Łomża, 12 July 2019

RESPONSE TO THE REQUEST TO PROVIDE INFORMATION CONCERNING PRZEDSIĘBIORSTWO PRZEMYSŁU SPOŻYWCZEGO PEPEES S.A.

Epsilon Fundusz Inwestycyjny Zamknięty
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Dear Stakeholders,

Pursuant to Article 428 §1 in connection with Article 428 §5 of the Polish Commercial Code, this letter has been prepared in connection with the request made to the Company's Board of Directors on behalf of a shareholder – Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (hereinafter referred to as the **'Shareholder')** to provide information about the Company during the Annual General Meeting of Shareholders of the Company held on 28 June 2019. The letter presented to the Company's Board of Directors contained over 470 questions on 31 pages, which made it impossible to provide the requested information during the General Meeting of Shareholders without disrupting it. For this reason, it is justified to prepare the response to the request in writing outside the General Meeting.

Following the analysis of the request submitted, below we are providing the information that the Company's Board of Directors is authorised to present, i.e. regarding the Company; its provision is justified for the assessment of an item on the agenda of the General Meeting of Shareholders held on 28 June 2019; and, at the same time, pursuant to Article 428 §2 of the Polish Commercial Code, the disclosure of such information will not result in the risk of any damage to the Company, any of its related parties or subsidiaries, in particular due to the disclosure of any technical, commercial or organisational trade secrets of the Company.

When preparing the response to the question presented, it is necessary to take into account the principles and restrictions applicable to actions taken by members of the Board of Directors resulting primarily from the provisions of the Polish Commercial Code, the Polish Accounting Act, the Polish Combating Unfair Competition Act, the Polish Act on public offering and conditions governing the introduction of financial instruments to organised trading, and on public companies , the Polish Labour Code, the Regulation of the European Parliament and of the Council on market abuse (MAR) and the General Data Protection Regulation of the European Parliament and of the Council (the GDPR).

Due to the high number of the Shareholder's questions, the answers have been grouped and structured in accordance with the division into individual thematic areas.

1. The Group's strategy for 2013-2018, investment projects implemented in 2013-2018, the payment of dividend for 2013-2018

In response to questions about the Group's Strategy for 2013-2018, investment projects implemented in this period, the distribution of the Company's net profit for 2013-2018, including the recommendation regarding dividend payments in this period, the Board of Directors explains as below.

The Company is in the development phase, is focused on investing in new technologies and products as well as on technological expansion and modernisation. This is confirmed by the implemented Strategy of the Company’s Group for 2013-2018 and capital expenditure plans for individual years. The Company allocated generated profits to achieve the aforementioned objectives.

The resolutions of the Company’s General Meeting of Shareholders on retaining the profit in the Company, adopted in 2013-2018, were fully justified by the Company’s investment needs and were aimed at increasing the Company’s assets and its profitability ratios, which also resulted in higher value of the Company's shares for the benefit of all shareholders.

In 2019, the Company's Board of Directors and Supervisory Board recommended that the Annual General Meeting of Shareholders held on 28 June 2019 make the decision on a one-off payment of dividend as a result of the distribution of profit for the financial year 2018. It was possible due to the good financial situation of the Company. The Annual General Meeting of Shareholders decided to pay the dividend of PLN 11,400,000, i.e. PLN 0.12 per share. The record date was set for 8 July 2019 and the dividend payment date for 27 September 2019.

The Company's profit in 2013-2018 was as follows:

Year	**Net profit in PLN million**	**Cumulative net profit in PLN million**
2013	0.797	0.797
2014	3.621	4.418
2015	5.917	10.335
2016	15.918	26.253
2017	12.319	38.572
2018	17.442	56.014

Also, it should be emphasised that the profit referred to in Article 347 of the Polish Commercial Code disclosed in the financial statements is profit in the bookkeeping (accounting) sense. It is not in any way synonymous with cash remaining at the Company's disposal. In a situation when the General Meeting of Shareholders allocates a certain amount of profit for payments to shareholders, it means that the Company must take this amount either from current funds or take out a loan for dividend payment, as profit is not the funds deposited in the bank account maintained for the Company.

In particular years, the following amounts were allocated to the accomplishment of investment objectives:

Year	**Expenses in PLN million**	**Cumulative expenses in PLN million**
2013	3.407	3.407
2014	9.534	12.941
2015	14.825	27.766

2016	8.873	36.639
2017	13.430	50.069
2018	13.650	63.719

This is capital expenditure made only in the Company being the parent company in the Group. Expenses in the entire Group are significantly higher. By way of example, it can be pointed out that in 2018 the expenses in the entire Group amounted to PLN 30.5 million, of which PLN 13.65 million in the Company alone.

In 2013-2018, the Company implemented a wide range of investment projects, including upgrade projects indicated in the Strategy of the Company's Group for 2013-2018:

a) in 2013: the upgrade of charging hopper boxes in the starch drying department, the implementation of a fire alarm system in production and storage facilities, the replacement of components of the heat exchanger in the protein drying room, the refurbishment of an oblique carburizing flyover, the refurbishment of sludge settlers, the purchase and assembly of jet oxygenating devices in a sand tank, the purchase of hydrolyzate homogenization pumps, the purchase of pumps for the refining department, the purchase of a platform car for technical service, the construction of a tent hall to store raw materials for processing, the purchase of two industrial vacuum cleaners;

b) in 2014: the launch of the implementation of the strategic project: "Production upgrade – stage I", the reconstruction of the plant boiler room chimney, the upgrade of the sewage discharge pipeline to the Kupiski-Jednaczewo facility, elevating the sulphuric acid station emitter, the replacement of the fine coal hopper of K-6 boiler for a new one, the assembly of the metal detector at the big-bag filling station, the upgrade of two metal detection systems at the starch bagging stations, the construction of a square paved with polbruk paving blocks for potato clamping, the improvement of the product warehouse ventilation system, the construction of a section of the plant peripheral system to supply water to hydrants, the improvement of the efficiency of starch sifters, the expansion of the fire alarm system, the launch of the construction of the underground water purification plant, the purchase of laboratory equipment;

c) in 2015: the continuation of works related to the strategic project: "Production upgrade – stage I" – the construction of a starch drying department with accompanying infrastructure, the construction of the in-house underground water purification plant for technical and staff needs, the upgrade and expansion of production, electrical, heating and sanitary systems, the assembly of a compressed air container station (stage I), the assembly of an INTEGRA starch packing machine, the construction of a permanent tent hall to store raw materials for processing and starch products with a manoeuvring yard, the construction of a big-bags unloading building, the construction of a dehydrated food starch unloading yard, the upgrade of the power system of pulp-producing centrifuges, the replacement of certain components of starch sifters, the upgrade of the pipelines used to discharge wastewater to a meadow and a storage reservoir, the purchase of laboratory equipment;

