



**THE CORPORATE GROUP OF  
PRZEDSIĘBIORSTWO PRZEMYSŁU  
SPOŻYWCZEGO „PEPEES” S.A.**

INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE PERIOD FROM 1 JANUARY 2016  
TO 30 JUNE 2016

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

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## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS		30.06.20	31.12.201	30.06.20
<b>I</b>	<b>Non-current (long-term) assets</b>	<b>101,711</b>	<b>102,971</b>	<b>102,071</b>
1	Property, plant and equipment	88,757	89,196	86,485
2	Intangible assets	117	460	71
3	Goodwill arising on consolidation	486	486	486
4	Equity-accounted investments			
5	Investments in other entities	113	113	113
6	Granted loans			2,408
7	Long-term advances	10,020	10,391	10,762
8	Deferred tax assets	2,218	2,325	1,746
<b>I</b>	<b>Current (short-term) assets</b>	<b>72,522</b>	<b>117,917</b>	<b>69,498</b>
1	Inventories	25,324	64,111	33,484
2	Biological assets	830	172	738
3	Trade receivables	28,425	18,118	25,038
4	Current income tax receivables			
5	Other receivables	647	4,237	1,357
6	Advances	4,838	1,085	4,514
7	Loans granted	2,907	2,806	503
8	Investments held for trading	2,550	2,550	2,550
9	Cash and cash equivalents	7,001	24,838	1,314
<b>Total assets</b>		<b>174,233</b>	<b>220,888</b>	<b>171,569</b>
EQUITY AND LIABILITIES		30.06.20	31.12.20	30.06.20
	<b>Equity</b>	<b>115,000</b>	<b>109,854</b>	<b>106,345</b>
	<i>Equity attributable to equity holders of the parent</i>	<i>114,223</i>	<i>109,136</i>	<i>105,790</i>
1	Share capital	5,700	5,700	5,700
2	Reserve capital and other reserves	106,065	99,735	99,950
3	Revaluation reserve	(492)	(391)	(343)
4	Retained earnings from previous years and the present year	(2,229)	(1,196)	(1,411)
5	Profit/loss for the year	5,179	5,288	1,894
	<b>Non-controlling interests</b>	<b>777</b>	<b>718</b>	<b>555</b>
<b>I</b>	<b>Non-current liabilities</b>	<b>22,862</b>	<b>23,417</b>	<b>19,910</b>
1	Loans and borrowings	7,517	7,916	7,980
2	Liabilities related to leased assets	4,106	4,246	1,037
3	Deferred tax liabilities	5,974	6,018	5,520
4	Retirement and similar benefits obligations	2,609	2,509	2,484
5	Grants	2,656	2,728	2,889
<b>I</b>	<b>Current liabilities</b>	<b>36,371</b>	<b>87,617</b>	<b>45,314</b>
1	Trade payables	7,434	7,511	11,435
2	Current income tax liabilities	453	869	198
3	Other current liabilities	2,292	2,918	2,157
4	Loans and borrowings	23,501	73,114	29,221
5	Liabilities related to leased assets	1,244	1,243	921
6	Retirement and similar benefits obligations	278	240	279
7	Provisions for other liabilities and other charges	1,169	1,722	1,103
<b>Total equity and liabilities</b>		<b>174,233</b>	<b>220,888</b>	<b>171,569</b>



## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>Revenue and expenses</i>		<i>01.01.20</i>	<i>01.01.20</i>
<i>Profit and loss</i>		<i>16-</i>	<i>15-</i>
		<i>30.06.2016</i>	<i>30.06.2015</i>
<b>I</b>	<b>Sales revenue</b>		
1	Revenue from the sale of products	70,962	57,505
2	Revenue from services	355	394
3	Revenue from the sales of trade goods and	15,178	11,928
	<b>Total sales revenue, including:</b>	<b>86,495</b>	<b>69,827</b>
	- revenue from continuing operations	86,495	69,827
<b>II</b>	<b>Cost of sales</b>		
1	Cost of products sold	(52,027)	(45,016)
2	Cost of services sold	(74)	(116)
3	Costs of trade goods and materials sold	(14,076)	(10,625)
4	Profit/loss from agricultural production	(388)	(172)
	<b>Total cost of sales, including:</b>	<b>(66,565)</b>	<b>(55,929)</b>
	- cost from continuing operations	(66,565)	(55,929)
<b>III</b>	<b>Gross profit from sales (I-II)</b>	<b>19,930</b>	<b>13,898</b>
1	Selling and marketing expenses	(3,460)	(2,921)
2	Administrative expenses	(9,285)	(8,174)
3	Other operating income	241	954
4	Other operating expenses	(214)	(186)
<b>IV</b>	<b>Operating profit (loss)</b>	<b>7,212</b>	<b>3,571</b>
1	Finance costs	(802)	(854)
2	Finance income	497	452
3	Share of profit of an associate	(276)	(515)
<b>V</b>	<b>Profit (loss) before tax, including:</b>	<b>6,631</b>	<b>2,654</b>
	- profit (loss) before tax from continuing operations	6,631	2,654
	Income tax expense	(1,393)	(869)
<b>VI</b>	<b>Net profit (loss)</b>	<b>5,238</b>	<b>1,785</b>
	- attributable to non-controlling interests	59	(109)
	- attributable to the equity holders of the parent	<b>5,179</b>	<b>1,894</b>
<b>VI</b>	<b>Other comprehensive income</b>	<b>(101)</b>	<b>36</b>
	Effects of the valuation of financial assets		
1	available-for-sale		
	Revaluation of employee benefit		
2	liabilities	(101)	36
<b>VI</b>	<b>Total comprehensive income, including</b>	<b>5,137</b>	<b>1,821</b>
	- attributable to non-controlling interests	59	(109)
	- attributable to the equity holders of the parent, including:	<b>5,078</b>	<b>1,930</b>
	- net comprehensive income (loss) from continuing operations	5,078	1,930



