The loss ensues from operating expenses and other operating expenses.

Through the Parent Company the Group also holds shares in 3 other entities which provide for less than 5% of the overall number of votes in a General Meeting in those entities and are insignificant from the point of view of the Group's investment value and policy.

8. Description of transactions with related entities

All transactions with related entities were concluded on market terms.

Issuer's transactions with subsidiaries:

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

Transactions of "PEPEES" S.A. in Łomża with the subsidiary ZPZ "LUBLIN" Sp. z o.o. in Lublin consisted in the purchase of starch from the subsidiary for the amount of PLN 2,287 thousand and grits for the amount of PLN 13 thousand. The total value of the purchases from ZPZ "LUBLIN" amounted to PLN 2,300 thousand.
In 2017 PEPEES sold starch to ZPZ "Lublin" for PLN 164 thousand, maltodextrin for PLN 9 thousand and services for PLN 183 thousand. Total sales to ZPZ "LUBLIN" amounted to PLN 355 thousand.
The sales price is determined using a "cost plus" method or on the basis of the price lists applicable to unrelated entities.
Moreover, ZPZ "LUBLIN" paid the Issuer interest on a loan granted in previous years in the amount of PLN 127.5 thousand. The amount of the loan still remaining to be repaid as at the balance sheet date was PLN 3,000 thousand.

Transactions between "PEPEES" S.A. in Łomża and ZPPZ Bronisław S.A. in Bronisław

During the reporting period the Issuer bought starch and potato flakes from the subsidiary for the amount of PLN 4,505 thousand and services for PLN 184 thousand. The total value of the purchases from PPZ "BRONISŁAW" S.A. amounted to PLN 4,689 thousand.
In 2017 PEPEES sold potatoes to BRONISŁAW for PLN 2,320 thousand, a passenger car for PLN 48 thousand and services for PLN 1 thousand. The total value of sales to PPZ "BRONISŁAW" S.A. amounted to PLN 2,369 thousand.
The sales price is determined using a "cost plus" method or on the basis of the price lists applicable to unrelated entities.
Moreover, PPZ BRONISŁAW paid the Issuer interest on a loan granted in the preceding year in the amount of PLN 167.2 thousand. The amount of the loan still remaining to be repaid as at the balance sheet date was PLN 2,000 thousand.

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

Transactions of "PEPEES" S.A. in Łomża with the subsidiary CHP Energia Sp. z o.o. consisted in the purchase of beet pulp from the subsidiary for the amount of PLN 913 thousand, bio-compost for PLN 175 thousand, post-fermentation digestate for PLN 104 thousand and services for PLN 44 thousand. The total value of the purchases from CHP Energia amounted to PLN 1,236 thousand.
PEPEES sold to CHP potato pulp for PLN 105 thousand, compensation fee for the agreement on the sale of property right for the amount of PLN 20 thousand and services for PLN 67 thousand. Total sales to CHP Energia amounted to PLN 192 thousand.
As at the balance sheet date there are unrepaid loans totalling PLN 2,619 thousand, interest on sureties in the amount of PLN 231 thousand, advance in the amount of PLN 162 thousand and trade receivables in the amount of PLN 196 thousand.

In 2017 the Issuer did not conclude transactions with OZENERGY sp. z o.o. and Gospodarstwo Rolne Ponary Sp. z o.o.

Transactions with shareholders and managing persons and their closest relatives during the reporting period:

During the reporting period the Group did not conclude transactions with shareholders, managing persons and their closest relatives.

9. Information about credits taken out

As at 31.12.2017 the Capital Group had credit commitments presented in the following table:

Table 4: Credit commitments as at 31.12.2017

(data in thousands of zlotys)

Credit type /Agreement/	Bank granting the credit	Borrower	Value of credit as per the agreement	Debt as at 31.12.2017	Repayment date
1	2		3	4	5
Preferential credit to modernize equipment.	Bank Polskiej Spółdzielczości S.A.	PEPEES	1,295	235 (balance sheet value 225)	30.11.2018
Investment credit to build starch curing facility, unloading line and water purification station	BGŻ BNP Paribas S.A.	PEPEES	9,822	5,772	25.02.2022
Investment credit to modernize steam boiler facility dedusting installation	BOŚ	PEPEES	1,200	861	31.12.2020
Investment credit to finance and refinance the purchase of 100% of shares in Gospodarstwo Rolne Ponary	Powszechna Kasa Oszczędności Bank Polski S.A.	PEPEES	10,530	7,055	30.06.2025
Syndicated investment credit to carry out the investment called "Construction of biogas facility in the Commune of Szepietowo"	Spółdzielczy Bank Rozwoju in Szepietowo and Bank Spółdzielczy in Ostrów Mazowiecka	CHP Energia	12,830	11,984	31.12.2023
Overdraft facility associated with the business activity	Spółdzielczy Bank Rozwoju in Szepietowo	CHP Energia	800	690	31.12.2019
Overdraft facility to finance current liabilities associated with the business activity	Spółdzielczy Bank Rozwoju in Szepietowo	CHP Energia	3,000	2,760	31.05.2022
Investment credit to finance/refinance the purchase of real estate by PPZ Bronisław	Bank Zachodni WBK S.A.	PPZ Bronisław	800	634	30.11.2021
Credit in current account	Bank Zachodni WBK S.A.	PEPEES	4,000	0	31.08.2018
Renewable overdraft facility in a credit account	Bank Zachodni WBK S.A.	PEPEES	10,000	7,641	31.08.2018
Non-renewable overdraft facility in a credit account	Bank Zachodni WBK S.A.	PEPEES	16,000	16,000	31.08.2018
Credit in current account	Bank Zachodni WBK S.A.	ZPZ Lublin	500	0	31.08.2018
Renewable overdraft facility in a credit account	Bank Zachodni WBK S.A.	ZPZ Lublin	3,000	2,021	31.08.2018
Non-renewable overdraft	Bank Zachodni	ZPZ Lublin	1,500	1,500	31.08.2018

Credit type /Agreement/	Bank granting the credit	Borrower	Value of credit as per the agreement	Debt as at 31.12.2017	Repayment date
1	2		3	4	5
facility in a credit account	WBK S.A.				
Credit in current account	Bank Zachodni WBK S.A.	PPZ Bronisław	500	0	31.08.2018
Renewable overdraft facility in a credit account	Bank Zachodni WBK S.A.	PPZ Bronisław	3,000	2,075	31.08.2018
Non-renewable overdraft facility in a credit account	Bank Zachodni WBK S.A.	PPZ Bronisław	8,000	4,898	31.08.2018
Credit in current account	Powszechna Kasa Oszczędności Bank Polski S.A.	PEPEES	4,000	0	31.08.2017
Renewable overdraft facility in a credit account	Powszechna Kasa Oszczędności Bank Polski S.A.	PEPEES	10,000	10,000	31.08.2018
Non-renewable overdraft facility in a credit account	Powszechna Kasa Oszczędności Bank Polski S.A.	PEPEES	16,000	16,000	31.08.2018
Credit in current account	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ Lublin	500	0	31.08.2018
Renewable overdraft facility in a credit account	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ Lublin	3,000	1,395	31.08.2018
Non-renewable overdraft facility in a credit account	Powszechna Kasa Oszczędności Bank Polski S.A.	ZPZ Lublin	1,500	1,500	31.08.2018
Credit in current account	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ Bronisław	500	292	31.08.2018
Renewable overdraft facility in a credit account	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ Bronisław	3,000	2,792	31.08.2018
Non-renewable overdraft facility in a credit account	Powszechna Kasa Oszczędności Bank Polski S.A.	PPZ Bronisław	8,000	8,000	31.08.2018
Overdraft facility associated with the business activity	Spółdzielczy Bank Rozwoju in Szepietowo	CHP Energia	2,500	2,500	13.09.2018

The interest rate on short-term credits is based on the WIBOR rate for IM deposits plus the banks' margin. The annual interest rate on preferential credits is 2%.
During 2017 none of the credits was cancelled against the Group and during that same time the Group's companies did not terminate credit agreements.

10. Information about loans, guarantees and sureties granted

Sureties granted by the Parent Company "PEPEES" S.A. as at 31.12.2017:

Agreement of 9 June 2014 concerning the terms and conditions of securing the repayment of the credit concluded between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o. On the basis of the agreement PEPEES S.A. provides a collateral securing the repayment of the investment credit taken out by CHP Energia Sp. z o.o. The value of the investment credit taken out by CHP Energia Sp. z o.o. is PLN 12,830 thousand. The collateral granted by PEPEES S.A. comes in the form of an aval up to PLN 12,224 thousand until 25.05.2024.

