

REPORT OF THE INDEPENDENT CHARTERED
AUDITOR ON THE AUDIT OF THE
ANNUAL FINANCIAL STATEMENTS
OF

Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A.

for period from 01.01.2019 to 31.12.2019

REPORT OF THE INDEPENDENT CHARTERED AUDITOR ON THE AUDIT

For the General Assembly and the Supervisory Board of

Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A.

Report on the audit of the annual financial statements

Opinio n

We performed the audit of the financial statements of Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. („the Company”) that comprise report on the financial situation as at 31 December 2019, the statement of profit and loss and other comprehensive income, statement of changes in equity, cash flow statement for the year ended on that day and additional information containing description of adopted accounting principles and other explanatory information („the financial statements”).

In our opinion, the attached financial statements:

- presents clearly and reliably the financial and economic condition of the Company as at 31 December 2019, as well as its financial result and cash flows for financial year ended on that day in compliance with applicable International Financial Reporting Standards approved by the European Union and adopted accounting principles (policy);
- their form and contents comply with legal provisions applicable to the Company and the Company's Articles of Association;
- it has been prepared on the basis of correctly maintained ledgers in compliance with the provisions of Chapter 2 of the Accountancy Act of 29 September 1994 ("the Accountancy Act", Journal of Laws of 2019, item 351).

This opinion is coherent with the additional statement for the Audit Committee issued by us on 19.03.2020

Background of the opinion

This audit was performed in compliance with the National Audit Standards with the provisions analogical to the International Audit Standards adopted with resolution no 3430/52a/2019 of the National Council of Chartered Auditors of 21 March 2019 on the national audit standards and other documents ("NAS") and in compliance with the Act on Chartered Auditors, Auditing Companies and Public Supervision of 11 May 2017 ("the Act on Chartered Auditors", Journal of Laws of 2019, item 1421, as amended). According to these standards, our liability was described further in the section of our report entitled *Liability of Chartered Auditor for Audit of the Financial Statement*.

We are independent from the Company in compliance with the Ethical Code of Professional Accountants of the International Federation of Accountants ("IFAC Code") adopted with the resolution of the National Council of Chartered Accountants and in compliance with other ethical requirements that apply to audit of financial statements in Poland. We fulfilled our ethical requirements in compliance with these requirements and the IFAC Code. During the audit, the key chartered auditor and the auditing company remained independent from the Company in compliance with the

In our opinion, the audit evidence acquired by us is sufficient and appropriate to serve as grounds for our opinion.

Key issues of the audit

The key issues of the audit include issues that according to our professional opinion was most important during the audit of the financial statement for the current reporting period. They include the most essential assessed types of risk of significant distortion, including assessed risk of significant distortion resulting from fraud. We referred to those issues in the context of our audit of the financial statement as a whole and when preparing our opinion and we summed up our reaction to these risks, and if we considered it necessary, we presented the most important observations related with these risks. We do not express a separate opinion on these issues.

Key issue of the audit (description of risk of significant distortion)	Chartered auditor's procedures in reply to key issues of the audit
Financial assets	
<p>In the financial statements dated 31 December 2019, financial assets amount to PLN 93 805 thousand and include, among others, investments in subsidiaries valued at the purchase price in the amount of PLN 26 632 thousand and other financial assets valued at fair value through the result in the amount of PLN 5 961 thousand.</p> <p>The risk of judgement and elements of estimation, related mainly with assumptions about the shape of the future cash flows and calculation of the discount rate, in particular the significant value of the item is of key importance for audit of the financial statement.</p>	<p>The chartered auditor's procedure included, among others:</p> <ul style="list-style-type: none"> • Analysis and understanding of the principles of recognition of financial assets in compliance with the company's accounting principles and recognition of the result of evaluation of financial assets or impairment loss, • Assessment of key assumptions concerning the parameters of tests of impairment losses, discount rates and WACC, • Assessment of assumptions and estimations adopted by the Management Board for calculation of future cash flows, • Analysis of risks related to fulfilment of assumptions underlying tests of impairment losses, • Matching source data underlying model tests of impairment losses and assessment of no evidence of impairment loss with the company's current forecasts and execution of the budgets, • Assessment of correctness and completeness of disclosures in the financial statements in compliance with IAC 36 Impairment of assets, and IFRS 9 Financial Instruments