d) in 2016: the assembly of a compressed air container station (stage II), the construction of a water softening station to meet the production needs of the food starch-producing unit, the assembly of the station to pack potato protein into Big-Bag bags, the renovation of the pipeline used to discharge production wastewater, the upgrade of production machines and devices (protein packing machine, potato rasp), the modernisation of the dust removal system of coal boilers, the construction of a permanent tent hall for storing purposes, the purchase of laboratory equipment;

e) in 2017: the assembly of a gas boiler with the adaptation of the boiler room and the construction of gas mains, the reconstruction of the system for dedusting flue gas from the steam boiler, the assembly of the bags palletising line using industrial robots, the upgrade of the pipeline to discharge wastewater to meadows, the upgrade of the in-house biological sewage treatment plant – sanitary Bioblock, the upgrade of vacuum filters at the starch milk dehydration station, the assembly of AUTOSAT semi-automatic storage system, the assembly of STNX decanter at the potato juice recovery station, the upgrade of potato rasps, the replacement of stage 2 heating column of Wiegand evaporator, the assembly of a system to load starch to car cisterns, the upgrade of the starch packing line control system, the purchase of laboratory equipment;

f) in 2018: the upgrade of A and B starch drying department system – stage I with the upgrade of the control and visual rendering system, the upgrade of the raw materials washing and cleaning system – stage II (stage III in progress), the assembly of a protein decanter, the purchase of cultivating machinery, the assembly of digestate granulation lines, the upgrade of potato rasp No. 2, the upgrade of buildings, the replacement of the droplet separator after stage 2 evaporator column, the hardening of the storage yard for waste pulp and the purchase of a loader, the launch of the purchase of INTEGRA FD 2 packing machine (in progress), the purchase of Grimme store loader and charging hopper, the assembly of conveyors after presses and centrifuges, the upgrade of technical infrastructure (electrical and sanitary system), the purchase of a PH pump unit, the upgrade of the chemicals warehouse, the purchase of laboratory equipment.

The purpose of investment projects carried out in the Company in the years 2013-2018 was, among other things, an increase in the value of the Group in the long term. Some of specific financial objectives under the Strategy were as follows:

1) an increase in sales revenue to ca. PLN 220 million;
2) fast growth of EBIT; and
3) higher return on sales.

Based on the analysis of the data contained in the Board of Directors' reports on the operations of the Group for 2013 and 2018, it can be concluded that these objectives were accomplished. Data from the first year of the Strategy implementation (2013) were compared with the data from 2018, which was the target year for the entire Strategy and new investment projects carried out in the Company.

Both the specific goals and the overall objective were accomplished. As demonstrated by the data presented in the tables below, the assumed increase in sales revenue was exceeded – the amount of ca. PLN 240 million was generated. At the same time, this resulted in a significant increase in profit both from sales and from operating activities (EBIT) and in net profit. The increase in profitability ratios, which proves the effectiveness and legitimacy of the investment projects carried out, is also noteworthy.

The achievement of the overall objective is demonstrated by, among other things, the share price and an increase in the total value of the Group's assets. This means that the assumed strategy and its implementation, together with the investment projects carried out as part of it, was effective and appropriate. As a result of it, the value of the Company increased significantly to the benefit of all shareholders.

	In consolidated terms	
INCOME STATEMENT (in PLN 000s)	***2018***	***2013***
Sales revenue	239,941	119,549
Gross profit from sales	72,411	25,292
EBIT	29,922	2,428
Net profit	23,414	611

PROFITABILITY RATIOS	*2018*	*2013*
Return on Assets	6.92%	0.40%
Return on Equity	13.96%	0.65%
Net Profit Margin	9.62%	0.51%
Return on Sales	30.18%	21.16%

	31.12.2018	**31.12.2013**
TOTAL ASSETS (PLN 000s)	333,925	154,582
COMPANY'S SHARE PRICE	PLN 1.25	PLN 0.50

2. The Company's investment plans for 2019

In 2019, the Company continues projects related to maintaining its infrastructure at the appropriate technical level, continuous pursuit to reduce the cost of manufacturing products, and adapting the Company and its technical resources to meet legal requirements which will contribute to maximising profits in the long run, improving the company's competitive position on the market, meeting environmental protection requirements and increasing shareholder value.

Investment activities planned for 2019 include:

1) assembly and commissioning of a new Integra FD2 automatic starch packing machine;
2) assembly and commissioning of a new BPU 42 Simplex line for packing starch in 0.5 and 1.0 kg bags;
3) execution of stage III of the upgrade of the potato washing and cleaning system (including the assembly of a new potato washer, stones catcher, leaves and haulm catcher, floating parts catcher);
4) expansion of the gas boiler room;
5) upgrade of potato rasp No. 5;
6) upgrade of four laundries at the starch production department;
7) purchase of forklifts;
8) assembly of heating and ventilation systems in the Finished Products Warehouse;
9) expansion of the plant compressor room with the third container compressor;
10) upgrade of the visualisation and control system of the wet unit of the starch production department;
11) improving the stability of the slopes of sand settling tanks;
12) upgrade of the utilities transmission system;
13) purchase of laboratory equipment; and
14) purchase of agricultural machinery (a potato planter).

Planned upgrade projects will be financed with own funds, while forklifts and agricultural machinery will be acquired under leases.

3. PEPEES Group Strategy for 2019–2024

With reference to the questions regarding the Group's Strategy for 2019-2024, the Board of Directors indicates as below.

In accordance with the Strategy, the Company's mission is to build up its position of the leader in the agricultural and food processing industry, which offers a wide range of starchy products and implements innovative products. Of the leader, which owing to that can offer a satisfying shareholder value, ensure employee satisfaction and enable the development of agricultural production in Poland by establishing long-term relationships with growers, ensuring the stability and profitability of their cultivation of input plants.

As part of the implementation of the Strategy, the Company will promote the development of its customers by offering them high-quality natural starch products manufactured from agricultural raw materials and implementing innovative products.

The Company has defined the following strategic objectives:

1) Increasing the value and market share of the Company's Group through organic growth and acquisitions.
2) Expanding target markets and the product portfolio, including starch-based modified products.
3) Establishing cooperation with an industry investor.
4) Intensifying and improving the raw material sourcing process.
5) Optimising the operation of the Company's Group.