Agreement of 14 September 2017 concerning the terms and conditions of securing the repayment of the credit concluded between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o. On the basis of the agreement PEPEES S.A. provides a collateral securing the repayment of the overdraft facility taken out by CHP Energia Sp. z o.o. The value of the overdraft facility taken out by CHP Energia Sp. z o.o. is PLN 3,000 thousand. The collateral granted by PEPEES S.A. comes in the form of an aval up to PLN 2,800 thousand (value of debt as at the day the collateral is granted).

Agreement of 14 September 2017 concerning the terms and conditions of securing the repayment of the credit concluded between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o. On the basis of the agreement PEPEES S.A. provides a collateral securing the repayment of the overdraft facility taken out by CHP Energia Sp. z o.o. The value of the overdraft facility taken out by CHP Energia Sp. z o.o. is PLN 800 thousand. The collateral granted by PEPEES S.A. comes in the form of an aval up to PLN 710 thousand (value of debt as at the day the collateral is granted).

Agreement of 14 September 2017 concerning the terms and conditions of securing the repayment of the credit concluded between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o. On the basis of the agreement PEPEES S.A. provides a collateral securing the repayment of the overdraft facility taken out by CHP Energia Sp. z o.o. The value of the overdraft facility taken out by CHP Energia Sp. z o.o. is PLN 2,500 thousand. The collateral granted by PEPEES S.A. comes in the form of an aval up to PLN 2,500 thousand.

The subsidiaries did not provide collaterals.

Sureties granted to the Parent Company “PEPEES” S.A. as at 31.12.2017:

Collaterals securing short-term credits are, among other things, mortgages established on the assets of the subsidiaries: ZPZ “LUBLIN” Sp. z o.o. and PPZ “BRONISŁAW” S.A.

Guarantees

As at 31.12.2017 the Parent Company had 13 performance bonds for the total amount of PLN 779 thousand and EUR 34 thousand.

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

	2017	2016
Off-balance sheet assets		
Value of land in perpetual usufruct	13,603	13,603
Disputable receivables	-	121
Off-balance sheet liabilities		
Mortgages on companies’ assets	180,975	178,940
Pledge on assets	114,512	102,716
Credit sureties	18,234	6,000
Assignment of receivables from insurance policy	254,630	224,548
Potential compensation ensuing from competition ban	818	818
Disputable liabilities	-	32

12. Description of the use of proceeds from issue of shares or buyback of own shares

In 2017 the Group's companies did not issue shares and did not buy shares in the Parent Company.

At the same time, the Issuer informs that on the basis of the authorization granted by the Ordinary General Meeting of Shareholders, by virtue of a resolution No. 24 of 25 April 2017, on 15 November 2017 the Issuer's Management Board commenced the process of buying back the Company's own shares and took a decision to publish the offer to buy back own shares. The subject matter of the offer covered not more than 3,000,000 shares, accounting for 3.16% of the Company's share capital and the total number of votes at the General Meeting of Shareholders, and the price being offered was PLN 1.20 per share. On 5 December 2017 the Issuer received information from DM BOŚ S.A. that no offer to sell shares was submitted during the period of submitting offers to sell shares as part of the buyback of own shares, this period ended on 4 December 2017. Detailed information in this regard can be found in the current reports 25/2017 and 27/2017.

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

The Company and the Capital Group did not publish financial forecasts for 2017.

14. Assessment of managing financial resources

In 2017 both the Parent Company and the Capital Group had full capacity to meet their commitments with respect to the suppliers as well as financial institutions. There were no threats to the repayment of commitments. Also, there should be no threat to the Group's financial liquidity during the next reporting period. Surplus funds were invested in short-term deposits.

15. Information about financial instruments related to the risk, the objectives and methods of managing the financial risk

Information about the financial instruments used and the financial risk is analogous for the Capital Group as well as the Parent Company which coordinates the process of managing the above risk on the Group's level.
The main financial instruments being used by the Group were bank credits, lease agreements, short-term deposits, cash.
During the reporting period the Group did not conclude transactions concerning derivative instruments. It also did not use hedge accounting.
Other instruments being generated directly in the course of the business activity were trade receivables and liabilities.

The main financial risks that appeared in 2017 is the risk of change of the market prices of the goods being produced by the Group and the FX risk. The principal objective of the enterprise as regards management of the above risks is their elimination or reduction.
The risk of the Group's business activity is closely associated with the changing prices of the products on the domestic market and exchange rates whose fluctuations affect the revenues

from export sales. The prices of material purchased abroad for production run hand in hand with the FX risk.
Financing of operations and investments with bank credits causes the Group to be exposed to the interest rate risk.
The financial liquidity risk appearing in the Group is not considered to be high. This ensues from the fact that the trade credits are managed efficiently. Evaluation of counterparties and insurance coverage of receivables are carried out by KUKE.
Surplus cash is invested in short-term deposits which make it possible to pay for liabilities on time. During the periods of intensified demand for revolving assets, such as the "potato campaign", the main financial instrument being used by the Group's companies is a short-term bank credit to buying potatoes, whose individual tranches are closely correlated with the buying schedule.

The Management Boards of the companies verify and agree upon the principles of managing every type of risk. They monitor the risk of market prices in relation to every financial instrument possessed.

16. Information about accomplished investments and investment plans

1) Investments accomplished in 2017

In 2017 the Group accomplished several investment projects of various nature and scale, which include, in particular:

- assembly of gas boiler including adaptation of the boiler room and construction of the gas installation (completion of project commenced in 2016),
- re-construction of the installation for dedusting the exhaust fumes from the steam boiler (completion of project commenced in 2016),
- installation of a bag palleting line using industrial robots,
- modernization of the waste pipeline discharging the waste onto meadows,
- modernization of the Bioblok biological sanitary waste purification facility,
- modernization of vacuum filters at the Starch Milk Dehydration Station,
- installation of AUTOSAT semi-automatic storing system,
- installation of STNX decanter at the Juice Water Recovery Station,
- modernization of potato graters,
- replacement of II degree heating column of the Wiegand evaporator,
- assembly of an installation for filling tank trucks with starch,
- modernization of the starch packing line control system to increase the accuracy of doses,
- purchase of laboratory apparatus (autoclaves, moisture analyzer, distillers, climate chamber),
- purchase of technical equipment (lathe, pumping units),
- tilling machines for the farm,
- purchase of equipment for CHP Energia.

In 2017, the Parent Company additionally performed a wide range of renovation and construction work at production, storage and auxiliary facilities in order to improve their technical condition, to adapt them to the work safety and fire regulations, and to the Integrated Management Systems in operation in the Company, including work indicated in the post-audit and post-inspection recommendations. The scope of work covered mainly renovation of elevations, walls, floors, ceilings, replacement of windows and doors, as well as electrical and sanitary installation work.

The overall investment expenses incurred in 2017 on the above projects amounted to PLN 13.4 million.

2) Investments planned in 2018

The investment plan for 2018 includes preparation of conceptual documentation for: new storage management facilities (finished product warehouse, staff rooms for the warehouse personnel) the office section of the workshop building.

The following, among other things, are planned as part of the production and storage infrastructure:

-modernization of "old" starch curing chambers - stage I together with the modernization of the control and visualization system,

-modernization of the raw material washing and cleaning system - stage II,

-assembly of the protein decanter,

-modernization of potato grater No. 2,

-replacement of B26 processing tank,

-replacement of drop separator in the column of II degree evaporator,

-modernization of the system for unloading potatoes into the reservoir,

-purchase of forklifts (3 engine powered + 2 electrical),

-assembly of heating and ventilation installation in the Finished Goods Warehouse.

External financing (investment credit) for the modernization projects and purchase of forklifts as part of lease agreements are planned.

The main investments planned in the area of utility production and management include:

-stage V of the modernization of the waste pipeline discharging the waste onto meadows

-stage II of the modernization of the Bioblok biological sanitary waste purification facility

-improvement of the thermal efficiency of the technological steam and usable warm water installation.

