

**Supplementary report to the opinion from the audit of  
the financial statements of the company  
Przedsiębiorstwo Przemysłu Spożywczego  
PEPEES S.A.**

**for the financial year ended on  
31 December 2016**

## **I. GENERAL PART**

### **1. The Company's description and general information**

Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. with its registered office in Łomża, at ul. Poznańska 121, was established by virtue of a notarial deed dated 21 June 1994, Notarial Record Book A 14126/94. The company was registered, on 28 August 2001, in the Register of Entrepreneurs of the National Court Register under number 000038455, in the District Court, XII Economic Division of the National Court Register in Białystok.

The tax and statistical registration is as follows:

NIP [Tax ID No.] 7181005512      REGON [Company Stat. ID No.]:      450096365

The Company's core business, according to the Company's Articles of Association, is potato processing.

The share capital as at 31 December 2016 amounts to PLN 5,700 thousand and is divided into 95,000 thousand ordinary shares with the nominal value of PLN 0.06 per share.

As at 31 December 2016, the following shareholders held directly or indirectly at least 5% of the voting rights of the Company:

- Mr Maksymilian Maciej Skotnicki	20.67%
- Mr Michał Skotnicki	11.26%
- Mr Newth Jonathan Reginald	8.42%
- Mr Krzysztof Borkowski (indirectly through, among others, Mazowiecka Korporacja Finansowa sp. z o.o.)	8.34%
- Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	6.73%
- Richie Holding Ltd.	6.46%
- Mazowiecka Korporacja Finansowa Sp. z o.o.	5.68%

As at 31 December 2016, the Company's equity amounted to PLN 126,687 thousand.

As at 31 December 2016, which is the last day of the financial year, the composition of the Board of Directors was as follows:

- Mr Wojciech Faszczewski – President of the Board of Directors
- Mr Tomasz Rogala – Member of the Board of Directors

Mr Krzysztof Homenda resigned from his membership of the Board of Directors as of 1 June 2016. On 14 October 2016, the Supervisory Board adopted the resolution to appoint Mr Tomasz Rogala as Member of the Board of Directors.

As at 31 December 2016, which is the last day of the financial year, the composition of the Supervisory Board was as follows:

- Mr Maciej Kaliński – Chairman
- Mr Piotr Taracha – Vic-Chairman
- Mr Krzysztof Stankowski – Secretary
- Mr Robert Malinowski – Member
- Ms Agata Czerniakowska – Member

On 19 May 2016, by virtue of the resolution of the Annual General Meeting of Shareholders, Ms Agata Czerniakowska was appointed a Member of the Supervisory Board. On 29 December 2016, Mr Piotr Łuniewski resigned from his membership of the Supervisory Board.

Average employment during the financial year was 271 employees.

The audited financial statements comprise:

- the statement of financial position as at 31 December 2016 showing total assets and total equity and liabilities of PLN 210,962 thousand;
- the statement of comprehensive income for the financial year from 1 January 2016 to 31 December 2016 showing net profit of PLN 15,918 thousand and positive total comprehensive income of PLN 16,031 thousand;
- the statement of changes in equity for the financial year from 1 January 2016 to 31 December 2016 showing an increase in equity by PLN 16,031 thousand;
- the statement of cash flows for the period from 1 January 2016 to 31 December 2016 showing positive cash flows of PLN 6,089 thousand;
- a summary of adopted accounting policies and other explanatory notes.

The Company prepared its separate financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Company is the parent company in the Group and, as at 31 December 2016, prepared the consolidated financial statements of PEPEES S.A. Group.

The audited financial statements comprise data for the period from 1 January 2016 to 31 December 2016.

The closing balance for 2015 was entered into books of account as the opening balance as at 1 January 2016.

The financial statements for the previous financial year ended on 31 December 2015, approved by virtue of the resolution of the General Meeting of Shareholders held on 19 May 2016, was filed with the National Court Register on 25 June 2016.

At the same time, the General Meeting of Shareholders decided to allocate the total net profit for the year ended on 31 December 2015 of PLN 5,917 thousand to reserves.

The financial statements for the previous financial year were audited by Mazars Audyt sp. z o.o., which issued an unqualified opinion.

Mazars Audyt sp. z o.o. was appointed by the Supervisory Board on 5 July 2016 as the Registered Auditor to perform the audit for the financial year ended on 31 December 2016. The audit was conducted by Mazars Audyt sp. z o.o., address: ul. Piękna 18, 00-549 Warsaw, which is Registered Audit Company No. 186, pursuant to the agreement of 20 July 2016. The audit was conducted at the Company's registered office in August 2016 and in March 2017.

Mazars Audyt Sp. z o.o., the members of its Board of Directors and other persons participating in the audit of the financial statements of the Company meet the requirement of independence within the meaning of Article 56 Clause 3 of the Act on registered auditors and their self-government, registered audit companies and on public supervision.

