PEPEES® S.A.

PRZEDSIĘBIORSTWO PRZEMYSŁU SPOŻYWCZEGO “PEPEES” S.A.

FINANCIAL STATEMENTS

FOR 2016
(01.01.2016-31.12.2016)

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

17 March 2017

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THE STATEMENT OF FINANCIAL POSITION OF PRZEDSIĘBIORSTWO PRZEMYSŁU SPOŻYWCZEGO PEPEES S.A

	ASSETS	*Note*	*As at 31.12.2016*	*As at 31.12.2015*
I	**Non-current (long-term) assets**		**109,056**	**102,884**
1	Property, plant and equipment	6.1	82,319	78,128
2	Intangible assets	6.2	298	456
3	Investments in subsidiaries	6.3	9,676	3,755
4	Investments in associates	6.4		811
5	Investments in other entities	6.4	113	113
6	Loans granted	6.13	5,500	7,800
7	Long-term advances	6.12	9,649	10,391
8	Deferred tax assets	6.23	1,501	1,430
II	**Current (short-term) assets**		**101,906**	**93,830**
1	Inventories	6.5	50,955	44,192
2	Biological assets	6.6	158	172
3	Trade receivables	6.8	19,897	15,474
4	Current income tax receivables	7.10		
5	Other receivables	6.9	1,246	2,625
6	Advances	6.12	2,376	1,048
7	Loans granted	6.13	3,076	4,347
8	Investments held for trading	6.4	2,550	2,550
9	Cash and cash equivalents	6.14	21,648	23,422
III	**Non-current assets held for sale**			
	Total assets		**210,962**	**196,714**

	EQUITY AND LIABILITIES		*As at 31.12.2016*	*As at 31.12.2015*
I	**Equity**		**126,687**	**110,656**
1	Share capital	6.15	5,700	5,700
2	Reserve capital and other reserves	6.16	105,347	99,430
3	Revaluation reserve		(278)	(391)
4	Retained earnings from previous years and the present year	6.17	15,918	5,917
II	**Non-current liabilities**		**20,748**	**22,168**
1	Loans and borrowings	6.18	6,939	7916
2	Liabilities related to leased assets	6.21	4,137	3942
3	Deferred tax liabilities	6.23	5,550	5,844
4	Retirement and similar benefits obligations	6.19	1,701	1,918
5	Grants	6.22	2,421	2,548
III	**Current liabilities**		**63,527**	**63,890**
1	Trade payables	6.20	6,353	6,380
2	Current income tax liabilities		2,794	807
3	Other current liabilities	6.20	2,623	1,644
4	Loans and borrowings	6.18	48,674	52,066
5	Liabilities related to leased assets	6.21	1,523	1151
6	Retirement and similar benefits obligations	6.19	236	157
7	Provisions for other liabilities and other charges	6.22	1,324	1,685
	Total equity and liabilities		**210,962**	**196,714**

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THE STATEMENT OF COMPREHENSIVE INCOME

OF PRZEDSIĘBIORSTWO PRZEMYSŁU SPOŻYWCZEGO PEPEES S.A

	Revenue and expenses *Profit and loss*	*Note*	*01.01.2016-31.12.2016*	*01.01.2015-31.12.2015*
I	**Sales revenues, including:**		**143,767**	**107,927**
1	Revenue from the sales of products	7.1	123,331	91,262
2	Revenue from services	7.2	675	432
3	Revenue from the sales of trade goods and materials	7.3	19,761	16,233
II	**Costs of sold products, trade goods and materials, including:**		**(102,857)**	**(83,007)**
1	Cost of products sold	7.4	(82,812)	(67,234)
2	Cost of services sold	7.4	(365)	(208)
3	Costs of trade goods and materials sold		(18,192)	(14,978)
4	Profit/loss from agricultural production	7.6	(1,488)	(587)
III	**Gross profit from sales (I-II)**		**40,910**	**24,920**
1	Selling and marketing expenses	7.4	(7,622)	(5,709)
2	Administrative expenses	7.4	(14,945)	(12,459)
3	Other operating income	7.7	1,699	741
4	Other operating expenses	7.8	(209)	(271)
IV	**Operating profit**		**19,833**	**7,222**
1	Finance costs	7.9	(904)	(994)
2	Finance income	7.10	1,052	1309
V	**Profit before tax**		**19,981**	**7,537**
VI	**Income tax expense**	7.11	(4,063)	(1,620)
VII	**Net profit**		**15,918**	**5,917**
VIII	**Other net comprehensive income**		**113**	**(12)**
1	Effects of the valuation of financial assets available-for-sale			
2	Revaluation of employee benefit liabilities		113	(12)
IX	**Total net comprehensive income**		**16,031**	**5,905**

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THE STATEMENT OF CHANGES IN EQUITY

OF PRZEDSIĘBIORSTWO PRZEMYSŁU SPOŻYWCZEGO PEPEES S.A

	Share capital	*Reserve capital*	*Revaluation reserve*	*Other reserves*	*Retained earnings/loss*	*Total equity*
As at 1 January 2015	**5,700**	**51,950**	**(379)**	**43,859**	**3,621**	**104,751**
Changes in the period from 01.01.2015 to 31.12.2015						
Distribution of profit for 2014	-		-	3,621	(3,621)	-
Net profit for the financial year		-			5,917	**5,917**
Other comprehensive income for the year (net)			(12)			**(12)**
As at 31 December 2015	**5,700**	**51,950**	**(391)**	**47,480**	**5,917**	**110,656**
As at 1 January 2016	**5,700**	**51,950**	**(391)**	**47,480**	**5,917**	**110,656**
Changes in the period from 01.01.2016 to 31.12.2016						
Distribution of profit for 2015				5,917	(5,917)	**-**
Net profit for the financial year					15,918	**15,918**
Other comprehensive income for the year (net)			113			**113**
As at 31 December 2016	**5,700**	**51,950**	**(278)**	**53,397**	**15,918**	**126,687**

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THE STATEMENT OF CASH FLOWS
OF PRZEDSIĘBIORSTWO PRZEMYSŁU SPOŻYWCZEGO PEPEES S.A

STATEMENT OF CASH FLOWS	Note	*01.01.2016-31.12.2016*	*01.01.2015-31.12.2015*
A. Cash flows from operating activities	8		
I. Profit (loss) before tax		**19,981**	**7,537**
II. Total adjustments		**(7,758)**	**(360)**
1. Depreciation/Amortisation		6,117	5,772
2. Foreign exchange (gains) losses		4	13
3. Interest and share of profit (dividend)		544	(179)
4. (Profit) loss from investing activities		(1135)	(105)
5. Net increase/decrease in provisions		(499)	134
6. Net increase/decrease in inventories		(6,763)	1,092
7. Net increase/decrease in biological assets		14	(46)
8. Net increase/decrease in receivables		(3,044)	(3,084)
9. Net increase/decrease in current liabilities		952	(1,770)
10. Net increase/decrease in advances		(586)	(3)
11. Income tax paid		(2,467)	(995)
12. Net increase/decrease in grants		(127)	(319)
13. Net increase/decrease in non-paid interest on loans			(443)
14. Received additional payments		(795)	(563)
15. Other adjustments		27	136
III. Net cash flows from operating activities (I+/-II)		**12,223**	**7,177**
B. Cash flows from investing activities			
I. Proceeds		**7,079**	**4,733**
1. Disposal of intangible assets and property, plant and equipment		2,211	3,954
2. Received dividends		122	61
3. Repayment of loans		4746	718
II. Expenses		**15,158**	**14,825**
1. Acquisition of intangible assets and property, plant and equipment		8,873	14825
2. Loans granted		1,175	
2. Acquisition of shares and interests		5,110	
III. Net cash flows from investing activities (I-II)		**(8,079)**	**(10,092)**
C. Cash flows from financing activities			
I. Proceeds		**48,492**	**54,784**
1. Loans and borrowings		47,697	54,221
2. Received additional payments		795	563
II. Expenses		**46,547**	**34,511**
1. Repayments of loans and borrowings		44,281	33,074
2. Interest on loans and borrowings		666	600
3. Lease payables		1600	837
III. Net cash flows from financing activities (I-II)		**1,945**	**20,273**
D. Total net cash flows (A.III+/-B.III+/-C.III)		**6,089**	**17,358**
E. Balance sheet change in cash, including:		**(1,774)**	**22,345**
- net increase/decrease in cash due to foreign exchange differences		4	13
- net increase/decrease in bank overdrafts		7,859	(5,000)
F. Cash at the beginning of period		**15,563**	**(1,795)**
G. Cash at the end of period (F+/-D)	8.1	**21,652**	**15,563**
- including restricted cash			-