17. Information concerning issues related to the natural environment

The Issuer's enterprise is located in the area of the so-called Green Lungs of Poland, covering ecologically purest natural areas of north-eastern Poland.
Pursuing its business operations, the Group makes every effort to observe the laws protecting the natural environment. It has its environmental status regulated as regards emission of pollution, water intake, discharge of sewage or production of waste.
Waste is treated in accordance with the regulations preventing environmental pollution and guaranteeing protection of human safety and health. Quantitative and qualitative records of

waste management are kept at the companies in accordance with the adopted classification and specimens of documents specified by applicable laws.
The Issuer's enterprise has implemented an Integrated Management System which covers quality management, environmental protection, activities to protect human lives and guarantee employees' safety, and a quality management system in the laboratories.

18. Information about employment in the Group

Table 5: Employment in the Group

Description	Average employment level in 2017	As at 31.12.2017		Average employment level in 2016
		Women	Men	
White-collar workers	142	73	68	129
Blue-collar workers	358	60	248	290
Persons on unpaid leaves	4	4	0	4
Total	**504**	**137**	**316**	**423**

19. Significant accomplishments in the R&D area

No significant work related to R&D was carried out in 2017. Only research work commenced in 2016 concerning the impact of water hardness on the viscosity of potato starch was continued. The aim of this research was to identify the process parameters necessary to obtain a product with viscosity complying with customers' requirements.

20. Events having a significant impact on the result on business activity of the Parent Company and the Capital Group

The Parent Company made write-downs on assets in the subsidiary CHP Energia for the total amount of PLN 3,464 thousand in connection with the negative capital of that company, which contributed to a decrease in the standalone result of PEPEES.
Moreover, write-off of goodwill arisen when buying shares in CHP Energia was made in the amount of PLN 4,346 thousand, which decreased the consolidated financial result.

21. Structure of the main capital deposits or main capital investments

(data in thousands of zlotys)

Capital investments and deposits	2017	2016
Short-term bank deposits in PLN	23,813	20,850
Investments intended for trading (shares)	3,546	2,550

22. Adjustment of errors from previous periods and changes in the accounting principles

In the report on the financial condition for the previous period CHP presented work in progress. Electricity and heat generated from biogas is not stored, so, no value of this stock is determined. Production of biogas is a biological and chemical process. The process of fermentation of the raw material lasts approx. 81 days and is not uniform, approx. 70% of biogas is generated in the first 30 days. The quantity of the raw material (maize silage, fruit deposits, potato pulp) used to produce biogas is very similar in every accounting period. Therefore, starting from 01.01.2017, production in progress in generating electricity and heat energy is not measured because this does not affect the status of the assets (electricity and heat are not stored) and the financial result (similar quantity of raw material being in the fermentation stage). The impact of the adopted assumptions is PLN (-)236 thousand and is presented in the statement of changes in equity.

23. Changes in the basic principles of managing the Group

No significant changes in the principles of managing the Issuer and his Group occurred in 2017.

24. All agreements concluded between the Issuer and managing persons, anticipating a compensation in case of their resignation or layoff from their position without a serious reason or when their recall or layoff occurs as a result of a merger of the Issuer by takeover

Managerial contracts are concluded between the Issuer and the managing persons which provide for compensation for competition ban during the period of 12 months from the day the contract is terminated in the amount equal to 100% of the average monthly salary together with bonuses from the last 12 months.

25. Value of remunerations, prizes and other benefits paid out or payable to managing and supervising persons in 2017

Management Board:

Wojciech Faszczewski	PLN 882.0 thousand
Tomasz Rogala	PLN 648.4 thousand
Total remuneration of Members of the Management Board	PLN 1,530.4 thousand

Supervisory Board:

Maciej Kaliński	PLN 71.0 thousand
Piotr Taracha	PLN 67.4 thousand
Krzysztof Stankowski	PLN 60.7 thousand
Robert Malinowski	PLN 60.0 thousand
Agata Czerniakowska	PLN 60.0 thousand
Total remuneration of the Supervisory Board	PLN 319.1 thousand

Remuneration of the Management Board and the Supervisory Board for performing functions in the governing bodies of subordinated entities:

Wojciech Faszczewski - President of the Management Board of PEPEES - PLN 55.6 thousand for membership in the Supervisory Board of Zakłady Przemysłu Ziemniaczanego "Lublin" Sp. z o.o., PLN 116 thousand for performing the function of a President of the Management Board of PPZ BRONISŁAW S.A., PLN 8 thousand for membership in the Supervisory Board of CHP Energia,

Tomasz Rogala - Member of the Management Board of PEPEES - PLN 6 thousand for membership in the Supervisory Board of CHP Energia,

Piotr Taracha - PLN 49 thousand for membership in the Supervisory Board of Zakłady Przemysłu Ziemniaczanego "Lublin" Sp. z o.o. and PLN 35 thousand for membership in the

Supervisory Board of PPZ BRONISŁAW S.A.

Agata Czerniakowska - PLN 27.3 thousand for membership in the Supervisory Board of ZPZ "LUBLIN" Sp. z o.o. and PLN 22 thousand for membership in the Supervisory Board of PPZ BRONISŁAW S.A.

There are no commitments ensuing from old age pensions and similar benefits towards former members of the Management Board and the Supervisory Board.

26. Information about shares held in "PEPEES" S.A. and shares held in the Capital Group's companies by managing and supervising persons

Among the managing and supervising persons in "PEPEES" S.A. in Łomża as at 31.12.2017, shares in the Company were held by:
Wojciech Faszczewski - President of the Management Board - holds 701,000 shares of a face value of PLN 0.06 each, for a total value of PLN 42,060.

None of the managing and supervising persons holds shares in the Issuer's subsidiaries.

27. Listings of the Company in 2017

Starting from 22 May 1997 the Company's shares are listed on the Warsaw Stock Exchange.
The share price in the beginning of 2017 was PLN 1.13. The highest price in 2017 was PLN 1.49 and the lowest was PLN 1.11. 2017 ended with a list price of PLN 1.44.

The prices of PEPEES shares in 2017 are presented in the following chart.

	Jan'17
	Mar'17
	May'17
	Jul'17
	Sep'17
	Nov'17

28. Information about agreements known to the Issuer in result of

which changes may occur in the future in the proportions of shares held by current shareholders and bondholders

The Group has no information about agreements in result of which changes might occur in the proportions of shares held by the current shareholders.

The Company did not issue bonds.

29. Information about the employee share program control system

The Group has no employee share program and capital-based incentive program control system.

30. Information about the entity authorized to audit and review the Issuer's financial statements

PEPEES and the subsidiaries concluded an agreement for the duration of the review and audit of the financial statement for 2017 with Mazars Audyt Sp. z o.o. with registered office in Warsaw. The agreement was concluded on 10 August 2017.
Value of remuneration in thousands of zlotys:

Description	2017	2016
Compulsory audit of the annual financial statement	44	34
including: PEPEES	*31*	23
Audit of the semi-annual financial statement	16	21
including: PEPEES	*9*	*13*
Tax consultation services	-	-
Other services	-	-
Total remuneration	**60**	**55**

31. Proceedings before the courts

There are no proceedings concerning liabilities or debt of the Company or its subsidiaries whose value accounts for at least 10% of the Issuer's equities, the Company or the subsidiaries are not a party to two or more proceedings concerning respectively liabilities or debt whose total value for each group accounts for at least 10% of the Issuer's equities.

As at the balance sheet date there is an unresolved court case brought in by EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych to abrogate or annul resolutions adopted during the General Meeting of Shareholders held on 25 April 2017 about which the Issuer informed in the current report No. 14/2017 of 8 June 2017.

III. Economic and financial condition.

1 Economic condition of the Capital Group

The status of assets as at 31 December 2017 in comparison to 31 December 2016 is presented in the following table.

