

## I. GENERAL PART

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

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

The tax and statistical registration is as follows:

NIP [Tax ID No.]: 7181005512

REGON [Company Stat. ID No.]: 450096365

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

The share capital as at 31 December 2015 amounts to PLN 5,700 thousand and is divided into 95,000 thousand ordinary shares with the nominal value of PLN 0.06 per share.

As at 31 December 2015, the following shareholders held, directly or indirectly, at least 5 % of the voting rights of the Company:

- Mr Maksymilian Maciej Skotnicki	20.56 %
- TRADO S.A.	9.05 %
- Newth Jonathan Reginald	8.42 %
- Mr Krzysztof Borkowski (indirectly via, inter alia, Mazowiecka Korporacja Finansowa sp. z o.o)	8.34 %
- Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	6.74 %
- Richie Holding Ltd	6.46 %
- Mazowiecka Korporacja Finansowa Sp. z o.o.	5.68 %

As at 31 December 2015, the Company's equity amounted to PLN 110,656 thousand.

As at 31 December 2015, which is the last day of the financial year, the composition of the Board of Directors was as follows:

- Mr Wojciech Faszczewski	-	President of the Board of Directors
- Mr Krzysztof Homenda	-	Member of the Board of Directors

During the financial year, there were no changes in the composition of the Board of Directors.

As at 31 December 2015, which is the last day of the financial year, the composition of the Supervisory Board was as follows:

- Mr Maciej Kaliński	-	Chairman of the Supervisory Board
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- Mr Piotr Taracha - Vice-Chairman of the Supervisory Board
- Mr Krzysztof Stankowski - Secretary of the Supervisory Board
- Mr Piotr Łuniewski - Member of the Supervisory Board
- Mr Robert Malinowski - Member of the Supervisory Board

Due to the expiry of the mandates of the members of the Supervisory Board, the Ordinary General Meeting of Shareholders, held on 26 May 2015, appointed the following members of the Supervisory Board: Mr Maciej Kaliński, Mr Piotr Taracha, Mr Krzysztof Stankowski, Mr Piotr Łuniewski and Mr Robert Malinowski.

Average employment during the financial year was 238 employees.

The audited financial statements comprise:

- the statement of financial position as at 31 December 2015 showing total assets and total equity and liabilities of PLN 196,714 thousand;
- the statement of comprehensive income for the financial year from 1 January 2015 to 31 December 2015 showing net profit of PLN 5,917 thousand and positive total comprehensive income of PLN 5,905 thousand;
- the statement of changes in equity for the financial year from 1 January 2015 to 31 December 2015 showing an increase in equity by PLN 5,905 thousand;
- the statement of cash flows for the period from 1 January 2015 to 31 December 2015 showing positive cash flows of PLN 17,358 thousand;
- additional information on adopted accounting policies and other explanatory notes.

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

The Company is the parent company in the Group and, as at 31 December 2015, prepared the consolidated financial statements of PEPEES S.A. Group.

The audited financial statements comprise data for the period from 1 January 2015 to 31 December 2015.

The closing balance for 2014 was entered into books of account as the opening balance as at 1 January 2015.

The financial statements for the previous financial year ended on 31 December 2014, approved by virtue of the resolution of the General Meeting of Shareholders held on 26 May 2015, was filed with the National Court Register on 2 June 2015. At the same time, the General Meeting of Shareholders decided to allocate the total net profit for the year ended on 31 December 2014 of PLN 3,621 thousand to reserves.

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

Mazars Audyt Sp. z o.o. was appointed by the Supervisory Board on 20 May 2015 as the registered auditor authorised to perform the audit for the financial year ended on 31 December 2015. The audit was conducted by Mazars Audyt Sp. z o.o., address: ul. Piękna 18, 00-549 Warsaw, which is Registered Audit Company No. 186, pursuant to the agreement of 22 July 2015. The audit was conducted at the Company's registered office in August 2015 and in March 2016.

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

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

Based on the audit of the separate financial statements of the Company prepared as at 31 December 2015 and for the period then ended, on 17 March 2016, we issued an unqualified opinion.