## INTERIM 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
<b>As at 1 January 2015</b>	<b>5,700</b>	<b>52,470</b>	<b>(379)</b>	<b>43,859</b>	<b>2,217</b>	<b>103,867</b>	<b>657</b>	<b>104,52</b>
<b>Changes in the period from 01.01.2015 to 30.06.2015</b>								
Other consolidation adjustments					(7)	(7)	7	
Distribution of profit (loss) for 2014				3,621	(3,621)			
Net profit for the period					1894	<b>1,894</b>	(109)	1,785
Other comprehensive income			36			<b>36</b>		36
<b>As at 30 June 2015</b>	<b>5,700</b>	<b>52,470</b>	<b>(343)</b>	<b>47,480</b>	<b>483</b>	<b>105,790</b>	<b>555</b>	<b>106,34</b>
<b>Changes in the period from 01.01.2015 to 31.12.2015</b>								
Distribution of profit (loss) for 2014		(215)		3,621	(3,406)	-		-
Net profit (loss) for the period					5,288	<b>5,288</b>	54	5,342
Other comprehensive income for the year (net)			(12)			<b>(12)</b>		(12)
Other changes in equity					(7)	<b>(7)</b>	7	-
<b>As at 31 December 2015</b>	<b>5,700</b>	<b>52,255</b>	<b>(391)</b>	<b>47,480</b>	<b>4,092</b>	<b>109,136</b>	<b>718</b>	<b>109,85</b>
<b>As at 1 January 2016</b>	<b>5,700</b>	<b>52,255</b>	<b>(391)</b>	<b>47,480</b>	<b>4,092</b>	<b>109,136</b>	<b>718</b>	<b>109,85</b>
Other consolidation adjustments					9	<b>9</b>		<b>9</b>
Distribution of profit (loss) for 2015		413		5,917	(6330)			
Net profit for the period					5179	<b>5,179</b>	59	<b>5,238</b>
Other comprehensive income			(101)			<b>(101)</b>		<b>(101)</b>
<b>As at 30 June 2016</b>	<b>5,700</b>	<b>52,668</b>	<b>(492)</b>	<b>53,397</b>	<b>2,950</b>	<b>114,223</b>	<b>777</b>	<b>115,00</b>



## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Indirect method	1.01.20 16 - 30.06.2016	1.01.20 15 - 30.06.2015
<b>A. Cash flows from operating activities</b>		
<b>I. Profit (loss) before tax</b>	<b>6,631</b>	<b>2,654</b>
<b>II. Total adjustments</b>	<b>29,163</b>	<b>22,588</b>
1. Depreciation and amortisation	3,809	3,300
2. Foreign exchange (gains) losses	(38)	(59)
3. Interest and share of profit (dividend)	812	492
4. (Profit) loss from investing activities	19	(253)
5. Net increase/decrease in provisions	(415)	(561)
6. Net increase/decrease in inventories	38,787	34,548
7. Net increase/decrease in biological assets	(658)	(612)
8. Net increase/decrease in receivables	(6,717)	(6,908)
9. Net increase/decrease in current liabilities, except for loans and borrowings	(703)	(2,755)
10. Net increase/decrease in advances	(3,382)	(3,843)
11. Income tax paid	(1,721)	(662)
12. Net increase/decrease in grants	(72)	(164)
13. Other adjustments	(558)	65
<b>III. Net cash flows from operating activities (I+/-II)</b>	<b>35,794</b>	<b>25,242</b>
<b>B. Cash flows from investing activities</b>		
<b>I. Proceeds</b>	<b>69</b>	<b>403</b>
1. Disposal of intangible assets and property, plant and equipment	69	323
2. Repayments of cash loans		80
<b>II. Expenses</b>	<b>3,307</b>	<b>10,968</b>
1. Acquisition of intangible assets and property, plant and equipment	3,132	10,968
2. Loans granted	175	
<b>III. Net cash flows from investing activities (I-II)</b>	<b>(3,238)</b>	<b>(10,565)</b>
<b>C. Cash flows from financing activities</b>		
<b>I. Proceeds</b>	<b>4,223</b>	<b>13,921</b>
1. Loans and borrowings	3,716	13,384
2. Grants	507	537
<b>II. Expenses</b>	<b>46,413</b>	<b>33,800</b>
1. Repayments of loans and borrowings	44,967	32,846
2. Interest on loans and borrowings	638	572
3. Lease payments	808	382
<b>III. Net cash flows from financing activities (I-II)</b>	<b>(42,190)</b>	<b>(19,879)</b>
<b>D. Total net cash flows (A.III+/-B.III+/-C.III)</b>	<b>(9,634)</b>	<b>(5,202)</b>
<b>E. Balance sheet change in cash, including:</b>	<b>(17,836)</b>	<b>(1,120)</b>
- net increase/decrease in cash due to foreign exchange differences	-	10
- net increase/decrease in bank overdrafts	8,202	(4,091)
<b>F. Cash at the beginning of period</b>	<b>16,167</b>	<b>(1,201)</b>
<b>G. Cash at the end of period (F+/-D)</b>	<b>6,533</b>	<b>(6,403)</b>
- including restricted cash	-	-



## SELECTED FINANCIAL FIGURES TRANSLATED INTO EUR

N	SELECTED FINANCIAL FIGURES	PLN 000s		EUR 000s	
		First half of 2016	First half of 2015	First half of 2016	First half of 2015
I	Total sales revenue	86,495	69,827	19,745	16,890
II	Net profit or loss attributable to the Company's shareholders	5,179	1,894	1,182	458
III	Net comprehensive income attributable to the Company's shareholders	5,078	1,930	1,159	467
IV	Net cash flows from operating activities	35,794	25,242	8,171	6,106
V	Net cash flows from investing activities	(3,238)	(10,565)	(739)	(2,556)
VI	Net cash flows from financing activities	(42,190)	(19,879)	(9,631)	(4,809)
VI	Total net cash flows	(9,634)	(5,202)	(2,199)	(1,258)
VI	Total assets	174,233	220,888	39,370	51,833
IX	Equity attributable to the Company's shareholders	114,223	109,136	25,810	25,610
X	Earnings (loss) per share	0.05	0.02	0.01	0.005
XI	Book value per share	1.20	1.11	0.27	0.27

Figures presented in lines: VIII, IX and XI, in columns "half-year/2015" are as at 31.12.2015.