Table 6: Assets as at 31.12.2017 and 31.12.2016

Name of asset	Status as at		Changes amount-wise + increases - decreases	Structure ratios in %	
	31.12.2017	31.12.2016		31.12.2017	31.12.2016
I. FIXED ASSETS (long-term)	**155,419**	**138,339**	**17,080**	**51.1**	**50.8**
1. Tangible fixed assets	147,034	119,315	27,719	48.4	43.8
2. Intangible assets	211	298	(87)	0.1	0.1
3. Goodwill	3,140	6,607	(3,467)	1.0	2.4
4. Investments in other entities	113	113		0.0	0.0
5. Loans	-	-	-	0.0	0.0
6. Advances	72	9,649	(9,577)	0.0	3.5
7. Deferred income tax assets	4,849	2,357	2,492	1.6	0.9
II. CURRENT ASSETS (short-term)	**148,468**	**133,827**	**14,641**	**48.9**	**49.2**
1. Inventory	84,134	77,283	6,851	27.7	28.4
2. Biological assets	-	158	(158)	0.0	0.1
3. Trade receivables	23,311	25,763	(2,452)	7.7	9.5
4. Current tax assets				0.0	0.0
5. Other receivables	5,250	2,317	2,933	1.7	0.9
6. Advances	827	1,398	(571)	0.3	0.5
7. Loans	762	182	580	0.3	0.1
8. Investments intended for trading	3,546	2,550	996	1.2	0.9
9. Cash and cash equivalents	30,638	24,176	6,462	10.1	8.9
III. Long-term and current assets classified as intended for sale				0.0	0
Total assets	**303,887**	**272,166**	**31,721**	**100.00**	**100.00**

The total value of the Group's assets as at 31.12.2017 increased by 11.66% in relation to the preceding year, mainly due to increased involvement in the new subsidiary Gospodarstwo Rolne Ponary. Tangible fixed assets increased by 23.23%. As for current assets, inventory grew the most due to increased production.

2 Sources of financing the Capital Group

The status of the sources of financing the assets as at 31 December 2017 in comparison to 31 December 2016 is presented in the following table.

Table 7: Sources of financing the assets as at 31.12.2017 and 31.12.2016

Description of the sources of financing	Status as at		Changes amount-wise + increases - decreases	Structure ratios in %	
	31.12.2017	31.12.2016		31.12.2017	31.12.2016
I. Equity	**145,547**	**129,119**	**16,428**	**47.9**	**47.4**
Equity attributable to shareholders in the parent company	***141,282***	***128,199***	13,083	46.5	47.1
1. Share capital	5,700	5,700	0	1.9	2.1
2. Supplementary and reserve capital	124,418	106,065	18,353	40.9	39.0
3. Revaluation capital	(172)	(278)	106	(0.1)	(0.1)
4. Retained earnings	(2,028)	(888)	(1,140)	(0.7)	(0.3)
5. Results for the current year	13,364	17,600	(4,236)	4.4	6.5
Non-controlling shares	4,265	***920***	3,345	1.4	0.3
II. Long-term liabilities	**48,684**	**42,696**	**5,988**	**16.0**	**15.7**
1. Credits and loans	25,330	22,370	2,960	8.3	8.2
2. Liabilities ensuing from assets in leasing	7,446	4,677	2,769	2.5	1.7
3. Provision for deferred income tax	6,258	5,722	536	2.1	2.1
4. Liabilities ensuing from old age pension and similar benefits	2,249	2,240	9	0.7	0.8
5. Subsidies	6,901	7,687	(786)	2.3	2.8
6. Other liabilities	500		500	0.2	0.0
III. Short-term liabilities	**109,656**	**100,351**	**9,305**	**36.1**	**36.9**
1. Trade liabilities	15,026	11,956	3,070	4.9	4.4
2. Current tax liabilities	2,887	3,118	(231)	1.0	1.1
3. Other short-term liabilities	5,317	5,088	229	1.7	1.9
4. Credits and loans	81,534	76,080	5,454	26.8	28.0
5. Liabilities ensuing from financial lease	2,587	1,901	686	0.9	0.7
6. Liabilities ensuing from old age pension benefits	327	331	(4)	0.1	0.1
7. Provisions for other liabilities and encumbrances	1,978	1,877	101	0.7	0.7
Total liabilities	**303,887**	**272,166**	**31,721**	**100.0**	**100.0**

Despite of consolidation of Gospodarstwo Rolne Ponary, the financing structure is very similar to that from previous year - the ratios of the equities structure, long-term and short-term did not deviate significantly in comparison to 2016.

3 Financial results of the Capital Group

The financial results on the Capital Group's business activity for 2017 and 2016 are presented in the following table.

Table 8: Breakdown of the financial result for 2017 and 2016

No.	Description	Performance for 2017	Performance for 2016	Dynamics in %
1	**Revenues from sales**	**224,273**	**185,675**	**120.8**
	- revenues from sales of products	203,379	170,534	119.3

	- revenues from sales of services	1,831	1,014	180.6
	- revenues from sales of goods and materials	19,063	14,127	134.9
2	**Cost of products, goods and materials sold**	**(160,257)**	**(135,147)**	**118.6**
	- cost of products sold	(141,022)	(121,487)	116.1
	- cost of services sold	(654)	(435)	150.3
	- cost of goods and materials sold	(17,152)	(11,737)	146.1
	- result on agricultural production	(1,429)	(1,488)	96.0
3	**Gross profit on sales**	**64,016**	**50,528**	**126.7**
	- costs of sales and marketing	(11,475)	(8,920)	128.6
	- general and administrative costs	(26,862)	(19,484)	137.9
	- other operating revenues	1,065	1,896	56.2
	- other operating expenses	(4,891)	(436)	1,121.8
4	**Profit on operating activities**	**21,853**	**23,584**	**92.7**
	- financial expenses	(3,571)	(1,515)	235.7
	- financial revenues	369	606	60.9
	- share in the result of affiliated parties			
5	**Pre-tax profits**	**18,651**	**22,675**	82.3
	- income tax	(5,460)	(4,777)	114.3
6	**Net profit, including:**	**13,191**	**17,898**	**73.7**
	Profit attributable to company's shareholders	13,364	17,600	75.9

In 2017 the PEPEES Group achieved sales worth PLN 224.3 million, which meant a growth by 20.8% in relation to the analogical period of previous year. Increased export sales outside of the European Union (increase by 30.4%) particularly contributed to higher revenues from sales.
Thanks to lower dynamics of growth of costs of products sold (in comparison to the dynamics of growth of revenues from sales of products), in 2017 the Group generated a gross profit on sales in the amount of PLN 64 million, which meant a growth by 26.7% in relation to the analogical period of the preceding year.
The costs of sales and marketing and the general and administrative costs in 2017 increased respectively by 28.6% and 37.9% in relation to the preceding year.
The balance of the other activities in 2017 was closed on a level of PLN (-) 3.8 million, where the result in 2016 was PLN 1.5 million. A significant surplus of other operating expenses over other operating revenues in 2017 ensues, above all, from the fact that the Issuer made a write-down of goodwill of CHP Energia (PLN 4.3 million).
Meanwhile, the result on financial activities in 2017, understood as the balance of financial revenues less financial expenses, was worse by PLN 2.3 million in relation to the analogical position in 2016. It is a result of creation of write-downs on the Issuer's shares in CHP Energia (write-down in the amount PLN 2.9 million, which accounts for 48.5% of the value of the shares held).
In consequence of the above, the gross profit in 2017 was PLN 18.7 million, with an operating profit of PLN 22.7 million generated during the comparative period, meanwhile, the net profit attributable to PEPEES shareholders in 2017 amounted to PLN 13.4 million, where the net profit in 2016 amounted to 17.6 million, which means a drop by 24.1%.

4 Cash flows

In 2017 the balance of cash flows from operating activities was positive and amounted to PLN 20,465 thousand, thanks to the achievement of an operating profit. There were negative cash flows on investments in the amount of PLN 21,412 thousand - mainly due to the expenses associated with the purchase of tangible fixed assets and as a result of purchase by the Issuer of shares in Gospodarstwo Rolne Ponary. A positive cash flow of PLN 7,729 thousand was achieved on financial activities in connection with the growth of debt ensuing from credits. The overall cash flow is positive and amounts to PLN 7,238 thousand.

5 Economic ratios

The following table presents the summary of the ratios characterizing the activities and condition of the Capital Group.

Table 9: Economic ratios

Ratio	Economic content	2017	2016
Profitability of assets	net financial result attributable to the Company's shareholders x 100 total assets	4.40%	6.47%
Profitability of equity	net financial result attributable to the Company's shareholders x 100 equity	9.46%	13.73%
Net profitability of sales	net financial result attributable to the Company's shareholders x 100 net revenues from sales of products, goods, services and materials	5.96%	9.48%
Gross profitability of sales	gross result on sales x 100 net revenues from sales of products, goods, services and materials	28.54%	27.21%
Liquidity ratio I	total current assets current liabilities	1.35	1.33
Liquidity ratio II	total current assets inventory current liabilities	0.59	0.56
Rotation rate ** receivables in days	average status of trade receivables x 365 net revenues from sales of products, goods, services and materials	39.93	43.13
Liability repayment rate in days**	average status of trade liabilities x 365 costs of manufacturing of goods and services sold + value of goods and materials	30.73	27.86
Inventory rotation rate in days**	average inventory x 365 costs of manufacturing of products and services sold + value of products and materials	183.82	190.94
Equity to asset ratio	equity attributable to the shareholders of the company x 100 total fixed assets	0.91	0.93
Stability of financing structure	(equity attributable to the shareholders of the company + long-term provisions + long-term liabilities) x 100 total liabilities	0.55	0.56

*The status at the start and the end of each reporting period was adopted to calculate the rotation ratios.