## II. ANALYTICAL PART

### 1. Major absolute values characterising the entity

in PLN thousand

<b>Statement of comprehensive income</b>	<b>1.01.2015 – 31.12.2015</b>	<b>1.01.2014 – 31.12.2014</b>	<b>01.01.2013 – 31.12.2013</b>
Sales revenue	107,927	91,736	93,046
Gross profit from sales	24,920	19,721	18,612
Operating profit	7,222	4,089	1,462
Profit before tax	7,537	4,614	1,327
Net profit	5,917	3,621	797
Total net comprehensive income	5,905	3,242	797
<b>Statement of financial position</b>	<b>31.12.2015</b>	<b>31.12.2014</b>	<b>31.12.2013</b>
Non-current assets	102,884	94,404	81,169
Current assets, including:	93,830	67,138	60,269
<i>Inventory</i>	<i>44,192</i>	<i>45,284</i>	<i>30,761</i>
Equity	110,656	104,751	93,227
Non-current liabilities	22,168	12,322	13,129
Current liabilities, including:	63,890	44,469	35,082
<i>Loans and advances</i>	<i>52,066</i>	<i>32,141</i>	<i>26,786</i>
Balance sheet total	196,714	161,542	141,438

### 2. Performance ratios

	<b>2015</b>	<b>2014</b>	<b>2013</b>
$\text{Receivables Turnover} = \frac{\text{Trade receivables}}{\text{Revenue from the sale of products and trade goods}} * 365$	52 days	44 days	42 days
$\text{Liabilities Turnover} = \frac{\text{Trade liabilities}}{\text{Revenue from the sale of products and trade goods}} * 365$	22 days	33 days	22 days
$\text{Inventory Turnover} = \frac{\text{Inventory of products, trade goods and materials}}{\text{Revenue from the sale of products and trade goods}} * 365$	194 days	230 days	151 days

Costs of sold products, trade goods and materials			
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### 3. Liquidity ratios

	2015	2014	2013
Current Ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$	1.5	1.5	1.7
Quick Ratio = $\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$	0.8	0.5	0.8

### 4. Profitability ratios

	2015	2014	2013
Return on Sales = $\frac{\text{Profit before tax}}{\text{Sales revenue}} * 100 \%$	7.0 %	5.0 %	1.4 %
Return on Total Assets = $\frac{\text{Net profit}}{\text{Total assets}} * 100 \%$	3.0 %	2.2 %	0.6 %
Operating Return on Assets = $\frac{\text{Operating profit}}{\text{Total assets}} * 100 \%$	3.7 %	2.5 %	1.0 %
Return on Equity = $\frac{\text{Net profit}}{\text{Total equity}} * 100 \%$	5.3 %	3.5 %	0.9 %

In our opinion, the results of the audit of the financial statements of the Company as at 31 December 2015 and the analysis of the above ratios, taking into account all the information available to us on the date of this report and opinion, indicate that the Company will continue as a going concern for the period of 12 months from the date of these financial statements.

### **III. DETAILED PART**

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

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

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

- a) The Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330, as amended)
- b) The Act of 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of Laws of 2015, item 1011, as amended)
- c) The Code of Commercial Companies of 15 September 2000 (Journal of Laws No. 94, item 1037, as amended)
- d) The National Auditing Standards issued by the National Council of Statutory Auditors in Poland
- e) The International Auditing Standards

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

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

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

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

The data from the approved balance sheet as at 31 December 2014 became the basis for the opening of the books of account.

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

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

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

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

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

As at 31 December 2015, the property, plant and equipment amounted to PLN 78,128 thousand. The balance comprises mainly buildings and structures of the net amount of PLN 51,032 thousand, and plant and machinery amounting to PLN 18,339 thousand.

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

Assets under construction amounted to PLN 7,185 thousand and comprised mainly the expenditure on the upgrade of production plant and machinery.

