

# **THE BOARD OF DIRECTORS’ REPORT ON THE GROUP'S OPERATIONS FOR 2015**

Łomża, 17 March 2016

## **CONTENTS**

<b>I. THE STRUCTURE OF PEPEES GROUP.....</b>	<b>5</b>
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1. Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” Spółka Akcyjna in Łomża – the parent company.....	5
2. Zakłady Przemysłu Ziemniaczanego „LUBLIN” Spółka z ograniczoną odpowiedzialnością in Lublin – a subsidiary 7	
3. OZEnergy Spółka z ograniczoną odpowiedzialnością in Łomża – a subsidiary.....	8
4. Przedsiębiorstwo Przemysłu Ziemniaczanego BRONISŁAW Spółka z ograniczoną odpowiedzialnością in Bronisław – a subsidiary.....	9
5. Changes in the organisation of PEPEES Group.....	9
<b>II. FACTORS AND EVENTS AFFECTING THE GROUP'S OPERATIONS.....</b>	<b>10</b>
1. The market.....	10
2. Basic products, trade goods and services sold by the Group.....	10
3. Sales volume and structure.....	10
4. Polish and foreign markets for the Group's products.....	11
5. The sources of supplies of production materials, trade goods and services.....	12
6. Agreements material for the Group's business.....	13
7. Organisational or equity links between the Issuer and other entities; its major investments in Poland and abroad	15
8. Related party transactions.....	16
9. Borrowings.....	17
10. Cash loans, guarantees and sureties granted.....	18
11. Off-balance sheet items.....	18
12. The use of proceeds from shares issued or the acquisition of treasury shares.....	18
13. Explanation of differences between the financial results disclosed in the annual report and previously published forecasts for the year.....	18
14. Financial resources management assessment.....	18
15. Risk-related financial instruments, and the objectives and methods of financial risk management.....	19

„PEPEES” S.A. Group  
The Board of Directors’ Report on the Group’s Operations for 2015

16. Completed and planned investment projects.....	19
17. Environmental issues.....	21
18. Employment in the Group.....	21
19. Major R&D accomplishments.....	22
20. Events with a significant impact on the result of the Group's business activities.....	22
21. The structure of major equity investments.....	22
22. Corrections of errors from previous periods and changes in accounting policies.....	22
23. Changes of the basic principles of the Group management process.....	22
24. 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.....	22
25. Remunerations, bonuses and other benefits paid and payable to members of the management and supervisory personnel in 2015.....	23
26. Shares of „PEPEES” S.A. and of the Group's companies held by members of the management and supervisory personnel.....	23
27. The Company's quotations in 2015.....	24
28. Agreements, known to the Issuer, which may result in future changes in the proportions of the shares held by existing shareholders.....	24
29. The holders of any securities with special control rights related to the Issuer, and a description of those rights.....	24
30. The system of control of any employee share schemes.....	24
31. Any restrictions on the transfer of the Issuer's securities, and any restrictions on voting rights incorporated in the Issuer’s shares.....	25
32. The entity authorised to audit and review the Issuer's financial statements.....	25
33. Proceedings pending before a court.....	25
III. ASSETS AND FINANCIAL STANDING.....	26
3 The Group's assets.....	26

„PEPEES” S.A. Group  
The Board of Directors’ Report on the Group’s Operations for 2015

4	Sources of financing for the Group.....	26
5	The Group's financial results.....	27
6	Cash flows.....	28
7	Economic ratios.....	29
	<b>IV. THE GROUP'S DEVELOPMENT.....</b>	<b>30</b>
1.	Description of underlying risks and threats and of external and internal drivers of the Group's development.....	30
2.	The Group's development prospects.....	32
	<b>V. THE APPLICATION OF THE CORPORATE GOVERNANCE PRINCIPLES.....</b>	<b>33</b>
I.	Corporate governance principles the Issuer is governed by and the place where the text of the set of principles is publicly available.....	33
II.	The extent to which the Issuer deviated from corporate governance principles, indicating such principles and explaining the reasons for such deviations.....	33
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.....	36
IV.	Shareholders holding, directly or indirectly, qualifying holdings.....	37
V.	The holders of any securities with special rights.....	37
VI.	Any restrictions on voting rights.....	37
VII.	Any restrictions on the transfer of securities.....	38
VIII.	.....The rules governing the appointment and dismissal of board members, and their powers	38
IX.	Amendments to the Company's Articles of Association.....	38
X.	The operation of the General Meeting of Shareholders and its powers.....	39
XI.	The composition and operation of the management and supervisory bodies.....	40

## LIST OF TABLES

1.	The structure of net sales revenue for 2015 and 2014	11
2.	Sales volume	11
3.	Sales revenue by markets	11
4.	Borrowings as at 31.12.2015	17