As the above table shows, the profitability ratios dropped in 2017 in connection with the achievement by the Group of a lower net profit in relation to the preceding year. The liquidity ratios remained on a level similar to that observed in the preceding year. The trade receivables rotation ratio and the inventory rotation ratio which is always high in the Group due to seasonality of production decreased.

IV. Development of the Issuer and the Capital Group

1. Description of the basic risks and threats and description of external and internal factors important to the development of the Parent Company and the PEPEES Capital Group

1.1 Risks and threats

- **Dependence of production on atmospheric conditions and seasonality**

The sole raw materials used in production are potatoes. Because of this, the volume and quality of production depends on potato harvests. Unfavourable weather has a negative impact on the volume and decreases the starch content.

- **Globalization**

The globalization process is visible mainly in the field of competitiveness. Currently we are observing strong competition caused by substitutes. There are many products in the food industry which fulfil functions (filling and thickening functions) similar to potato starch, e.g. wheat, maize starch, imported natural hydrocolloids such as: guar gum, xanthan gum, gum arabic, locust bean gum and gelatin.
Moreover, there is large competition inside the starch sector in the European Union.

- **Dependence on the profitability of production of potatoes**

High potato production costs cause that they are being pushed out by more profitable agricultural products. Moreover, the north-eastern part of Poland became a dairy basin which takes away the agricultural area from other productions. For that reason it is ever more difficult to acquire new growers from areas closest to the plant. For that reason the Group is forced to buy the raw material from ever more remote regions of the country, which translates into reduced profitability.

- **FX risk**

Such risk occurs as a result of international trade in currencies other than zlotys. Strong currency fluctuations have a negative impact on the profitability of foreign transactions.

- **Interest rate risk**

Financing of operations and investments with bank credits causes the Group to be exposed to the interest rate risk. By quickly repaying overdraft facilities within 8-9 months, the Group significantly reduces the impact of the interest rate risk on the financial result.

- **Fluctuations of the economic situation**

The state of business activity in the world, country and in a specific sector affects the enterprise's functioning through various ratios (GDP, prices, salaries, employment).

- **Limited money supply**

An effect of the global crisis is an ever more difficultly available and more expensive money on the market. This phenomenon strongly affects manufacturers. They are forced to grant trade credits to customers and to extent payment deadlines.

- **Too expensive instruments increasing the trade's security**

Crediting of customers increases the risk of non-payment for deliveries. Financial products offered on the market are expensive and significantly prolong the transaction stage.

- **Sale of a product posing a threat to consumer's health and life.**

The Group produces foodstuffs. In case of sales of a product posing a threat to health or life, there would be loss of reputation, obligation to pay compensation to customers and consumers and costs incurred in connection with the withdrawal of the product and its utilization.

The risk is small thanks to the implementation of the Food Quality and Safety Management System.

A procedure of withdrawing the product from the market has been implemented, withdrawal simulations are being conducted.

1.2 External factors deciding about the successful development of the Issuer and the Group

Development of the Issuer and the Group in the potato sector depends, above all, on the agricultural policy of the European Union and the Polish government and on creation of appropriate conditions in which the agricultural and food industries can function.
Factors constituting the basic development opportunities are:

- development of the domestic potato sector. The Polish potato sector has been undergoing a thorough structural reconstruction for many years. These changes lead to professionalization of potato production, and this may increase the competitiveness of the Polish potato sector in the future. The overall number of farms growing potatoes is decreasing but, at the same time, concentration and specialization in production is taking place,
- possibility to obtain funds from the EU to finance investments,
- market demand for potato starch modified products,
- access to new and modern technologies,
- market development in international trade,
- development of specialized farms,
- wide spectrum of application of starch and its modifications,
- area payments to starch potatoes.

1.3 Internal factors deciding about the successful development of the Issuer and the Group

The most important internal factors significant to further development are:

- systematic investment and modernization activities of the production departments to increase production effectiveness and innovativeness and to reduce the operating expenses,
- active reactions to the market needs and requirements,
- implemented Food Quality and Safety Management System confirmed by certificates,
- implemented GMP (Good Manufacturing Practice) for manufacturers of active substances,
- activities compliant with Smeta requirements; presence on the SeDeX platform,
- very good cooperation with the growers all year long,
- possibility to produce hydrolysates meeting specific customer expectations,
- low costs of utilizing post-production waste,
- high production capacities,
- fulfilment of the strategy and undertaking of investments,
- expansion of the product offer,
- professional knowledge and experience of employees.

2. Perspectives of development of the Issuer and the Group

The Parent Company and the Group associate their development not only with potato processing but also with production of energy by the biogas facility located at the subsidiary CHP Energia.
Production of electricity in combination with the production of heat energy (so-called co-generation) takes place at the company, which is characterized by the highest efficiency of converting input energy into output energy. Moreover, post-fermentation pulp is created when producing biogas, which is characterized by very good crop fertilization properties. A large attribute of producing energy from biogas is production efficiency independent of the weather conditions. The current global situation poses new challenges in limiting the costs of consuming heat energy and electricity. Energy media are becoming expensive very quickly. Investors face a very important problem of resignation from traditional sources, for instance, in favour of renewable energy from biogas, which is ever more popular among Polish investors and enterprises. Moreover, in the area of ecological security it is advantageous to utilize waste in agricultural production and agricultural and food
processing, among other things, potato pulp, which is a by-product of potato starch production.

Processing of potatoes is still the most important activity of the Group; there was a large growth of production and sales in this segment last year. The Group began expansion on new foreign markets, especially Eastern Asia, South-Eastern Asia, Africa, South America and developing European countries. This goal is being achieved by implementing an export development program which is a part of the published strategy. The Group will continue R&D work, cooperating with scientific entities specializing in research in the area of processing of starch and its derivatives, as regards issues associated with its current business activity and new product lineup.

The main aim of the Group is to maximize the rate of return on investment while maintaining a moderate level of the investment risk. In effect, the strategy of the PEPEES Group is to conduct parallel activities in the area of development by increasing the effectiveness of the Capital Group's companies and by minimizing the risks to which they are exposed and by making further investments. Should attractive market offers appear, investments will be continued in the Group as well as beyond it.

V. OBSERVANCE OF THE PRINCIPLES OF CORPORATE GOVERNANCE

I. Indication of the principles of corporate governance which the Issuer is obliged to follow and the place where the principles are publicly available

On the basis of § 29 of the Regulations of the Warsaw Stock Exchange the Company should apply the principles of corporate governance found in the document - **"Good Practice of Companies listed on the Warsaw Stock Exchange 2016",** constituting an Appendix to the Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange dated 13 October 2015 (hereinafter referred to as "Good Practice"), available on the website https://static.gpw.pl/pub/files/PDF/RG/DPSN2016 **GPW.pdf**

II. Indication of the degree to which the Issuer refrained from the provisions of corporate governance, including indication of these provisions and explanation of

the reasons for refraining

In 2017 PEPEES observed all recommendations and principles of Good Practice, excluding the following ones:

I. Informational policy and communication with investors

I.Z.1. The Company runs a corporate website and publishes there, in clear form and in a separate place, apart from information required by the law:

I.Z.l.3 "*Layout of the distribution of tasks and duties among the members of the Management Board, drawn up in accordance with principle II. Z. 1 "*

The principle is not fully applied. The distribution of the duties is contained in the Regulations of the Management Board available on the Company's website.

I.Z.1.9 "*Information about the planned dividend and the dividend paid by the company during the last 5 financial years, containing data about the dividend day, payment dates and value of the dividends - jointly and per share"*

The principle will apply in a situation when the General Meeting adopts a resolution to pay the dividend. The dividend was not paid in the last 5 years.

