

PRZEDSIĘBIORSTWO PRZEMYSŁU SPOŻYWCZEGO „PEPEES” S.A.

**THE BOARD OF
DIRECTORS’ REPORT**

**ON THE COMPANY’S
OPERATIONS**

for 2015

Łomża, 17 March 2016

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I. INTRODUCTION

1. General information about the Company

The Company's business name is: Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A. The Company's registered office is in Łomża, at the address: ul. Poznańska 121.

It operates as a joint stock company incorporated under a notarial deed on 21 June 1994 signed before the notary public Mr Paweł Błaszczyk in Warsaw (Notarial Record Book A No. 14126/94).

The Company is entered in the Register of Entrepreneurs kept by the District Court in Białystok, XII Economic Division of the National Court Register (KRS) in Białystok under No. KRS 000038455.

It has its Tax Identification Number (NIP): 718-10-05-512, assigned by the Tax Office in Łomża on 20 January 2000.

The Statistical Office assigned the following identification number (REGON) to the Company: 450096365.

The Company operates pursuant to the Polish Code of Commercial Companies. It is a single-establishment company; it does not have any branches.

According to the Company's Articles of Association, the Company's primary objects are as follows:

- processing of potatoes;
- manufacture of starches and starch products;
- services related to the processing and preserving of fruit and vegetables;
- manufacture of fruit and vegetable juice.

During the reporting period, the Company carried out activities related to the manufacture of starches and starch products, and the processing of potatoes.

The Company's share capital as at 31 December 2015 amounted to PLN 5,700 thousand and was divided into:

- series A - 83,000 thousand ordinary bearer shares with the nominal value of PLN 0.06 each;
- series B - 12,000 thousand ordinary bearer shares with the nominal value of PLN 0.06 each.

According to the Company's best knowledge, the shareholding structure at the reporting date was as follows:

- Mr Maksymilian Maciej Skotnicki - the number of votes: 19,532,088; the share in the total number of votes at GMS – 20.56 %
- TRADO S.A. - the number of votes: 8,600,000; the share in the total number of votes at GMS – 9.05 %
- Mr Newth Jonathan Reginald - the number of votes: 7,995,200; the share in the total number of votes at GMS – 8.42 %
- Mr Krzysztof Borkowski (indirectly through related parties, including Mazowiecka Korporacja Finansowa) – the number of votes: 7,923,409; the share in the total number of votes at GMS – 8.34 %

- Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych - the number of votes: 6,398,731; the share in the total number of votes at GMS – 6.46 %
- Richie Holding Ltd - the number of votes: 6,133,100; the share in the total number of votes at GMS – 6.455 %
- Mazowiecka Korporacja Finansowa Sp. z o.o. – the number of votes: 5.397.343; the share in the total number of votes at GMS – 5.68%

None of the remaining shareholders informed about the holding of at least 5 % of the share capital and total votes at the GMS.

The Company's financial year is a calendar year.

The Company is the parent company for:

- Zakłady Przemysłu Ziemniaczanego „Lublin” Sp. z o.o. - a subsidiary with the Company's stake at the level of 82.38 %
- Przedsiębiorstwo Przemysłu Spożywczego BRONISŁAW Sp. z o.o. - a subsidiary with the Company's stake at the level of 84.125 %
- OZENERGY Sp. z o.o. - a wholly-owned (100%) subsidiary

In addition, the Company holds shares in the associate CHP ENERGIA Sp. z o.o. - 24.91 % in the total number of votes.

2. The Company's authorities

Board of Directors

In the period from 01.01.2015 to 31.12.2015, the composition of the Board of Directors of PEPEES S.A. was as follows:

Mr Wojciech Faszczewski - President

Mr Krzysztof Homenda – Member / Chief Financial Officer

Members of the Board of Directors are appointed and dismissed by the Supervisory Board. The Board of Directors exercises all management powers in the Company, except for the powers reserved for the Supervisory Board or the General Meeting of Shareholders. The decision on the issue or redemption of shares is made by the General Meeting of Shareholders by way of a resolution.

During the financial year, there were no changes in the composition of the Board of Directors.

Supervisory Board

In the period from 01.01.2015 to 25.05.2015, the composition of the Supervisory Board of PEPEES S.A. was as follows:

- Mr Krzysztof Jerzy Borkowski – Chairman
- Mr Piotr Marian Taracha – Vice-Chairman
- Mr Tomasz Łuczyński – Secretary
- Mr Robert Czapla – Member
- Mr Krzysztof Stankowski – Member
- Mr Dawid Sukacz – Member

On 26 May 2015, the Ordinary General Meeting of Shareholders appointed the following

THE BOARD OF DIRECTORS' REPORT ON THE OPERATIONS OF PEPEES S.A. FOR 2015
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members of the Supervisory Board of the eighth term of office: Mr Maciej Kaliński, Mr Piotr Łuniewski, Mr Robert Malinowski, Mr Krzysztof Stankowski and Mr Piotr Taracha.

The composition of the Supervisory Board as at 31.12.2015:

- | | |
|---------------------------|-----------------|
| - Mr Maciej Kaliński | - Chairman |
| - Mr Piotr Marian Taracha | - Vice-Chairman |
| - Mr Krzysztof Stankowski | - Secretary |
| - Mr Piotr Łuniewski | - Member |
| - Mr Robert Malinowski | - Member |

Members of the Supervisory Board are appointed and dismissed by the General Meeting of Shareholders.

3. Basic products, trade goods and services sold by PEPEES S.A.

The core objects of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. in Łomża in the reporting period comprised the production and commercial activities related to products and trade goods from the starch industry.

Potato starch

Potato starch is obtained through mechanical crushing of potatoes, extraction, refining, dehydration, drying and sifting.

Starch is one of the most multifunctional raw materials in the food industry. In some applications, its natural properties enabling the production of gels and thickening are exploited (food, chemical, textile, paper industries). In the food and pharmaceutical industries, starch is used to give products proper texture, appearance (form), moisture, consistence and durability during their storing.

Starch hydrolysates

- **Crystalline glucose**

Crystalline glucose is the end product of the hydrolysis of potato starch. It is a white, fine-crystalline powder with sweet taste. Its microbiological purity is very high and it contains ca. 99.5 % of pure glucose. Crystalline glucose is a high-calorie monosaccharide, easily absorbed by human organism. It is a valuable and natural source of energy. Glucose is often used in the production of pharmaceutical and dietary products (drugs, dietary supplements). Its consumption is particularly important during intense physical workout and recovery.

The food industry takes advantage primarily of the following glucose properties: sweet flavour, and enhancing the flavour of products. It is used in the production of confectionery, ice-cream, desserts, dry food mixes, non-alcoholic beverages, fruit and vegetable products. In addition, crystalline glucose is applied in the brewing, baking, wine and meat industries.

- **Anhydrous glucose**

Anhydrous glucose is a product obtained in the process of the fluidized bed drying of crystalline glucose until its moisture content is below 1 %. The product meets high microbiological requirements. The entire production of anhydrous glucose is used by the pharmaceutical industry. It is used mainly in the production of infusion liquids.

- **Maltodextrin**

Maltodextrin is a product of the depolymerization of potato starch produced as a result of enzymatic hydrolysis. It is a white powder with a slightly sweet flavour. Maltodextrin properties depend on the degree of starch hydrolysis. An increase in DE (dextrose equivalent) results in greater sweetness, which is accompanied by increased solubility and hygroscopicity, and the reduction of viscosity, bonding power and resistance to crystallization. Due to its binding and filling properties, and its ability to improve texture and stabilise flavour and aroma, maltodextrin

is applied in food production. It is an essential ingredient of powdered products (ice cream, sauces, soups, fruit extracts, flavoured sprinkles) and vitamin and mineral preparations and supplements for children and athletes. Is an important carbohydrate ingredient of milk-based formulas and nutritional powders for infants. The share of maltodextrin in the reduced-calorie food production is substantial.

- **Glucose syrups**

Glucose syrups are concentrated, aqueous solutions of monosaccharides (glucose, maltose) and low molecular weight polysaccharides obtained in the process of the enzymatic hydrolysis of starch. They are temperature and chemically stable, and are characterised with high osmotic pressure.

Glucose syrups are used in the production of hard and soft caramel drops, chewing gums, fruit jellies, ice cream, desserts, confectionery. Glucose syrup increases plasticity, affects the durability of the colour and flavour, and provides transparency and gloss. The syrup ensures the appropriate structure and delicate sweetness, improves structural properties, inhibits sugar crystallization, preserves the natural colour of fruit, adds delicate flavour, enhances the aroma.

Potato protein

This product is obtained from potato intracellular fluid in the process of coagulation, separation and drying. Final product is a loose grey powder with the aroma typical for dried potato protein and moisture content not higher than 10 %. The product is characterised with a high total protein content (over 80 %), and the digestible protein constitutes over 70 % of dry substance. It is a high quality, easily digestible, vegetable protein; therefore, it is a valuable ingredient of feedstuff mixes for animals and an excellent substitute for animal protein.

Food starch

Food starch is obtained from pulped cells of potato bulbs in the process of rinsing and then purifying, drying and sifting. Commercial product contains ca. 40 % of water. Food starch is produced from potatoes for industrial use with appropriate quality properties, i.e. high starch content with the highest possible percentage of large starch grains, small quantities of non-starch substances, low protein content, round potato bulbs, crisp pulp, shallow 'eyes'.

Hydrol

Hydrol is a waste product. This is an intercrystalline juice remaining after the separation of glucose crystals from the concentrated glucose syrup – massecuite. It is a dense, dark brown liquid with a characteristic aroma. Due to its high content of carbohydrates, hydrol is used in the spirits, feed-producing and chemical industries (e.g. for tanning).

Grits

Grits are a waste product from the food starch-producing unit. These are lumps of lumpy and gruelled starch separated from dried potato starch.

Potato flakes

Potato flakes are produced from edible varieties of potatoes. These are ca. 0.2-0.5mm flakes first hydrated with steam and then dehydrated.

Apart from the aforementioned products, the following other products generated sales revenue in Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A. in 2015:

- seed potatoes;
- pesticides;

- the sales of heat;
- the sales of materials.

II. FACTORS AND EVENTS AFFECTING THE COMPANY'S OPERATIONS IN 2015

1. Sales volume and structure in 2015

In 2015, the sales revenue of „PEPEES” S.A. in Łomża was generated from the sale of products, services, trade goods and materials from the starch industry.

