

**Report of the Supervisory Board
of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. in Łomża
on the performance of the duties by the Supervisory Board in the
period from 1 January to 29 May 2019**

Warsaw, 29 May 2019

I. The contents of this Report

This Report describes the performance of duties by the Supervisory Board of Przedsiębiorstwo Przemysłu Spożywczego PEPEES Spółka Akcyjna with its registered office in Łomża [hereinafter PEPEES S.A.] in the period from 1 January 2019 until the approval date of this Report, i.e. until 29 May 2019. However, as concerns its subject, it refers directly to the Report on the activities of the Supervisory Board in 2018, because, in the period covered by this Report, the Supervisory Board referred to the activities of PEPEES S.A. in 2018.

The intention behind the preparation of this Report is to present it to the Annual General Meeting of Shareholders of PEPEES S.A., the agenda of which will include, inter alia, items regarding the approval of financial statements for the financial year 2018 and of the Directors' report on the operations in 2018, the scope of supervisory activities performed during the period and related to the performance of legal and statutory duties by the Supervisory Board, in particular those involving the preparation and approval of the aforementioned reports and their evaluations.

This Report contains information required under the Polish Commercial Code (PCC), including the results of the assessment referred to in Article 382 § 3 of the PCC, as well as statements and assessments required under the Regulation of the Polish Minister of Finance of 29 March 2018 on Current and Periodic Information¹ and the information required to be disclosed as per the principles of *2016 Best Practice of GPW Listed Companies*². The Report also describes selected activities of the Audit Committee operating within the Supervisory Board of PEPEES S.A. as regards the performance of their duties arising from the Polish Act on Statutory Auditors³, and a reference was made to reporting requirements referred to in Article 20(2)(4) of the Company's Articles of Association.

II. The composition of the Supervisory Board of the 10th term of office

The Supervisory Board of Przedsiębiorstwo Przemysłu Spożywczego PEPEES Spółka Akcyjna of the 10th term of office was appointed on 18 December 2018 at the Extraordinary General Meeting of Shareholders (Notarial Record Book A No. 12992/2018).

¹ Regulation of the Polish Minister of Finance dated 29 March 2018 on Current and Periodic Information Provided by Issuers of Securities and Conditions for Recognising as Equivalent the Information Required by the Law of a Non-Member State.

² The principles adopted by resolution No. 26/1413/2015 of the Board of the Warsaw Stock Exchange of 13 October 2015 regarding the adoption of *2016 Best Practice of GPW Listed Companies*.

³ Polish Act of 11 May 2017 on Statutory Auditors, Audit firms and Public Oversight.

On 24 January 2019, the first meeting of the Supervisory Board of PEPEES S.A. was held in order to appoint the Supervisory Board and to appoint the Audit Committee (of the new term of office).

The composition of the appointed Supervisory Board of the 10th term of office was as follows:

1. Mr Maciej Kaliński – Chairman
2. Mr Tomasz Nowakowski – Vice Chairman
3. Mr Piotr Taracha – Secretary
4. Mr Krzysztof Stankowski – Member
5. Ms Agata Czerniakowska – Member
6. Mr Robert Malinowski – Member

The Supervisory Board operates under generally applicable regulations, in particular the Polish Commercial Code and, to the extent to which it relates to it, under the Act on Statutory Auditors, and also in compliance with the provisions of the Company's Articles of Association, the By-laws of the Supervisory Board of PEPEES S.A. as well as the Company's corporate governance principles set out in the *Best Practice of GPW Listed Companies*, supervising the Company's operations in all areas of its operation on an ongoing basis and reviewing issues and proposals submitted by the Board of Directors.

The scope of the Company's compliance with the principles stipulated in the *Best Practice of GPW Listed Companies* is described at the Company's website: in the Corporate Governance section.

III. The meetings of the Supervisory Board from 1 January to 29 May 2019

In 2019, until the approval date of this Report, the Supervisory Board of the 10th term of office held 2 meetings. One vote was held in writing as provided for in Article 18.3 of the Company's Articles of Association. In total, 11 resolutions were adopted. All meetings of the Supervisory Board were convened in the manner consistent with the Company's Articles of Association and the By-laws of the Supervisory Board.

