CORPORATE GROUP OF PRZEDSIĘBIORSTWO PRZEMYSŁU SPOŻYWCZEGO “PEPEES” S.A.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD FROM
1 JANUARY 2018 TO 31 DECEMBER 2018

PREPARED IN ACCORDANCE WITH
THE INTERNATIONAL FINANCIAL
REPORTING STANDARDS AS ADOPTED
BY THE EUROPEAN UNION

26 March 2019

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

SELECTED FINANCIAL FIGURES TRANSLATED INTO EUR

NO.	SELECTED FINANCIAL FIGURES	PLN 000s		EUR 000s	
		2018	2017	2018	2017
I	Total sales revenue	239,941	224,273	56,233	52,836
II	Net profit attributable to equity holders of the parent	23,091	13,364	5,412	3,148
III	Net comprehensive income attributable to equity holders of the parent	22,945	13,470	5,377	3,173
IV	Net cash flows from operating activities	30,474	20,465	7,142	4,821
V	Net cash flows from investing activities	(32,719)	(21,412)	(7,668)	(5,044)
VI	Net cash flows from financing activities	11,361	7,729	2,663	1,821
VII	Total net cash flows	9,116	7,238	2,136	1,705
VIII	Total assets	333,925	303,887	77,657	72,859
IX	Equity	165,399	141,282	38,465	33,873
X	Earnings (loss) per share	0.18	0.13	0.04	0.03
XI	Net comprehensive income per share	0.24	0.14	0.06	0.03
XII	Book value per share	1.74	1.49	0.40	0.36

To translate the selected financial figures into EUR, the following exchange rates announced by the National Bank of Poland (NBP) have been applied:

- selected items of the statement of financial position as at 31.12.2018 – at the average exchange rate as at the balance sheet date: EUR 1 = PLN 4.3000;
- selected items of the statement of financial position as at 31.12.2017 – at the average exchange rate as at the balance sheet date: EUR 1 = PLN 4.1709;
- selected items of the statement of comprehensive income and of the statement of cash flows for the period from 01.01.2018 to 31.12.2018 – at the exchange rate being the arithmetic mean of average exchange rates published by the NBP and applicable on the last day of each month of 2018 – EUR 1 = PLN 4.2669;
- selected items of the statement of comprehensive income and of the statement of cash flows for the period from 01.01.2017 to 31.12.2017 – at the exchange rate being the arithmetic mean of average exchange rates published by the NBP and applicable on the last day of each month of 2017 – EUR 1 = PLN 4.2447.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	ASSETS	*Note*	*31.12.2018*	*31.12.2017*
I	**Non-current (long-term) assets**		**173,688**	**155,419**
1	Property, plant and equipment	8.1	164,885	147,034
2	Intangible assets	8.3	534	211
3	Goodwill arising on consolidation	8.4	3,140	3,140
4	Investments in other entities	8.5	113	113
5	Advances	8.11	47	72
6	Deferred tax assets	8.22	4,969	4,849
II	**Current (short-term) assets**		**160,237**	**148,468**
1	Inventories	8.6	78,065	84,134
2	Biological assets		330	-
3	Trade receivables	8.7	27,651	23,311
4	Other receivables	8.8 8.9	6,044	5,250
5	Advances	8.11	1,964	827
6	Cash loans		941	762
7	Other financial assets	8.5	5,436	3,546
8	Cash and cash equivalents	8.12	39,806	30,638
	Total assets		**333,925**	**303,887**

	EQUITY AND LIABILITIES		*31.12.2018*	*31.12.2017*
I	**Equity**		**166,476**	**145,547**
	Equity attributable to equity holders of the parent		**165,399**	**141,282**
1	Share capital	8.13	5,700	5,700
2	Reserve capital and other reserves	8.14	141,857	124,418
3	Revaluation reserve	8.14	(26)	(172)
4	Retained earnings/loss	8.15	(5,223)	(2,028)
5	Profit/loss for the year		23,091	13,364
	Non-controlling interests		***1,077***	***4,265***
II	**Non-current liabilities**		**50,293**	**48,684**
1	Loans and borrowings	8.16	30,398	25,330
2	Liabilities related to leased assets	8.17	4,775	7,446
3	Deferred tax liabilities	8.22	6,470	6,258
4	Retirement and similar benefits obligations	8.1	2,381	2,249

		8		
5	Grants	8.21	6,269	6,901
6	Other liabilities		-	500
III	**Current liabilities**		**117,156**	**109,656**
1	Trade payables	8.19	13,063	15,026
2	Current income tax liabilities	9.10	1,712	2,887
3	Other current liabilities	8.19	4,749	5,317
4	Loans and borrowings	8.16	90,644	81,534
5	Liabilities related to leased assets	8.17	2,876	2,587
6	Retirement and similar benefits obligations	8.18	296	327
7	Provisions for other liabilities and other charges	8.21	3,816	1,978
	Total equity and liabilities		**333,925**	**303,887**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Revenue and expenses ***Profit and loss***	***Note***	***01.01.2018-31.12.2018***	***01.01.2017-31.12.2017***
I	**Sales revenue**			
1	Revenue from the sales of products	9.1	224,087	203,379
2	Revenue from the sales of services	9.2	1,184	1,831
3	Revenue from the sales of trade goods and materials	9.3	14,670	19,063
	Total sales revenue, including:		**239,941**	**224,273**
	- revenue from continuing operations		***239,941***	***224,273***
	- revenue from discontinued operations			
II	**Cost of sales**			
1	Cost of products sold	9.4	(152,775)	(141,022)
2	Cost of services sold	9.4	(241)	(654)
3	Costs of trade goods and materials sold		(12,393)	(17,152)
4	Profit/loss from agricultural production		(2,121)	(1,429)
	Total cost of sales, including:		**(167,530)**	**(160,257)**
	- cost from continuing operations		***(167,530)***	***(160,257)***
	- cost from discontinued operations			
III	**Gross profit from sales (I-II)**		**72,411**	**64,016**
1	Selling and marketing expenses	9.4	(10,746)	(11,475)
2	Administrative expenses	9.4	(31,351)	(26,862)
3	Other operating income	9.6	1,376	1,065
4	Other operating expenses	9.7	(1,768)	(4,891)
IV	**Operating profit (loss)**		**29,922**	**21,853**
1	Finance costs	9.8	(3,074)	(3,571)
2	Finance income	9.9	3,571	369
V	**Profit (loss) before tax, including:**		**30,419**	**18,651**
	- profit (loss) before tax from continuing operations		*30,419*	*18,651*
	- profit (loss) before tax from discontinued operations			*-*
	Income tax expense	9.10	(7,005)	(5,460)
VI	**Net profit (loss)**		**23,414**	**13,191**
	Net profit (loss) attributable to equity holders of the parent		23,091	13,364
	Net profit (loss) attributable to non-controlling interests		323	(173)
VII	**Other comprehensive income**		**(146)**	**106**
1	Effects of the valuation of financial assets		-	-
2	Revaluation of employee benefit liabilities		(146)	106
VIII	**Total comprehensive income, including:**		**23,268**	**13,297**
	Net comprehensive income attributable to equity holders of the parent		22,945	13,470
	Comprehensive income attributable to non-controlling interests		323	(173)
IX	**Net earnings (loss) per share, including:**	9.11	**0.18**	**0.13**
	- net earnings (loss) per share from continuing operations		***0.18***	***0.13***
	- net earnings (loss) per share from discontinued operations			***-***

Consolidated Financial Statements as at 31 December 2018 PLN 000s

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Revaluation reserve	Other reserves	Retained earnings/ loss	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
1 January 2017	**5,700**	**52,668**	**(278)**	**53,397**	**16,712**	**128,199**	**920**	**129,119**
Changes in the period from 01.01.2017 to 31.12.2017	**-**	**2,435**	**106**	**15,918**	**(5,376)**	**13,083**	**3,345**	**16,428**
Distribution of profit (loss) for 2016		2,435		15,918	(18,353)	-		
Net profit (loss) for the period					13,364	13,364	(173)	13,191
Taking control of a new entity							3,597	3,597
Other comprehensive income for the financial year (net value)			106			106		106
Other consolidation adjustments					(387)	(387)	(79)	(466)
31 December 2017	**5,700**	**55,103**	**(172)**	**69,315**	**11,336**	**141,282**	**4,265**	**145,547**
1 January 2018	**5,700**	**55,103**	**(172)**	**69,315**	**11,336**	**141,282**	**4,265**	**145,547**
Changes in the period from 01.01.2018 to 31.12.2018								
Distribution of profit (loss) for 2017		5,120		12,319	(17,439)	-		-
Net profit (loss) for the period					23,091	23,091	323	23,414
Taking control of a new entity						-	(3,510)	(3,510)
Other comprehensive income for the financial year (net value)			146			146		146
Other consolidation adjustments					880	880	(1)	879
31 December 2018	**5,700**	**60,223**	**(26)**	**81,634**	**17,868**	**165,399**	**1,077**	**166,476**

PLN 000s

CONSOLIDATED STATEMENT OF CASH FLOWS

Indirect method	01.01.2018-31.12.2018	01.01.2017 - 31.12.2017
A. Cash flows from operating activities		
I. Profit (loss) before tax	**30,419**	**18,651**
II. Total adjustments	**55**	**1,814**
1. Depreciation/Amortisation	12,443	9,219
2. Foreign exchange (gains) losses	(278)	(418)
3. Interest and share of profit (dividend)	2,407	1,756
4. (Profit) loss from investing activities	(145)	(106)
5. Net increase/decrease in provisions	1,939	101
6. Net increase/decrease in inventories	6,069	(6,851)
7. Net increase/decrease in biological assets	(330)	158
8. Net increase/decrease in receivables	(5,134)	(481)
9. Net increase/decrease in current liabilities, except for loans and borrowings	(3,031)	3,299
10. Net increase/decrease in advances	(1,137)	1,764
11. Income tax expense	(8,061)	(5,293)
12. Net increase/decrease in grants	(632)	(772)
13. Net increase/decrease in accrued interest on loans	(260)	
14. Received additional payments	(948)	(456)
15. Revaluation of financial assets	(2,886)	-
16. Other adjustments	39	(106)
III. Net cash flows from operating activities (I+/-II)	**30,474**	**20,465**
B. Cash flows from investing activities		
I. Proceeds	**5,398**	**3,609**
1. Disposal of intangible assets and property, plant and equipment	300	3,365
2. Received dividends	122	124
3. Repayment of loans	-	120
II. Expenses	**38,117**	**25,021**
1. Acquisition of intangible assets and property, plant and equipment	30,488	15,129
2. Acquisition of shares and interests	3,510	8,315
3. Purchase of securities	3,979	996
4. Granting a loan	140	581
III. Net cash flows from investing activities (I-II)	**(32,719)**	**(21,412)**
C. Cash flows from financing activities		-
I. Proceeds	**98,056**	**89,098**
1. Loans and borrowings	97,108	89,098
2. Received additional payments	948	-
II. Expenses	**86,695**	**81,369**
1. Repayments of loans and borrowings	81,628	77,012
2. Interest on loans and borrowings	2,176	1,128
3. Lease payments	2,891	3,229
III. Net cash flows from financing activities (I-II)	**11,361**	**7,729**
D. Total net cash flows (A.III+/-B.III+/-C.III)	**9,116**	**7,238**
E. Cash at the beginning of period	**30,648**	**23,118**
F. Cash at the end of period (F+/-D)	**39,764**	**30,356**
including restricted cash	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information about the parent company

Full business name	Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A.
Registered office address	18-402 Łomża, ul. Poznańska 121
REGON [Company Stat. ID No.]	450096365
NIP [Tax ID No.]	7181005512
Registration authority	District Court in Białystok, XII Commercial Division of the National Court Register
No. in the Register	000038455
Legal status	Spółka Akcyjna [a joint stock company]
Organisational form	a single-establishment company

Primary objects according to the Polish Classification of Activities (PKD)
– 1062Z Manufacture of starches and starch products.

Industry – food industry

Company's lifetime – indefinite

The composition of the Board of Directors as at 31.12.2018:
Mr Wojciech Faszczewski – President of the Board of Directors
Mr Tomasz Rogala – Member of the Board of Directors

On 10 April 2018, managers of the Company, i.e. Mr Wojciech Faszczewski and Mr Tomasz Rogala, resigned from their positions of the President and of a Member of the Company's Board of Directors respectively, without stating any reasons for their resignations. Also on 10 April, the Supervisory Board of the Company, acting pursuant to Article 11.2 of the Company's Articles of Association and Article 369 § 1 of the Polish Commercial Code, appointed Mr Wojciech Faszczewski as the President of the Board of Directors of the Company and Mr Tomasz Rogala as a Member of the Board of Directors of the Company. Both gentlemen were appointed for the next term of office starting on 10 April 2018.

Until the date of these financial statements, there have been no changes in the composition of the Board of Directors.

The composition of the Supervisory Board as at 31.12.2018:
1. Mr Maciej Kaliński – Chairman
2. Mr Tomasz Nowakowski – Vice-Chairman
3. Mr Piotr Taracha – Secretary
4. Mr Krzysztof Stankowski – Member
5. Mr Robert Malinowski – Member
6. Ms Agata Czerniakowska – Member

In the period from 1 January 2018 to 17 December 2018, the composition of the Supervisory Board of PEPEES S.A. was as follows:
1. Mr Maciej Kaliński – Chairman
2. Mr Piotr Marian Taracha – Vice-Chairman
3. Mr Krzysztof Stankowski – Secretary
4. Ms Agata Czerniakowska – Member
5. Mr Robert Malinowski – Member

On 18 December 2018, the Extraordinary General Meeting of Shareholders dismissed the following members of the Supervisory Board: Mr Maciej Kaliński – Chairman of the Supervisory Board; Mr Piotr Taracha – Vice-Chairman of the Supervisory Board; Mr Krzysztof Stankowski – Secretary of the Supervisory Board; Ms Agata Czerniakowska – a Member of the Supervisory Board; and Mr Robert Malinowski – a Member of the Supervisory Board. Simultaneously, on the same day, the Extraordinary General Meeting of Shareholders appointed the same persons as members of the Supervisory Board and additionally appointed Mr Tomasz Nowakowski as a member of the Supervisory Board.

Until the date of these financial statements, there have been no changes in the composition of the Company's Supervisory Board.