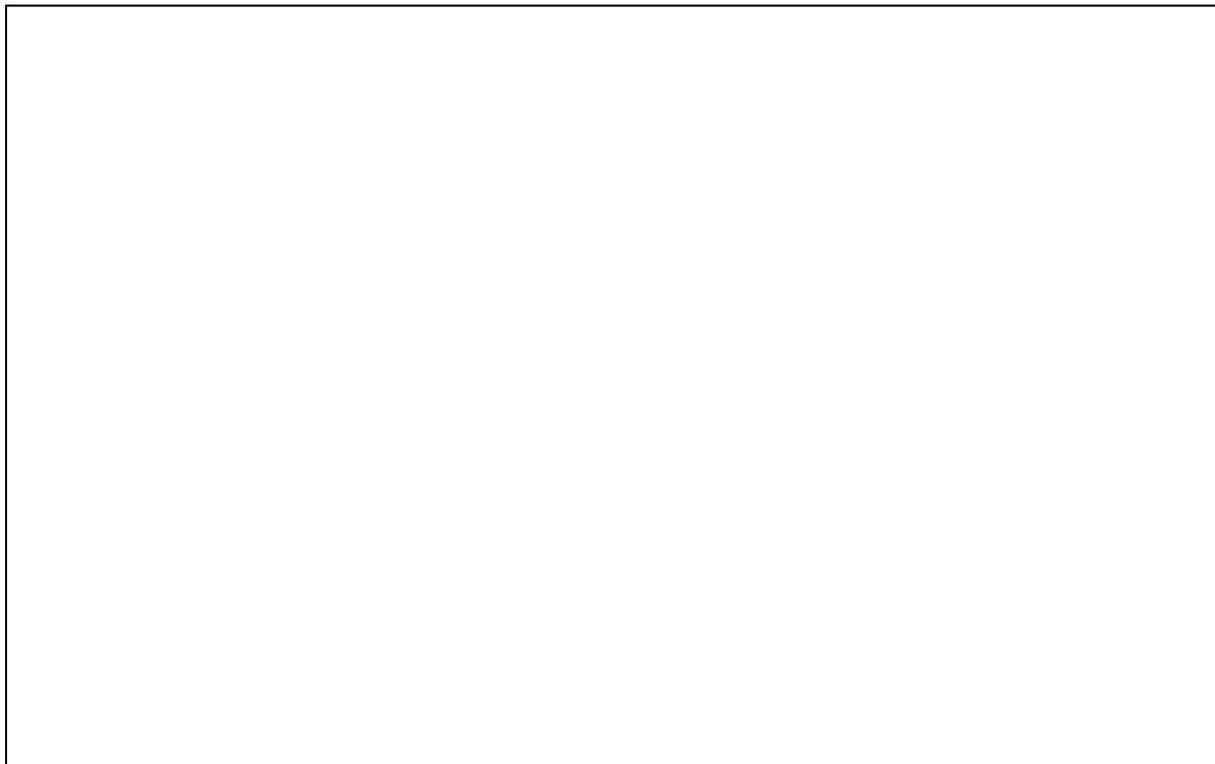
Table No. 1 presents the structure of sales revenue in the period from 01.01.2015 to 31.12.2015 as compared to the corresponding period in 2014.

Table No. 1:

The structure of net sales revenue in 2015 and 2014

(amounts in PLN 000s)

Range of products	2015	Structure	2014	Structure	Growth rate
potato-based products	87,725	81.28%	77,585	84.57%	113.07%
heat	3,537	3.28%	3,646	3.97%	97.01%
other sales:	16,665	15.44%	10,505	11.45%	158.64%
a) services	432	0.40%	135	0.15%	320.00%
b) trade goods and materials	16,233	15.04%	10,370	11.30%	156.54%
Total net sales revenue	107,927	100.00%	91,736	100.00%	117.65%



Products sales volume is presented in Table No. 2.

Table No. 2:

**Products sales volume
in 2015 and 2014**

Range of products	Measurement unit	2015	2014	Growth rate
Potato-based products	tonne	28,934	21,201	136.47%
Starch hydrolysates	tonne	7,738	8,449	91.58%
Total products	tonne	36,672	29,650	123.68%

In 2015, products sales revenue increased by 13 %, while the volume growth rate was 23.7 %, due to the decline in selling prices of starch in 2015.

In the reporting period, potato-based products were the main group of the Company's products. Potato starch has the leading position in the structure of this product group. Starch hydrolysates formed the second biggest group of products in terms of sales revenues; they generated ca. 20 % of total sales revenue.

Other sales revenue in 2015, representing over 18 %, was generated from the sales of heat, services, trade goods and materials.

2. Polish and foreign markets for the Company's products

The market in 2015

Due to the high quality of products and continuous improvement of manufacturing and management methods, PEPEES brand is an important trademark in Poland and abroad.

Due to its excellent location in the area of the so-called "Poland's Green Lungs", the Company has access to high-quality and ecological raw materials. The entire range of the Company's products is manufactured from the best potato starch, free from chemical pollutants and obtained from non-genetically modified potatoes.

PEPEES distributes its products both through the network of wholesalers and trading companies making deliveries to the food industry; and it supplies its products directly to production plants, mainly from the food, confectionery, baking, meat and pharmaceutical industries, for which starch products are the raw material for further processing or a component in the manufacturing process. There is also a small group of retail customers, who procure starch products to meet their own needs.

Distribution channels in PEPEES S.A.

Major distribution channels are as follows:

PEPEES \Longrightarrow customer (producer-wholesaler buyer)

PEPEES \Longrightarrow wholesaler \Longrightarrow customer (producer-small volumes buyer)

PEPEES \Longrightarrow wholesaler \Longrightarrow shop \Longrightarrow consumer

PEPEES \Longrightarrow sales network \Longrightarrow consumer

Bank transfers with 7-, 14-, 21-, 31- and 45-days' payment deadline are the most commonly used forms of settlement. Payment deferral periods depend on the length of the cooperation with a given customer, his financial situation and the volumes of purchased goods. The assessment of the financial credibility carried out by the insurer and of the granted financial limit, is also crucial. In the case of new customers, advance payments are applied.

In 2015, PEPEES sold its products to 3,000 customers throughout Poland, 26 foreign customers from the European Union and 49 export customers. None of the customers had at least 10 % share in the sales revenue.





As can be seen in the charts above, the Company generates the biggest sales in Poland (ca. 73 %); however, the share of sales abroad is on the increase. In 2015, the Company launched the export development plan. The share of sales abroad increased by 7 p.p. as compared to 2014, and was at the level of 27 % (the sales to the EU – 10 %; export sales - 17 %).

1) Sales in Poland

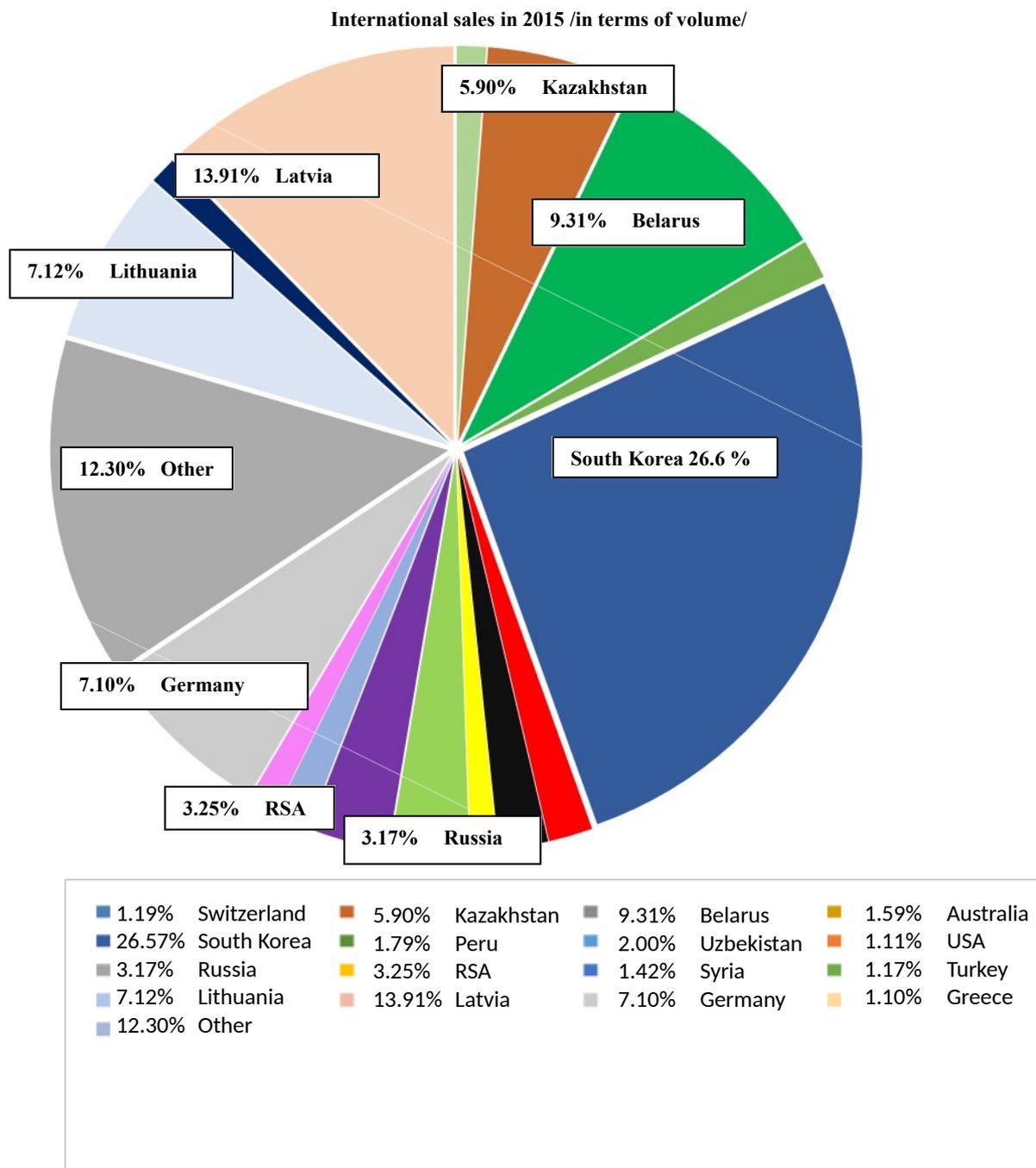
In 2015, the value of the sales of the Company's products and trade goods in Poland amounted to PLN 79,050 thousand and accounted for 73 % of the Company's sales revenue. The products from the potato industry were sold in 2015 throughout Poland, and the biggest sale was recorded in the following provinces: wielkopolskie, lubelskie, podlaskie, mazowieckie, małopolskie, dolnośląskie and śląskie. In the reporting period, potato starch had the biggest share in the sales on the Polish market; it is the Company's core product which accounts for over 45 % (in terms of value) of all products. Maltodextrin is the next product (16 %), followed by crystalline glucose (9 %).

