

I. GENERAL PART

1. The Group identification information

The Group of Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. 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 2015, 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. and OZENERGY Sp. z o.o. In addition, on 31 December 2015, Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. had a significant influence on CHP Energia Sp. z o.o.

The scope of the consolidation did not change as compared to the previous financial year.

Average employment in the Group during 2015 was 395 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 2015 amounts to PLN 5,700 thousand and is divided into 95,000 thousand ordinary shares with the nominal value of PLN 0.06 per share.

In the reporting period, there was an increase in the share capital.

On 30 September 2014, the District Court in Białystok, XII Economic Division of the National Court Register, registered the increase in the share capital of PPS PEPEES S.A. from PLN 4,980 thousand to PLN 5,700 thousand, i.e. by PLN 720 thousand. The share capital was increased through the issue of 12,000 thousand new series B shares with the nominal value of PLN 0.06 each, by virtue of the resolution of the Ordinary General Meeting of Shareholders of 24 May 2011.

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

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

As at 31 December 2015, the Company's equity amounted to PLN 109,854 thousand.

As at 31 December 2015, 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 Krzysztof Homenda	-	Member of the Board of Directors

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

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

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

Due to the expiry of the mandates of the members of the Supervisory Board, the Ordinary General Meeting of Shareholders, held on 26 May 2015, appointed the following members of the Supervisory Board: Mr Maciej Kaliński, Mr Piotr Taracha, Mr Krzysztof Stankowski, Mr Piotr Łuniewski and Mr Robert Malinowski. The separate financial statements of the parent company as at 31 December 2015 were audited by Mazars Audyt Sp. z o.o., which issued an unqualified opinion.

1.2 Consolidated subsidiaries

Subsidiary	Share capital (in '000' PLN)	The Group's stake in the capital	The Group's share in the total 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 %

OZENERGY Sp. z o.o.	95	100 %	100 %
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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 2015 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.

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 2015 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.

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 2015 was not audited.

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

1.3 Associates

The parent company: Przedsiębiorstwo Przemysłu Spożywczego PEPEES S.A. has a significant influence on CHP Energia Sp. z o.o. with its registered office in Wojny-Wawrzyńce. As at 31 December 2015, the stake of the parent company in CHP Energia Sp. z o.o. amounted to 24.9 %. The associate CHP Energia Sp. z o.o. is consolidated by applying the equity method.

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 2015 showing total assets and total equity and liabilities of PLN 220,888 thousand;
2. the consolidated statement of comprehensive income for the financial year from 1 January 2015 to 31 December 2015 showing net profit of PLN 5,342 thousand (including net profit attributable to the shareholders of the parent company of PLN 5,288 thousand) and total comprehensive income of PLN 5,330 thousand (including total comprehensive income attributable to the shareholders of the parent company of PLN 5,276 thousand);
3. the consolidated statement of changes in equity for the financial year from 1 January 2015 to 31 December 2015 showing an increase in equity by PLN 5,330 thousand;

4. the consolidated statement of cash flows for the period from 1 January 2015 to 31 December 2015 showing positive cash flows of PLN 17,369 thousand;
5. additional information on adopted accounting policies and other explanatory notes.

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

The parent company and consolidated subsidiaries prepared their financial statements as at 31 December 2015, which is the last day of the audited financial year.

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

The consolidated closing balance for 2014 was adopted as the opening balance as at 1 January 2015.

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 2014, approved by virtue of the resolution of the Ordinary General Meeting of Shareholders held on 26 May 2015, was filed with the National Court Register on 2 June 2015.

Mazars Audyt Sp. z o.o. was appointed by the Supervisory Board on 20 May 2015 as the registered auditor authorised to audit the consolidated financial statements of PEPEES S.A. Group for the financial year ended on 31 December 2015. The audit was conducted by Mazars Audyt Sp. z o.o., address: ul. Piękna 18, 00-549 Warsaw, which is Registered Audit Company No. 186, pursuant to the agreement of 22 July 2015.

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 associate, which is directly influenced by the parent company, was consolidated using the equity method.

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union; and, for the matters not governed by the said Standards, in accordance with the Accounting Act of 29 September 1994, as amended.

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 intragroup 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.

The associate was consolidated using the equity method.

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 2015 and for the period then ended, **on 17 March 2016**, we issued an unqualified opinion.