The composition of the Audit Committee as at 31.12.2018:

1. Mr Maciej Kaliński – Chairman
2. Mr Piotr Taracha – Vice-Chairman
3. Mr Krzysztof Stankowski – Member

The Audit Committee was appointed by a resolution of the Supervisory Board. It worked with the same members until 31 December 2018. Until the date of these financial statements, there have been no changes in the composition of the Audit Committee.

Declaration of the Board of Directors

a. regarding the truth and fairness of the financial statements

The Board of Directors of PEPEES S.A. hereby declares that, to the best of their knowledge, they have ensured the preparation of the annual consolidated financial statements giving an accurate, true and fair view of all financial information relevant for the assessment of the PEPEES Group's assets and financial standing as at 31.12.2018, and of its financial result for the financial year from 01.01.2018 to 31.12.2018.
These consolidated financial statements have been prepared with the application of the accounting policies consistent with the International Financial Reporting Standards authorised by the European Union.
When preparing the consolidated financial statements, the Board of Directors ensured the selection of appropriate principles of the valuation and preparation of the consolidated financial statements. In the valuation of assets and liabilities and in the determination of the financial result, it was assumed that PEPEES Group would continue as a going concern in the foreseeable future within the scope that is not materially changed, which is consistent with facts and legal circumstances.
The Board of Directors of the Parent Company is responsible for the performance of accounting obligations provided for by law.
These consolidated financial statements were authorised for publication by the Board of Directors of the Parent Company on 29 March 2019.

b. Declaration concerning the registered audit company

The Board of Directors of PEPEES S.A. hereby declares that the registered audit company which has audited the consolidated financial statements was selected in accordance with law and that the audit company and the auditors who conducted the audit met the conditions for issuing an impartial and independent audit opinion in accordance with applicable regulations.
The audit company authorised to audit the consolidated financial statements of PEPEES Group for 2018 is WBS Audyt Spółka z ograniczoną odpowiedzialnością with its registered office in Warsaw, Poland, at the address: ul. Grzybowska 4, lok. U9B, 00-131 Warsaw, Poland, which is an audit company registered under No. 3685 by the Polish Chamber of Statutory Auditors, under the agreement concluded on 04.07.2018.

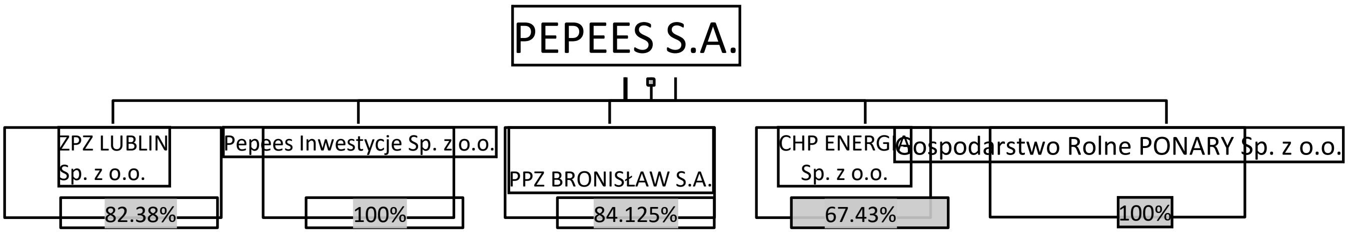
2. Reporting periods

These consolidated financial statements cover the period from 1 January 2018 to 31 December 2018, and comparative financial information and notes cover the period from 1 January 2017 to 31 December 2017.

The financial statements were prepared assuming that the Group would continue as a going concern in the foreseeable future. There are no circumstances indicating the risk of the discontinuation of its operations.

3. The structure of the Group

3.1 The Group's structure as at 31 December 2018



Name	Registered office	Objects	Registry court	Issuer's interest in capital	Percentage of total votes
ZPZ LUBLIN Sp. z o.o.	Lublin	Production and sales of potato syrup and dried potatoes; fruit and vegetable processing	District Court in Lublin, XI Economic Division of the National Court Register (NCR)	82.38	82.38
Pepees Inwestycje Sp. z o.o.	Łomża	Buying and selling of own real estate	District Court in Białystok, XII Economic Division of the NCR	100	100
PPZ BRONISŁAW S.A.	Bronisław	Manufacture of starches and starch products	District Court in Bydgoszcz, XIII Economic Division of the NCR	84.125	84.125
CHP ENERGIA Sp. z o.o.	Wojny Wawrzyńce	Production of electricity and heat from gas produced in a biogas plant	District Court in Białystok, XII Economic Division of the NCR	67.43	67.43
Gospodarstwo Rolne Ponary Sp. z o.o.	Łomża	Growing of crops combined with farming of animals (mixed farming)	District Court in Białystok, XII Economic Division	100	100

All subsidiaries were consolidated with the full method.

3.2 Basic financial information about related parties

Subsidiary	Equity	Assets	Liabilities	Sales revenue	Profit/Loss
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)
2018					
ZPZ LUBLIN Sp. z o.o.	2,582	16,702	14,120	20,632	509
PPZ BRONISŁAW	14,092	57,172	43,080	46,189	5,019
CHP Energia Sp. z o.o.	(5,196)	22,772	27,968	9,249	(1,732)
Pepees Inwestycje Sp. z o.o. (former OZENERGY Sp. z o.o.)	(41)	1,429	1,470	-	(44)
Gospodarstwo Rolne PONARY Sp. z o.o.	11,884	21,347	9,463	-	107

3.3 Changes in the Group

On 4 January 2018, PEPEES entered into a conditional sales agreements with two natural persons, who are shareholders of the Company, under which the Company acquired a 32.6% stake in Gospodarstwo Rolne Ponary Sp. z o.o. Thus, the Company has become the holder of 100% of shares in Ponary.

By way of the resolution of the Extraordinary General Meeting of Shareholders of OZEnergy of 10 May 2018, the name of this company was changed to: PEPEES Inwestycje Spółka z ograniczoną odpowiedzialnością. The core objects were also changed to: 'Buying and selling of own real estate'.
Apart from the aforementioned changes, there were no other changes in the Group in the reporting period.

4. Significant accounting policies

4.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with IAS, IFRS and related interpretations published in the form of regulations of the European Commission, and with the accounting policies adopted by the Company.

The financial statements are presented in thousands of Polish złoty.

4.2 Changes in accounting policies

The Company did not change its accounting policies applied previously, except for the application of the following new or revised standards and interpretations applicable to annual periods beginning on or after 1 January 2018.

4.3 Corrections of errors from previous periods

There were no corrections of errors from previous periods.

4.4 Declaration of compliance

These financial statements have been prepared in accordance with the International Accounting Standards (IASs), the International Financial Reporting Standards (IFRSs) and related interpretations published in the form of regulations of the European Commission.

4.5 Consolidation principles

The companies of PEPEES Group, in the reporting period and comparative periods, were consolidated with the full method.
Financial statements of subsidiaries were prepared for the same reporting period as the financial statements of the parent company, applying consistent accounting policies. Adjustments are made to reconcile any divergent policies.
In the course of the consolidation process, the Group eliminated intragroup receivables and liabilities, revenue and expenses related to transactions between consolidated entities, profit and losses from intragroup transactions, included in the values of assets and equity and liabilities subject to consolidation. In addition, the parent company's interests in the equity of subsidiaries were eliminated.
The consolidated statement of cash flows was prepared on the basis of the consolidated statement of comprehensive income and the consolidated statement of financial position as well as the explanatory notes of the companies subject to the consolidation.
The consolidated statement of changes in equity was prepared on the basis of the consolidated statement of financial position, statements of changes in equity and the explanatory notes of the companies subject to the consolidation.

4.6 Foreign currency translation

The Polish złoty is the functional (valuation) currency and the presentation currency of PEPEES S.A. Group. Transactions in foreign currencies were translated, as at the balance sheet date, at the exchange rate of the bank used by the Group. All foreign exchange differences are recognised in the income statement.

4.7 Property, plant and equipment

Upon the transition to IASs, the Group adopted the fair value of property, plant and equipment determined by an appraiser at the deemed cost.
Assets under construction for manufacturing, rental or administrative purposes, and for the purposes not yet determined, are disclosed in the statement of financial position at cost less any impairment losses. The cost is increased with fees and, for certain assets, with borrowing costs. The depreciation of such property, plant and equipment begins upon the commencement of their use. Depreciation is calculated for all property, plant and equipment, excluding land and assets under construction, for the estimated period of the actual utilisation of these assets, using a straight-line method. Useful lives for particular categories of property, plant and equipment are as follows:

- buildings and structures	10–40 years
- plant and machinery	2–20 years
- means of transport	3–8 years
- fixed fittings and equipment	2–15 years

Land owned is not depreciated. The Group recognises the granted right of perpetual usufruct rights as operating lease.
Assets held under a finance lease contract are depreciated over their useful life in the same manner as in the case of own assets.
Property, plant and equipment and assets under construction that meet the criteria to be classified as held for sale are measured at the lower of the initial carrying amount or fair value less costs to sell.

The gain or loss arising on the disposal (retirement) of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of such assets and is recognised in profit or loss.

As at the balance sheet date, property, plant and equipment are measured at cost less any depreciation charges and any impairment losses.

4.8 Intangible assets

Intangible assets are recognised when it is probable that future economic benefits that may be associated directly with the assets will flow to the Group. The Group does not have any intangible assets with an indefinite useful life.

(a) Trademarks and licences

Trademarks and licences have finite useful lives and are carried in the balance sheet at historical cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over the estimated useful lives (2–10 years).

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (2–10 years).
The costs of the development or maintenance of computer software are recognised as an expense as incurred.

(c) Greenhouse gas emission allowance

CO_2 emission allowances are recognised as intangible assets that are not subject to amortisation, but are subject to impairment analysis.
Purchased units of emission allowances are recognised at cost and those obtained free of charge at nominal value, i.e. the null value.
For estimated CO_2 emissions in the reporting period, a provision is recognised in the costs of the core business activities.
On the basis of the verified annual report referred to in Article 57(3) of the Polish Emissions Trading Act, used and retired emission allowances are written-off from records. The sale of allowances is recognised using the 'first-in, first-out' (FIFO) method.

As at the balance sheet date, intangible assets are measured at cost less any amortisation charges and any impairment losses.

4.9 Goodwill

Goodwill is measured as the excess of the fair value of the consideration transferred for the Group's interests in the acquired entity over the net amount of identifiable recognised assets and liabilities of the acquired entity.
Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.
For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently, whenever there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

4.10 Right to perpetual usufruct of land

In accordance with the adopted accounting policies, the Group recognises the decision under which it exercises its right to perpetual usufruct of land as an agreement satisfying the conditions of operating lease in accordance with IAS 17. As a result, the fair value of the right of perpetual usufruct of land on which the buildings and structures of the Group's companies are located was not disclosed in non-current assets. The information on the land used under the right of perpetual usufruct, and on the fair value of the right of perpetual usufruct of the land is presented in note 11 in the financial statements.

In the case of the acquisition of such rights on the secondary market, they would be recognised as intangible assets and amortised over their expected useful lives.

4.11 Investment properties

Investment property is property held to earn rentals or for capital appreciation.
Investment property as at the date of the transition to IASs was carried at fair value, and this value was applied as deemed cost. Each new property is measured at cost.
Depreciation is calculated over estimated useful lives of such assets on a straight-line basis. Land is not depreciated.
Gains or losses arising on the disposal (retirement) of investment property is determined as the difference between the sales proceeds and the carrying amount of such assets and is recognised in profit or loss.
As at the balance sheet date, the Group did not hold any investment property.

4.12 Financial instruments

From 1 January 2018, the Group has classified financial assets into one of three categories specified in IFRS 9:

- measured at amortised cost;
- measured at fair value through profit or loss;
- measured at fair value through other comprehensive income.

In the category of assets measured at amortised cost, the Group classifies trade receivables, loans granted, other receivables, term deposits and cash and cash equivalents.

The Group measures financial assets at amortised cost using the effective interest rate method less impairment losses. Non-current receivables subject to IFRS 9 are discounted as at the balance sheet date.

Trade receivables with maturities of less than 12 months are measured at the amount payable, less any expected loss allowance.

In the category of assets at fair value through profit or loss, the Company classifies all financial instruments that have not been classified as measured at amortised cost or as measured at fair value through other comprehensive income, and all instruments for which the Company has decided to classify them in this category in order to eliminate the accounting mismatch.

In this category, the Group classifies loans granted that have not passed the contractual cash flows test and derivative instruments being assets, unless they have been designated as hedging instruments.

Gains and losses on a financial asset measured at fair value through profit or loss are recognised in profit or loss in the period in which they arose (including interest income and dividends received from equity instruments quoted on an active market).

The shares of the company: ‘Warszawski Rolno-Spożywczy Rynek Hurtowy’ have been classified as other financial assets and measured at fair value through profit or loss estimated by an independent actuary as at 31.12.2018.

Assets measured after initial recognition at fair value through other comprehensive income – these are financial assets held within a business model whose objective is both to hold financial assets in order to collect contractual cash flows and to sell financial assets, and the contractual terms of the financial assets provide for the occurrence of cash flows that are solely payments of principal and interest.

Gains and losses on a financial asset being an equity instrument for which the options of the measurement at fair value through other comprehensive income have been applied, are recognised in other comprehensive income, except for income from received dividends.

In accordance with IFRS 9, the Group companies monitor changes in the credit risk associated with individual financial assets and, for each of them, assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

4.13 Inventories

Inventories comprise materials, trade goods, finished products and work in progress.
Materials and trade goods are initially carried at cost. Finished products and work in progress are initially carried at actual cost. The cost of finished products and work in progress comprises design costs, raw materials, direct labour, other direct costs and related departmental production overheads (based on normal operating capacity), but does not comprise borrowing costs. The outgoings of inventories are measured using the weighted average cost formula.
As at the balance sheet date, inventories are measured on a prudent basis, i.e. at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale (i.e. costs of sale, costs of marketing etc.). When the cost is higher than the net realisable value, the Group recognises write-downs charged to costs of sold products.

4.14 Biological assets

PEPEES has leased agricultural holdings where it grows annual plants such as potatoes, field bean and cereals. Biological assets are measured on initial recognition and at subsequent reporting dates at fair value less costs to sell having regard for the ripeness of plants.

