

**Annexe No. 1 to the resolution of the Ordinary General Meeting of Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A. with its registered office in Łomża dated 25 April 2017 on authorisation of the Management Board to acquire the Company's own shares**

**Report of the Management Board of Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A. with its registered office in Łomża dated 29 March 2017 justifying the financing by the Company of the acquisition of own shares, prepared under Article 345 § 6 of the Polish Code of Commercial Companies and Partnerships**

**1. Reasons for or purpose of financing**

The purpose of the financing by the Company of the acquisition of shares issued by the Company is to enable Members of Management Boards and key managers of the Company and its subsidiaries (**the "Authorised Persons"**) to purchase or increase the held block of the Company's shares as part of the performance of the incentive and bonus scheme.

**2. The Company's interest in the financing**

The Company's interest in the financing by the Company of the acquisition of own shares consists in allowing and encouraging for the fullest possible performance of the incentive and bonus scheme, as a result of which key managerial staff of the Pepees Group will be related with the Company by capital, which will constitute a significant factor motivating them for personal involvement in the development of the Group and for continuation of their employment in the Company. The incentive and bonus scheme will allow to connect the interest of the most important managers and employees of the Company and the Pepees Group with accomplishment of defined results corresponding to the development strategy and creation of the value of the Pepees Group. At the same time, the managers' or employees' share capital will be used for stabilisation of the Company's shareholding, since such shareholders usually make long-term investments in shares. Moreover, the circle of shareholders will be expanded, which will have a positive impact on the liquidity of shares. Finally, the Company will gain market remuneration for granting the financing.

**3. Terms of financing, including in the scope of securing the company**

The financing by the Company of the acquisition of own shares will be done under the market conditions at the time of granting financing, including under the following basic terms and conditions:

- a) the maximum number of the Company's shares: 4,750,000 (in words: four million seven hundred and fifty thousand) Own Shares, constituting not more than 5% of the Company's share capital (including the nominal value of any remaining own shares, not disposed of by the Company);
- b) the total value of the financing will not be higher than PLN 5,700,000.00 (in words: five million seven hundred thousand zloty);
- c) entities acquiring shares that may be granted financing by the Company: Authorised Persons (whose list will be approved by the General Meeting) offered by the Company to acquire the Company's own shares as part of the incentive and bonus scheme adopted by the Supervisory Board;
- d) financing of the acquisition of shares may be effected by means of: granting by the Company of a loan to Authorised Persons, deferral of payment of the price or putting into instalments or

establishing by the Company of a security in connection with the financing of the acquisition of shares by Authorised Persons, including in particular a surety or a pledge;

- e) financing by the Company of the acquisition of the Company's shares may be effected only from funds of the capital reserve, created for the purpose of financing by the Company of the acquisition of own shares from the amount that, in compliance with Article 348 § 1 of the Polish Code of Commercial Companies and Partnerships, may be intended for distribution, on the basis of a relevant resolution of the Company's General Meeting, and the total amount of financing will not be higher than the capital reserve;
- f) The Company will grant the financing in exchange for due remuneration, constituting, in the event of the granted loans and the applied procedure for deferral of payment of the price or putting it into instalments, interest in the amount of the WIBOR rate increased by a relevant margin, and in the event of establishing by the Company of securities in connection with the financing of the acquisition of own shares by Authorised Persons, a relevant charge corresponding to a given type of security;
- g) for the purpose of securing the Company's claims due from an Authorised Person in connection with the financing granted by the Company for the purpose of acquisition of its own shares by an Authorised Person, the Authorised Person will establish a relevant security, in particular a surety or submission to execution under Article 777 of the Polish Code of Civil Procedure, depending on the amount of financing;
- h) the Company should verify solvency of the Authorised Person (and its guarantor, if any), in particular by means of confirmation of a lack of overdues towards the Company, verification of the average monthly gross revenue or obtaining a relevant declaration, requiring a declaration on a lack of tax arrears, requiring a copy of the last annual tax return, requiring a certificate from the bank on the balance on the bank account, requiring that a declaration on the title to selected assets be submitted or that the title to selected assets be certified and a declaration on their value be made.

#### **4. The influence of financing on the risk in the scope of financial liquidity and solvency of the Company**

In the opinion of the Management Board, the financing by the Company of the acquisition of its own shares by Authorised Persons will not adversely affect the Company's financial liquidity and solvency. The Company will meet financial conditions for granting the support, since it will have relevant capital reserve established for the purpose of financing by the Company of the acquisition of its own shares from the amount that may be intended for distribution under Article 348 § 1 of the Polish Code of Commercial Companies and Partnerships. Since the financing will be granted for the purpose of payment of the price due to the Company itself for its own shares sold by it, the Company will not dedicate (or it will dedicate for a short period) financial means, because it will be at the same time a beneficiary of the price of its own shares sold by it. The Company expects to obtain a security of its claims on account of the granted financing or deferred price for its own shares or the price put into instalments, which will considerably limit the risk of insolvency of Authorised Persons.

#### **5. Price of acquisition of the Company's shares, including justification that the price is fair**

The price of acquisition of the Company's shares will be a fair price established on the basis of the current price of the Company's shares. Due to the incentive character of the scheme the basis for establishing the price should be the arithmetic mean of the lowest and highest price of the Company's shares as quoted at the Warsaw Stock Exchange on the quotation date directly preceding the date of adoption of a resolution on financing by the Company of the acquisition of its own shares, being at the same time the date of

granting Authorised Persons a right to acquire shares as part and under the terms of the incentive and bonus scheme. However, the price may not be lower than the price of acquisition by the Company of its own shares.

**Wojciech Faszczeński**  
President of the Management Board

**Tomasz Rogala**  
Member of the Management Board