

## REPORT OF THE INDEPENDENT CERTIFIED AUDITOR FROM THE AUDIT OF THE ANNUAL FINANCIAL STATEMENT

For the Shareholders and the Supervisory Board  
of Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A.

### Report from the audit of the annual financial statement

We conducted an audit of the attached annual financial statement of Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. (hereinafter referred to as "Company") with registered office in Łomża, which is comprised of: report on the financial condition drawn up as at 31 December 2017, report on the results, statement of comprehensive income, cash flow statement, statement of changes in equity for the financial year from 1 January 2017 to 31 December 2017 together with a description of significant accounting principles (policy), as well as additional information and explanatory notes ("financial statement").

#### *Responsibility of the Company's Manager and persons exercising supervision for the financial statement*

The Company's Management Board is responsible for drawing up, on the basis of correctly kept accounting ledgers, the financial statement and for its credible presentation 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 other applicable laws, and the Company's articles of association. The Company's Management Board is also responsible for internal control which it deems necessary to draw up the financial statement not containing a significant distortion caused by fraud or error.

In accordance with the provisions of the Accounting Act of 29 September 1994 (Journal of Laws of 2017, item 2342, as amended) ("Accounting Act"), the Company's Management Board and Members of the Company's Supervisory Board are obliged to ensure that the financial statement also fulfils the requirements stipulated in the Accounting Act.

#### *Responsibility of the certified auditor*

Our task was to express an opinion on whether the financial statement credibly and clearly reflects the Company's economic and financial condition in accordance with the applicable 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).

We conducted the audit of the financial statement in accordance with the provisions of:

- 1) the Act of 11 May 2017 on certified auditors and their self-government, entities authorized to audit financial statements and public supervision (Journal of Laws of 2017, item 1089) ("*Act on certified auditors*"),
- 2) audit standards adopted so far by the National Council of Statutory Auditors,
- 3) Regulation of the European Parliament and of the Council (EU) No. 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (Official Journal of the European Union L 158 of 27.05.2014, p. 77 and Official Journal of the European Union L 170 of 11.06.2014, p. 66) ("*Regulation 537/2014*"),
- 4) chapter 7 of the Accounting Act.

These regulations require observing ethical requirements as well as planning and conducting

audits in such a way as to be sufficiently certain that the financial statement does not contain a significant distortion.

The aim of the audit is to obtain sufficient certainty to whether the financial statement as a whole has been drawn up on the basis of correctly kept accounting ledgers and that it does not contain a significant distortion caused by a fraud or error, and to issue an independent certified auditor's report containing our opinion. Sufficient certainty means high level of certainty but does not guarantee that the audit conducted in accordance with the aforementioned standards will always detect an existing significant distortion. Distortions may occur as a result of a fraud or error and are considered to be significant if it can be rationally expected that individually or together they might influence the economic decisions of the users taken on the basis of that financial statement. The risk of not detecting a significant distortion arisen as a result of a fraud is higher than the risk of not detecting a significant distortion arisen as a result of an error because it can include a collusion, forgery, intentional omission, misleading or evasion of internal control and may pertain to every area of the law and regulations, not just that having a direct impact on the financial statement.

The audit consisted in conducting procedures aimed at obtaining evidence for the amounts being checked and disclosed in the financial statement. The choice of the audit procedures depends on the judgement of the certified auditor, including on the assessment of the risk of significant distortion of the financial statement caused by a fraud or error. Assessing that risk the certified auditor takes into account the activities of the internal control within the scope of drawing up and credible presentation of the financial statement by the Company for the purpose of designing audit procedures fitting under the given circumstances and not expressing an opinion on the effectiveness of the Company's internal control. The audit also includes an assessment of the appropriateness of the adopted accounting principles (policy), rationality of the estimated values adopted by the Company's Management Board as well as an assessment of the general presentation of the financial statement.

The scope of the audit does not include an assurance as to the future profitability of the audited Company or the Management Board's effectiveness and efficiency in dealing with the Company's matters currently or in the future.

We are convinced that the evidence obtained in the course of the audit constitutes a sufficient and appropriate basis for our opinion on the audit. The opinion is coherent with the additional report for the audit committee issued on the date of this report from the audit.

### *Independence*

In the course of the audit the key certified auditor and the audit company remained independent of the Company being audited in accordance with the provisions of the Act on certified auditors, Regulation 537/2014 and the principles of professional ethics adopted by the resolutions of the National Council of Statutory Auditors.

According to our best knowledge and belief, we declare that we have not provided services not constituting an audit which are forbidden by the provisions of Article 136 of the Act on certified auditors and Article 5 par. 1 of Resolution 537/2014.

### *Choice of the audit company*

We have been chosen to audit the Company's financial statement by the resolution No. YIII/49/2017 of the Supervisory Board of Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. of 9 August 2017. We have been auditing the Company's financial statements uninterruptedly since the financial year ended on 31 December 2013, i.e. for 5

consecutive years.

### *Most significant types of risks*

During the course of the audit we identified the following most relevant types of risks of significant distortion, including that caused by fraud, and developed appropriate audit procedures for those types of risks. In cases where we found it to be appropriate for understanding the identified risk and audit procedures being performed by the certified auditor, we also included the most important observations associated with these types of risks.

