

QUARTERLY FINANCIAL INFORMATION
OF THE PARENT COMPANY
PEPEES S.A. FOR THE PERIOD
FROM 1 JANUARY 2018
TO 31 MARCH 2018

PREPARED IN ACCORDANCE WITH THE
INTERNATIONAL FINANCIAL
REPORTING STANDARDS AS
APPROVED BY THE EUROPEAN
COMMISSION

Łomża, 15 May 2018



**STATEMENT OF FINANCIAL POSITION OF
PRZEDSIĘBIORSTWO PRZEMYSŁU SPOŻYWCZEGO "PEPEES" S.A.**

<i>ASSETS</i>	<i>31.03.2016</i>	<i>31.12.2017</i>	<i>31.03.2017</i>
I Non-current (long-term) assets	120,914	118,847	109,277
1. Property, plant and equipment	90,521	91,659	82,646
2. Intangible assets	207	211	100
3. Investments in subsidiaries	18,632	15,122	9,676
4. Investments in other entities	113	113	113
5. Loans granted	-	-	5,800
6. Long-term advances	8,787	8,979	9,554
7. Deferred tax assets	2,654	2,763	1,388
II Current (short-term) assets	102,195	118,054	87,067
1. Inventories	38,726	56,386	34,515
2. Biological assets	394	-	215
3. Trade receivables	18,342	19,807	19,940
4. Other receivables	703	4,076	1,011
5. Advances	4,191	1,279	2,901
6. Loans granted	9,167	8,381	5,077
7. Other financial assets	90		
8. Investments held for trading	5,742	3,546	2,550
9. Cash and cash equivalents	24,840	24,579	20,858
Total assets	223,109	236,901	196,344

<i>EQUITY AND LIABILITIES</i>	<i>31.03.2016</i>	<i>31.12.2017</i>	<i>31.03.2017</i>
I Equity	143,128	139,112	130,548
1. Share capital	5,700	5,700	5,700
2. Reserve capital and other reserves	121,265	121,265	105,347
3. Revaluation reserve	(172)	(172)	(278)
4. Retained earnings/loss	12,319	-	15,918
5. Profit/loss for the year	4,016	12,319	3,861
II Non-current liabilities	30,870	28,474	20,685
1. Loans and borrowings	14,307	11,248	6,821
2. Liabilities related to leased assets	6,411	7,029	4,221
3. Deferred tax liability	6,109	6,133	5,549
4. Retirement and similar benefits obligations	1,752	1,752	1,701
5. Grants	2,291	2,312	2,393
III Current liabilities	49,111	69,315	45,111
1. Trade payables	5,080	7,552	5,954
2. Current income tax liabilities	402	2,757	669
3. Other current liabilities	3,181	2,626	2,186
4. Loans and borrowings	36,623	52,573	34,155
5. Liabilities related to leased assets	2,316	2,225	1,301
6. Retirement and similar benefits obligations	274	274	236
7. Provisions for other liabilities and other charges	1,235	1,308	610
Total equity and liabilities	223,109	236,901	196,344

**INCOME STATEMENT AND THE STATEMENT OF OTHER COMPREHENSIVE
INCOME OF PRZEDSIĘBIORSTWO PRZEMYSŁU SPOŻYWCZEGO "PEPEES" S.A.**

<i>Revenue and expenses Profit and loss</i>	<i>01.01.2018 - 31.03.2016</i>	<i>01.01.2017 - 31.03.2017</i>
I Sales revenue	40,348	38,878
1. Revenue from the sales of products	38,633	36,040
2. Revenue from the sales of services	164	126
3. Revenue from the sales of trade goods and materials	1,551	2,712
II Cost of sales	(27,585)	(26,743)
1. Cost of products sold	(25,477)	(24,054)
2. Cost of services sold	(86)	(87)
3. Costs of trade goods and materials sold	(1,361)	(2,407)
4. Profit/loss from agricultural production	(661)	(195)
III Gross profit from sales (I-II)	12,763	12,135
1. Selling and marketing expenses	(2,049)	(2,613)
2. Administrative expenses	(4,818)	(4,069)
3. Other operating income	35	67
4. Other operating expenses	(282)	(71)
IV Operating profit	5,649	5,449
1. Finance costs	(696)	(774)
2. Finance income	292	204
V Profit (loss) before tax	5,245	4,879
VI Income tax expense	(1,229)	(1,018)
VII Net profit (loss)	4,016	3,861
VIII Other comprehensive income	-	-
1. Effects of the valuation of financial assets available-for-sale		
2. Revaluation of employee benefit liabilities		
IX Total comprehensive income, including	4,016	3,861
X Net earnings (loss) per share	0.042	0.041