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

- selected items of the statement of financial position as at 30.06.2016 – at the average exchange rate as at the balance sheet date: EUR 1 = PLN 4.4255;
- selected items of the statement of financial position as at 31.12.2015 – at the average exchange rate as at the balance sheet date: EUR 1 = PLN 4.2615;
- selected items of the statement of comprehensive income and of the statement of cash flows for the period from 01.01.2016 to 30.06.2016 – 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 2016: EUR 1 = PLN 4.3805;
- selected items of the statement of comprehensive income and of the statement of cash flows for the period from 01.01.2015 to 30.06.2015 – 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 2015: EUR 1 = PLN 4.1341.

## EARNINGS PER SHARE

	30.06.2016	30.06.2015
Net earnings attributable to the shareholders of PEPEES	5,179	1,894
Weighted average number of shares	95,000,000	95,000,000
Basic earnings per share (in PLN per share)	0.05	0.02
Net earnings attributable to the shareholders of PEPEES applied in the calculation of diluted earnings per share	5,179	1,894
Weighted average number of ordinary shares for diluted earnings per share	95,000,000	95,000,000
Diluted earnings per share (in PLN per share)	0.05	0.02
Annualised net earnings attributable to the shareholders of PEPEES	8,573	4,859
Weighted average number of shares	95,000,000	95,000,000
Annualised net earnings per share (in PLN per share)	0.09	0.05



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 1. General information about the parent company

<b>Full business name</b>	Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A.
<b>Registered office address</b>	18-402 Łomża, ul. Poznańska 121
<b>REGON [Company Stat. ID No.]</b>	450096365
<b>NIP [Tax ID No.]:</b>	718-10-05-512
<b>Registration authority</b>	District Court in Białystok, XII Commercial Division of the National Court Register
<b>No. in the Register</b>	000038455
<b>Legal status</b>	Spółka Akcyjna [a joint stock company]
<b>Organisational form</b>	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 30.06.2016

Wojciech Faszczyński – President of the Board of Directors

#### The composition of the Supervisory Board as at 30.06.2016:

1. Maciej Kaliński – Chairman
2. Piotr Marian Taracha – Vice-Chairman
3. Krzysztof Stankowski – Secretary
4. Piotr Łuniewski – Member
5. Robert Malinowski – Member
6. Agata Czerniakowska – Member

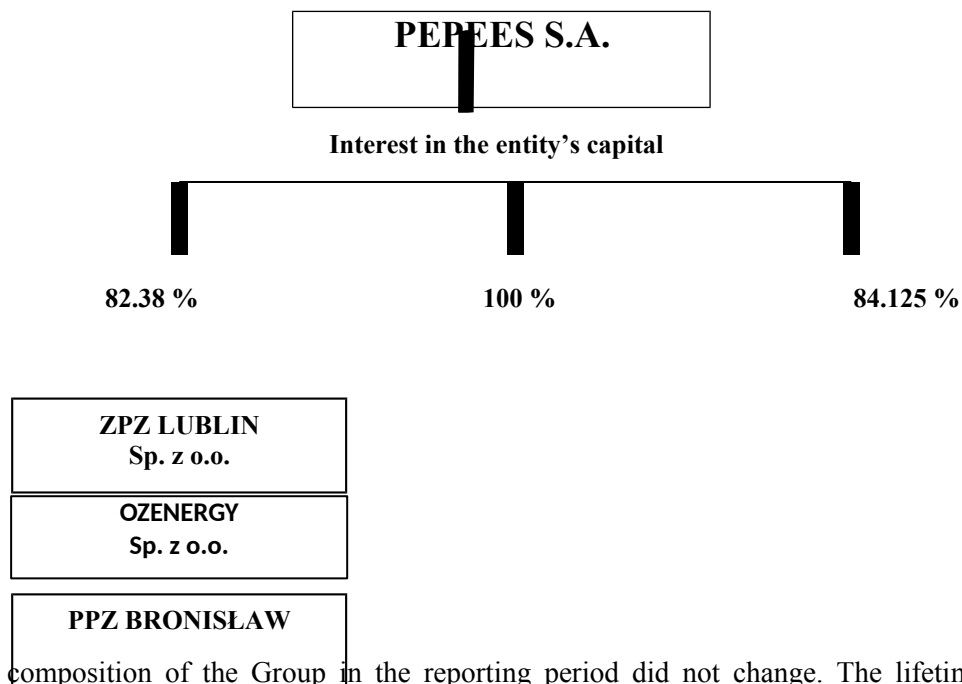
### 2. Reporting periods

These interim consolidated financial statements cover the period from 1 January 2016 to 30 June 2016, and comparative financial information and explanatory notes cover the period from 1 January 2015 to 30 June 2015 and, additionally, as at 31 December 2015 in the case of the statement of financial position and the statement of changes in equity.

These financial statements were prepared assuming that the Group would remain a going concern in the foreseeable future. There are no circumstances indicating any threats to the activities of PEPEES Group.



### 3. The structure of the Group as at 30 June 2016



#### General information about related parties

Name	Place of business	Objects	Registry court	Issuer's interest in capital	Share in total vote
ZPZ LUBLIN Sp. z o.o.	Lublin	Production and sale 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 %
PPZ BRONISŁAW Sp. z o.o.	Bronisław	Manufacture of starches and starch products	District Court in Bydgoszcz, XIII Economic Division of the National Court Register (NCR)	84.125 %	84.125 %
OZENERGY SP. Z O.O.	Łomża	Power generation	Białystok, XII Economic Division of the National Court Register (NCR)	100 %	100 %
CHP ENERGIA Sp. z o.o. (an	Wojny Wawrzyniec	electricity and heat from gas produced in a biogas plant	Białystok, XII Economic Division of the National Court Register (NCR)	24.9 %	24.9 %

### Basic financial information about related parties

	<b>ZPZ LUBLIN Sp. z o.o.</b>	<b>PPZ BRONISŁA W Sp. z o.o.</b>	<b>OZENERG Y SP. Z O.O.</b>	<b>CHP ENERGIA Sp. z o.o. (an</b>
Current assets	5,558	8,949	9	2,301
Non-current assets	4,763	7,119		23,271
Current liabilities	4,401	7,822	5	5,831
Non-current liabilities	3,345	6,210		18,018
Revenue	7,598	16,695	0	1,660
Financial result on continuing operations	(133)	517		(1,109)
Net financial result on discontinued operations				
Other comprehensive income				
Total comprehensive income	(133)	517	0	(1,109)

#### 4. Statement of compliance and the basis for the preparation of these condensed interim consolidated financial statements

These condensed interim consolidated financial statements were prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. When preparing these condensed interim consolidated financial statements, the Group adhered to the same accounting principles and calculation methods as applied in the most recent annual consolidated financial statements.