The Company does not have a customer for whom sales revenue would be 10 or more percent of total revenue.

The majority of the main customers for the Company's products are reputable Polish companies, which are often linked in equity terms with large European companies.

2) Export and intra-Community sales

Outside the Polish market, PEPEES S.A. sells its products both on non-EU markets and on intra-Community markets.



Due to the location of the Company, its major markets are in the countries of Eastern Europe, i.e. Russia, Latvia, Lithuania and Kazakhstan. However, the location is not the decisive factor. In 2015, the biggest number of products were sold to South Korea.

3. The sources of supplies of production materials, trade goods and services

Potatoes for industrial use are the main production material in Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A. in Łomża; they are purchased in the autumn on the basis of procurement contracts concluded in the spring. Potatoes are purchased from private farmers.

In addition, the following raw materials are procured for the production of potato-based products and starch hydrolysates: starch, glucose syrup, paper packaging, enzymes, industrial gases, electrical materials, fine coal, metal parts, bags, sulphur dioxide, shrink film, hydrochloric acid, labels, cardboard boxes, diatomaceous earth, glues and adhesives, varnishes, thinners, enamels, steel strip, etc.

In 2015, materials, trade goods and services were purchased mainly from Polish companies or agencies of foreign companies. Dependence on a single supplier was recorded in the case of:

- enzymes;
- filtering materials;

as these are the only Polish agencies of foreign companies manufacturing the raw materials needed by the Company.

None of the suppliers had a 10-percent or bigger share in total sales revenue. The share of the biggest supplier in the Company's revenue was at the level of 6.4 %.

4. Material agreements for the business of „PEPEES” S.A. concluded in 2015

In 2015, Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A. in Łomża concluded the following material agreements for its business:

4.1. Business agreements

- An annex to the lease agreement concerning a farm with the area of 412.3547 ha. Pursuant to the Annex, the lease period was extended to 17 years, and the rent for the first year of the lease is PLN 1, for the second year - PLN 494,826, and for the next 15 years - PLN 11,133,576.90. The total rent for 17 years of the lease amounts to PLN 11,628,403.90. The amount of PLN 11,133,577.90 was paid in 2014. The remaining rent of PLN 494,826 was paid in two equal instalments: the first instalment until 25 March 2015, and the second instalment until 30 April 2015.
- A contract for the purchase of pesticides for potato plantations with the value of PLN 3,040 thousand.
- A contract for the purchase of fine coal with the value of PLN 2,370 thousand.
- A contract for the sale of maltodextrin with the value of PLN 2,010 thousand.

- A contract for the assembly of steam boilers with the value of PLN 1,412 thousand.
- In addition, the Company concluded a few business agreements with a lower value, and contracts related to the modernisation of buildings, structures, plant and machinery, and repairs.

4.2.

Loan agreements

Loan agreements concluded in 2014

In 2015, the Company entered into and made annexes to the following loan agreements:

a) with BGŻ BNP Paribas S.A.:

- A non-revolving loan agreement dated 25.02.2015 between „PEPEES” S.A. in Łomża and BGŻ BNP Paribas S.A. The agreement provides for the investment financing for PEPEES S.A. for the total amount of PLN 9.8 million for the period from 25.02.2015 to 25.02.2022. The multi-line interest rate is based on WIBOR 3M rate plus the bank's fixed margin.
- A multi-purpose line of credit agreement dated 19.08.2015 between „PEPEES” S.A. in Łomża and BGŻ BNP Paribas S.A. The agreement provides for working capital financing to companies of PEPEES Group with the total amount of PLN 39 million for the period from 19.08.2015 to 19.0.2025. The interest rate of the multi-purpose line of credit is based on WIBOR 1M rate plus the bank's fixed margin.
- Amendment No. 1 dated 27.08.2015 to the multi-purpose line of credit agreement dated 19.08.2015 between „PEPEES” S.A. in Łomża and BGŻ BNP Paribas S.A. The amendment provides for the expansion of the intended use of credit products being part of the multi-purpose line of credit. The total value of the multi-purpose line of credit did not change.
- Amendment No. 2 dated 19.10.2015 to the multi-purpose line of credit agreement dated 19.08.2015 between „PEPEES” S.A. in Łomża and BGŻ BNP Paribas S.A. The amendment provides for the expansion of the intended use of credit products being part of the multi-purpose line of credit, and the extension of the deadline for the delivery of the appraisal report for a real property. The total value of the multi-purpose line of credit did not change.

b) with BZ WBK S.A.:

- Annex No. 3 dated 19.02.2015 to the multi-line agreement dated 7 October 2014 between „PEPEES” S.A. in Łomża and BZ WBK S.A. The annex provides for the increase in the multi-line amount. The multi-line total value rose to PLN 59 million.
- Annex No. 4 dated 11.05.2015 to the multi-line agreement dated 7 October 2014 between „PEPEES” S.A. in Łomża and BZ WBK S.A. The annex provides for the increase in the multi-line amount. The multi-line total value rose to PLN 66 million.
- Annex No. 5 dated 30.07.2015 to the multi-line agreement dated 7 October 2014 between „PEPEES” S.A. in Łomża and BZ WBK S.A. The annex provides for an amendment to the schedule of cash availability in the multi-line. The total value of the multi-line did not change.
- Annex No. 6 dated 19.08.2015 to the multi-line agreement dated 7 October 2014 between „PEPEES” S.A. in Łomża and BZ WBK S.A. The annex provides for the renewal of the multi-line for the companies of PEPEES Group for the next marketing year, and a decrease in the multi-line amount. The multi-line total value decreased to PLN 39 million.

In 2015, no loan agreements of the Company were terminated.

Cash loan agreements

In 2015, PEPEES did not enter into any cash loan agreements.

Lease agreements

- Four sale and lease back agreements for the period of 50 months concerning plant and machinery with the net value of PLN 640 thousand concluded with BZ WBK Leasing.
- Two lease agreements for the period of 36 months concerning agricultural machines with the net value of EUR 89 thousand concluded with BZ WBK Leasing.
- A sale and lease back agreement concerning a potato flakes production line with the value of PLN 3,580 thousand concluded for the period of 84 months with ING Lease (Polska) Sp z o.o.
- A lease agreement concerning a warehouse with the value of PLN 506 thousand for the period of 60 months concluded with Raiffeisen-Leasing Polska S.A.
- A lease agreement concerning 6 passenger cars with the value of PLN 224 thousand concluded for the period of 60 months with Bank BGŻ BNP Paribas S.A.

4.3. Insurance agreements concluded for the period from 01.08.2015 to 31.07.2016

1. All-risks property insurance for the amount of PLN 210,318 thousand.
2. Business interruption insurance for the amount of PLN 29,182 thousand.
3. Electronic equipment insurance for the amount of PLN 766 thousand.
4. Liability insurance
5. Motor vehicle insurance (liability insurance, auto accident and theft insurance)

4.4. Agreements between shareholders

DEMEXX Polska Sp. z o.o. with its registered office in Lublin sold 6,398,731 shares of PEPEES representing 6.7355 % of the share capital and 6.7355 % of the total number of votes at the General Meeting of Shareholders to Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych.

5. Organisational or equity links between the Company and other entities; its major investments in Poland and abroad

As at 31.12.2015, major investments of „PEPEES” S.A. comprised interests in subsidiaries that are subject to consolidation and in an associate measured using the equity method; and 3,000 shares of Warszawski Rolno-Spożywczy Rynek Hurtowy S.A. with the value of PLN 2,550 thousand.

In addition, the Company holds interests in 3 other entities which ensure less than 5 % of the total number of votes at the General Meeting of Shareholders, and they are not material in terms of their value and the Company's investment policy.

The Company does not have any foreign investments.

Currently, the Group's business is focused on one industry sector, i.e. “the processing of potatoes”.

6. Related party transactions

The Issuer's transactions with its subsidiaries:

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

Transactions between „PEPEES” S.A. in Łomża with its subsidiary ZPZ „LUBLIN” Sp. z o.o. in Lublin involved the purchase from the subsidiary of grits for PLN 19 thousand, trade goods for PLN 1,440 thousand, and services for PLN 19 thousand.

In 2015, PEPEES sold to ZPZ Lublin starch for PLN 124 thousand and a service for PLN 82 thousand.

The selling price is determined using the cost-plus pricing method or on the basis of price lists used in transactions with unrelated parties.

In addition, ZPZ „LUBLIN” paid to the Issuer interest on the cash loan granted in previous years amounting to PLN 206.7 thousand. The amount of the outstanding loan as at the balance sheet date was PLN 3,000 thousand.

Transactions between „PEPEES” S.A. in Łomża and PPZ Bronisław Sp. z o.o. in Bronisław

In the reporting period, the Issuer purchased from the subsidiary starch and potato flakes for PLN 6,816 thousand, and services for PLN 67 thousand. The total value of purchases from PPZ „BRONISŁAW” Sp. z o.o. amounted to PLN 6,883 thousand.

In 2015, PEPEES sold to PPZ Bronisław potatoes with the value of PLN 1,422 thousand, and maltodextrin and glucose for PLN 65 thousand.

The selling price is determined using the cost-plus pricing method or on the basis of price lists used in transactions with unrelated parties.

In addition, PPZ Bronisław paid to the Issuer interest on the cash loan granted in the previous year amounting to PLN 420.5 thousand. The amount of the outstanding loan as at the balance sheet date was PLN 5,800 thousand.

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

PEPEES sold to CHP Energia potato pulp with the value of PLN 97 thousand.

As at the balance sheet date, there is an outstanding loan granted in previous years amounting to PLN 2,664 thousand, interest of PLN 683 thousand, and trade receivables of PLN 71 thousand.