I.Z.1.15 "*Information containing a description of the diversity policy being applied by the company with respect to the company's governing bodies and its key managers; the description should include such elements of the diversity policy as gender, education, age, business experience, and indicate the objectives of the diversity policy and how it is being realized in the given reporting period; if the company did not develop and is not implementing the diversity policy, it publishes an explanation for such decision on its website"*

The Company did not develop and is not implementing a diversity policy. When choosing persons to hold the function of Members of the Management Board and the Supervisory Board, the Company constantly follows the highest standards and does not diversify candidates based on their gender or other non-substantive characteristics. The basic criterion of appointing the Company's governing bodies are high competencies, skills and professionalism of the candidates.

I.Z.1.16. *Information about the planned transmission of the General Meeting - not later than 7 days before the date of the General Meeting*

The Company does not plan to transmit the General Meeting.

I.Z.1.20. *Recording of the General Meeting in audio or video form*

Pursuant to the applicable laws, the Company records the meeting in detail in the form of minutes certified by a notary public. Additionally, publication of the required reports and appropriate information on the Company's website guarantees the shareholders an insight into all significant information concerning General Meetings. The Company believes that such principles guarantee transparency of the General Meetings.

II. Management Board and Supervisory Board

II.Z.2. *A consent of the Supervisory Board is required for Members of the Company's Management Board to sit on Management Boards or Supervisory Boards of companies from outside of the Company's Capital Group.*

The issues of the conflict of interests are resolved in accordance with the applicable common laws, in particular, on the basis of Article 380 of the Commercial companies code.

II.Z.3. *At least two Members of the Supervisory Board fulfil the criteria of independence referred to in principle II. Z. 4.*

Decisions regarding the choice of the Members of the Supervisory Board are taken by the General Meeting. The Company's Management Board has no influence of their choice and has no information about the independence of the Members of the Supervisory Board. In the Company's opinion such method of choosing the Supervisory Board appropriately safeguards the interests of the Company's shareholders.

II.Z.4. *As regards the criteria of independence of Members of the Supervisory Board, Appendix II to the Recommendation of the European Commission 2005/162/EC of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Regardless of the provisions of item 1 letter b) of the document referred to in the preceding sentence, persons being an employee of the company, subsidiary or affiliated entity, as well as person bound with those entities by an agreement of similar nature, cannot be considered as fulfilling the criteria of independence. A relationship with a shareholder excluding the independence of a Member of the Supervisory Board within the meaning of this principle also means actual and significant relationships with the shareholder holding at least 5% of the overall number of votes in the company.*

This principles is not applicable. The Supervisory Board acts, above all, in accordance with the applicable laws, Articles of Association and the Regulations of the Supervisory Board.

II.Z.5. *Member of the Supervisory Board gives other Members of the Company's Supervisory Board and the Management Board a declaration of his/her fulfilment of the criteria of independence specified in principle II. Z. 4.*

This principles is not applicable. The Supervisory Board acts, above all, in accordance with the applicable laws, Articles of Association and the Regulations of the Supervisory Board.

III. Internal systems and functions

III.R.1. The Company separates in its structures units responsible for the tasks in various systems or functions, unless separation of organizational units is not justified due to the extent and type of activity being pursued by the company.

Separation of organizational units responsible for internal control, risk management, supervision over compliance of activities with the law, or internal audit is not justified due to the extent of the activity being pursued by the company.

III.Z. 4. At least once a year the person responsible for the internal audit (if such function is established in the company) and management presents to the Supervisory Board its own evaluation of effectiveness of functioning of the systems and functions referred to in principle III. Z. 1, together with an appropriate report.

No internal audit function has been established at PEPEES.

IV. General Meeting and relations with shareholders

IV.R. 2. If justified by the shareholding structure or the shareholders' expectations reported to the company, provided that the company is able to provide a technical infrastructure necessary to efficiently conduct a General Meeting using electronic communication means, it should allow the shareholders to participate in the General Meeting through such means, in, by:
1) transmitting the General Meeting in real time,
2) two-way communication in real time, as part of which the shareholders are able to speak out in the course of the General Meeting while being in a location other than the location of the General Meeting,
3) exercising, in person or through an authorized representative, the voting rights in the course of the General Meeting.

In the Management Board's opinion there is no need to transmit General Meetings or to provide two-way communication in real time. The General Meetings are held at the Company's registered office, at convenient time, which means that participation in them is not hindered in any way to the shareholders interested in them, speaking out or exercising their voting rights (in person or through an authorized representative). A proof of this is an exceptionally high attendance rate at General Meetings. The Company believes that despite of advanced technology there is always a risk that, for various reasons (including those over which the Company, shareholders or third parties have no control) it will be impossible to guarantee technical and legal security of two-way communication in real time, or to exercise the voting rights using electronic communication means, and potential damage which might arise from any interruption in this regard might cause an unjustified increase in the costs of the Company's activities.

IV.Z. 2. If justified by the company's shareholding structure, the company provides a commonly available transmission of the General Meeting in real time.

In the Management Board's opinion there is no need to transmit General Meetings or to provide two-way communication in real time. The General Meetings are held at the Company's registered office, at convenient time, which means that participation in them is not hindered in any way to the shareholders interested in them, speaking out or exercising their voting rights (in person or through an authorized representative). A proof of this is an exceptionally high attendance rate at General Meetings. The Company believes that despite of advanced technology there is always a risk that, for various reasons (including those over which the Company, shareholders or third parties have no control) it will be impossible to guarantee technical and legal security of two-way communication in real time, or to exercise the voting rights using electronic communication means, and potential damage which might arise from any interruption in this regard might cause an unjustified increase in the costs of the Company's activities.

IV.Z.12. The Management Board should present to the participants of the Ordinary General Meeting the company's financial results and other important information contained in the financial statement to be approved by the General Meeting.

In the Management Board's opinion there is no need to present or review the results. Members of the Management Board are present during the General Meetings and are prepared to answer the shareholders' questions.

V. Conflict of interests and transactions with related entities

V.Z.6. *The company specifies in the internal regulations the criteria and circumstancesunder which a conflict of interests can occur as well as the procedures in case of occurrence of a conflict of interests or possibility of occurrence thereof. The company's internal regulations take into account, among other things, the methods of preventing, identifying and resolving conflicts of interests, as well as the principles of excluding a Member of the Management Board or Supervisory Board from examining the issue covered or threatened by a conflict of interests.*

The Company's practice so far does not show a need for such regulations. As regards the conflict of interests, the Company acts on the basis of the commonly applicable laws.

VI. Remunerations

VI.R.1. Remuneration of Members of the Company's governing bodies and key managers should ensue from the adopted remuneration policy.

A remuneration policy has been adopted at the Company but Members of the Company's governing bodies are not covered by it.

VI.Z. 4. In the activity report the Company presents a report on the remuneration policy containing at least:

1) *general information about the remuneration system adopted at the Company,*
2) *information about the conditions and value of the remuneration of every Member of the Management Board, broken down by fixed and variable elements of remuneration, including an indication of the key parameters of determining the variable elements of remuneration and the principles of paying severance pay and other payments ensuing from the termination of the employment relationship, mandatory contract or another legal relationship of similar nature - separately for the Company and every entity comprising the Capital Group,*
3) *information about non-financial elements of remuneration payable to individual Members of the Management Board and key managers,*
4) *indication of significant changes which occurred during the last financial year in the remuneration policy, or information about lack thereof*

The above principle was not fully applied by the Company. Remuneration of every Member of the Management Board and the Supervisory Board is presented in the reports without being broken down by fixed and variable elements of remuneration. The scope and form of information being published about the remuneration policy ensues, in particular, from the commonly applicable laws binding the issuers of securities.

III. Report on the remuneration policy

PEPEES has a remuneration policy which specifies the form, structure and level of remuneration of the Company’s employees, together with the elements dependent on the Company’s results and involvement of individual employees. Remuneration of Members of the Management Board is determined by the Supervisory Board on the basis of qualifications, experience and scope of duties of the Member of the Management Board. Remunerations of Members of the Management Board include variable elements whose value depends on the financial results achieved and on the degree of achievement of goals set by the Supervisory Board. Remuneration of Members of the Management Board is paid by the Company and the subsidiaries, depending on the degree of involvement of the given Member of the Management Board in the operations of each individual subsidiary. Remuneration of Members of Supervisory Board is determined by the General Meeting, it does not contain variable elements. In the activity report the Company presents the total value of remuneration of Members of the Management Board (without breaking it down by fixed and variable elements) and of the Supervisory Board, broken down by that paid by the Company and overall by the other entities from the Group.
Members of the Management Board and key managers, apart from the elements of remuneration, use company cars and mobile phones and participate in courses financed by the Company. No significant changes in the remuneration policy occurred in the preceding year.
In the Management Board’s opinion the remuneration policy is adapted to the Company’s objectives, in particular, the long-term growth for shareholders and stable functioning of the enterprise.