These condensed interim consolidated financial statements do not comprise all the information required in the annual consolidated financial statements and they should be read together with the consolidated financial statements for the financial year ended on 31 December 2015.

#### 5. The application of standards in 2016

The application of new interpretations and amendments to standards in the first half of 2016 had no impact on the Group's financial position.

#### 6. New accounting standards and interpretations not applied in these financial statements

The following standards have not been applied yet by the Group in the process of the preparation of these consolidated financial statements.

- a) IFRS 9 *Financial Instruments* effective for periods beginning on or after 1 January 2018. This standard introduces an improved and simplified approach to the classification and measurement of financial assets and liabilities, and the requirements for hedge accounting and the recognition of the impairment of financial assets.
- b) IFRS 14 *Regulatory Deferral Accounts* issued on 30 January 2014, effective for annual periods beginning on or after 1 January 2016 (not adopted by the European Commission).
- c) IFRS 15 *Revenue from Contracts with Customers* – effective for annual periods beginning on or after 1 January 2018. This standard provides a single accounting model for revenue from contracts with customers. It will replace the guidelines for the recognition of revenue included in IAS 18 *Revenue*, IAS 11 *Construction contracts* and in related *Interpretations*.
- d) IFRS 16 *Leases* – effective for annual periods beginning on or after 1 January 2019. This standard eliminates differences between finance and operating lease.
- e) Amendments to IAS 7, effective for annual periods beginning on or after 1 January 2017. The amendments provide for disclosures that will make it possible to evaluate changes in liabilities arising from financing activities, resulting both from cash flows and non-cash changes.
- f) Amendments to IAS 12 effective for periods beginning on or after 1 January 2017. The amendments clarify e.g. unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes.
- g) Amendments to IFRS 10 and IAS 28, for which the effective date has been deferred indefinitely. The amendments pertain to the sale or contribution of assets between an investor and its associate or joint venture, aiming to eliminate contradictions between the requirements of IAS 28 and IFRS 10.

The Board of Directors is currently assessing the impact of the aforementioned standards and interpretations upon the Group's reporting.

## **7. Changes in applied accounting policies; correcting errors and presentations**

In the first half of 2016, the Group did not change accounting principles and did not correct errors from previous years.

## **8. Seasonality or cyclical nature of operations**

The Group operates in an industry sector: “potatoes processing”. The purchase and processing of potatoes takes place in autumn in the period of 3 months, while the sale of manufactured products lasts all year long.

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

In the reporting period, there were no non-typical items having significant impact on assets, liabilities, equity and financial result.

## 10. Estimates

In the reporting period, the Group did not conduct impairment tests of non-current assets, as there were no indications of any such impairment.

Write-downs of receivables were updated by the amount reflecting the level of customers default risk.

Provisions for retirement benefits and jubilee benefits were updated on the basis of actuarial calculations as at 30.06.2016.

The provisions for unused annual leaves were updated on the basis of expected remunerations of employees including adds-on for the employer for annual leaves unused as at 30.06.2016.

The Group recognises deferred tax assets on the basis of the assumption that, in the future, it will generate tax profit enabling their utilisation.

The Group verifies, on an annual basis, useful lives of property, plant and equipment and intangible assets. The last update was made on 31 December 2015.

## 11. Acquisition and sale of property, plant and equipment

In the first half of 2016, the Group acquired property, plant and equipment for PLN 2,811 thousand. The purchases comprised mainly production plant and machinery and the modernisation of the boiler room.

The Group sold property, plant and equipment for PLN 69 thousand.

## 12. Commitments to purchase property, plant and equipment

On 18 February 2016, PEPEES entered into a loan agreement in the cooperation with the Voivodship Fund for Environmental Protection and Water Management (WFOŚiGW) concerning the upgrading of the dust removal system for boilers amounting to PLN 1,200 thousand, for the period until 31 December 2020. The loan will be repaid in 44 equal monthly instalments payable on the last day of each month, starting from 31 May 2017. Until the balance sheet date, the amount of PLN 509 thousand has been used.

The loan is secured mainly with a contractual mortgage up to PLN 1,800 thousand and with the assignment of rights under an insurance policy.

## 13. Inventories

Types of inventories	As at 30.06.2016	As at 31.12.20	As at 30.06.20
a) materials	2,386	2,920	1,872
b) semi-finished products and work in	3	1,491	2,831
c) finished products	22,767	55,279	28,596
d) trade goods	203	4,514	223

<b>Gross inventories</b>	<b>25,359</b>	<b>64,204</b>	<b>33,522</b>
<b>Write-downs</b>	<b>(35)</b>	<b>(93)</b>	<b>(38)</b>
<b>Net inventories</b>	<b>25,324</b>	<b>64,111</b>	<b>33,484</b>

The value of inventories recognised as an expense in the reporting period amounted to PLN 64,830 thousand (first half of 2015: PLN 54,299 thousand).

The carrying amount of inventories used as security for bank loans is PLN 22,233 thousand.

No new write-downs of inventories were made in the reporting period.

The Group reversed write-downs decreasing the value of inventories amounting to PLN 58 thousand due to sales.

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 for which the debt as at 30.06.2016 amounts to PLN 6,562 thousand;
- a registered pledge on inventories for the benefit of BGŻ BNP PARIBAS, securing loans for which the debt as at 30.06.2016 amounts to PLN 8,771 thousand.