SELECTED FINANCIAL FIGURES TRANSLATED INTO EUR

NO.	SELECTED FINANCIAL FIGURES	PLN 000s		EUR 000s	
		2016	2015	2016	2015
I	Total sales revenue	143,767	107,927	32,856	25,790
II	Net profit	15,918	5,917	3,638	1,414
III	Net comprehensive income	16,031	5,905	3,664	1,411
IV	Net cash flows from operating activities	12,223	7,177	2,793	1,715
V	Net cash flows from investing activities	(8,079)	(10,092)	(1,846)	(2,412)
VI	Net cash flows from financing activities	1,945	20,273	445	4,844
VII	Total net cash flows	6,089	17,358	1,392	4,148
VIII	Total assets	210,962	196,714	47,686	46,185
IX	Equity	126,687	110,656	28,636	25,978
X	Earnings (loss) per share	0.17	0.06	0.04	0.015
XI	Net comprehensive income per share	0.17	0.06	0.04	0.015
XII	Book value per share	1.33	1.16	0.30	0.27

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

- selected items of the statement of financial position as at 31.12.2016 – at the average exchange rate as at the balance sheet date: EUR 1 = PLN 4.4240;

- 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 31.12.2016 – 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 4.3757;

- selected items of the statement of comprehensive income and of the statement of cash flows for the period from 01.01.2015 to 31.12.2015 – 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 4.1848.

A SUMMARY OF ADOPTED ACCOUNTING POLICIES AND OTHER EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2016

1. General information

Full business name
Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" Spółka Akcyjna

Registered office address
18-402 Łomża, ul. Poznańska 121

Identifier REGON [Company Stat. ID No.]: 450096365

NIP [Tax ID No.]: 718-10-05-512

Registration authority District Court in Białystok, XII Economic Division of the National Court Register

No. in the Register 000038455

Legal status Spółka Akcyjna [a joint stock company]

Organisational form a single-establishment company

Primary objects – processing of potatoes

Industry – food industry

Company's lifetime – indefinite

Reporting period – from 1 January to 31 December 2016 and comparative information for the corresponding period of the previous year

The composition of the Board of Directors as at 31.12.2016:
Mr Wojciech Faszczewski – President of the Board of Directors
Mr Tomasz Rogala – Member of the Board of Directors

The composition of the Supervisory Board as at 31.12.2016:
1. Mr Maciej Kaliński – Chairman
2. Mr Piotr Marian Taracha – Vice-Chairman
3. Mr Krzysztof Stankowski – Secretary
4. Mr Robert Malinowski – Member
5. Mr Agata Czerniakowska – Member

The financial statements do not contain any combined data, as PEPEES is a single-establishment company.

PEPEES S.A. is a parent company and prepares consolidated financial statements.
These financial statements were prepared assuming that the Company would continue as a going concern in the foreseeable future. There are no circumstances indicating the risk of discontinuing

its operations for at least 12 months from the date of the financial statements.

2. Significant accounting policies

2.1. Basis of preparation

The financial statements have been prepared in accordance with IAS, IFRS and related interpretations published in the form of regulations of the European Commission, and with the accounting policies adopted by the Company.
The financial statements are presented in thousands of Polish złoty, unless, in specific cases, the amounts are presented with greater accuracy.

2.2. Changes in accounting policies

The Company did not change its accounting policies applied previously.

2.3 Corrections of errors from previous periods

There were no corrections of errors from previous periods.

2.4 Statement of compliance

These financial statements have been prepared in accordance with the International Accounting Standards (IAS), the International Financial Reporting Standards (IFRS) and related interpretations published in the form of regulations of the European Commission.

2.5 Foreign currencies

The Polish złoty is the functional (valuation) currency and the presentation currency of PEPEES S.A. Monetary assets and liabilities in foreign currencies were translated, as at the balance sheet date, at the exchange rate of the bank used by the Company. All foreign exchange differences are recognised in the statement of comprehensive income for the period.

2.6. Segment reporting

The Company produces and sells starch and starch hydrolysates. As the Company's business is focused on a single type of activities and on one geographical area, it has one reporting segment, i.e. "processing of potatoes". A single segment is identified in the daily records and internal reports.
In these financial statements, the disclosures are in accordance with paragraphs 32-34 of IFRS 8.

2.7 Property, plant and equipment

Upon the transition to IASs, the Company adopted the fair value of property, plant and equipment determined by a valuer at the deemed cost.
Assets under construction for manufacturing, rental or administrative purposes, and for the purposes not yet determined, are disclosed in the statement of financial position at cost less any impairment losses. The cost is increased with fees and, for certain assets, with borrowing costs.
The Company applies the straight-line depreciation. The depreciation of property, plant and equipment begins upon the commencement of their use. Depreciation is calculated for all property, plant and equipment, excluding land and assets under construction, for the estimated period of the actual utilisation of these assets, using a straight-line method. Useful lives for particular categories of property, plant and equipment are as follows:

- buildings and structures 10 - 30 years
- plant and machinery 2 - 20 years
- means of transport 3 - 5 years
- fixed fittings and equipment 2 - 11 years

Useful lives, as at the balance sheet date, were verified and updated.

The Company, applying the materiality principle, recognises the property, plant and equipment with the initial value of up to PLN 2,000 once in profit or loss in the period in which the expenditure was incurred.

2.8 Intangible assets
Intangible assets are recognised when it is probable that future economic benefits that may be associated directly with the assets will flow to the Company. The Company does not have any intangible assets with indefinite useful lives.

As at the balance sheet date, intangible assets are measured at cost less any amortisation charges and any impairment losses.

(a) Trademarks and licences
Trademarks and licences have finite useful lives and are carried in the statement of financial position at historical cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over the estimated useful lives (2-10 years).

(b) Computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (2-10 years).
The costs of the development or maintenance of computer software are recognised as an expense as incurred.

(c) Greenhouse gas emission allowance

CO_2 emission allowances are recognised as intangible assets that are not subject to amortisation, but are subject to impairment analysis.
Purchased units of emission allowances are recognised at cost and those obtained free of charge at nominal value, i.e. the null value.
For estimated CO_2 emissions in the reporting period, a provision is recognised in the costs of the main revenue-generating activities.
On the basis of the verified annual report referred to in Article 57 Clause 3 of the Emissions Trading Act, used and retired emission allowances are written-off from records. The sale of allowances is recognised using the first-in, first-out (FIFO) method.