Establishing the cooperation with an industry partner, in particular from the food, pharmaceutical, food supplements and children products industry, provided for in the Strategy, will be the key to further development of the Company's Group. It is due to the fact that to implement the Strategy, proper *know-how* and considerable investments in the development of new products, particularly modified products, and state-of-the-art technologies must be ensured.

The Company, using its own funds, loans, share issues and other external sources and assuming that some capital will be provided by an industry investor, is planning to carry out activities that will enable the marketing of attractive products, including, but not limited to, the marketing of starch-based modified products on the European food and pharmaceutical market.

Bearing in mind the long-term nature of the adopted strategy, the Company's Board of Directors also would like to note that there may be a number of risks and factors beyond the Company's control that may result in the failure to accomplish the planned strategic objectives or desired economic goals. As a result, the information and objectives contained in the Strategy do not in any way constitute a forecast or estimates of the Company's financial performance, but are only an attempt to quantify selected operational and financial values which the Company will try to accomplish.

The estimation of costs related to the implementation of the Group's Strategy for 2019–2024 takes into account, among other things, assumptions made regarding the costs of implementing the following projects:

1) a protein recovery station;
2) better use of storage space;
3) water and wastewater management enabling the processing of 270,000 tonnes of potatoes by the Company;
4) an increase in the capacity of the starch production department enabling the processing of 100,000 tonnes of potatoes in the company in Bronisław;
5) replacement investments; and
6) expanding the farmland area up to 1,500 ha.

4. Authorised capital

In the context of questions regarding amendments to the Company's Articles of Association aimed at authorising the Company's Board of Directors to increase the share capital within the limits of the authorised capital, the Board of Directors is indicating that the Strategy of the Pepees Group for 2019-2024 adopted on 14 June 2019 by the Company's Supervisory Board provides for an increase in the sales value and growth of the market share through organic growth and acquisitions. It envisages, among other things, the expansion and enhancement of the attractiveness of a diversified product portfolio; the expansion of target markets and the acquisition of new customers; the establishment of the cooperation with an industry partner in particular from the sectors of foodstuffs, diet supplements and products intended for children and from the pharmaceutical industry. To implement the Strategy, proper *know-how* and considerable investments in the development of new products, particularly modified products, and state-of-the-art technologies must be ensured. At present, the Board of Directors is estimating that the cost of the Strategy implementation will be ca. PLN 90 million; however, this amount does not include significant—but not yet possible to assess—expenditure on investment projects related to modified products, and on acquisitions. These plans will make it possible to continue to develop the Company, to boost its value and, as a result, to further increase the Company's share price.

At present, the Company's financial situation is stable, the Company has been generating profit for several years now, while continuously investing and modernising its means of production. However, generated profits are not sufficient to meet the Company's needs at the high level identified presently. The expenditure on the ongoing maintenance and upgrade of machines and on the growth thought the implementation of the Strategy will be considerably higher. The Company's Board of Directors should also take into account the expectations of shareholders regarding the payment of dividend, which are manifested, inter alia, by two lawsuits filed against resolutions of the General Meeting of Shareholders on the allocation of profits to investment projects.

At present, the issue of shares is the best way to obtain financing. However, so far none of the shareholders has been able to ensure appropriate funding taking into account the challenges, level and manner of the Company's development. At present, there are no entities from the industry among the Company's shareholders. The establishment of the cooperation with an industry partner in particular from the sectors of foodstuffs, diet supplements and products intended for children and from the pharmaceutical industry, which could provide the Company with the appropriate *know-how* and establish capital ties with the Company, would enable the acquisition of appropriate resources necessary to implement the adopted Strategy. To this end, the Company's Board of Directors would like to be able to offer the Company's shares to an industry investor, excluding the pre-emptive rights.

The Board of Directors proposed that the shares in the increased share capital be offered primarily through private placement, which will reduce the costs of the offer. The increase will be according to the Company's financial needs. Their level will be determined by the Board of Directors upon obtaining the opinion of the Supervisory Board. Therefore, at present, it is not possible to determine the amount of the necessary revenue from share issues or the number of shares to be issued. The authorisation to issue shares as part of the authorised capital will make it possible to adjust the issue volume and the issue time to market conditions and the Company's current capital-related needs.

The Board of Directors proposed that the issue price be determined in the future on the assumption that that it could not be lower than the arithmetic mean of average daily prices weighted with the trading volume from three years immediately preceding the publication of the notice about the convening of the Annual General Meeting of Shareholders held on 28 June 2019. As the Company's Board of Directors stated, due to the fluctuations of the Company's share price, the success of an issue could not be certain when the price was set in advance.

In addition, the adoption of such bases for the determination of the issue price will make it possible to adapt it to the actual market value of the Company's shares existing prior to the publication of the notice on the planned increase in the share capital, and to eliminate the risk of the necessity of basing the price on an artificially raised share price, which, in the case of such low liquidity as the liquidity of the Company's shares, is a real risk. The final issue price will be determined by the Board of Directors with the consent of the Supervisory Board.

In the opinion of the Board of Directors, the issue of shares carried out this way was in the interest of the Company and therefore in the interest of its both present and future shareholders.

5. Own farming activities, solving potato purchase problems

As regards the questions concerning own potato cultivation activities, the Company's investment in Gospodarstwo Rolne Ponary sp. z o.o. (hereinafter also referred to as **“GR Ponary”),** its essence and consistency of the Company's activities related to the agricultural holding with the Group's Strategy, the Company's Board of Directors explains as below.

The Company is looking for investment areas used for growing potatoes. Currently, it uses leased farmland in Ponary and Ględowo with the total area of 870 ha. In accordance with the Group's Strategy for 2019-2024, the Company plans to increase the area to 1,500 ha by leasing or purchasing farmland.

On 4 January 2018, the Company entered into conditional sales agreements with two natural persons, who are shareholders of the Company, under which the Company acquired a 32.6% stake in Gospodarstwo Rolne Ponary sp. z o.o. Thus, the Company has become the holder of 100% of shares in GR Ponary.

The acquisition of shares in Gospodarstwo Rolne Ponary was on an arm’s length basis in order to increase the production and processing potential of the Company. These agreements were concluded in a transparent manner and in accordance with the Company's internal regulations. The Company announced the purchase of shares in GR Ponary (current reports Nos. 11/2017, 22/2017, 28/2017, 1/2018).

