PRZEDSIĘBIORSTWO PRZEMYSŁU SPOŻYWCZEGO “PEPEES” S.A.

FINANCIAL STATEMENT

FOR 2017
(01.01.2017 - 31.12.2017)

DRAWN UP IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS IN A VERSION APPROVED BY THE EUROPEAN UNION

28 March 2018

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in thousands of zlotys

REPORT ON THE FINANCIAL CONDITION OF PRZEDSIĘBIORSTWO PRZEMYSŁU SPOŻYWCZEGO "PEPEES" S.A.

	ASSETS	*Note*	*As at 31.12.2017*	*As at 31.12.2016*
I	**Fixed assets (long-term)**		**118,847**	**109,056**
1	Tangible fixed assets	6.1	91,659	82,319
2	Intangible assets	6.2	211	298
3	Investments in subsidiaries	6.3	15,122	9,676
4	Investments in other entities	6.4	113	113
5	Loans granted	6.13	-	5,500
6	Long-term advances	6.12	8,979	9,649
7	Deferred income tax assets	6.23	2,763	1,501
II	**Current assets (short-term)**		**118,054**	**101,906**
1	Inventory	6.5	56,386	50,955
2	Biological assets	6.6	-	158
3	Trade receivables	6.8	19,807	19,897
4	Other receivables	6.9	4,076	1,246
5	Advances	6.12	1,279	2,376
6	Loans granted	6.13	8,381	3,076
7	Investments intended for trading	6.4	3,546	2,550
8	Cash and cash equivalents	6.14	24,579	21,648
	Total assets		**236,901**	**210,962**

	LIABILITIES		*As at 31.12.2017*	*As at 31.12.2016*
I	**Equity**		**139,112**	**126,687**
1	Share capital	6.15	5,700	5,700
2	Supplementary and reserve capital	6.16	121,265	105,347
3	Revaluation capital		(172)	(278)
4	Retained earnings from previous years and current year	6.17	12,319	15,918
II	**Long-term liabilities**		**28,474**	**20,748**
1	Credits and loans	6.18	11,248	6,939
2	Liabilities ensuing from assets in leasing	6.21	7,029	4,137
3	Provision for deferred income tax	6.23	6,133	5,550
4	Liabilities ensuing from old age pension and similar benefits	6.19	1,752	1,701
5	Subsidies	6.22	2,312	2,421
III	**Short-term liabilities**		**69,315**	**63,527**
1	Trade liabilities	6.20	7,552	6,353
2	Current tax liabilities		2,757	2,794
3	Other short-term liabilities	6.20	2,626	2,623
4	Credits and loans	6.18	52,573	48,674
5	Liabilities ensuing from assets in leasing	6.21	2,225	1,523
6	Liabilities ensuing from old age pension and similar benefits	6.19	274	236
7	Provisions for other liabilities and encumbrances	6.22	1,308	1,324
	Total liabilities		**236,901**	**210,962**

in thousands of zlotys

STATEMENT OF COMPREHENSIVE INCOME

OF PRZEDSIĘBIORSTWO PRZEMYSŁU SPOŻYWCZEGO "PEPEES" S.A.

	Revenues and expenses Profits and losses	*Note*	*For the period 01.01.2017-31.12.2017*	*For the period 01.01.2016-31.12.2016*
I	**Revenues from sales, including:**		**162,454**	**143,767**
1	Revenues from sales of products	7.1	141,142	123,331
2	Revenues from sales of services	7.2	792	675
3	Revenues from sales of goods and materials	7.3	20,520	19,761
II	**Cost of products, goods and materials sold, including:**		**(113,368)**	**(102,857)**
1	Cost of products sold	7.4	(92,220)	(82,812)
2	Cost of services sold	7.4	(361)	(365)
3	Cost of goods and materials sold		(19,358)	(18,192)
4	Result on agricultural production	7.6	(1,429)	(1,488)
III	**Gross profit on sales (I-II)**		**49,086**	**40,910**
1	Costs of sales and marketing	7.4	(10,017)	(7,622)
2	General and administrative costs	7.4	(19,366)	(14,945)
3	Other operating revenues	7.7	493	1,699
4	Other operating expenses	7.8	(628)	(209)
IV	**Operating profit**		**19,568**	**19,833**
1	Financial expenses	7.9	(4,833)	(904)
2	Financial revenues	7.10	937	1,052
V	**Pre-tax profits**		**15,672**	**19,981**
VI	**Income tax**	7.11	(3,353)	(4,063)
VII	**Net profit**		**12,319**	**15,918**
VIII	**Other net comprehensive income**		**106**	**113**
1	Effects of valuation of financial assets available for sale			
2	Revaluation of employee benefits liabilities		106	113
IX	**Total net comprehensive income**		**12,425**	**16,031**

in thousands of zlotys

STATEMENT OF CHANGES IN EQUITY

OF PRZEDSIĘBIORSTWO PRZEMYSŁU SPOŻYWCZEGO "PEPEES" S.A.

	Share capital	*Supplementary capital*	*Revaluation capital*	*Other reserve capital*	*Retained earnings*	*Total equity*
As at 1 January 2016	**5,700**	**51,950**	**(391)**	**47,480**	**5,917**	**110,656**
Changes in the period from 01.01.2016 to 31.12.2016						
Distribution of profit for 2015				5,917	(5,917)	**-**
Net profit (loss) for the financial year					15,918	**15,918**
Other comprehensive income for the financial year (net)			113			**113**
As at 31 December 2016	**5,700**	**51,950**	**(278)**	**53,397**	**15,918**	**126,687**
As at 1 January 2017	**5,700**	**51,950**	**(278)**	**53,397**	**15,918**	**126,687**
Changes in the period from 01.01.2017 to 31.12.2017						
Distribution of profit for 2016				15,918	(15,918)	**-**
Net profit (loss) for the period					12,319	**12,319**
Other comprehensive income for the financial year (net)			106			**106**
As at 31 December 2017	**5,700**	**51,950**	**(172)**	**69,315**	**12,319**	**139,112**

in thousands of zlotys

CASH FLOW STATEMENT
OF PRZEDSIĘBIORSTWO PRZEMYSŁU SPOŻYWCZEGO "PEPEES" S.A.

Description	**Note**	***For the period 01.01.2017-31.12.2017***	***For the period 01.01.2016-31.12.2016***
A. Cash flow from operating activities	8		
I. Pre-tax profit (loss)		**15,672**	**19,981**
II. Total adjustments		**397**	**(7,758)**
1. Depreciation		6,595	6,117
2. Exchange gains (losses)		7	4
3. Interest and profit sharing (dividends)		624	544
4. Profit (loss) on investment activities		2,764	(1,135)
5. Change in provisions		73	(499)
6. Change in inventory		(5,431)	(6,763)
7. Change in biological assets		158	14
8. Change in receivables		(2,740)	(3,044)
9. Change in short-term liabilities		1,202	952
10. Change in advances		1,767	(586)
11. Income tax paid		(4,094)	(2,467)
12. Change in subsidies		(109)	(127)
13. Subsidies received		(456)	(795)
14. Other adjustments		37	27
III. Net cash flow from operating activities (I+/-II)		**16,069**	**12,223**
B. Cash flow from investment activities			
I. Inflows		**7,562**	**7,079**
1. Sale of intangible and tangible fixed assets		3,379	2,211
2. Dividends received		122	122
3. Loan repayment		4,061	4,746
II. Outflows		**26,166**	**15,158**
1. Purchase of intangible and tangible fixed assets		13,430	8,873
2. Purchase of shares		8,321	5,110
3. Purchase of securities		996	
4. Loans granted		3,419	1,175
III. Net cash flow from investment activities (I-II)		**(18,604)**	**(8,079)**
C. Net cash flow from financial activities			
I. Inflows		**57,349**	**48,492**
1. Credits and loans		56,893	47,697
2. Subsidies received		456	795
II. Outflows		**51,877**	**46,547**
1. Repayment of credits and loans		48,718	44,281
2. Interest on credits and loans		746	666
3. Payment of liabilities arising from lease agreements		2,413	1,600
III. Net cash flow from financial activities (I-II)		**5,472**	**1,945**
D. Total net cash flow (A.III+/-B.III+/-C.III)		**2,937**	**6,089**
E. Balance sheet change in cash, including:		**2,931**	**(1,774)**
- change in cash due to exchange differences		6	4
- change in credits in current account			7,859
F. Cash - opening balance		**21,652**	**15,563**
G. Cash - closing balance (F+/-D)	8.1	**24,589**	**21,652**
- *including of limited disposability*		-	-

SELECTED FINANCIAL FIGURES CONVERTED TO EUR

NO.	SELECTED FINANCIAL FIGURES	IN THOUSANDS OF PLN		IN THOUSANDS OF EUR	
		2017	2016	2017	2016
I	Total revenues from sales	162,454	143,767	38,272	32,856
II	Net profit	12,319	15,918	2,902	3,638
III	Net comprehensive income	12,425	16,031	2,927	3,664
IV	Net cash flow from operating activities	16,069	12,223	3,786	2,793
V	Net cash flow from investment activities	(18,604)	(8,079)	(4,383)	(1,846)
VI	Net cash flow from financial activities	5,472	1,945	1,289	445
VII	Total net cash flow	2,937	6,089	692	1,392
VIII	Total assets	236,901	210,962	56,799	47,686
IX	Equity	139,112	126,687	33,353	28,636
X	Profit (loss) per share	0.13	0.17	0.03	0.04
XI	Net comprehensive income per share	0.13	0.17	0.03	0.04
XII	Book value per share	1.46	1.33	0.35	0.30

To convert selected financial figures to euro the following exchange rates published by the National Bank of Poland were used:
- selected items of the report on the financial condition as at 31.12.2017 according to the average exchange rate in effect on the balance sheet date 1 EUR = 4.1709 PLN,
- selected items of the report on the financial condition as at 31.12.2016 according to the average exchange rate in effect on the balance sheet date 1 EUR = 4.4240 PLN,
- selected items of the statement of comprehensive income and of the cash flow statement for the period from 01.01.2017-31.12.2017 according to the average exchange rate constituting the arithmetic mean of the average exchange rates published by the National Bank of Poland in effect on the last day of each month of 2017 - 1 EUR = 4.2447 PLN.
- selected items of the statement of comprehensive income and of the cash flow statement for the period from 01.01.2016-31.12.2016 according to the average exchange rate constituting the arithmetic mean of the average exchange rates published by the National Bank of Poland in effect on the last day of each month of 2016 - 1 EUR = 4.3757 PLN.

in thousands of zlotys

INFORMATION ABOUT THE ADOPTED ACCOUNTING PRINCIPLES AND OTHER EXPLANATORY NOTES TO THE FINANCIAL STATEMENT as at 31 December 2017

1. General information

Full name	Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" Spółka Akcyjna
Address of the registered office	18-402 Łomża, ul. Poznańska 121
	REGON: 450096365
TIN	718-10-05-512
Registration body	District Court in Białystok, 12th Commercial Department of the National Court Register
Registration number	000038455
Legal form	Joint-stock company
Organizational form	Single-plant enterprise

Core line of business - processing of potatoes

Sector - food

Duration - unlimited

Reporting period - from 1 January to 31 December 2017 and comparative data for the analogical period of the preceding year

Composition of the Management Board as at 31.12.2017:
Wojciech Faszczewski - President of the Management Board
Tomasz Rogala - Member of the Management Board.

Composition of the Supervisory Board as at 31.12.2017:
1. Maciej Kaliński - Chairman of the Supervisory Board
2. Piotr Marian Taracha - Deputy Chairman of the Supervisory Board
3. Krzysztof Stańkowski - Secretary of the Supervisory Board
4. Robert Malinowski - Member of the Supervisory Board
5. Agata Czerniakowska - Member of the Supervisory Board

The Audit committee was appointed by the resolution of the Supervisory Board of 1 August 2017 and is composed of:
1. Maciej Kaliński - Chairman
2. Piotr Taracha - Deputy Chairman
3. Krzysztof Stańkowski - Member.

Such composition was valid as at 31 December 2017.

The financial statement does not contain combined data because PEPEES is a single-plant enterprise.

PEPEES S.A. is a parent company and draws up a consolidated financial statement.

This statement was drawn up under the assumption of a going concern in the foreseeable future. There are no circumstances indicative of a threat to the going concern over a period of at least 12 months from the date the financial statement was drawn up.