All related party transactions are an arm's length transactions.

Transactions with shareholders, and members of the management personnel and their family members in the reporting period:

In the reporting period, the Company did not enter into any transactions with shareholders, or members of the management personnel and their family members.

7. Borrowings

As at 31.12.2015, „PEPEES” S.A. in Łomża had borrowings, which are presented in the table below:

Table No. 3:

Borrowings as at 31.12.2015

(amounts in PLN 000s)

Loan type /Agreement/	Lending bank	Loan amount as per the agreement	Debt as at 31.12.2015	Repayment date
1	2	3	4	5
Bank overdraft	Bank Zachodni WBK S.A.	4,000	3,924	31.08.2016
Revolving loan	Bank Zachodni WBK S.A.	6,000	6,000	31.08.2016
Working capital loan for the purchase of potatoes	Bank Ochrony Środowiska S.A.	15,000	15,000	31.08.2016
Bank overdraft	BGŻ BNP Paribas	4,000	3,934	31.08.2016
Revolving loan	BGŻ BNP Paribas	6,000	6,000	31.08.2016
Working capital loan for the purchase of potatoes	BGŻ BNP Paribas	15,000	15,000	31.08.2016
Subsidised investment loan	Bank Spółdzielczy S.A./Bank Polskiej Spółdzielczości S.A.	3,465	990	30.06.2017
Subsidised investment loan	Bank Polskiej Spółdzielczości S.A.	1,295	706	30.11.2018
Investment loan	BNP Paribas	9,823	8,542	25.02.2022

The interest rates on short-term loans are based on WIBOR 1M rate plus the banks' margins. The annual interest rate on subsidized loans is 2 %.

In 2015, none of the Company's loan agreements were terminated.

8. Cash loans, guarantees and sureties granted

1) Guarantees granted by „PEPEES” S.A. as at 31.12.2015:

PEPEES granted its guarantee for the loan taken out for the period from 25.05.2014 to 25.05.2024, to its associate CHP up to PLN 6,000 thousand.

2) *Guarantees granted to „PEPEES” S.A. as at 31.12.2015:*

Short-term loans are secured with e.g. mortgages on the assets of the subsidiaries: ZPZ „LUBLIN” Sp. z o.o. and PPZ „BRONISŁAW” Sp. z o.o.

3) *Cash loans granted, including their repayment dates*

*Table No. 4:
 (amounts in PLN 000s)*

Cash loan type /Agreement/	Borrower	Cash loan amount as per the agreement	Debt as at 31.12.2015	Repayment date
1	2	3	4	5
Cash loan to pay debts to potato suppliers	PPZ BRONISŁAW	1,500	1,300	1,000 until 30.09.2016 300 until 31.12.2018
Cash loan to finance normal business	PPZ BRONISŁAW	500	500	31.12.2018
Cash loan to finance normal business	PPZ BRONISŁAW	4,000	4,000	2,000 until 31.12.2017 2,000 until 31.12.2018
Cash loan to finance potato purchases	ZPZ LUBLIN	1,500	1,000	31.12.2018
Cash loan to finance business	ZPZ LUBLIN	2,000	2,000	31.12.2018
Cash loan to finance a biogas plant construction	CHP Energia	2,664	3,347	31.12.2016

All cash loans were granted in the Polish currency. The interest rate on these cash loans is from 4.45 % to 8 % p.a.

4) *Outstanding cash loans granted by the Company to members of the management or supervising personnel and their family members*

As at 31.12.2015, in the Company, there were no cash loans granted to members of the management or supervising personnel and their family members

9. The Issuer's use of proceeds from shares issued and the acquisition of treasury shares

In 2015, there were no issues of shares or acquisitions of treasury shares.

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

The Company did not publish financial forecasts for 2015.

11. The assessment, with its justification, of the financial resources management system, particularly of the Company's capacity to meet its obligations, and the description of any risks and measures the Issuer has taken or intends to take to counteract such risks

In 2015, the Company managed its financial resources effectively. It had the full capacity to meet its obligations throughout the year. During the 'potato campaign' in 2015, the Company continued the policy of developing the flexible structure of working capital financing adopted in previous years; its objective is to increase the share of the bank overdraft and the revolving loan and decrease the share of the non-revolving working capital loan. These measures contributed to the optimisation of the costs of the interest on bank loans.

In 2015, the Company invested its surplus cash in bank term deposits and did not use any other more risky financial instruments.

In 2015, there was no risk of the failure to meet financial obligations in PEPEES S.A.

12. Financial instruments, and the objectives and methods of financial risk management

Major financial instruments used by the Company comprised bank loans, lease agreements and short-term bank deposits. As far as financial instruments in the form of short-term bank loans are concerned, the Company, as each year, took advantage mainly of the financing of its periodical working capital needs during the 'potato campaign'. Its purpose was to finance the purchase of potatoes for starch production and to finance inventories produced during the manufacturing campaign. The Company has no derivatives and does not apply hedge accounting.

In 2015, PEPEES S.A.'s business was exposed to the following risks:

- **Currency risk.** As a substantial percentage of the Company's sales and purchases is in foreign currencies, the risk of the fluctuations of foreign exchange rates may affect the Company's results. The euro is the most important currency in terms of the sales of PEPEES S.A. Substantial changes of the EUR/PLN exchange rate may affect export sales revenue and the purchase price of materials for the production process. PEPEES S.A. did not hedge this risk using any financial instruments (e.g. currency options or other derivatives). As shown above, due to the specific nature of the Company's business, apart from proceeds in foreign currencies from the sales of products, there are also substantial expenses, whose value is linked to EUR exchange rate. These items are in balance to a great extent, hence reducing the impact of this risk on the business and financial results.
- **Price risk** for core products. In recent years, there have been relatively substantial fluctuations of starch prices.
- **Interest rate risk.** Due to the financing of operating and investing activities with bank loans, the Company is exposed to the interest rate risk. The Company regularly repays the instalments of short-term loans, hence significantly reducing the impact of this risk on the

financial result. The interest rate risk is not considered high. The interest rate on loans is variable and based mainly on WIBOR 1M rate plus the bank's fixed margin. PEPEES S.A. does not use any interest rate hedging instruments.

- **Liquidity risk.** Liquidity risk is not considered high either. This is due to the proper implementation of the trade credit management policy. PEPEES S.A. seeks to minimise the counterparty default risk and the risk of the failure to obtain payments for delivered products, which might affect the Company's liquidity. Generated revenue is secured with trade receivables insurance, both in Poland and abroad. Higher-risk foreign transactions are secured with letters of credit.

13. Investment projects completed in 2015 and planned investment projects

1) Investment projects completed in 2015

1. The construction of the Starch Drier with the accompanying infrastructure comprising:
 - the construction of a production hall of the starch drier;
 - the delivery and assembly of the starch drying system;
 - the rebuilding of internal heat distribution networks for steam and condensate, process heat, central heating, hot water and circulation, cold water;
 - the construction of an internal SN-15kV, NN-0.4kV load-side service line with a container transformer station to power the starch drier;
 - the assembly of a container screw compressor and accompanying devices and systems for the production, treatment and buffering of compressed air, and connecting the systems with the existing compressed air network and a new starch drier together with the new compressed air collector;
 - the upgrading of the vacuum filters node through the assembly and launch of the conveyor belt system with upper shields to feed dehydrated starch to the two existing and the new starch driers;
 - the launch of Integra FD2 automatic packing machine with the assembly of the product feeding system.

The project was carried out as part of the implementation of the objectives of PEPEES S.A. Group Development Strategy for 2013-2018.

2. The construction of the in-house underground water purification plant for technical and staff needs.
3. The construction of a permanent tent hall to store raw materials for processing and starch products with a manoeuvring yard.
4. The construction of a big-bags unloading building.
5. The construction of a dehydrated starch unloading yard.

6. The upgrading of the power system of pulp-producing centrifuges.
7. The replacement of some elements of starch sifters.
8. The upgrading of the pipelines used to discharge wastewater to a meadow and a storage reservoir.
9. The purchase of laboratory apparatuses (lab scales, pH and temperature meter, luminometer).

In 2015, the Group completed a wide range of repairing and construction works in the rooms of production and auxiliary departments and in warehouses, in order to improve their technical condition and to adapt them to H&S and fire requirements and to the Company's Integrated Management Systems, including works identified in post-audit and post-control recommendations.

The scope of works comprised mainly repairs of walls, floors and ceilings, the replacement of the door woodwork as well as electrical and sanitary works. The thermal efficiency of the tops of the building of the starch-producing unit and of the office building was improved by insulating and plastering them. The Group also completed a number of glazing, roofing and road-construction works.

All repairing and construction works were carried out by third party companies from the construction industry.

2) Investment projects planned for 2016

In 2016, PEPEES S.A. intends to continue investment projects aiming at increasing the production of starch, reducing the production costs of products, and maintaining the existing technical infrastructure in a proper technical condition.

The Company's main investment projects in 2016 are as follows:

- The upgrading of the raw materials washing and cleaning system.
- The upgrading of the dust removal system for boilers in the corporate boiler room.
- The construction of a gas boiler with the accompanying systems.
- The upgrading of the main St-1 transformer/switching station.
- The replacement of S5 controller with S7 controller, including the replacement of control modules and switching to computerized operating stations.
- The purchase of glucose weighing and packing machine.
- The preparation of the multi-branch conceptual and design documentation of a storage silo for potato starch with the capacity of 10,000 tonnes.
- The upgrading of central heating pipelines.
- The assembly of the protein big-bag packing system.

The investment plans of PEPEES S.A. aim at readjusting the Company and its technical resources in order to meet the requirements and objectives of the investment strategy and to boost long-term profits. They will also result in a reduction in operating costs and an expansion of the range of products offered by the Company.

The expenditure on these investment projects will amount to ca. PLN 6,500 thousand. The financing structure is as follows: own funds + loans + leases

The Company's Board of Directors does not perceive any obstacles that might adversely affect the implementation of planned investment projects.