2.9 The right of perpetual usufruct of land

In accordance with the adopted accounting principles (policies), the Company recognises the decision under which it exercises its right of perpetual usufruct of land as an agreement satisfying the conditions of operating lease in accordance with IAS 17. As a result, the fair value of the right of perpetual usufruct of land on which the Company's buildings and structures are located was not disclosed in non-current assets. The information on the land used under the right of perpetual usufruct, and on the fair value of the right of perpetual usufruct of the land is presented in note 11 in the financial statements.

In the case of the acquisition of such rights on the secondary market, they would be recognised as intangible assets and amortised over their expected useful lives.

2.10 Investment property
Investment property is property held to earn rentals and/or for capital appreciation.
Investment property as at the date of the transition to IASs was carried at fair value, and this value is applied as deemed cost. Each new property is measured at cost.
Depreciation is calculated over estimated useful lives of such assets on a straight-line basis. Land is not depreciated.

Gains or losses arising on the disposal (retirement) of investment property is determined as the difference between the sales proceeds and the carrying amount of such assets and is recognised in the statement of comprehensive income.
As at the balance sheet date, the Company did not hold any investment property.

2.11 Investments
All investments are initially recognised at cost corresponding to the fair value of the consideration paid including the costs attributable to the acquisition of the investment.

Investments in subsidiaries and other entities are measured at cost in accordance with IAS 27*Separate Financial Statements,* less any impairment losses in accordance with IAS 36 *Impairment of Assets,* where impairment is measured by comparing the carrying amount with the higher of:
- fair value less costs of disposal and
- value in use.

Available-for-sale financial assets and financial assets at fair value, with gains or losses recognised in the statement of comprehensive income, are accounted for after the initial recognition at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate (EIR) method. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value are presented in the statement of comprehensive income in the period in which they arise.
The shares of „Warszawski Rolno-Spożywczy Rynek Hurtowy" were classified as investments held for trading and measured at cost.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2.12 Inventories
Inventories are carried at cost not higher than net realisable value. The cost of finished products and work in progress comprises raw materials, direct labour, other direct costs and related departmental production overheads (based on normal operating capacity), but does not comprise borrowing costs. Inventories of materials and trade goods are measured using the weighted average cost formula.
As at the balance sheet date, inventories are measured on a prudent basis, i.e. at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale (i.e. costs of sale, costs of marketing etc.) When the cost is higher than the net realisable value, the Company recognises write-downs charged to costs of sold products.

2.13 Biological assets
Since March 2014, the Company has leased a farm where it grows annual plants such as potatoes, field bean and cereals. Biological assets are measured on initial recognition and at subsequent reporting dates at fair value less costs to sell having regard for the ripeness of plants.

2.14 Current and non-current receivables
Trade receivables with maturities of up to 180 days are disclosed and recognised at originally invoiced amounts less any write-downs. A write-down of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Write-downs of receivables are charged to other operating expenses. The Company makes write-downs on the basis of the ageing analysis and the analysis of the credit risk associated with a given debtor. Receivables with maturities exceeding 180 days are carried at amortised cost using the effective interest rate (EIR) method.

2.15 Foreign currency transactions

Transactions denominated in currencies other than the Polish złoty are translated into the Polish złoty according to the exchange rate effective on the date of the transaction.
As at the balance sheet date, cash, bank loans and other assets and liabilities denominated in currencies other than the Polish złoty are translated into the Polish złoty at the exchange rates of the bank used by the Company. The resulting foreign exchange differences are recognised as finance income or finance cost respectively.

2.16 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and a bank overdraft. Bank overdraft is shown in the statement of financial position within short-term loans and borrowings in current liabilities.

2.17 Advances

In the case of expenses which are expected to generate economic benefits for several financial periods, and when their relationship with revenue can only be determined in general terms and indirectly, the expenses are recognised in the statement of comprehensive income through a systematic and rational spreading them out over time. The expenses are recognised immediately in the statement of comprehensive income when such expenses do not produce any future economic benefits.

2.18 Equity

Share capital is recognised at the value determined in the Company's Articles of Association entered into the National Court Register.
Reserve capital is established in accordance with the Company's Articles of Association and the Polish Code of Commercial Companies, which state that it may be increased by:

- allocating a portion of net profit;
- transferring the surplus from the issue of shares above their nominal value (share premium);
- making additional contributions by shareholders in return for special rights for their existing shares, if such additional contributions are not used to cover extraordinary write-downs or losses;
- transferring the positive net difference from the revaluation of fixed assets due to their sale or retirement, if separate regulations do not provide that such differences are charged to profit or loss;

and may be decreased by:

- covering losses;
- redeeming treasury shares;
- covering the costs of shares issues to the amount of the excess of the issue value over the nominal value of shares; the remainder of the costs are recognised as finance costs;
- a free transfer of fixed assets in accordance with a resolution of the General Meeting of Shareholders;
- transferring the negative net difference from the revaluation of fixed assets due to their sale or retirement, if separate regulations do not provide that such differences are charged to profit or loss.

Capital from the revaluation of assets is used to recognise revaluations of property, plant and equipment, resulting in an increase in their value. In addition, the revaluation of provisions for future employee benefits is recognised in this capital.
Reserves are created in accordance with the Articles of Association and resolutions of the General Meeting of Shareholders from net profit, and are used to cover capital expenditure.

2.19 Bank loans and borrowings

Interest-bearing bank loans and borrowings (including bank overdrafts) are accounted for at the

value of received proceeds. Finance costs (except for costs arising directly from the construction or acquisition of property, plant and equipment), including fees and commissions payable upon the repayment or writing-off, and direct costs of borrowings are recognised in the statement of comprehensive income using the effective interest rate (EIR) method, and they increase the book value of the instrument, taking into account payments made in the period.
Loans with below-market interest rates are discounted to the market interest rate, and the difference between the discounted value and received proceeds is reported as a government grant.
Loans and borrowings are classified as current liabilities unless the Company has an unconditional right to defer the settlement of the liability for at least 12 months after the balance sheet date. Then, they are accounted for as non-current liabilities.

2.20 Borrowing costs
Borrowing costs directly attributable to the construction, adaptation, assembly or improvement of fixed assets or intangible assets, throughout the period of construction, adaptation, assembly or improvement, are recognised at the value of those assets, if the liabilities were incurred for this purpose. Other borrowing costs are recognised in the statement of comprehensive income.

2.21 Deferred income tax
Deferred tax liability is recognised in the full amount on a liability basis for all temporary differences between the tax value of assets and liabilities and their carrying amount in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax assets are realised or the deferred tax liability is settled.

Deferred tax assets are the amounts to be deducted from income tax in the future in respect of deductible temporary differences, which will result in the future in the lower basis for the calculation of income tax. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.22 Employee benefits
Expected employee benefits expense (jubilee benefits, retirement benefits etc.) is accounted for throughout the period of employment using the actuarial valuation method. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income in the statement of comprehensive income over an employee's expected average remaining working life. These obligations are valued every six months by independent qualified actuaries.
Employee benefits may also be payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

2.23 Trade payables
Trade payables, if they are not interest-bearing instruments, are recognised in the balance sheet at the amounts due. When the measurement at amortised cost differs significantly from the measurement at the amount due then trade payables are measured at amortised cost.

2.24 Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of past events, and when it is certain or highly probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and when a reliable estimate can be made of the amount of the obligation.

No provisions are recognised for future operating losses.

2.25 Accruals

Accruals are liabilities to pay for goods or services that have been received or supplied in full or in part, but have not been invoiced or formally agreed with the supplier. Accruals also include amounts relating to accrued vacation pay. Accruals are recognised when the amounts of the future obligation and the payment date can be reliably measured.

