

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

Dear Stakeholders,

I have the pleasure of presenting to you the annual financial statements of the PEPEES Group for 2016, another very good year for the Group. We have strengthened our business presence on the market, generating revenue with a total value of over PLN 185 million and a net profit attributable to equity holders of the parent company of PLN 17.6 million, which is the highest result in our history. I would like to emphasise that these results were possible mainly due to the increase in sales from core operating activities. The growth was driven by record-high export sales.

This growth in sales results from the consistent achievement of the objectives of the 'PEPEES Group Strategy for 2013-2018' presented in previous years, which assumes, among other things, export sales growth. Last year, the processing of potatoes was the largest ever in the parent company's history due to greater purchases of this basic material for production. Such good results were also achieved owing to excellent cooperation with suppliers of the basic raw material for the production, i.e. potatoes.

In 2016, PEPEES increased its interest in its subsidiary CHP Energia; as a result, the Group launched its operations in a new operating segment, i.e. the production of electricity in a biogas plant. Currently, the impact of this segment on the Group's results is negative; however, we can see the potential hidden in it. The present global situation poses new challenges in terms of the reduction of costs of heat and electricity consumption. Energy carriers are rapidly becoming more and more expensive. Investors must face the important issue of abandoning traditional sources of energy and using instead, for example, renewable energy from biogas. In addition, in the area of ecological safety, significant benefit lies in the disposal of waste from agricultural production and agricultural and food processing, e.g. of potato pulp which is created during the production of potato starch. Last year, a separate pool of certificates, the so-called 'blue certificates', was introduced for producers of electricity from biogas. Quotations of property rights related to the production of electricity in agricultural biogas plants, i.e. the so-called 'blue certificates', commenced in September 2016. Their introduction to trading was a consequence of the implementation of the last amendment to the RES Act. Its authors provided for preferential treatment for producers of electricity from biogas, e.g. by introducing a separate obligation to purchase electricity generated in agricultural biogas plants. As the quotations of the so-called 'blue certificates' on the Polish Power Exchange show, their price is growing steadily.

In addition to the aforementioned equity investment, the Group implemented a number of other projects related to the upgrade of machinery and equipment and of the boiler room. Owing to the upgrade of e.g. the water softening unit, we obtained much better starch viscosity parameters, meeting in this respect the requirements of customers, especially foreign ones.

The main objective of the Group is to achieve the maximum rate of return on investment while maintaining a moderate level of investment risk. The Group's strategy assumes the implementation of parallel development activities by increasing the efficiency of the operations of the Group's companies and minimising the risks to which they are exposed, as well as carrying out further investment activities. In the case of the emergence of attractive

offers on the market, we will continue investment activities both in and outside the Group.

I am deeply convinced that together we have achieved success for which, on behalf of the Board of Directors, I would like to thank all our Shareholders, Customers, Suppliers and Employees of the Group, without whom such good results would not have been possible. I am certain that there are further good prospects for an increase in the Group's value in 2017 and the years to come thanks to our consistently implemented development strategy.

Yours sincerely,

Wojciech Faszczeniowski

President of the Board of Directors