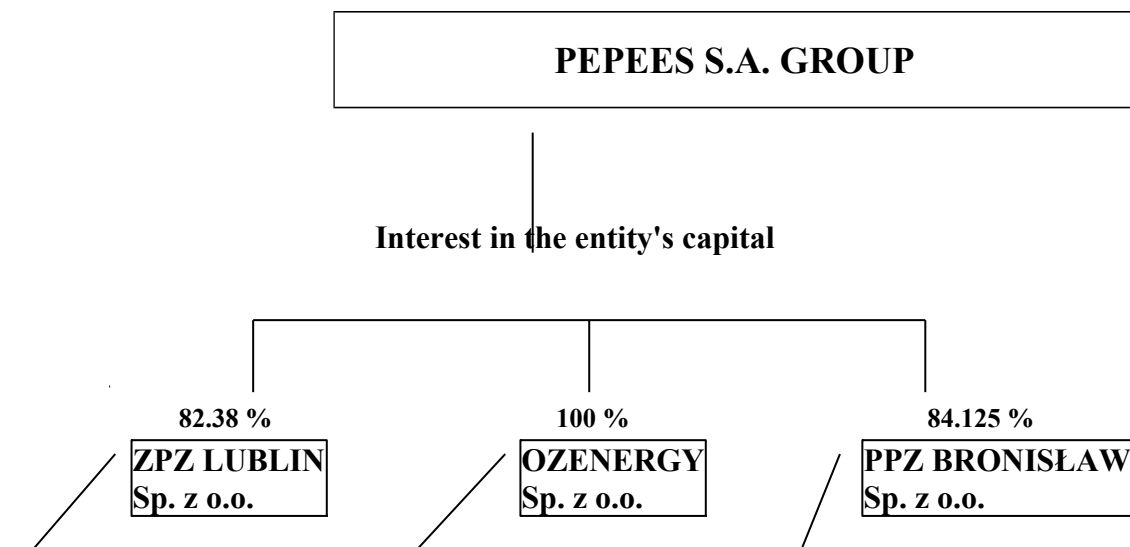
„PEPEES” S.A. Group  
The Board of Directors’ Report on the Group’s Operations for 2015

5.	Employment in the Group	22
6.	Assets as at 31.12.2015 and 31.12.2014	26
7.	Sources of financing assets as at 31.12.2015 and 31.12.2014	27
8.	The financial result for 2015 and 2014	28
9.	Economic ratios	29

## I. The structure of PEPEES Group

Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A. is a parent company for Zakłady Przemysłu Ziemniaczanego „ZPZ Lublin” Sp. z o.o.; Przedsiębiorstwo Przemysłu Ziemniaczanego „BRONISŁAW” Sp. z o.o.; and OZENERGY Sp. z o.o.

The composition of the Group as at 31 December 2015 was as follows:



All subsidiaries were consolidated with the full method.

### 1. Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” Spółka Akcyjna in Łomża – the parent company

#### 1.1 General information about the Company

The Company's business name is: Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A. Its 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 Błaszczuk 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 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.

To the best of our knowledge, as at 31.12.2015, the shareholding structure 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.

## **1.2 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.

### ***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 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.

## **2. Zakłady Przemysłu Ziemniaczanego „LUBLIN” Spółka z ograniczoną odpowiedzialnością in Lublin – a subsidiary**

### **2.1 General information about the Company**

The Company's registered office is in Lublin, at the address: ul. Betonowa 9. The Company is a limited liability company established by virtue of a notarial deed on 8 November 1996 signed in the notary public's firm run by Ms Antonina Renata Bednara in Lublin, at ul. Spokojna 8, Notarial Record Book A No. 6437/96, for an indefinite lifetime. The Company is entered in the Register of Entrepreneurs kept by the District Court in Lublin, XI Economic Division of the National Court Register (KRS) in Białystok under No. KRS 0000050886.

The Company has its Tax Identification Number (NIP): 946-15-80-419.  
The Company operates pursuant to the Polish Code of Commercial Companies.



The Company's core objects are the production and sale of starch syrup and dried potatoes.

The Company's share capital as at 31 December 2015 amounted to PLN 2,761,200, and its shareholders were as follows:

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

## **2.2 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 was as follows:

- Mr Krzysztof Homenda - President
- Ms Małgorzata Dudzic - Member/Chief Financial Officer

### ***Supervisory Board***

The composition of the Supervisory Board as at 31.12.2015 was as follows:

- Mr Wojciech Faszczeński - Chairman
- Mr Piotr Taracha
- Vice-Chairman
- Mr Piotr Łojko - Secretary
- Mr Mariusz Świątlicki - Member

## **3. OZEnergy Spółka z ograniczoną odpowiedzialnością in Łomża – a subsidiary**

The Company's registered office is in Łomża, at the address: ul. Poznańska 121. The Company was established by virtue of a notarial deed (Notarial Record Book A No. 12369/2010) on 18 October 2010 signed before a notary public Tomasz Poreda in Łomża.

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 0000370060.

The Company has its Tax Identification Number (NIP): 7182123627.

The Company operates pursuant to the Polish Code of Commercial Companies.

The Company's objects, according to its Articles of Association, are as follows: electric power generation and supply; sewerage and waste management; remediation activities; growing of crops; production, trade, rendering of services, including export and import. The Company had not commenced operations until the balance sheet date.

The Company's share capital as at 31 December 2015 amounted to PLN 95,000 and was divided into 1,900 equal and indivisible shares, each with the value of PLN 50.