4.15 Current and non-current receivables

Trade receivables are disclosed and recognised at originally invoiced amounts less any write-downs. A write-down of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The write-downs are made on the basis of the ageing analysis of these receivables, the collectibility analysis, and for trade receivables in litigation and in liquidation or bankruptcy proceedings.

4.16 Foreign currency transactions

Transactions denominated in currencies other than the Polish złoty are translated into the Polish złoty according to the exchange rate effective on the date of the transaction.
As at the balance sheet date, cash, bank loans and other assets and liabilities denominated in currencies other than the Polish złoty are translated into the Polish złoty at the buying and selling exchange rates of the bank used by the companies. The resulting foreign exchange differences are recognised as finance income or finance cost respectively.

4.17 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and a bank overdraft.
Term deposits are measured at amortised cost using the effective interest rate (EIR) method.
Bank overdraft is shown within short-term loans and borrowings in current liabilities on the balance sheet.

4.18 Advances

In the case of expenses which are expected to generate economic benefits for several financial periods, and when their relationship with revenue can only be determined in general terms and indirectly, the expenses are recognised in profit or loss through a systematic and rational spreading them out over time. The expenses are recognised immediately in profit or loss when such expenses do not produce any future economic benefits.

4.19 Equity

Share capital is recognised at the value determined in the Company's Articles of Association entered into the National Court Register. Reserve capital is established in accordance with the Company's Articles of Association and the Polish Commercial Code, which state that it may be increased by:

- allocating a portion of net profit;
- transferring the surplus from the issue of shares above their nominal value (share premium);
- making additional contributions by shareholders in return for special rights for their existing shares, if such additional contributions are not used to cover extraordinary write-downs or losses;
- transferring the positive net difference from the revaluation of fixed assets due to their sale or retirement, if separate regulations do not provide that such differences are charged to profit or loss, and it may be decreased by:
- covering losses;
- redeeming treasury shares;
- covering the costs of shares issues to the amount of the excess of the issue value over the nominal value of shares; the remainder of the costs are recognised as finance costs;
- a free transfer of fixed assets in accordance with a resolution of the General Meeting of Shareholders;
- transferring the negative net difference from the revaluation of fixed assets due to their sale or retirement, if separate regulations do not provide that such differences are charged to profit or loss.

Revaluation reserve is used to account for revaluations of non-current assets resulting in an increase in their value to the level of market prices, and the revaluation of future employee benefits.
Reserves are created in accordance with the Articles of Association and resolutions of the General Meeting of Shareholders from net profit, and are used to cover capital expenditure.

4.20 Bank loans and borrowings

Interest-bearing bank loans and borrowings (including bank overdrafts) are accounted for at the value of received proceeds. Finance costs (except for costs arising directly from the construction or acquisition of property, plant and equipment), including fees and commissions payable upon the repayment or writing-off, and direct costs of borrowings are recognised in profit or loss using the effective interest rate (EIR) method, and they increase the book value of the instrument, taking into account payments made in the period. Loans and borrowings are classified as current liabilities unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the balance sheet date. Then, they are accounted for as non-current liabilities.

4.21 Borrowing costs

Borrowing costs directly attributable to the construction, adaptation, assembly or improvement of fixed assets or intangible assets, throughout the period of construction, adaptation, assembly or improvement, are recognised at the value of those assets, if the liabilities were incurred for this purpose. Other borrowing costs are recognised in profit or loss.

4.22 Deferred income tax

Deferred tax liability is recognised in the full amount on a liability basis for all temporary differences between the tax value of assets and liabilities and their carrying amount in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit (loss). Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax assets are realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The value of deferred tax assets is analysed at each balance sheet date and to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the asset to be realised, it is written-off.

4.23 Employee benefits

Expected employee benefits expense (jubilee benefits, retirement benefits etc.) is accounted for throughout the period of employment using the actuarial valuation method. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income over an employee's expected average remaining working life. These obligations are valued every six months by independent qualified actuaries.

Employee benefits may also be payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

4.24 Trade payables

Trade payables, if they are not interest-bearing instruments, are recognised in the balance sheet at the amounts due. When the measurement at amortised cost differs significantly from the measurement at the amount due then trade payables are measured at amortised cost.

4.25 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, and when it is certain or highly probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and when a reliable estimate can be made of the amount of the obligation.

No provisions are recognised for future operating losses.

4.26 Accruals

Accruals are liabilities to pay for goods or services that have been received or supplied in full or in part, but have not been invoiced or formally agreed with the supplier. Accruals also include amounts relating to accrued vacation pay. Accruals are recognised when the amounts of the future obligation and the payment date can be reliably measured.

4.27 Impairment of assets

At each balance sheet date, the Group is required to assess whether there is any objective indication that an asset or a group of assets may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset and recognises an impairment loss in the amount equal to the difference between the recoverable amount and the carrying amount.
The impairment loss is recognised in profit or loss for the period. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. The reversal of the impairment loss is recognised immediately in profit or loss.

4.28 Leases

Leases in which substantially all the risks and rewards incidental to ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to expenses on a straight-line basis over the period of the lease.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The arising payable to the lessor is disclosed in the balance sheet. Lease payments comprise the principal and interest. Finance costs are recognised in profit or loss.

4.29 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.
Sales revenue comprises the fair value of the revenue from the sales of products, trade goods and services, net of value-added tax, rebates and discounts, and net of excise tax. Revenue is recognised as follows:

a) revenue from the sales of products and trade goods

Revenue arising from the sales of products and trade goods is recognised upon the delivery of the goods by the Company to the customer, their acceptance by the customer, and gaining reasonable assurance as to the collection of the relevant payment.

b) revenue from the sales of services

Revenue from the rendering of services is recognised in the period in which the services were rendered by reference to the stage (percentage) of completion of the transaction, which is the proportion of services performed to total services to be performed.

c) rental income

Rental income on investment properties is accounted for on a straight-line basis over the rental term for contracts in progress.

d) interest income

Interest income is recognised on an accrual basis using the effective interest rate (EIR) method. Interest income from granted impaired loans is recognised on a cash basis or on a recovered cost basis, depending on the circumstances.

e) dividends

Dividend income is recognised when the shareholder's right to receive payment is established.

4.30 Other operating income

Other operating income comprises revenue and profits not attributable directly to the Group's operations. This category comprises e.g. profit from the sale of non-current assets; profit from the revaluation of assets; the reversal of write-downs of receivables; received indemnities; overpaid tax payables, except for the corporate income tax, etc.

4.31 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. In particular, the grants to purchase, construct or acquire non-current assets in a different way, are recognised as deferred income in the consolidated statement of financial position and recognised as income on a systematic basis in justified amounts over the useful lives of related assets.

A grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs is recognised as income of the period in which it becomes receivable.

Benefits from subsidised loans at below-market interest rates are treated as grants and measured as the difference between the value of the loans and the fair value of the loans at the appropriate market interest rate.

4.32 Operating expenses

The Group presents an analysis of expenses using a classification based on their function. Operating expenses for the main revenue-generating activities comprise the cost of sales, selling and distribution costs and administrative expenses.

4.33 Other operating expenses

Other operating expenses comprise expenses and losses not attributable directly to the Group's operations. This category comprises losses arising from the disposal of non-current assets; losses from the revaluation of assets and liabilities; write-downs of receivables; donations made; the effects of guarantees and sureties, etc.

4.34 Finance costs

Finance costs are costs related to the utilisation of external sources of finance; interest payable on finance leases; and other finance costs. Finance costs also include foreign exchange losses.

4.35 Finance income

Finance income comprises dividend income; interest income on investing activities; and foreign exchange gains.

4.36 Earnings per share (EPS)

Earnings per share for each period are calculated by dividing net profit for a given period by the weighted average number of the Company's shares, as the Company does not have preference shares.

4.37 Derivatives

In the financial year 2018, the Group did not have derivatives.

4.38 Estimates and related assumptions

The Group makes estimates and assumptions based on its past experience and various other factors considered to be reasonable in the circumstances, and their results provide the basis to determine the carrying amount of assets and liabilities that does not result directly from other sources. The actual value may differ from the estimate.

Estimates and related assumptions are subject to an ongoing verification. A change in accounting estimates is recognised in the period in which such estimates were changed.

4.39 Consolidated statement of cash flows

The Group prepares the consolidated statement of cash flows according to the indirect method in breakdown into operating, investing and financing activities.
Cash flows from operating activities are primarily cash flows from the main revenue-generating activities. They do not include external sources of finance. Bank overdrafts are classified as cash and cash equivalents, as the bank balance often changes from credit to debit balance.
Cash flows from investing activities comprise primarily:
- cash paid and received due to the acquisition (disposal) of property, plant and equipment, intangible assets and other non-current assets;
- cash related to the acquisition or sale of equity instruments;
- dividends received;
- loans granted to third parties;
- cash from the settlement of *forwards*.

Cash flows from financing activities are related primarily to external sources of finance.
They include, e.g.:
- proceeds from shares issued;
- expenditure on the purchase of treasury shares;
- dividends and other distributions to equity holders;
- loans and borrowings taken out and repaid;
- grants and all other non-refundable proceeds from a third-party source of finance.

4.40 Segment reporting

There are three segments in PEPEES Group, i.e.: 'processing of potatoes', 'power generation' and 'growing of crops combined with farming of animals (mixed farming)'.
All assets and liabilities of CHP Energia are allocated to the 'power generation' segment. All assets and liabilities of Gospodarstwo Rolne Ponary are allocated to 'growing of crops combined with farming of animals (mixed farming)' segment, and all other assets and liabilities disclosed in the consolidated financial statements are allocated to the 'processing of potatoes' segment.
Due to the fact that in 2018 Ponary did not generate any sales revenue, the 'growing of crops combined with farming of animals (mixed farming)' segment was not separated in segments' revenue and net profit/loss. Due to the value of land owned by Ponary, the third segment has been separated in these financial statements only to present its assets and liabilities.

4.41 New accounting standards – application of standards in 2018 IFRS 9 – first-time adoption and accounting policies

The Group adopted IFRS 9 on 1 January 2018 and decided to apply a modified retrospective approach with effect from 1 January 2018. Also in this case, in accordance with the option allowed by the standard, the Group has decided not to restate comparative data, which means that the data presented as at 31 December 2017 have been prepared on the basis of IAS 39.

Classification and measurement

From 1 January 2018, the Issuer has classified financial assets into one of three categories specified in IFRS 9:
- measured at fair value through other comprehensive income;
- measured at amortised cost;
- measured at fair value through profit or loss.

The Group classifies investments in debt instruments in a given category of assets on the basis of the business model for managing groups of financial assets and the contractual cash flow characteristics of a financial asset. Upon initial recognition, the Group classifies investments in equity instruments (other than related to investments in subsidiaries and associates) that are not held for trading and are not quoted on an active market as measured at fair value through other comprehensive income. At the same time, the Group measures derivatives and investments in equity instruments quoted on an active market at fair value through profit or loss. For the measurement at amortised cost, the Group classifies loans granted, trade receivables and other receivables subject to IFRS 9. Interest income on investments in debt instruments is recognised by the Group in profit or loss. Upon the disposal of investments in debt instruments, the Group recognises cumulative gain or loss from the measurement in profit or loss.

Measurement of financial assets at amortised cost
The Group measures financial assets at amortised cost using the effective interest rate method. Non-current receivables subject to IFRS 9 are discounted as at the balance sheet date.
Trade receivables with maturities of less than 12 months are measured at the amount payable, less any expected loss allowance.

Measurement of financial assets at fair value through profit or loss
The Group recognises in profit or loss changes in the fair value of financial assets classified in this category of financial assets. Also, interest income and income from dividends received from equity instruments quoted on the active market are recognised in profit or loss.

Measurement of financial assets at fair value through other comprehensive income
The Group recognises gains/losses on the measurement of investments in debt instruments and in equity instruments classified by the Group upon initial recognition in this category of assets, in other comprehensive income. Dividends from equity instruments measured at fair value through other comprehensive income are recognised by the Group as revenue in profit or loss.
Interest income on investments in debt instruments is recognised by the Group in profit or loss. Upon the disposal of investments in debt instruments, the Group recognises cumulative gain or loss from the measurement in profit or loss.

Financial liabilities
The Group classifies financial liabilities into one of the following categories:

- measured at amortised cost;
- measured at fair value through profit or loss.

The table below presents changes in the classification of financial instruments as at 1 January 2018, which is the date of the first adoption of IFRS 9. The adoption of the new standard replacing previous IAS 39 has not changed the methodology of the valuation of financial assets and liabilities. The basic method used for the valuation is still the amortised cost method, therefore the carrying amount of financial assets and liabilities as at the date of implementing IFRS 9 is the same as in the case of IAS 39.

Financial assets	Classification according to		Financial value as per IAS 39 and IFRS 9 as at 1 January 2018
	IAS 39	IFRS 9	
Investments in other entities	Available-for-sale assets measured at cost (adjusted for impairment, as per IFRS 10)	Equity instruments at cost (adjusted for impairment, as per IFRS 10)	113
Trade receivables	Loans and receivables at amortised cost	Financial assets at amortised cost	23,311
Other receivables	Loans and receivables at amortised cost	Financial assets at amortised cost	5,250
Loans granted	Loans and receivables at amortised cost	Financial assets at amortised cost	762
Investments held for trading	Financial assets held for trading	Financial assets at fair value through profit or loss	3,546

Financial liabilities	Classification according to		Financial value as per IAS 39 and IFRS 9 as at 1 January 2018
	IAS 39	IFRS 9	
Long-term loans and borrowings	Financial liabilities at amortised cost	Financial liabilities at amortised cost	25,330
Non-current liabilities related to leased assets	Financial liabilities at amortised cost	Financial liabilities at amortised cost	7,446
Trade payables	Other liabilities	Financial liabilities at amortised cost	15,026
Short-term loans and borrowings	Financial liabilities at amortised cost	Financial liabilities at amortised cost	81,534
Current liabilities related to leased assets	Financial liabilities at amortised cost	Financial liabilities at amortised cost	2,587

Other current liabilities	Other liabilities	Financial liabilities at amortised cost	5,317

IFRS 15 – first-time adoption

The Group adopted IFRS 15 on 1 January 2018 and decided to apply the modified retrospective method, i.e. with the combined effect of the first-time adoption of the standard recognised on the date of the first application.

Therefore, the Group applied the practical expedient provided under IFRS 15 and decided not to restate comparative data. This means that the data as at 31 December 2017 have been prepared on the basis of the standards in force in these periods: IAS 18 *Revenue*, IAS 11 *Construction Contracts* and interpretations related to the recognition of revenue before the entry into force of IFRS 15.

