

**INDEPENDENT AUDITOR'S REPORT
ON THE AUDIT OF THE ANNUAL
CONSOLIDATED FINANCIAL STATEMENTS**

**OF THE CORPORATE GROUP of Przedsiębiorstwo Przemysłu
Spożywczego PEPEES S.A.**

for the period from 01.01.2018 to 31.12.2018

Warsaw, 27 March 2019

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Annual Consolidated Financial Statements

Opinion

We have audited the annual consolidated financial statements of the group with Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. as the parent (the "Parent") (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements including a summary of adopted accounting policies and other explanatory information (the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the consolidated economic and financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with the applicable International Financial Reporting Standards, as endorsed by the European Union, and the adopted accounting policies;
- comply, as regards their form and content, with the applicable laws for the Group and the Articles of Association of the Parent;

This opinion is consistent with the additional report to the Audit Committee which we issued on 26 March 2019.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing in a version adopted by the National Council of Statutory Auditors as the Polish Standards on Auditing ('PSAs') and in compliance with the Polish Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017 (the "Act on Statutory Auditors", Journal of Laws of 2017, item 1089, as amended) as well as Regulation (EU) No 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("EU Regulation", Official Journal of the European Union L158). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group Companies in accordance with the International Federation of Accountants' Code of Ethics for Professional Accountants ("IFAC Code"), adopted by resolutions of the National Council of Statutory Auditors, together with other ethical requirements that are relevant to the audit of the financial statements in Poland, and we have fulfilled our other ethical responsibilities under those requirements and the IFAC Code. Throughout the audit, both the key statutory auditor and the audit firm remained independent of the Company in accordance with the independence requirements set out in the Act on Statutory Auditors and in the EU Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The Company's financial statements for the year ended 31 December 2017 were audited by a statutory auditor acting on behalf of a different audit firm, who expressed an unqualified opinion on these financial statements on 28 March 2018.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They encompass the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. We summarized our response to those risks and, where appropriate, we presented the key findings related to those risks. We do not provide a separate opinion on these matters.

Key Audit Matter (description of the risk of material misstatement)	How the matter was addressed in the audit
Audit of the financial statements for the first time	
<p>The consolidated financial statements of the Group for the financial year ended on 31 December 2018 were the first financial statements audited by us.</p> <p>Understanding the organisational structure of the Group and its impact on the Group's corporate processes was the key matter. To this end, procedures were carried out that made it possible to understand the Group's operations, key processes and control mechanisms. The risk assessment was carried out on their basis and, as a consequence, the materiality levels and the scope of audit procedures were determined.</p> <p>It was also crucial to determine whether opening balances contain misstatements that materially affect the financial statements for the current period and whether the accounting policies were applied consistently.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none">• Meetings with the key personnel• Understanding the control mechanisms implemented in the Group• Understanding the Group's accounting policies, in particular related to estimates• Meetings with the key statutory auditor of the previous audit firm, discussing key audit matters and reviewing audit documentation from the previous financial year

Net sales revenue

In the period from 1 January 2018 to 31 December 2018, the Group, after making intercompany eliminations, generated net revenue of

PLN 224,087 thousand.

Due to the significant value of this item of the Company's Statement of Comprehensive Income, a key audit risk in this area of the Entity's financial statements was identified.

Our audit procedures included the following:

- Review of the Group's accounting policies related to revenue recognition
- Assessment of the internal control environment regarding the determination and presentation of revenue in the financial statements
- Review of revenue accounts in order to identify non-typical values, numbering of supporting documents/invoices, account contra entries, transaction descriptions and intercompany transactions in the Group
- Analysis of significant contracts and orders
- Analysis of the confirmations of balances in the Group in connection with the sales made in the audited period

Assessment of the correctness and completeness of revenue disclosures, also from the point of view of IFRS 15

Liabilities due to loans and borrowings

Loans and borrowings as at 31 December 2018 amounted to PLN 121,042 thousand, which accounts for 36.44% of the consolidated balance sheet total.

Due to the significant value of this item of the Company's balance sheet, a key audit risk in this area of the Entity's financial statements was identified.

Our audit procedures included the following:

- An analysis of the principles for the recognition and presentation of individual loan and borrowings items in accordance with the accounting policies applicable to the Group
- Checking the completeness of the recognition of liabilities related to loans and borrowings in the audited period
- An analysis of contracts to confirm the amount of costs related to financing assigned to the analysed period
- An analysis of collaterals related to liabilities and related disclosures
- An assessment of the correctness of the presentation of loans and borrowings items in the financial statements and in the notes to the financial statements
- An assessment of the completeness of disclosures in the financial statements in accordance with the applicable accounting policies

Detailed tests described above combined with the assessment of the internal control environment gave us sufficient and appropriate audit evidence to address the aforementioned risk in the area of financial assets.