#### **4. Przedsiębiorstwo Przemysłu Ziemniaczanego BRONISŁAW Spółka z ograniczoną odpowiedzialnością in Bronisław – a subsidiary**

##### **4.1 General information about the Company**

The Company's registered office is in Bronisław 41, 88-320 Strzelno. The Company is a limited liability company established by virtue of a notarial deed on 23 November 2001, Notarial Record Book A No. 8625/2001, for an indefinite lifetime. The Company is entered in the Register of Entrepreneurs kept by the District Court in Bydgoszcz, XIII Economic Division of the National Court Register (KRS) in Bydgoszcz under No. KRS 0000099072.

The Company has its Tax Identification Number (NIP): 557-15-95-182.  
The Company operates pursuant to the Polish Code of Commercial Companies.

The Company's objects are as follows:

- manufacture of starches and starch products;
- the sale of potato-based products in Poland and abroad;
- agricultural services.

The Company's share capital as at 31 December 2015 amounted to PLN 800,000 and was divided into 1,600 equal and indivisible shares, each with the nominal value of PLN 500. PEPEES is the major shareholder; it holds 84.125 % of the share capital. Other shareholders are natural persons.

##### **4.2 The Company's authorities**

###### ***Board of Directors***

The composition of the Board of Directors as at 31.12.2015:

- Mr Wojciech Faszczeński – President
- Mr Roman Minierski – Vice-President

###### ***Supervisory Board***

The composition of the Supervisory Board as at 31.12.2015:

- Mr Piotr Taracha – Chairman
- Mr Stanisław Bukowski – Secretary
- Mr Grzegorz Dobrowolski – Member
- Mr Krzysztof Homenda – Member

#### **5. Changes in the organisation of PEPEES Group**

During the year, there were no changes in the Group.

## **II. Factors and events affecting the Group's operations**

### **1. The market.**

Production, trade and rendering of services related mainly to the processing of potatoes was the core business of PEPEES Group in the reporting period.

Within the segment: “the processing of potatoes”, the Group produces:

- potato starch;
- a few varieties of glucose;
- a wide range of starch syrups;
- potato grits;
- potato flakes.

The Group processes both starch potatoes and table potatoes. Potatoes are the primary source of starch, not only in Poland, but throughout Europe. Starch potatoes are potatoes containing at least 13 % of starch. One can obtain starch from such potatoes, for food-related and technical purposes, by its mechanical separation from other potato components, washing out, purifying, drying and screening.

Europe is the largest manufacturer of potato starch in the world. In the EU, in recent years, the output amounted to ca. 1.85 million tonnes p.a.; 92 % of that amount were produced by EU-15 states and almost 8 % by new Member States. Poland's share in the potato starch production in the EU amounts to ca. 6 %.

Table potatoes are processed in the subsidiary ZPZ Lublin, mainly to obtain potato grits and potato flakes, and partially in PPZ BRONISŁAW, to obtain potato flakes.

### **2. Basic products, trade goods and services sold by the Group**

Within the segment: “the processing of potatoes”, the Group manufactures:

- potato starch, used for many applications in the food, pharmaceutical, paper, textile and chemical industries;
- a few varieties of glucose used by the food industry, confectionery industry and pharmaceutical industry;
- maltodextrin, which 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;
- a wide range of starch syrups used in confectionery and baking industries;
- potato grits used by the food industry;
- potato flakes used in the food industry.

### **3. Sales volume and structure**

The structure of sales revenue in the period from 01.01.2015 to 31.12.2015, against the corresponding period of 2014, is shown in Table 1.

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	125,271	88.50%	103,112	88.51%	121.49%
heat	3,537	2.50%	3,646	3.13%	97.01%
<b>other sales, including:</b>	12,745	9.00%	9,738	8.36%	130.88%
a) services	944	0.67%	684	0.59%	138.01%
b) trade goods and materials	11,801	8.34%	9,054	7.77%	130.34%
<b>Total net sales revenue</b>	<b>141,553</b>	<b>100.00%</b>	<b>116,496</b>	<b>100.00%</b>	<b>121.51%</b>

Table No. 2:

**Products sales volume  
in 2015 and 2014**

Range of products	Unit	2015	2014	Growth rate in %
potato-based products	tonne	52,393	38,367	136.5

In 2015, the revenue from the sale of products increased by 21.5 %, while volume growth was at the level of 36.5 %. The difference between the growth rates results from the decline in the selling prices of starch in 2015.

**4. Polish and foreign markets for the Group's products**

Table No. 3:

Net sales revenue	2015	Sales structure in 2015	2014	Sales structure in 2014
<b>Poland, including</b>	<b>107,357</b>	<b>75.84%</b>	<b>94,713</b>	<b>81.30%</b>
- products	95,852	67.71%	85,562	73.45%
- trade goods	10,561	7.46%	8,467	7.27%
- services	944	0.67%	684	0.59%
<b>EU countries - intra-Community supplies, including:</b>	<b>11,166</b>	<b>7.89%</b>	<b>5,648</b>	<b>4.85%</b>
- products	11,142	7.87%	5,539	4.75%
- trade goods	24	0.02%	109	0.09%
<b>Other countries – export, including:</b>	<b>23,030</b>	<b>16.27%</b>	<b>16,135</b>	<b>13.85%</b>
- products	21,814	15.41%	15,657	13.44%
- trade goods	1,216	0.86%	478	0.41%

<b>Total</b>	<b>141,553</b>	<b>100.00%</b>	<b>116,496</b>	<b>100.00%</b>
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### ***1) Sales in Poland by industries and geographical regions***

The products from the potato industry were sold in 2015 throughout Poland, and the biggest sale was recorded in the following provinces: lubelskie, wielkopolskie, podlaskie, mazowieckie, kujawsko – pomorskie, opolskie, dolnośląskie and śląskie.