2.26 Impairment of assets

At each balance sheet date, the Company is required to assess whether there is any objective indication that an asset or a group of assets may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset and recognises an impairment loss in the amount equal to the difference between the recoverable amount and the carrying amount. The impairment loss is recognised in the statement of comprehensive income for the period.

2.27 Leases

Leases in which substantially all the risks and rewards incidental to ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to expenses on a straight-line basis over the period of the lease.
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee.
Assets held under finance leases are recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The arising payable to the lessor is disclosed in the statement of financial position. Lease payments comprise the principal and interest. Finance costs are recognised in the statement of comprehensive income.
In the Company's opinion, the right of perpetual usufruct of land cannot be recognised as finance lease, as it does not transfer “substantially all the risks and rewards incidental to ownership of assets”; therefore, it is treated as operating lease.

2.28 Recognition of revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.
Sales revenue comprises the fair value of the revenue from the sale of products, trade goods and services, net of value-added tax, rebates and discounts, and net of excise tax. Revenue is recognised as follows:

a) revenue from the sale of products and trade goods

Revenue arising from the sale of products and trade goods is recognised upon the delivery of the goods by the Company to the customer, their acceptance by the customer, and gaining reasonable assurance as to the collection of the relevant payment.

b) revenue from the rendering of services

Revenue from the rendering of services is recognised in the period in which the services were rendered by reference to the stage (percentage) of completion of the transaction, which is the proportion of services performed to total services to be performed.

c) rental income

Rental income on investment properties is accounted for on a straight-line basis over the rental term for contracts in progress.

d) interest income

Interest income is recognised on an accrual basis using the effective interest rate (EIR) method.

When a receivable is becoming impaired, the Company reduces its carrying amount to the level of the recoverable amount equal to the estimated future cash flows discounted at the original effective interest rate, and then the discount amount is gradually settled in correspondence with interest income. Interest income from granted impaired loans is recognised on a cash basis or on a recovered cost basis, depending on the circumstances.

e) dividends

Dividend income is recognised when the shareholder's right to receive payment is established (provided that it is probable that any economic benefits will flow to the Company and the amount of revenue can be measured reliably).

2.29 Other operating income

Other operating income comprises revenue and profits not attributable directly to the Company's operations. This category comprises e.g. profit from the sale of non-current assets; profit from the revaluation of assets; the reversal of write-downs of receivables; received indemnities; overpaid tax payables, except for the corporate income tax, etc.

2.30 Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises expenses for the related costs for which the grants are intended to compensate. In particular, the grants to purchase, construct or acquire non-current assets in a different way, are recognised as deferred income in the statement of financial position and recognised as income on a systematic basis in justified amounts over the useful lives of related assets.

A grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs is recognised as income of the period in which it becomes receivable.

Benefits from subsidised loans at below-market interest rates are treated as grants and measured as the difference between the value of the loans and the fair value of the loans at the appropriate market interest rate.

2.31 Expenses

The Company presents an analysis of expenses using a classification based on their function. Operating expenses for the main revenue-generating activities comprise the cost of sales, selling and distribution costs and administrative expenses.

2.32 Other operating expenses

Other operating expenses comprise expenses and losses not attributable directly to the Company's operations. This category comprises losses arising from the disposal of non-current assets; losses from the revaluation of assets and liabilities; write-downs of receivables; donations made; the effects of guarantees and sureties, etc.

2.33 Finance costs

Costs of interest, dividends and investments are presented in “finance costs”.

2.34 Earnings per share

Earnings per share for each period are calculated by dividing net profit for a given period by the weighted average number of the Company's shares, as the Company does not have preference shares.

2.35 Estimates and related assumptions

The Company makes estimates and assumptions based on its past experience and various other factors considered to be reasonable in the circumstances, and their results provide the basis to determine the carrying amount of assets and liabilities that does not result directly from other

sources. The actual value may differ from the estimate.
Estimates and related assumptions are subject to an ongoing verification. A change in accounting estimates is recognised in the period in which such estimates were changed.
In the reporting period, the Company tested non-current assets for impairment and did not confirm their impairment.
Write-downs of inventories reflect their 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 31.12.2016. The Company, to discount future payments of benefits, applies the discount rate at the level of the average rate of return on the safest long-term securities traded on the Polish capital market as at the valuation date.

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 31.12.2016.
The Company recognises deferred tax assets on the basis of the assumption that, in the future, it will generate tax profit enabling their utilisation.
The Company verifies, on an annual basis, useful lives of property, plant and equipment and intangible assets. The last update was made on 31 December 2016.

2.36 Statement of cash flows
The Company prepares the statement of cash flows according to the indirect method in breakdown into operating, investing and financing activities.
Cash flows from operating activities are primarily cash flows from the main revenue-generating activities. They do not include external sources of finance.
Cash flows from investing activities comprise primarily:
- cash paid and received due to the acquisition (disposal) of property, plant and equipment, intangible assets and other non-current assets;
- cash related to the acquisition or sale of equity instruments;
- received dividends;
- loans granted to third parties;
- cash from the settlement of forwards.

Cash flows from financing activities are related primarily to external sources of finance. They include, e.g.:
- proceeds from shares issued (not present in in the reporting period);
- the purchase of treasury shares (not present in in the reporting period);
- dividends and other distributions to equity holders;
- loans and borrowings taken out and repaid;
- grants and all other non-refundable proceeds from a third-party source of finance.

3. New accounting standards

3.1 New accounting standards and interpretations applied for the first time

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

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

The standards below have not been applied yet by the Company in the process of the preparation of these 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, applies to annual reporting periods beginning on or after 1 January 2016. The European Commission has decided not to initiate the process of adopting this standard in its interim version until its final version is issued.

c) IFRS 15 *Revenue from Contracts with Customers* – issued on 12 April 2016 – 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* (IFRIC 13, IFRIC 15, IFRIC 18, SIC-31).

d) IFRS 16 *Leases* – effective for annual periods beginning on or after 1 January 2019. This standard modifies the definition of finance and operating lease.

e) Amendments to IAS 7 effective for 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.

h) Amendments to IFRS 2, effective for annual periods beginning on or after 1 January 2018. The amendments clarify existing provisions concerning the recognition of specific types of share-based payment transactions and clarify issues notified to the International Financial Reporting Interpretations Committee (IFRIC).

i) Amendments to IFRS 4, effective for annual periods beginning on or after 1 January 2018. The amendments to IFRS 4 provide for two acceptable approaches, i.e. the overlay approach and the deferral approach. The amended standard permits entities which conclude insurance contracts to recognise in other comprehensive income, and not in profit or loss, the impact of the differences which may arise due to the application of IFRS 9, before the new standard concerning insurance business is issued. And, in the case of entities whose activities are related mainly to insurance, the amended standard provides for a temporary exemption from the application of IFRS 9 until 2021. The entities deferring the application of IFRS 9 will apply the current IAS 39.

j) IFRIC 22 *Foreign Currency Transactions and Advance Consideration*, effective for annual periods beginning on or after 1 January 2018. The interpretation clarifies the exchange rate to be applied for transactions in foreign currencies that are related to the receipt of advance consideration accounted for before the entity recognises the related asset, expense or income.

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

4. **Changes in accounting policies**

PLN 000s

The Company did not change voluntarily its accounting policies applied previously.

5. Segment reporting

The Company carries out its production activities only in Poland. It is engaged in the processing of potatoes to produce starch and starch hydrolysates. It has one reporting segment, i.e. "processing of potatoes", which is identified in the Company's daily records and internal reports.

5.1. Products and services

Within the segment: "the processing of potatoes", the Company 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 foodstuff (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.

Other types of activities:

- the generation of heat, which is produced mainly to meet 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 cultivation and sales of annual plants.

The table below presents the revenue for each group of products and services.