**STATEMENT OF CHANGES IN EQUITY OF
PRZEDSIĘBIORSTWO PRZEMYSŁU SPOŻYWCZEGO "PEPEES" S.A**

	<i>Share capital</i>	<i>Reserve capital</i>	<i>Revaluation reserve</i>	<i>Other reserves</i>	<i>Retained profit/loss</i>	<i>Total equity</i>
As at 1 January 2017	5,700	51,950	(278)	53,397	15,918	126,687
Changes in the first quarter of 2017	-	-	-	-	3,861	3,861
Distribution of profit for 2016						-
Net profit (loss) for the period					3,861	3,861
Other comprehensive income for the year (net)						-
Other changes in equity						-
As at 31 March 2017	5,700	51,950	(278)	53,397	19,779	130,548
Changes in 2017	-	-	106	15,918	(3,599)	12,425
Distribution of profit for 2016				15,918	(15,918)	-
Net profit (loss) for the period					12,319	12,319
Other comprehensive income for the year (net)			106			106
As at 31 December 2017	5,700	51,950	(172)	69,315	12,319	139,112
As at 1 January 2018	5,700	51,950	(172)	69,315	12,319	139,112
Changes in the first quarter of 2018						-
Net profit (loss) for the period					4,016	4,016
Other comprehensive income for the year (net)						-
As at 31 March 2018	5,700	51,950	(172)	69,315	16,335	143,128

**STATEMENT OF CASH FLOWS OF PRZEDSIĘBIORSTWO
PRZEMYSŁU SPOŻYWCZEGO PEPEES S.A.**

	<i>STATEMENT OF CASH FLOWS</i>	<i>For the period 01.01.2018- 31.03.2016</i>	<i>For the period 01.01.2017- 31.03.2017</i>
A.	Cash flows from operating activities - indirect method		
I	Profit (loss) before tax	5,245	4,879
II	Total adjustments	16,440	13,517
1.	Depreciation/Amortisation	2,407	1,580
2.	Foreign exchange (gains) losses	27	
3.	Interest and share of profit (dividend)	332	281
4.	(Profit) loss on investing activities	5	(20)
5.	Net increase/decrease in provisions	(73)	(714)
6.	Net increase/decrease in inventories	17,660	16,440
7.	Net increase/decrease in biological assets	(394)	(57)
8.	Net increase/decrease in receivables	4,838	192
9.	Net increase/decrease in current liabilities, except for loans and borrowings	(1,917)	(836)
10.	Net increase/decrease in prepayments and accruals	(2,720)	(430)
11.	Income tax expense	(3,499)	(3,030)
12.	Net increase/decrease in grants	(21)	(28)
13.	Net increase/decrease in accrued interest on loans and fees and commissions	(185)	
14.	Other adjustments	(20)	139
III	Net cash flows from operating activities	21,685	18,396
B.	Cash flow from investing activities		
I	Proceeds	59	319
1.	Disposal of intangible assets and property, plant and equipment	10	20
2.	Repayments of cash loans	49	299
II	Expenses	7,635	4,395
1.	Acquisition of intangible assets and property, plant and equipment	1,239	1,856
2.	Acquisition of shares and interests	3,510	
3.	Purchase of securities	1,990	
4.	Purchase of property rights	206	
5.	Loans granted	690	2,539
III	Net cash flows from investing activities	(7,576)	(4,076)
C.	Cash flow from financing activities		
I	Proceeds	3,503	430
1.	Loans and borrowings	3,475	198
2.	Received additional payments	28	232
II	Expenses	17,324	15,544
1.	Repayments of loans and borrowings	16,366	14,845
2.	Interest on loans and borrowings	283	281
3.	Lease payments	675	418
III	Net cash flows from financing activities (I-II)	(13,821)	(15,114)
D.	Total net cash flows (A.III+/-B.III+/-C.III)	288	(794)
E.	Balance sheet change in cash, including:	261	20,858
	- net increase/decrease in cash due to foreign exchange differences	27	(4)
	- net increase/decrease in bank overdrafts		
F.	Cash at the beginning of period	24,589	21,652
G.	Cash at the end of period (F+/-D)	24,877	20,858
	- including restricted cash	-	-

SELECTED NOTES

1. Accounting principles

The figures and data for the financial statements for the first quarter of 2018 were prepared with the application of the same accounting principles as those applied in the most recent annual financial statements.

2. Changes in accounting principles and presentations, and correcting errors

The Company did not change accounting policies and did not correct errors from previous periods.

3. Contingent liabilities or contingent assets

a) contingent liabilities

As at the balance sheet date, there is a surety for the loan granted to CHP Energia Sp. z o.o. up to PLN 18,234 thousand.

There may be payables arising from non-competition agreements after termination of employment. Such agreements were concluded with members of the Board of Directors and several employees. In the case of the termination of their employment, the Company must pay damages of ca. PLN 710 thousand.