2. Significant accounting principles

2.1. Basis for drawing up the financial statement

The financial statement was drawn up in accordance with the International Accounting Standards, International Financial Reporting Standards and the related interpretations published in the form of regulations of the European Commission and the adopted accounting principles (policy).
The financial statement is presented in thousands of zlotys, unless data are presented with more accuracy in specific cases.

2.2. Changes in the accounting principles

The Company did not change the previously used accounting principles.

2.3. Adjustment of errors from previous periods

There were no adjustments of errors from previous periods.

2.4. Declaration of compliance

This financial statement was drawn up in accordance with the International Accounting Standards IAS), International Financial Reporting Standards (IFRS) and the related interpretations published in the form of regulations of the European Commission.

2.5. Conversion of items expressed in foreign currencies

The functional (valuation) currency and the presentation currency of PEPEES S.A. is Polish zloty. Cash assets and liabilities expressed in foreign currencies were converted as at the balance sheet date at the exchange rate of the bank whose services the Company uses. All FX differences are recognized in the statement of comprehensive income for the given period.

2.6. 2.6. Segment reporting

The Company is involved in the production and sale of starch and hydrolysate. Due to the concentration of the Company's business on a single type of activity and single geographical area, it has a single reporting segment "processing of potatoes". One segment is identified in the daily records and in internal reports.
This statement discloses information in accordance with sections 32-34 of IFRS 8.

2.7. Tangible fixed assets

The moment the Company switched to IAS, it adopted the fair value of fixed assets valued by the assessor as the assumed cost.
Tangible fixed assets under construction generated for production, rental or administrative purposes as well as for purposes that have not been defined yet are presented in the report on financial condition as manufacturing cost less impairment write-downs. The manufacturing cost is increased by fees and, for specific assets, by the costs of external financing. The Company uses linear depreciation. Depreciation concerning fixed assets starts the moment they are put to use. Depreciation is calculated for all fixed assets, excluding land and fixed assets under construction, over the estimated period of actual use of these assets, using a linear method. The usage periods for each group of assets look as follows:

- buildings and structures 10-30 years
- machines and equipment 2 - 20 years
- vehicles 3 - 5 years
- fixed equipment and fittings 2 - 11 years

The usage periods were verified and updated as at the balance sheet date.
The Company, using a principle of materiality, recognizes fixed assets with initial value up to PLN 2,000 one-off to the income statement in the period in which the expense was incurred.

2.8. Intangible assets

The intangible assets are recognized if it is probable that in the future they will cause an inflow of economic benefits to the Company, which may be directly related to those assets. The Company does not possess intangible assets whose period of usage is not specified.

As at the balance sheet date intangible assets are valued at cost less depreciation allowances and potential impairment write-downs.

(a) Trademarks and licenses

Trademarks and licenses have limited (completed) periods of economic lifetime and are recognized in the report on the financial condition at historical cost less amortization made up to now. Depreciation is calculated using a linear method to spread the cost over the estimated period of economic lifetime (2-10 years).

(b) Software

Purchased software licenses are capitalized as the value of the costs incurred on buying and preparing specific software for use. Capitalized costs are written off over the estimated period of economic lifetime (2-10 years).
The costs associated with the development or maintenance of the software are recognized under costs the moment they are incurred.

(c) Emission rights

The rights to emit CO_2 are recognized as intangible assets which are not depreciable but which are subject to analysis in terms of impairment.
The emission allowance units purchased are recognized at purchase price whereas units received for free are recognized at face value, i.e. zero value.
A provision charged to the costs of core business is established during the reporting period for the estimated CO_2 emission.
Based on the verified annual report referred to in Article 57 par. 3 of the Emission Trading Act, the used and amortized emission rights are excluded from the records. The emission right outgoings are recognized on a FIFO basis.

2.9. Right of perpetual usufruct to land

Pursuant to the adopted accounting principles (policy), the Company recognizes the decision on the basis of which it perpetually uses land as an agreement fulfilling the criteria of an operational lease agreement in accordance with IAS 17. Due to the above, the fair value of the right of perpetual usufruct to land on which the Company's buildings or structures are located is not presented under fixed assets. Information about the perpetually used land and the fair value of the right is presented in note 11 to the financial statement.

If such rights were acquired on the secondary market, they would be presented as intangible assets and depreciated over the expected usage period.

2.10. Investment properties

Investment properties are properties which are considered to be a source of income from rent or/and are kept due to the expected rise in their value.
Investment properties as at the day a switch to IAS was made are valued at fair value and this value is used as the anticipated cost. Every new property is valued at purchase price or manufacturing cost.
Depreciation is calculated over the estimated period of economic lifetime of these assets, using a linear method. Land is not depreciated.
Gains or losses ensuing from sale (liquidation) of investment properties are defined as a difference between revenues from sales and the balance sheet value of those items and are recognized in the statement of comprehensive income.
As at the balance sheet date the Company did not possess any investment properties.

2.11. Investments

All investments are initially recognized at purchase price corresponding to the fair value of the payment made, covering the costs associated with the purchase of the investment.

Investments in subsidiaries and other entities are valued in accordance with IAS 27 *Separate financial statement,* less the impairment write-downs in accordance with IAS 36 *Impairment of assets,* where the impairment is valued by comparing the balance sheet value with the higher of the two amounts:

- fair value, less the costs to sell and
- value in use.

Financial assets available for sale and financial assets disclosed at fair value, with the gains or losses disclosed in the statement of comprehensive income, are disclosed after initial recognition at fair value. Loans and receivables and investments kept until maturity date are disclosed at adjusted purchase price (depreciated expense) using an effective interest rate method. Realized and unrealized gains and losses ensuing from changes in the fair value of financial assets disclosed at fair value are recognized in the statement of comprehensive income for the period in which they occurred.
Shares in “Warszawski Rolno-Spożywczy Rynek Hurtowy” were classified under investments intended for trade and valued at purchase price.

On every balance sheet date the Company evaluates whether there is objective evidence that an element of financial assets or a group of financial assets became impaired.

2.12. Inventory
Inventory is recognized at purchase price or manufacturing cost not higher than the net sales price. The cost of finished products and production in progress covers raw materials, direct labour, other direct costs and the related sectoral costs of production (based on normal production capabilities) but does not cover the costs of external financing. Inventory of materials and goods is valued using a weighted average method.
As at the balance sheet date the valuation of the inventory is performed on the prudence basis, i.e. at purchase price or obtainable sales price, depending on which one is lower. The net sales price corresponds to the estimated sales price less all costs necessary to finish production and costs of causing the inventory to be sold or to find customers (i.e. costs of sales, marketing, etc.). If the purchase price is higher than the obtainable sales price, the Company makes write-downs charged to the costs of products sold.

2.13. Biological assets
The Company has been renting a farm since March 2014 where it cultivates one-year plants such as potatoes, broad beans and grain. Elements of biological assets are valued the moment of initial recognition and at the end of each reporting period at fair value less costs of sales, taking into account the degree of ripeness of plants.

2.14. Short and long-term receivables
Trade receivables whose maturity date is 180 days are recognized and disclosed at initially invoiced amounts, taking into account impairment write-downs. Write-downs on trade receivables are made when there is objective evidence that the Company will not be able to receive all due amounts ensuing from initial conditions of receivables. Write-downs on receivables are charged to other operating expenses. The Company makes write-downs based on the age structure and analysis of the credit risk associated with the given debtor. Receivables whose payment term is more than 180 days are valued at adjusted purchase price (depreciated expense) using an effective interest rate method.

2.15. Transactions in foreign currency
Transactions expressed in currencies other than Polish zloty are converted to Polish zlotys using the exchange rate in effect on the day the transaction is concluded.
As at the balance sheet date cash, bank credits and other assets and liabilities expressed in currencies other than Polish zloty are converted to Polish zlotys using the exchange rate of the bank servicing the Company. The FX differences resulting from the conversion are recognized accordingly under financial revenues or expenses.

2.16. Cash and cash equivalents
Cash and cash equivalents include cash in hand, bank deposits held at call, other short-term investments with an initial maturity date up to three months and with high liquidity, and credit in current account. The credit in current account is presented in the report on the financial condition as an element of short-term credits and loans as part of short-term liabilities.

2.17. Advances

When incurring expenses thanks to which it is anticipated that economic benefits will be gained over several financial periods, and their relation to the revenues can be determined only generally and indirectly, the costs are recognized in the statement of comprehensive income by way of systematic and rational spread over time. The costs are recognized immediately in the statement of comprehensive income if the incurred expenses do not yield any future economic benefits.

2.18. Equity

The equity is recognized at value stipulated in the Company's articles of association entered in the National Court Register. The supplementary capital is established in accordance with the Company's articles of association or shareholders' agreement and the Commercial companies code, which stipulate that it can be increased by:

- allocating a part of the net profit,
- transferring the surpluses achieved on the issue of shares over their face value,
- shareholders' contributions in return for awarding special rights to their present shares, provided that these contributions are not used to equalize extraordinary write-downs or losses,
- transferring the net positive difference from revaluation of fixed assets ensuing from their outlay for sale or liquidation if separate provisions do not stipulate that these differences are recognized under the financial result,

and decreased by:

- covering the loss,
- amortizing own shares,
- covering the costs of issue of shares up to the value of the issue over the face value of the shares; the remaining part of the costs is recognized under financial expenses,
- conveying fixed assets, free of charge, in accordance with the resolution of the General Meeting,
- transferring the net negative difference from revaluation of fixed assets ensuing from their outlay for sale or liquidation if separate provisions do not stipulate that these differences are recognized under the financial result.

The revaluation capital is used to recognize revaluations of fixed assets causing growth of their value. This capital also includes revaluation of provisions for future employee benefits.

The reserve capital is created in accordance with the articles of association and the resolutions of the General Meeting from the net profit and is used to cover investment outlays.

2.19. Bank credits and loans

Interest-bearing bank credits and loans (including credits in current account) are posted at value of the inflows. The financial expenses (except those directly associated with the purchase or manufacture of tangible assets), including the commissions payable at the moment of repayment or amortization and the direct costs of taking out credits, are recognized in the statement of comprehensive income using the effective interest rate method and increase the book value of the instrument, taking into account the repayments made in the current period.

Credits with an interest rate below the market interest rates are discounted to the market interest rate level, and the difference between the discounted value and the proceeds received is recognized as a government subsidy.

Credits and loans are recognized under short-term liabilities, unless the Company has an unconditional right to defer the repayment of the liability by at least 12 months from the balance sheet date. In this case they are recognized under long-term liabilities.

2.20. Costs of external financing

The costs of external financing directly concerning construction, adaptation, assembly or improvement of fixed assets or intangible assets, during the period of construction, adaptation, assembly or improvement are recognized at the value of those assets, if these liabilities were taken out for that purpose. Other costs of external financing are recognized in the statement of comprehensive income.

2.21. Deferred income tax

The deferred income tax liability is recognized in full amount using a liability method, ensuing from interim differences between the tax value of assets and liabilities and their balance sheet value in the financial statement. The deferred income tax is determined using tax rates (and regulations) legally or actually in effect on the balance sheet date, which, in accordance with the expectations, will apply at the moment of realizing related deferred income tax assets or reconciling deferred income tax liabilities.

Deferred income tax assets are recognized in the amount anticipated in the future to be deducted from income tax, in connection with negative interim differences which will cause a decrease in the income tax base in the future. Deferred income tax assets are recognized if it is probable that in the future a taxable income will be achieved, which will make it possible to use the interim differences.

2.22. Employee benefits

The anticipated costs of employee benefits (anniversary prizes, retirement allowances, etc.) are recognized during the entire period of employment using actuarial methods. Actuarial gains and losses arising from adjustment of actuarial assumptions ex post and changes in the actuarial assumptions are recognized under other comprehensive income in the statement of comprehensive income during the average, anticipated, remaining period of employment of the employees whom they concern. Valuations of the related liabilities are performed by independent actuaries every six months. Employee benefits can also occur in connection with the termination of the employment relationship before the normal date of the employee's retirement or every time the employee voluntarily accepts the termination of the employment relationship with him in return for those benefits. The Company recognizes benefits ensuing from the termination of the employment relationship if it is definitely determined to terminate the employment relationship with the employees in accordance with an existing, detailed, official plan without the possibility of withdrawing from it, or is determined to pay benefits for the termination of the employment relationship as a result of its offer encouraging the employees to voluntarily terminate the employment relationship. Benefits payable beyond 12 months of the balance sheet date are discounted to the level of the current value.

