

## **Letter from the President of the Board of Directors of the Parent Company of PEPEES Group**

*Dear Stakeholders,*

On behalf of the Board of Directors, I have the pleasure of presenting to you the Consolidated Annual Report of PEPEES Group, presenting the Group's situation in 2005.

In 2015, PEPEES Group recorded a significant increase in the volume of sold products as compared to the previous year, at the level of 36.5 %. This was reflected in the increase in sales revenue by 21.5 % against 2014. The difference between the growth of sales volume and of sales value results from a decrease in prices on foreign and Polish markets. I would like to note that, while sales revenue growth for the Group's Companies as compared to 2014 on the Polish market amounted to 13.4 %, the sales revenue on foreign markets increased by 57 %. It results from the consistent accomplishment of the objectives of “PEPEES Group Strategy for 2013-2018” presented in previous years, which includes, among other things, an export sales growth programme. It should be noted that these results were achieved in spite of unpredictable events such as a drought, which particularly affected eastern regions of Poland.

The accomplishment of the said sales revenue in conjunction with the implementation of other tasks provided for in the Strategy, concerning, inter alia, the programme of expanding and improving the quality of the resource base, the optimisation of business processes in PEPEES Group, the improvement of the production efficiency, and the expansion of the target markets, made it possible to significantly improve the financial results of the Group. Taking into account the increase in consolidated revenue from PLN 116.5 million in 2014 to PLN 141.6 million in 2015, the Group increased net profit from PLN 3.4 million in 2014 to PLN 5.3 million in 2015 (57 %).

The consistent implementation of the objectives of “PEPEES Group Strategy for 2013-2018”, which are focused primarily on securing a resource base and sales growth, particularly abroad, enabled the Parent Company to significantly improve the results for 2015. The sales revenue amounted to almost PLN 108 million and was higher by 17.6 % as compared to the previous year's figure. Net profit of PLN 5.9 million is higher by over 82 % than in 2014.

A subsidiary Przedsiębiorstwo Przemysłu Ziemniaczanego “Bronisław” Sp. z o.o. recorded an even higher growth rate for results. Sales revenue increased from PLN 16.6 million in 2014 to PLN 29.9 million in 2015. At the same time, this Company generated PLN 548 thousand of net profit (in 2014, it generated a loss of PLN 350 thousand).

The second subsidiary, Zakłady Przemysłu Ziemniaczanego “Lublin” Sp. z o.o., recorded worse results as compared to the previous year's figures. The decrease in sales revenue from PLN 15.6 million in 2014 to PLN 13.8 million resulted in a net loss of PLN 187 thousand (in 2014, the Company generated net profit of PLN 313 thousand). The deteriorating results are an effect of the ongoing implementation of corrective measures, increased costs of the start-up operations of a potato flake production line, and, above all, very high prices of potatoes as a result of a drought, which specifically affected the areas of the Lublin region.

The loss of PLN 3.2 million recorded by an associate, CHP Energia Sp. z o.o., contributed to the greatest extent to the decrease in the consolidated result of the Group in 2015 as compared to the result of the Parent Company. The loss resulted primarily from the lack of statutory provisions on the renewable energy market and of low prices of Tradable Green Certificates (TGCs). CHP Energia is hoping for important changes in 2016. The expected implementation of the amended Renewable Energy Sources Act with the guaranteed price of

TGCs at a level higher at least twice than the current exchange prices, will make it possible to double the company's revenue from the sale of TGCs. In 2015, the Company launched the production and sale of dried sugar beet pulp and brewers' dried grains, using waste heat from electricity production. Taking into account the great interest in dried products on the market, the company is experimenting with drying other products in order to expand its range of products.

I am deeply convinced that continued and new measures and projects offer good prospects for the further development of PEPEES Group and for the increase in its shareholder value, as well as job security and career development opportunities for the Employees of the Group's companies.

On behalf of the Board of Directors of PEPEES, I would like to thank all our Business Partners for their cooperation; the Employees of particular Companies for their commitment; the Members of Supervisory Boards for their support for our business; and our Shareholders for their trust in us.

*Yours faithfully,*

*Wojciech Faszczewski  
President of the Board of  
Directors*

*Łomża, March 2016*