International Financial Reporting Standard 15 *Revenue from Contracts with Customers* ('IFRS 15') establishes the so-called 'five-step model' for recognising revenue resulting from contracts with customers. Under IFRS 15, the Group recognises revenue at an amount that reflects the consideration to which the Group expects to be entitled in exchange for the transfer of promised goods or services to the customer.

The Group has estimated the impact of IFRS 15 and has determined, taking into account the nature of the revenue generated, that the impact of IFRS 15 upon revenue recognition was immaterial. Therefore, the Group did not identify any adjustment charged to equity as at 1 January 2018.

4.42 New accounting standards and interpretations coming into force after the balance sheet date

New standards, amendments to standards and interpretations that are not yet effective for reporting periods ending on 31 December 2018 have not been taken into account in the preparation of these financial statements.
The Group expects that some of them, in particular IFRS 16, will or may have an impact on the Company's financial statements.

• IFRS 16 introduces a single accounting model for lessees under which a lessee must recognise assets and liabilities under each lease with a lease term of over 12 months, unless the underlying asset is of low value. At the commencement date of a lease, a lessee will recognise an asset representing the right to use the underlying asset ('right-of-use asset') and a lease liability to make lease payments ('lease liability').

Lessees are required to separately recognise the depreciation expense on the right-of-use asset and interest expense on the lease liability.

Lessees are also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases.

IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach, and standard's transition provisions permit certain reliefs. IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

Early application is permitted in the case of entities which apply IFRS 15 from or before the date of the first adoption of IFRS 16.

The Company decided to adopt the standard on 1 January 2019. Pursuant to transitional provisions of IFRS 16, the new principles have been adopted retrospectively charging the cumulative effect of initially applying the new standard to equity as at 1 January 2019. Therefore, comparative data for the financial year 2018 will not be restated (the modified retrospective approach).

In the opinion of the Board of Directors, IFRS 16 will have an impact on the financial statements, because, according to the new standard, all contracts providing for the transfer of the right to use an asset for a given period for a fee concluded for a period of more than 12 months, except when the asset is of low value, are treated as leases.

The analysis carried out by the Group shows that the aforementioned criteria are fulfilled by the right to perpetual usufruct of land. When determining the value of the right to assets and the value of liabilities due to the fee for the perpetual usufruct of land, the value of future cash flows and the appropriate discount were taken into account. As at 01.01.2019, the rights to assets and the liabilities will increase in the Group by PLN 10,041 thousand. The Group intends to adopt IFRS 16 using the modified retrospective approach by adjusting the opening balance of retained earnings.

• Amendments to IFRS 2 *Share-based Payment – Classification and Measurement of Share-based Payment Transactions* (effective for annual periods beginning on or after 1 January 2018)

• Amendments to IFRS 4 *Insurance Contracts – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (effective for annual periods beginning on or after 1 January 2018, or upon the first-time adoption of IFRS 9 *Financial Instruments*)

• Amendments to IFRS 15 *Revenue from Contracts with Customers – Clarifications to IFRS 15 Revenue from Contracts with Customers* (effective for annual periods beginning on or after 1 January 2018)

• Amendments to IAS 40 *Investment Property — Transfers of Investment Property* (effective for annual periods beginning on or after 1 January 2018)

• Amendments to IFRS 1 and IAS 28 resulting from *Annual Improvements to IFRSs: 2014–2016 Cycle* – amendments resulting from annual improvements to IFRSs (IFRS 1, IFRS 12 and IAS 28) focused primarily on eliminating inconsistencies and clarifying terminology and wording (amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018)

• IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (effective for annual periods beginning on or after 1 January 2018)

• IFRS 16 *Leases* (effective for annual periods beginning on or after 1 January 2019)

• Amendments to IFRS 9 *Financial Instruments – Prepayment Features with Negative Compensation* (effective for annual periods beginning on or after 1 January 2019)

• IFRIC 23 *Uncertainty over Income Tax Treatments* (effective for annual periods beginning on or after 1 January 2019)

New standards, amendments to existing standards and interpretations that have not been authorised by the European Union:

• IFRS 14 *Regulatory Deferral Accounts* (effective for annual periods beginning on or after 1 January 2016)

• IFRS 17 *Insurance Contracts* (effective for annual periods beginning on or after 1 January 2021)

• Amendments to IFRS 3 *Business Combinations – Definition of a Business* (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period)

• Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, and subsequent amendments (the effective date of the amendments has been postponed until the completion of the research on the equity method)

• Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective for annual periods beginning on or after 1 January 2020)

• Amendments to IAS 19 *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective for annual periods beginning on or after 1 January 2019)

• Amendments to IAS 28 *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2019)

• Amendments to various standards *Annual Improvements to IFRSs: 2015–2017 Cycle* — amendments resulting from annual improvements to IFRSs (IFRS 3, IFRS 11, IAS 12 and IAS 23) focused primarily on eliminating inconsistencies and clarifying terminology and wording (effective for annual periods beginning on or after 1 January 2019)

• Amendments to *References to the Conceptual Framework in IFRS Standards* (effective for annual periods beginning on or after 1 January 2020)

Effective dates are dates resulting from the content of standards issued by the International Financial Reporting Council. The dates of the adoption of standards in the EU may differ from the dates of adoption resulting from the content of standards and are announced at the time of authorising them for adoption by the EU.

The Group has decided not to adopt earlier any of the standards, interpretations or amendments adopted by the EU, which did not apply as at 31 December 2018.

5. Non-typical items having significant impact on assets, liabilities, equity and financial result

The fair value of the stake held by PEPEES in Warszawski Rolno-Spożywczy Rynek Hurtowy S.A. was estimated as at 31.12.2018 by an independent actuary at PLN 5,436 thousand. Revaluation of the said shares amounting to PLN 2,886 thousand was recognised in finance income for 2018.

6. Financial instruments

Major financial instruments used by the Group comprise bank loans, leases, cash and short-term bank deposits. The main purpose of these financial instruments is sourcing funds for the Group's business activities. In addition, the Group holds other financial instruments such as trade receivables and payables arising directly in the course of its business.

Financial assets	31.12.2018	31.12.2017
Financial assets at fair value through profit or loss	5,436	3,546
Financial assets at amortised cost	74,555	60,074
Total financial assets	**79,991**	**63,620**

Financial assets recognised in the financial statements as:	31.12.2018	31.12.2017
Investments in other entities	113	113

Other financial assets	5,436	3,546
Trade receivables	27,651	23,311
Other receivables	6,044	5,250
Loans granted	941	762
Cash and cash equivalents	39,806	30,638
Total financial assets	**79,991**	**63,620**

Financial liabilities	**31.12.2018**	**31.12.2017**
Financial liabilities at amortised cost	146,505	137,240
Total financial liabilities	**146,505**	**137,240**

Financial liabilities recognised in the financial statements as:	**31.12.2018**	**31.12.2017**
Long-term loans and borrowings	30,398	25,330
Liabilities related to leased assets	7,651	10,033
Trade payables	13,063	15,026
Short-term loans and borrowings	90,644	81,534
Other current liabilities	4,749	5,317
Total financial liabilities	**146,505**	**137,240**

7. Segment reporting

There are three segments in PEPEES Group, i.e.: ‘processing of potatoes’, ‘power generation’ and ‘growing of crops combined with farming of animals (mixed farming)’.

7.1 Products and services

Within the segment: ‘the processing of potatoes’, the Company produces:

- potato starch used in households and by the food industry, pharmaceutical industry, paper industry and textile industry;
- a few varieties of glucose used by the food industry, confectionery industry and pharmaceutical industry;
- maltodextrin, which is an essential ingredient of powdered products (ice cream, sauces, soups, fruit extracts, flavoured sprinkles) and vitamin and mineral preparations and supplements for children and athletes;
- a protein that is produced from cellular juice of potatoes through coagulation, separation and drying; it is a valuable component of compound feedingstuffs for animals and a great substitute for animal proteins;
- a wide range of starch syrups used in confectionery and baking industries;
- potato grits, potato flakes, potato cubes and potato dumplings; products used by the food industry.

In the ‘power generation’ segment, the Company produces:

- electricity from agricultural biogas;
- heat for its own needs used e.g. to dry animal feeds.

Other types of activities:

- the generation of heat, which is produced mainly to satisfy own needs;
- works and services;
- the sales of certain trade goods and materials.

7.2 Segment revenue and results

Segment	Revenue		Segment profit	
	2018	**2017**	**2018**	**2017**
Processing of potatoes	231,500	215,469	31,356	27,666
- including inter-segmental	*243*	*192*		
Power generation	9,249	10,232	(1,042)	(1,987)
- including inter-segmental	*555*	*1,236*		
Other operating income			1,376	1,065
Other operating expenses			(1,768)	(4,891)
Finance income			3,571	369
Finance costs			(3,074)	(3,571)
Profit (loss) before tax			**30,419**	**18,651**

7.3 Segment assets and liabilities

Segment assets	31.12.2018	31.12.2017
Processing of potatoes	315,707	279,508
Power generation	17,297	20,292
Growing of crops combined with farming of animals (mixed farming)	921	4,087
Total segment assets	**333,925**	**303,887**

Segment liabilities	31.12.2018	31.12.2017
Processing of potatoes	145,858	132,620
Power generation	21,591	25,201
Growing of crops combined with farming of animals (mixed farming)	-	519
Total segment liabilities	**167,449**	**158,340**

All assets and liabilities of CHP Energia are allocated to the ‘power generation’ segment. All assets and liabilities of Gospodarstwo Rolne Ponary are allocated to ‘growing of crops combined with farming of animals (mixed farming)’ segment, and all other assets and liabilities disclosed in the consolidated financial statements are allocated to the ‘processing of potatoes’ segment.
Due to the fact that in 2017 Ponary did not generate any sales revenue, the ‘growing of crops combined with farming of animals (mixed farming)’ segment was not separated in segments’ revenue and net profit/loss. Due to the value of land owned by Ponary, the third segment has been separated in these financial statements only to present its assets and liabilities.

7.4 Other segment information

Segment	Depreciation/Amortisation		Increase in non-current assets	
	2018	2017	2018	2017
Processing of potatoes	9,633	7,440	33,712	23,226
Power generation	1,750	1,779	249	224
Total for continuing operations	**11,383**	**9,219**	**33,961**	**23,450**

7.5 Revenue by products

Product or service	Sales revenue	
	2018	2017
Starch	148,575	135,003
Protein	15,225	14,343
Glucose	10,170	9,309
Maltodextrin	20,815	17,232
Potato flakes	9,553	9,058
Starch syrups	5,852	5,772
Dried potato-based products (grits, cubes, dumplings)	8,477	6,847
Feeds and fertilizers	961	1,765
Electricity	4,460	3,698
Heat	-	352
Property rights (electricity and heat)	3,185	3742
Trade goods and materials	11,484	15,321
Services	1,184	1,831
Total	**239,941**	**224,273**

7.6 Sales revenue by territories:

Specification	2018	2017
Poland, including	**154,019**	**144,518**
Starch	77,469	69,422
Protein	8,297	8,842
Glucose	9,187	8,994
Maltodextrin	18,052	15,047
Potato flakes	5,230	8,741
Starch syrups	5,852	5,772
Dried potato-based products (grits, cubes, dumplings)	12,626	6,847
Feeds and fertilizers	961	1,765
Electricity	4,460	3,698
Heat	-	352
Property rights (electricity and heat)	3,185	3,742
Trade goods and materials	7,516	9,465
Services	1,184	1,831
EU countries – intra-Community supplies, including:	**23,249**	**16,090**
Starch	16,417	10,190
Protein	3,636	2,699
Maltodextrin	2,752	2,176
Glucose	246	91
Potato flakes	102	212
Dried potato-based products (grits, cubes, dumplings)	70	0

Trade goods	26	722

Specification	2018	2017
Other countries – export, including:	**62,673**	**63,665**
Starch	54,691	55,391
Protein	3,292	2,802
Glucose	737	224
Maltodextrin	11	9
Potato flakes	-	105
Trade goods	3,942	5,134
Total	**239,941**	**224,273**

7.7 Major customers

The Group does not have any customer for whom sales revenue would exceed 10% of total revenue. However, in the group of specific products, there are customers, whose share represents over 10% in the sale of a given product. And so:

- almost 13% of protein sold to one Polish customer,
- over 10% of maltodextrin sold to each of three Polish customers (24%, 15% and 13% respectively);
- almost 16% of glucose sold to one Polish customer.

8. Notes to the consolidated statement of financial position

8.1 Property, plant and equipment

PROPERTY, PLANT AND EQUIPMENT	31.12.2018	31.12.2017
a) fixed assets, including:	148,257	144,412
- land	22,528	22,496
- buildings and civil engineering works	63,273	64,140
- plant and machinery	55,751	50,400
- means of transport	3,396	4,175
- other fixed assets	3,309	3,201
b) fixed assets under construction	16,628	2,622
Total property, plant and equipment	**164,885**	**147,034**

MOVEMENT ON FIXED ASSETS (BY GROUPS)						
	land	buildings and civil engineerin g works	plant and machinery	means of transport	other fixed assets	**Total**
1 January 2017						
Gross value	**3,401**	**95,407**	**82,152**	**5,153**	**4,037**	**190,150**
Accumulated depreciation	**0**	**32,232**	**44,447**	**1,819**	**1,041**	**79,539**
Net book value	**3,401**	**74,161**	**26,719**	**3,334**	**2,996**	**110,611**
2017						
Gross value at the beginning of period	3,401	95,407	82,152	5,153	4,037	190,150

MOVEMENT ON FIXED ASSETS (BY GROUPS)						
	land	buildings and civil engineering works	plant and machinery	means of transport	other fixed assets	**Total**
Increases (due to)	19,127	4,687	20,084	2,163	415	46,476
- consolidation of a new entity	19,127	25	-	-	-	19,152
- investments	-	3,307	3,794	-	-	7,101
- purchases	-	1,355	12,113	403	415	14,286
- lease	-	-	4,177	1,760	-	5,937
Decreases (due to)	-	98	3,584	1,054	7	4,743
- sales	-	-	3,162	225	-	3,387
- retirement	-	98	422	829	7	1,356
Derecognition of the accumulated depreciation of sold and retired fixed assets	-	(66)	(409)	(834)	(7)	(1,316)
Increase in accumulated depreciation due to the acquisition of a new entity	-	-	-	-	-	-
Depreciation	-	3,690	4,214	1,102	210	9,216
Net book value at the end of period	22,528	64,140	50,400	4,175	3,201	144,444
31 December 2017						
Gross value	**22,528**	**99,996**	**98,652**	**6,262**	**4,445**	**231,883**
Accumulated depreciation	**0**	**35,856**	**48,252**	**2,087**	**1,244**	**87,439**
Net book value	**22,528**	**64,140**	**50,400**	**4,175**	**3,201**	**144,444**
2018						
Gross value at the beginning of period	22,528	99,996	98,652	6,262	4,445	231,883
Increases (due to)	-	4,015	11,586	678	385	16,664
- investments		2,879	6,979			9,858
- purchases		1,136	4,528	163	385	6,212
- lease			79	515		594
Decreases (due to)	-	2,119	849	150	104	3,222
- sales				109		109
- retirement		2,119	849	41	104	3,113
Derecognition of the accumulated depreciation of sold and retired fixed assets		(1,000)	(553)	(111)	(74)	(1,738)
Depreciation, including:	-	3,763	5,939	1,418	247	11,367
Net book value at the end of period	22,528	63,273	55,751	3,396	3,309	148,257
31 December 2018						
Gross value	**22,528**	**101,892**	**109,389**	**6,790**	**4,726**	**245,325**
Accumulated depreciation	**0**	**38,619**	**53,638**	**3,394**	**1,417**	**97,068**
Net book value	**22,528**	**63,273**	**55,751**	**3,396**	**3,309**	**148,257**

In the reporting period, depreciation charges increased the costs of sold products, trade goods and materials, selling and marketing expenses, and administrative expenses.