II. ANALYTICAL PART

1. Major absolute values characterising the Group

in PLN thousand

Consolidated statement of comprehensive income	01.01.2015-31.12.2015	01.01.2014-31.12.2014	01.01.2013-31.12.2013
Sales revenue	141,553	116,496	119,549
Gross profit (loss) from sales	31,878	26,144	25,292
Operating profit (loss)	8,607	5,236	2,428
Profit (loss) before tax	7,143	4,477	1,222
Net profit (loss)	5,342	3,372	611
Total comprehensive income	5,330	2,993	611
Consolidated statement of financial position	31.12.2015	31.12.2014	31.12.2013
Non-current assets, including:	102,971	94,467	80,463
<i>Property, plant and equipment</i>	<i>89,196</i>	<i>78,365</i>	<i>74,917</i>
Current assets, including:	117,917	93,617	74,119
<i>Inventory</i>	<i>64,111</i>	<i>68,032</i>	<i>40,499</i>
<i>Trade receivables</i>	<i>18,118</i>	<i>13,553</i>	<i>13,605</i>
Equity	109,854	104,524	94,022
Non-current liabilities	23,417	13,342	14,252
Current liabilities, including:	87,617	70,218	46,308
<i>Trade liabilities</i>	<i>7,511</i>	<i>13,553</i>	<i>6,206</i>
<i>Loans and advances</i>	<i>73,114</i>	<i>50,985</i>	<i>36,265</i>
Balance sheet total	220,888	188,084	154,582

2. Performance ratios

	2015	2014	2013
Receivables Turnover = $\frac{\text{Trade receivables}}{\text{Gross sales revenue}} * 365$	47 days	42 days	42 days
Liabilities Turnover = $\frac{\text{Trade liabilities}}{\text{Gross sales revenue}} * 365$	19 days	42 days	19 days
Inventory Turnover = $\frac{\text{Inventory}}{\text{Sales revenue}} * 365$	165 days	213 days	124 days

3. Liquidity ratios

	2015	2014	2013
Current Ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$	1.3	1.3	1.6
Quick Ratio = $\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$	0.6	0.4	0.7

4. Profitability ratios

	2015	2014	2013
Return on Sales = $\frac{\text{Gross profit*}}{\text{Sales revenue}} * 100 \%$	5.1 %	3.8 %	1.0 %
Net Profit Margin = $\frac{\text{Net profit}}{\text{Sales revenue}} * 100 \%$	3.8 %	2.9 %	0.5 %
Return on Total Assets = $\frac{\text{Net profit*}}{\text{Total assets}} * 100 \%$	2.4 %	1.8 %	0.4 %
Operating Return on Assets = $\frac{\text{Operating profit}}{\text{Total assets}} * 100 \%$	3.9 %	2.8 %	1.6 %

In our opinion, the results of the audit of the consolidated financial statements as at 31 December 2015 and the analysis of the above ratios, taking into account all the information available to us on the date of this report and opinion, indicate that the 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 provisions of the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330, as amended)
- b) The provisions of the Act of 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of Laws of 2015, item 1011, as amended)
- c) The Code of Commercial Companies of 15 September 2000 (Journal of Laws No. 94, item 1037, as amended)
- d) The National Auditing Standards issued by the National Council of Statutory Auditors in Poland
- e) The International Auditing Standards

1.2 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 89,196 thousand is related mainly to buildings and structures, and civil engineering works amounting to PLN 55,668 thousand, as well as the plant and machinery amounting to PLN 22,090 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 Inventory

The balance of inventory as at the balance sheet date of PLN 64,111 thousand was related mainly to finished products amounting to PLN 55,221 thousand, and trade goods amounting to PLN 4,514 thousand.

2.2.2 Trade receivables

The balance of trade receivables as at 31 December 2015 amounting to PLN 18,118 thousand was disclosed on a net basis, i.e. less write-downs amounting to PLN 1,551 thousand.

2.2.2 Cash and cash equivalents

The balance of this item refers to cash in short-term deposits amounting to PLN 22,224 thousand, and cash at bank and in hand amounting to PLN 2,614 thousand.

2.3 Equity and liabilities

2.3.1 Equity

The share capital of the Group as at 31 December 2015 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 23,417 thousand comprises mainly loans and advances amounting to PLN 7,916 thousand; deferred tax liabilities amounting to PLN 6,018 thousand; the non-current part of received subsidies amounting to PLN 2,728 thousand; and retirement and similar benefits obligations amounting to PLN 2,509 thousand.

2.3.3 Current liabilities

The balance of current liabilities amounting to PLN 87,617 thousand comprises mainly the current portion of loans and advances amounting to PLN 73,114 thousand, and trade liabilities amounting to PLN 7,511 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 2015 to 31 December 2015.

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 141,553 thousand.

Operating costs of PLN 133,459 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 991 thousand comprises mainly the revenue from subsidies of PLN 416 thousand.

Finance costs of PLN 1,411 thousand comprise mainly the interest on loans and advances of PLN 930 thousand.

2.5. Information on 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 2015, including the additional information on adopted accounting policies and other explanatory notes to the consolidated financial statements, were prepared, in all material respects, in accordance with the International Financial Reporting Standards as adopted by the European Union.

The disclosed information complies, in all 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 Board of Directors' report on the Group's operations in the financial year

The information contained in the Board of Directors' report for the audited financial year complies with the data presented in the consolidated financial statements as at 31 December 2015.

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

IV. CLOSING REMARKS

This report contains 13 consecutively numbered pages. The consolidated financial statements as at 31 December 2015 prepared by the Parent Company according to the International Financial Reporting Standards form its integral part.

On behalf of

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



Jarosław BOCHENEK

Key Registered Auditor

No. 90086

Warsaw, 17 March 2016