The Group distributed its products both through the network of wholesalers and trading companies making deliveries to the food industry; and it supplied its products directly to production plants, mainly from the food, confectionery, meat and pharmaceutical industries, for which starch products are the raw material for further processing or a component in the manufacturing process. None of the customers exceeded 10 % of sales revenue.

In the period, the largest share in the sales on the Polish market was recorded for potato starch, which accounts for 58.4 % (in terms of value) of all products manufactured by the Group, and the next product is maltodextrin - 9.4 %.

### ***2) Export and intra-Community sales***

In 2015, the value of export and intra-Community sales amounted to PLN 34,196 thousand, i.e. it increased by almost 57 % as compared to the previous year's figures. 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. In total, the Group sold its products to 26 foreign customers from the European Union and 49 export customers. None of the customers had at least 10 % share in sales revenue.

## **5. The sources of supplies of production materials, trade goods and services**

Table potatoes and potatoes for industrial use are the main production material in „PEPEES” S.A. Group; they are purchased in the autumn on the basis of procurement contracts concluded in the spring. Since the beginning of the 1990's, a downward trend in potato production in Poland has been observed. At the end of the 1990's, their share in the crop structure exceeded 10 % and now it is only 3 %. Ca. 400,000 ha are used in Poland to grow potatoes; however, the cultivation area for starch potatoes is less than 25,000 ha, i.e. only 6 %

of the total potato cultivation area. In addition, the following raw materials are procured for the production of potato-based products and starch hydrolysates: paper packaging, enzymes, starch, glucose syrup, 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, pesticides, etc.

The basic raw material, i.e. potatoes for industrial use, is purchased from individual farmers who are not affiliated with any organisations which are important from the Company's point of view.

In 2014, 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 Group.

None of the suppliers had a 10-percent or bigger share in the Group's revenue.

## **6. Agreements material for the Group's business**

### **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 Group concluded a few business agreements with a lower value, and contracts related to the modernisation of buildings, structures, plant and machinery, and repairs.

## **Loan agreements**

In 2015, the Group 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 companies were terminated.



### **Cash loan agreements**

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

### **Insurance contracts**

The companies concluded the following insurance contracts:

- 1) Fire insurance
  - 2) Business interruption insurance
  - 3) Burglary and robbery insurance
  - 4) Electronic equipment insurance
  - 5) Minor construction works insurance
  - 6) Liability insurance, including:
    - Tort liability insurance
    - Contractual liability insurance
    - Product liability insurance
    - Directors and officers liability insurance
- Motor vehicle insurance (liability insurance, auto accident and theft insurance)

### **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.

## 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.

## 7. Organisational or equity links between the Issuer 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.

### Subsidiaries' basic financial figures

Subsidiary	Equity	Assets	Liabilities	Sales revenue	Profit/Loss
<b>2014</b>					
Zakłady Przemysłu Ziemniaczanego ZPZ LUBLIN Sp. z o.o.	2,896	13,668	10,772	15,633	313
PPZ BRONISŁAW	970	26,117	25,147	16,595	(350)
OZENERGY Sp. z o.o.	5	9	4	0	(4)
<b>2015</b>					
Zakłady Przemysłu Ziemniaczanego ZPZ LUBLIN Sp. z o.o.	2,709	14,579	11,870	13,818	(188)
PPZ BRONISŁAW	1518	24,355	22,837	29,863	548
OZENERGY Sp. z o.o.	4	9	5	0	(1)

In 2015, PPZ BRONISŁAW improved its results significantly as compared to the previous year. Sales revenue and net profit increased.

ZPZ LUBLIN recorded worse results.

OZENERGY did not carry out any activities in 2015.

### The associate's basic financial figures

Associate	Equity	Assets	Liabilities	Sales revenue	Profit/Loss
<b>2014</b>					
CHP Energia Sp. z o.o.	256	28,608	28,352	2,317	(1,036)
<b>2015</b>					
CHP Energia Sp. z o.o.	(2,950)	26,700	29,557	4,352	(3,207)

In addition, the Group 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 Group's investment policy.