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

- contractual mortgage amounting to PLN 58,500 thousand for the benefit of Bank Zachodni WBK S.A.;
- contractual mortgage amounting to PLN 58,500 thousand for the benefit of PKO Bank Polski S.A.;
- general mortgage amounting to PLN 1,596 thousand for the benefit of Bank Polskiej Spółdzielczości;
- general mortgage amounting to PLN 404 thousand for the benefit of Bank Spółdzielczy in Łomża;
- general mortgage amounting to PLN 1,295 thousand for the benefit of Bank Polskiej Spółdzielczości;
- capped mortgage up to PLN 1,197 thousand for the benefit of Bank Polskiej Spółdzielczości;
- capped mortgage up to PLN 880,6 thousand for the benefit of Bank Polskiej Spółdzielczości;
- capped mortgage up to PLN 303 thousand for the benefit of Bank Spółdzielczy in Łomża;
- contractual mortgage amounting to PLN 8,288 thousand for the benefit of Spółdzielczy Bank Rozwoju Branch in Szepietowo;
- contractual mortgage amounting to PLN 6,761 thousand for the benefit of Bank Spółdzielczy in Brańsk;
- contractual mortgage amounting to PLN 6,761 thousand for the benefit of Bank Spółdzielczy Branch in Andrzejów;
- contractual mortgage amounting to PLN 15,795 thousand for the benefit of PKO Bank Polski S.A.;
- a registered pledge on fixed assets amounting to PLN 15,227 thousand for the benefit of Spółdzielczy Bank Rozwoju Branch in Szepietowo;
- contractual mortgage amounting to PLN 1,360 thousand for the benefit of Spółdzielczy Bank Rozwoju Branch in Szepietowo;
- contractual mortgage amounting to PLN 5,100 thousand for the benefit of Spółdzielczy Bank Rozwoju Branch in Szepietowo;
- contractual mortgage amounting to PLN 1,700 thousand for the benefit of Spółdzielczy Bank Rozwoju Branch in Szepietowo;
- a registered pledge on plant and machinery amounting to PLN 15,631 thousand for the benefit of Spółdzielczy Bank Rozwoju Branch in Szepietowo;
- registered pledge on plant and machinery amounting to PLN 3,465 thousand for the benefit of Bank Spółdzielczy in Łomża;
- transfer of ownership of plant and machinery amounting to PLN 1,295 thousand for the benefit of Bank Polskiej Spółdzielczości.

Due to the acquisition of property, plant and equipment, long-term investment loans were taken out; their outstanding amount at the reporting date amounts to PLN 24,107 thousand (31.12.2017: PLN 19,476 thousand).
In the statement of comprehensive income, in 'other operating income', the Group recognised indemnities from an insurance company due to the impairment of property, plant and equipment caused by fortuitous events amounting to PLN 68 thousand (2017: PLN 88 thousand).

8.2 Investment properties

In the reporting period, the Group did not hold any investment properties.

8.3 Intangible assets

INTANGIBLE ASSETS	31.12.2018	31.12.2017
a) acquired concessions, patents, licenses and similar assets, including:	211	211
- computer software	131	131
b) greenhouse gas emission allowance	323	-
Total intangible assets	**534**	**211**

MOVEMENT ON INTANGIBLE ASSETS	acquired concessions, patents, licenses, including: computer software	greenhouse gas emission allowance	**Total**
1 January 2017			
Gross value	**508**	**194**	**702**
Accumulated amortisation	**404**	**-**	**404**
Net book value	**104**	**194**	**298**
2017			
Gross value at the beginning of period	508	194	702
Increases (due to)	135	230	365
- purchases	135	230	365
Decreases (due to)	-	424	424
- sales	-	-	-
- utilisation	-	424	424
Amortisation	28	-	28
Net book value at the end of period	211	-	211
31 December 2017			
Gross value	**643**	**-**	**643**
Accumulated amortisation	**432**	**-**	**432**
Net book value	**211**	**-**	**211**
2018			
Gross value at the beginning of period	643	-	643
Increases (due to)	19	323	342
- purchases	19	323	342
Decreases (due to)	19	-	19
- sales			-
- utilisation	19		19
Amortisation			
Derecognition of the accumulated amortisation of sold and retired intangible assets	(19)		(19)
Net book value at the end of period	19		19
31 December 2018	211	323	534
Gross value	**643**	**323**	**966**
Accumulated amortisation	**432**	**-**	**432**
Net book value	**211**	**323**	**534**

The entire amortisation of intangible assets is presented in the income statement in the item: 'administrative expenses'.

8.4 Goodwill arising on consolidation

Goodwill arising on consolidation was recognised due to the acquisition of subsidiaries

Subsidiary	**31.12.2018**	**31.12.2017**
CHP Energia Sp. z o.o.	6,120	6,120
PPZ Bronisław Sp. z o.o.	486	486
Gospodarstwo Rolne PONARY Sp. z o.o.	879	879
Write-down of goodwill in CHP Energia Sp. z o.o.	(4,345)	(4345)
Total	**3,140**	**3,140**

PEPEES conducted impairment tests for the assets held in each of its subsidiaries.
Impairment tests for goodwill in CHP Energia were carried out based on discounted cash flows ('DCF') assuming as at 31.12.2018 an 8% EBIT growth rate in the forecast period, a 12.74% discount rate in the forecast period (WACC); the estimates adopted by the Board of Directors cover the 5-year period, i.e. the period from 2019 to 2023; a 1.5% rate of cash flows growth after the forecast period.
In addition, the sales projections for CHP Energia Sp. z o.o. assume from 2019 an increase in the sales rate due to the launch of a new product on the market. One should remember about the uncertainty associated with the possibility of not realising the expected values. The model takes into account an additional specific discount related to this issue. Tests for the impairment of assets in PPZ Bronisław were carried out based on discounted cash flows ('DCF') methods assuming as at 31.12.2018 a 2.5% EBIT growth rate in the forecast period, a 10.60% discount rate in the forecast period (WACC); the estimates adopted by the Board of Directors cover the 5-year period, i.e. the period from 2019 to 2023; a 2% rate of cash flows growth after the forecast period.
Tests for the impairment of assets in Gospodarstwo Rolne PONARY were carried out by estimating the recoverable amount being the fair value of the company's equity less costs to sell. The fair value of the company's equity was determined applying the adjusted net asset method, taking into account the market value of the rights to real estate estimated by a real estate appraiser.

As a result, in the analysed period, no indications of goodwill impairment were identified.

8.5 Investments in other entities

MOVEMENT ON INVESTMENTS IN OTHER ENTITIES	2018	2017
a) opening balance	113	113
- shares or interests	113	113
b) increases (due to)	-	-
c) decreases (due to)	-	-
d) closing balance	**113**	**113**
- shares or interests	113	113

The Group holds interests in 3 entities which ensure less than 5% of the total number of votes at the General Meeting of Shareholders, and they are not material in terms of their value and the Group's investment policy.

PEPEES holds 3,000 non-preference shares of 'Warszawski Rolno-Spożywczy Rynek Hurtowy' Spółka Akcyjna with its registered office in Bronisze ('WRSRH') with the nominal value of PLN 3,000 thousand acquired for the price of PLN 2,550 thousand.
The fair value of the stake held by PEPEES was estimated as at 31.12.2018 by an independent actuary at PLN 5,436 thousand. Revaluation of the said shares amounting to PLN 2,886 thousand was recognised in finance income for 2018.
These shares represent 2,5% of the share capital of WRSRH and 1.6% of votes at the GMS. The State Treasury is the main owner of WRSRH with more than 59% of the share capital. PEPEES does not exercise control over WRSRH. This investment is held for trading and disclosed in current assets as other financial assets.

8.6 Inventories

INVENTORIES	31.12.2018	31.12.2017
a) materials	6,166	6,201
b) semi-finished products and work in progress	703	1,770
c) finished products	67,120	73,163
d) trade goods	4,687	3,433
Gross inventories	**78,676**	**84,567**
Write-downs	**(611)**	**(433)**
Net inventories	**78,065**	**84,134**

Inventories recognised as an expense in the reporting period amounted to PLN 162,943 thousand (2017: PLN 154,387 thousand).
Write-downs recognised as expenses in the period amounted to PLN 229 thousand and PLN 412 thousand in 2017.
The reversal of write-downs of inventories in 2018 amounted to PLN 51 thousand (2017: PLN 147 thousand).
Write-downs as at 31.12.2018 amount to PLN 611 thousand (31.12.2017: PLN 433 thousand).

The carrying amount of inventories securing the repayment of bank loans amounts to PLN 73,121 thousand (PLN 69,452 thousand as at 31.12.2017).
Encumbrances on inventories due to borrowed bank loans:

- a registered pledge on inventories of materials, finished products and trade goods for the benefit of Bank Zachodni WBK S.A., securing loans the outstanding amount of which as at 31.12.2018 amounts to PLN 24,343 thousand;
- a registered pledge on inventories for the benefit of Powszechna Kasa Oszczędności Banku Polskiego S.A., securing loans the outstanding amount of which as at 31.12.2018 amounts to PLN 26,085 thousand.

8.7 Trade receivables

TRADE RECEIVABLES BY CURRENCIES	31.12.2018	31.12.2017
a) in the Polish currency	18,094	19,317
b) in foreign currencies (by currencies and after translation into PLN)	9,557	3,994
b1. unit/currency 000s/USD	799	15
PLN 000s	2,921	54
b2. unit/currency 000s/EUR	1,588	966
PLN 000s	6,636	3,940
Total current receivables	**27,651**	**23,311**

(GROSS) TRADE RECEIVABLES – WITH PAYMENT PERIODS REMAINING AFTER THE BALANCE SHEET DATE OF:	31.12.2018	31.12.2017
a) up to 1 month	15,437	9,392
b) over 1 month up to 3 months	8,064	7,893
c) over 3 months up to 6 months	-	1,246
d) over 6 months up to 1 year	152	-
e) over 1 year	-	-
f) past due receivables	5,013	5,837
Total (gross) trade receivables	28,666	24,368

(GROSS) TRADE RECEIVABLES – WITH PAYMENT PERIODS REMAINING AFTER THE BALANCE SHEET DATE OF:	31.12.2018	31.12.2017
- write-downs of trade receivables	(1,015)	(1,057)
Total (net) trade receivables	**27,651**	**23,311**

Past due receivables for which no write-downs are recognised are receivables from debtors with whom the Group has cooperated for several years now and the assessment of their economic and financial situation does not imply that they are doubtful receivables. The past due period for those receivables ranges from a few days to three months.

8.8 Other receivables

OTHER RECEIVABLES	31.12.2018	31.12.2017
- taxes, grants, customs, social security and health insurance and other	5,194	5,202
- other	850	48
Total net other current receivables	**6,044**	**5,250**
Write-downs of other receivables		
Total gross other current receivables	**6,044**	**5,250**

8.9 Receivables in litigation

RECEIVABLES IN LITIGATION	31.12.2018	31.12.2017
Receivables in litigation (gross value)	78	25
Write-downs of receivables	(78)	(25)
Total net other current receivables	**-**	**-**

8.10 Write-downs of receivables

MOVEMENT ON WRITE-DOWNS OF CURRENT RECEIVABLES	2018	2017
Opening balance	**1,082**	**996**
a) increases (due to)	**236**	**298**
- recognition for doubtful trade receivables	135	196
- recognition for interest receivable	24	47
- recognition for receivables in litigation	77	55
b) decreases (due to)	**225**	**212**
- reversal of provisions due to payment	110	94
- utilisation due to the writing-off and sale of receivables	4	58
- cancellations	111	60
Write-downs of current receivables at the end of period	**1,093**	**1,082**

Increases and decreases in write-downs of receivables were recognised in profit or loss in the item: ‘other operating expenses’.

8.11 Advances

ADVANCES	31.12.2018	31.12.2017
a) long-term, including:	47	72
- rent for the lease of an agricultural holding	47	72
b) short-term, including:	1,964	827
- rent for the lease of an agricultural holding	24	24
- departmental costs of seasonal production	59	95
- advances for supplies	1,583	420
- property insurance	235	205
- other	63	83
Total	**2,011**	**899**

8.12 Cash and cash equivalents

CASH AND CASH EQUIVALENTS	31.12.2018	31.12.2017
Cash at bank and in hand	7,915	6,825
Short-term deposits	31,891	23,813
Total cash and cash equivalents	**39,806**	**30,638**
- including restricted cash	-	-

Short-term deposits are made for various periods: from one day to three months, depending on the current demand of the Group's companies for cash, and are subject to interest at interest rates determined for them.

