

**Supplementary report to the opinion from the audit
of the consolidated financial statements of the Group of
Przedsiębiorstwo Przemysłu Spożywczego
PEPEES S.A.
for the financial year ended
31 December 2016**

I. GENERAL PART

1. The Group identification information

The Corporate Group of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. (hereinafter “the Company”) consists of the parent company: Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A., and subsidiaries which the parent company controls directly and indirectly and has a significant influence on their financial and operating policies.

On 31 December 2016, the Group consisted of the parent company: Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A., the subsidiaries which it controlled directly: PPZ Bronisław sp. z o.o., ZPZ Lublin sp. z o.o., CHP Energia sp. z o.o. and OZENERGY sp. z o.o.

On 24 October 2016, Przedsiębiorstwo Przemysłu Spożywczego „PEPEES” S.A. subscribed for 6,000 shares in the share capital of CHP Energia sp. z o.o. and, on that day, took control of the company.

Average employment in the Group during 2016 was 423 employees.

The scope of the audit was not limited, and the audited parent company provided the data, information and explanations required by the registered auditor, which were confirmed by the statement of the Board of Directors of the parent company concerning the complete presentation of data in books of account, the recognition of all contingent liabilities, and the disclosure of significant events after the balance sheet date.

1.1 Parent company

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 Company’s shares are listed on the Warsaw Stock Exchange.

The share capital as at 31 December 2016 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 2016, the following shareholders held, directly or indirectly, at least 5% of the share capital of the Company:

- Mr Maksymilian Maciej Skotnicki	20.67%
- Mr Michał Skotnicki	11.26%
- Mr Newth Jonathan Reginald	8.42%
- Mr Krzysztof Borkowski (indirectly through, among others, 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 2016, the Company's equity amounted to PLN 126,687 thousand.

On 1 June 2016, Mr Krzysztof Homenda resigned from his membership of the Board of Directors.

On 14 October 2016, Mr Tomasz Rogala was appointed a member of the Board of Directors.

As at 31 December 2016, which is the last day of the financial year, the composition of the Board of Directors of the parent company was as follows:

- Mr Wojciech Faszczewski	– President of the Board of Directors
- Mr Tomasz Rogala	– Member of the Board of Directors

On 19 May 2016, the Annual General Meeting of Shareholders appointed Ms Agata Czerniakowska as a Member of the Supervisory Board.

On 29 December 2016, Mr Piotr Łuniewski resigned from his membership of the Supervisory Board.

As at 31 December 2016, which is the last day of the financial year, the composition of the Supervisory Board was as follows:

- Mr Maciej Kaliński	– Chairman
- Mr Piotr Taracha	– Vice-Chairman
- Mr Krzysztof Stankowski	– Secretary
- Ms Agata Czerniakowska	– Member
- Mr Robert Malinowski	– Member

The separate financial statements of the parent company as at 31 December 2016 were audited by Mazars Audyt sp. z o.o., which issued an unqualified opinion.

1.2 Consolidated subsidiaries

Subsidiary	Share capital (PLN 000s)	Group's interest in capital	Group's share in the number of votes
ZPZ Lublin sp. z o.o.	2,761	82.38 %	82.38%
PPZ Bronisław sp. z o.o.	800	84.13%	84.13%
CHP Energia sp. z o.o.	5,298	67.43%	67.43%
OZENERGY sp. z o.o.	95	100%	100%

ZPZ Lublin sp. z o.o.

Registered office: Lublin, ul. Betonowa 9

The company's core objects are the production and sale of potato syrup. The financial statements of the subsidiary ZPZ Lublin sp. z o.o. as at 31 December 2016 are audited by Mazars Audyt sp. z o.o.

The financial statements of ZPZ Lublin Sp. z o.o. were audited by MAZARS Audyt sp. z o.o. As at the date of this audit report and opinion, the audit of the financial statements of the subsidiary has not been ended with the issuing of an opinion.

PPZ Bronisław sp. z o.o.

Registered office: Bronisław, Strzelno county

The company's core objects are the production of starch and starch products.

The financial statements of the subsidiary PPZ Bronisław sp. z o.o. as at 31 December 2016 are audited by Mazars Audyt sp. z o.o. As at the date of this audit report and opinion, the audit of the financial statements of the subsidiary has not been ended with the issuing of an opinion.