2.23. Trade liabilities

Trade liabilities, if they are not an interest instrument, are recognized in the balance sheet in the amount due and payable. If the valuation in the adjusted purchase price significantly differs from the valuation in the amount due and payable, then the trade liabilities are valued at the adjusted purchase price.

2.24. Provisions

Provisions are recognized when there is an existing legal or customary obligation on the Company ensuing from past events and when it is certain or highly probable that fulfilment of that obligation will result in the need for outflow of cash personifying economic benefits, and when it is possible to reliably estimate the value of that obligation.
No provisions for future operating losses are established.

2.25. Accrued expenses

Accrued expenses are liabilities payable for goods or services which have been received (performed) in full or in part but have not been invoiced or the terms of payment have not been formally agreed upon with the supplier. Accrued expenses also cover amounts concerning the accrued remunerations for leaves. Accrued expenses are recognized when the amounts of the future liability and the payment dates can be reliably estimated.

2.26. Impairment of assets

On every balance sheet date the Company determines whether there are objective prerequisites indicative of permanent impairment of an asset or group of assets. If such prerequisites exist, the Company estimates the recoverable value of the assets and recognizes an impairment loss in the amount equal to the difference between the recoverable value and the balance sheet value. The loss ensuing from the impairment is disclosed in the statement of comprehensive income for the current period.

2.27. Lease

Lease where a significant part of the risk and gains from ownership remains the share of the lessor (financing party) constitutes an operational lease. Lease instalments paid as part of the operational lease (after being reduced by potential special promotional offers of the lessor) are charged to expenses using a

linear method during the period of the lease.
Lease is classified as financial lease when, in principle, the terms and conditions of the agreement transfer the entire potential benefit and risk ensuing from being the owner to the lessee.
Assets used on the basis of a financial lease agreement are considered to be the Company's assets and are valued at their fair value the moment they are acquired, not higher though than the current value of the minimum lease instalments. The liability towards the lessor ensuing therefrom is presented in the report on the financial condition. Lease instalments are divided into the interest part and the principal part. Financial expenses are recognized in the statement of comprehensive income.
In the Company's opinion, the right of perpetual usufruct to land does not fulfil the conditions of considering it to be a financial lease agreement since it, "in principle, does not transfer the entire risk and benefits ensuing from the possession of assets", and hence is considered to be an operational lease agreement.

2.28. Recognition of revenues

Revenues are recognized at a value in which it is probable that the Company will gain economic benefits associated with the given transaction and when the value of the revenues can be credibly measured.
Revenues from sales cover the fair value of the revenues from sales of products, goods and services, less the goods and services tax, rebates and discounts, and less the excise duty. Revenues are recognized in the following manner:

a) *revenues from sales of products and goods*

Revenues from sales of products and goods are recognized at the moment of delivery of the goods by the Company to the customer, the moment they are accepted by the customer and the moment of sufficient certainty that the relevant receivables are recoverable.

b) *revenues from sales of services*

Revenues from sales of services are recognized in the period during which services were provided, based on the progress of a specific transaction, determined on the basis of the ratio of the work actually performed to all services to be performed.

c) *revenues from rental of properties*

Revenues from rental of investment properties are recognized using a linear method during the rental period in relation to open agreements.

d) *revenues from interest*

Revenues from interest are recognized on accrual basis using the effective interest rate method. When the receivables depreciate, the Company reduces their balance sheet value to the recoverable value, equal to the estimated future cash flows discounted according to the initial effective interest rate of the instrument, and then the value of the discount is gradually reconciled in correspondence with revenues from interest. Revenues from interest on granted loans which became impaired are recognized on a cash basis or cost recovery basis, depending on the circumstances.

e) *dividends*

Revenues from dividends are recognized the moment the right to receive payment is acquired (on a condition that it is probable that the Company will gain economic benefits and that it is possible to credibly estimate the revenue).

2.29. Other operating revenues

Other operating revenues include revenues and gains not directly associated with the Company's operations. The following, among other things, are classified under this category: gains from the sale of fixed assets, gains from revaluation of assets, reversal of write-downs on receivables, compensation received, overpaid tax liabilities excluding personal income tax, etc.

2.30. Government subsidies

Subsidies are not recognized until a justified certainty is obtained that the Company will fulfil the required criteria and will receive such subsidies.

Government subsidies are recognized under the result systematically, for every period in which the Company recognizes expenses as costs which are supposed to be compensated for by the subsidy. In particular, subsidies whose basic criterion for being awarded is the purchase, construction or another type of acquisition of the fixed assets, are recognized as deferred income in the report on the financial condition and are recognized in the result systematically in justified amounts during the period of economic lifetime of the assets associated with them.
Government subsidies payable as a compensation for costs or losses already incurred or as a form of direct financial support for the Company without bearing the related costs in the future are recognized in the result during the period in which they become due.
The benefits ensuing from the receipt of preferential credits below the market interest rate are treated as subsidies and are measured as the difference between the value of the credits received and the fair value of the credits determined using an appropriate market interest rate.

2.31. Expenses

The Company presents the expenses using cost accounting method. Expenses arisen as a result of the core business activities include cost of sales, cost of sales and distribution and general and administrative costs.

2.32. Other operating expenses

Other operating expenses include costs and losses not directly associated with the Company's operations. This category includes losses on the sale of fixed assets, losses on revaluation of assets and liabilities, write-downs on receivables, donations conveyed, consequences ensuing from guarantees and sureties, etc.

2.33. Financial expenses

The costs of interest, dividends and investments are presented under "financial expenses".

2.34. Earnings per share

Earnings per share for every period are calculated by dividing the net profit for the given period by the weighted average number of shares because there are no preference shares.

2.35. Estimates and related assumptions

The Company makes estimates and adopts assumptions based on past experience and various other factors which are considered to be rational under the given circumstances, and their results give grounds for making judgments concerning the balance sheet value of the assets and liabilities which does not ensue directly from other sources. The actual value may differ from the estimated value. Estimates and related assumptions are verified on an on-going basis. Changes in the accounting estimates are recognized in the period in which they were made.
During the reporting period the Company conducted impairment tests for fixed assets and did not find any impairments.
Write-downs on inventory take into account the degree of their impairment.
Write-downs on receivables were updated in a degree taking into account the degree of the risk of not receiving payment from customers.

The provisions for retirement allowances and anniversary prizes were updated on the basis of the actuarial calculations as at 31.12.2017. To discount future payments of benefits a discount rate was adopted on the level of the average profitability of the safest long-term securities listed on the Polish capital market as at the valuation date.
The provision for unused annual leaves was revalued on the basis of the value of the anticipated remunerations of the employees together with the mark-ups encumbering the employer for leaves unused as at 31.12.2017.
The Company recognizes deferred tax assets under the assumption that a tax profit will be achieved in the future which will make it possible to use them.
The Company verifies the adopted periods of economic lifetime of fixed assets and intangible assets on a yearly basis. The last revaluation took place on 31 December 2017.

2.36. Cash flow statement
The Company draws up the cash flow statement using an indirect method, broken down by operational, investment and financial activities.
Cash flows on operations come, above all, from the core business activities. They do not contain any external sources of financing.
Cash flows from investments include, above all:
- cash paid and received for the purchase (sale) of tangible fixed assets, intangible assets and other fixed assets,
- cash associated with the purchase or sale of capital instruments,
- dividends received,
- loans granted to third parties,
- cash from reconciliation of forward contracts.

Cash flows from financial activities concern, above all, external sources of financing. They include, among other things:
- proceeds from issue of shares (did not occur during the period in question),
- expenses associated with the purchase of own shares (did not occur during the period in question),
- dividends and other payments to shareholders,
- taking out and repayment of credits and loans,
- subsidies and all other non-refundable proceeds from external sources of financing.

3. New accounting standards

3.1. New accounting standards and interpretations made for the first time
Application of new interpretations and changes in the standards in 2017 did not affect the Company's financial condition.

3.2. New accounting standards and interpretations not applied in this financial statement
The following standards have not yet been applied by the Company in the course of preparing this financial statement.

a) IFRS 9 *Financial instruments* applicable to the periods starting from 1 January 2018 or later. This standard implements an improved and simplified approach to the classification and valuation of financial assets and liabilities and requirements concerning hedge accounting and recognition of impairment of financial assets.

b) IFRS 14 *Regulatory Deferral Accounts* issued on 30 January 2014 and applies to an annual reporting period beginning on 1 January 2016. The European Commission decided not to start the process of approving this standard in its interim version until its final version is published.

c) IFRS 15 *Revenue from contracts with customers*- issued on 12 April 2016 and applies to an annual reporting period beginning on or after 1 January 2018. This standard defines a unified model of reconciling revenues from contracts with customers. It will supersede the guidelines concerning recognition of revenue stipulated in IAS 18 *Revenue,* IAS 11 *Construction contracts* and in the related *Interpretations* (IFRIC 13, IFRIC 15, IFRIC 18, SIC-31).

d) IFRS 16 *Leases* - applies to annual reporting periods beginning on or after 1 January 2019. This standard modifies the definition of financial and operational lease.

e) IFRS 17 "Insurance contracts" - applies to annual reporting periods beginning on or after 1 January 2021.

f) Amendments to IAS 7, apply to annual reporting periods beginning on or after 1 January 2017. The amendments come with the objective that entities will provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, both changes arising from cash flows as well as changes of non-cash nature; as at 31.12.2017 not approved by the

European Commission.

g) Amendments to IAS 12, apply to annual reporting periods beginning on or after 1 January 2017. The amendments clarify, among other things, unrealized losses related to debt instruments valued at fair value for which the tax value is their initial cost; as at 31.12.2017 not approved by the European Commission.

h) Amendments to IFRS 10 and IAS 28, whose date into force has been postponed indefinitely. The amendments concern sales and contribution of assets between the investor and his affiliated entity or joint-venture undertaking and come with the objective of removing inconsistencies between IAS 28 and IFRS 10.

i) Amendments to IFRS 2, apply to annual reporting periods beginning on or after 1 January 2018. The amendments narrow down the current regulations concerning recognition of specific types of transactions consisting in payments in the form of shares.

j) Amendments to IFRS 4, apply to annual reporting periods beginning on or after 1 January 2018. Amendments to IFRS 4 implement two permissible approaches: overlay approach and deferral approach. The amended standard allows entities concluding insurance contracts to reclassify, from profit or loss to other comprehensive income, the impact of variabilities which may occur in connection with the application of IFRS 9, before the new standard concerning insurance is published. Meanwhile, the amended standard allows entities whose business is associated mainly with insurance to be temporarily exempted from applying IFRS 9 until 2021. Entities which defer the use of IFRS 9 will be using the currently applicable IAS 39.

k) Amendments to IAS 40 “Investment property” apply to annual reporting periods beginning on or after 1 January 2018. The amendments address the issue of transferring individual properties to or from investment properties. The amendments clarify that in order to make a reclassification it is necessary to change the way the given property is used. The way the property is used changes when the property starts or ceases fulfilling the definition of an investment property and when there is evidence of such change.

l) Amendments to various standards “Improvements to IFRSs (2014-2016 cycle)” - amendments made as part of the procedure of implementing annual improvements to IFRSs (IFRS 1, IFRS 12 and IAS 28) focused mainly on resolving inconsistencies and narrowing down the vocabulary (amendments to IFRS 12 apply to annual reporting periods beginning on or after 1 January 2017, and amendments to IFRS 1 and IAS 28 apply to annual reporting periods beginning on or after 1 January 2018.

m) IFRIC 22 Interpretation “Foreign Currency Transactions and Advance Consideration” apply to annual reporting periods beginning on or after 1 January 2018. The interpretation specifies the conversion rate which should be used in foreign currency transactions associated with receiving an advance consideration posted before the recognition of an appropriate asset, cost or revenue arising from that transaction.

n) IFRIC 23 Interpretation “Uncertainty over Income Tax Treatments” which will apply to annual reporting periods beginning on or after 1 January 2019.

The Company did not decide to use any standard, interpretation or amendment earlier which has been published but has not come into effect in the light of the EU laws.

The Management Board is in the course of evaluating the impact of the above standards and interpretations on the Company’s reporting.

4. Changes in the accounting principles

The Company did not voluntarily change the previously used accounting principles.

5. Segment reporting

in thousands of zlotys

The Company pursues production activities only in Poland. The Company is involved in processing of potatoes into starch and hydrolysate. It has one reporting segment "processing of potatoes" which is identified in the Company's daily records and in internal reports.