CASH AND CASH EQUIVALENTS (BY CURRENCIES)	31.12.2018	31.12.2017
a) in the Polish currency	37,059	26,954
b) in foreign currencies (by currencies and after translation into PLN)	2,747	3,684
B1. unit/currency USD/000s	232	173
PLN 000s	847	591
b2. unit/currency EUR/000s	454	758
PLN 000s	1,901	3,093
Total cash and cash equivalents	**39,806**	**30,638**

8.13 Share capital

Series / issue	Type of shares	Preference or non-preference shares	Type of restrictions on the rights to shares	Number of shares	Value of series/issue at nominal value	Date of registration
A	Ordinary bearer shares	Non-preference	No restrictions	83 million	4,980	09.05.2008
B	Ordinary bearer shares	Non-preference	No restrictions	12 million	720	30.09.2014
Total number of shares				95 million		
Total share capital					5,700	

Nominal value per share = PLN 0.06

According to the Issuer's best knowledge, the shareholding structure as at the balance sheet date was as follows:

- Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych – the number of votes: 27,609,982; percentage of total votes at the GMS – 29.06%
- Mr Michał Skotnicki – the number of votes: 21,325,780; percentage of total votes at the GMS – 22.45%
- Mr Maksymilian Maciej Skotnicki – the number of votes: 20,703,282; percentage of total votes at the GMS – 21.79%
- Mr Newth Jonathan Reginald – the number of votes: 7,995,200; percentage of total votes at the GMS – 8.42%
- Richie Holding Ltd – the number of votes: 6,133,100; percentage of total votes at the GMS – 6.46%

None of the remaining shareholders informed about the holding of at least 5% of the share capital and total votes at the GMS.

8.14 Reserve capital and other reserves

RESERVE CAPITAL	31.12.2018	31.12.2017
a) share premium	7,562	7,562
b) statutory reserve capital	1,660	1,660
c) from revaluation of assets (non-distributable)	31,122	31,122
d) from profits	19,879	14,759
Total reserve capital	**60,223**	**55,103**

OTHER RESERVES (BY PURPOSE)	31.12.2018	31.12.2017
- investments fund	81,634	69,315
Total other reserves	**81,634**	**69,315**

The investments fund was created from retained earnings.

REVALUATION RESERVE	31.12.2018	31.12.2017
- revaluation of employee benefit liabilities	(44)	(224)
- deferred tax on revaluation effects	18	52
Total other reserves	**(26)**	**(172)**

8.15 Retained earnings/loss

RETAINED EARNINGS/LOSS	31.12.2018	31.12.2017
- retained earnings (loss) brought forward	(5,223)	(2,028)
- net profit/loss for the period	21,316	13,364
Total retained earnings/loss	**16,093**	**11,336**

8.16 Loans and borrowings

Long-term

NON-CURRENT LIABILITIES WITH THE MATURITY REMAINING AFTER THE BALANCE SHEET DATE OF:	31.12.2018	31.12.2017
a) over 1 year to 3 years	13,838	10,283
b) over 3 years to 5 years	7,954	7,512
c) over 5 years	8,606	7,535
Total non-current liabilities	**30,398**	**25,330**

No.	Loan type	Borrower	Contractual loan amount	Currency	Outstanding loan/borrowing amount	Currency	Interest rate	Repayment date
1	Investment loan for the construction of a starch drying room, an unloading node and a water treatment unit	PEPEES	9,822	PLN	4,387	PLN	Interest rate is based on WIBOR for 3-month deposits plus the Bank's margin	25.02.2022
2	Investment loan to upgrade the dust removal system for boilers	PEPEES	1,200	PLN	558	PLN	Interest rate is based on WIBOR for 3-month deposits plus the Bank's margin	31.12.2020
3	Investment loan to finance and refinance the acquisition of 100% of shares in Gospodarstwo Rolne Ponary	PEPEES	10,530	PLN	9,778	PLN	Interest rate is based on WIBOR for 1-month deposits plus the Bank's margin	30.06.2025
4	Syndicated investment loan to implement the investment project: 'The Construction of a Biogas Plant in Szepietowo District'	CHP Energia	12,830	PLN	11,116	PLN	Interest rate is based on WIBOR for 3-month deposits plus the Bank's margin	31.12.2023

No.	Loan type	Borrower	Contractual loan amount	Currency	Outstanding loan/borrowing amount	Currency	Interest rate	Repayment date
5	Working capital loan related to conducted business activity	CHP Energia	800	PLN	374	PLN	Base rate of SBR Bank plus the Bank's margin	31.12.2019
6	Working capital loan to finance current liabilities associated with conducted business activity	CHP Energia	3,000	PLN	2,273	PLN	Interest rate is based on WIBOR for 3-month deposits plus the Bank's margin	31.05.2022
7	Investment loan to finance/refinance the purchase of a real property by PPZ Bronisław	PPZ Bronisław	800	PLN	472	PLN	Interest rate is based on WIBOR for 3-month deposits plus the Bank's margin	30.11.2021
8	Investment loan taken out to upgrade the starch drying department and build the protein recovery system	PPZ Bronisław	8,456	PLN	7,574		Interest rate is based on WIBOR for 3-month deposits plus the Bank's margin	31.12.2027

The loans were measured in accordance with IFRS 9 at amortised cost.

Securities

Re: 1
The loan is secured with a contractual mortgage amounting to PLN 14,734 thousand, an assignment of rights under an insurance policy; the statement on the submission to execution.

Re: 2
The loan is secured with a general mortgage up to PLN 1,800 thousand, a blank promissory note and an authorisation to use bank accounts.

Re: 3
The loan is secured with a joint mortgage up to PLN 15,795 thousand; an assignment of a cash payable under an insurance policy; registered pledges on 32,400 shares (100% of shares) in Gospodarstwo Rolne Ponary; a blank promissory note.

Re: 4
The syndicated loan is secured with the following contractual mortgages for the benefit of three creditors:

- amounting to PLN 8,288 thousand for the benefit of Spółdzielczy Bank Rozwoju Branch in Szepietowo;
- amounting to PLN 6,761 thousand for the benefit of Bank Spółdzielczy in Brańsk;
- amounting to PLN 6,761 thousand for the benefit of Bank Spółdzielczy Branch in Andrzejów;

In addition, the syndicated loan is secured with: blank promissory notes with promissory note agreements; endorsements on bills of exchange; the statement on the submission to bank execution; the authorisation to use a current account; the assignment of receivables under an insurance policy; a registered pledge amounting to PLN 15,227 thousand on fixed assets for the benefit of Spółdzielczy Bank Rozwoju Branch in Szepietowo.

Re: 5
The loan is secured with a contractual mortgage amounting to PLN 1,360 thousand for the benefit of Spółdzielczy Bank Rozwoju Branch in Szepietowo; a blank promissory note with a promissory note agreement; the statement on the submission to bank execution; the assignment of receivables under an insurance policy; the authorisation to use a current account.

Re: 6
The loan is secured with a contractual mortgage amounting to PLN 5,100 thousand with Spółdzielczy Bank Rozwoju Branch in Szepietowo as the creditor; a blank promissory note with a promissory note agreement; the statement on the submission to bank execution; the authorisation to use a current account; the assignment of receivables under a contract of insurance for construction risks and under a contract of insurance for buildings and structures.

Re: 7
The loan is secured with a contractual mortgage amounting to PLN 1,200 thousand with Bank Zachodni WBK with its registered office in Wrocław as the creditor, and the endorsement on a bill of exchange with the bill of exchange agreement.

Re: 8
The loan is secured with a loan repayment surety granted by PEPEES in the amount of PLN 12,684 thousand.

Short-term

No.	Loan type	Borrower	Contractual loan/ borrowing amount	Currency	Outstanding loan/borrowing amount	Currency	Interest rate	Repayment date
1	Overdraft facility	PEPEES	4,000	PLN	0	PLN	1M WIBOR + bank's margin	31.08.2019
2	Revolving working capital loan in a credit account	PEPEES	10,000	PLN	10,000	PLN	1M WIBOR + bank's margin	31.08.2019
3	Non-revolving working capital loan in a credit account	PEPEES	16,500	PLN	16,500	PLN	1M WIBOR + bank's margin	31.08.2019
4	Overdraft facility	ZPZ Lublin	750	PLN	0	PLN	1M	31.08.201

							WIBO R+ bank’s margin	9
5	Revolving working capital loan in	ZPZ Lublin	4,250	PLN	2,824	PLN	1M WIBOR +	31.08.2019

No.	Loan type	Borrower	Contractual loan/ borrowing amount	Currency	Outstanding loan/borrowing amount	Currency	Interest rate	Repayment date
	a credit account						bank's margin	
6	Non-revolving working capital loan in a credit account	ZPZ Lublin	2,000	PLN	1,676	PLN	1M WIBOR + bank's margin	31.08.2019
7	Overdraft facility	PPZ Bronisław	700	PLN	0	PLN	1M WIBOR + bank's margin	31.08.2019
8	Revolving working capital loan in a credit account	PPZ Bronisław	4,000	PLN	3,581	PLN	1M WIBOR + bank's margin	31.08.2019
9	Non-revolving working capital loan in a credit account	PPZ Bronisław	7,800	PLN	6,167	PLN	1M WIBOR + bank's margin	31.08.2019
10	Overdraft facility	PEPEES	4,000	PLN	35	PLN	1M WIBOR + bank's margin	31.08.2019
11	Revolving working capital loan in a credit account	PEPEES	10,000	PLN	10,000	PLN	1M WIBOR + bank's margin	31.08.2019
12	Non-revolving working capital loan in a credit account	PEPEES	16,500	PLN	16,500	PLN	1M WIBOR + bank's margin	31.08.2019
13	Overdraft facility	ZPZ Lublin	750	PLN	0	PLN	1M WIBOR + bank's margin	31.08.2019
14	Revolving working capital loan in a credit account	ZPZ Lublin	4,250	PLN	1,953	PLN	1M WIBOR + bank's margin	31.08.2019
15	Non-revolving working capital loan in a credit account	ZPZ Lublin	2,000	PLN	1,790	PLN	1M WIBOR + bank's margin	31.08.2019
16	Overdraft facility	PPZ Bronisław	700	PLN	0	PLN	1M WIBOR + bank's margin	31/08/2019

17	Revolving working capital loan in a credit account	PPZ Bronisław	4,000	PLN	3,989	PLN	1M WIBOR + bank's margin	31.08.2019
18	Non-revolving working capital loan in a credit account	PPZ Bronisław	7,800	PLN	7,795	PLN	1M WIBOR + bank's margin	31.08.2019

No.	Loan type	Borrower	Contractual loan/ borrowing amount	Currency	Outstanding loan/borrowing amount	Currency	Interest rate	Repayment date
19	Working capital loan associated with conducted business activities	CHP Energia	2,500	PLN	1,700	PLN	1M WIBOR+ bank's margin	13.09.2018
	TOTAL		**102,500**	**PLN**	**84,510***	**PLN**		

**In the statement of financial position, there is the amount of PLN 90,728; the difference pertains to the part of long-term loans that will be repaid in the period of 12 months from the balance sheet date.*

Securities

The first nine loans were taken out under a single agreement called 'A Multiline Agreement'.
These loans are secured with:
- a contractual joint mortgage amounting to PLN 58,500 thousand on real properties:
  - owned by PPZ Bronisław S.A.
  - owned by ZPZ Lublin Sp. z o.o.
- an assignment of rights under an insurance policy for the real properties:
  - owned by PPZ Bronisław S.A.
  - owned by ZPZ Lublin Sp. z o.o.
- a registered pledge on assets belonging to PEPEES S.A.
  - owned by PPZ Bronisław S.A.
  - owned by ZPZ Lublin Sp. z o.o.
- an assignment of rights under an insurance policy for fixed assets
- a registered pledge on inventories with the value not less than 145% of the balance of the working capital loan with the assignment of the insurance policy for inventories
- an assignment of rights under an insurance policy for inventories
- transfer of receivables arising from the operations of PEPEES S.A., PPZ Bronisław S.A., ZPZ Lublin Sp. z o.o.
- a blank promissory note with a promissory note agreement.

The next nine loans were granted under the so-called 'Multi-purpose Line of Credit', which is secured with:
- a blank promissory note with a promissory note agreement issued by:
  - PEPEES S.A.
  - PPZ Bronisław S.A.
  - ZPZ Lublin Sp. z o.o.
- a contractual mortgage up to PLN 58,500 thousand on real properties:
  - owned by PPZ Bronisław S.A.
  - owned by ZPZ Lublin Sp. z o.o.
- an assignment of rights under an insurance policy for the real properties:
  - owned by PPZ Bronisław S.A.
  - owned by ZPZ Lublin Sp. z o.o.
- a registered pledge on fixed assets
  - owned by PEPEES S.A.
  - owned by PPZ Bronisław S.A.
  - owned by ZPZ Lublin Sp. z o.o.
- an assignment of rights under an insurance policy for fixed assets
- a registered pledge on inventories

- owned by PEPEES S.A.
- owned by PPZ Bronisław S.A.
- owned by ZPZ Lublin Sp. z o.o.

- an assignment of rights under an insurance policy for inventories
- global assignment of 40% of receivables
  - owned by PEPEES S.A.
  - owned by PPZ Bronisław S.A.
  - owned by ZPZ Lublin Sp. z o.o.

Re: 19
The loan is secured with a blank promissory note with a promissory note agreement, an endorsement on a bill of exchange granted by PEPEES S.A. and an authorisation to use a current account.

Any loan default or breach of significant terms of a loan agreement that has not been remedied on or before the end of the reporting period:

All loans have been repaid in accordance with their maturities resulting from concluded contracts. In the reporting period, no terms and conditions of loan agreements were violated.

8.17 Finance lease payables

FINANCE LEASE PAYABLES	31.12.2018	31.12.2017
a) long-term (over 1 year to 5 years)	4,775	7,446
b) short-term (up to 1 year)	2,876	2,587
Total	**7,651**	**10,033**

This payable results from agreements concluded to finance passenger cars, and plant and machinery. Payments are made in monthly instalments according to the repayment schedule; the last payment will be in made in November 2023. The payable bears interest at a variable interest rate of 1M WIBOR plus margin. Under the agreements, the Lessee assumes all the rights related to the statutory warranty and the manufacturer's guarantee. The possibility of withdrawing from a sales contract is an exception; only the Lessor has this right. The Lessee's obligations comprise timely payments of lease payments in accordance with the schedule approved by him. In the event of late or no payments, the Lessor has the right to terminate the lease and demand the return of the leased asset. Upon the end of the lease, the ownership of the leased asset is transferred by the Lessor to the Lessee.