## **8. 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.

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

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

## 9. Borrowings

As at 31.12.2015, the Group had borrowings, which are presented in the table below:

Table No. 4:

### 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	3,922	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
Bank overdraft	Bank Zachodni WBK S.A.	500	212	31.08.2016
Revolving loan	Bank Zachodni WBK S.A.	2,000	2,000	31.08.2016
Working capital loan for the purchase of potatoes	Bank Ochrony Środowiska S.A.	2,500	1,620	31.08.2016
Bank overdraft	BGŻ BNP Paribas	500	-	31.08.2016
Revolving loan	BGŻ BNP Paribas	2,000	2,000	31.08.2016
Working capital loan for the purchase of potatoes	BGŻ BNP Paribas	2,500	1,814	31.08.2016
Bank overdraft	Bank Zachodni WBK S.A.	500	247	31.08.2016
Revolving loan	Bank Zachodni WBK S.A.	1,000	377	31.08.2016
Working capital loan for the purchase of potatoes	Bank Ochrony Środowiska S.A.	7,500	5,517	31.08.2016
Bank overdraft	BGŻ BNP Paribas	500	352	31.08.2016
Revolving loan	BGŻ BNP Paribas	1,000	891	31.08.2016
Working capital loan for the purchase of potatoes	BGŻ BNP Paribas	7,500	6,005	31.08.2016

## 10. Cash loans, guarantees and sureties granted

The parent company granted cash loans to related parties amounting to PLN 10,000 thousand, including PLN 6,500 thousand to PPZ BRONISŁAW (the remaining amount to repay is PLN 5,800); PLN 3,000 thousand to ZPZ LUBLIN; and PLN 2,664 thousand to CHP Energia. Cash loans granted to subsidiaries were eliminated from the consolidated financial statements.

In the consolidated statement of financial position, there is only the loan granted in 2013 to the associate CHP Energia with the value of PLN 3,347 thousand, which is to be repaid with interest until 31 December 2016. The annual interest rate for the loan is 8 %.

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

## **11. Off-balance sheet items**

<b>Off-balance sheet assets</b>	<b>2015</b>	<b>2014</b>
Value of the land used under the right of perpetual usufruct	13,603	13,603
Receivables in litigation		
<b>Off-balance sheet liabilities</b>		
Loan surety	6,000	6,000
Possible damages related to non-competition agreements	1,205	1,205

## **12. The use of proceeds from shares issued or the acquisition of treasury shares**

In 2015, the Group did not issue any shares and did not acquire treasury shares.

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

The Group did not publish financial forecasts for 2015.

## **14. Financial resources management assessment**

In 2015, the Group was fully capable of meeting its obligations towards both the suppliers and financial institutions. There was no risk of default. Also, in the next reporting period, there should be no risk of losing financial liquidity by the Group. Any cash surpluses were placed in short-term deposits.

## **15. Risk-related financial instruments, and the objectives and methods of financial risk management**

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

In the reporting period, the Group did not conclude transactions involving derivatives. It also did not apply hedge accounting.

Other instruments arising directly in the course of business comprised trade receivables and payables.

The main financial risks in 2015 include the risk of changes in market prices of products manufactured by the Group, and the currency risk. The Company's main objective in the area of the management of these risks is their elimination or mitigation.

The Group's business risk is closely related to changes in product prices on the Polish market and foreign exchange rates, whose fluctuations affect the revenue from export sales. Also, the purchase prices of imported materials for the production process depend on the level of currency risk.

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

The liquidity risk in the Group is not deemed high. This is due to the proper implementation of the trade credit management policy. KUKE S.A. evaluates counterparties and insures receivables.

Any cash surpluses are placed in short-term deposits, which make it possible to pay obligations when due. In periods of greater demand for working capital, i.e. during the “potato campaign”, the short-term bank loan for the purchase of potatoes, whose individual tranches are closely correlated with the schedule of the purchases of the raw material for the production process, is the main financial instrument used by the companies in the Group.

Boards of Directors of the companies verify and agree on the management policies for each of the risks. They monitor the market price risk for all financial instruments held by them.

## **16. Completed 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 food 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 food 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 food 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

- 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 expenditure on these investment projects will amount to ca. PLN 6,600 thousand.

The Group intends to finance them with its own funds and new long-term loans.

## 17. Environmental issues

The Issuer's company is located in the region called “Poland's Green Lungs” covering 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 Group 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.

**Waste is managed in conditions which prevent the contamination of the environment and ensure human health and safety. The Group's companies maintain quantitative and qualitative waste management records in accordance with the adopted classification and model documents referred to in relevant regulations.**

## 18. Employment in the Group

Table No. 5

Specification	Average number of employees in 2015	As at 31.12.2015		Average number of employees in the previous financial year (2014)
		Women	Men	
Administrative employees	117	60	57	117



Workers	274	60	221	231
Employees on unpaid leaves	4	1	1	2
<b>Total</b>	<b>395</b>	<b>121</b>	<b>279</b>	<b>350</b>

## 19. Major R&D accomplishments

In 2015, the Group 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.

## 20. Events with a significant impact on the result of the Group's business activities

In 2015, there were no unusual events affecting the Group's financial results and equity.

## 21. The structure of major equity investments

<i>Amounts in PLN 000s</i>		
<b>Equity investments</b>	<b>2015</b>	<b>2014</b>
Investment in the associate	-	259
Short-term bank deposits in PLN	22,224	474
Investments held for trading (shares)	2,550	2,550

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

In 2015, the Group did not change any accounting policies. There were also no corrections of errors from previous periods.

## 23. Changes of the basic principles of the Group management process

In 2015, there were no material changes of the principles of the Group management process.