5.1. Information concerning products and services

The following are produced as part of the segment "processing of potatoes":

- potato starch used by households and food, pharmaceutical, paper and textile industries,
- several types of glucose, used by the food, confectionary and pharmaceutical industries,
- maltodextrin, which is an important ingredient of food products (ice cream, sauces, soups, fruit extracts, flavoured toppings) as well as vitamin and mineral supplements for children and athletes,
- protein which is obtained from the potato's cell juice through coagulation, separation and curing; it constitutes a precious ingredient of compound feedingstuff for animals and an excellent alternative to animal-based protein,
- wide range of starch syrups, used in the confectionary and baking industries,

Other type of activities pertain to:

- production of heat energy which is used, above all, for own purposes and part is sold to the neighbouring plants,
- work and services,
- sale of certain goods and materials,
- growing and selling one-year plants.

The following table presents revenues from every group of products and services.

Name of product or service	Revenues from sales	
	2017	2016
Starch	98,733	83,706
Glucose	8,938	8,500
Maltodextrin	17,240	15,245
Protein	14,343	11,246
Starch syrups	1,165	869
Hydrol	371	336
Heat energy	352	3,429
Goods and materials	20,520	19,761
Services	792	675
Total	**162,454**	**143,767**

5.2. Revenues from sales based on territorial structure:

Description	2017	2016
Poland, including	**94,130**	**85,007**
Starch	44,266	34,053
Glucose	8,623	8,236
Maltodextrin	15,055	13,754
Protein	8,842	6,054
Starch syrups	1,165	869
Hydrol	371	336
Heat energy	352	3,429
Goods and materials	14,664	17,601
Services	792	675
EU countries - intra-community deliveries	**15,261**	**14,244**

in thousands of zlotys

including:		
Starch	9,573	9,854
Maltodextrin	2,176	1,485
Glucose	91	60
Protein	2,699	1,574
Goods	722	1,271
Other countries - export, including:	**53,063**	**44,516**
Starch	44,894	39,799
Protein	2,802	3,618
Maltodextrin	9	6
Glucose	224	204
Goods	5,134	889
Total	**162,454**	**143,767**

5.3. Information concerning major customers

The Company does not have a customer whose revenues from sales would exceed 10% of total revenues. However, there are customers in individual product groups whose sales account for more than 10% of sales of the given product. And so:

- more than 10% of starch was sold to a single foreign customer,
- more than 14% of protein was sold to a single domestic customer,
- more than 10% of maltodextrin was sold to each of four domestic customers (respectively 16%; 14.7%; 13.9% and 12.8%),
- nearly 17% of glucose was sold to a single domestic customer.

6. Explanatory notes to the report on the financial condition

6.1. Tangible fixed assets

TANGIBLE FIXED ASSETS	*As at 31.12.2017*	*As at 31.12.2016*
a) fixed assets, including:	89,211	73,635
- land	101	101
- buildings, premises, civil and water engineering structures	52,345	51,390
- technical equipment and machines	32,698	19,154
- vehicles	3,390	2,558
- other fixed assets	677	432
b) tangible fixed assets under construction	2,448	8,684
Total tangible fixed assets	**91,659**	**82,319**

CHANGES IN FIXED ASSETS (ACCORDING TO TYPE GROUPS)	land	buildings, premises, civil and water engineering structures	technical equipment and machines	vehicles	other fixed assets	**Total**
As at 1 January 2016						
Gross value	**101**	**78,178**	**54,789**	**2,398**	**1,046**	**136,512**
Amortization	**0**	**27,146**	**36,450**	**1,257**	**716**	**65,569**
Net book value	**101**	**51,032**	**18,339**	**1,141**	**330**	**70,943**
2016						
Gross value - opening balance	101	**78,178**	54,789	2,398	1,046	136,512

in thousands of zlotys

Increases (arising from)	-	3,364	3,529	1,776	200	8,869
- investments	-	3,364	1,637	-	0	5,001
- purchase	-	-	463	1,196	200	1,859
- lease	-	-	1,429	580	-	2,009
Decreases (arising from)	-	-	581	396	6	983
- sales	-	-	-	396	-	396
- liquidation	-	-	581	-	6	587
Derecognition of amortization of fixed assets sold and liquidated	-	-	(581)	(314)	(3)	(898)
Depreciation	-	3,006	2,714	277	95	6,092
- associated with core activity	-	2,955	2,416	149	94	5,614
- associated with agricultural activity	-	51	298	128	1	478
Net book value - closing balance	101	51,390	19,154	2,558	432	73,635
As at 31 December 2016						
Gross value	**101**	**81,542**	**57,737**	**3,778**	**1,240**	**144,398**
Amortization	**0**	**30,152**	**38,583**	**1,220**	**808**	**70,763**
Net book value	**101**	**51,390**	**19,154**	**2,558**	**432**	**73,635**
2017						
Gross value - opening balance	101	81,542	57,737	3,778	1,240	144,398
Increases (arising from)	-	4,191	19,131	1,873	376	25,571
- investments		3,307	3,794			7,101
- purchase		884	11,160	275	376	12,695
- lease			4,177	1,598		5,775
Decreases (arising from)	-	98	3,585	624	7	4,314
- sales			3,162	225		3,387
- liquidation		98	423	399	7	927
Derecognition of amortization of fixed assets sold and liquidated		(66)	(409)	(454)	**(7)**	(936)
Depreciation, including:	-	3,204	2,411	871	131	6,617
- associated with core activity		3,125	1,980	690	124	5,919
- associated with agricultural activity		79	431	181	7	698
Net book value - closing balance						-
As at 31 December 2017						**0**
Gross value	**101**	**85,635**	**73,283**	**5,027**	**1,609**	**165,655**
Amortization	**0**	**33,290**	**40,585**	**1,637**	**932**	**76,444**
Net book value	**101**	**52,345**	**32,698**	**3,390**	**677**	**89,211**

The moment the Company switched to IAS, it adopted the fair value of fixed assets valued by the assessor as the assumed cost. The revaluation difference decreased by the deferred income tax was recognized under equity.

During the reporting period the depreciation allowances increased the cost of products, goods and materials sold in the amount of PLN 4,529 thousand (PLN 4,581 thousand in 2016) and general and administrative costs -PLN 1,390 thousand (PLN 1,033 thousand in 2016).

Encumbrances of tangible fixed assets arising from bank credits:

- contractual mortgage in the amount of PLN 14,734 thousand in favour of BGŻ BNP PARIBAS,
- ordinary mortgage in the amount of PLN 1,596 thousand in favour of Bank Polskiej Spółdzielczości,

in thousands of zlotys

- ordinary mortgage in the amount of PLN 404 thousand in favour of Bank Spółdzielczy in Łomża,
- ordinary mortgage in the amount of PLN 1,295 thousand in favour of Bank Polskiej Spółdzielczości,
- capped mortgage in the amount of PLN 1,197 thousand in favour of Bank Polskiej Spółdzielczości,
- capped mortgage in the amount of PLN 880.6 thousand in favour of Bank Polskiej Spółdzielczości,
- capped mortgage in the amount of PLN 303 thousand in favour of Bank Spółdzielczy in Łomża,
- registered pledge on machines and devices for the amount of PLN 3,465 thousand in favour of Bank Spółdzielczy in Łomża,
- registered pledge on fixed assets in the amount of PLN 9,822 thousand in favour of BGŻ BNP PARIBAS,
- registered pledge on fixed assets in the amount of PLN 5,900 thousand in favour of Bank Zachodni WBK,
- transfer of ownership of machines and devices in the amount of PLN 1,295 thousand in favour of Bank Polskiej Spółdzielczości.

In connection with the purchase of tangible fixed assets investment credits were taken out whose unpaid value as at the reporting date is PLN 6,858 thousand (31.12.2016 - PLN 8,784 thousand)

Item “other operating revenues” in the statement of comprehensive income includes compensations received from the insurance company for the loss of value of tangible fixed assets caused by fortuities in the amount of PLN 88 thousand (2016: PLN 50 thousand).

TANGIBLE FIXED ASSETS IN FINANCIAL LEASE	*Net value as at:*	
	31.12.2017	***31.12.2016***
- buildings and structures	401	451
- technical equipment and machines	8,213	5,507
- vehicles	1,814	656
- tools	101	116
Total	**10,529**	**6,730**

6.2. Intangible assets

INTANGIBLE ASSETS	*As at 31.12.2017*	*As at 31.12.2016*
a) permits, patents, licenses and similar assets acquired, including:	211	104
- software	131	24
b) emission rights	-	**194**
Total intangible assets	**211**	**298**

CHANGES IN INTANGIBLE ASSETS	R&D expenses	goodwill	permits, patents, licenses and similar assets acquired, including: software	Emission rights	Total
As at 1 January 2016					
Gross value	-	-	**715**	**327**	**1,042**
Amortization	-	-	586	-	**586**
Net book value	-	-	**129**	**327**	**456**
2016					-

CHANGES IN INTANGIBLE ASSETS	R&D expenses	goodwill	permits, patents, licenses and similar assets acquired, including: software	Emission rights	**Total**
Gross value - opening balance	-	-	715	327	1,042
Increases (arising from)	-	-	-	513	513
- purchase	-	-	-	513	513
Decreases (arising from)	-	-	207	646	853
- sales	-	-	-	-	-
- consumption	-	-	207	646	853
Derecognition of amortization of intangible assets sold and liquidated	-	-	(207)	-	(207)
Depreciation	-	-	25	-	25
Net book value - closing balance	-	-	104	194	298
As at 31 December 2016					-
Gross value	-	-	**508**	**194**	**702**
Amortization	-	-	**404**	-	**404**
Net book value	-	-	**104**	**194**	**298**
2017					-
Gross value - opening balance	-	-	508	194	702
Increases (arising from)	-	-	135	230	365
- purchase			135	230	365
Decreases (arising from)	-	-	-	**424**	**424**
- sales					-
- consumption				**424**	**424**
Depreciation			**28**		**28**
Net book value - closing balance	-	-	211	-	211
As at 31 December 2017					-
Gross value	-	-	**643**	-	**643**
Amortization	-	-	**432**	-	**432**
Net book value	-	-	211	-	211

The entire depreciation of intangible assets is presented in the statement of comprehensive income under the item “general and administrative costs”.

CHANGES IN CO2 EMISSION RIGHTS	**Number of EUA units**	**Value**
As at 01.01.2017	20,669	194
Received free of charge	9,859	0
Purchased	10,500	230
Amortized	25,622	424
Sold	5,000	139
As at 31.12.2017	10,406	0

As at 31 December 2017 the Company established a provision worth PLN 305 thousand for the value of EUA unites anticipated to be amortized for 2017.

in thousands of zlotys

6.3. Investments in subsidiaries

CHANGE IN INVESTMENTS IN SUBSIDIARIES	2017 year	2016 year
a) opening balance	9,676	3,755
- shares	9,676	3,755
b) increases (arising from)	8,321	5,921
- change in the status from affiliated entity to a subsidiary CHP Energia	-	812
- take-up of additional shares in CHP Energia	-	5,109
- take-up of shares in Gospodarstwo Rolne PONARY	8,321	-
c) decreases (arising from)	2,875	
- write-down on shares in CHP Energia	2,875	
d) closing balance	15,122	9,676
- shares	15,122	9,676

Name of subsidiary	Registered office	Line of business	Consolidation method applied	Date of taking control	Value of shares according to purchase price	Balance sheet value	Percentage of capital possessed	Share in the total number of votes at the General Meeting
ZPZ LUBLIN Sp. z o.o.	Lublin	Production and sale of potato syrup and dried potatoes.	Full	02.12.1996	2,550	2,550	82.38	82.38
PPZ BRONISŁAW S.A.	Bronisław	Production of starch and starch products	Full	16.03.2011	1,205	1,205	84.125	84.125
CHP Energia Sp. z o.o.	Wojny-Wawrzyńce	Production of energy from biogas	Full	24.10.2016	5,921	3,046	67.43	67.43
OZENERGY Sp. z o.o.	Łomża	Production of electricity	Full	18.10.2010	96	-	100	100
Gospodarstwo Rolne Ponary Sp. z o.o.	Łomża	Agricultural crops combined with animal breeding and husbandry	Full	19.09.2017	8,321	8,321	67.43	67.43