#### 14. Biological assets

Since March 2014, PEPEES has leased a farm that was sown with annual plants; as at the balance sheet date, they are not ripe. The costs associated with the acquisition of seeds and with the cultivation as at the balance sheet date amount to PLN 1,456 thousand; obtained subsidies to PLN 507 thousand; and fair value less costs to sell to ca. PLN 830 thousand. Biological assets were recognised in the financial statements at fair value.

#### 15. Trade receivables

<b>(GROSS) TRADE RECEIVABLES – WITH PAYMENT PERIODS REMAINING AFTER THE BALANCE SHEET DATE OF:</b>	<b>As at 30.06.2 016</b>	<b>As at 31.12.2 015</b>	<b>As at 30.06.2 015</b>
a) up to 1 month	6,667	8,316	5,709
b) over 1 month up to 3 months	9,727	7,281	8,097
c) over 3 months up to 6 months	11,284	1,465	10,062
d) over 6 months up to 1 year	-	36	-
e) over 1 year	-	-	-
f) past due receivables	1,673	2,571	2,081
Total (gross) trade receivables	29,351	19,669	25,949
- write-downs of trade receivables	(926)	(1,551)	(911)
<b>Total (net) trade receivables</b>	<b>28,425</b>	<b>18,118</b>	<b>25,038</b>

Past due receivables for which no write-downs were 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. There are no receivables overdue more than 180 days not subject to a write-down.

## 16. Trade payables

TRADE PAYABLES	As at 30.06.2 016	As at 31.12.2 015	As at 30.06.2 015
- trade payables, falling due:	7,434	7,511	11,435
- up to 12 months	7,434	7,511	11,435
- overdue more than 180 days	-	-	-

## 17. Litigation

On 24 June 2016, PEPEES signed a court settlement agreement with GEA Process Engineering Sp. z o.o. concerning the agreement of 1 August 2014 with the value of PLN 6,415 thousand. Pursuant to the settlement, the value of the agreement was reduced to PLN 4,300.5 thousand.

The following litigations remain unresolved as at the balance sheet date:

- a lawsuit brought by Przedsiębiorstwo Rolno-Produkcyjne Sp. z o.o. in Rzadkwin against PPZ BRONISŁAW to pay tax amounting to PLN 32 thousand.

## 18. Not repaid loans and borrowings

As of the balance sheet date, the bank loans listed in the table below have been repaid when due. Cash loans between the Group companies were eliminated from the consolidated financial statements.

No.	Loan type	Lending bank	Contr-actual loan value	Debt as at 30.06.2016	Repayment
1	Bank overdraft	Bank Zachodni WBK S.A.	4,000	0	31.08.2016
2	Revolving loan	S.A.	6,000	0	31.08.2020
3	Working capital loan for the purchase of	Bank Zachodni WBK S.A.	15,000	3,750	31.08.2016
4	Bank overdraft	BGŻ BNP Paribas	4,000		31.08.2020
5	Revolving loan	BGŻ BNP Paribas	6,000	1,125	31.08.2020
6	Working capital loan for the purchase of	BGŻ BNP Paribas	15,000	5,625	31.08.2016
7	Subsidised investment loan	S.A./Bank Polskiej Spółdzielczości S.A.	3,465	642	30.06.2017
8	Subsidised investment loan	Bank Polskiej Spółdzielczości S.A.	1,295	534	30.11.2018
9	Investment loan	BNP Paribas	9,823	7,849	25.02.2020
10	Loan with subsidies -	BOŚ	1,200	509	31.12.2020

No.	Loan type	Lending bank	Contractual	Debt as at 30.06.2016	Repayment
	WFOŚiGW				
1	Cash loan	BNP Paribas Lease	533	533	13.06.20
1	Bank overdraft	S.A.	500	359	31.08.20
1	Revolving loan	S.A.	2,000	750	31.08.20
1	Working capital loan for	Bank Zachodni WBK	2,500	937	31.08.20
4	the purchase of potatoes	S.A.			16
1	Bank overdraft	BGŻ BNP Paribas	500	108	31.08.20
1	Revolving loan	BGŻ BNP Paribas	2,000	750	31.08.20
1	Working capital loan	BGŻ BNP Paribas	2,500	680	31.08.20
7	for the purchase of				16
1	Bank overdraft	S.A.	500	0	31.08.20
1	Revolving loan	S.A.	2,900	2,275	31.08.20
2	Working capital loan	Bank Zachodni WBK	7,500	1,875	31.08.20
0	for the purchase of	S.A.			16
2	Bank overdraft	BGŻ BNP Paribas	500	0	31.08.20
2	Revolving loan	BGŻ BNP Paribas	1,000	250	31.08.20
2	Working capital loan	BGŻ BNP Paribas	7,500	2,466	31.08.20
3	for the purchase of				16

*Securities:*

Re: 1, 2, 3,12,13,14,18,19, 20

All the aforementioned working capital loans were obtained pursuant to a single agreement called "Multi-Line Agreement".

These loans are secured with:

- a contractual joint mortgage amounting to PLN 58,500 thousand on real properties:

- owned by PPZ Bronisław Sp. z o.o.
- owned by ZPZ Lublin Sp. z o.o.

- an assignment of receivables under an insurance policy for the real properties:

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

- a registered pledge on fixed assets;

- a registered pledge on inventories of trade goods amounting to 145 % of the loan amount along with the assignment of rights under an insurance policy;

- an assignment of receivables (undisclosed assignment) up to PLN 5,750 thousand;

- a blank promissory note with a promissory note agreement;

- an authorisation to use a bank account.

Re: 7

The loan is secured with an authorisation to use a current account; a general mortgage amounting to

PLN 2,000 thousand; a capped mortgage up to PLN 1,500 thousand; a registered pledge on plant and machinery purchased with the loan along with the assignment of rights under an insurance policy; a blank promissory note.