The total potato cultivation area in Poland, including starch potatoes, is decreasing steadily. This problem is pointed out by, for example, Wojciech Nowacki, PhD in his paper titled “The Programme for the Polish Potato: Goals, Objectives, Feasibility”. Currently, there are ca. 350,000 farms in Poland where potatoes are cultivated, but only less than 50,000 of farms where the cultivation seems to be professional are listed in the register of the Main Inspector of Plant Health and Seed Inspection. Farmers’ situation was slightly improved by the introduction of subsidies to starch potato cultivation areas. In 2018, the subsidy amounted to PLN 1,065.89 per ha of starch potato cultivation land. Such subsidies are determined on an annual basis and they can be used until 2020. The issue of the possibility of continuing this support under the New Financial Perspective for 2021-2027 is currently being negotiated with the European Commission and within the Council of the European Union.

Own cultivation activities make it possible to launch the potato campaign earlier, which is very important for the economic viability of the company, because, due to the climate, it lasts shorter than in other Member States of the European Union where our competitors are located. They also make it possible to regulate deliveries. Despite contract farming agreements concluded with farmers each year, there are situations when the continuity of supplies is at risk, which would be very unfavourable for the Company due to production-related reasons. Stopping production due to the lack of potatoes and its restarting is very expensive and results in the shortening of the already short potato processing period.

6. CHP Energia, pulp management

With regard to questions concerning CHP Energia sp. z o.o. (hereinafter referred to as **“CHP Energia”)** and its significance for the operations of the Company and the entire Group, the Board of Directors informs as follows.

CHP Energia plays a key role in the production process of Pepees. It receives and manages the entire stream of potato pulp, which is a by-product of the production process in the plant in Łomża. Therefore, its functioning and financial performance should be assessed in the context of the role it fulfils within the Company's Group, in particular in view of the growing phytosanitary protection and environmental protection requirements.

As a result of processing 1 tonne of potatoes, a by-product is produced in the form of ca. 150 kg/t of potato pulp (15% of potato mass) and 3.5 m^3/t of wastewater.

CHP Energia has facilities to produce biogas in the anaerobic digestion system. For the production of biogas, only agricultural input is used in the form of potato pulp, vegetable silage, fruit pomace, etc. Electricity is co-generated with heat, i.e. the so-called ‘cogeneration’, which is characterised by the highest efficiency of the conversion of primary energy into final energy. The present global situation poses new challenges in terms of the reduction of costs of heat and electricity consumption, and having an entity operating in this area in the Group makes it easier to face these challenges. In addition, in the area of ecological safety, the processing of waste from agricultural production and the agricultural and food processing industry, primarily potato pulp, is also an advantage.

In 2014, *Ralstonia solanacearum* bacteria (brown rot) were found for the first time in Poland on planted potato tubers. Since that time, the disease has been found on potatoes. In all Member States of the European Union, this pathogen is subject to obligatory eradication. All in all, the hosts of *Ralstonia solanacearum* comprise over 200 species of plants from 50 botanical families, including solanacea, e.g. tomato, eggplant, and solanacea weeds. Potato is a very important host for the bacteria. Bacteria can be transferred to cropland with potato waste, including soil on tubers, which can be, for example, ingredients of compost, or urban wastewater. In the case of processing infested potatoes, industrial waste, e.g. pulp and wastewater from tuber washing processes, etc., may pose a risk. When the brown rot bacterium was found in potatoes in Poland, there was a risk that it could also be present in the pulp, which resulted in a ban on using pulp as a fertilizer. The situation was further complicated by the emergence of *Clavibacter michiganensis (Cms* – potato ring rot).

The obligation to manage the pulp results from the generally applicable regulations:

1) Polish Plant Protection Act of 18 December 2013;
2) Regulation of the Polish Minister of Agriculture and Rural Development of 13 April 2004 on specific procedures for the eradication and prevention of the dissemination of *Ralstonia solanacearum,* and
3) Regulation of the Polish Minister of Agriculture and Rural Development of 6 April 2007 on specific procedures for the eradication and prevention of the dissemination of *Clavibacter michiganensis.*

Clavibacter michiganensis and *Ralstonia solanacearum* are potato quarantine diseases subject to the aforementioned laws and regulations on the eradication and prevention of the dissemination of these diseases. These laws specify in a very detailed manner the procedure to be followed in the event of actual or suspected occurrence of these diseases. Potatoes infested with one of these diseases cannot be planted or spread outside farms in an uncontrolled manner by the Provincial Plant Health and Seed Inspection (PPHSI). Under its supervision, they must be sent to a processing plant if the plant has the technology to neutralise residues produced in the processing process, intended as an animal feed after being steamed, or to be burnt.

Cms bacteria grow in potato tubers and are also transferred in them, infecting the soil in which potatoes grow. Potato brown rot has a broader spectrum of hosts and the bacteria are transferred through infested tubers and groundwater. In accordance with the recommendations of the PPHSI, the Company is obliged to ensure phytosanitary protection of the by-product from the potato processing process in the form of pulp. Due to the risk of the occurrence of *Clavibacter michiganensis* and *Ralstonia solanacearum* in the pulp, the Company may not give or sell the pulp to growers or other customers to be used as feed or fertilizer.

Pulp is disposed of in specialised companies or is used as an input material for the gas production process in biogas plants that are able to eradicate brown rot bacteria. Biogas production at CHP Energia is based on a thermophilic process, i.e. at the temperature of 52°C, which guarantees effective eradication of brown rot bacteria and makes it possible to use the post-substrate, both in the liquid form and in the form of leachate, as a fertilizer. Upon the conclusion of contracts with CHP Energia for the collection and disposal of pulp, the problem with its disposal ceased to exist for the Company. All the pulp produced during the potato campaign is collected by our biogas plant. Hence, the Company has a plant with production technology ensuring the phytosanitary protection for both the main product, i.e. potato starch, and the by-product, i.e. pulp. The Company remains under the constant supervision of the Provincial Plant Health and Seed Inspection.

All farmers who grow potatoes are obliged under Article 13 of the Polish Plant Protection Act to register their production in the PPHSI. The Company is obliged under Article14 of the Polish Plant Protection Act to submit its register of growers, of which 5% are subject to random potato health checks.

Under Article 8a(2) of this Act, 14 days prior to the launch of production, the plant must inform the PPHSI competent for its area about its intention to start potato processing, which results in the audit of the plant preparation to accept infested or probably infested potatoes. On the other hand, under Article 8a(3) of the Polish Plant Protection Act, processing plants must notify the PPHSI three days prior to the agreed date of the acceptance of infested potatoes in order to protect the transport by the Inspection on the farm and to control the acceptance of the delivery at the Company's location.