Name of subsidiary	Equity	Assets	Liabilities	Revenues from sales	Profit/ Loss
2016					
ZPZ LUBLIN Sp. z o.o.	2,525	14,427	11,902	17,815	(183)
PPZ BRONISŁAW	3,953	32,012	28,059	32,848	2,435
CHP Energia Sp. z o.o.	(471)	28,360	28,830	1,272	(174)

in thousands of zlotys

OZENERGY Sp. z o.o.	4	8	5	0	**(1)**
2017					
ZPZ LUBLIN Sp. z o.o.	2,073	14,637	12,564	17,625	(452)
PPZ BRONISŁAW	9,073	38,467	29,394	45,054	5,120
CHP Energia Sp. z o.o.	(3,464)	24,758	28,222	10,232	(2,758)
OZENERGY Sp. z o.o.	3	8	5	-	(1)
Gospodarstwo Rolne PONARY Sp. z o.o.*	11,010	21,178	10,168	-	(46)

**) Data presented in accordance with the Polish accounting standards*

6.4. Investments in other entities and intended for trading

CHANGE IN INVESTMENTS IN OTHER ENTITIES	2017 year	2016 year
a) opening balance	2,663	2,663
- shares	2,663	2,663
b) increases arising from the purchase of:	996	-
- bonds	996	
d) closing balance	**3,659**	**2,663**
- shares	2,663	2,663
- bonds	996	-

PEPEES holds 3,000 non-privileged shares in “Warszawski Rolno-Spożywczy Rynek Hurtowy” Spółka Akcyjna with registered office in Bronisze (“WRSRH”) of a face value of PLN 3,000 thousand for the price of PLN 2,550 thousand. These shares account for 2.5% of WRSRH’s capital and 1.6% of voting rights in the General Meeting. The main owner of WRSRH is the State Treasury which holds more than 59% of shares. PEPEES does not exercise control over WRSRH. This investment is intended for turnover and is recognized under short-term assets. The fair value of that investment as at the balance sheet date is similar to the purchase value.
The Company also holds shares in three entities which provide for less than 5% of the overall number of votes in a General Meeting and are insignificant from the point of view of the Company’s investment value and policy.
Moreover, PEPEES holds 10 bonds of mBank of a face value of PLN 1 million, which are intended for trading.

6.5. Inventory

INVENTORY	*As at 31.12.2017*	*As at 31.12.2016*
a) materials	2,951	2,395
b) semi-finished products and work in progress	1,770	4,075
c) finished products	48,541	41,749
d) goods	3,124	2,736
Total inventory	**56,386**	**50,955**

The balance sheet value of inventory valued at fair value less the costs of sales amounted as at 31.12.2017 to PLN 235 thousand (2016 - PLN 1,136 thousand).
The value of the inventory recognized as cost during the reporting period amounted in 2017 to PLN 111,159 thousand (2016 - PLN 98,739 thousand).
The value of the write-downs recognized as costs during the reporting period amounted to PLN 51 thousand and, respectively in 2016, to PLN 147 thousand.
The value of reversed write-downs on inventory amounted in 2017 to PLN 147 thousand (2016 - PLN 0 thousand).

in thousands of zlotys

The value of write-downs as at 31.12.2017 was PLN 72 thousand (31.12.2016 - PLN 182 thousand).
The balance sheet value of inventory securing the repayment of bank credits was PLN 46,400 thousand (31.12.2016 - PLN 38,818 thousand).

Encumbrances on inventory arising from bank credits:
- registered pledge on the inventory of potatoes, finished products and semi-finished products in favour of Powszechna Kasa Oszczędności Banku Polskiego S.A. securing the credits whose indebtedness as at 31.12.2017 amounts to PLN 16,000 thousand,
- registered pledge on the inventory of materials, finished products and goods in favour of Bank Zachodni WBK S.A. securing the credits whose indebtedness as at 31.12.2017 amounts to PLN 16,000 thousand,

6.6. Biological assets

Plant assets	***As at 31.12.2017***	***As at 31.12.2016***
Unripen assets		158
Total	**-**	**158**

6.7. Trade receivables

TRADE RECEIVABLES	***As at 31.12.2017***	***As at 31.12.2016***
a) from related parties	1,985	199
- up to 12 months	1,985	199
b) receivables from other entities	17,822	19,698
- up to 12 months	17,822	19,698
Total trade receivables	**19,807**	**19,897**

GROSS TRADE RECEIVABLES - DUE AFTER THE BALANCE SHEET DATE:	***As at 31.12.2017***	***As at 31.12.2016***
a) up to 1 month	5,326	14,428
b) more than 1 month up to 3 months	8,793	2,773
c) more than 3 months up to 6 months	1,167	-
d) more than 6 months up to 1 year		938
f) overdue receivables	4,900	2,011
Total trade receivables (gross)	20,186	20,150
g) write-downs on trade receivables	(379)	(253)
Total trade receivables (net)	**19,807**	**19,897**

The average repayment period for trade receivables is approx. 45 days. Statutory interest is charged on late payments of receivables. The Company established provisions which fully cover receivables which are overdue by more than 180 days because past experience shows that such receivables may be difficult to recover. Provisions are established for receivables not paid for 60 to 120 days on the basis of estimated value of unrecoverable receivables arising from the sale of goods based on past experience and analysis of the financial condition of individual counterparties.
Trade receivables are insured with KUKE which assesses the customers' creditworthiness and sets the credit limits on this basis. The limits and scores of the given customer are verified.
Overdue receivables on which no write-downs were made are receivables from debtors with whom the Company has been cooperating for several years and an evaluation of their economic and financial condition does not show that they are doubtful receivables. The overdue period of these receivables ranges between several days to six months.

in thousands of zlotys

6.8. Receivables from subsidiaries

SHORT-TERM RECEIVABLES FROM SUBSIDIARIES	*As at 31.12.2017*	*As at 31.12.2016*
a) trade receivables	1,985	199
Total net short-term receivables	1,985	199
d) write-downs on receivables from related parties	196	6
Total gross short-term receivables from related parties	**2,181**	**205**

6.9. Other receivables

OTHER RECEIVABLES	*As at 31.12.2017*	*As at 31.12.2016*
- receivables from tax, subsidy, customs, social security and other benefits	4,033	1,232
- other	43	14
Total other short-term, net receivables	4,076	1,246
- write-downs on other receivables		
Total other short-term, gross receivables	**4,076**	**1,246**

6.10. Receivables claimed at court

RECEIVABLES CLAIMED AT COURT	*As at 31.12.2017*	*As at 31.12.2016*
Gross receivables claimed at court	25	7
Write-downs on receivables	(25)	(7)
Total receivables claimed at court	-	

6.11. Write-downs on receivables

CHANGE IN WRITE-DOWNS ON SHORT-TERM RECEIVABLES	2017 year	2016 year
Opening balance	260	867
a) increase (arising from)	298	129
- establishment for doubtful trade receivables	196	19
- establishment for interest due and payable	47	49
- establishment for receivables claimed at court	55	61
b) decrease (arising from)	**154**	736
- dissolution of provision due to payment	94	78
- cancellation	60	658
Write-downs on short-term receivables at the end of the period	**404**	**260**

Increases and decreases of write-downs on receivables are recognized in the statement of comprehensive income under item “other operating expenses”.

6.12. Advances

ADVANCES	*As at 31.12.2017*	*As at 31.12.2016*
a) long-term, including:	8,979	9,649
- lease instalment for agricultural holding	8,979	9,649

in thousands of zlotys

b) short-term, including:	1,279	2,376
- lease instalment for agricultural holding	766	742
- advances for deliveries	365	1,509
- property insurance	135	119
- other	13	6
Total	**10,258**	**12,025**

6.13. Loans granted

Entity	*As at 31.12.2017*	*As at 31.12.2016*
PPZ BRONISŁAW S.A.	2,000	4,673
ZPZ LUBLIN Sp. z o.o.	3,000	3,011
CHP Energia Sp. z o.o.	2,619	710
Natural person pursuing a business activity	762	182
Loans granted, including:	**8,381**	8,576
- repayment up to 1 year	8,381	3,076
- repayment above 1 year	-	5,500

All loans were granted with interest rate similar to that charged by banks whose services the Company is using, taking into account an extra business risk.
Interest obtained on the loans during the reporting period totalled PLN 349 thousand (2016: PLN 613 thousand).

6.14. Cash and cash equivalents

CASH AND CASH EQUIVALENTS	*As at 31.12.2017*	*As at 31.12.2016*
Cash in bank and in hand	4,266	798
Short-term deposits	20,313	20,850
Total cash and cash equivalents	**24,579**	**21,648**
- including of limited disposability		

Short-term deposits are made for various lengths of time, from one day to several months, depending on the current demand of the Company for cash and bear interest according to the interest rates set for them.

CASH AND CASH EQUIVALENTS (CURRENCY STRUCTURE)	*As at 31.12.2017*	*As at 31.12.2016*
a) in Polish currency	21,067	21,080
b) in foreign currencies (according to currencies and after conversion to PLN)	3,512	568
b1. unit/currency USD/thousand	150	59
thousand PLN	512	235
b2. unit/currency EUR/thousand	736	79
thousand PLN	3,000	333
Total cash and cash equivalents	**24,579**	**21,648**

6.15. Share capital

Series / issue	Type of shares	Type of privilege of shares	Type of limitation of rights to shares	Number of shares	Value of series / issue according to face value	Date of registration

A	ordinary bearer shares	Non-privileged	no limitations	83 million	4,980	09.05.2008
B	ordinary bearer shares	Non-privileged	no limitations	12 million	720	30.09.2014
Total number of shares				95 million		
Total share capital					5,700	
Face value per share = PLN 0.06						

No changes in the Company's share capital occurred during reporting period.
To the Company's best knowledge, as at the balance sheet date the ownership structure looked as follows:

- Maksymilian Maciej Skotnicki - number of votes: 20,395,465; share in the total number of votes at the General Meeting - 21.47%
- Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych - number of votes: 21,444,561; share in the total number of votes at the General Meeting - 22.57%
- Michał Skotnicki - number of votes: 10,700,011; share in the total number of votes at the General Meeting - 11.26%
- Newth Jonathan Reginald - number of votes: 7,995,200; share in the total number of votes at the General Meeting - 8.42%
- Mazowiecka Korporacja Finansowa Sp. z o.o. - number of votes: 5,397,343; share in the total number of votes at the General Meeting - 5.68%
- Krzysztof Borkowski (indirectly through subsidiaries, including, among other things Mazowiecka Korporacja Finansowa) - number of votes: 7,923,409; share in the total number of votes at the General Meeting - 8.34%
- Richie Holding Ltd - number of votes 6,133,100, share in the total number of votes at the General Meeting - 6.46%

None of the other shareholders reported possession of at least 5% share in the share capital and in the total number of votes at the General Meeting.

6.16. Supplementary and reserve capital

SUPPLEMENTARY CAPITAL	*As at 31.12.2017*	*As at 31.12.2016*
a) from sale of shares over their face value	7,562	7,562
b) statutory	1,660	1,660
c) from revaluation of assets (undistributable)	30,602	30,602
d) from profit	12,126	12,126
Total supplementary capital	**51,950**	**51,950**

OTHER RESERVE CAPITALS (BY PURPOSE)	*As at 31.12.2017*	*As at 31.12.2016*
- investment fund	69,315	53,397
Total other reserve capitals	**69,315**	**53,397**

The investment fund was established from retained earnings.