FINANCE LEASE PAYABLES	2019	2020-2023	Total
Nominal value of lease payments	3,084	5,029	8,113
Future finance costs	(208)	(254)	(462)
Present value of minimum lease payments	**2,876**	**4,775**	**10,033**

8.18 Retirement and similar benefits obligations

RETIREMENT AND SIMILAR BENEFITS OBLIGATIONS (BY TITLES)	31.12.2018	31.12.2017
a) long-term, including:	2,381	2,249
- retirement benefits	467	429
- jubilee benefits	1,914	1,820
b) short-term, including:	296	327
- retirement benefits	82	38
- jubilee benefits	214	289
Total	**2,677**	**2,576**

MOVEMENT ON RETIREMENT AND SIMILAR BENEFITS OBLIGATIONS (BY TITLES)	2018	2017
a) opening balance	**2,576**	**2,571**
- retirement benefits	468	429
- jubilee benefits	2,108	2,142
b) increases (due to)	**468**	**425**
- retirement benefits	116	85
- jubilee benefits	352	340
c) utilisation (due to)	**345**	**304**
- retirement benefits	22	18
- jubilee benefits	323	286
d) reversal (due to)	**22**	**116**
- retirement benefits	12	28
- jubilee benefits	10	88
d) closing balance	**2,677**	**2,576**
- retirement benefits	550	468
- jubilee benefits	2,127	2,108

In PEPEES S.A., jubilee benefits are paid to employees who worked for at least 20 years in total, every 5 years. The period of employment entitling an employee to qualify for a jubilee benefit comprises the periods of employment in PEPEES S.A. and in companies separated from PEPEES S.A. subject to the transfer of that employee from PEPEES S.A. to these companies pursuant to Article 23^1 of the Polish Labour Code, and the period of employment in all entities who are employers within the meaning of the Polish Labour Code, and the periods of working as a farmer in case of the acquisition of a farm by the employee.
To qualify for the jubilee benefit, an employee must work for at least 5 years in PEPEES S.A. and in subsidiaries separated from PEPEES S.A., subject to the transfer of that employee from PEPEES S.A. to these companies pursuant to Article 23^1 of the Polish Labour Code.

The basis for the benefit equals 150% of the gross minimum remuneration determined on the basis of generally applicable laws.

The amount of the jubilee benefit is calculated only for the period of employment in PEPEES S.A. and in companies separated from PEPEES S.A., subject to the transfer of that employee from PEPEES S.A. to these companies pursuant to Article 23^1 of the Polish Labour Code.

The benefit, depending on total employment duration, is determined as the following percentage 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 of employment and all subsequent 5-year periods of employment – 400%.

For part-time employees, the amount of the jubilee benefit is calculated in proportion to the working hours specified in their contracts of employment.

Retirement and disability benefits are paid by the Company in accordance with Article 92^1 of the Polish Labour Code.

An employee entitled to an invalidity or retirement pension, whose employment was terminated due to becoming retired or disabled, is entitled to a severance pay equal to one-month remuneration.
Re-employed retirees and pensioners do not re-acquire the right to the severance pay.
The amounts of liabilities in **ZPZ Lublin** in particular periods were calculated by an independent actuary.
The basis for the benefits is the basic remuneration on the day of becoming qualified for the benefit. The amount of the benefit depends on the employment duration and amounts, for each 5 years of employment, to 100% of the basic remuneration.

Periods of employment entitling to the severance pay are set out in the Corporate Collective Bargaining Agreement. After working 20 or more years, the amount of the severance pay is 200% of the basic remuneration.
An employee who was paid the severance pay, may not receive it again.

Basic actuarial assumptions	Balance sheet date	Balance sheet date
	31.12.2018	31.12.2017
Annual wages growth rate	3.50%	3.50%
Discount rate	2.80%	3.20%

8.19 Trade and other payables

CURRENT PAYABLES	31.12.2018	31.12.2017
- trade payables, falling due:	13,064	15,026
- up to 12 months	13,064	15,026
- social security, taxes, customs and other payments	2,651	2,614
- remunerations	1,341	1,596
- advances received for supplies	575	375
- other	181	732
Total trade and other payables	**17,812**	**20,343**

8.20 Derivative financial instruments

As at the balance sheet date, i.e. 31.12.2018, PEPEES Group had no unsettled *forwards* or *futures*.

8.21 Provisions and accruals

PROVISIONS, ACCRUALS, DEFERRED INCOME (BY TITLES)	31.12.2018	31.12.2017
a) long-term, including:	**6,269**	**6,901**
- grants related to property, plant and equipment	6,269	6,901
b) short-term, including:	**3,816**	**1,978**
- grants related to property, plant and equipment	622	625
- loan subsidies	-	8
- environmental protection costs	96	123
- provisions for remunerations	753	616
- not-invoiced services	24	31
- utilised greenhouse gas emission allowance	942	305
- provision for bonuses for the Board of Directors and employees	1,379	270
Total	**10,085**	**8,879**

MOVEMENT ON SHORT-TERM PROVISIONS (BY TITLES)	2018	2017
a) opening balance	**1,978**	**1,877**
- grants related to property, plant and equipment	625	491
- provisions for services performed by contractors	31	71
- loan subsidies	8	22
- fee for the use of the environment	123	165
- provisions for remunerations	616	498
- greenhouse gas emission allowance	305	337
- bonus for the Board of Directors	270	284
- other	-	9
b) increases (due to)	**2,192**	**1,476**
- grants related to property, plant and equipment	-	211
- provision for used CO_2 emission allowances	637	305
- fee for the use of the environment	96	123
- provisions for holiday pays	326	536
- provisions for services performed by contractors	24	31
- bonuses for the Board of Directors and employees	1,109	270
c) utilisation (due to)	**354**	**1,375**
- fee for the use of the environment	123	165
- provisions for holiday pays	189	418
- provision for used CO_2 emission allowances	-	337
- provision for services performed by contractors	31	71
- grants related to property, plant and equipment	3	77
- loan subsidies	8	14
- bonuses for the Board of Directors and employees	-	284
- other	-	9
e) closing balance	**3,816**	**1,978**
- grants related to property, plant and equipment	622	625
- loan subsidies	-	8
- provision for used CO_2 emission allowances	942	305
- fee for the use of the environment	96	123
- provisions for holiday pays	753	616
- bonuses for the Board of Directors and employees	1,379	270
- provisions for services performed by contractors	24	31

8.22 Deferred income tax

Deferred tax liabilities

DEFERRED TAX LIABILITIES	31.12.2018	31.12.2017
The difference between the carrying amount and the tax value of property, plant and equipment	5,836	6,287
Unrealised foreign exchange differences	2	2
Interest due but not received	504	(36)
Other	128	5
Total deferred tax liabilities	**6,470**	**6,258**

Deferred tax assets

DEFERRED TAX ASSETS	31.12.2018	31.12.2017
Outstanding remunerations	137	150
Provision for bonuses for the Board of Directors and employees	262	51
Provision for unused annual leaves	123	100
Retirement and jubilee benefits	508	489
Unrealised foreign exchange differences	62	48
Write-downs of inventories	78	45
Write-downs of interests	565	565
Lease payables	1,095	1,385
Consolidation adjustments – retained earnings	(500)	(585)
Provision for the used CO_2 emission allowance	179	58
Assets valuation	2,428	2,456
Tax loss	26	81
Others	6	6
Total deferred tax assets	**4,969**	**4,849**

9. Notes to the consolidated statement of comprehensive income

9.1 Revenue from the sales of products

NET REVENUE FROM THE SALES OF PRODUCTS (ITEM-BY-ITEM STRUCTURE - TYPES OF ACTIVITIES)	2018	2017
• *from continuing operations*	***224,087***	***203,379***
- potato products	219,627	199,329
- heat	-	352
- electricity	4,460	3,698
• *from discontinued operations*	-	-
Total net revenue from the sales of products	**224,087**	**203,379**

9.2 Revenue from the sales of services

NET REVENUE FROM THE SALES OF SERVICES (ITEM-BY-ITEM STRUCTURE - TYPES OF ACTIVITIES)	2018	2017
- revenue from real property lease	605	1,109
- transmission of electricity	53	54
- water supply and wastewater collection	-	1
- devices and car rental	51	216
- services for farmers	307	423
- other services	168	28
Total net revenue from the sales of services, including:	**1,184**	**1,831**
• *from continuing operations*	*1,184*	*1,831*

9.3 Revenue from the sales of trade goods and materials

NET REVENUE FROM THE SALES OF TRADE GOODS AND MATERIALS (ITEM-BY-ITEM STRUCTURE - TYPES OF ACTIVITIES)	20 18	20 17
- potatoes	7,324	9,129
- potato products	661	1,860
- pesticides	3,213	3,648
- materials and waste (scrap, waste paper, post-fermentation squeeze out)	235	454
- energy performance certificates	3,185	3,742
- other	52	230
Total net revenue from the sales of trade goods and materials	**14,670**	**19,063**
from continuing operations	*14,670*	*19,063*

9.4 Expenses by nature

EXPENSES BY NATURE	20 18	20 17
a) depreciation/amortisation	11,383	9,193
b) materials and energy	116,340	122,605
c) third-party services	23,108	22,038
d) taxes and charges	5,014	4,819
e) remunerations	27,056	24,637
f) social security contributions and other payments	5,914	5,558
g) other expenses by nature (due to)	2,507	1,912
- entertainment and advertising expenses	513	379
- business trips	192	166
- non-life insurance expenses	591	418
- costs of analyses, tests and scientific expert opinions	446	355
- other expenses	765	594
Total expenses by nature	**191,322**	**190,762**
Net increase/decrease in inventories, products and prepaid expenses/accruals	7,572	(9,296)
Cost of manufacturing products for the entity's own needs	(3,785)	(1,441)
Costs of sales (negative value)	(10,746)	(11,475)
Administrative expenses (negative value)	(31,347)	(26,874)
Cost of products and services sold	**153,016**	**141,676**

9.5 Employee benefits expense

EMPLOYEE BENEFITS EXPENSE	2018	2017
e) remunerations, including:	**27,056**	**24,637**
- remunerations under contracts of employment	23,454	22,473
- remunerations under mandate and similar contracts	1,318	1,330
- remunerations of the members of the Supervisory Board	782	609
- severance pays (due to redundancies) and jubilee benefits	243	135
- provisions for compensations for unused annual leaves	150	104
- provisions for retirement severance pays and jubilee benefits	1,109	-
- provisions for bonuses for the Board of Directors and employees	-	(14)
f) social security contributions and other payments, including:	**5,914**	**5,558**
- social security	4,385	4,027
- charges to the Labour Fund	471	436
- charges to the Corporate Social Benefits Fund	588	608
- employee training expenses	76	129
- working clothes	88	152
- medical examinations and H&S expenses	184	163
- other benefits	122	43
Total employee benefits expense	**32,970**	**30,195**

9.6 Other operating income

OTHER OPERATING INCOME	2018	2017
a) gains from disposal of non-financial non-current assets	184	89
b) reversal of provision (due to)	185	108
- receivables payment	185	108
c) government grants, including:	630	651
- grants related to property, plant and equipment	622	625
- investment loans subsidies	8	26
d) other, including:	377	217
- indemnities, damages, penalties and fines received	276	165
- surplus assets	2	6
- other expenses	99	46
Other operating income	**1,376**	**1,065**

9.7 Other operating expenses

OTHER OPERATING EXPENSES	2018	2017
a) loss from disposal of non-financial non-current assets	-	6
b) other, including:	**3,543**	**4,885**
- donations	73	54
- liquidation of stocks	11	-
- court fees and litigation expenses	45	53
- write-down of goodwill	-	4,346

OTHER OPERATING EXPENSES	20 18	20 17
- write-down of receivables	201	42
- unplanned depreciation/amortisation charges	1,060	38
- indemnities, damages, penalties and fines paid	65	43
- written-off receivables	87	45
- shortages	18	35
- bailiff costs	2	1
- costs of post-accident repairs	40	168
- reclassification of products	3	26
- other	163	34
Total other operating expenses, including:	**1,768**	**4,891**
- from discontinued operations		-

9.8 Finance costs

FINANCE COSTS	20 18	20 17
a) interest on loans and borrowings	2,265	1,886
b) other interest	18	28
c) foreign exchange losses	268	1,203
- realised	268	1,254
- unrealised	-	(51)
d) other finance costs	523	454
- commissions on loans and refunded Bank Guarantee Fund charges	147	137
- lease payments	343	246
- loan revaluation	10	32
- discount on the purchase of receivables	23	16
- provisions for finance costs	-	23
Total finance costs	**3,074**	**3,571**

9.9 Finance income

FINANCE INCOME	20 18	20 17
a) dividends	122	122
b) interest on loans	206	28
c) interest on deposits	142	124
d) revaluation of financial assets	2,886	
e) interest on receivables	46	88
f) revenue from the disposal of financial assets	24	7
g) foreign exchange gains	145	-
- realised	248	-
- unrealised	(103)	-
Total finance income	**3,571**	**369**

9.10 Income tax expense

INCOME TAX EXPENSE	2018	2017
Current income tax	(7,367)	(5,387)
Deferred income tax	362	(73)
Total income tax expense	**(7,005)**	**(5,460)**
- from discontinued operations	-	-

The reconciliation of the income tax on gross profit/loss before tax at the statutory tax rate with the income tax calculated at the effective tax rate is as follows:

Specification	2018	2017
Gross profit/loss before tax	30,419	18,651
Consolidation eliminations	(2,593)	368
Losses of companies	1,776	2,198
Gross profit/loss net of consolidation eliminations	29,602	21,217
Income tax at the statutory rate of 19%	(5,624)	(4,031)
Tax on permanent differences between the gross profit and the tax base	(1,381)	(1,429)
Income tax expense at the effective tax rate of 23.03% in 2018 and 29.27% in 2017	**(7,005)**	**(5,460)**

The Group is not a group for tax purposes according to the Polish Corporate Income Tax Act. Each company accounts for its own income taxes independently.
In 2018, income tax paid amounted to PLN 8,061 thousand, including PLN 2,406 thousand for 2017 and PLN 5,655 thousand for the present year. Tax payable on the taxable income amounts to PLN 7,367 thousand. Current tax payables amount to PLN 1,712 thousand.