The most important tasks that the Supervisory Board of the 10th term of office dealt with in the period from 1 January to 29 May 2019 were as follows:

1. the appointment of the Supervisory Board:
 - the appointment of the Chairman of the Supervisory Board;

- the appointment of the Vice Chairman of the Supervisory Board;
 - the appointment of the Secretary of the Supervisory Board;
2. the appointment of the Company Audit Committee (of the new term of office):
- the appointment of the Chairman of the Audit Committee;
 - the appointment of the Vice-Chairman of the Audit Committee;
 - the appointment of a Member of the Audit Committee;
3. the Supervisory Board, as part of its supervision over the functioning of PEPEES S.A. and PEPEES Group, made the following evaluations and issued the following statements respectively in accordance with the Regulation of the Polish Minister of Finance of 29 March 2018 on Current and Periodic Information and the Polish Commercial Code (Article 382 § 3):
- the declaration by the Supervisory Board of P.P.S. PEPEES S.A. on the appointment of an audit firm to audit the annual financial statements (§ 70(1)(7) and § 71(1)(7) of the Regulation of the Polish Minister of Finance of 29 March 2018);
 - the declaration by the Supervisory Board of P.P.S. PEPEES S.A. on the operations of the Audit Committee (§ 70(1)(8) and § 71(1)(8) of the Regulation of the Polish Minister of Finance of 29 March 2018);
 - the assessment by the Supervisory Board of P.P.S. PEPEES S.A. of the report on the issuer's operations and its financial statements in terms of their compliance with books of account, records and facts (§ 70(1)(14) of the Regulation of the Polish Minister of Finance of 29 March 2018);
 - the assessment by the Supervisory Board of P.P.S. PEPEES S.A. of the report on the operations of the Issuer's Group and the consolidated financial statements in terms of their compliance with books of account, records and facts (§ 71(1)(12) of the Regulation of the Polish Minister of Finance of 29 March 2018).

The aforementioned declarations and the evaluation by the Supervisory Board of PEPEES S.A. of the report on the issuer's operations and its financial statements in terms of their compliance with books of account, records and facts, and the evaluation by the Supervisory Board of PEPEES S.A. of the report on the operations of the Issuer's Group and the consolidated financial statements in terms of their compliance with books of account, records and facts were published on 29 March 2019 as part of the annual report and the annual consolidated report respectively for the financial year 2018.

The assessments were as follows:

“The Supervisory Board of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. hereby declares that, acting pursuant to Article 382 §3 of the Polish Commercial Code, and Article 20(2)(1) and Article 20(20)(2) of the Articles of Association of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. (‘the Company’, ‘the Issuer’) has assessed:

- the Company’s financial statements for 2018 comprising:
 - a) the statement of financial position disclosing as at 31 December 2018 the balance sheet total of assets and of equity and liabilities of PLN 257,776 thousand (two hundred and fifty seven million seven hundred and seventy six thousand zloty);
 - b) the statement of comprehensive income showing as at 31 December 2018 net comprehensive income of PLN 17,296 thousand (seventeen million two hundred and ninety six thousand zloty) and net profit of PLN 17,442 thousand (seventeen million four hundred and forty two thousand zloty);
 - c) the statement of changes in equity showing as at 31 December 2018 an increase in equity by PLN 17,588 thousand (seventeen million five hundred and eighty eight thousand zloty);
 - d) the statement of cash flows showing as at 31 December 2018 a net increase in cash by PLN 3,550 thousand (three million five hundred and fifty thousand zloty);
- the Directors’ Report on PEPEES Group’s operations in the financial year 2018;

in terms of their compliance with books of account, records and facts.

Based on the analysis of:

- a) the content of the aforementioned statements and reports submitted by the Company’s Board of Directors;
- b) accounting records and books as well as the information provided by the Company’s Board of Directors;
- c) the results of additional verification activities carried out in selected financial and operational areas;
- d) the report of the audit firm: WBS Audyt Sp. z o.o. with its registered office in Warsaw on the audit of the Issuer’s financial statements for the financial year 2018;
- e) the additional report of the audit firm for the Audit Committee, referred to in Article 131 of the Polish Act on Statutory Auditors, Audit Firms and Public Oversight;

- f) having regard for the results of meetings with representatives of the aforementioned audit firm, including the key statutory auditor;
- g) the information of the Audit Committee on the course of the audit, its results and significance for the fairness of financial reporting in the Company and the role of the Committee in the process of auditing financial statements;

the Board approved of the aforementioned reports and statements.