IV. Sponsoring

PEPEES sponsors many cultural, sports and environmental events. To match the growing social, economic, cultural, educational and sports needs, principles have been adopted which may channel aid where it will be effectively used. Sponsoring activities being undertaken by the Company consist in financing and materially supporting regional and local initiatives. The principal, direct objective of sponsoring by PEPEES is to create and strengthen brand awareness and to create a positive image of the enterprise, in which PEPEES participates as a sponsor.

AREAS OF ACTIVITY

The Company is involved in the following spheres of life:

1.<u>Sport and education</u>

• Promoting initiatives supporting science and education,

• Supporting the development of physical culture and sports education

2. <u>Culture</u>

• Sponsoring local and regional events

3. <u>Charity</u>

• Supporting organizations helping people in need

V. Description of the main properties of the internal control and risk management systems in relation to the process of drawing up financial statements and consolidated financial statements.

Effectiveness of the internal control and risk management system in the process of consolidated financial statements is ensured by the development, implementation and supervision over the application of coherent accounting principles in the companies from the PEPEES Capital Group. The Capital Group's companies convey the required data in the form of reporting packages for the purpose of drawing up the Group's consolidated financial statement. The scope of data being disclosed as part of the Group is defined by and ensues from the informational obligations specified by IAS/IFRS. Changes in the accounting standards are monitored on an on-going basis to identify the need to update the scope of reporting. All financial statements are verified by the Management Board of the Parent Company PEPEES. The Group's companies submit their financial statements for semi-annual reviews and annual audits by an independent certified auditor. Consolidated financial statements are also audited. Until the moment the financial statement and the consolidated financial statement are published, data are rendered available solely to persons involved in the process of preparing, checking and approving it, ensuring the confidentiality of data.

VI. Shareholders holding directly or indirectly significant packages of shares.

To the best knowledge, as at 31.12.2017 the shareholding structure looked as follows:

SHAREHOLDING	**Number of shares/votes**	**Participation in the share capital/overall number of votes at the General Meeting**
	[pcs]	**[%]**
Maksymilian Maciej Skotnicki*	20,395,465	21.47%
Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	21,444,561	22.57%
Michał Skotnicki*	10,700,011	11.26%
Newth Jonathan Reginald	7,995,200	8.42%
Borkowski Krzysztof (indirectly, including Mazowiecka Korporacja Finansowa Sp. z o.o.)	7,923,409	8.34%
Richie Holding Ltd.	6,133,100	6.46%
Mazowiecka Korporacja Finansowa Sp. z o.o.	5,397,343	5.68%
Others	15,010,911	15.80%
Total	95,000,000	100.00%

** Mr. Maksymilian Maciej Skotnicki and Mr. Michał Skotnicki are persons referred to in Article 87 par. 4 item 1 of the Act on public offering [...] and thus the overall possession by the aforementioned persons is 31,095,476 shares/votes, which accounts for 32.73% share in the share capital/total number of votes in the Company.*

After the reporting period had ended the Company learned about changes in the possession of Mr. Borkowski and Mazowiecka Korporacja Finansowa sp. z o.o., Mr. Michał Skotnicki and Mr. Maksymilian Maciej Skotnicki associated with the reconciliation of the public call for subscription for the sale of the Company's shares - "Call" - published on 8 January 2018 by Maksymilian Skotnicki and Michał Skotnicki. Detailed information on the above changes can be found in the current reports 6/2018 and 7/2018.

Below is a presentation of the shareholding structure as at the day this report was drawn up.

SHAREHOLDING	**Number of shares/votes**	**Participation in the share capital/overall number of votes at the General Meeting**
	[pcs]	**[%]**
Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	21,444,561	22.57%
Michał Skotnicki*	21,325,780	22.45%

SHAREHOLDING	**Number of shares/votes**	**Participation in the share capital/overall number of votes at the General Meeting**
	[pcs.]	**[%]**
Maksymilian Maciej Skotnicki*	20,703,282	21.79%
Newth Jonathan Reginald	7,995,200	8.42%
Richie Holding Ltd.	6,133,100	6.46%
Others	17,398,077	18.31%
Total	95,000,000	100.00%

** Mr. Maksymilian Maciej Skotnicki and Mr. Michał Skotnicki are persons referred to in Article 87 par. 4 item 1 of the Act on public offering [...] and thus the overall possession by the aforementioned persons is 42,029,062 shares/votes, which accounts for 44.24% share in the share capital/total number of votes in the Company.*

VII. Holders of any securities granting special rights

The Company did not issue securities granting special rights.

VIII. Restrictions in exercising voting rights

The Company's Articles of Association do not stipulate this kind of restrictions. The prohibition to exercise the voting right by a shareholder may ensue from Article 89 of the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organized trading and public companies (hereinafter referred to as **"Act on public offering"),** if this shareholder breaches the provisions stipulated in Chapter 4 of the Act on public offering. Meanwhile, pursuant to Article 6 § 1 of the Commercial companies code, if the parent company does not notify the subsidiary about the appearance of a dominant relationship within two weeks of occurrence of such relationship, the exercise of the voting rights from shares in the dominant company representing more than 33% of the share capital of the subsidiary is suspended.

IX. Restrictions in transferring the ownership rights.

The Company's Articles of Association do not stipulate this kind of restrictions. However, they ensue from the provisions of the law, including the aforementioned Chapter 4 of the Act on public offering, Article 11 and 19 and Section VI of the Act of 29 July 2005 on trading in financial instruments, the Competition and Consumer Protection Act of 16 February 2007 and the Council Regulation (EC) No. 139/2004 of 20 January 2004 on the control of concentrations between undertakings.

X. Principles of appointing and recalling managing persons and their powers.

1. The Management Board is composed of one to five persons. The Management Board's term of office lasts three years, except for the term of office of the first Management Board which lasts two years. The Supervisory Board appoints the President of the Management Board and, at the request of the President of the Management Board, the other Members of the Management Board. The Supervisory Board defines the number of Members of the Management Board. The Supervisory Board may recall the President of the Management Board, a Member of the Management Board or all Members of the Management Board before the lapse of the term of office. The Management Board exercises all powers related to management of the Company, excluding those reserved by the law or the Articles of Association for the Company's other governing bodies.

2. Procedures of the Management Board and the matters which may be assigned to its individual Members are defined in detail in the Regulations of the Management Board. The Regulations of the Management Board are adopted by the Company's Management Board and approved by the Supervisory Board.

3. The following persons are authorized to make declarations and place signatures on behalf of the Company: (i) in case of a one-person Management Board - the President of the Management Board, (ii) in case of a multi-person Management Board - two Members of the Management Board or one Member of the Management Board acting jointly with an authorized signatory.

4. The Supervisory Board concludes contracts on behalf of the Company with Members of the Management Board and represents the Company in disputes with Members of the Management Board. The Supervisory Board may authorize, by way of a resolution, one or more Members to perform such legal acts.

5. The Company's employees report to the Management Board. The Management Board concludes and terminates employment contracts with them and determines their remuneration.

6. The decision on issuing or redeeming the shares is taken by the General Meeting of Shareholders by way of a resolution.

XI. Principles of amending the Company's Articles of Association.

Amendments to the Company's Articles of Association are made by way of a resolution of the General Meeting of Shareholders. Such resolutions are adopted by three fourths majority vote. Resolutions concerning amendments to the Company's Articles of Association increasing the shareholders' benefits or diminishing the rights vested in person to individual shareholders require the consent of all shareholders whom they concern.