Responsibilities of the Board of Directors and the Supervisory Board of the Parent for the Consolidated Financial Statements

The Parent's Board of Directors is responsible for the preparation of the consolidated financial statements which give a true and fair view of the economic and financial position of the Group and of its financial performance in accordance with the International Financial Reporting Standards, as endorsed by the European Union, the adopted accounting policies as well as the laws and Articles of Association applicable to the Group, and for such internal control as the Parent's Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Parent's Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

In addition the Parent's Board of Directors and members of the Parent's Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Polish Accounting Act of 29 September 1994 (the "Accounting Act" – Journal of Laws of 2019, item 351). Members of the Parent's Supervisory Board are responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's opinion. Therefore, all opinions and statements contained in the auditor's report have been made taking into consideration the quantitative and qualitative materiality levels determined in accordance with the standards on auditing and the statutory auditor's professional judgement.

The scope of the audit does not include an assurance about the future profitability of the Group or the effectiveness or efficiency of the Parent's Board of Directors in managing its affairs at present or in the future.

As part of the audit in accordance with the PSAs, we exercise professional judgement and maintain professional scepticism. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk

of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Board of Directors;
- conclude on the appropriateness of the use by the Parent's Board of Directors of the going concern basis of accounting and, based on the audit evidence obtained, whether material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained until the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent's Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent's Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and that we will communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent's Supervisory Board, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Information, Including the Directors' Report

Other information includes the Directors' Report on the Group's Operations for the financial year ended 31 December 2018 (the "Directors' Report on the Group's Operations"), together with the corporate governance statement referred to in Article 49b(1) of the Accounting Act, which constitutes a separate part of the said Report, and the Annual Report for the financial year ended 31 December 2018 (the "Annual Report") (jointly referred to as the "Other Information").

Responsibilities of the Parent's Board of Directors and Supervisory Board

The Parent's Board of Directors is responsible for the preparation of the Other Information in accordance with the applicable laws.

Auditor's Responsibilities

The Parent's Board of Directors and members of the Parent's Supervisory Board are obliged to ensure that the Directors' Report on the Group's Operations along with the separate part meet the requirements of the Polish Accounting Act.

Our opinion on the consolidated financial statements audit does not cover the Other Information. In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact in our auditor's report. Additionally, under the Act on Statutory Auditors we are obliged to express an opinion on whether the Directors' Report on the Group's Operations has been prepared in accordance with the applicable laws and whether it is consistent with the information contained in the consolidated financial statements. Furthermore, we are obliged to express an opinion on whether the Group has included the necessary information in the corporate governance statement.

We obtained the Directors' Report on the Group's Operations before the date of this auditor's report, and the Annual Report will be available after this date. If we find a material misstatement in the Annual Report, we are obliged to inform the Supervisory Board of the Parent about it.

Opinion on the Directors' Report

Based on our work performed during the audit, we are of the opinion that the Directors' Report on the Operations of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. and of the Corporate Group of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. (the "Group"):

- has been prepared pursuant to Article 49 of the Polish Accounting Act and § 70(6) of the Regulation of the Minister of Finance dated 29 March 2018 on current and periodic information provided by issuers of securities and conditions for recognising as equivalent the information required by the law of a non-member state (the "Current Information Regulation" — Journal of Laws of 2018, item 757, as amended);
- is consistent with the information contained in the consolidated financial statements.

Furthermore, in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report on the Group's Operations.

Opinion on the Corporate Governance Statement

In our opinion, the Group's corporate governance statement contains all the information referred to in § 70(6)(5) of the Current Information Regulation. We are also of the opinion that the information referred to in § 70(6)(5)(c)-(f), (h) and (i) of the said Regulation, as contained in the corporate governance statement, is in accordance with the applicable laws and consistent with the information included in the consolidated financial statements.

Report on Other Legal and Regulatory Requirements

Statement Concerning the Provision of Non-Audit Services

To the best of our knowledge and belief, we represent that non-audit services which we have provided to the Group are in accordance with the laws and regulations applicable in Poland and that we have not provided any non-audit services which are prohibited under Article 5(1) of the EU Regulation and Article 136 of the Act on Statutory Auditors. The non-audit services which we provided to the Parent and to its subsidiaries in the audited period have been listed in Note 30 in the Directors' Report on the Operations of the Issuer and PEPEES S.A. Group.

Appointment of the Auditor

We were appointed for the first time as the auditor of the Group's financial statements by resolution of the Parent's Supervisory Board of 6 June 2018. We have audited the Group's financial statements for the first time.

The key statutory auditor on the audit resulting in this independent auditor's report is Mr Marcin Wasil.

Acting on behalf of WBS Audyt Sp. z o.o. with its registered office in Warsaw, Poland, at the address: ul. Grzybowska 4 lok. U9B, a registered audit company No. 3685, on behalf of which the financial statements have been audited by the key statutory auditor.



Signed by:

Marcin Wasil

Date:
2019-03-27 09:44

Marcin Wasil
Key Statutory Auditor No. 9846

Warsaw, 27 March 2019