## **2. Information about the registered auditor's opinion**

Based on the audit of the separate financial statements of the Company prepared as at 31 December 2016 and for the period then ended, on 17 March 2017, we issued an unqualified opinion.

**II. ANALYTICAL PART****1. Major absolute values characterising the entity**

PLN 000s

<b>Statement of comprehensive</b>	<b>1.01.2016-</b>	<b>1.01.2015</b>	<b>1.01.2014 -</b>
<b>Statement of financial position</b>	<b>31.12.2016</b>	<b>31.12.2015</b>	<b>31.12.2014</b>

## 2. Performance ratios

Trade receivables			
Receivables Turnover = $\frac{\text{Revenue from the sales of products and trade goods}}{\text{Trade receivables}} \times 365$	51 days	52 days	44 days
Trade payables			
Liabilities Turnover = $\frac{\text{Revenue from the sales of products and trade goods}}{\text{Trade payables}} \times 365$	16 days	22 days	33 days
Inventory of products, trade goods and materials			
Inventory Turnover = $\frac{\text{Costs of sold products, trade goods and materials}}{\text{Inventory of products, trade goods and materials}} \times 365$	181 days	194 days	230 days

## 3. Liquidity ratios

	2016	2015	2014
Current Ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$	1.6	1.5	1.5
Quick Ratio = $\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$	0.8	0.8	0.5

#### 4. Profitability ratios

Profit before tax			
Return on Sales = -----* 100 %	13.9 %	7.0%	5.0%
Sales revenue			
Net profit			
Return on Total Assets =----- * 100%	7.5%	3.0%	2.2%
Total assets			
Operating profit			
Operating Return on Assets = -----* 100%	9.4 %	3.7%	2.5%
Total assets			
Net profit			
Return on Equity = -----* 100%	12.6 %	5.3%	3.5%
Total equity			

In our opinion, the results of the audit of the financial statements of the Company as at 31 December 2016 and the analysis of the above ratios, taking into account all the information available to us on the date of this report and opinion, indicate that the Company will continue as a going concern for the period of 12 months from the date of these financial statements.

### **III. DETAILED PART**

#### **1. Information about the audit and the accounting organisation**

##### **1.1. The legal basis for the audit**

The audit was conducted on the basis of, among other things:

- a) the Accounting Act of 29 September 1994 (Journal of Laws *[Dziennik Ustaw]* of 2013, item 1047, as amended);
- b) the Act of 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of of Laws *[Dziennik Ustaw]* of 2015, item 1011, as amended);
- c) the Polish Commercial Code of 15 September 2000 (Journal of Laws *[Dziennik Ustaw]* No. 94, item 1037, as amended);
- d) the National Standards of Auditing in the version of the International Standards on Auditing as adopted by Resolution No. 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015 with subsequent amendments;
- e) the International Auditing Standards.

##### **1.2. The assessment of the accuracy of the applied accounting system**

The entity's accounting is performed in accordance with the adopted accounting policy. Adopted principles are adapted to the entity's situation and needs.

The books of account are kept at the Company's registered office and reflect the accounting transactions in a documented way and in compliance with the applicable accounting principles.

The Company's books of account were kept in a computer in compliance with the statutory requirements of Article 13 Clauses 4 and 5 of the Polish Accounting Act.

The data from the approved balance sheet as at 31 December 2015 became the basis for the opening of the books of account.

Pursuant to the Polish Accounting Act, the Company carried out the inventory count of assets as well as equity and liabilities, which was accounted for and recognised in the books of account for the financial year.

The method of storing and protecting the accounting records, the books of account and financial statements complies with the requirements of Article 71 of the Polish Accounting Act.

## **2. Information about certain significant items of the financial statements**

### **2.1. Non-current assets**

#### **2.1.1. Property, plant and equipment**

As at 31 December 2016, the property, plant and equipment amounted to PLN 82,319 thousand. The balance comprises mainly buildings and structures of the net amount of PLN 51,390 thousand, and plant and machinery amounting to PLN 19,154 thousand.

The Company has the right of perpetual usufruct of land with the value of PLN 10,822 thousand, which, in accordance with adopted accounting principles, is recognised in off-balance-sheet records.

Assets under construction amounted to PLN 8,684 thousand and comprised mainly the expenditure on the upgrade of buildings, production plant and machinery.

#### **2.1.2. Loans granted**

The balance of loans granted as at 31 December 2016 was PLN 8,576 thousand, including the long-term portion amounting to PLN 5,500 thousand.

- PPZ Bronisław Sp. z o.o. - PLN 4,673 thousand;
- ZPZ Lublin Sp. z o.o. - PLN 3,011 thousand;
- CHP Energia Sp. z o.o. - PLN 710 thousand;
- other entities - PLN 182 thousand.