On the basis of the knowledge about the Company and a wide range of activities carried out in connection with the preparation and examination of the aforementioned reports and statements, the Company's Supervisory Board assesses that the Directors' report on the issuer's operations and the financial statements for the financial year 2018 have been prepared in accordance with applicable law and comply with the books of account, records and facts, and present a true view of the issuer's development and accomplishments as well as of its situation, and also do not raise any objections as to the form and content thereof."

"The Supervisory Board of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. hereby declares that, acting pursuant to Article 382 §3 of the Polish Commercial Code, and Article 20(2)(1) and Article 20(20)(2) of the Articles of Association of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. ('the Company', 'the Issuer') has assessed:

- the consolidated financial statements of PEPEES Group for 2018 comprising:
 - a) the consolidated statement of financial position disclosing as at 31 December 2018 the balance sheet total of assets and of equity and liabilities of PLN 333,925 thousand (three hundred and thirty three million nine hundred and twenty five thousand zloty);
 - b) the consolidated statement of comprehensive income showing as at 31 December 2018 net comprehensive income of PLN 23,268 thousand (twenty three million two hundred and sixty eight thousand zloty) and net profit of PLN 23,414 thousand (twenty three million four hundred and fourteen thousand zloty);
 - c) the consolidated statement of changes in equity showing as at 31 December 2018 an increase in equity by PLN 20,929 thousand (twenty million nine hundred and twenty nine thousand zloty);
 - d) the consolidated statement of cash flows showing as at 31 December 2018 a net increase in cash by PLN 9,116 thousand (nine million one hundred and sixteen thousand zloty);
- the Directors' Report on PEPEES Group's operations in the financial year 2018;

in terms of their compliance with books of account, records and facts.

Based on the analysis of:

- a) the content of the aforementioned statements and reports submitted by the Company's Board of Directors;
- b) accounting records and books as well as the information provided by the Company's Board of Directors;
- c) the results of additional verification activities carried out in selected financial and operational areas;
- d) the report of the audit firm: WBS Audyt Sp. z o.o. with its registered office in Warsaw on the audit of the consolidated financial statements of PEPEES Group for the financial year 2018;
- e) the additional report of the audit firm for the Audit Committee, referred to in Article 131 of the Polish Act on Statutory Auditors, Audit Firms and Public Oversight;
- f) having regard for the results of meetings with representatives of the aforementioned audit firm, including the key statutory auditor;
- g) the information of the Audit Committee on the course of the audit, its results and significance for the fairness of financial reporting in PEPEES Group and the role of the Committee in the process of auditing the consolidated financial statements;

the Board approved of the aforementioned reports and statements.

On the basis of the knowledge about the Company and a wide range of activities carried out in connection with the preparation and examination of the aforementioned reports and statements, the Company's Supervisory Board assesses that the Directors' consolidated report on PEPEES Group's operations and the consolidated financial statements for the financial year 2018 have been prepared in accordance with applicable law and comply with the books of account, records and facts, and present a true view of the development and accomplishments of PEPEES Group as well as of its situation, and also do not raise any objections as to the form and content thereof."

4. Within the remaining scope, the Supervisory Board proceeded with the following issues:

- amendments to the By-laws of the Supervisory Board;
- the approval of the uniform text of the Articles of Association of P.P.S. PEPEES S.A.;
- the approval of the Company's budget for 2019;

- the approval of the ordering for the Board of Directors of the document “The Process of Determining and Approving of the Information Relevant to PEPEES S.A.”;
- the approval of the report on the activities of the Audit Committee for the financial year 2018;
- the acceptance of the Supervisory Board's report on its activities in the financial year 2018.

Members of the Supervisory Board cooperated with each other on an ongoing basis and supervised the activities of the Company, working in the Audit Committee appointed from among the members of the Supervisory Board. The following members of the Audit Committee of the new term of office were appointed:

1. Mr Maciej Kaliński – Chairman
2. Mr Piotr Taracha – Vice-Chairman
3. Mr Krzysztof Stankowski – Member

In 2019, until 29 May 2019, the Audit Committee held one direct meeting during which, inter alia, they discussed with the auditor the preliminary financial results of PEPEES S.A. and PEPEES Group as well as the course of the auditing process.