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

The balance of loans granted as at 31 December 2015 was PLN 12,147 thousand, including the long-term portion amounting to PLN 7,800 thousand. The loans were granted to the subsidiaries: PPZ Bronisław Sp. z o.o. (PLN 5,800 thousand); ZPZ Lublin Sp. z o.o. (PLN 3,000 thousand); and to the associate CHP Energia Sp. z o.o. (PLN 3,347 thousand). The balance of the loans was confirmed as at the balance sheet date.

### **2.2. Current assets**

#### **2.2.1. Inventory**

As at the balance sheet date, i.e. 31 December 2015, the inventory amounted to PLN 44,192 thousand and comprised mainly the inventory of finished products amounting to PLN 35,462 thousand. As at the balance sheet date, the inventory was subject to a write-down amounting to PLN 35 thousand.

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

#### **2.2.2. Trade receivables**

At the balance sheet date, i.e. 31 December 2015, trade receivables amounted to PLN 15,474 thousand and were subject to a write-down amounting to PLN 860 thousand.

The balance of trade receivables as at 31 December 2015 was confirmed **in 97 % with a written** confirmation of balances and payments after the balance sheet date.

### **2.2.3. Cash**

The balance of this item as at the balance sheet date amounting to PLN 23,422 thousand comprises cash at bank and term deposits.

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

## **2.3. Equity and liabilities**

### **2.3.1. Equity**

As at 31 December 2015, the share capital amounted to PLN 5,700 thousand.

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

Pursuant to the resolution of the General Meeting of Shareholders held on 26 May 2015, net profit for 2014 was allocated to reserves.

### **2.3.2. Loans and advances**

The Company's liabilities due to loans and advances as at 31 December 2015 amounted to PLN 59,982 thousand, including the long-term portion amounting to PLN 7,916 thousand. These liabilities were confirmed in writing by respective banks as at the balance sheet date.

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

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

The statement of comprehensive income showing positive income of PLN 5,905 thousand was correctly presented in relation to the books of account.

Sales revenue was, in all material respects, properly accounted for in the audited financial year and comprises the sale of products, trade goods, materials and services amounting to PLN 107,927 thousand.

Domestic sales accounted for 73 % of the total sales revenue.

The costs of sold products, trade goods and materials of PLN 83,007 thousand reflect, in all material respects, the actual accounting/business operations.

Administrative expenses amounted to PLN 12,459 thousand and comprised mainly the costs of salaries and wages, of the depreciation of general-purpose facilities, and of taxes.

Other operating income comprises mainly the revenue due to subsidies of PLN 405 thousand, the revenue due to reversed provisions, and the revenue due to the disposal of non-financial non-current assets of PLN 105 thousand.

Finance income comprises interest on granted loans of PLN 1,164 thousand.

Finance costs comprise mainly the interest on loans and advances of PLN 549 thousand.

**2.5. Additional information on adopted accounting policies and other explanatory notes to the financial statements**

Additional information to the financial statements on adopted accounting principles and other explanatory notes in the financial statements for the year ended on 31 December 2015 were prepared, in all material respects, in accordance with the International Financial Reporting Standards as adopted by the European Union.

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

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

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

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

**2.7. The Board of Directors' report on the Company's operations in the financial year**

The information contained in the Board of Directors' report for the audited financial year, in the part concerning the data contained in the books of account, is consistent with the information disclosed in the financial statements as at 31 December 2015.

The said report complies with the requirements of Article 49 of the Accounting Act and of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information to be provided by issuers of securities and conditions for recognizing as equivalent the information required by the provisions of law of a country not being a member state (Journal of Laws of 2014, item 133).

#### **IV. CLOSING REMARKS**

This report contains 11 consecutively numbered pages. The Appendix containing the financial statements of Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A. prepared as at 31 December 2015 in accordance with the International Financial Reporting Standards is an integral part of this report.

On behalf of

Mazars Audyt Sp. z o.o. No. 186  
Warsaw, ul. Piękna 18



Jarosław BOCHENEK

Key Registered Auditor

*No. 90086*

Warsaw, 17 March 2016

**Financial statements of PEPEES S.A. prepared as  
at 31 December 2015 according to IAS/IFRS**

**Appendix No. 1**