The balance of the loans was confirmed as at the balance sheet date.

### **2.2. Current assets**

### **2.2.1. Inventories**

As at the balance sheet date, i.e. 31 December 2016, the inventory amounted to PLN 50,955 thousand and comprised mainly the inventory of finished products amounting to PLN 41,749 thousand. As at the balance sheet date, the inventory was subject to a write-down amounting to PLN 182 thousand.

The Company carried out the inventory count of the inventory within the statutory time limits.

### **2.2.2. Trade receivables**

At the balance sheet date, i.e. 31 December 2016, trade receivables amounted to PLN 19,897 thousand and were subject to a write-down amounting to PLN 253 thousand.

The balance of trade receivables as at 31 December 2016 was confirmed in 87% with a written confirmation of balances and payments after the balance sheet date.

### **2.2.3. Cash**

The balance of this item as at the balance sheet date amounting to PLN 21,648 thousand comprises cash at bank and term deposits.

The balance of cash at bank was confirmed in writing by respective banks.

## **2.3. Equity and liabilities**

### **2.3.1. Equity**

As at 31 December 2016, the share capital amounted to PLN 5,700 thousand.

The Company's share capital complies with the Company's Articles of Association and the valid copy from the National Court Register.

Pursuant to the resolution of the General Meeting of Shareholders held on 19 May 2016, net profit for 2015 was allocated to reserves.

### **2.3.2. Loans and borrowings**

The Company's liabilities due to loans and advances as at 31 December 2016 amounted to PLN 55,613 thousand, including the long-term portion amounting to PLN 6,939 thousand. These liabilities were confirmed in writing by respective banks as at the balance sheet date.

#### **2.4. Statement of comprehensive income**

The management of the audited entity adapted the principles of recording particular items of the statement of comprehensive income to the specific nature of the business.

The statement of comprehensive income showing positive income of PLN 16,031 thousand was correctly presented in relation to the books of account.

Sales revenue was, in all material respects, properly accounted for in the audited financial year and comprises the sale of products, trade goods, materials and services amounting to PLN 143,767 thousand.

Domestic sales accounted for 59% of the total sales revenue.

The costs of sold products, trade goods and materials of PLN 102,857 thousand reflect, in all material respects, the actual business transactions.

Administrative expenses amounted to PLN 14,945 thousand and comprised mainly the costs of salaries and wages, of the depreciation of general-purpose facilities, and of taxes.

Other operating income comprises mainly the revenue from the disposal of property, plant and equipment amounting to PLN 1,135 thousand and the settlement of grants amounting to PLN 319 thousand.

Finance income comprises mainly interest on granted loans of PLN 641 thousand.

Finance costs comprise mainly the interest on loans and advances of PLN 470 thousand.

#### **2.5. A summary of adopted accounting policies and other explanatory notes to the financial statements**

A summary of adopted accounting policies and other explanatory notes to the financial statements for the year ended on 31 December 2016 have been prepared, in all material respects, in accordance with the International Financial Reporting Standards as adopted by the European Union.

The disclosed information complies, in all material respects, with the books of account.

## **2.6. The statement of cash flows and the statement of changes in equity**

Pursuant to the International Financial Reporting Standards, the audited entity is required to prepare the statement of cash flows and the statement of changes in equity.

The statement of cash flows and the statement of changes in equity have been, in all material respects, presented correctly in relation to the statement of financial position and the statement of comprehensive income.

## **2.7. The Directors' Report on the Company's operations in the financial year**

The information contained in the Board of Directors' report for the audited financial year, in the part concerning the data contained in the books of account, is consistent with the information disclosed in the financial statements as at 31 December 2016.

The said report complies with Article 49 of the Polish Accounting Act and with the Decree of the Polish Minister of Finance dated 19 February 2009 on Current and Periodic Information Published by Issuers of Securities and Conditions for Recognition as Equivalent the Information Required by Laws of Non-EU Member States (Journal Laws [*Dziennik Ustaw*] of 2014, item 133, as amended).

## **IV. CLOSING REMARKS**

This report contains 11 consecutively numbered pages. The Appendix containing the financial statements of Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A. prepared as at 31 December 2016 in accordance with the International Financial Reporting Standards is an integral part of this report.

On behalf of  
Mazars Audyt sp. z o.o. No. 186  
Warsaw, ul. Piękna 18



Dominik BORKOWSKI

*[signature]*

Key Registered Auditor  
No. 12183

A handwritten signature in blue ink, appearing to be 'DBorkowski', written over a horizontal line.

Partner

Warsaw, 17 March 2017

**Financial statements of PEPEES S.A.  
prepared as at 31 December 2016  
according to IAS/IFRS**

**Appendix No. 1**