Product or service	**Sales revenue**	
	2016	**2015**
Starch	83,706	59,066
Glucose	8,500	6,791
Maltodextrin	15,245	13,358
Protein	11,246	7,258
Starch syrups	869	1,113
Hydrol	336	139
Heat	3,429	3,537
Trade goods and materials	19,761	16,233
Services	675	432
Total	**143,767**	**107,927**

PLN 000s

Sales revenue by territories:

Specification	2016	2015
Poland, including	**85,007**	**79,050**
Starch	34,053	35,267
Glucose	8,236	6,762
Maltodextrin	13,754	12,341
Protein	6,054	4,466
Starch syrups	869	1,113
Hydrol	336	139
Heat	3,429	3,537
Trade goods and materials	17,601	14,993
Services	675	432
EU countries - intra-Community supplies, including:	**14,244**	**10,324**
Starch	9,854	8,154
Maltodextrin	1,485	1,007
Glucose	60	15
Protein	1,574	1,124
Trade goods	1,271	24
Other countries – export, including:	**44,516**	**18,553**
Starch	39,799	15,645
Protein	3,618	1,668
Maltodextrin	6	10
Glucose	204	14
Starch syrups		
Trade goods	889	1,216
Total	**143,767**	**107,927**

5.3 Major customers

The Company does not have a customer for whom sales revenue would be 10 or more percent of total revenue. However, for specific products, there are customers whose share represents over 10% in the sale of a given product. And so:
- more than 10% of protein was sold to each of two foreign and Polish customers;
- more than 10% of maltodextrin was sold to each of the three Polish customers;
- about 15% of glucose - to one Polish customer.

6. Explanatory notes to the statement of financial position

6.1 Property, plant and equipment

PROPERTY, PLANT AND EQUIPMENT	*As at 31.12.2016*	*As at 31.12.2015*
a) fixed assets, including:	73,635	70,943
- land	101	101
- buildings and civil engineering works	51,390	51,032
- plant and machinery	19,154	18,339
- means of transport	2,558	1,141
- other fixed assets	432	330
b) fixed assets under construction	8,684	7,185
Total property, plant and equipment	**82,319**	**78,128**

PLN 000s

MOVEMENT ON FIXED ASSETS (BY GROUPS)	land	buildings and civil engineering works	plant and machinery	means of transport	other fixed assets	**Total**
As at 1 January 2015						
Gross value	**101**	**70,475**	**47,870**	**2,301**	**1,012**	**121,759**
Accumulated depreciation	**0**	**24,430**	**33,935**	**1,208**	**622**	**60,195**
Net book value	**101**	**46,045**	**13,935**	**1,093**	**390**	**61,564**
2015						
Gross value at the beginning of period	101	70,475	47,870	2,301	1,012	121,759
Increases (due to)		7,703	6,985	310	38	15,036
- investments		7,703	2,461			10,164
- purchases			313		38	351
- lease			4,211	310		4,521
Decreases (due to)			66	213	4	283
- sale			24	213		237
- retirement			42		4	46
Derecognition of the accumulated depreciation of sold and retired fixed assets			(62)	(144)	(4)	(210)
Depreciation		2,716	2,577	193	98	5,584
- related to the main revenue-generating activities		2,712	2,370	98	97	5,277
- related to agricultural activities		4	207	95	1	307
Net book value at the end of period	101	51,032	18,339	1,141	330	70,943
As at 31 December 2015						-
Gross value	**101**	**78,178**	**54,789**	**2,398**	**1,046**	**136,512**
Accumulated depreciation	**0**	**27,146**	**36,450**	**1,257**	**716**	**65,569**
Net book value	**101**	**51,032**	**18,339**	**1,141**	**330**	**70,943**
2016						
Gross value at the beginning of period	101	78,178	54,789	2,398	1,046	136,512
Increases (due to)		3,364	3,529	1,776	200	8,869
- investments		3,364	1,637			5,001
- purchases			463	1,196	200	1,859
- lease			1,429	580		2,009
Decreases (due to)		0	581	396	6	983
- sale				396		396
- retirement			581		6	587
Derecognition of the accumulated depreciation of sold and retired fixed assets			(581)	(314)	(3)	(898)
Depreciation, including:		3,006	2,714	277	95	6,092
- related to the main revenue-generating activities		2,955	2,416	149	94	5,614
- related to agricultural activities		51	298	128	1	478
Net book value at the end of period	101	51,390	19,154	2,558	432	73,635
As at 31 December 2016						0
Gross value	**101**	**81,542**	**57,737**	**3,778**	**1,240**	**144,398**

PLN 000s

Accumulated depreciation	**0**	**30,152**	**38,583**	**1,220**	**808**	**70,761**
Net book value	**101**	**51,390**	**19,154**	**2,558**	**432**	**73,635**

Upon the transition to IFRSs, the Company adopted the fair value of property, plant and equipment determined by a valuer at the deemed cost. The valuation difference less deferred income tax was charged to equity.

In the reporting period, depreciation charges increased the costs of sold products, trade goods and materials in the amount of PLN 4,581 thousand (PLN 4,342 thousand in 2015), and administrative expenses - PLN 1,033 thousand (PLN 935 thousand in 2015).

Encumbrances on property, plant and equipment due to borrowed bank loans:

- contractual mortgage amounting to PLN 14,734 thousand for the benefit of BGŻ BNP PARIBAS;
- general mortgage amounting to PLN 1,596 thousand for the benefit of Bank Polskiej Spółdzielczości;
- general mortgage amounting to PLN 404 thousand for the benefit of Bank Spółdzielczy in Łomża;
- general mortgage amounting to PLN 1,295 thousand for the benefit of Bank Polskiej Spółdzielczości;
- capped mortgage up to PLN 1,197 thousand for the benefit of Bank Polskiej Spółdzielczości;
- capped mortgage up to PLN 880,6 thousand for the benefit of Bank Polskiej Spółdzielczości;
- capped mortgage up to PLN 303 thousand for the benefit of Bank Spółdzielczy in Łomża;
- registered pledge on plant and machinery amounting to PLN 3,465 thousand for the benefit of Bank Spółdzielczy in Łomża;
- registered pledge on property, plant and equipment amounting to PLN 9,812 thousand for the benefit of BGŻ BNP PARIBAS;
- registered pledge on property, plant and equipment amounting to PLN 5,900 thousand for the benefit of Bank Zachodni WBK;
- transfer of ownership of plant and machinery amounting to PLN 1,295 thousand for the benefit of Bank Polskiej Spółdzielczości.

Due to the acquisition of property, plant and equipment, long-term investment loans were taken out; their outstanding value at the reporting date amounts to PLN 8,784 thousand (31.12.2015: PLN 10,124 thousand).

In the statement of comprehensive income, in "other operating income", the Company recognised indemnities from an insurance company due to the impairment of property, plant and equipment caused by fortuitous events amounting to PLN 50 thousand (2015: PLN 5 thousand).