**24. 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.

**25. 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 Czapla	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.

## **26. 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 – holds 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.

## **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*



**28. Agreements, known to the Issuer, which may result in future changes in the proportions of the shares held by existing shareholders**

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

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

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

**30. The system of control of any employee share schemes**

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

### **31. 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.

### **32. The entity authorised to audit and review the Issuer's financial statements**

PEPEES and its subsidiaries concluded the 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 64,000 plus VAT.

In the previous financial year, the total value of the auditor's services under the agreement amounted to PLN 59,000 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.

### **33. Proceedings pending before a court**

The following litigations remain unresolved as at the balance sheet date:

- Lawsuit brought by PPZ BRONISŁAW against Przedsiębiorstwo Rolno-Produkcyjne Sp. z o.o. in Rzadkwin to reconcile the content of the land and mortgage register with the actual legal status.

### III. Assets and financial standing

#### 3 The Group's assets

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

Table No. 6:

#### Assets

(amounts in PLN 000s)

Asset	As at		Changes in amounts + increases - decreases	Structure ratios in %	
	31.12.2015	31.12.2014		31.12.2015	31.12.2014
<b>I. NON-CURRENT ASSETS (long-term)</b>	<b>102,971</b>	<b>94,467</b>	<b>8,504</b>	<b>46.62</b>	<b>50.23</b>
1. Property, plant and equipment	89,196	78,365	10,831	40.38	41.66
2. Intangible assets	460	90	370	0.21	0.05
3. Goodwill	486	486	0	0.22	0.26
4. Investments in associates		259	(259)	0.00	0.14
5. Investments in other entities	113	113	0	0.05	0.06
6. Cash loans		2664	(2,664)	0.00	1.42
7. Advances	10,391	10391	0	4.77	5.52
8. Deferred tax assets	2,325	2099	226	1.05	1.12
<b>II. CURRENT ASSETS (short-term)</b>	<b>117,917</b>	<b>93,617</b>	<b>24,300</b>	<b>53.38</b>	<b>49.77</b>
1. Inventories	64,111	68,032	(3,921)	29.02	36.17
2. Biological assets	172	126	46	0.08	0.07
3. Trade receivables	18,118	13,553	4,565	8.20	7.21
4. Current income tax receivables					
5. Other receivables	4,237	5639	(1,402)	1.92	3.00
6. Advances	1,085	1,042	43	0.49	0.55
7. Cash loans	2,806	241	2,565	1.27	0.13
8. Investments held for trading	2,550	2,550		1.15	1.35
7. Cash and cash equivalents	24,838	2,434	22,404	11.25	1.29
<b>III. Non-current and current assets held for sale</b>					
<b>Total assets</b>	<b>220,888</b>	<b>188,084</b>	<b>32,804</b>	<b>100.00</b>	<b>100.00</b>

The total value of the Group's assets as at 31.12.2015 increased by 17.44 % 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.

#### 4 Sources of financing for the Group

Sources of financing assets as at 31 December 2015 as compared to 31 December 2014 are shown in the table below.

Table No. 7: Sources of financing assets

Sources of financing	As at		Changes in amounts + increases - decreases	Structure ratios in %	
	31.12.2015	31.12.2014		31.12.2015	31.12.2014
<b>I. Equity</b>	<b>109,854</b>	<b>104,524</b>	<b>5,330</b>	<b>49.73</b>	<b>55.57</b>
<i>Equity attributable to equity holders of the parent</i>	<i>109,136</i>	<i>103,867</i>	<i>5,269</i>	<i>49.40</i>	<i>55.22</i>
1. Share capital	5,700	5,700		2.58	3.03
2. Reserve capital and other reserves	99,735	96,329	3,406	45.15	51.22
3. Revaluation reserve	(391)	(379)	(12)	(0.18)	(0.20)
4. Retained earnings/loss	(1,196)	(1,156)	(40)	(0.54)	(0.62)
5. (Loss)/profit for the year	5,288	3,373	1,915	2.39	1.79
<i>Non-controlling interests</i>	<i>718</i>	<i>657</i>	<i>61</i>	<i>0.33</i>	<i>0.35</i>
<b>II. Non-current liabilities</b>	<b>23,417</b>	<b>13,342</b>	<b>10,075</b>	<b>10.60</b>	<b>7.10</b>
1. Loans and borrowings	7,916	1,582	6,334	3.58	0.84
2. Liabilities related to leased assets	4,246	670	3,576	1.92	0.36
3. Deferred tax liabilities	6,018	5,473	545	2.72	2.91
4. Retirement and similar benefits obligations	2,509	2,558	(49)	1.14	1.36
5. Grants	2,728	3,059	(331)	1.24	1.63
<b>III. Current liabilities</b>	<b>87,617</b>	<b>70,218</b>	<b>17,399</b>	<b>39.67</b>	<b>37.33</b>
1. Trade payables	7,511	13,553	(6,042)	3.40	7.20
2. Current income tax liabilities	869	536	333	0.40	0.28
3. Other current liabilities	2,918	2,794	124	1.32	1.49
4. Loans and borrowings	73,114	50,985	22,129	33.10	27.11
6. Finance lease payables	1,243	476	767	0.56	0.25
7. Retirement benefits obligations	240	263	(23)	0.11	0.14
8. Provisions for other liabilities and other charges	1,722	1,611	111	0.78	0.86
<b>Total equity and liabilities</b>	<b>220,888</b>	<b>188,084</b>	<b>32,804</b>	<b>100.00</b>	<b>100.00</b>

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.