14. Employment in 2015

Table No. 5:

Specification	Average number of employees in 2015	As at 31.12.2015		Average number of employees in the previous financial year
		Women	Men	
Administrative employees	82	44	38	77
Workers	152	11	132	155
Employees on parental leaves and unpaid leaves	4	1	1	1
Total	238	56	171	233

15. Environmental issues

The area around Łomża stands out in Poland due to its beautiful nature. The natural beauty can be seen in many interesting areas. Near Łomża, there is the Biebrza National Park located ca. 19km to the east, which is also one of the areas protected under *Natura 2000* programme, called "The Biebrza River Valley". Ca. 1.5km to the east, there is Łomża Landscape Park of the Narew River Valley, which is one of the areas protected under *Natura 2000* programme, called "Narew Ravine Valley". In addition to national parks, there are also forest nature reserves managed by the Forest Administration in Łomża: "Kalinowo", "Rycerski Kierz", "Wielki Dział", and a landscape protection area called "Kurpiowska Plain and the Valley of the Lower Narew River". In addition, there are 12 natural monuments within the administrative borders of the town of Łomża. Łomża and nearby areas are located in the region called "Poland's Green Lungs", including areas in north-eastern Poland, which are the cleanest in Poland and offer the greatest value in terms of their natural environment.

When doing its business, the Company makes every effort to observe environmental requirements. The Company complies with all applicable legal regulations and laws, and holds all applicable permits related to emissions of pollutants, water intake, wastewater disposal or waste production. The Company monitors environmental impacts through periodical measurements and recording of the size and characteristic parameters of the streams of air pollutant emissions and waste, and of the water intake and discharged wastewater. The present scope of the monitoring, determined in the administrative permits held by the Company, should be regarded as sufficient to assess the operation of the systems.

Waste is managed in conditions which prevent the contamination of the environment and ensure human health and safety. The Company maintains quantitative and qualitative waste management records in accordance with the adopted classification and model documents referred to in relevant regulations. In addition, the Company operates the

Integrated Management System, including quality management, environmental management, and H&S management.

16. Major R&D accomplishments

In 2015, the Company carried out two projects:

- laboratory and industrial tests in the cooperation with Wrocław University of Environmental and Life Sciences concerning the production of potato protein for food-related purposes; and
- laboratory and industrial tests concerning the shutting-down of the water transport system to reduce the consumption of water used to transport potatoes in the potato starch production process, while at the same time eliminating foul smell and maintaining high product quality.

17. Non-typical events with a significant impact on operating profit/loss and equity in 2015

In 2015, there were no non-typical events with a significant impact on the Company's result and equity.

18. Corrections of errors from previous periods and changes in accounting policies

The Company did not change voluntarily its accounting policies and did not correct errors from previous years.

19. Changes in the Issuer's and its Group's basic management principles

In the reporting period, there were no material changes in the the Company's and the Group's basic management principles.

20. Any agreements between the Issuer and the members of the Board of Directors providing for a compensation if they resign or are made redundant without a valid reason or if their employment ceases because of the Issuer's merger through acquisition.

There are managerial contracts concluded between the Issuer and the members of the Board of Director, which provide for a compensation due to non-competition agreements for the period of 12 months from the date of their contract termination in the amount of 100 % of the average monthly salary with bonuses for the past 12 months.

21. Remunerations, bonuses and other benefits paid and payable to members of the management and supervisory personnel in 2015

Board of Directors:

Mr Wojciech Faszczewski	PLN 603.0 thousand
Mr Krzysztof Homenda	PLN 488.3 thousand
Total remunerations of the Members of the Board of Directors	PLN 1,091.3 thousand

Supervisory Board:

Mr Maciej Kaliński	PLN 38.2 thousand
Mr Piotr Taracha	PLN 61.8 thousand
Mr Krzysztof Stankowski	PLN 55.7 thousand
Mr Piotr Łuniewski	PLN 32.3 thousand
Mr Robert Malinowski	PLN 32.3 thousand
Mr Krzysztof Borkowski	PLN 27.2 thousand
Mr Robert Czaplą	PLN 23.0 thousand
Mr Tomasz Łuczyński	PLN 23.0 thousand
Mr Dawid Sukacz	PLN 23.0 thousand
Total remuneration of the Supervisory Board	PLN 316.5 thousand

Remunerations of the members of the Board of Directors and of the Supervisory Board paid for their work in the authorities of subsidiaries:

Mr Wojciech Faszczewski – President of the Board of Directors of PEPEES – PLN 50 thousand for working as a member of the Supervisory Board of Zakłady Przemysłu Ziemniaczanego „Lublin” Sp. z o.o.; and PLN 45 thousand for working as the President of the Board of Directors of PPZ BRONISŁAW Sp. z o.o.

Mr Krzysztof Homenda – the Member of the Board of Directors of PEPEES – PLN 121 thousand for working as the President of the Board of Directors of ZPZ „LUBLIN” Sp. z o.o.; and PLN 14 thousand for working as a member of the Supervisory Board of PPZ BRONISŁAW Sp. z o.o.

Mr Piotr Taracha – PLN 45 thousand for working as a member of the Supervisory Board of Zakłady Przemysłu Ziemniaczanego „Lublin” Sp. z o.o.; and PLN 41 thousand for working as a member of the Supervisory Board of PPZ BRONISŁAW Sp. z o.o.

22. Shares of „PEPEES” S.A. and of the Group's companies held by members of the management and supervisory personnel

As at 31.12.2015, the following members of the management and supervisory personnel of „PEPEES” S.A. in Łomża held the Company's shares:

Mr Wojciech Faszczewski – President of the Board of Directors – 701,000 shares with the nominal value of PLN 0.06 each and with the total value of PLN 42,060

None of the members of the management and supervisory personnel hold shares in the Group's subsidiaries.

23. Agreements, known to the Company, which may result in future changes in the proportions of the shares held by existing shareholders

The Company does not possess any information about any agreements which may result in changes in the proportions of the shares held by existing shareholders.

24. The holders of any securities with special control rights related to the Issuer, and a description of those rights

The Company's shareholders do not have any securities with special control rights related to the Issuer.

25. The system of control of any employee share schemes

The Company does not have any system of control of employee share schemes or of any equity-based incentive schemes.

26. Any restrictions on the transfer of the Issuer's securities, and any restrictions on voting rights incorporated in the Issuer's shares

There are no restrictions on the transfer of the Issuer's securities.

27. The Company's quotations in 2015

The Company's shares have been listed on the Warsaw Stock Exchange since 22 May 1997. The share price at the beginning of 2015 amounted to PLN 0.50. The highest share price in 2015 was PLN 0.60 and the lowest share price was PLN 0.47.

Share price of PEPEES in 2015

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28. The entity authorised to audit and review the Issuer's financial statements

On 22 July 2015, the Company concluded a one-year agreement concerning the review and audit of the financial statements for 2015 with **Mazars Audyt Sp. z o.o.** with its registered office in Warsaw, Poland. The agreement provides for the review of the separate and consolidated financial statements as at 30.06.2015, and for the audit of the separate and consolidated financial statements for the financial year 01.01 - 31.12.2015. The total remuneration under the agreement is PLN 41,000 plus VAT.

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

29. Proceedings pending before a court

There are no unresolved litigations as at the balance sheet date.

III. ASSETS AND FINANCIAL STANDING

1. The Company's assets

Assets as at 31 December 2015 as compared to 31 December 2014 are shown in the table below.

Table No. 6:

Assets as at 31.12.2015 and 31.12.2014

(amounts in PLN 000s)

Asset	As at		Changes in amounts + increases - decreases	Structure in %	
	31.12.2015	31.12.2014		31.12.2015	31.12.2014
I. NON-CURRENT ASSETS	102,884	94,404	8,480	49.38	58.44
1. Property, plant and equipment	78,128	68,416	9,712	39.69	42.36
2. Intangible assets	456	76	380	0.23	0.05
3. Investments in subsidiaries	3,755	3,852	(97)	1.91	2.38
4. Investments in associates	811	811	-	0.41	0.50
5. Investments in other entities	113	113	-	0.06	0.07
6. Loans granted	7,800	9,664	(1,864)	1.02	5.98
7. Advances	10,391	10,391	-	5.28	6.43
8. Deferred tax assets	1,430	1,081	349	0.78	0.67
II. CURRENT ASSETS	93,830	67,138	26,692	50.62	41.56
1. Inventories	44,192	45,284	(1,092)	22.45	28.03
2. Biological assets	172	126	46	0.09	0.08
3. Trade receivables	15,474	10,937	4,537	7.86	6.77
4. Current income tax receivables					
5. Other receivables	2,832	4,285	(1,453)	1.44	2.65
6. Advances	841	838	3	0.43	0.52
7. Loans granted	4,347	2,041	2,306	5.15	1.26
8. Investments held for trading	2,550	2,550	-	1.30	1.58
9. Cash and cash equivalents	23,422	1,077	22,345	11.90	0.67
TOTAL ASSETS	196,714	161,542	35,172	100.00	100.00

The total value of the Company's assets as at 31.12.2015 increased by 21.8 % as compared to the previous year. In the case of non-current assets, there was an increase in the capital expenditure on property, plant and equipment. In the case of current assets, the biggest increase was recorded for cash and trade receivables.

2. The Company's sources of financing

Sources of financing assets as at 31 December 2015 are shown in the table below.

Sources of financing as at 31.12.2015 and 31.12.2014

Table No. 7:

(amounts in PLN 000s)

Asset	As at		Changes in amounts + increases - decreases	Structure in %	
	31.12.2015	31.12.2014		31.12.2015	31.12.2014
I. Equity	110,656	104,751	5,905	56.25	64.84%
1. Share capital	5,700	5,700		2.90	3.53%
2. Reserve capital and other reserves	99,430	95,809	3,621	50.54	59.30%
3. Retained earnings from previous years and the present year	5,917	3,621	2,296	3.01	2.24%
5. Revaluation reserve	(391)	(379)	(12)	(0.20)	(0.23)%
II. Non-current liabilities	22,168	12,322	9,846	11.27	7.63%
1. Loans and borrowings	7916	1,582	6,334	4.02	0.98%
2. Deferred tax liabilities	5,844	5,296	548	2.97	3.28%
3. Retirement and similar	1,918	1,915	3	0.98	1.19%
4. Lease payables	3,942	662	3,280	2.00	0.41%
5. Grants	2,548	2,867	(319)	1.30	1.77%
III. Current liabilities	63,890	44,469	19,421	32.48	27.53%
1. Trade payables	6,380	8,222	(1,842)	3.24	5.09%
2. Income tax liabilities	807	384	423	0.41	0.24%
3. Other current liabilities	1,644	1,572	72	0.84	0.97%
4. Loans and borrowings	52,066	32,141	19,925	26.47	19.90%
5. Lease payables	1151	439	712	0.59	0.27%
6. Retirement and similar benefits obligations	157	145	12	0.08	0.09%
7. Provisions for other liabilities and other charges	1,685	1,566	119	0.85	0.97%
Total equity and liabilities	196,714	161,542	35,172	100.00%	100.00%

In the financing structure, the percentage of equity decreased, which caused the percentage of liabilities to increase. The percentage of non-current liabilities increased due to the loan taken out to build the starch drier, the unloading node and the water purification plant. Liabilities related to short-term loans, which were used to finance the purchase of potatoes and the current operations, also increased.