Pursuant to §14(2)(lba) of the Regulation of the Polish Minister of Agriculture and Rural Development of 13 April 2004 on specific procedures for the eradication and prevention of the dissemination of *Ralstonia solanacearum*, § 11 of the Regulation of the Polish Minister of Agriculture and Rural Development of 6 April 2007 on specific procedures for the eradication and prevention of the dissemination of *Clavibacter michiganensis* and the recommendations of the PPHSI, all the pulp produced in 2018 was sold to CHP Energia.

The Company has taken measures to increase the viability of CHP Energia. At the beginning of 2019, cooperation was established with the Animal Nutrition Department in Bydgoszcz (UTP University of Science and Technology in Bydgoszcz) to create a new animal feed based on potato pulp and haylage. The first phase of tests has already been completed. According to preliminary results, the UPT Department classifies the tested animal feed as being very good and able to replace beet pulp. Therefore, we replace beet pulp with the moisture content of 20% with a mixture of potato pulp and haylage with the moisture content of 38%, which makes it possible to double the drying efficiency at the same power level and to reduce the unit cost of the raw material input. Potato pulp will make up most of the raw material for drying; it is a waste product available in very large quantities and at an affordable price.

In response to the question about the reversal of the write-down of shares in CHP Energia, the Board of Directors would like to note that no such reversal was made in 2018. Information on the recognition of the value of shares in CHP Energia in the Company's books of account is available in Note 6.3 to the Company's Financial Statements for 2018 (hereinafter referred to as the **"Company's Financial Statements").** The value of shares in CHP Energia at cost is PLN 5,920.3 thousand, and the amount of loans granted with interest as at 31 December 2018 was PLN 4,905.5 thousand. The difference between the cost and the carrying amount of shares in CHP Energia results from the recognition in 2017 of write-downs of the shares due the losses made by this entity.

7. Donations and sponsorship

The Company is a sponsor of many cultural, sporting and ecological events. In an effort to meet growing social, economic, cultural, educational and sports needs, principles have been adopted according to which assistance may be directed to those areas in which it can be used effectively. The sponsorship activities carried out by the Company comprise the financial and material support for regional and local initiatives. The primary direct goal of the Company's sponsorship is to build and enhance brand awareness and to create a positive image of the initiative in which the Company participates as a sponsor.

The Company is involved in the following areas:

1) Sport and education
    a) Promoting initiatives to support the development of science and education
    b) Supporting the development of physical culture and sports education
2) Culture
    c) Sponsoring local and regional events
3) Charity
    d) Supporting organisations working for people in need

The donations indicated in the Company's Financial Statement for 2018 were made to cultural and educational institutions and sports institutions not related to the Company. Sponsorship beneficiaries were not and are not related parties.

8. Cash flows, recognition of provisions, grants, additional payments

In response to specific questions about cash flows, recognition of provisions, grants and additional payments, the Board of Directors informs as follows:

1) For the item ‘Provisions for other liabilities and other charges’ in the statement of financial position, there is Note 6.22 to the Company's Financial Statements, which details items making up PLN 3,141 thousand. According to Note 6.22, the provisions were not recognised for counterparties, but primarily for unpaid but due, for the second half of 2018, bonuses for employees resulting from corporate regulations and discretionary bonuses for 2018 for employees and members of the Board of Directors (PLN 1,379 thousand), provisions for unused employee leaves in 2018 (PLN 602 thousand), the provision for used CO_2 emission allowances (PLN 942 thousand – which is related to the fact that the company emits carbon dioxide to the atmosphere), a part of the grant related to property, plant and equipment (PLN 98 thousand), which was received from an EU project in 2005 and was recognised in deferred income and then has been recognised at the amount of depreciation in other operating income, a provision for environmental protection costs, i.e. fees for 2018 for using the environment (PLN 96 thousand) and PLN 24 thousand for the costs of auditing the financial statements by a statutory auditor. The aforementioned grant was received in 2005 from EU funds and a change in its amount recognised in deferred income does not affect financial flows, due to which it was necessary to adjust the ‘Net increase/decrease in grants’ item in the statement of cash flows and the ‘grants’ item in ‘Sources of financing assets as at 31 December 2018 and 31 December 2017’;

2) Pursuant to §93A of IAS 19 *Employee Benefits*, actuarial gains and losses from a defined benefit plan, including provisions for retirement severance pays and jubilee benefits, are recognised in ‘Other net comprehensive income’ and affect the change in capital; however, this is not related to an underestimation. The amount of future liabilities related to retirement severance pays and

jubilee benefits is estimated by a third-party actuarial company;

3) Revaluation of financial assets in the amount of PLN 434 thousand, which was disclosed in the Company's statement of cash flows and in the consolidated statement of cash flows, is related to the estimation of the fair value of the block of shares of Warszawski Rolno-Spożywczy Rynek Hurtowy S.A., the value of which increased, which was a source of an adjustment (down) in cash flows from operating activities;

4) The Company prepares the statement of cash flows using the indirect method, according to which all proceeds and expenses related to investing or financing activities are excluded from operating activities using adjustments. This means the necessity of recognising the item 'Net increase/decrease in accrued interest on loans' with a 'minus' sign. Loans granted to related parties and interest on the loans are described in Note 12 to the Company's Financial Statements; The adjustment item: 'Interest and share of profit (dividend)' includes interest paid on loans and dividend received *(cf.* item C. II. 2. and B**.** I. 2 (1087-122=965));

5) The item 'Purchase of bonds' in the Company's statement of cash flows includes the purchase of 80 bonds of the subsidiary PPZ Bronisław with an interest rate of 4% p.a., secured with a blank promissory note; and

6) Additional payments included in 'Received additional payments' item in the statement of cash flows and in the consolidated statement of cash flows were received from the Agency for Restructuring and Modernisation of Agriculture (ARMA) in connection with conducting agricultural activities.

9. Types of and increase in the company's operating expenses, purchase of services

In response to specific questions about the types of and increase in the Company's operating expenses and the purchase of services by the Company, the Board of Directors informs as follows:

1) For the item 'Other operating expenses', there is Note 7.8 to the Company's Financial Statements, which lists items of expenses. To the Company's knowledge, neither shareholders nor members of the Company's governing authorities are beneficiaries of these costs;

2) The increase in other operating expenses in 2018 as compared to the previous year results from unplanned depreciation charges *(cf.* Note 7.8 to the Company's Financial Statements). Unplanned depreciation charges result from the upgrade of plant and machinery and the related retirement of old, not fully depreciated equipment;

3) Agricultural production costs include: the cost of purchasing seeds, fertilizers, pesticides, depreciation of plant and machinery, agricultural works (ploughing, sowing, harvesting, etc.). These costs were paid to various entities not related to the Company;

4) Other agricultural costs in Note 7.6 of the Company's Financial Statements are related to unplanned depreciation of an agricultural machine and are not associated with related parties;

5) Services purchased by the Company in 2018 from its subsidiary PPZ "Bronisław" took the form of a warehouse lease.