Net revenues from sales	
<p>In the period from 1 January 2019 to 31 December 2019 the Company earned net revenues in the amount of PLN 172 934 thousand.</p> <p>Taking into account the significant value of the above item of the Company's Statement of Comprehensive Income, the key risk of the audit in the foregoing field of the Company's financial statements was identified.</p>	<p>The chartered auditor's procedure included, among others:</p> <ul style="list-style-type: none"> • Review of accounting principles concerning recognition of income, • Assessment of internal audit environment in respect to determination and presentation of income in the financial statements, • Review of incoming accounts for the purpose of identification of not typical: amounts, numbers of evidence/invoices, discounts on accounts, descriptions of transactions, • Analysis of significant agreements and orders, • Analysis of confirmation of balances received from counterparties and payments after the balance sheet date in relation to executed sales in the audited period,
Implementation of IFRS 16 Leasing	
<p>As at 31.12.2019 the Company presented rights to assets resulting from usufruct rights of land of PLN 8 528 thousand and hire agreements for PLN 8 189 thousand, and simultaneously presented liabilities under the right to assets in the total value of PLN 14 906 thousand. When disclosing the above items, the Company applied the modified retrospective approach.</p> <p>Due to amendment to accounting principles resulting from implementation of IFRS 16 Leasing, the key audit risk in the foregoing section of the Company's financial statements was identified.</p>	<p>The chartered auditor's procedure included, among others:</p> <ul style="list-style-type: none"> • Analysis of recognition and presentation of rights to assets and leasing-related liabilities. • Verification of changes in accounting principles in the area described IFRS 16, including used simplifications. • Analysis of correctness of applied methods of evaluation of items, including an analysis of applied discount rates and life cycle. • Verification of correctness of settlement of depreciation costs and financial costs. • Checking correctness of presentation of rights to assets and liabilities under leasing as at the balance sheet date. • Assessment of correctness of presentation of rights to assets, liabilities under rights to assets, depreciation costs and interests costs resulting from analysed

Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. Łomża, ul. Poznańska 121	
	<p>items in the financial statement and explanatory notes to the financial statement.</p> <ul style="list-style-type: none"> • Assessment of complete disclosures in the financial statements in compliance with applicable accounting principles.
<p>Detailed tests described above in connection with assessment of the internal audit environment provided us with sufficient and appropriate evidence enabling discussion of described risk in the audited entity.</p>	

Liability of the Management Board and Supervisory Board for the financial statement

The Company's Management Board is responsible for preparation of the financial statements, on the basis of correctly kept ledgers, and the financial statements present reliably and clearly the financial and economic condition, and the financial result of the Company in compliance with the International Financial Reporting standards approved by the European Union, adopted accounting principles (policy) and legal provisions binding to the Company, the Articles of Association, and for internal audit that is considered necessary for the Management Board to enable preparation of the financial statements that do not contain any significant distortion resulting from fraud or error.

When preparing the financial statements, the Company's Management Board is responsible for assessment of the Company's ability to continue its operations, disclosure, if any, issues related to continued activities and adoption of the going concern principle as the grounds for accounting, expect when the Management Board intends to liquidate the Company or discontinue its activities, or there is no other real alternative for liquidation or discontinuation of activities.

The Company's Management Board and members of the Supervisory Board are obliged to ensure that the financial statement meets the requirements defined in the Accountancy Act. The members of the Supervisory Board are liable for supervision of the Company's financial reporting process.

Liability of the chartered auditor for audit of the financial statements

Our aim is to obtain rational certainty that the financial statements as a whole do not include any significant distortion resulting from fraud or error, and to prepare a report on audit of the financial statement with our opinion. The rational certainty means a high level of certainty by it does not guarantee that an audit performed in compliance with NAS reveals always existing distortions. Distortion may occur in result of fraud or error, and they are considered significant, if it may be rationally expected that individually or jointly they may affect economic decisions made by users on the basis of these financial statements. The concept of significance, that is applied by the chartered auditor both when planning and performing the audit, and during assessment of impact of distortions discovered during the audit and non-rectified distortions, if any, on the financial statements, and during preparation of the opinion of the chartered auditor. Due to the foregoing, all opinions and statements included in the report on the audit are expressed taking into account the level of significance, in respect to quality and value, as determined in compliance with standards of the audit and professional opinion of the chartered auditor.

The scope of examination does not include guarantees concerning future profitability or efficiency of the Company,
or its efficient management by the Management Board now or in the future.

During an audit in compliance with NAS, we act in compliance with our professional opinions and professional scepticism, and:

- we identify and assess the risk of significant distortion of the financial statements resulting from a fraud or error, we design and enforce audit procedures corresponding to such risk and we obtain audit evidence that is sufficient and appropriate to underlie this opinion. The risk of failure to discover significant distortion resulting from fraud is bigger than in case of the one resulting from an error, because fraud may refer to collusion, counterfeiting, intentional omissions, misinformation or circumvention of internal control;
- we obtain understanding of internal audit appropriate for the audit in order to design the audit procedures that are appropriate in given circumstances, and not for the purpose of an opinion to be expressed about efficiency of the Company's internal audit;
- we assess suitability of applied accounting principles (policy) and reasonableness of accounting estimations and related disclosures made by the Company's Management Board;
- we conclude about suitability of the going concern principle applied by the Company's Management Board as the grounds of accountancy and, on the basis of the audit evidence obtained we conclude whether there is uncertainty related to events or conditions, according to which the Company's ability to continue its business may be questioned. If we conclude that there is significant uncertainty, we are required in our report of the chartered auditor to point out to related disclosed information in the financial statements, and if such disclosures are not adequate, we modify our opinion. Our conclusions are based in the evidence obtained until the date of preparation of our report of the chartered auditor, but future events or condition may make the Company discontinue its business;
- we assess the general presentation, structure and contents of the financial statements, including disclosures and whether the financial statements present underlying transactions and events in the manner ensuring reliable presentation.