CHP Energia sp. z o.o.

Registered office: Wojny Wawrzyńce 1, Szepietowo district

The company's objects are electricity generation.

The financial statements of the subsidiary CHP Energia Sp. z o.o. as at 31 December 2016 was not subject to the obligation of auditing.

OZENERGY sp. z o.o.

Registered office: Łomża, ul. Poznańska 121

The company's objects are electricity generation.

The financial statements of the subsidiary OZENERGY sp. z o.o. as at 31 December 2016 was not subject to an audit.

The subsidiaries were fully consolidated from the date of obtaining control.

2. The information identifying the consolidated financial statements

The audited consolidated financial statements comprise:

1. the consolidated statement of financial position as at 31 December 2016 showing total assets and total equity and liabilities of PLN 272,166 thousand;
2. the consolidated statement of comprehensive income for the financial year from 1 January 2016 to 31 December 2016 showing net profit of PLN 17,898 thousand (including net profit attributable to the shareholders of the parent company of PLN 17,600 thousand) and total comprehensive income of PLN 18,011 thousand (including total comprehensive income attributable to the shareholders of the parent company of PLN 17,713 thousand);
3. the consolidated statement of changes in equity for the financial year from 1 January 2016 to 31 December 2016 showing an increase in equity by PLN 19,265 thousand;
4. the consolidated statement of cash flows for the period from 1 January 2016 to 31 December 2016 showing positive cash flows of PLN 6,908 thousand;
5. a summary of adopted accounting policies and other explanatory notes.

The audited consolidated financial statements comprise data for the period from 1 January 2016 to 31 December 2016.

The parent company and consolidated subsidiaries prepared their financial statements as at 31 December 2016, which is the last day of the audited financial year.

The Group has prepared the consolidated financial statements in accordance with the International Accounting Standards, the International Financial Reporting Standards and related interpretations published in the form of regulations of the European Commission, and other applicable laws.

The consolidated closing balance for 2015 was adopted as the opening balance as at 1 January 2016.

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

The consolidated financial statements for the previous financial year ended on 31 December 2015, authorised by virtue of the resolution of the Annual General Meeting of Shareholders held on 19 May 2016, was filed with the National Court Register on 25 May 2016.

Mazars Audyt sp. z o.o. was appointed by the Supervisory Board on 5 July 2016 as the registered auditor authorised to audit the consolidated financial statements of PEPEES S.A. Group for the financial year ended on 31 December 2016. 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 20 July 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.

3. Principles governing the preparation of the consolidated financial statements

All subsidiaries in which the parent company holds, directly or indirectly through its subsidiaries, more than 50% of voting rights, were subject to the full consolidation.

The consolidated financial statements have been prepared in accordance with the International Accounting Standards, the International Financial Reporting Standards and related interpretations published in the form of regulations of the European Commission, and other applicable laws.

The consolidated statement of financial position comprises the financial statements of the parent company and of the subsidiaries covered by the Group as at the balance sheet date.

The amount of consolidated assets and equity and liabilities results from the aggregation of respective items of separate statements of financial position and of consolidation records related mainly to the elimination of intra-group balances, unrealised gains and losses included in the consolidated items, and the eliminations of the interests held by the parent company in the subsidiaries, and of the parent company's portion of the equity of each subsidiary.

The consolidated statement of comprehensive income was prepared by aggregating respective items of separate statements of comprehensive income prepared for the full financial year, eliminating revenue and expenses related to transactions carried out between consolidated entities.

4. Information about the registered auditor's opinion

Based on the audit of the consolidated financial statements of the Group prepared as at 31 December 2016 and for the period then ended, on 17 March 2017 we issued an unqualified opinion.