10. Increase in salaries, employee-related obligations and benefits, bonus and incentive programmes

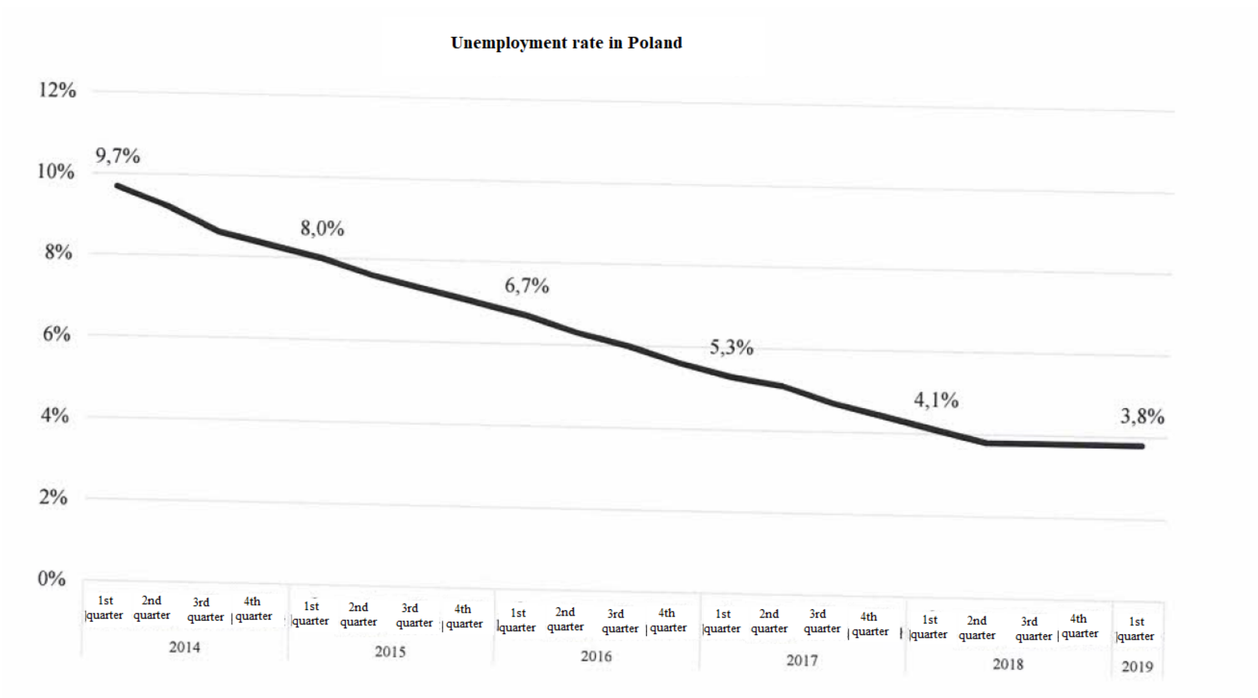
In response to questions about bonus and incentive programmes, as well as changes in salaries, employee-related obligations and benefits, including those related to members of the Company's governing authorities, the Board of Directors explains as follows.

With each year, the labour market in Poland is becoming more and more difficult for enterprises. The employee's market means that retaining qualified employees and acquiring new employees is not possible without offering attractive salaries and incentives.

According to Grant Thornton report,[1] 60% of Polish companies claim that they are unable to find candidates for their jobs. This is the highest percentage in the history of the study. The labour market was also mentioned as the biggest barrier to enterprise development.

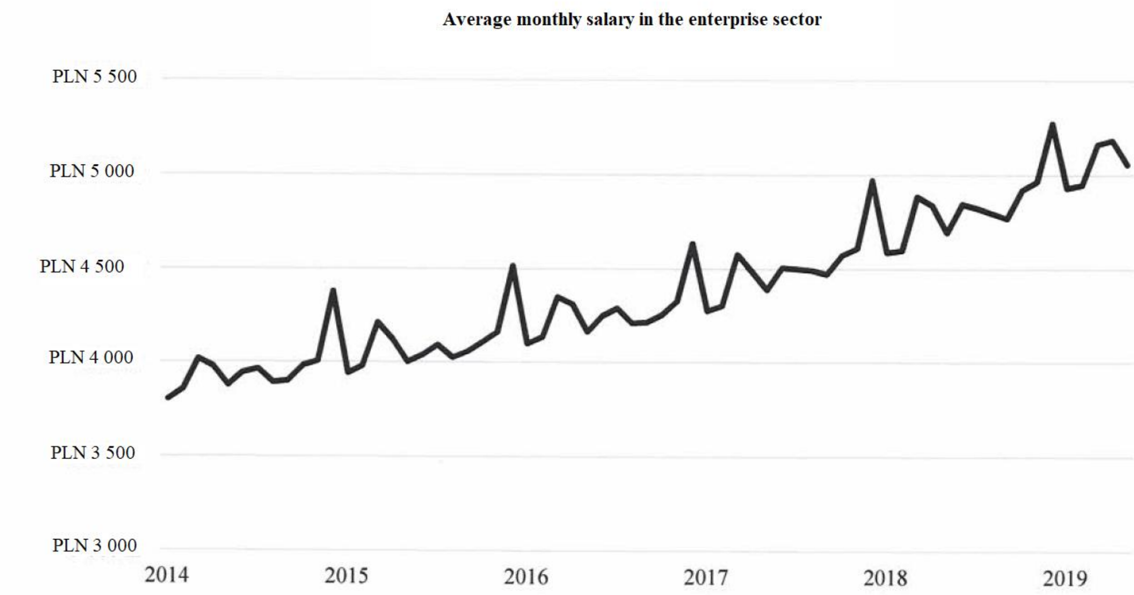
The data published by the Polish Central Statistical Office also testify to the difficulties. The unemployment rate is constantly falling and currently it is at the lowest level on record at 3.8%. The simultaneous, steady increase in average wages means that enterprises must allocate significant funds to retain existing employees and encourage new ones to work for them.

Also, forecasts for the future are not optimistic. According to the report published by PwC, by 2025 the gap in the labour market will have widened significantly, with the shortage of 1.5 million people.[2] This is the result of both adverse demographic trends and labour migrations.