Re: 8

The loan is secured with a general mortgage amounting to PLN 1,295 thousand; a capped mortgage up to PLN 880.6 thousand; transfer of ownership of plant and machinery amounting to PLN 1,295 thousand; an assignment of rights under an insurance policy; a blank promissory note; an authorisation to use bank accounts.

Re: 9

The loan is secured with a contractual joint mortgage up to PLN 14,734 thousand, the assignment of rights under an insurance policy and the statement on the submission to execution.

Re: 10

The loan is secured with a mortgage amounting to 150 % of the loan amount, i.e. PLN 1,800 thousand, established on the Company's real properties, an authorisation to use bank accounts and a blank promissory note.

Re: 11

The cash loan is secured with a registered pledge on a fixed asset.

Re: 4, 5, 6, 15,16, 17, 21, 22, 23

All the aforementioned working capital loans were obtained pursuant to a single agreement called "Multi-Purpose Line of Credit", which is secured with:

- a contractual joint mortgage amounting to PLN 58,500 thousand on real properties:
  - owned by PPZ Bronisław Sp. z o.o.
  - owned by ZPZ Lublin Sp. z o.o.
- an assignment of receivables under an insurance policy for the real properties:
  - owned by PEPEES S.A.
  - owned by PPZ Bronisław Sp. z o.o.
  - owned by ZPZ Lublin Sp. z o.o.
- a registered pledge on fixed assets;
- a registered pledge on inventories amounting to PLN 28,561 thousand along with the assignment of rights under an insurance policy;
- a general assignment of 40 % of receivables of the aforementioned companies;
- a blank promissory note with a promissory note agreement;
- an authorisation to use a bank account.

## 19. Related party transactions

### 19.1 The issuer's transactions with its subsidiaries

#### a) Revenue from the sale of products and trade goods

Types of revenue	2016 half year	2015 half year
Revenue from the sales of products to subsidiaries	360	87
Revenue from the sales of materials to subsidiaries	1	0
Revenue from services	141	0
<b>Total revenue from related parties</b>	<b>502</b>	<b>87</b>



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

**b) Purchases of goods and services**

Types of purchases	2016 half year	2015 half year
Purchases of products from subsidiaries	2,529	3,424
Purchases of trade goods from subsidiaries		1,116
Purchases of services from subsidiaries	39	26
<b>Total purchases from related parties</b>	<b>2,568</b>	<b>4,566</b>

**c) Other transactions**

Types	2016 half year	2015 half year
Interest on granted loans	181	316
<b>Total</b>	<b>181</b>	<b>316</b>

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

Settlements with subsidiaries	2016 half year	2015 half year
Receivables – ZPZ Lublin	39	
Liabilities – ZPZ Lublin		45
Liabilities – PPZ BRONISŁAW	7	8
<b>Balance of settlements with related parties</b>	<b>32</b>	<b>53</b>

**e) Balance of settlements related to cash loans**

Cash loans granted to subsidiaries	2016 half year	2015 half year
PPZ BRONISŁAW	5,200	5,800
ZPZ Lublin	3,010	3,000
<b>Balance of settlements with related parties</b>	<b>8,210</b>	<b>8,800</b>

All transactions with subsidiaries were eliminated from the consolidated financial statements.

**19.2 The issuer's transactions with its associate**

**a) Balance of settlements related to cash loans**

Cash loans granted by PEPEES	2016 half year	2015 half year
CHP Energia Sp. z o.o.	3,528	3,167
<b>Balance</b>	<b>3,528</b>	<b>3,167</b>

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

<b>Settlements</b>	<b>2016 half year</b>	<b>2015 half year</b>
Receivables	71	
Liabilities		
<b>Balance of settlements</b>	<b>71</b>	

**c) Interest on granted loans**

<b>Types</b>	<b>2016 half year</b>	<b>2015 half year</b>
Interest received on granted loans	0	80
<b>Total</b>	<b>0</b>	<b>80</b>

**19.3 The issuer's transactions with shareholders**

In the reporting period, the Group did not enter into transactions with shareholders holding at least 20 % of votes at the General Meeting of Shareholders.

**19.4 The issuer's transactions with key managing and supervisory employees**

**a) benefits for key managing employees (members of the Board of Directors) and members of the Supervisory Board (in PLN 000s)**

<b>Benefits paid to the members of the Board of Directors and of the Supervisory Board</b>	<b>Half year of 2016</b>	<b>Half year of 2015</b>
Short-term employee benefits	766	722
Post-employment benefits		
Other long-term benefits		
Termination benefits	30	
Share-based payments		
<b>Total</b>	<b>796</b>	<b>722</b>

**b) transactions with key employees and members of their families**

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

**20. 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 2016.

## 21. Changes in estimated values

### a. Write-downs of receivables

<b>MOVEMENT ON WRITE-DOWNS OF CURRENT RECEIVABLES</b>	<b>2016 half year</b>	<b>2015</b>	<b>2015 half year</b>
At the period beginning	<b>1,558</b>	<b>963</b>	<b>963</b>
a) increases (due to)	<b>104</b>	<b>692</b>	<b>26</b>
- recognition for doubtful trade receivables	19	2	-
- recognition for interest receivable	29	690	26
- recognition for receivables in litigation	56	-	-
- recognition for receivables from bankrupt debtors		97	-
- recognition for other receivables		92	
b) decreases (due to)	<b>685</b>	<b>97</b>	<b>70</b>
- reversal of provisions due to payment	35	92	65
- utilisation due to the writing-off and sale of receivables		2	2
- cancellations	650	3	3
<b>Write-downs of current receivables at the end of the period, including:</b>	<b>977</b>	<b>1,558</b>	<b>919</b>
- write-downs of trade receivables:	926	1,551	911

### b. Write-downs of inventories

<b>MOVEMENT ON WRITE-DOWNS OF INVENTORIES</b>	<b>2016 half year</b>	<b>2015</b>	<b>2015 half year</b>
At the period beginning	<b>93</b>	<b>35</b>	<b>35</b>
a) increases (due to)		<b>58</b>	<b>3</b>
- write-downs to net realisable value		58	3
- impairment loss for materials			
b) decreases (due to)	<b>58</b>		<b>0</b>
- utilisation	58		
- reversals of write-downs			
<b>Write-downs of inventories at the end of the period</b>	<b>35</b>	<b>93</b>	<b>38</b>