## 5 The Group's financial results

The financial results from the Group's business activities for 2015 and 2014 are shown in the table below.

Table No. 8:

### Financial result

No	Specification	Accomplish-ment in 2015	Accomplish-ment in 2014	Growth rate in %
<b>1</b>	<b>Sales revenue</b>	<b>141,553</b>	<b>116,496</b>	<b>121.51</b>
	- revenue from the sale of products	128,808	106,758	120.65
	- revenue from the rendering of services	944	684	138.01
	- revenue from the sale of trade goods and materials	11,801	9,054	130.34
<b>2</b>	<b>Costs of sold products, trade goods and materials</b>	<b>(109,675)</b>	<b>(90,352)</b>	<b>121.39</b>
	- costs of products sold	(98,391)	(81,503)	120.72
	- costs of services sold	(298)	(220)	135.45
	- costs of trade goods and materials sold	(10,399)	(7,991)	130.13
	- profit/loss from agricultural production	(587)	(638)	92.01
<b>3</b>	<b>Gross profit from sales</b>	<b>31,878</b>	<b>26,144</b>	<b>121.93</b>
	- selling and marketing expenses	(7,081)	(5,273)	134.29
	- administrative expenses	(16,703)	(16,174)	103.27
	- other operating income	991	964	102.80
	- other operating expenses	(478)	(425)	112.47
<b>4</b>	<b>Profit on operating activities</b>	<b>8,607</b>	<b>5,236</b>	<b>164.38</b>
	- finance costs	(1,411)	(1,191)	118.47
	- finance income	746	690	108.12
	- share of profit of an associate	(799)	(258)	309.69
<b>5</b>	<b>Profit before tax</b>	<b>7,143</b>	<b>4,477</b>	<b>159.55</b>
	- income tax expense	(1,801)	(1,105)	162.99



<b>6</b>	<b>Net profit, including:</b>	<b>5,342</b>	<b>3,372</b>	<b>158.42</b>
	<i>Profit attributable to equity holders of the company</i>	<i>5,288</i>	<i>3,373</i>	<i>156.77</i>

In 2015, the sales revenue increased by 21.5 % as compared to the previous year. The costs of products sold increased to a lesser extent than revenue, which resulted in the increase in gross profit from sales by 21.9 % and in operating profit by 64.46 %, and net profit attributable to equity holders of the company increased by 56.8 % as compared to the previous year.

## 6 Cash flows

In 2015, the balance of cash flows from operating activities was positive and amounted to PLN 7,229 thousand, owing to the generated operating profit. Cash flows from investing activities decreased by PLN 11,862 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 increase in loan debt. All in all, the balance of cash flows is positive and amounts to PLN 17,369 thousand.

## 7 Economic ratios

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

*Table No. 9:*

### Economic ratios

Ratio	Commercial substance	2015	2014
<b>Return on Assets</b>	$\frac{\text{net profit/loss attributable to equity holders of the Company} \times 100}{\text{total assets}}$	2.39%	1.79%
<b>Return on Equity</b>	$\frac{\text{net profit/loss attributable to equity holders of the Company} \times 100}{\text{equity}}$	4.85%	3.25%
<b>Net Profit Margin</b>	$\frac{\text{net profit/loss attributable to equity holders of the Company} \times 100}{\text{net revenue from the sale of products, services, trade goods and materials}}$	3.74%	2.90%
<b>Return on Sales</b>	$\frac{\text{gross profit/loss from sales} \times 100}{\text{net revenue from the sale of products, services, trade goods and materials}}$	22.52%	22.44%

<b>Current Ratio</b>	$\frac{\text{total current assets}}{\text{current liabilities}}$	1.35	1.33
<b>Quick Ratio</b>	$\frac{\text{total current assets} - \text{inventories}}{\text{current liabilities}}$	0.61	0.36
<b>Receivables Turnover** in days</b>	$\frac{\text{average trade receivables} \times 365}{\text{net revenue from the sale of products, services, trade goods and materials}}$	40.83	42.55
<b>Accounts Payable Turnover in days**</b>	$\frac{\text{average trade payables} \times 365}{\text{costs of trade goods and services sold} + \text{value of trade goods and materials}}$	35.05	39.91
<b>Inventory Turnover in days**</b>	$\frac{\text{average inventories} \times 365}{\text{costs of products and services sold} + \text{value of trade goods and materials}}$	219.89	219.22
<b>Equity to Fixed Assets Ratio</b>	$\frac{\text{equity attributable to equity holders of the Company} \times 100}{\text{total fixed assets}}$	1.06	1.11
<b>Gearing Ratio</b>	$\frac{(\text{equity attributable to equity holders of the Company} + \text{non-current provisions} + \text{non-current liabilities}) \times 100}{\text{total equity and liabilities}}$	0.53	0.63

\*To calculate turnover ratios, the Group used amounts as at the beginning and as at the end of each reporting period.