The subject of the activities of the Audit Committee was the monitoring of works related to the process of preparing financial statements of the Company and the financial statements of PEPEES S.A. Group in close cooperation in this area with the audit firm. The Audit Committee discussed with the Auditor—in compliance with the adopted policy concerning the provision by the audit firm conducting the audit, by affiliates of that audit firm and by a member of the audit firm’s network, of permitted non-audit services—the preliminary financial results of PEPEES S.A. and the Group, the course of the audit of the separate financial statements and of financial statements/consolidation packages of subsidiaries. The following issues were also discussed: the schedule of the completion of works carried out by the auditor, the adopted criteria (levels) of significance, the key audit aspects, the efficiency of the internal control system, the compliance with law regarding the preparation of financial statements and the statutory auditor’s assessment of the quality of the cooperation of the Company and the Board of Directors with the audit firm during the audit.

As part of its powers under its By-laws, the Audit Committee also checks the independence of, inter alia, the audit firm and the statutory auditor auditing the Company's financial statements. Independence was confirmed on the basis of, inter alia, the declarations made by the statutory auditor. In the opinion of the Audit Committee, the cooperation of statutory auditors with the Company's Board of Directors was correct and did not raise any objections.

In addition, the Company authorities communicated with the audit firm and the key statutory auditor by exchanging documentation, e.g. they read the written summary of the audit, and the Audit Committee reviewed the Additional Report for the Audit Committee regarding the audit of the financial statements prepared as at 31 December 2018.

In addition, the Audit Committee provided to the Supervisory Board the information about the results of the audit of the financial statements and explained how the audit contributed to the fairness of the Company's financial reporting, and also explained the role of the Audit Committee in the process of their auditing.

IV. Cooperation between the Supervisory Board and the Company's Board of Directors

The Supervisory Board, in accordance with the Polish Commercial Code, the Company's Articles of Association and the By-laws of the Supervisory Board, exercised permanent supervision over the activities of the Company in all areas of operation. The Supervisory Board performed its tasks:

- at meetings;
- through current activities and checking operations.

The Supervisory Board issued their decisions to the Company's Board of Directors in the form of resolutions. In the opinion of the Supervisory Board, the Board of Directors duly fulfilled its duties in the reporting period.

V. The assessment of the Company's situation

The Supervisory Board has a positive opinion on the Company's situation in terms of the stabilisation of its market position, operational tasks carried out and development prospects. The Supervisory Board monitored the implementation of the Company's strategy on an ongoing basis. The Board of Directors' activities in this respect have been assessed positively.

The Company has no formal systems of internal control, the compliance risk management and internal audit function. The risk identification and assessment are managed by the Company's organisational units handling a given type of risk, which are responsible for determining the activities necessary to reduce risk factors. This supervision and key decisions regarding the reduction of risk factors in the strategic, operational, financial and legal areas, are managed by the Board of Directors. In the opinion of the Supervisory Board, the Board of Directors correctly identifies risk factors in the Company's operations, monitors them and manages them effectively, which limits to the maximum extent the impact of negative phenomena on the implementation of the Company's business tasks. In the opinion of the Supervisory Board, as at the date of approving of this Report, the Company does not need to separate any internal audit function.

VI. Self-assessment by the Supervisory Board

The operation and composition of the Supervisory Board in the period from 1 January to 29 May 2019 complied with law. Members of the Supervisory Board had appropriate expertise and experience, which they used in the works of the Supervisory Board. Members of the Supervisory Board operating in the reporting period cooperated in a complementary manner, devoting the necessary amount of time to perform their duties.

The Supervisory Board performed their duties with due diligence and supported the Board of Directors in the implementation of tasks and strategic objectives based on their knowledge about the Company and a wide range of activities carried out.

VII. Request for the evaluation of the work of the Supervisory Board

This Report presents the main areas of work of the Supervisory Board in the period from 1 January to 29 May 2019. The Supervisory Board is of the opinion that all its members exercised due diligence in performing their duties in the Board, using their best expertise and experience in the area of the supervision of a joint-stock company.

1. Mr Maciej Jacek Kaliński
2. Mr Tomasz Nowakowski
3. Mr Piotr Marian Taracha
4. Mr Krzysztof Stankowski
5. Mr Robert Malinowski
6. Ms Agata Czerniakowska