### c. Retirement and similar benefits obligations

<b>MOVEMENT ON RETIREMENT AND SIMILAR BENEFITS OBLIGATIONS (BY TITLES)</b>	<b>2016 half year</b>	<b>2015</b>	<b>2015 half year</b>
a) balance at the beginning of period	<b>2,749</b>	<b>2,821</b>	<b>2,821</b>
- retirement benefits	340	325	325
- jubilee benefits	2,409	2,496	2,496
b) increases (due to)	<b>251</b>	<b>239</b>	<b>24</b>

<b>MOVEMENT ON RETIREMENT AND SIMILAR BENEFITS OBLIGATIONS (BY TITLES)</b>	<b>2016 half year</b>	<b>2015</b>	<b>2015 half year</b>
- retirement benefits	32	42	24
- jubilee benefits	219	197	-
c) utilisation (due to)	<b>94</b>	<b>269</b>	<b>57</b>
- retirement benefits	6	10	-
- jubilee benefits	88	259	57
d) reversal (due to)	<b>19</b>	<b>42</b>	<b>25</b>
- retirement benefits	12	17	6
- jubilee benefits	7	25	19
e) balance at the end of period	<b>2,887</b>	<b>2,749</b>	<b>2,763</b>
- retirement benefits	354	340	343
- jubilee benefits	2,533	2,409	2,420

**d. Short-term provisions**

<b>MOVEMENT ON SHORT-TERM PROVISIONS (BY TITLES)</b>	<b>2016 half year</b>	<b>2015</b>	<b>2015 half</b>
a) balance at the beginning of period	<b>1,722</b>	<b>1,611</b>	<b>1,611</b>
- grants related to property, plant and equipment	262	313	313
- provisions for services performed by contractors	38	32	32
- provisions for bonuses for potatoes suppliers		35	35
- grants related to loans	62	98	98
- employee claims			
- fee for the use of the environment	126	110	110
- provisions for compensations for annual leaves	363	268	268
- greenhouse gas emission allowance	676	685	685
- provisions for bonuses for the Board of Directors and employees	195	70	70
b) increases (due to)	<b>844</b>	<b>1,388</b>	<b>691</b>
- fee for the use of the environment	44	129	51
- provisions for compensations for annual leaves	356	343	281
- bonuses for the Board of Directors and employees	40	195	
- provision for damages	180		
- provisions for services performed by contractors	15	45	15
- interest due			
- greenhouse gas emission allowance	209	676	344
- other			
c) utilisation (due to)	<b>1,397</b>	<b>1,278</b>	<b>1,199</b>
- fee for the use of the environment	124	113	113
- provisions for compensations for annual leaves	273	252	226
- provision for services performed by contractors	26	37	27
- grants related to property, plant and equipment	84	50	25
- grants related to loans	19	36	18
- provisions for bonuses for potatoes suppliers		35	35
- greenhouse gas emission allowance	676	685	685
- bonuses for the Board of Directors and employees	195	70	70
e) balance at the end of period	<b>1,169</b>	<b>1,722</b>	<b>1,103</b>
- grants related to property, plant and equipment	178	262	288

<b>MOVEMENT ON SHORT-TERM PROVISIONS (BY TITLES)</b>	<b>2016 half year</b>	<b>2015</b>	<b>2015 half</b>
- grants related to loans	43	62	80
- fee for the use of the environment	46	126	48
- provisions for compensations for annual leaves	446	363	323
- greenhouse gas emission allowance	209	676	344
- provision for damages	180		
- provisions for services performed by contractors	27	38	20
- provision for bonuses for the Board of Directors and employees	40	195	

**e. Deferred income tax**

<b>DEFERRED TAX LIABILITIES</b>	<b>As at 30.06.2</b>	<b>As at 31.12.2</b>	<b>As at 30.06.2</b>
The difference between the carrying amount and the tax value of property, plant and equipment	5,801	5,881	5,416
Unrealised foreign exchange differences	1		1
Interest due but not received	166	130	95
Other	6	7	8
<b>Total deferred tax liabilities</b>	<b>5,974</b>	<b>6,018</b>	<b>5,520</b>

<b>DEFERRED TAX ASSETS</b>	<b>As at 30.06.2</b>	<b>As at 31.12.2</b>	<b>As at 30.06.2</b>
The difference between the carrying amount and the tax value of property, plant and equipment	456	463	479
Outstanding remunerations	90	91	74
Outstanding obligations			154
Provision for damages	34		
Provision for bonuses for the Board of Directors and employees	8	37	
Provision for benefits		5	
Provision for unused annual leaves	84	68	62
Retirement and jubilee benefits	549	523	524
Unrealised foreign exchange differences	24	36	24
Write-downs of receivables		9	9
Write-downs of inventories	7	18	7
Lease payables	724	657	161
Provision for greenhouse gas emission allowance	40	129	65
Accruals	3		3
Consolidation adjustments – retained earnings	3	93	37
Tax loss	196	196	147
<b>Total deferred tax assets,</b>	<b>2,218</b>	<b>2,325</b>	<b>1,746</b>

**22. Movement on contingent liabilities and contingent assets**

<b>MOVEMENT ON CONTINGENT LIABILITIES (BY TITLES)</b>	<b>Half year of 2016</b>	<b>2015</b>	<b>Half year of 2015</b>
a) balance at the beginning of the period, including:	<b>7,176</b>	<b>7,17</b>	<b>7,1</b>

<b>MOVEMENT ON CONTINGENT LIABILITIES (BY TITLES)</b>	<b>Half year of 2016</b>	<b>2015</b>	<b>Half year of 2015</b>
- liabilities related to non-competition	1,176	1,176	1,176
- surety for a loan for CHP	6,000	6,000	6,000
b) increase (due to)			
- liabilities related to non-competition			
c) reversal (due to)	<b>418</b>		
- liabilities related to non-competition	418		
d) balance at the end of the period, including:	<b>6,758</b>	<b>7,176</b>	<b>7,176</b>
- liabilities related to non-competition	758	1,176	1,176
- surety for a loan for CHP	6,000	6,000	6,000

### 23. The issue, redemption and repayment of debt and equity securities.

In the reporting period, no debt or equity securities were issued, redeemed or repaid.