Source: Basic data from the Labour Force Activity Survey seasonally adjusted in 2010-2019, https://stat.gov.pl/obszary-tematyczne/rynek-pracy/pracujacy-bezrobotni-bierni-zawodowo-wg- ael/podstawowe-dane-z-badania-aktywnosci-ekonomicznej-ludnosci-wyrownane-sezonowo-w-latach-2010-

[1] https://grantthomton.pl/wp-content/uploads/2017/09/Firmom-coraz-mocniej-brakuje-r%c4%85k-do-pracy-raport-Grant-Thornton-06-09-2017.pdf
[2] https://www.pwc.pl/pl/media/2019/2019-01-22-luka-rynek-pracy-2025-pwc.html



Source: Announcement of the President of the Central Statistical Office on the average monthly salary in the enterprise sector, [https://stat.gov.pl/sygnalne/komunikaty-i-obwieszczenia/lista-komunikatow-i-obwieszczen/obwieszczenie-w-sprawie- przecietnego-miesiecznego-wynagrodzenia-w-sektorze-przedsiebiorstw-w-maju-2019-roku](https://stat.gov.pl/sygnalne/komunikaty-i-obwieszczenia/lista-komunikatow-i-obwieszczen/obwieszczenie-w-sprawie-przecietnego-miesiecznego-wynagrodzenia-w-sektorze-przedsiebiorstw-w-maju-2019-roku),56,66.html

The growth of salaries and wages and of related employee benefits is associated primarily with the fact that the Company, operating in the context of the market phenomena described above, is facing more and more difficulties in employing and retaining employees, especially when it comes to key employees for the Company. The wage pressure is already very high and the average salary growth rate in 2018 was double-digit. In connection with the development and modernisation of the Company, it needs qualified employees and managerial staff. One of the ways of additional incentivizing, not through cash payments, was to be the incentive and bonus programme.

Persons authorised to participate in the incentive programme are key employees of the Company and of other companies from the Company's Group. The essence of all bonus programmes is the fact that their participants receive some kind of a benefit. Bonus and incentive programmes are a popular instrument aimed at establishing closer ties between key employees and the Company. The incentive programme in the Company is a rational approach, because its participants will be able to buy, and not just obtain, the Company's shares at the price at which the Company acquired them as part of the buy-back or even at a higher price, and the only preferential treatment is the possibility of being granted a loan from the Company, deferring the payment of the price by the Company or paying it in instalments or of being given assistance in obtaining external financing. At the same time, these preferential treatment offers are to provided on an arm’s length basis.

It should be noted that employee share-ownership is one of the forms of employee financial participation that has been developing well in European countries (primarily in France and Germany) since the late 1950s/early 1960s, when systemic solutions began to be introduced to support employees’ sharing of the profits of enterprises and foster employees' investments in the enterprises they worked for. The aim of these activities was, inter alia, to support savings and reduce the material/financial gaps between citizens. Government support took primarily the form of tax incentives, both for companies and employees, and sometimes of even direct financial support in the form of bonuses paid by the government. At the EU level, the debate on employee financial participation began in the early 1990s, when, based on the European Commission’s PEPPER I report *(Promotion of Employee Participation in Profits and Enterprise Results*), the Council of the European Union issued a recommendation concerning the promotion of employee participation in enterprise profits and results, and the Parliament adopted a resolution on this issue. On the basis of PEPPER IV report prepared upon the order of the Commission, the Committee proposes to base the European employee financial participation platform on a building block approach using all forms of employee financial participation used previously, assuming the possibility of creating various combinations of building blocks so that solutions tailored to specific needs of individual countries can be developed. The objective is that financial participation is to make employees co-beneficiaries of the benefits generated by an enterprise and in some models even their co-owners. This, in turn, is to translate into greater identification with the enterprise as well as individual and collective employee motivation, employee interest in the quality of work and better cooperation of employees in teams, cumulatively translating into greater competitiveness of the enterprise. In the case of a crisis or a need to restructure an enterprise, employees with capital ties with their companies may be more determined to cooperate with the management of the company in order to come up with solutions enabling the continuation of the company's operations. From the point of view of general social benefits, financial participation contributes to a more equitable distribution of wealth, higher regional purchasing power, and ensures financial support for employees in the event of accidents, crises or termination of their professional activity, which supports the protective function of the government. In Polish commercial law, the legislator's positive attitude towards employee share-ownership manifests itself, inter alia, in a more liberal approach to the regulation of the acquisition of treasury shares and the financing by joint-stock companies of the acquisition and subscription of shares issued by them in the event of the acquisition of shares by or for the employees of the company or any company related to it.

The incentive programme in the form determined by resolutions Nos. 24-28 of the Company's General Meeting of Shareholders of 25 April 2017 was not implemented in 2018.

The Company has the remuneration policy which determines the form, structure and amounts of remunerations of the Company’s employees, including components depending on the Company’s performance and the commitment of particular employees. Remunerations of members of the Company’s Board of Directors are determined by the Supervisory Board based on the qualifications, experience and responsibilities of a particular member of the Board of Directors. Remunerations of members of the Board of Directors include variable components, the amounts of which depend on accomplished financial results and on the level of the accomplishment of objectives set by the Supervisory Board. Remunerations of members of the Supervisory Board are determined by the General Meeting of Shareholders and they do not include variable components. In its report on the company's operations, the Company discloses the total remuneration of members of the Board of Directors (not broken down into fixed and variable components) and of the Supervisory Board. The total amount of short-term benefits for members of the Board of Directors disclosed in the Company's Financial Statements of PLN 1,378 thousand consists of monthly remunerations paid monthly in equal gross amounts to each member of the Board of Directors in the total amount of PLN 840 thousand; bonuses depending on the Company's performance in the total amount of PLN 477 thousand; and perks (using company cars for private purposes) in the amount of PLN 61 thousand. The benefits for members of the Supervisory Board include monthly remunerations for each member of the Supervisory Board paid in accordance with the resolution of the General Meeting of Shareholders.

In the opinion of the Board of Directors, the remuneration policy takes into account the accomplishment of the Company’s goals, in particular long-term growth for shareholders and the stability of the company’s operations.