3. The Company's financial result

The Company's financial results for 2015 as compared to 2014 are presented in the table below.

Table No. 8:

The financial result for 2015 and 2014

(amounts in PLN
000s)

No .	Specification	Accomplishment in 2015	Accomplishment in 2014	Growth rate
1	Sales revenue	107,927	91,736	117.6
	- revenue from the sale of products	91,262	81,231	112.3
	- revenue from the rendering of services	432	135	320.0
	- revenue from the sale of trade goods and materials	16,233	10,370	156.5
2	Costs of sold products, trade goods and materials	(83,007)	(72,015)	115.3
	- costs of products sold	(67,234)	(61,476)	109.4
	- costs of services sold	(208)	(159)	130.8
	- costs of trade goods and materials sold	(14,978)	(9,742)	153.7
	- profit/loss from agricultural production	(587)	(638)	92.0
3	Gross profit from sales	24,920	19,721	126.4
	- selling and marketing expenses	(5,709)	(4,493)	127.1
	- administrative expenses	(12,459)	(11,758)	106.0
	- other operating income	741	816	90.8
	- other operating expenses	(271)	(197)	137.6
4	Profit on operating activities	7,222	4,089	176.6
	- finance costs	(994)	(872)	114.0
	- finance income	1309	1,397	93.7
5	Profit before tax	7,537	4,614	163.4
	- income tax expense	(1,620)	(993)	163.1
6	Net profit	5,917	3,621	163.4

In 2015, the sales revenue increased by 17.6 % as compared to the previous year. The costs of products sold increased to a lesser extent than revenue, which resulted in an increase in gross profit from sales by over 26 % and an increase in operating profit by 76.6 %. And, net profit increased by 63.4 % as compared to the previous year.

4. Cash flows

In 2015, the balance of cash flows from operating activities was positive and amounted to PLN 7.177 thousand, owing to the generated operating profit. Cash flows from investing activities decreased by PLN 10.092 thousand, due to the expenditure on the acquisition of property, plant and equipment. The balance of cash flows from financing activities was positive due to the

THE BOARD OF DIRECTORS' REPORT ON THE OPERATIONS OF PEPEES S.A. FOR 2015
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 increase in loan debt. All in all, the balance of cash flows is positive and amounts to PLN 17.358 thousand.

5. Economic ratios

The summary of ratios characterising the Company's business and situation is presented in the table below.

Table No. 9:

Economic ratios

Ratio	Commercial substance	2015	2014
Return on Assets (ROA)	$\frac{\text{net profit/loss}}{\text{total assets}}$	3.01%	2.24%
Return on Equity (ROE)	$\frac{\text{net profit/loss}}{\text{equity}}$	5.35%	3.46%
Net Profit Margin	$\frac{\text{net profit/loss}}{\text{net revenue from the sale of products, services, trade goods and materials}}$	5.48%	3.95%
Return on Sales	$\frac{\text{gross profit/loss from sales}}{\text{net revenue from the sale of products, services, trade goods and materials}}$	23.09%	21.50%
Current Ratio	$\frac{\text{current assets}^*}{\text{current liabilities}^{**}}$	1.47	1.51
Quick Ratio	$\frac{\text{current assets}^* - \text{inventories}}{\text{current liabilities}^{**}}$	0.78	0.49
Receivables Turnover in days	$\frac{\text{average trade receivables} \times 365}{\text{net revenue from the sale of products, services, trade goods and materials}}$	44.66	42.91
Accounts Payable Turnover in days	$\frac{\text{average trade payables} \times 365}{\text{cost of products and services sold} + \text{the value of trade goods and materials}}$	32.10	34.87
Inventory Turnover in days	$\frac{\text{average inventories} \times 365}{\text{cost of products and services sold} + \text{the value of trade goods and materials}}$	196.72	192.71
Equity to Fixed Assets Ratio	$\frac{\text{equity}}{\text{total fixed assets}}$	1.08	1.11
Gearing Ratio	$\frac{\text{equity} + \text{long-term provisions} + \text{non-current liabilities}}{\text{total equity and liabilities}}$	0.68	0.72

* current assets = total current assets – trade receivables over 12 months

** current liabilities = current liabilities up to 12 months + short-term provisions + short-term accruals

As demonstrated in the table above, profitability ratios increased in 2016, as the Company generated higher net profit as compared to the previous year. Liquidity ratios also improved, which means that the Company manages its assets well. Receivables turnover ratio increased slightly as compared to the previous year. Accounts payable turnover ratio decreased by more than 2 days. Inventory turnover ratio is always high in the Company due to the seasonality of its

production. Equity to fixed assets ratio is high, as, due to the high percentage of equity in the financing structure, it exceeds 1.0.

IV. THE COMPANY'S DEVELOPMENT

1. Description of underlying risks and threats and of external and internal drivers of the Company's development

Basic risks and threats:

Political and legal environment

The potato starch market was subject to a number of regulations and support under the Common Agricultural Policy (CAP). Their purpose was to maintain the profitability of potato starch production and to improve the competitiveness of the production in the case of starch produced from cereals and originating from outside the EU.

The regulations provided for, inter alia, the quotas for the starch production in the Member States. In recent years, the potato starch production quota for Poland has been a little less than 145 thousand tonnes. Despite much greater capabilities of production plants, each year, this quota was not used up.

As part of the aforementioned quota, potato starch manufacturers were granted production premiums. In addition, the regulations affected the prices paid for starch potatoes. Starch potato growers were paid money from the state budget in the form related and not related to their production.

From the 2012/2013 season, starch production quotas have been withdrawn and, consequently, the minimum price and production premiums ceased to be applied, and payments to growers are made only in the form not related to the production. These changes have had an adverse impact on the sector.

In 2015, an area payment was introduced; it amounted to ca. EUR 400 to 1 ha of the starch potato cultivation area contracted by food starch production plants, which resulted in an increase in the potato cultivation area in Poland by ca. 30,000 ha as compared to the previous year.

The dependence of the production on weather and seasonality

Potatoes are the only raw material for the production; therefore, the volume and quality of the production depend on their harvest. Adverse weather conditions contribute to the reduction of potatoes harvest and of the starch content. Potatoes harvest in 2015 in Poland was ca. 1 million tonnes smaller than in 2014. *Low yield caused by a long drought and extremely hot weather during the growing season was the main reason for the decline in harvest.*

Dependence on the profitability of potato production

High production costs, low prices and harvest, and low starch content are the main reasons for the declining interest among farmers in the production of starch potatoes. Since 2006, starch production plants have had difficulty in obtaining adequate quantities of potatoes. Since 2005, the number of growers in Poland has fallen from 7,800 to ca. 4,000.

Competition

At present, there is strong competition from substitutes. In the food industry, there are a lot of products that perform similar functions (fillers and thickeners) as potato starch, i.e. wheat starch, corn starch, imported natural hydrocolloids such as guar gum, xanthan gum, gum arabic, locust bean gum and gelatin.

This poses a risk of a partial loss of markets for the Company's products. In addition, there is a lot of competition on the internal starch market in the European Union.

Currency risk

Such risk arises as a result of the international trade in currencies other than the Polish zloty. Substantial fluctuations of currency exchange rates may adversely affect the profitability of foreign transactions.

Limited money supply

Less available and more expensive money on the market is the effect of the global crisis. This hits manufacturers very hard. They are forced to grant trade credits to their customers, extend payment deadlines, and it is more and more difficult for them to get loans in banks.

Too expensive instruments that increase sales safety

Granting credits to customers increases the risk of the failure of getting paid for deliveries. Related financial products offered on the market are expensive and significantly prolong transactions. In many cases, the development of instruments accessible to manufacturers, enhancing sales safety and guaranteeing a high level of security, would help get rid of fraudulent counterparties from the market.

The sale of a product posing a risk to consumer health and life

The Company manufactures food. In the case of the sale of a product posing a risk to consumer health or life, the Group's image would be severely tarnished, and the Group would have the obligation to pay compensations to customers and consumers, and to cover the costs related to the product recall and disposal. The risk is very limited due to the Corporate Food Quality and Safety Management System. The product recall procedure has been implemented, and recall simulations are carried out.

External drivers of the Company's successful development

The Company's development as regards the starch industry depends primarily on the agricultural policy of the European Union and of Poland, and on the creation of proper conditions for the operation of the agricultural and food industry.

The main drivers of the Company's successful development are as follows:

- The development of the Polish potato industry. For many years now, the Polish potato industry has been undergoing thorough structural remodelling. These changes result in greater professionalism of the potato production, which, in the future, may contribute to greater competitiveness of the Polish potato industry. The total number of farms producing potatoes is on the decrease, while, at the same time, the production is more concentrated and specialised.
- The possibility of obtaining financial means from EU funds to finance investment projects.
- The market demand for competitive modified potato starch products.
- The access to modern technologies.
- The development of markets in international trade.
- A wide range of starch applications – new customer segments.
- Area payments for starch potatoes.

Internal drivers of the Company's successful development

The most vital internal Company-dependent drivers important for the Company's further development are as follows:

- Regular investments in and gradual modernisation of production departments in order to boost the efficiency and innovation of products, and to reduce operating costs.
- Active response to market needs and requirements.
- Implemented Corporate Food Quality and Safety Management System with appropriate certificates.
- Implemented GMP (good manufacturing practice) system for manufacturers of active substances.
- The Company's compliance with Smeta; the presence on SeDeX platform.
- Very good cooperation with growers throughout the year.
- The possibility of producing hydrolysates to meet specific customers' needs.
- Low costs of the disposal of industrial wastewater.
- High production capabilities.
- The implementation of investment strategies and measures.
- The expansion of the product range.
- Employees' expertise and experience.