### 24. Segment reporting

The Group operates in a single, main reporting segment covering the processing of potatoes to obtain starch, dried potato-based products and starch hydrolysates. A single segment is identified in the daily records and internal reports.

#### 24.1 Products and services

Within the segment: “the processing of potatoes”, the Group 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.

Other types of activities:

- the generation of heat, which is produced mainly to meet the Group’s own needs and a part of it is sold to plants in the vicinity;
- works and services;
- the sale of certain trade goods and materials.

The table below presents the revenue for each group of products and services obtained from external

customers.

Product or service	Sales revenue	
	First half of	First half of
Starch	44,537	36,501
Glucose	4,715	3,396
Maltodextrin	7,016	6,329
Starch syrups	2,775	2,685
Protein	3,773	2,591
Dried potato-based products (grits, cubes, Heat	6,389	4,224
Trade goods and materials	1,757	1,778
Services	15,178	11,928
<b>Total</b>	<b>86,495</b>	<b>69,827</b>

#### 24.2 Sales revenue by territories:

Specification	First half of	First half of
<b>Poland, including:</b>	<b>62,137</b>	<b>55,138</b>
Starch	24,077	25,038
Glucose	4,683	3,386
Maltodextrin	6,206	5,797
Starch syrups	2,775	2,685
Protein	1,889	448
Dried potato-based products (grits, cubes, Heat	6,206	4,185
Trade goods	1,757	1,778
Services	14,189	11,426
<b>EU countries, including:</b>	<b>5,671</b>	<b>4,430</b>
Starch	4,601	2,724
Maltodextrin	809	522
Glucose	32	3
Protein	26	1,124
Potato flakes	103	39
Trade goods	100	18
<b>Other countries – export, including:</b>	<b>18,687</b>	<b>10,259</b>
Starch	15,859	8,739
Maltodextrin	1	10
Glucose		7
Protein	1,858	1,019
Potato flakes	80	
Trade goods	889	484
<b>Total</b>	<b>86,495</b>	<b>69,827</b>

#### 24.3 Major customers

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

- over 60 % of protein was sold to three foreign customers;

- 10 up to 20 % of maltodextrin was sold to each of four Polish customers;
- over 17 % of glucose was sold to one Polish customer.

## **25. Other significant events in the reporting period.**

- a. On 9 March 2016, TRADO S.A. sold all shares of PEPEES held by it, i.e. 8,600,000 shares, to Mr Michał Skotnicki. Following this transaction, Mr Michał Skotnicki and Mr Maksymilian Skotnicki (family members) hold jointly 28,132,088 shares, which account for 29.613 % of the share capital and give them the right to 28,132,088 votes at the General Meeting of the Shareholders, which account for 29.613 % of the total number of votes at the General Meeting of the Shareholders.
- b. On 7 April 2016, the Supervisory Board of “PEPEES” S.A. appointed the Board of Directors of “PEPEES” S.A. for the next term of office with the same members: Wojciech Faszczewski – President of the Board of Directors, Krzysztof Homenda – Member of the Board of Directors, Chief Financial Officer.
- c. On 19 May 2016, the General Meeting of Shareholders approved of the financial statements for 2015 and adopted the resolution on the allocation of the profit for 2015 to capital reserves in order to make investments.
- d. On 19 May 2016, the Annual General Meeting of Shareholders appointed Ms Agata Czerniakowska as a member of the Supervisory Board.
- e. As of 1 June 2016, Mr Krzysztof Homenda resigned from his membership of the Board of Directors.

## **26. Events after the reporting period**

- The Energy Regulatory Office (URE) selected the bid made by the Company in the tender concerning the selection of projects to improve energy efficiency. Therefore, the Issuer was granted PMEF energy efficiency certificates, the so-called ‘white certificates’.
- On 29 August 2016, the Group signed an annex to the multi-purpose credit line agreement dated 19 August 2015 concluded with Bank BGŻ BNP Paribas S.A. and an annex to the multi-line agreement dated 7 October 2014 concluded with Bank Zachodni WBK S.A. Pursuant to the Annex to the Multi-Purpose Agreement, the credit limit granted to PEPEES and its subsidiaries was increased to PLN 45 million and the period of the availability of the loans was extended until 31 August 2017. And, pursuant to the Annex to the Multi-Line Agreement, the credit limit granted to PEPEES and its subsidiaries was increased to PLN 45.5 million and the repayment period was extended until 31.08.2017.

## **27. Effects of changes in the structure of the business entity, including those resulting from business combinations, acquisition or sale of the Group entities, long-term investments, division, restructuring and discontinuation of operations.**



During the reporting period, there were no changes in the structure of the Group.

## **28. Fair values of financial instruments**

The shares of „Warszawski Rolno-Spożywczy Rynek Hurtowy” were classified as investments held for trading and measured at fair value using the discounted cash flow (DCF) model. Fair value measurement was classified at level 3 of the fair value hierarchy pursuant to IFRS 13.


## **29. Interests in other entities, related to entities becoming or ceasing to be investment entities**

PEPEES has not been and is not an investment entity pursuant to par. 27 of IFRS 10.

## **30. Authorising the condensed interim consolidated financial statements**

These condensed consolidated financial statements were authorised by the Board of Directors of the Parent Company on 30 August 2016. These condensed interim consolidated financial statements are published together with the condensed interim separate financial statements, which were authorised for publication on 30 August 2016.

### **SIGNATURES OF THE MEMBERS OF THE BOARD OF DIRECTORS**

Date	Name	Title/Function	Signature
30.08.2016	Wojciech Faszczewski	President of the Board of Directors	

### **SIGNATURE OF THE PERSON PREPARING THE FINANCIAL STATEMENTS**

Date	Name	Title/Function	Signature
30.08.2016	Wiesława Załuska	Chief Accountant	