REVALUATION CAPITAL	*As at 31.12.2017*	*As at 31.12.2016*
- revaluation of employee benefit liabilities	(224)	(304)
- deferred tax from effects of revaluation	52	26
Total other reserve capitals	**(172)**	**(278)**

in thousands of zlotys

6.17. Retained earnings

RETAINED EARNINGS FROM PREVIOUS YEARS AND CURRENT YEAR	*As at 31.12.2017*	*As at 31.12.2016*
- profit (loss) for the year	12,319	15,918
Total retained earnings	**12,319**	**15,918**

6.18. Long-term credits and loans

LONG-TERM LIABILITIES - DUE AFTER THE BALANCE SHEET DATE	*As at 31.12.2017*	*As at 31.12.2016*
a) more than 1 year up to 3 years	6,337	5,323
b) more than 3 years up to 5 years	4,625	1,616
c) over 5 years	286	
Total long-term liabilities	**11,248**	**6,939**

No.	Type of credit	Value of credit as per agreement	Currency	Amount of credit / loan remaining to be repaid	Currency	Interest rate	Repayment date
1	Preferential credit to modernize equipment. The principal amount will be repaid in quarterly instalments while interest is paid monthly on the value of debt	1,295	PLN	235 (balance sheet value 225)	PLN	1.6 of the promissory note rediscount rate, where the issuer pays 0.25 of the credit's interest rate, not less than 2% annually; the rest is paid by the Agency for Restructuring and Modernization of Agriculture;	30.11.2018
2	Investment credit to build starch curing facility, unloading line and water purification station	9,822	PLN	5,772	PLN	Interest rate WIBOR for 3-month deposits plus the Bank's margin	25.02.2022
3	Investment credit to modernize steam boiler facility dedusting installation	1,200	PLN	861	PLN	Interest rate WIBOR for 3-month deposits plus the Bank's margin	31.12.2020
4	Investment credit to finance and refinance the purchase of 100% of shares in Gospodarstwo Rolne Ponary Sp. z o.o.	10,530	PLN	7,055	PLN	Interest rate WIBOR for 1-month deposits plus the Bank's margin	30.06.2025
5	Loan	533	PLN	267	PLN	0%	13.06.2018
	TOTAL	**23,380**	**PLN**	**14,180**	**PLN**		

An amount of PLN 2,932 thousand was recognized in the report on the financial condition under short-term liabilities because it will be repaid within 12 months of the balance sheet date. The credits were valued in accordance with IAS 39, and the difference between the amount obtained and amount discounted was recognized as a government subsidy under accruals.

in thousands of zlotys

Collaterals

Re. 1
Credit secured by ordinary mortgage in the amount PLN 1,295 thousand, capped mortgage up to PLN 880.6 thousand, transfer of ownership of mas and devices for the amount of PLN 1,295 thousand, assignment of rights from insurance policy, blank promissory note, power of attorney to bank accounts.

Re. 2
Credit secured by contractual mortgage in the amount of PLN 14,734 thousand, assignment of rights from insurance policy, declaration of submission to enforcement.

Re. 3
Credit secured by ordinary mortgage up to PLN 1,800 thousand, blank promissory note, power of attorney to bank accounts.

Re. 4
Credit secured by joint mortgage up to PLN 15,795 thousand, transfer of cash receivables from insurance contract, registered pledges on 32,400 shares (100% of shares) in Gospodarstwo Rolne Ponary, blank promissory note.

Short-term

No.	Type of credit	Value of credit / loan as per agreement	Currency	Amount of credit / loan remaining to be repaid	Currency	Interest rate	Repayment dates
1	Credit in current account	4,000	PLN	0	PLN	1 month WIBOR + bank's margin	31.08.2018
2	Renewable overdraft facility in a credit account	10,000	PLN	7,641	PLN	1 month WIBOR + bank's margin	31.08.2018
3	Non-renewable overdraft facility in a credit account	16,000	PLN	16,000	PLN	1 month WIBOR + bank's margin	31.08.2018
4	Credit in current account	4,000	PLN	0	PLN	1 month WIBOR + bank's	31.08.2018
5	Renewable overdraft facility in a credit account	10,000	PLN	10,000	PLN	1 month WIBOR + bank's margin	31.08.2018
6	Non-renewable overdraft facility in a credit account	16,000	PLN	16,000	PLN	1 month WIBOR + bank's margin	31.08.2018
	TOTAL	**60,000**	**PLN**	**49,641**	**PLN**		

**There is an amount of PLN 52,573 thousand in the report on financial condition; the difference concerns a part of the long-term credits which will be repaid within 12 months of the balance sheet date.*

Collaterals

in thousands of zlotys

The first three credits were obtained on the basis of a single agreement, so-called “Multi-line agreement”. The above credits are secured by:

- contractual mortgage in the amount of PLN 58,500 thousand on real properties:
  - belonging to PPZ Bronisław S.A.
  - belonging to ZPZ Lublin Sp. z o.o.
- assignment of rights from insurance policy on the real property:
  - belonging to PPZ Bronisław S.A.
  - belonging to ZPZ Lublin Sp. z o.o.
- registered pledge on assets:
  - belonging to PEPEES S.A.
  - belonging to PPZ Bronisław S.A.
  - belonging to ZPZ Lublin Sp. z o.o.
- assignment of rights from insurance policy on fixed assets
- registered pledge on inventory of a value not smaller than 145% of the balance of the revolving credit together with an assignment of the insurance policy on inventory
- assignment of rights from insurance policy on inventory
- assignment of receivables ensuing from the business operations of PEPEES S.A., PPZ Bronisław S.A., ZPZ Lublin Sp. z o.o.
- blank promissory note with a promissory note declaration

The other three credits were granted on the basis of the so-called “Multi-purpose credit line agreement”, secured by:

- contractual mortgage up to PLN 58,500 thousand on real properties:
  - belonging to PPZ Bronisław S.A.
  - belonging to ZPZ Lublin Sp. z o.o.
- registered pledge on fixed assets:
  - belonging to PEPEES S.A.
  - belonging to PPZ Bronisław S.A.
  - belonging to ZPZ Lublin Sp. z o.o.
- transfer of cash receivables from insurance contracts concerning fixed assets and inventory,
- registered pledge on inventory:
  - belonging to PEPEES S.A.
  - belonging to PPZ Bronisław S.A.
  - belonging to ZPZ Lublin Sp. z o.o.
- global assignment of 40% of receivables:
  - belonging to PEPEES S.A.
  - belonging to PPZ Bronisław S.A.

belonging to ZPZ Lublin Sp. z o.o.
- blank promissory note with a promissory note declaration

6.19. Liabilities ensuing from old age pension and similar benefits

LIABILITIES ENSUING FROM OLD AGE PENSION AND SIMILAR BENEFITS (BY TITLE)	*As at 31.12.2017*	*As at 31.12.2016*
a) long-term, including:	1,752	1,700
- retirement allowances	238	193
- anniversary prizes	1,514	1,507
b) short-term, including:	274	237
- retirement allowances	27	23
- anniversary prizes	247	214
Total	**2,026**	**1,937**

CHANGE IN LIABILITIES ENSUING FROM OLD AGE PENSION AND SIMILAR BENEFITS (BY TITLE)	*As at 31.12.2017*	*As at 31.12.2016*

a) opening balance	**1,937**	**2,075**
- retirement allowances	216	157
- anniversary prizes	1,721	1,918
b) increases (arising from)	**393**	**72**
- retirement allowances	67	72
- anniversary prizes	326	
c) consumption (arising from)	**304**	**210**
- retirement allowances	18	13
- anniversary prizes	286	197
d) closing balance	**2,026**	**1,937**
- retirement allowances	265	216
- anniversary prizes	1,761	1,721

Anniversary prices are paid to employees who have at least 20 years overall seniority, every 5 years. The period of employment entitling the employee to acquire the right to an anniversary prize includes the period of employment at PEPEES S.A. and companies spun off from PEPEES S.A., subject to the transfer of the employee from PEPEES S.A. to those companies on the basis of Article 23^1 of the Labour code and the period of employment in all entities being employers within the meaning of the Labour code and the period of work on farmland in case of the employee takes ownership of an agricultural holding.

The condition for acquiring the right to the anniversary prize is seniority of at least 5 years at PEPEES S.A. and the subsidiaries of PEPEES S.A., subject to the transfer of the employee from PEPEES S.A. to those companies on the basis of Article 23^1 of the Labour code.

The award amount constitutes an equivalent of 150% of gross minimum pay on the basis of the applicable laws.

The anniversary prize amount is calculated only for the period of employment at PEPEES S.A. and the companies spun off from PEPEES S.A., subject to the transfer of the employee from PEPEES S.A. to those companies on the basis of Article 23^1 of the Labour code.
Depending on the overall seniority, the anniversary prize amount constitutes the following percent of the basis:

- after 20 years of employment - 200%,
- after 25 years of employment - 250%,
- after 30 years of employment - 300%,
- after 35 years of employment - 350%,
- after 40 years and every other 5-year periods of employment - -400%.

Non-full-time employees are awarded an anniversary prize proportionally to the length of employment indicated in the employment contract.

Retirement and disability allowances are paid at the Company in accordance with the provisions of Article 92^1 of the Labour code.

An employee fulfilling the conditions entitling him to a disability or retirement pension, whose employment relationship has ceased in connection with him going on disability pension or retiring, is entitled to a cash allowance equal to one month's remuneration.

Disability pensioners and retirees that are re-employed do not re-acquire the right to an allowance.

Main actuarial assumptions

Description	Balance sheet date	Balance sheet date

in thousands of zlotys

	31.12.2017	31.12.2016
Basic actuarial assumptions		
Number of employees	264	223
Annual minimum remuneration growth rate	3.50%	3.50%
Discount rate	3.20%	3.40%

Actuarial assumptions
The following assumptions were adopted to calculate the provisions as at 31.12.2017:

- The calculations were made in Polish zlotys (PLN), the results were rounded off to full groszy.
- The minimum remuneration in effect in the national economy as of 1 January 2018 was adopted at the level of PLN 2,100.00.
- A long-term annual rate of growth of remunerations in the Company was adopted at 2.5%, i.e. on the level of the anticipated long-term annual inflation rate (inflation target of the National Bank of Poland).
- A long-term annual rate of growth of the minimum remuneration was adopted at 3.5%, i.e. on the level that is higher by 1 percentage point than the anticipated long-term annual inflation rate (inflation target of the National Bank of Poland) of 2.5%.
- To discount future payments of benefits a 3.2% discount rate was adopted, i.e. on the level of the profitability of the safest long-term securities listed on the Polish capital market as at the valuation date.
- The probability of the employees leaving the Company was calculated on the basis of historical data concerning employee rotation at the Company and the statistical data concerning employees leaving their jobs in the industry sector.
- The death rate and the probability of survival were adopted in accordance with the 2016 Life Tables published by the Central Statistical Office. It was assumed that the population of Company's employees corresponds to Poland's average death rate.
- A normal process of the employees retiring was adopted in accordance with detailed principles stipulated in the Retirement Act, excluding those employees who, according to the information provided by the Company, fulfil the conditions required to exercise the right to retire earlier.
- The provision for disability pensions was not calculated separately; instead, the persons who went on disability pension were not taken into account in the calculation of the probability of the employees leaving the Company.
- Short-term liabilities (with maturity date up to 1 year) and long-term liabilities (over 1 year) were calculated separately.

6.20. Trade liabilities and other liabilities

SHORT-TERM LIABILITIES	***As at 31.12.2017***	***As at 31.12.2016***
- trade liabilities, maturing:	7,552	6,353
- up to 12 months	7,552	6,353
- over 12 months		
- tax, customs, insurance and other liabilities	1,508	1,530
- payroll liabilities	941	737
- received advances for deliveries		234
- other	177	122
Total trade liabilities and other liabilities	**10,178**	**8,976**

in thousands of zlotys

Liabilities towards related parties amount to PLN 190 thousand and concern deliveries of raw materials and goods.

6.21. Liabilities ensuing from assets in leasing

LIABILITIES ENSUING FROM FINANCIAL LEASE	*As at 31.12.2017*	*As at 31.12.2016*
a) long-term (from 1 year up to 5 years)	7,029	4,137
b) short-term (up to a year)	2,225	1,523
Total	**9,254**	**5,660**

The above liability ensues from agreements concluded with companies: BZ WBK Leasing, ING Lease, Raiffeisen Leasing Polska, BGŻ BNP Paribas, Volkswagen Leasing and PKO Leasing to finance cars as well as machines and devices. Payments are being made in monthly instalments in accordance with the repayment schedule, the last instalment will be paid in November 2023. The liability bears a variable interest rate WIBOR 1M plus margin. Pursuant to the provisions of the agreements all rights associated with the warranty and guarantee are transferred to the lessee. An exception is the possibility to withdraw from the sales agreement, to which only the lessor is entitled. The duties of the lessee include timely repayment of instalments in accordance with the repayment schedule accepted by him. In case of delays in the payment of instalments or lack thereof, the lessor has the right to terminate the agreement and return the subject of the lease. After the lease agreement is over, the ownership of the subject of the lease is transferred by the lessor to the lessee.

LIABILITIES ENSUING FROM FINANCIAL LEASE	2018	2019-2023	Total
Face value of lease instalments	2,480	7,448	9,928
Future financial expenses	(255)	(419)	(674)
Current value of minimum lease instalments	**2,225**	**7,029**	**9,254**

The Company treats the perpetual usufruct right as operational lease and recognizes it under off-balance sheet items. Information concerning the value is presented in note 11.