PROPERTY, PLANT AND EQUIPMENT UNDER FINANCE LEASE	***Net value as at***	
	31.12.2016	***31.12.2015***
- buildings and structures	451	502
- plant and machinery	5,507	4,905
- means of transport	656	425
- tools	116	131
Total	**6,730**	**5,963**

PLN 000s

6.2 Intangible assets

INTANGIBLE ASSETS	*As at 31.12.2016*	*As at 31.12.2015*
a) acquired concessions, patents, licenses and similar assets, including:	104	129
- computer software	24	49
b) greenhouse gas emission allowance	194	327
Total intangible assets	**298**	**456**

MOVEMENT ON INTANGIBLE ASSETS	development costs	good-will	acquired concessions, patents, licenses, including: computer software	Green-house gas emission allowance	Total
As at 1 January 2015					
Gross value			**635**		**635**
Accumulated amortisation			**559**		**559**
Net book value			**76**		**76**
2015					
Gross value at the beginning of period			635		635
Increases (due to)			80	975	1055
- purchases			80	975	1055
- granted assets					
Decreases (due to)				648	648
- sale				307	307
- utilisation				341	341
Amortisation			27		27
Net book value at the end of period			129	327	456
As at 31 December 2015					
Gross value			**715**	**327**	**1042**
Accumulated amortisation			**586**		**586**
Net book value			**129**	**327**	**456**
2016					
Gross value at the beginning of period			715	327	1,042
Increases (due to)				513	513
- purchases				513	513
Decreases (due to)			207	646	853
- sale					
- utilisation			207	646	853
Amortisation			25		25
Net book value at the end of period			104	194	298
As at 31 December 2016					
Gross value			**508**	**194**	**702**
Accumulated amortisation			**404**		**404**
Net book value			**104**	**194**	**298**

PLN 000s

The entire amortisation of intangible assets is presented in the statement of comprehensive income in the item: “administrative expenses”.

CHANGES IN CO_2 EMISSION ALLOWANCES	EUAs number	Value
As at 01.01.2016	9,000	327
Obtained free of charge	10,320	0
Purchased	22,500	513
Retired	21,151	646
As at 31.12.2016	20,669	194

As at 31 December 2016, the Company recognised a provision of PLN 337 thousand for the value of EUAs to be retired for 2016.

6.3 Investments in subsidiaries

MOVEMENT ON INVESTMENTS IN SUBSIDIARIES	2016	2015
a) balance at the beginning of period	3,755	3,852
- shares or interests	3,755	3,825
b) increases (due to)	5,921	
- change of the status of CHP Energia from an associate to a subsidiary	812	
- subscribing for additional shares in CHP Energia	5,109	
c) decreases (due to a write-down)		97
e) balance at the end of period	9,676	3,755
- shares or interests	9,676	3,755

Subsidiary	Registered office	Objects	Consolidation method	Date of taking control	Value of interests/ shares at cost	Carrying amount	Percentage stake in capital	Share in the total number of votes at GMS
Zakłady Przemysłu Ziemniaczanego ZPZ LUBLIN S.p. z o.o.	Lublin	Production and sales of potato syrup and dried potatoes	Full	2.12.1996	2,550	2,550	82.38	82.38
PPZ BRONISŁAW Sp. z o.o.	Bronisław	Manufacture of starches and starch products	Full	16.03.2011	1,205	1,205	84.125	84.125
CHP Energia Sp. z o.o.	Wojny Wawrzyńce	Power generation from biogas	Full	24.10.2016	5,921	5,921	67.43	67.43

PLN 000s

OZENERGY Sp. z o.o.	Łomża	Power generation	Full	18.10.2010	96	-	100	100

Subsidiary	Equity	Assets	Liabilities	Sales revenue	Profit/Loss
2015					
Zakłady Przemysłu Ziemniaczanego ZPZ LUBLIN S.p. z o.o.	2,709	14,579	11,870	13,818	(187)
PPZ BRONISŁAW	1,518	24,355	22,837	29,863	548
OZENERGY Sp. z o.o.	4	9	5	0	(1)
2016					
Zakłady Przemysłu Ziemniaczanego ZPZ LUBLIN S.p. z o.o.	2,525	14,427	11,902	17815	(183)
PPZ BRONISŁAW	3,953	32,012	28,059	32,848	2,435
CHP Energia Sp. z o.o.	(471)	28,360	28,830	1,272	(174)
OZENERGY Sp. z o.o.	4	8	5	0	(1)

6.4 Investments in other entities and held for trading

MOVEMENT ON INVESTMENTS IN OTHER ENTITIES	2016	2015
a) balance at the beginning of period	2,663	2,663
- shares or interests	2,663	2,663
b) increases (due to the acquisition of shares)		
c) decreases (due to)		
e) balance at the end of period	**2,663**	**2,663**
- shares or interests	2,663	2,663

PEPEES holds 3,000 non-preference shares of “Warszawski Rolno-Spożywczy Rynek Hurtowy” Spółka Akcyjna with its registered office in Bronisze (“WRSRH”) with the nominal value of PLN 3,000 thousand for the price of PLN 2,550 thousand. These shares represent 2,5% of the share capital of WRSRH and 1.6% of votes at the GMS. The State Treasury is the main owner of WRSRH with more than 59% of the share capital. PEPEES does not control WRSRH. This investment is held for trading and disclosed in current assets. The fair value of the investment as at the balance sheet date approximates the purchase price.

In addition, the Company holds interests in 3 other entities which ensure less than 5 % of the total number of votes at the General Meeting of Shareholders, and they are not material in terms of their value and the Company's investment policy.

6.5 Inventories

INVENTORIES	*As at 31.12.2016*	*As at 31.12.2015*
a) materials	2,395	2,302
b) semi-finished products and work in progress	4,075	1,491
c) finished products	41,749	35,462

PLN 000s

d) trade goods	2,736	4,937
Total inventories	**50,955**	**44,192**

The carrying amount of inventories carried at fair value less costs to sell as at 31.12.2016 amounted to PLN 1,136 thousand.
The value of inventories recognised as an expense in the reporting period amounted in 2016 to PLN 98,739 thousand, and in 2015 to PLN 79,774 thousand.
Write-downs recognised as expenses in the period amounted to PLN 147 thousand and PLN 3 thousand in 2015.
The reversal of write-downs of inventories in 2016 amounted to PLN 0 thousand (2015: PLN 3 thousand).
Write-downs as at 31.12.2016 amount to PLN 182 thousand (31.12.2015: PLN 35 thousand).
The carrying amount of inventories securing the repayment of bank loans amounts to PLN 38,818 thousand, and PLN 43,500 thousand as at the end of 2015.

Encumbrances on inventories due to borrowed bank loans:

- a registered pledge on inventories with the value of PLN 17,068 thousand for the benefit of BGŻ BNP PARIBAS, securing a loan for which the debt as at 31.12.2016 amounts to PLN 15,000 thousand;
- 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 31.12.2016 amounts to PLN 15,000 thousand.

6.6 Biological assets

Plants	*As at 31.12.2016*	*As at 31.12.2015*
Underripe plants	158	172
Total	**158**	**172**

6.7 Trade receivables

TRADE RECEIVABLES	*As at 31.12.2016*	*As at 31.12.2015*
a) from related parties	199	34
- up to 12 months	199	34
- over 12 months		
b) receivables from other entities	19,698	15,440
- trade receivables, falling due:	19,698	15,440
- up to 12 months	19,698	15,440
- over 12 months		
Total trade receivables	**19,897**	**15,474**

(GROSS) TRADE RECEIVABLES – WITH PAYMENT PERIODS REMAINING AFTER THE BALANCE SHEET DATE OF:	*As at 31.12.2016*	*As at 31.12.2015*
a) up to 1 month	14,428	6,637
b) over 1 month up to 3 months	2,773	6,582
c) over 3 months up to 6 months		1465
d) over 6 months up to 1 year	938	

PLN 000s

e) over 1 year		
f) past due receivables	2,011	1,650
Total (gross) trade receivables	20,150	16,334
g) write-downs of trade receivables	(253)	(860)
Total (net) trade receivables	**19,897**	**15,474**

The average repayment period for trade receivables is ca. 50 days. Statutory interest is charged on past due receivables. The Company recognised provisions fully covering receivables past due by more than 180 days, as past experience shows that such receivables can be difficult to collect. For receivables past due from 60 to 120 days, the Company recognises provisions based on estimated amounts of uncollectible trade receivables on the basis of past experience and analyses of the financial situation of individual counterparties.
Trade receivables are insured in KUKE, which determines credit rating for customers and, on that basis, assigns credit limits to them. The limits for and ratings of each customer are subject to verification.
Past due receivables for which no write-downs were recognised are receivables from debtors with whom the Company 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 ranges from a few days to 6 months.