9.11 Earnings and comprehensive income per share

Earnings per share were calculated by dividing profit attributable to the parent's shares for the period by the weighted average number of shares. All shares are ordinary bearer shares.

Weighted average number of shares				
period beginning	period end	number of days (A)	number of shares in the period (B)	(A) x (B) / 365
2018-01-01	2018-12-31	365	95,000,000	95,000,000
total:		365	**weighted average:**	**95,000,000**

EARNINGS PER SHARE (EPS)	2018	2017
Net profit (loss)	23,091	13,364
Weighted average number of shares	95,000,000	95,000,000
Basic earnings per share (in PLN per share)	0.243	0.141
Net earnings used to calculate diluted earnings per share	23,091	13,364
Weighted average number of ordinary shares for diluted earnings per share	95,000,000	95,000,000
Diluted earnings per share (in PLN)	0.243	0.141

NET COMPREHENSIVE INCOME (LOSS) PER SHARE	2018	2017
Net comprehensive income (loss) in PLN 000s	22,945	13,470
Number of shares	95,000,000	95,000,000
Comprehensive income (loss) per share in PLN	**0.242**	**0.142**

9.12 The position of the Board of Directors regarding the accomplishment of the forecast

The Group did not publish any forecasts of the company's separate results. In the nearest future, the Group does not intend to publish forecasts for the coming years.

9.13 Dividends paid or declared, in aggregate and per share, separately for ordinary shares and preference shares

The Issuer did not pay or declare payment of dividend.

10. Notes to the consolidated statement of cash flows

10.1 Reconciliation of amounts recognised in the interim consolidated statement of cash flows with the balance of cash and cash equivalents in the balance sheet

Specification	2018	2017
Cash and cash equivalents in the statement of financial position	39,806	30,638
Bank overdrafts	(35)	(292)
Foreign exchange differences from the valuation of cash	(7)	10
Cash in the statement of cash flows	**39,764**	**30,356**

10.2 Non-monetary transactions

Specification	2018	2017
Acquisition of assets under finance lease	(594)	(5,937)
Loan valuation at amortised cost (change)	10	32
Interest on a cash loan accrued but not yet paid	204	210

10.3 Undrawn overdraft facilities

As at 31.12.2018, the Group had undrawn overdraft facilities in the current account amounting to PLN 10,865 thousand (31.12.2017: PLN 9,708 thousand).

11. Contingent items

a) contingent liabilities

The assets of the Group's companies are encumbered with mortgages and pledges as well as transfers of receivables from property insurance contracts, as securities for loans.

PEPEES receives loan interest subsidies. The value of the subsidies received until 31.12.2018 is PLN 980 thousand. In the case of the failure to satisfy the terms of loan agreements, e.g.
- the failure to pay repayment instalments and interest by the dates set in agreements;
- the failure to complete investment projects as planned;
- using the loan contrary to its intended purpose;

the subsidies must be returned. The Company will meet the aforementioned conditions, as the investment projects have already been completed as planned; the loans have been used for their intended purpose; and the instalments and interest are paid by the Company as scheduled.

There may be payables arising from non-competition agreements after termination of employment. Such agreements are concluded with several persons in the Issuer's company. In the case of the termination of their employment, the Company must pay damages of ca. PLN 1,116 thousand.

b) contingent assets

The Group uses, pursuant to the right to perpetual usufruct, 680,849 m^2 of land; its value as at 31.12.2018 resulting from the decision on the annual fee amounts to PLN 23,336 thousand (31.12.2017: PLN 13,603 thousand).

The Group's companies pay the annual fee of 3% of the value. The fee in 2018 was PLN 419 thousand (2017: PLN 415 thousand). The fee for 2019 will amount to PLN 694 thousand.

12. Related party transactions

12.1 The Issuer's transactions with its subsidiaries

a) Revenue from the sales of products and trade goods

Types of revenue	2019	2017
Revenue from the sales of products to subsidiaries	211	172
Revenue from the sales of trade goods to subsidiaries	191	105
Revenue from the sales of production raw materials to subsidiaries	3,078	2,320
Revenue from the sales of services to subsidiaries	356	271
Revenue from the sales of fixed assets	-	48
Total revenue from related parties	**3,836**	**2,916**

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

b) Purchases of trade goods and services

Types of purchases		2018	2017
Purchases of products from subsidiaries		5,365	4,518
Purchases of services from subsidiaries		365	228
Purchases of trade goods from subsidiaries		2,361	3,478
Total purchases from related parties		**8,091**	**8,224**

c) interest on loans and sureties granted

Types	2018	2017
ZPZ Lublin	128	128
PPZ BRONISŁAW	178	167
CHP Energia	551	264
GR PONARY	18	-
Pepees Inwestycje	40	-
Total	**915**	**559**

d) Balances of settlements as of the balance sheet date arising from sale/purchase of trade goods/services

Settlements with subsidiaries	2018	2017
Receivables – PPZ Bronisław	1,241	-
Receivables – CHP Energia	371	196
Advances – CHP Energia	461	162
Receivables – GR PONARY	1	-
Receivables – OZENERGY	5	5
Liabilities – ZPZ Lublin	82	148
Liabilities – PPZ BRONISŁAW	19	1,979
Liabilities – CHP Energia	-	42
Balance of settlements with related parties	**1,978**	**(1,806)**

e) Balance of settlements of cash loans

Subsidiary	Contractual cash loan amount	Outstanding amount as at	
		31.12.2018	31.12.2017
ZPZ Lublin	3,000	3,000	3,000
PPZ BRONISŁAW	2,000	-	2,000
CHP Energia	5,683	2,453	2,619
GR PONARY	550	553	-
Pepees Inwestycje	1,450	1,465	-
Total receivables from related parties	**12,683**	**7,471**	**7,619**

All related party transactions are an arm's length transactions.

12.2 The Issuer's transactions with shareholders

On 4 January 2018, the Issuer entered into a conditional sales agreements with two natural persons, who are shareholders of the Company, under which the Company acquired a 32.6% stake in Gospodarstwo Rolne Ponary Sp. z o.o. Thus, the Issuer has become the holder of 100% of shares in Ponary.

12.3 The Issuer's transactions with the key management and supervisory personnel

a) benefits for key management personnel (members of the Board of Directors) and members of the Supervisory Board (in PLN 000s)

Board of Directors in PLN 000s	2018	2017
Short-term benefits	**1,378**	**1,530**
Post-employment benefits	0	0
Other long-term benefits	0	0
Termination benefits	0	0
Share-based payments	0	0
Supervisory Board in PLN 000s		
Short-term benefits	**412**	**319**
Post-employment benefits	0	0
Other long-term benefits	0	0
Termination benefits	0	0
Share-based payments	0	0

Amounts of benefits for individual Members of the Board of Directors and Members of the Supervisory Board are presented in the Directors' Report on the Group's operations for 2018.

b) transactions with key personnel and close members of their families

In the reporting period, the Company did not enter into any transactions with key personnel and close members of their families.

13. Financial risk management

The main types of risks associated with the Group's financial instruments include the interest rate risk, the liquidity risk, the currency risk and the credit risk. The Boards of Directors of the companies verify and agree on the principles of the management of each of the aforementioned risks and these principles are briefly discussed below. The Group also monitors the risk of market prices related to all financial instruments held by it.

Interest rate risk

The Group's exposure to the interest rate risk pertains primarily to loans whose interest rates are based on the rediscount rate on bills of exchange and WIBOR rate. As all long-term loans are subsidised and bear low interest rates, the interest rate risk is not high and the Company have not concluded interest rate swaps.

The table below shows the sensitivity of the gross profit/loss on an annual basis to reasonably possible changes in interest rates, all other things being equal (due to commitments with a variable interest rate).

Increase/decrease by percentage points	Impact on profit/loss	
	2018	2017
Increase in interest rates of loans by 1%	(429)	(521)
Decrease in interest rates of loans by 1%	429	521

Currency risk

The Group is exposed to risks associated primarily with the euro in relation to concluded transactions. Such risk arises as a result of export sales and the sales to the European Union. The Group did not hedge its currency risk using any financial instruments (e.g. currency options or other derivatives). Due to the specific nature of the Group's business, apart from proceeds in foreign currencies from the sales of trade goods, the Group also makes substantial purchases in the euro. These items are in balance to a great extent and, on the whole, reduce the currency risk impact on the business and financial results.

The table below shows the sensitivity of the gross profit/loss to changes in the value of revenue and expenses in the case of the fluctuations of the USD and EUR exchange rates by 0.1 for PLN/EUR/USD.

Increase/decrease in exchange rates	Impact on profit/loss	
	2018	2017
Increase in PLN/USD exchange rate by 0.1	475	406
Increase in PLN/EUR exchange rate by 0.1	1,206	1,069
Decrease in PLN/USD exchange rate by 0.1	(475)	(406)
Decrease in PLN/EUR exchange rate by 0.1	(1,206)	(1,069)
Total impact on profit/loss	**+/-1,681**	**+/-1,475**

In addition, the Group holds cash in the bank account and receivables denominated in the euro and in the US dollar.

The effects of changes in the exchange rates as at the balance sheet date for USD and EUR by 0.1 for PLN/EUR/USD are presented in the table below.

Increase/decrease in exchange rates	Impact on profit/loss	
	2018	2017
Increase in PLN/USD exchange rate by 0.1	84	67
Increase in PLN/EUR exchange rate by 0.1	171	167
Decrease in PLN/USD exchange rate by 0.1	(84)	(67)
Decrease in PLN/EUR exchange rate by 0.1	(171)	(167)
Total impact on profit/loss	**+/-255**	**+/-234**

Commodities risk

The price risk in the 'processing of potatoes' segment is material, as the prices depend on such factors as weather. There are substantial price fluctuations during the year; however, the Group has not yet applied any hedging for them.

Credit risk

Financial assets which might potentially expose the Group to the concentration of credit risk, comprise mainly investments, trade receivables and other receivables. Cash and restricted cash are deposited in financial institutions which, in the opinion of the Company's Board of Directors, are reliable and trustworthy.

The Group is exposed, to a great extent, to the credit risk related primarily to trade receivables. In the course of its commercial activities, the Company sells products and services to economic operators on deferred settlement terms; as a result, there may arise the risk of not receiving payments from counterparties for supplied products and rendered services. The Company, to mitigate the credit risk and to maintain the lowest possible working capital, manages the risk using the procedure of granting trade credit limit to counterparties and determining the security for it. KUKE S.A. evaluates counterparties and insures receivables. The assumed payment period for receivables for normal sales is 14–60 days.

A counterparty making purchases on deferred settlement terms is evaluated individually in terms of credit risk. Counterparty receivables are monitored on a regular basis by the Financial Department. In the case of past due receivables, the procedure is to suspend sales and launch the debt collection process.

Liquidity risk

The Group aims to maintain the balance between the continuity and flexibility of financing, using various sources of finance such as bank overdrafts, long- and short-term bank loans, and leases.

14. Capital management

The primary objective of the Group's capital management is to ensure the ability to continue as a going concern, having regard for the completion of planned investments, and, at the same time, to maximize the Group's shareholder value.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group’s net debt comprises loans, borrowings, finance lease payables, trade and other payables, less cash and cash equivalents. Equity comprises equity attributable to the equity holders of the parent.

Amounts in PLN 000s

	31.12.2018	**31.12.2017**
Loans, borrowings, finance lease payables	128,693	116,897
Trade and other payables	17,812	20,343
Cash and cash equivalents (-)	(39,806)	(30,638)
Net debt	106,699	106,602
Equity	165,399	141,282
Equity and net debt	272,098	247,884
Gearing ratio	**39.21%**	**43.00%**

The financing structure is monitored to ensure the necessary funds for investments provided for in the Strategy of PEPEES Group for 2013-2018.

In 2018, the gearing ratio improved due to the increase in the Group’s equity.

15. Dividend

The companies of the Group did not pay any dividend in the reporting period and in the comparative period. Boards of Directors of the companies did not declare or propose dividend from the distribution of profit for 2018.

16. Average number of employees in the Group

Specification	**Average number of employees in 2018**	**Average number of employees in 2017**
Administrative employees	150	142
Workers	347	358
Employees on parental leaves and unpaid leaves	-	4
Total	**497**	**504**

17. The auditor’s remuneration

The registered auditor's remuneration for the review and audit of financial statements of the Group's companies and of the consolidated financial statements amounts to PLN 59.7 thousand plus VAT.
The registered auditor did not render any other services to PEPEES Group.

18. Significant proceedings before a court, an authority competent for arbitration proceedings or a public administration authority concerning the issuer's commitments and debts, indicating the subject of the proceedings, the value of the subject of the dispute, the initiation date of proceedings, parties to the proceedings and the issuer's position

There are no proceedings before a court, an authority competent for arbitration proceedings or a public administration authority concerning the Issuer's commitments or significant debts.
One of shareholders filed an appeal with the Appeal Court concerning the annulment of two resolutions of the General Meeting of Shareholders, i.e. regarding the appointment of members of the Supervisory Board and the allocation of profit for 2017.

19. Events after the reporting period

On 15 January 2019, the Extraordinary General Meeting of Shareholders of PEPEES was held, which amended the Company's Articles of Association and authorised the Supervisory Board to adopt the consolidated text of the Company's Articles of Association.

20. Authorising financial statements for issue

These consolidated financial statements were authorised for issue by the Board of Directors of the Parent Company on 26 March 2019.

SIGNATURES OF THE MEMBERS OF THE BOARD OF DIRECTORS OF THE PARENT COMPANY

President of the Board of Directors – Wojciech Faszczewski

Signed by:

Wojciech Faszczewski
Przedsiębiorstwo
Przemysłu Spożywczego
PEPPES S.A.

Date: 2019-03-26 12:22

Member of the Board of Directors – Tomasz Rogala

Signed by:

Tomasz Krzysztof Rogala
Przedsiębiorstwo
Przemysłu Spożywczego
PEPPES S.A.

Date: 2019-03-26 10:38

SIGNATURE OF THE PERSON WHO PREPARED THE FINANCIAL STATEMENTS

Chief Accountant – Wiesława Załuska

Signed by:

Wiesława Załuska
Przedsiębiorstwo
Przemysłu Spożywczego
PEPEES S.A.

Date: 2019-03-26 10:16