<b>Description of the type of risk of significant distortion</b>	<b>Procedures of the certified auditor in response to identified risk and most important observations associated with these types of risks</b>
<p><i>Impairment of assets</i></p> <p>An analysis of impairment of assets, above all as regards investments in subsidiaries, was a key issue of the audit.</p> <p>The process of performing an estimation by the Management Board is based on significant assumptions and estimates such assumptions: budgets, future revenues, costs and cash flows, discount rate, long-term growth rate, which depend on expectations pertaining to future market and economic conditions.</p> <p>The description of the methodology of recognizing the impairment of assets can be found in note 2.26 to the financial statement.</p>	<p>Our audit procedures covered a critical evaluation of the correctness of assessing the prerequisites and impairment tests as well as assumptions in the adopted models, with particular emphasis being put on:</p> <ul style="list-style-type: none"> <li>- assessment of key assumptions concerning the market parameters of the impairment test, including the adopted discount rates, risk coefficients or long-term growth rates;</li> <li>- checking the mathematical and arithmetic correctness of the model of discounted cash flows and reconciliation of the source data for the financial forecasts adopted by the Management Board;</li> <li>- assessment of the rationality of the financial forecasts adopted by the Management Board and changes in the environment affecting the adopted forecasts;</li> <li>- analyses of the sensitivity, taking into account an assessment of changes in the discount rate;</li> <li>- assessment of the correctness and completeness of disclosures in this regard.</li> </ul> <p>The aforementioned assessments and comparisons made in the course of the audit provided us sufficient and appropriate evidence necessary to address the risk associated with the impairment of assets.</p>
<p><i>Recognition of revenues</i></p> <p>Correctness of recognizing revenues is an inseparable industry risk. This ensues from the complexity of the terms and conditions of sales agreements. These</p>	<p>Our audit procedures covered, in particular:</p> <ul style="list-style-type: none"> <li>- review of the accounting principles concerning recognition of revenues and the</li> </ul>

<p>terms and conditions vary and must be appropriately reflected in the financial statement, which increases the risk of an error.</p> <p>The description of the methodology of recognizing revenues can be found in note 2.28 to the financial statement.</p>	<p>related significant judgments or estimates;</p> <ul style="list-style-type: none"> <li>- understanding and evaluation of the internal control environment, including recognition, determination and presentation of revenues from sales;</li> <li>- analysis of significant terms and conditions of agreements;</li> <li>- analysis of confirmations of balances obtained from customers and summary of payments received in connection with the sales achieved;</li> <li>- assessment of correctness and completeness of disclosures in the above scope.</li> </ul> <p>The aforementioned detailed tests in combination with the evaluation of the internal control environment provided us sufficient and appropriate evidence necessary to address the aforementioned risk associated with the recognition of revenues.</p>
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### *Opinion*

In our opinion the attached annual financial statement:

- credibly and clearly reflects the Company’s economic and financial condition as at 31 December 2017 and its financial result for the financial year from 1 January 2017 to 31 December 2017 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),
- has been drawn up on the basis of correctly kept accounting ledgers in line with chapter 2 of the Accounting Act,
- complies, in form and content, with the provisions of the law binding the Company, including the provisions of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the conditions for regarding information required by the law of a non-member state as equivalent (Journal of Laws of 2014, item 133, as amended) (“*Regulation on current and periodic information*”) and the Company’s articles of association.

### **Report on other requirements of the law and regulations**

#### *Opinion on the activity report*

Our opinion on the financial statement does not cover the activity report.

The Company’s Management Board and Members of the Supervisory Board are responsible for drawing up the activity report in accordance with the provisions of the law.

Pursuant to the requirements of the Act on certified auditors, our task was to issue an opinion on whether the activity report has been drawn up in accordance with the provisions of the law and that it complies with information contained in the annual financial statement.

Our task was also to make a declaration whether in the light of our knowledge about the Company and its environment obtained in the course of the audit of the financial statement we identified significant distortions in the activity report and to indicate where such significant distortion lies.

In our opinion, the activity report has been drawn up in accordance with the provisions of the law and complies with information contained in the annual financial statement. Moreover, we declare that in the light of our knowledge about the Company and its environment obtained in the course of the audit of the financial statement, we did not identify significant distortions in the activity report.

*Opinion on the declaration of application of corporate governance*

The Company's Management Board and Members of the Supervisory Board are responsible for drawing up the declaration of application of corporate governance in accordance with the provisions of the law.

In connection with the conducted audit of the financial statement, pursuant to the requirements of the Act on certified auditors, our task was to issue an opinion on whether the Issuer obliged to submit a declaration of application of corporate governance, constituting a separate part of the activity report, included information in that declaration required by the provisions of the law and a statement relating to specific information stipulated in those provisions or regulations whether it complies with the applicable provisions and information contained in the annual financial statement.

In our opinion, in the declaration of application of corporate governance, the Company included information specified in section 91 par. 5 item 4 letters a, b, g, j, k and letter l of the Regulation on current and periodic information. Information indicated in section 91 par. 5 item 4 letters c-f, h and letter i of that Regulation, contained in the declaration of application of corporate governance, complies with the applicable regulations and information contained in the financial statement.

On behalf of  
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Dominik BORKOWSKI

Olivier DEGAND

Key Certified Auditor  
No. 12 183  
Warsaw, 28 March 2018

Partner