6.8 Receivables from subsidiaries

CURRENT RECEIVABLES FROM SUBSIDIARIES	*As at 31.12.2016*	*As at 31.12.2015*
a) trade receivables	199	34
b) other		
Total net current receivables	199	34
d) write-downs of receivables from related parties		
Total gross current receivables from related parties	**199**	**34**

6.9 Other receivables

OTHER RECEIVABLES	*As at 31.12.2016*	*As at 31.12.2015*
- taxes, grants, customs, social security and health insurance and other payments	1,232	2,594
- other	14	31
Total net other current receivables	**3,622**	**2,625**
- write-downs of other receivables		
Total gross other current receivables	**3,622**	**2,625**

6.10 Receivables in litigation

RECEIVABLES IN LITIGATION	*As at 31.12.2016*	*As at 31.12.2015*
Gross receivables in litigation	7	7
Write-downs of receivables	(7)	(7)
Total receivables in litigation	**-**	**-**

PLN 000s

Write-downs of receivables

MOVEMENT ON WRITE-DOWNS OF CURRENT RECEIVABLES	2016	2015
At the period beginning	867	251
a) increases (due to)	129	690
- recognition for doubtful trade receivables	19	
- recognition for interest receivable	49	690
- recognition for receivables in litigation	61	
b) decreases (due to)	736	74
- reversal of provisions due to payment	78	69
- utilisation due to the writing-off and sale of receivables		2
- cancellations	658	3
Write-downs of current receivables at the end of period	**260**	**867**

Increases and decreases in write-downs of receivables were recognised in the statement of comprehensive income in the item: “other operating expenses”.

6.12 Advances

ADVANCES	*As at 31.12.2016*	*As at 31.12.2015*
a) long-term, including:	9,649	10,391
- rent for the lease of an agricultural holding	9,649	10,391
b) short-term, including:	2,376	1,048
- rent for the lease of an agricultural holding	742	742
- advances for supplies	1,509	207
- property insurance	119	98
- other	6	1
Total	**12,025**	**11,232**

6.13 Loans granted

Entity	*As at 31.12.2016*	*As at 31.12.2015*
PPZ BRONISŁAW Sp. z o.o.	4,673	5,800
ZPZ LUBLIN Sp. z o.o.	3,011	3,000
CHP Energia Sp. z o.o.	710	3,347
Natural person carrying out business activities	182	0
Loans granted, including:	**8,576**	**12,147**
- with the repayment period of up to 1 year	3,076	4,347
- with the repayment period of more than 1 year	5,500	7,800

All loans were granted with interest rates similar to those applied by the banks used by the Company, taking into account the additional business risk.
In the reporting period, the Company received interest on granted loans in the total amount of PLN 613 thousand (2015: PLN 718 thousand).

6.14 Cash and cash equivalents

CASH AND CASH EQUIVALENTS	As at 31.12.2016	As at 31.12.2015
Cash at bank and in hand	798	1,198
Short-term deposits	20,850	22,224
Total cash and cash equivalents	**21,648**	**23,422**
- including restricted cash		

Short-term deposits are made for various periods: from one day to a few months, depending on the Company's current demand for cash, and are subject to interest at interest rates determined for them.

CASH AND CASH EQUIVALENTS (BY CURRENCIES)	As at 31.12.2016	As at 31.12.2015
a) in the Polish currency	21,080	22,244
b) in foreign currencies (by currencies and after translation into PLN)	568	1,178
B1. unit/currency USD/000s	59	3
PLN 000s	235	10
B2. unit/currency EUR/000s	79	284
PLN 000s	333	1,168
Total cash and cash equivalents	**21,648**	**23,422**

6.15 Share capital

Series / issue	Type of shares	Preference or non-preference shares	Type of restrictions on the rights to shares	Number of shares	Value of series / issue at nominal value	Date of registration
A	ordinary shares, bearer shares	non-preference shares	no restrictions	83 million	4,980	09.05.2008
B	ordinary shares, bearer shares	non-preference shares	no restrictions	12 million	720	30.09.2014
Total number of shares				95 million		
Total share capital					5,700	
Nominal value per share = PLN 0.06						

In the reporting period, there were no changes in the Company's share capital.
According to the Company's best knowledge, the shareholding structure at the reporting date was as follows:

- Mr Maksymilian Maciej Skotnicki - the number of votes: 19,634,843; the share in the total number of votes at GMS – 20.67%
- Mr Michał Skotnicki - the number of votes: 10,700,011; the share in the total number of votes at GMS – 11.26%
- Mr Newth Jonathan Reginald - the number of votes: 7.995.200; the share in the total number of votes at GMS – 8.42%
- Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych - the number of votes: 6,398,731; the share in the total number of votes at GMS – 6.7355%

PLN 000s

- Mazowiecka Korporacja Finansowa Sp. z o.o. - the number of votes: 5,397,343; the share in the total number of votes at GMS – 5.68%
- Mr Krzysztof Borkowski (indirectly through related parties, including Mazowiecka Korporacja Finansowa) – the number of votes: 7,923,409; the share in the total number of votes at GMS – 8.34%
- Richie Holding Ltd - the number of votes: 6,133,100; the share in the total number of votes at GMS – 6.455%

None of the remaining shareholders informed about the holding of at least 5% of the share capital and total votes at the GMS.

6.16 Reserve capital and other reserves

RESERVE CAPITAL	*As at 31.12.2016*	*As at 31.12.2015*
a) share premium	7,562	7,562
b) statutory reserve capital	1,660	1,660
c) from revaluation of assets (non-distributable)	30,602	30,602
d) from profits	12,126	12,126
Total reserve capital	**51,950**	**51,950**

OTHER RESERVES (BY PURPOSE)	*As at 31.12.2016*	*As at 31.12.2015*
- investments fund	53,397	47,480
Total other reserves	**53,397**	**47,480**

The investments fund was created from retained earnings.

REVALUATION RESERVE	*As at 31.12.2016*	*As at 31.12.2015*
- revaluation of employee benefit liabilities	(304)	(482)
- deferred tax on revaluation effects	26	91
Total other reserves	**(278)**	**(390)**

6.17 Retained earnings/loss

RETAINED EARNINGS/LOSS FROM PREVIOUS YEARS AND FROM THE PRESENT YEAR	*As at 31.12.2016*	*As at 31.12.2015*
- earnings/loss for the year	15,918	5,917
Total retained earnings/loss	**15,918**	**5,917**

6.18 Loans and borrowings

Long-term

NON-CURRENT LIABILITIES WITH THE PAYMENT PERIOD REMAINING AFTER THE BALANCE SHEET DATE OF:	*As at 31.12.2016*	*As at 31.12.2015*

a) over 1 year to 3 years	5,323	3,530
b) over 3 years to 5 years	1,616	2,770
c) over 5 years		1,616
Total long-term liabilities	**6,939**	**7,916**