2. Development prospects for the Company

Development plans of PEPEES S.A. for 2016 are associated directly with the Company's Strategy published in autumn 2013, and with the need to adapt the Company's business to the new situation in the business and legal environment.

In 2016, apart from investment projects described in item II.13 of this report, the Company will continue its organisational projects (the expansion of the raw materials procurement system; the export development programme) and research and development projects. The Company cooperates with research institutes which specialise in research on the processing of starch and

its derivatives, both as regards issues related to the Company's current business and a new range of products. The cooperation with schools and universities is supposed to result in joint activities focused on the transfer of scientific knowledge to business by launching collaborative research and development projects related to process and product innovation.

These plans are intended to improve significantly the Company's competitive position on the market and increase its shareholder value.

V. THE APPLICATION OF THE CORPORATE GOVERNANCE PRINCIPLES

I. Corporate governance principles the Issuer is governed by and the place where the text of the set of principles is publicly available

1. Pursuant to § 29 Clause 2 of the Rules of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) with the wording adopted by virtue of Resolution No. 1/1110/2006 of the Board of the Warsaw Stock Exchange dated 4 January 2006, as amended, in 2015, the Company should apply the corporate governance principles contained in the document titled *The Code of Best Practice for WSE Listed Companies*, which is an Appendix to Resolution No. 19/1307/2012 of the Board of the Warsaw Stock Exchange dated 21 November 2012 (hereinafter referred to as “Best Practice”), available on the website: <http://www.corp-gov.gpw.pl>.

II. The extent to which the Issuer deviated from corporate governance principles, indicating such principles and explaining the reasons for such deviations

2. In 2015, the Company observed all the recommendations and principles of the Best Practice, except for the following recommendations and principles:

3. **Recommendations for best practice for listed companies**

4. Recommendation No. 5 *“A company should have a remuneration policy and rules of defining the policy. The remuneration policy should in particular determine the form, structure, and level of remunerations of members of supervisory and management bodies. Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company.”*

5. The aforementioned recommendation was not fully applied by the Company. The Company has a remuneration policy and rules of defining the policy. The policy determines the form, structure, and level of remunerations of the members of supervisory and management bodies. However, when defining the remuneration policy, the Company did not apply the Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC).

6. Recommendation No. 9 *“The WSE recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' economic business.”*

7. This recommendation was not applied by the Company in quantitative terms, as there are no women among the members of the Board of Directors and of the Supervisory Board. However, when selecting members of the Board of Directors and of the Supervisory Board, the Company is invariably guided by the highest standards and, in this respect, does not discriminate against candidates because of their gender or other non-work-related traits. The authorities of the Company are selected taking into account primarily high competences, skills and professionalism of candidates.

8. Recommendation No. 12 *“A company should enable its shareholders to exercise the voting right during a General Meeting either in person or through a plenipotentiary, outside the venue of the General Meeting, using electronic communication means.”*

9. In the opinion of the Board of Directors, there is no need to broadcast General Meetings or ensure real-time bilateral communication. General Meetings of Shareholders are held in the Company's registered office at convenient times; therefore, the participation in them is not hindered in any way for Shareholders interested in them, who want to take floor or exercise their voting rights (either in person or through a plenipotentiary). Extremely high attendance at General Meetings of Shareholders is proof of the same. In addition, the Company is of the opinion that, despite advanced technology, there is always the risk, for various reasons (including the reasons beyond the control of the Company, Shareholders or third parties), of not being able to guarantee the technical and legal security of the real-time bilateral communication, or of exercising voting rights using electronic communication means, and any damage arising from related disruptions might result in an unreasonable increase in the costs of the Company's operations.

10. **Best practice for management boards of listed companies**

11. Rule No. 1 items 7) –9) “*A company should operate a corporate website and publish on it: (...) shareholders’ questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions; information about the reasons for cancellation of a General Meeting, change of its date or agenda together with grounds; information about breaks in a General Meetings and the grounds of those breaks*”

12. The aforementioned information is published in accordance with the requirements of the Decree and posted on the website in Investor Relations » Current Reports, and the Company does not publish it on a separate page of the website.

13. Rule No. 1 item 9a) “*A company should operate a corporate website and publish on it: (...) a record of the General Meeting in audio or video format*”

14. In accordance with applicable regulations, the Company draws up detailed records of General Meetings of Shareholders in the form of notarized minutes. In addition, by publishing required current reports and posting appropriate information on its website, the Company provides the Shareholders with all relevant information concerning General Meetings of Shareholders. The Company believes that such principles ensure the transparency of General Meetings of Shareholders.

15. Rule No. 1 item 11) “*A company should operate a corporate website and publish on it: (...) information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing not less than 5% of all votes at the company’s General Meeting*”

16. Members of the Supervisory Board do not make statements about their relationships with shareholders representing not less than 5 % of all votes at the General Meeting of Shareholders. Therefore, it is not possible to post this information on the website.

17. **Best practice for Supervisory Board members**

18. Rule No. 2 *“A member of the Supervisory Board should submit to the company’s Management Board information on any relationship with a shareholder who holds shares representing not less than 5% of all votes at the General Meeting. This obligation concerns financial, family, and other relationships which may affect the position of the member of the Supervisory Board on issues decided by the Supervisory Board.”*

19. Members of the Supervisory Board make, on a quarterly basis to the Board of Directors, statements about the Company's shares held by them as at the date of a given quarterly report. However, they do not make statements about their relationships with shareholders representing not less than 5 % of all votes at the General Meeting of Shareholders.

20. Rule No. 6 *“At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting.”*

21. Decisions concerning the selection of Members of the Supervisory Board are made by the General Meeting of Shareholders. The Company's Board of Directors cannot influence such appointments and do not have information on the independence of the members of the Supervisory Board. In the Company's opinion, such a method of selecting members of the Supervisory Board properly protects the interests of the Company's shareholders.

22. Rule No. 8 *“Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors... should apply to the tasks and the operation of the committees of the Supervisory Board.”*

23. The Supervisory Board works in accordance with applicable regulations, the Articles of Association and the By-laws of the Supervisory Board. All its supervisory and control functions are performed on a collegial basis. The Audit Committee comprises all members of the Supervisory Board. Therefore, Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors... does not apply to the tasks and the operation of the committees.

24. **Best practices of shareholders**

25. Rule No. 10 *“A company should enable its shareholders to participate in a General Meeting using electronic communication means through:*

26. *1) real-life broadcast of General Meetings;*

27. *2) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting.”*

28. In the opinion of the Board of Directors, there is no need to broadcast General Meetings or ensure real-time bilateral communication. General Meetings of Shareholders are held in the Company's registered office at convenient times; therefore, the participation in them is not hindered in any way for Shareholders interested in them, who want to take floor or exercise their voting rights (either in person or through a plenipotentiary). Extremely high attendance at General Meetings of Shareholders is proof of the same. In addition, the Company is of the opinion that, despite advanced technology, there is always the risk, for various reasons (including the reasons beyond the control of the Company, Shareholders or third parties), of not being able to guarantee the technical and legal security of the real-time bilateral communication, or of exercising voting rights using electronic communication means, and any damage arising from related disruptions might result in an unreasonable increase in the costs of the Company's operations.

29.

III. The description of the main features of any internal controls and risk management systems in relation to the process of preparing financial statements and consolidated financial statements

29.1. The effectiveness of the Company's internal controls and risk management system in the financial reporting process is ensured through:

- a) An extensive system of internal regulations comprising e.g.:
 - the organisational structure adapted to the Company's business needs, establishing internal links and the rules of the mutual transmission between organisational units;
 - the scopes of activities, powers and responsibilities of individual units, positions and employees;
 - the accounting policy documentation prepared in accordance with the Accounting Act and, in respect of the measurement of assets and liabilities and the presentation of financial statements and reports, in accordance with the International Accounting Standards;
 - the internal audit rules;
 - the inventory manual;
 - the currency risk management procedure;
 - the schedule of the closing of the books of account and of the preparation of financial statements and reports for each reporting period;
 - a number of regulations, rules and orders.
- b) Keeping the books of account in a computer system with a modular structure which ensures a clear division of competences and the automatic control of the continuity of the entries of accounting transactions. The access to the information resources in the system is restricted to authorised employees with appropriate permits, only to the extent necessary for them to fulfil their duties. The access is controlled at each stage of the preparation of financial statements: during the entry of source data, data processing, and the generation of output data.
- c) The system of the control of all accounting documents, which ensures their substantive, formal and accounting correctness.
- d) Periodical inventory counts to determine actual levels of assets and liabilities through:

- physical counts of fixed assets and monetary assets;
- the reconciliation of the balances of the majority of settlements and cash in banks, including loans and borrowings;
- checking the levels of the remaining assets and liabilities in records against relevant documents, and the possible verification of such data.

29.2. Periodical inventory counts make it possible to evaluate the suitability of assets and to verify useful lives of particular items of property, plant and equipment.

- e) The qualified and competent team of the financial and accounting function, which is responsible for the correct and timely preparation of financial statements.
- f) The audit and verification of financial statements by an independent certified auditor. The certified auditor is selected by the Supervisory Board on the basis of submitted bids, from the group of reputable audit companies, which ensure high standards of services and the required independence.

IV. Shareholders holding, directly or indirectly, qualifying holdings

According to the Company's best knowledge, the shareholding structure as at 31.12.2015 was as follows:

SHAREHOLDERS	Number of shares	Stake [%]
Mr Maksymilian Maciej Skotnicki	19,532,088	20.56
Trado S.A.	8,600,000	9.05
Mr Newth Jonathan Reginald	7,995,200	8.42
Mr Borkowski Krzysztof (indirectly, including Mazowiecka Korporacja Finansowa Sp z.o.o.)	7,923,409	8.34
Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	6,398,731	6.74
Richie Holding Ltd	6,133,100	6.46
Mazowiecka Korporacja Finansowa Sp. z.o.o.	5,397,343	5.68
Others	38,417,472	40.44
Total	95,000,000	100.00

None of the remaining shareholders informed about the holding of at least 5 % of the share capital.

V. The holders of any securities with special rights

The Company did not issue any securities with special rights.