XII. Procedures of the General Meeting and its powers

The basic procedures of the General Meeting are presented below:

1. The Ordinary General Meeting is convened by the Management Board in June of every year at the latest.
2. The agenda of the General Meeting is determined by the Management Board in concert with the Supervisory Board.
3. The Supervisory Board and shareholders representing at least 5% of the share capital may demand that specific matters be put on the agenda of the General Meeting.
4. The General Meeting is held at the registered office of the Company.
5. The General Meeting may adopt resolutions regardless of the number of shareholders present or shares represented.
6. Resolutions are adopted during the General Meeting by way of a ballot.
7. Resolutions of the General Meeting are adopted by a simple majority of votes cast, unless the Articles of Association or the Act stipulate otherwise.
8. Resolutions of the General Meeting are adopted by three fourths majority vote on matters concerning:
    a) amendments to the Articles of Association, including issue of new shares,
    b) issue of bonds,
    c) sale of the Company,
    d) merger of the Company with another company,
    e) dissolution of the Company.
9. The ballot held during the General Meeting is an open ballot. A secret ballot is held during election and on motions to recall members of the Company’s governing bodies or liquidators, or to held them liable, as well as in personal matters. Resolutions on changing the business purposes of the Company are adopted by a roll-call vote.
10. The shareholders authorized to participate in the General Meeting are shareholders indicated on the list of shareholders prepared by the Management Board in accordance with the principles ensuing from the applicable laws, in particular, in accordance with Article 406 § 2 and Articles 406^1 - 406^3 of the Commercial companies code.
11. The following persons can also be present at the General Meeting: every Member of the Management Board, every Member of the Supervisory Board, notary public and the notary’s assistants, certified auditor, personnel providing organizational and technical support of the General Meeting, persons authorized by the Management Board, other persons indicated by the body convening the General Meeting. Persons other than indicated above can attend the General Meeting only upon the consent of the Chairperson of the Meeting who has the right, at any point in time, without giving a reason, to request that the General Meeting be left by any of those persons.
12. The General Meeting is opened by the Chairperson of the Supervisory Board or his/her deputy, and if they are absent, the President of the Management Board or another person

designated by the Management Board. The person opening the General Meeting orders that candidates for the Meeting's Chairperson be put forward, and after their names are collected, orders that the Meeting's Chairperson be elected.

13. The Meeting's Chairperson presents the agenda to the shareholders as worded by the Management Board in the announcement of convening the General Meeting, and if there are no such drafts, formulates and presents a draft of the resolution on his/her own. A draft resolution on the item put on the agenda can be put forward by every shareholder.

    The Company's shareholders have no special powers apart from the powers ensuing from the applicable laws, including those stipulated in the Commercial companies code.

XIII. Composition and description of activities of the managing and supervisory bodies

1. Composition of the Management Board of PEPEES as at 31.12.2017:

   Wojciech Faszczewski - President of the Management Board

   Tomasz Rogala - Member of the Management Board

   The procedures and competencies of the Company's Management Board are stipulated in the Company's Articles of Association and in the Regulations of the Management Board.

   The basic procedures of the Management Board are described in section X above.

2. Composition of the Supervisory Board of PEPEES as at 31.12.2017:

   Maciej Kaliński - Chairman of the Supervisory Board

   Piotr Marian Taracha - Deputy Chairman of the Supervisory Board

   Krzysztof Stankowski - Secretary of the Supervisory Board

   Agata Czerniakowska - Member of the Supervisory Board

   Robert Malinowski - Member of the Supervisory Board

   The basic procedures of the Supervisory Board are stipulated in the Company's Articles of Association and in the Regulations of the Supervisory Board. Pursuant to those regulations, the Supervisory Board is composed of five to nine members. The term of office of the Supervisory Board lasts three years. The Supervisory Board chooses the Chairperson and one or two deputies and a secretary from among its members. The Chairperson of the Supervisory Board convenes the meetings of the Supervisory Board and chairs them. The Chairperson of the Supervisory Board stepping down convenes and opens the first meeting of the newly elected Supervisory Board and chairs it until the moment the new Chairperson is elected. The Supervisory Board holds meetings at least once every quarter. The Chairperson of the Supervisory Board or one of the deputies are obliged to convene the meeting upon a written request of at least two Members of the Supervisory Board. The meeting should be convened within one week of the day the request is made, on a day falling not later than before the lapse of two weeks of the day it is convened. In order for the resolutions of the Supervisory Board to be valid it is necessary to invite all its Members to the meeting. The Supervisory Board adopts resolutions by an absolute majority of votes of Members of the Supervisory Board present at the meeting, with at least half of the Members being present. Resolutions of the Supervisory Board can also be adopted without holding a meeting by way of a written ballot, provided that all Members of the Supervisory Board give their consent in writing for resolutions to be adopted in this manner. The Supervisory Board adopts its

Regulations by defining a detailed scope of the Supervisory Board’s procedures. The Supervisory Board may delegate its Members to individually perform each supervisory activity. Remuneration of Members of Supervisory Board is determined by the General Meeting.

Pursuant to the Company’s Articles of Association, apart from the matters indicated in the Act, other provisions of the Articles of Association or resolutions of the General Meeting, the competencies of the Supervisory Board include:

1) audit of the annual balance sheet, the income statement, and assurance of verification thereof by certified auditors selected by the Supervisory Board,
2) audit and opinionating the Management Board’s report,
3) annual audit and approval of the business activity plans, financial and marketing plans of the Company and asking the Management Board for detailed reports on the fulfilment of those plans,
4) submission of a written report to the General Meeting on the results of the activities referred to in item 1 - 3 ,
5) opinionating the Management Board’s motions on distribution of profit, including amounts intended for dividends, dates of payment of dividends or coverage of losses,
6) granting consent to conclude transactions covering the sale or purchase of shares or other assets, or to take out a loan, if the value of the given transaction exceeds 15% of the value of the Company’s net assets as per the last balance sheet,
7) appointing, suspending and recalling of Members of the Management Board,
8) delegating Members of the Supervisory Board to perform the activities of the Management Board in case of suspension or recall of the entire Management Board or if the Management Board is unable to function for other reasons,
9) approving the regulations adopted by the Management Board concerning distribution of shares between entitled employees.

The **Audit committee** was appointed by the resolution of the Supervisory Board of 1 August 2017 and is composed of:

Maciej Kaliński - Chairman

Piotr Taracha - Deputy Chairman

Krzysztof Stankowski - Member

Such composition was valid as at 31 December 2017.

The main tasks of the Committee include:

- Discussing the course of the audit process with the Auditor.
- Auditing the Company’s documents.
- Submitting an annual report on its activities to the Supervisory Board
- Monitoring the process of financial reporting;
- Monitoring of financial review activities, in particular, audits of the Company’s financial statement being conducted by an audit company, taking into account all requests and findings of the Audit Supervision Commission ensuing from the inspection conducted in the audit company;

- Controlling and monitoring the independence of the certified auditor or audit company providing services to the Company;
- Informing the Supervisory Board about the results of the audit of the Company’s financial statements an explaining how the audit contributed to the credibility of financial reporting in the Company and about the role of the Committee in the audit;
- Evaluating the independence of the certified auditor and granting consent for the certified auditor to provide services to the Company;
- Preparing the policy of choosing the audit company to audit the Company’s financial statement;
- Preparing a policy of provision of permitted services not being an audit of the financial statement by the audit company auditing the financial statement, by entities related to that audit company and by a member of the audit company’s chain;
- Establishing the procedure of choosing the audit company by the Company;
- Submitting recommendations aimed at assuring credibility of the financial reporting process in the Company.

Procedures of the Audit Committee:

- The Audit Committee meets as needed, at least twice a year.
- The meetings of the Audit Committee are convened by its Chairperson at its own initiative or upon request of a member of the Audit Committee, as well as upon request of the Management Board, internal or external auditor. The meeting of the Audit Committee can also be convened by the Chairperson of the Supervisory Board.
- The agenda for the meeting of the Audit Committee is drawn up by the person convening the meeting, however, it may be altered during the meeting.
- The Chairperson of the Audit Committee can invite other persons from outside of the Audit Committee to the meetings of the Audit Committee.
- The meetings of the Audit Committee are minuted. The minutes are signed by the Chairperson of the Audit Committee.
- The Audit Committee adopts resolutions if at least half of the Committee’s members are present at the meeting.
- The Audit Committee can adopt resolutions in writing, provided that all members of the Audit Committee have been informed about the tenor of the draft resolutions.
- The resolutions of the Audit Committee are adopted by a simple majority of votes.
- The Company provides organizational and technical support to the Audit Committee.

XIV. Diversity policy

The Company did not develop and is not implementing a diversity policy. When choosing persons to hold the function of Members of the Management Board and the Supervisory Board, the Company constantly follows the highest standards and does not diversify candidates based on their gender or other non-substantive characteristics. The basic criterion of appointing the Company’s governing bodies are high competencies, skills and professionalism of the candidates.

Signatures of all Members of the Management Board of the Parent Company			
Date	***First and last name***	***Position/Function***	***Signature***
28.03.2018	Wojciech Faszczewski	President of the Management Board	

28.03.2018	Tomasz Rogala	Member of the Management Board	