II. ANALYTICAL PART

1. Major absolute values characterising the Group

PLN 000s

Consolidated statement of comprehensive income	01.01.2016- 31.12.2016	01.01.2015- 31.12.2015	01.01.2014- 31.12.2014
Sales revenue	185,675	141,553	116,496
Gross profit (loss) from sales	50,528	31,878	26,144
Operating profit (loss)	23,584	8,607	5,236
Profit (loss) before tax	22,675	7,143	4,477
Net profit (loss)	17,898	5,342	3,372
Total comprehensive income	18,011	5,330	2,993
Consolidated statement of financial position	31.12.2016	31.12.2015	31.12.2014
Non-current assets, including:	138,339	102,971	94,467
<i>Property, plant and equipment</i>	<i>119,315</i>	<i>89,196</i>	<i>78,365</i>
Current assets, including:	133,827	117,917	93,617
<i>Inventories</i>	<i>77,283</i>	<i>64,111</i>	<i>68,032</i>
<i>Trade receivables</i>	<i>25,763</i>	<i>18,118</i>	<i>13,553</i>
Equity	129,119	109,854	104,524
Non-current liabilities	42,696	23,417	13,342
Current liabilities, including:	100,351	87,617	70,218
<i>Trade payables</i>	<i>11,956</i>	<i>7,511</i>	<i>13,553</i>
<i>Loans and borrowings</i>	<i>76,080</i>	<i>73,114</i>	<i>50,985</i>
Balance sheet total	272,166	220,888	188,084

2. Performance ratios

	2016	2015	2014
$\text{Receivables Turnover} = \frac{\text{Trade receivables}}{\text{Gross sales revenue}} \times 365$	51 days	47 days	42 days
$\text{Liabilities Turnover} = \frac{\text{Trade payables}}{\text{Gross sales revenue}} \times 365$	24 days	19 days	42 days
$\text{Inventory Turnover} = \frac{\text{Inventories}}{\text{Sales revenue}} \times 365$	152 days	165 days	213 days

3. Liquidity ratios

	2016	2015	2014
$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$	1.3	1.3	1.3
$\text{Quick Ratio} = \frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$	0.6	0.6	0.4

4. Profitability ratios

	2016	2015	2014
Profit before tax Return on Sales = $\frac{\text{Profit before tax}}{\text{Sales revenue}} \times 100\%$	12.2%	5.1%	3.8%
Net profit Net Profit Margin = $\frac{\text{Net profit}}{\text{Sales revenue}} \times 100\%$	9.6%	3.8%	2.9%
Net profit Return on Total Assets = $\frac{\text{Net profit}}{\text{Total assets}} \times 100\%$	6.6%	2.4%	1.8%
Operating profit Operating Return on Assets = $\frac{\text{Operating profit}}{\text{Total assets}} \times 100\%$	8.7%	3.9%	2.8%

In our opinion, the results of the audit of the consolidated financial statements as at 31 December 2016 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 Group will continue as a going concern for the period of 12 months from the date of the consolidated financial statements.

III. DETAILED PART

1. Information about the audit and the assessment of the accuracy and completeness of the consolidation records

1.1 The legal basis for the audit

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

- a) the Polish Accounting Act of 29 September 1994 (Journal of Laws *[Dziennik Ustaw]* of 2016, item 1047, 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 *[Dziennik Ustaw]* of 2016, item 1000);
- c) the Polish Commercial Code;
- d) the National Standards of Auditing in the version of the International Standards on Auditing as adopted by Resolution No. 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015 with subsequent amendments;
- e) the International Auditing Standards.

1.2 Consolidation documentation

The consolidation documentation kept by the parent company complies in all material respects with the requirements of International Financial Reporting Standards. The consolidation documentation is stored in the parent company's registered office in Łomża.

This documentation comprises, inter alia, the description and the justification for each adjustment, amounts calculations and the accounting treatment in the statement of financial position and in the statement of comprehensive income, and makes it possible to connect the data from the consolidated financial statements with the separate financial statements which are the starting point.

2. Information about certain significant items of the consolidated statement of financial position

The presented financial figures originate from the financial statements attached to this report.

2.1. Non-current assets

2.1.1 Property, plant and equipment

The net value of property, plant and equipment as at the balance sheet date of PLN 119,315 thousand is related mainly to buildings and structures, and civil engineering works amounting to PLN 74,161

thousand, as well as the plant and machinery amounting to PLN 26,719 thousand.

The Group has the right of perpetual usufruct of land with the value of PLN 13,603 thousand, which, in accordance with adopted accounting principles, is recognised in off-balance-sheet records.