We provide the Supervisory Board with information, among others, about planned scope and time of the audit and significant findings of the audit, including all significant weaknesses of the internal audit, which we have identified during the audit.

We submit a statement to the Supervisory Board that we met respective ethical requirements concerning independence, and we will inform them on all relationships and other issues that could be rationally considered to threaten our independence, and if applicable, we inform about applied security devices.

Out of the issues presented to the Supervisory Board, we determined issues that have been most significant during the audit of the financial statement for the current reporting period and therefore, we considered them to be the key issues for the audit. We describe these issues in our report of the chartered auditor, unless the legal provisions or regulations forbid their public disclosure or of, in exceptional circumstances we decide that an issue should not be presented in our report, since it could be rationally expected that negative consequences would outweigh benefits of such information for the public interest.

Other information, including report on activities

Other information consists of report on the Company's activities for financial year ended 31 December 2019 ("Report on the activities") together with a statement on compliance with corporate governance, which forms a separate part of these Statements and the Annual Report for financial year ended 31 December 2019 ("Annual Report") (together "Other information").

Liability of the Management Board and Supervisory Board

The Company's Management Board is responsible for preparation of the Other information in compliance with legal provisions.

The Company's Management Board and members of the Supervisory Board are obliged to ensure that the Report on the Company's activities, together with its separated parts, meets the requirements defined in the Accountancy Act.

Responsibility of the chartered accountant

Our opinion on the audit of the financial statement does not cover Other information. In connection with and during the audit of the financial statement, it is our obligation to examine whether other information is not significantly incoherent with the financial statements or our knowledge acquired during the audit, or it seems significantly deformed otherwise. If on the basis of the work performed we state significant deformation in Other information, we are obliged to inform about it in our report on the audit. According to the requirements of the Act on Chartered Auditors, it is also our obligation to give an opinion whether the report on activities was prepared in compliance with legal provisions and whether it complies with the information included in the financial statement. Moreover, we are obliged to inform whether the Company prepared a statement on non-financial information and to give an opinion whether the Company included required information in the statement on compliance with the corporate governance.

We obtained the Report on the Company's activities before the date of this report on the audit, while the Annual Report will be available after this date. If we reveal a significant distortion in the Annual Report, we are obliged to notify the Company's Supervisory Board.

Opinion on the Report on activities

On the basis of the work performed during the audit, the Report on the Company's activities:

- was prepared in compliance with article 49 of the Accountancy Act and art. 70 sec. 6 of the Regulation of the Minister of Finance of 29 March 2018 on Current and Periodical Information Published by Security Issuers and Conditions to Consider such Information Equivalent to the Ones Required by Legal Provisions of a Country that is not a Member State („Regulation on Current Information", Journal of Laws of 2018, item 757, as amended);
- complies with information presented in the financial statements.

Moreover, in the light of knowledge about the Company and its environment, which was obtained during our audit we state that we did not detect any distortions in the Report on the Company's

Opinion on the statement of compliance with the corporate governance

In our opinion, in the statement of compliance with the corporate governance, the Company included all information defined in art. 70 sec. 6 point 5 of the Regulation on Current Information. Moreover, in our opinion, the information listed in art. 70 sec. 6 point 5 letters. c-f, h and i of this Regulation, included in the statement of compliance with the corporate governance complies with applicable provisions and information included in the financial statements.

Report on other legal requirements and regulations

Statement about rendered services other than audit of financial statements

To our best knowledge and believe we declare that services other than audit of financial statements, that we rendered for the Company and its subsidiaries comply with law and legal provisions applicable in Poland and we did not render services other than the audit, which are forbidden under art. 5 sec. 1. of the EU Regulation and art. 136 of the Act on Chartered Auditors. The services other than audit of financial statements, which we have rendered for the Company and its subsidiaries in the audited period were listed in note II.38 of the Report on the Issuer's Activities and the Capital Group of Przedsiębiorstwo Przemysłu Ziemniaczanego "PEPEES" S.A.

Selection of the auditing company

We were selected for the first time for the audit of the Company's financial statement with a Resolution of the Company's Supervisory Board of 6 June 2018. It is the second time when we audit the Company's financial statements.

Marcin Wasil is the key chartered auditor responsible for the audit, in result of which this report of the independent chartered auditor was prepared .

Acting on behalf of WBS Audyty Sp. z o.o. with registered office in Warsaw, ul. Grzybowska 4 suite U9B, registered on the list of auditing companies under number 3685, on which behalf the key chartered auditor audited the financial statements.

Marcin Wasil

Key Chartered Auditor no 9846

Warsaw, 19 March 2020