VI. Any restrictions on voting rights

The Company's Articles of Association do not provide for such restrictions. However, the prohibition for a shareholder to exercise his voting rights may result from Article 89 of the Act of 29 July 2005 on the public offer and the conditions for introducing financial instruments to an organised trading system, and on public companies (hereinafter referred to as the “Offer Act”), if the shareholder violates specific provisions of Chapter 4 of the Offer Act. In turn, pursuant to Article 6 § 1 of the Code of Commercial Companies, if the

parent company fails to notify its subsidiary of the emergence of the relationship of control within two weeks from the date of the emergence of this relationship, the voting rights attached to the shares of the parent company representing more than 33 % of the share capital of the subsidiary will be suspended.

VII. Any restrictions on the transfer of securities

The Company's Articles of Association do not provide for such restrictions. However, they result from the law, including Articles 11 and 19 of Chapter 4 of the Offer Act referred to above; and Part VI of the Act of 29 July 2005 on trading in financial instruments; the Act of 16 February 2007 on competition and consumer protection; and Council Regulation (EC) No. 139/2004 of 20 January 2004 on the control of concentrations between undertakings.

VIII. The rules governing the appointment and dismissal of board members, and their powers

1. The Board of Directors is composed of one to five members. The term of office of the Board of Directors is three years, except for the term of office of the first Board of Directors, which is two years. The Supervisory Board appoints the President of the Board of Directors and, upon the motion of the President of the Board of Directors, also other members of the Board of Directors. The Supervisory Board determines the number of the members of the Board of Directors. The Supervisory Board may dismiss the President of the Board of Directors, a member of the Board of Directors or all members of the Board of Directors prior to the expiration of the term of office of the Board of Directors. The Board of Directors exercises all the powers related to the management of the Company, except for the powers reserved by the law or the Articles of Association to other Company's authorities.
 2. The operation of the Board of Directors, and the matters that can be assigned to its particular members, are determined in detail in the By-laws of the Board of Directors. The By-laws of the Board of Directors are adopted by the Company's Board of Directors and approved of by the Supervisory Board.
 3. The following persons are authorised to make declarations and sign documents on behalf of the Company: (i) if the Board of Directors is composed of one member – President of the Board of Directors; (ii) if the Board of Directors is composed of more than one member – two members of the Board of Directors acting jointly or one member of the Board of Directors acting jointly with a proxy.
 4. The Supervisory Board enters into, on behalf of the Company, agreements with the members of the Board of Directors and represents the Company in disputes with the members of the Board of Directors. The Supervisory Board may authorise, by virtue of its resolution, one or more its members to perform such legal acts.
 5. The Company's employees are subordinate to the Board of Directors. The Board of Directors enters into and terminates their contracts of employment and determines their remunerations.
 6. The decision on the issue or redemption of shares is made by the General Meeting of Shareholders by way of its resolution.
- 29.3.

IX. Amendments to the Company's Articles of Association

Amendments to the Company's Articles of Association are made by virtue of a resolution of the General Meeting of Shareholders. Such resolutions are adopted with the majority of three-fourths of the votes cast. Resolutions regarding amendments to the Company's Articles of Association, which increase the benefits of shareholders or reduce the rights bestowed personally upon individual shareholders, require the consent of all affected shareholders.

X. The operation of the General Meeting of Shareholders and its powers

29.4. The basic principles of the operation of the General Meeting of Shareholders are as follows:

1. The Ordinary General Meeting of Shareholders is convened each year by the Board of Directors in June at the latest.
2. The agenda of the General Meeting of Shareholders is determined by the Board of Directors in consultation with the Supervisory Board.
3. The Supervisory Board and shareholders representing at least 5 % of the share capital may demand to include particular items in the agenda of the General Meeting of Shareholders.
4. General Meetings of Shareholders are held in the Company's registered office.
5. The General Meeting of Shareholders may adopt resolutions regardless of the number of shareholders present at the Meeting or shares represented at it.
6. Resolutions are adopted at the General Meeting of Shareholders in voting.
7. Resolutions of the General Meeting of Shareholders are adopted with a simple majority of the votes cast, unless the Articles of Association or the law provide for otherwise.
8. Resolutions of the General Meeting of Shareholders are adopted with the majority of 3/4 of the votes cast in the case of the following matters:
 - a) amendments to the Articles of Association, including issues of new shares;
 - b) issues of bonds;
 - c) the disposal of the Company's enterprise;
 - d) the Company's business combination with another company;
 - e) the Company's winding-up and dissolution.
9. The voting at the General Meeting of Shareholders is open. Confidential voting is ordered in the case of elections and motions concerning the dismissal of members of the Company's authorities or liquidators, and on making them accountable, and on personal matters. Resolutions on amendments to the Company's objects are adopted by an open vote by roll call.
10. Shareholders entitled to participate in the General Meeting of Shareholders are the shareholders listed in the shareholders register drawn up by the Board of Directors in accordance with the principles resulting from applicable laws, particularly in accordance with Article 406 § 2 and Articles 406¹ – 406³ of the Code of Commercial Companies.

11. The following persons may also be present at the General Meeting of Shareholders: each member of the Board of Directors; each member of the Supervisory Board; the notary public and his/her aides; the certified auditor; members of the organisational and technical support team for the General Meeting of Shareholders authorised by the Board of Directors; other persons designated by the authority convening the General Meeting of Shareholders. Persons other than those mentioned above may be present only with the consent of the Chairman of the General Meeting of Shareholders, who has the right, at all times and without justification, to order any such person to leave the room where the General Meeting of Shareholders is taking place.
12. The General Meeting of Shareholders is opened by the Chairman of the Supervisory Board or his deputy, and, in their absence, by the President of the Board of Directors or any other person designated by the Board of Directors. The person opening the General Meeting of Shareholders orders to put forward candidates for the Chairman of the General Meeting of Shareholders, and, when such candidates are proposed, to elect the Chairman.
13. The Chairman of the General Meeting of Shareholders presents to shareholders the agenda as proposed by the Board of Directors in the notice on the convening of the General Meeting of Shareholders and, in the absence of draft resolutions, formulates and presents draft resolutions. Any shareholder may submit a draft resolution concerning any matter included in the agenda.
29.5.

XI. The composition and operation of the management and supervisory bodies

1. The composition of the Board of Directors of PEPEES as at 31.12.2015:
Mr Wojciech Faszczewski – President
Mr Krzysztof Homenda – Member
The operation and powers of the Company's Board of Directors are governed by the Company's Articles of Association and the By-laws of the Board of Directors.
Basic principles of the operation of the Board of Directors are described in item VIII.
2. The composition of the Supervisory Board of PEPEES as at 31.12.2015:
Mr Maciej Kaliński – Chairman
Mr Piotr Marian Taracha – Vice-Chairman
Mr Krzysztof Stankowski – Secretary
Mr Piotr Łuniewski – Member
Mr Robert Malinowski – Member
Basic principles of the operation of the Supervisory Board are defined in the Company's Articles of Association and the By-laws of the Supervisory Board. According to these regulations, the Supervisory Board is composed of five to nine members. The term of office of the Supervisory Board is three years. The Supervisory Board elects, from among its members, the Chairman and one or two vice-chairmen and a secretary. The Chairman of the Supervisory Board convenes the Board meetings and presides over them. The Chairman of the outgoing Supervisory Board convenes and opens the first meeting of the newly elected Supervisory Board and presides over it until the time of electing the new Chairman. The Supervisory

Board holds its meetings at least once a quarter. The Chairman of the Supervisory Board or one of his/her deputies must convene the Board meeting upon a written request of at least two members of the Supervisory Board. The meeting should be convened within one week from the date of the request, on the day falling not later than the final day of the period of two weeks from the date of convening the meeting. For resolutions of the Supervisory Board to be valid, all its members must be invited to the meeting. The Supervisory Board adopts resolutions with an absolute majority of the votes present at the meeting of the members of the Supervisory Board, on condition that at least half of its members are present at the meeting. Resolutions of the Supervisory Board may also be adopted without a meeting by voting in writing if all members of the Supervisory Board agree in writing to adopting resolutions in such a manner. The Supervisory Board adopts its by-laws specifying in detail the operation of the Board. The Supervisory Board may delegate its members to perform specific supervisory activities on an individual basis. The General Meeting of Shareholders determines the remuneration of the members of the Supervisory Board.

Pursuant to the Company's Articles of Association, apart from the matters provided for in legal acts, in other provisions of the Articles of Association or in the resolutions of the General Meeting of Shareholders, the Supervisory Board has the following powers:

- 1) examining the annual balance sheet and income statement, and ensuring their verification by certified auditors chosen by it;
- 2) examining and evaluating the Board of Directors' report;
- 3) examining on an annual basis and approving of the Company's business, financial and marketing plans, and requesting the Board of Directors to present detailed reports on the implementation and accomplishment of such plans;
- 4) submitting to the General Meeting of Shareholders written reports on the results of the activities referred to in items 1-3;
- 5) expressing opinions on the proposals of the Company's Board of Directors regarding the distribution of profits, including amounts allocated to dividend, dividend payment dates or the principles governing the covering of losses;
- 6) authorising transactions involving the disposal or acquisition of shares or other assets, or the taking out of a cash loan, if the value of a given transaction exceeds 15 % of the Company's net assets as per the most recent balance sheet;
- 7) appointing, suspending and dismissing members of the Board of Directors;
- 8) delegating Supervisory Board members to perform the duties of the Board of Directors in the event of the suspension or dismissal of the entire Board of Directors or when the Board of Directors is not capable of working for other reasons;
- 9) approving of the rules, adopted by the Board of Directors, governing the allocation of shares to eligible employees.

29.6.

29.7. <i>Signatures of all Members of the Board of Directors of the Parent Company</i>			
Date	Name	Title/Function	Signature
17.03.2016	Wojciech Faszczewski	President of the Board of Directors	

THE BOARD OF DIRECTORS' REPORT ON THE OPERATIONS OF PEPEES S.A. FOR 2015
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17.03.2016	Krzysztof Homenda	Member of the Board of Directors / Chief Financial Officer	
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<i>Podpisy wszystkich Członków Zarządu</i>			
<i>Data</i>	<i>Imię i Nazwisko</i>	<i>Stanowisko/Funkcja</i>	<i>Podpis</i>
17.03.2016	Wojciech Faszczeński	Prezes Zarządu	<i>Wojciech Faszczeński</i>
17.03.2016	Krzysztof Homenda	Członek Zarządu	<i>Krzysztof Homenda</i>