As demonstrated in the table above, profitability ratios increased in 2016, as the Group generated higher net profit as compared to the previous year. Liquidity ratios also improved, which means that the Group manages its assets well. Both trade receivables and trade payables turnover ratios decreased. Inventory turnover ratio is always high in the Group 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 Group's development

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

#### 1.1 Risks and threats

- **The dependence of the production on weather and seasonality**

Potatoes are the only raw material for the production process. As a result, the volume and quality of the production depends on the potatoes 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.*

- **Globalisation**

Globalisation is noticeable mainly in terms of competitiveness. 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.

In addition, there is a lot of competition on the internal starch market in the European Union.

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

Due to high costs of potato production, it is being supplanted by other more profitable agricultural crops. In addition, the north-eastern part of Poland became a large production region for the dairy industry, which 'steals' agricultural areas from other industries. For this reason, it's getting more and more difficult to find new growers in the areas near the plant. As a result, the Group is forced to purchase raw materials from remote regions of Poland, which results in reduced profitability.

- **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 adversely affect the profitability of foreign transactions.

- **Economic fluctuations**

The state of the economic activity in the world, in Poland and in a particular sectors, affects the operations of a company through a variety of indicators and ratios (GDP, prices, wages, employment).

- **Limited money supply**

Less and less available and more 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 and extend payment deadlines.

- **Too expensive instruments that increase sales safety**

Granting credits to customers increases the risk of the failure of getting paid for deliveries. Financial products offered on the market are expensive and significantly prolong transactions.

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

The Group 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.

## **1.2 External drivers of the Group's successful development**

The Group's development as regards the potato 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 Group'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 modified potato starch products.
- The access to new and modern technologies.
- The development of markets in international trade.
- The development of specialised agricultural holdings.
- A wide range of the applications of starch and its derivatives.
- Area payments for starch potatoes.

## **1.3 Internal drivers of the Group's successful development**

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

- Gradual modernisation of production departments in order to boost the efficiency and innovation of products, and to reduce operating costs.
- Active policy concerning sales and the acquisition of new markets.
- Implemented Corporate Food Quality and Safety Management System.
- Implemented Test and Research Quality Management System.
- The Company's compliance with Smeta; the presence on SeDeX platform.
- Acquired so-called 'promotional emblem' licences.
- A very good cooperation with growers.
- The possibility of producing hydrolysates to meet specific customers' needs.
- Low costs of the disposal of industrial wastewater.
- High production capabilities.

## **2. The Group's development prospects**

The Group perceives its growth opportunities in the expansion to new foreign markets, with a particular focus on developing markets, i.e. the markets of East Asia, South-East Asia, South America and developing European countries. This objective has been accomplished through the implementation of the export development programme, which involves the identification of key foreign markets for the company, and building the sales system for them. The Group will also carry out research and development works in the cooperation 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.

The mission of PEPEES Group is to build and maintain the position of the leader of the Polish agricultural and food industry, which has partner-like relationships with growers and offers high shareholder value. The Group's vision is to promote the development of its Customers by offering them high quality natural starch products, manufactured from agricultural raw materials which are not genetically modified, and the implementation of innovative products.

## **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 2014, 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, PEPEES 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.

16. 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”*

17. 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.

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



19. 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.”*

20. 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.

21. 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..”*

22. 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.

23. 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.”*

24. 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.

25. **Best practices of shareholders**

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

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

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

29. 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.

### **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**

The effectiveness of the internal controls and risk management system in the process of preparing consolidated financial statements is ensured through the development, implementation and supervision of the application, in the companies of PEPEES Group, of consistent accounting policies. The Group's companies submit required data in the form of reporting packets in order to prepare the consolidated financial statements of the Group. The scope of the disclosures in the Group is defined and results from disclosure requirements specified in IAS/IFRS. Changes in accounting standards are monitored on an ongoing basis in order to determine the need to update the scope of the reporting. All financial statements are verified by the Board of Directors of the parent company PEPEES. The Group's companies have their financial statements reviewed every 6 months and audited on an annual basis by an independent certified auditor. Also, consolidated financial statements are subject to an audit. By the time of the publication of the financial statements and of the consolidated financial statements, the information is made available only to the employees involved in the process of their preparation, verification and authorisation, ensuring data confidentiality.

#### IV. Shareholders holding, directly or indirectly, qualifying holdings

To the best of our knowledge, as at 31.12.2015, the shareholding structure was as follows:

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

#### 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.

## **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**

29.1. 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 406<sup>1</sup> – 406<sup>3</sup> 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.

29.2.

a. **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.

29.4.

29.5.

29.6.



„PEPEES” S.A. Group  
The Board of Directors' Report on the Group's Operations for 2015

29.7.

29.8. <i>Signatures of all Members of the Board of Directors of the Parent Company</i>			
Date	Name	Title/Function	Signature
17.03.2016	Wojciech Faszczeński	President of the Board of Directors	
17.03.2016	Krzysztof Homenda	Member of the Board of Directors / Chief Financial Officer	

29.9.

29.10.

29.11.

29.12.