2.2 Current assets

2.2.1 Inventories

The balance of inventory as at the balance sheet date of PLN 77,283 thousand was related mainly to finished products amounting to PLN 63,410 thousand, and materials amounting to PLN 6,379 thousand.

2.2.2 Trade receivables

The balance of trade receivables as at 31 December 2016 amounting to PLN 25,763 thousand was disclosed on a net basis, i.e. less write-downs amounting to PLN 989 thousand.

2.2.2 Cash and cash equivalents

The balance of this item refers to cash in short-term deposits amounting to PLN 20,850 thousand, and cash at bank and in hand amounting to PLN 3,326 thousand.

2.3 Equity and liabilities

2.3.1 Equity

The share capital of the Group as at 31 December 2016 amounts to PLN 5,700 thousand and corresponds to the amount of the share capital of the parent company, and complies with the Articles of Association of the parent company and the valid copy from the National Court Register.

The amounts of other items of equity were established on the basis of the consolidation documentation.

The value of non-controlling interests was calculated in proportion to the stake held in the equity of subsidiaries as at the balance sheet date.

2.3.2 Non-current liabilities

The balance of non-current liabilities of PLN 42,696 thousand comprises mainly loans and advances amounting to PLN 22,370 thousand; the non-current portion of received grants amounting to PLN 7,687 thousand; and the deferred tax liabilities amounting to PLN 5,722 thousand.

2.3.3 Current liabilities

The balance of current liabilities amounting to PLN 100,351 thousand comprises mainly the current portion of loans and advances amounting to PLN 76,080 thousand, and trade liabilities amounting to PLN 11,956 thousand.

2.4. Consolidated statement of comprehensive income

The consolidated financial statements include particular items of the statements of comprehensive income of the Group's companies as at the balance sheet date for the period from 1 January 2016 to 31 December 2016.

Sales revenue generated by the Group was recognised, in all material respects, in the correct amount and comprises revenue from the sale of products, trade goods, materials and services in the total amount of PLN 185,675 thousand.

Operating costs of PLN 163,551 thousand reflect, in all material respects, the actual business/accounting transactions and comprise mainly the costs of materials and energy and the cost of employee benefits.

Other operating income of PLN 1,896 thousand result mainly from gains from the disposal of non-financial non-current assets of PLN 155 thousand.

Finance costs of PLN 1,515 thousand comprise mainly the interest on loans and advances.

2.5. A summary of adopted accounting policies and other explanatory notes to the consolidated financial statements

Additional information on adopted accounting principles (policy) and other explanatory notes in the consolidated financial statements for the year ended on 31 December 2016, including a summary of adopted accounting policies and other explanatory notes to the consolidated financial statements, have been prepared, in all material respects, in accordance with the International Accounting Standards, the International Financial Reporting Standards and related interpretations published in the form of regulations of the European Commission, and other applicable laws.

The disclosed information complies, in all respects, with the consolidation documentation.

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

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

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

2.7. The Directors' report on the Group's operations in the financial year

The information contained in the Directors' report for the audited financial year complies with the data presented in the consolidated financial statements as at 31 December 2016.

In our opinion, the information included in the Directors' Report on the Group's operations complies with Article 49 of the Polish Accounting Act and with the Decree of the Polish Minister of Finance dated 19 February 2009 on Current and Periodic Information Published by Issuers of Securities and Conditions for Recognition as Equivalent the Information Required by Laws of Non-EU Member States (Journal of Laws *[Dziennik Ustaw]* of 2014 item 133 as amended) and is consistent with the information contained in the accompanying consolidated financial statements. In addition, based on our knowledge about the group and its environment gained during the audit of the consolidated financial statements, we have not identified material misstatements in the Directors' Report.

IV. CLOSING REMARKS

This report contains 14 consecutively numbered pages. The consolidated financial statements prepared by the Parent Company as at 31 December 2016 in accordance with the International Accounting Standards, the International Financial Reporting Standards and related interpretations published in the form of regulations of the European Commission, and other applicable laws, forms an integral part of the report.

On behalf of
Mazars Audyt sp. z o.o. No. 186
Warsaw, ul. Piękna 18



Dominik BORKOWSKI

[signature]

Key Registered Auditor
No. 12183

Partner

Warsaw, 17 March 2017