6.22. Provisions, accruals and deferred income

PROVISIONS, ACCRUALS, DEFERRED INCOME (BY TITLE)	*As at 31.12.2017*	*As at 31.12.2016*
a) long-term, including:	**2,312**	**2,421**
- subsidies to tangible assets	2,312	2,413
- subsidies to credits		8
b) short-term, including:	**1,308**	**1,324**
- subsidies to tangible assets	101	101
- subsidies to credits	8	26
- provision for costs of environmental protection	123	165
- provisions for remunerations for annual leaves	470	388
- provision for bonuses for the Management Board and employees	270	284
- provision for services not invoiced	31	23
- provision for exercised CO2 emission rights	305	337
Total	**3,620**	**3,745**

CHANGE IN SHORT-TERM PROVISIONS AND ACCRUALS (BY TITLE)	01.01.2017-31.12.2017	01.01.2016-31.12.2016
a) opening balance	1,324	**1,685**

in thousands of zlotys

- subsidies to tangible assets	101	257
- provisions for counterparties' performance	23	26
- subsidies to credits	26	62
- environmental fee	165	126
- provisions for remunerations for annual leaves	388	343
- emission rights	337	676
- bonus for the Management Board and employees	284	195
b) increases (arising from)	**1,199**	**1,196**
- provision for exercised CO2 emission rights	305	337
- environmental fee	123	164
- provisions for remunerations for annual leaves	470	388
- provisions for counterparties' performance	31	23
- bonus for the Management Board and employees	270	284
c) consumption (arising from)	**1,215**	**1,557**
- environmental fee	165	125
- provisions for remunerations for annual leaves	388	343
- provision for exercised CO2 emission rights	337	676
- provisions for counterparties' performance	23	26
- subsidies to tangible assets		156
- subsidies to credits	18	36
- bonus for the Management Board and employees	284	195
e) closing balance	**1,308**	**1,324**
- subsidies to tangible assets	101	101
- subsidies to credits	8	26

CHANGE IN SHORT-TERM PROVISIONS AND ACCRUALS (BY TITLE)	01.01.2017-31.12.2017	01.01.2016-31.12.2016
- provision for exercised CO2 emission rights	305	337
- environmental fee	123	165
- provisions for remunerations for annual leaves	470	388
- bonus for the Management Board and employees	270	284
- provisions for counterparties' performance	31	23

6.23. Deferred income tax

PROVISION FOR DEFERRED INCOME TAX	*As at 31.12.2017*	*As at 31.12.2016*
Difference between balance sheet value and the tax value of tangible assets	6,123	5,541
Unrealized exchange differences	2	2
Valuation of credit		2
Interest payable but not received	8	5
Total provision for deferred income tax	**6,133**	**5,550**

DEFERRED INCOME TAX ASSETS	*As at 31.12.2017*	*As at 31.12.2016*
Unpaid remunerations	132	127

in thousands of zlotys

Provisions for remunerations for annual leaves	89	74
Provision for bonuses for the Management Board and employees	51	54
Retirement benefits and anniversary prizes	385	367
Unrealized exchange differences	48	58
Write-downs on inventory	44	35
Write-downs on shares	565	18
Provision for exercised CO_2 emission rights	58	64
Liabilities ensuing from reconciliation of the subject of lease	1,385	700
Other accruals	6	4
Total deferred income tax assets	2,763	**1,501**

7. Explanatory notes to the statement of comprehensive income

7.1. Revenues from sales of products

NET REVENUES FROM SALES OF PRODUCTS (BY CATEGORY - TYPES OF ACTIVITIES)	2017 year	2016 year
- potato products	140,618	119,902
- including: from related parties	172	456
- heat energy	352	3,429
Total net revenues from sales of products	**141,142**	**123,331**
- including: from related parties	172	456

NET REVENUES FROM SALES OF PRODUCTS (TERRITORIAL STRUCTURE)	2017 year	2016 year
a) domestic	**78,674**	**66,731**
- including: from related parties	172	456
- potato products	78,322	63,302
- including: from related parties	172	456
- heat energy	352	3,429
b) intra-community delivery	**14,539**	**12,973**
- including: from related parties		
- potato products	14,539	12,973
c) export	**47,929**	**43,627**
- including: from related parties		
- potato products	47,929	43,627
Total net revenues from sales of products	**141,142**	**123,331**

7.2. Revenues from sales of services

NET REVENUES FROM SALES OF SERVICES (BY CATEGORY - TYPES OF ACTIVITIES)	2017 year	2016 year
- revenues from lease of real property	31	5
- revenues from rental of devices	234	279
- transmission of electricity	-	1
- water supply and sewage removal	1	-
- services for farmers	423	355
- other services	103	35

in thousands of zlotys

Total net revenues from sales of services	**792**	**675**
- including: from related parties	271	239

All services were provided domestically.

7.3. Revenues from sales of goods and materials

NET REVENUES FROM SALES OF GOODS AND MATERIALS (BY CATEGORY - TYPES OF ACTIVITIES)	2017 year	2016 year
- potatoes	8,955	8,009
- including: from related parties	2,320	1,818
- potato products	7,505	7,571
- including: from related parties		
- plant protection products and fertilizers	3,648	3,531
- including: from related parties		
- materials	412	650
- including: from related parties	105	186
Total net revenues from sales of goods and materials	**20,520**	**19,761**
- including: from related parties	**2,425**	**2,004**

NET REVENUES FROM SALES OF GOODS AND MATERIALS (TERRITORIAL STRUCTURE)	2017 year	2016 year
a) domestic	**14,664**	**17,601**
- potatoes	8,955	8,009
- including: from related parties	2,320	1,818
- potato products	1,649	5,411
- including: from related parties		
- plant protection products and fertilizers	3,648	3,531
- including: from related parties		
- materials	412	650
- including: from related parties	105	186
b) export	**5,134**	**889**
- including: from related parties		
- potato products	5,134	889
c) intra-community delivery	**722**	**1,271**
- including: from related parties		
- potato products	722	1,271
Total net revenues from sales of goods and materials	**20,520**	**19,761**

7.4. Costs by type

COSTS BY TYPE	2017 year	2016 year
a) depreciation	6,595	6,117
b) consumption of materials and energy	81,021	74,688
c) external services	17,021	13,625
d) taxes and charges	2,880	2,725
e) payroll	15,080	13,252

in thousands of zlotys

f) social security and other benefits	3,341	2,986
g) other costs by type (arising from)	1,634	1,189
- representation costs and advertising	356	179
- business trips	140	127
- costs of property and personal insurance	276	257
- costs of scientific analyses, research and expert opinions	345	259
- other costs	517	367
Total costs by type	**127,572**	**114,582**
Change in inventory, products and accruals	(4,501)	(8,155)
Manufacturing cost of products for internal purposes	(1,107)	(683)
Costs of sales (negative value)	(10,017)	(7,622)
General and administrative costs (negative value)	(19,366)	(14,945)
Manufacturing cost of products and services sold	**92,581**	**83,177**

7.5. Costs of employee benefits

COSTS OF EMPLOYEE BENEFITS	2017 year	2016 year
e) costs of remunerations, including:	**15,080**	**13,252**
- remunerations ensuing from employment contracts	13,673	11,293
- remunerations ensuing from mandatory and similar contracts	799	1,282
- remuneration of Members of Supervisory Board	317	336
- economic severance pays and anniversary prizes	223	206
- provisions for remunerations for unused leaves	82	46
- provisions for bonuses for the Management Board and employees	(14)	89
f) social security and other benefits, including:	**3,341**	**2,986**
- costs of social security insurance	2,369	2,081
- deductions for labour fund	287	248
- deductions for social benefits fund	372	300
- costs of employee training	109	75
- workwear	101	206
- costs of medical checks and safety at work	103	76
Total costs of employee benefits	**18,421**	**16,238**

7.6. Result on agricultural production

	2017 year	2016 year
Revenues from sales of agricultural products	833	572
Subsidies	489	795
Result on sales of farming equipment	207	-
Operating expenses	(2,958)	(2,855)
Result on agricultural production	**(1,429)**	**(1,488)**

7.7. Other operating revenues

OTHER OPERATING REVENUES	2017 year	2016 year

a) gain on disposal of non-financial fixed assets	**136**	**1,135**
b) dissolution of provision due to:	**108**	**11**
- write-down on receivables	108	11
- amortization of emission rights	-	-
- liabilities	-	-
c) government subsidies, including:	**127**	**319**
- subsidies to tangible assets	101	257
- subsidies to investment credits	26	62
d) other, including:	**122**	**234**
- compensations, penalties and fines received	96	164
- surplus assets	6	46
- other	20	24
Other operating revenues - total	**493**	**1,699**

7.8. Other operating expenses

OTHER OPERATING EXPENSES	2017 year	2016 year
a) revaluation of non-financial assets		-
b) other, including:	**628**	**209**
- donations	47	14
- costs of liquidating non-financial fixed assets		54
- costs of litigations		4
- write-downs on receivables	247	76
- unplanned depreciation write-downs	38	1
- compensations, penalties and fines paid	20	39
- receivables written down	45	1
- shortages of assets	35	17
- costs of post-accident repairs	168	
- other	28	3
Other operating expenses - total	**628**	**209**

7.9. Financial expenses

FINANCIAL EXPENSES	2017 year	2016 year
a) interest on credits and loans	636	470
b) interest on liabilities	2	1
c) credit revaluation	32	72
d) write-down on shares in CHP Energia	2,875	
e) write-down on accrued interest on sureties	231	
f) exchange losses	763	
- realized	814	
- unrealized	(51)	
g) other financial expenses	294	361
- refund of fees from Bank Guarantee Fund	-	135
- provisions for financial expenses	23	10

in thousands of zlotys

- lease instalments	145	137
- commissions on credits	110	61
- discount on redemption of receivables	16	18
Total financial expenses	**4,833**	**904**

7.10. Financial revenues

FINANCIAL REVENUES	2017 year	2016 year
a) dividends	122	122
b) interest on loans	596	641
c) interest on deposits	124	110
d) interest on receivables	88	86
e) revenues from sales of financial assets	7	-
f) exchange gains	-	93
- realized	-	383
- unrealized	-	(290)
Total financial revenues	**937**	**1,052**

7.11. Income tax

INCOME TAX	2017 year	2016 year
Current tax	(4,057)	(4,454)
Deferred tax	704	391
Total income tax	**(3,353)**	**(4,063)**

Reconciliation of the income tax on gross financial result before tax according to the statutory tax rate with the income tax calculated according to the effective tax rate:

Description	2017 year	2016 year
Gross financial result before tax	15,672	19,981
Income tax according to statutory 19% tax rate	(2,978)	(3,796)
Tax on permanent differences between gross profit and tax base	(375)	(267)
Income tax expense according to effective interest rate amounting to 20.7% in 2017 and 20.3% in 2016	**(3,353)**	**(4,063)**

In 2017 the Company paid PLN 4,094 thousand worth of tax to the Inland Revenue Office, including PLN 2,643 thousand for 2016. Output tax for 2017 - PLN 2,757 thousand.

7.12. Earnings per share

The earnings per share were calculated as the ratio of the profit for the given period to weighted average number of shares. All shares are ordinary bearer shares.

Weighted average number of shares				
period start	period end	number of days (A)	number of shares in the given period (B)	(A) x (B) / 365

in thousands of zlotys

2017-01-01	2017-12-31	365	95,000,000	95,000,000
total:		365	**weighted average:**	**95,000,000**

PROFIT (LOSS) PER SHARE	2017	2016
Net profit (loss) in PLN	12,319	15,918
Weighted average number of shares	95,000,000	95,000,000
Basic net earnings per share (in PLN per share)	0.13	0.17
Net earnings used in determining diluted earnings per share	12,319	15,918
Weighted average number of ordinary shares for the needs of diluted earnings per share	95,000,000	95,000,000
Diluted net earnings per share (in PLN)	0.13	0.17

The Management Board proposes that the profit be contributed to the reserve capital.

8. Explanatory notes to the cash flow statement

8.1. Reconciliation of amounts recognized in the cash flow statement with the balance of cash and cash equivalents in the balance sheet

Description	2017 year	2016 year
Cash and cash equivalents in the report on the financial condition	24,579	21,648
Credits in current account	0	0
Exchange differences from cash valuation	10	4
Cash in the cash flow statement	**24,589**	**21,652**

The Company has no cash of limited disposability.

8.2. Non-cash transactions

Description	2017 year	2016 year
Purchase of assets through financial lease	(5,775)	(2,009)
Credit valuation according to adjusted cost (change)	32	73
Accrued but not paid interest on loan (change)	210	-

8.3. Unused limits in current account

As at 31.12.2017 the Company had unused credits in the current account worth PLN 8,000 thousand (31.12.2016: also PLN 8,000 thousand).