Encumbrances on property, plant and equipment due to borrowed bank loans:

- contractual mortgage amounting to PLN 14,734 thousand for the benefit of BGŻ BNP PARIBAS;
- general mortgage amounting to PLN 1,596 thousand for the benefit of Bank Polskiej Spółdzielczości;
- general mortgage amounting to PLN 404 thousand for the benefit of Bank Spółdzielczy in Łomża;
- general mortgage amounting to PLN 1,295 thousand for the benefit of Bank Polskiej Spółdzielczości;
- capped mortgage up to PLN 1.197 thousand for the benefit of Bank Polskiej Spółdzielczości;
- capped mortgage up to PLN 880.6 thousand for the benefit of Bank Polskiej Spółdzielczości;
- capped mortgage up to PLN 303 thousand for the benefit of Bank Spółdzielczy in Łomża;
- registered pledge on plant and machinery amounting to PLN 3,465 thousand for the benefit of Bank Spółdzielczy in Łomża;
- registered pledge on property, plant and equipment amounting to PLN 9,812 thousand for the benefit of BGŻ BNP PARIBAS;
- registered pledge on property, plant and equipment amounting to PLN 5,900 thousand for the benefit of Bank Zachodni WBK;
- transfer of ownership of plant and machinery amounting to PLN 1,295 thousand for the benefit of Bank Polskiej Spółdzielczości.

b) contingent assets

Contractual mortgages are established on the assets of subsidiaries (ZPZ Lublin, PPZ Bronisław, GR PONARY) which secure loans granted to PEPEES Group by Bank Zachodni WBK and BP PKO – security up to PLN 83,795 thousand.

PEPEES possesses land under the right of perpetual usufruct with the value resulting from the decision on the annual fee amounting to PLN 10,822 thousand.

4. Related party transactions

The Issuer's transactions with related parties:

Transactions between "PEPEES" S.A. in Łomża and ZPZ "LUBLIN" Sp. z o.o. in Lublin

In the reporting period, the Issuer purchased starch for the production of syrups from the subsidiary. The total value of purchases in ZPZ "LUBLIN" Sp. z o.o. amounted to PLN 525 thousand. In addition, PEPEES sold to LUBLIN starch and maltodextrin for PLN 76 thousand and leases a flakes production line; the rent for one month of the lease is PLN 23.5 thousand.

The selling price is determined using the cost-plus pricing method or on the basis of price lists applicable in transactions with unrelated parties.

As at the balance sheet date, there is a balance of outstanding cash loans amounting to PLN 3 million, on which ZPZ "LUBLIN" paid PLN 31.4 thousand of interest to the Issuer.



Transactions between PEPEES S.A. in Łomża and PPZ BRONISŁAW Sp. z o.o. in Bronisław

Transactions between “PEPEES” S.A. in Łomża with its subsidiary PPZ BRONISŁAW Sp. z o.o. involved the purchase of starch, potato flakes and the storage service from the subsidiary. The total value of purchases from PPZ BRONISŁAW Sp. z o.o. amounted to PLN 1.320 thousand.

In addition, as at the balance sheet date, there is a balance of outstanding cash loans amounting to PLN 2,007 thousand, on which PPZ BRONISŁAW paid PLN 21 thousand of interest to the Issuer.

Transactions between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o.

In the reporting period, the Issuer purchased from CHP Energia, fertilisers and services, and paid an advance on account of the purchase of property rights. The total value of purchases amounted to PLN 364.8 thousand.

As at the balance sheet date, there is a balance of outstanding cash loans amounting to PLN 2,697 thousand and of receivables amounting to PLN 853 thousand.

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

On 4 January 2018, the Company purchased from shareholders the third block of shares of Gospodarstwo Rolne Ponary sp. z o.o. and become the sole owner of shares in Ponary. In the reporting period, there were no other transactions with shareholders, or members of the management personnel and their family members.



5. Sureties and guarantees

In the reporting period, PEPEES did not grant any sureties or guarantees. As at the balance sheet date, there is a loan surety up to PLN 18,234 thousand granted to CHP Energia.

There may be payables arising from non-competition agreements after termination of employment. Such agreements were concluded with members of the Board of Directors and several employees. In the case of the termination of their employment, the Company must pay damages of ca. PLN 710 thousand.

There are no unresolved litigations as at the balance sheet date.

SIGNATURES OF ALL MEMBERS OF THE BOARD OF DIRECTORS

Date	Name	Title/Function	Signature
15.05.2018	Wojciech Faszczewski	President of the Board of Directors	
15.05.2018	Tomasz Rogala	Member of the Board of Directors	

SIGNATURE OF THE PERSON WHO PREPARED THE FINANCIAL STATEMENTS

Date	Name	Title/Function	Signature
15.05.2018	Wiesława Załuska	Chief Accountant	