11. Shares, securities, dividends, write-downs

In response to specific questions about shares held as well as securities, write-downs and dividends received as at 31 December 2018, the Board of Directors informs as follows:

1) Apart from shares in related parties and WRSRH Bronisze, the Company has held shares in the same entities for several years now, i.e. BPS Bank Polskiej Spółdzielczości with the value of PLN 75 thousand; Zakłady Mięsne Ostrołęka – PLN 37 thousand (taken over for debts in arrangement proceedings); and in Agencja Rozwoju Regionalnego in Łomża – PLN 1 thousand; all these shares

represent a small fraction of the equity of these companies;

2) The Company and companies from the Group did not held any investment certificates as at 31 December 2018 and as at 28 June 2019;

3) The item ‘Investments in subsidiaries’ in the statement of financial position shows the value of shares held in subsidiaries described in Note 6.3 to the financial statements;

4) The Company received dividend of PLN 122 thousand from Warszawski Rolno-Spożywczy Rynek Hurtowy S.A., in which it holds 3,000 shares acquired in 2014 for PLN 2,550 thousand; Each year, the Company receives dividend from the shares held by it. And so: in 2014 – PLN 133,650; in 2015 – PLN 60,750; in 2016 – PLN 121,500; in 2017 – PLN 121,500; and in 2018 – PLN 121,500;

5) The Company recognises write-downs of all receivables past due for over 180 days from their maturity dates; and

6) Note 6.5 ‘Inventories’ informs, among other things, about the amount of recognised write-downs of inventories as at the balance sheet date. The write-downs described in Note 6.5 are not related to receivables, but to inventories generated by the Company. The Company's finished products are measured at cost. In the event when the cost is higher than the net selling price less any costs of sales (loading, transport, etc.), inventories are measured at net selling price less costs of sales. The write-downs were not related to trade goods purchased from counterparties, but to certain products manufactured by the Company. As at 31 December 2017, the Company also recognised write-downs of inventories for some of its own finished products; and did it also as at 31 December 2018. In 2018, these inventories were sold and therefore the write-downs recognised previously were reversed. The reversal of write-downs was not related to receivables, but to certain products manufactured by the Company.

12. Acquisitions and disposals of fixed assets and intangible assets

In response to specific questions regarding the acquisition and disposal of non-current assets, including fixed assets and intangible assets, the Board of Directors informs as follows:

1) In the case of intangible assets and property, plant and equipment acquired for the total amount of PLN 13,650 thousand disclosed in the Company's statement of cash flows and in the consolidated statement of cash flows, the Company made expenses on, among other things, the purchase of CO_2 emission allowances for PLN 323 thousand, and the purchase of fixed assets described in Note 11.16. to the Report on the Group’s Operations. To the best of the Board of Directors' knowledge, the purchase was made from entities not related to the Company; and

2) In 2018, no fixed assets in the form of ‘buildings and civil engineering works’ were disposed of; intangible assets were disposed of for PLN 172 thousand (CO_2 emission allowances) and for PLN 17 thousand – two passenger cars (from 2007) and small equipment. To the knowledge of the Board of Directors, the Company's shareholders were not parties to the transactions.

13. Loans, borrowings, sureties, guarantees

In response to specific questions about loans extended or taken out, sureties and guarantees, the Board of Directors informs as follows:

1) The loans referred to in Note 6.13 to the Company's Financial Statements for 2018 amounting to PLN 941 thousand as at 31 December 2018 and PLN 762 thousand as at 31 December 2017 were granted to potato suppliers. To the knowledge of the Board of Directors, these persons are not Company shareholders or members of the Company's governing authorities;

2) Sureties granted by the Company are described in Note 11.2 ‘Contingent liabilities’ in the Company's Financial Statements;

3) The loan agreement for Gospodarstwo Rolne Ponary sp. z o.o. was entered into on 10 January 2018 for the amount of PLN 550 thousand to finance current operations with the interest rate of 3.5% p.a. The loan is secured with a blank promissory note with a promissory note agreement;

4) The bank guarantee issued by PKO S.A. to Danwood S.A. due to the construction of a house of 6 April 2018 disclosed in Note 11.10 to the Report on the Group's Operations for 2018 is related to the construction of a house for employees of the farm leased by the Company; and

5) Cash obtained from short-term loans was allocated to the purchase of raw materials for production. The loan utilisation status as at 31 December 2018 is presented in the notes to the financial statements (Note 6.18 to the Company's Separate Financial Statements and Note 8.15 to the Consolidated Financial Statements).

14. Shareholding

The Company's Board of Directors hereby informs that, in accordance with the list of attendance at the Annual General Meeting of Shareholders of the Company held on 28 June 2019 **("the AGM"),** , the following shareholders held at least 5% of the total number of votes at the AGM:

1) Mr Michał Skotnicki: 21,399,174 ordinary bearer shares that entitled their holder to 21,399,174 votes at the AGM, which represented 37.43% of the votes at the AGM; the percentage share in the total number of votes of the Company on the date of the AGM: 22.52%.

2) Mr Maksymilian Skotnicki: 20,703,282 ordinary bearer shares that entitled their holder to 20,703,282 votes at the AGM, which represented 36.22% of the votes at the AGM; the percentage share in the total number of votes of the Company on the date of the AGM: 21.79%.

3) Epsilon Fiz AN: 27,714,832 ordinary bearer shares that entitled their holder to 27,714,832 votes at the AGM, which represented 11.04% of the votes at the AGM; the percentage share in the total number of votes of the Company on the date of the AGM: 6.64%.

4) Mr Hubert Malinowski: 4,561,693 ordinary bearer shares that entitled their holder to 4,561,693 votes at the AGM, which represented 7.98% of the votes at the AGM; the percentage share in the total number of votes of the Company on the date of the AGM: 4.80%.

Information on shareholders and their holdings of the Company's shares is provided according to the procedure specified in the Polish Act on public offering and the conditions for introducing financial instruments to an organised trading system, and on public companies.

Any information regarding related party transactions is disclosed in accordance with the accounting policies applicable to the Company.

To the best of the Board of Directors' knowledge, the Company did not conclude any commercial contracts and on the upgrade of fixed assets with the Company's shareholders.

Due to the Board of Directors' limited ability to identify the Company's shareholders with stakes entitling them to less than 5% of votes at the AGM, the Board of Directors cannot completely rule out that the Company carried out certain activities with its shareholders holding less shares that the level shown above, particularly in the light of historical knowledge about the holding of small blocks of the Company's shares by suppliers of agricultural products.

15. Depriving a shareholder of their voting rights from the shares held by them in the Company

According to the information available to the Company, due to the breach of the obligation to notify of the acquisition of qualifying holdings pursuant to Article 89(1)(1) of the Polish Act on public offering and the conditions for introducing financial instruments to an organised trading system, and on public companies, the Shareholder has lost and may not exercise its voting rights attached to 21,402,233 shares. The circumstances constituting the basis for the above conclusion were indicated in the lawsuit to assert the legal status filed with the court by the Company's Board of Directors on 25 June 2019.

On behalf of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A.

Wojciech Faszczewski	**Tomasz Krzysztof Rogala**
President of the Board of Directors	*Member of the Board of Directors*