9. Financial instruments

9.1. Categories of financial instruments

The main financial instruments being used by the Company include bank credits, lease, cash and short-term deposits. The main purpose of these financial instruments is to acquire funds for the entity’s operations. The Company also has other financial instruments such as trade receivables and liabilities which arise directly in the course of its operations.

Financial assets	As at 31.12.2017	As at 31.12.2016

Intended for trading	3,546	2,550
Loans and receivables (including cash)	56,843	51,367
Financial assets available for sale	15,235	9,789
Total financial assets	**75,624**	**63,706**

Financial assets disclosed in the financial statement as:	As at 31.12.2017	As at 31.12.2016
Investments in subsidiaries	15,122	9,676
Investments in other entities	113	113
Trade receivables	19,807	19,897
Other receivables	4,076	1,246
Loans granted	8,381	8,576
Investments intended for trading	3,546	2,550
Cash and cash equivalents	24,579	21,648
Total financial assets	**75,624**	**63,706**

Financial liabilities	As at 31.12.2017	As at 31.12.2016
Depreciated cost	73,075	61,273
Other liabilities	10,178	8,976
Total financial liabilities	**83,253**	**70,249**

Financial liabilities disclosed in the financial statement as:	As at 31.12.2017	As at 31.12.2016
Long-term credits and loans	11,248	6,939
Long-term liabilities ensuing from assets in leasing	7,029	4,137
Trade liabilities	7,552	6,353
Short-term credits and loans	52,573	48,674
Short-term liabilities ensuing from assets in leasing	2,225	1,523
Other short-term liabilities	2,626	2,623
Total financial liabilities	**83,253**	**70,249**

9.2. Financial risk management

Main types of risk ensuing from the Company's financial instruments include interest rate risk, liquidity risk, FX risk and credit risk. The Management Board verifies and agrees upon the principles of managing every type of risk - these principles are briefly presented below. The Company also monitors the risk of market prices in relation to every financial instrument possessed.

Interest rate risk

The risk to which the Company is exposed in connection with changes in the interest rates concerns, above all, the credits whose interest rate depends on the rediscount rate and the WIBOR rate. In connection with the fact that all long-term credits are preferential credits with a low interest rate, the interest rate risk is not high and the Company did not conclude contracts to change the interest rates.
The following table presents the sensitivity of the gross financial result, on a yearly basis, on the rational, possible changes in the interest rates under the assumption that other factors do not change (in connection with the liabilities with a variable interest rate).

Increases/decreases by percentage points	Impact on the result

in thousands of zlotys

	2017	2016
Increase in interest rate on credits by 1%	(290)	(299)
Decrease in interest rate on credits by 1%	290	299

FX risk
The Company is exposed to the FX risk related to transactions being concluded. Such risk appears when selling products abroad and to the EU countries in currencies other than Polish zloty. Export and intracommunity deliveries during the reporting period accounted for more than 42% of all revenues from sales. The following table presents the sensitivity of the gross financial result associated with the change in the revenues and expenses in case the USD and EUR fluctuate by 0.1 PLN/EUR/USD

Increases/decreases in exchange rate	Impact on the result	
	2017	2016
Increase of PLN/USD exchange rate by 0.1	406	282
Increase of PLN/EUR exchange rate by 0.1	1,069	1,221
Decrease of PLN/USD exchange rate by 0.1	(406)	(282)
Decrease of PLN/EUR exchange rate by 0.1	(1,069)	(1,221)
Overall impact on the result	**+/-1,475**	**+/-1,503**

The Company also has cash and receivables in euro and American dollars in bank accounts.
The consequences of changes in the exchange rates of USD and EUR currencies possessed as at the balance sheet date by 0.1 PLN/EUR/USD are presented in the following table.

Increases/decreases in exchange rate	Impact on the result	
	2017	2016
Increase of PLN/USD exchange rate by 0.1	67	42
Increase of PLN/EUR exchange rate by 0.1	167	133
Decrease of PLN/USD exchange rate by 0.1	(67)	(42)
Decrease of PLN/EUR exchange rate by 0.1	(167)	(133)
Overall impact on the result	**+/- 234**	**+/-175**

Credit risk
The Company concludes transactions solely with proven customers with good creditworthiness. All customers wishing to use trade credits undergo preliminary verification procedures. Moreover, thanks to on-going monitoring of the receivables, the Company's exposure to the risk of irrecoverability of receivables is not significant. Assessment of the financial credibility performed by the insurer KUKE and the awarded financial limit also plays a decisive role.
There are no significant concentrations of the credit risk at the Company.

Liquidity risk
The Company's goal is to maintain a balance between continuity and flexibility of financing by using different sources of financing such as credits in current account, short and long-term preferential bank credits. The Company manages the liquidity risk by maintaining an appropriate level of the reserve capital, taking advantage of the offers of banking services and reserve credit lines, continuously monitoring the forecasted and actual cash flows and matching the profiles of maturity of financial assets and liabilities.

10. Capital management

The main aim of managing the Company's capital is to maintain the ability to continue operations, taking into account the planned investments, while simultaneously increasing the Company's value for the shareholders.
The Company monitors its capitals by using a leverage ratio which is calculated as the ratio of net debt to the sum of capitals increased by net debt. The net debt includes credits, loans, liabilities ensuing from financial

in thousands of zlotys

lease, trade liabilities and other liabilities, less cash and cash equivalents.

	31 December 2017	31 December 2016
Credits, loans, liabilities ensuing from financial lease	**73,075**	**61,273**
Trade liabilities and other liabilities	**10,178**	**8,976**
Cash and cash equivalents (-)	**24,579**	**21,648**
Net debt	**58,674**	**48,601**
Equity	**139,112**	**126,687**
Capital and net debt	**197,786**	**175,288**
Leverage ratio	**29.67%**	**27.73%**

The structure of financing is monitored to ensure the necessary level of financing of investments as assumed in the Strategy of the PEPEES Capital Group for the years 2013-2018. The leverage ratio decreased a bit in 2017, above all, as a result of the increase in credit and loan liabilities by PLN 8,208 thousand in relation to the preceding year.

11. Contingent items

11.1. Contingent receivables

The Company is perpetually using 493,591 m^2 of land whose value as at 31.12.2017 ensuing from the decision determining the annual fee is PLN 10,822 thousand (31.12.2016 - PLN 10,822 thousand). The market value is similar to that ensuing from the decision. The Company pays an annual fee of 3% of the value. In 2017 and in the preceding year the fee was PLN 325 thousand.

11.2. Contingent liabilities

The Company granted a surety for a credit awarded by SBR Bank to the affiliated party CHP Energia up to the amount of PLN 18,234 thousand.
PEPEES is receiving subsidies to the interest rates on investment credits. The value of the subsidies received until 31.12.2017 amounts to PLN 972 thousand. In case of non-fulfilment of the conditions stipulated in the credit agreements, i.e. among other things:

- not paying instalments and interest stipulated in the agreements on time,
- not realizing the investment in accordance with the plan,
- using the credit inconsistently with the purpose,

the subsidies must be refunded. There is no risk that the Company will not fulfil the above conditions because the investments have already been carried out in accordance with the plan and the credits have been used in accordance with their purpose, and the instalments and the interest are paid by the Company on time.

Liabilities ensuing from the competition ban agreements may appear after the termination of the employment relationship. Such agreements are concluded with members of the Management Board and several employees. Should the employment relationship with them be terminated, the Company is obliged to pay them compensation worth approx. PLN 710 thousand.

As at the balance sheet date there is an unresolved court case brought in by EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych to abrogate or annul resolutions adopted during the General Meeting of Shareholders held on 25 April 2017.

12. Transactions with related entities

12.1. Transactions with subsidiaries

a) Revenues from sales of products and goods obtained from subsidiaries

in thousands of zlotys

Types of revenues	2017 year	2016 year
Revenues from sales of products to subsidiaries	**172**	**456**
Revenues from sales of services to subsidiaries	**271**	**239**
Revenues from sales of goods to subsidiaries	**105**	**-**
Revenues from sales of raw materials to subsidiaries	**2,320**	**2,004**
Revenues from sales of fixed assets to subsidiaries	**48**	**-**
Total revenues from related parties	**2,916**	**2,699**

The sales price is determined using a "cost plus" method or on the basis of the price lists applicable to unrelated entities.

b) Purchase of goods and services from subsidiaries

Types of purchases	2017 year	2016 year
Purchase of products from subsidiaries	**6,805**	**6,546**
Purchase of services from subsidiaries	**85**	**228**
Purchase of goods from subsidiaries	1,192	**699**
Total purchases from related parties	**8,225**	**7,330**

c) c) Balance of reconciliations as at the balance sheet date arisen as a result of sale/purchase of goods/services

Receivables from related parties	31.12.2017	31.12.2016
PPZ BRONISŁAW	**1,979**	-
CHP Energia	196	199
OZENERGY	6	6
Total receivables from related parties	**2,181**	**205**

Liabilities towards related parties	31.12.2017	31.12.2016
ZPZ Lublin	148	129
PPZ BRONISŁAW	-	**58**
CHP Energia	**42**	-
Total liabilities towards related parties	**190**	**187**

d) Loans granted to related parties

Entity	Value of loan as per agreement	Status of debt as at	
		31.12.2017	31.12.2016
ZPZ Lublin	3,000	3,000	3,011
PPZ BRONISŁAW	6,500	2,000	4,673
CHP Energia	2,538	2,619	710
Total	**12,038**	**7,619**	**8,394**

e) Interest on loans granted

Entity	2017	2016
ZPZ Lublin	128	128

PPZ BRONISŁAW	167	224
CHP Energia	43	282
Total	**338**	**634**

f) Interest on sureties granted

Entity	2017	2016
CHP Energia	221	142
Total	**221**	**142**

g) contingent items

Contractual mortgages constituting collaterals securing the repayment of credits taken out by PEPEES up to PLN 68,000 thousand were established on the assets of subsidiaries (ZPZ Lublin and PPZ Bronisław).

12.2. Transactions with key managerial staff

a) benefits for key managerial staff

Management Board in thousands of zlotys:	**2017**	**2016**
Short-term benefits	1,530	1,136
Benefits after the period of employment	0	180
Other long-term benefits	0	0
Benefits arising from termination of the employment relationship	0	0
Payments in the form of shares	0	0

Supervisory Board in thousands of zlotys:	**2017**	**2016**
Short-term employee benefits	319	338
Benefits after the period of employment	0	0
Other long-term benefits	0	0
Benefits arising from termination of the employment relationship	0	0
Payments in the form of shares	0	0

b) transactions with members of the Management Board and Supervisory Board and their closest relatives

No transactions within the meaning of IAS 24 were recorded during the reporting period.

13. Average employment in the Company

Description	Average number of employees in 2017	Average number of employees in 2016
White-collar workers	95	87
Blue-collar workers	187	180
Persons on unpaid and parental leaves	4	4
Total	286	**271**

in thousands of zlotys

14. Remuneration of the certified auditor

The remuneration payable to the certified auditor for reviewing and auditing the financial statement and the consolidated financial statement is PLN 40,000.00 plus VAT, out of which PLN 13,000.00 was paid in 2017. The certified auditor did not provide any other services to PEPEES.

15. Events after the balance sheet date

Important events after the balance sheet date:

- On 4 January the Company acquired from the shareholders the third package of shares in Gospodarstwo Rolne Ponary sp. z o.o., thus becoming a holder of 100% of shares in Ponary.
- On 15 February Mr. Krzysztof Borkowski informed that all entities related to him, including Mazowiecka Korporacja Finansowa, sold all shares held in PEPEES as a result of a call announced by Maksymilian Skotnicki and Michał Skotnicki.
- On 16 February the Management Board of PEPEES published information about convening the Extraordinary General Meeting of Shareholders on 24 April 2018 at noon.

16. Approval of the financial statement

The financial statement was approved by the Management Board and admitted to publication on 28 March 2018. Together with the separate financial statement a consolidated financial statement of the PEPEES S.A. Capital Group approved for publication by the Management Board on 28 March 2018 is published.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

Date	First and last name	Position/Function	Signature
28.03.2018	Wojciech Faszczewski	President of the Management Board	
28.03.2018	Tomasz Rogala	Member of the Management Board	

SIGNATURE OF THE PERSON WHO DREW UP THE FINANCIAL STATEMENT

Date	First and last name	Position/Function	Signature
28.03.2018	Wiesława Załuska	Chief accountant	