PLN 000s

No.	Loan type	Contractual loan amount	Currency	Loan/borrowing amount still to be repaid	Currency	Interest rate	Repayment date
1	Subsidised loan to purchase property, plant and equipment. The principal will be repaid in quarterly instalments of PLN 165 thousand, from 29.06.12 to 30.06.17, and the interest is payable on a monthly basis on the amount of debt.	3,465	PLN	330 (carrying amount 325)	PLN	1.50 of the rediscount rate on bills of exchange, where the issuer pays 0.25% interest on the loan, however not less than 2% p.a.; the remaining part is paid by the Agency for Restructuring and Modernisation of Agriculture (ARMA);	30.06.2017
2	Subsidised loan to upgrade plant and machinery. The principal will be repaid in quarterly instalments, and the interest is payable on a monthly basis on the amount of debt.	1,295	PLN	471 (carrying amount 434)	PLN	1.6 of the rediscount rate on bills of exchange, where the issuer pays 0.25% interest on the loan, however not less than 2% p.a.; the remaining part is paid by the Agency for Restructuring and Modernisation of Agriculture (ARMA);	30.11.2018
3	Investment loan for the construction of a starch drying room, an unloading node and a water treatment unit	9,822	PLN	7,157	PLN	The interest rate is based on WIBOR for 3-month deposits plus the Bank's margin.	25.02.2022
4	Investment loan to upgrade the dust removal system for boilers	1,200	PLN	826	PLN	The interest rate is based on WIBOR for 3-month deposits plus the Bank's margin.	31.12.2020
5	Cash loan	533	PLN	533	PLN	0%	13.06.2018
	TOTAL	**15,782**	**PLN**	**9,275**	**PLN**		

The amount of PLN 2,336 thousand was recognised in the statement of financial position in current liabilities, as it will be repaid in the period of 12 months from the balance sheet date. Loans were measured in accordance with IAS 39, and the difference between the amount received and the discounted amount was recognised as a government grant in prepaid expenses/accruals.

PLN 000s

Securities

Re: 1
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: 2
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: 3
The loan is secured with a contractual mortgage amounting to PLN 14,734 thousand; an assignment of rights under an insurance policy; the statement on the submission to execution.

Re: 4
The loan is secured with a general mortgage up to PLN 1,800 thousand, a blank promissory note and an authorisation to use bank accounts.

Short-term

No.	Loan type	Contractual loan/borrowing amount	Currency	Loan/borrowing amount still to be repaid	Currency	Interest rate	Repayment date
1	Bank overdraft	4,000	PLN	0	PLN	1M WIBOR + bank's margin	31.08.2017
2	Revolving working capital loan in a credit account	10,000	PLN	6,338	PLN	1M WIBOR + bank's margin	31.08.2017
3	Non-revolving working capital loan in a credit account	15,000	PLN	15,000	PLN	1M WIBOR + bank's margin	31.08.2017
4	Bank overdraft	4,000	PLN	0	PLN	1M WIBOR + bank's margin	31.08.2017
5	Revolving working capital loan in a credit account	10,000	PLN	10,000	PLN	1M WIBOR + bank's margin	31.08.2017
6	Non-revolving	15,000	PLN	15,000	PLN	1M WIBOR	31.08.2017

working capital loan in a credit account					+ bank's margin
TOTAL	**50,000**	**PLN**	**46,338**	**PLN**	

**In the statement of financial position, there is the amount of PLN 48,674 thousand; the difference pertains to the part of long-term loans that will be repaid in the period of 12 months from the balance sheet date.*

Securities
The first three loans were taken out under a single agreement called “A Multiline 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 rights under an insurance policy for the real properties:
  - owned by PPZ Bronisław Sp. z o.o.
  - owned by ZPZ Lublin Sp. z o.o.
- a registered pledge on assets:
  - owned by PEPEES S.A.
  - owned by PPZ Bronisław Sp. z o.o.
  - owned by ZPZ Lublin Sp. z o.o.
- an assignment of rights under an insurance policy for fixed assets
- a registered pledge on inventories with the value not less than 145% of the balance of the working capital loan with the assignment of the insurance policy for inventories
- an assignment of rights under an insurance policy for inventories
- transfer of receivables arising from the operations of PEPEES S.A., PPZ Bronisław Sp. z o.o, ZPZ Lublin Sp. z o.o.
- a blank promissory note with a promissory note agreement.

The next three loans were granted under the so-called “Multi-purpose Line of Credit”, which is secured with:
- a contractual mortgage up to PLN 68,250 thousand on real properties:
  - owned by PPZ Bronisław Sp. z o.o.
  - owned by ZPZ Lublin Sp. z o.o.
- an assignment of rights under an insurance policy for the real properties:
  - owned by PPZ Bronisław Sp. z o.o.
  - owned by ZPZ Lublin Sp. z o.o.
- a registered pledge on fixed assets:
  - owned by PEPEES S.A.
  - owned by PPZ Bronisław Sp. z o.o.
  - owned by ZPZ Lublin Sp. z o.o.
- an assignment of rights under an insurance policy for fixed assets
- a registered pledge on inventories:
  - owned by PEPEES S.A.
  - owned by PPZ Bronisław Sp. z o.o.
  - owned by ZPZ Lublin Sp. z o.o.
- an assignment of rights under an insurance policy for inventories
- general assignment of 40% of receivables:
  - owned by PEPEES S.A.
  - owned by PPZ Bronisław Sp. z o.o.
  - owned by ZPZ Lublin Sp. z o.o.

PLN 000s

6.19 Retirement and similar benefits obligations

RETIREMENT AND SIMILAR BENEFITS OBLIGATIONS (BY TITLES)	As at 31.12.2016	As at 31.12.2015
a) long-term, including:	1,701	1,918
- retirement benefits	193	151
- jubilee benefits	1,507	1,767
b) short-term, including:	236	157
- retirement benefits	23	6
- jubilee benefits	213	151
Total	**1,936**	**2,075**

MOVEMENT ON RETIREMENT AND SIMILAR BENEFITS OBLIGATIONS (BY TITLES)	As at 31.12.2016	As at 31.12.2015
a) balance at the beginning of period	**2,075**	**2,060**
- retirement benefits	157	141
- jubilee benefits	1,918	1919
b) increases (due to)	72	204
- retirement benefits	72	26
- jubilee benefits		178
c) utilisation (due to)	211	189
- retirement benefits	13	10
- jubilee benefits	198	179
e) balance at the end of period	**1936**	**2,075**
- retirement benefits	216	157
- jubilee benefits	1,720	1,918

Jubilee benefits are paid to employees who worked for at least 20 years in total, every 5 years. The period of employment entitling an employee to qualify for a jubilee benefit comprises the periods of employment in PEPEES S.A. and in companies separated from PEPEES S.A. subject to the transfer of that employee from PEPEES S.A. to these companies pursuant to Article 23^1 of the Polish Labour Code, and the period of employment in all entities who are employers within the meaning of the Polish Labour Code, and the periods of working as a farmer in case of the acquisition of a farm by the employee.
To qualify for the jubilee benefit, an employee must work for at least 5 years in PEPEES S.A. and in subsidiaries separated from PEPEES S.A., subject to the transfer of that employee from PEPEES S.A. to these companies pursuant to Article 23^1 of the Polish Labour Code.
The basis for the benefit equals 150% of the gross minimum remuneration determined on the basis of generally applicable laws.

The amount of the jubilee benefit is calculated only for the period of employment in PEPEES S.A. and in companies separated from PEPEES S.A., subject to the transfer of that employee from PEPEES S.A. to these companies pursuant to Article 23^1 of the Polish Labour Code.
The benefit, depending on total employment duration, is determined as the following percentage of the basis:

- after 20 years of employment - 200%;
- after 25 years of employment - 250%;
- after 30 years of employment - 300%;
- after 35 years of employment - 350%;
- after 40 years of employment and all subsequent 5-year periods of employment - 400%.

PLN 000s

For part-time employees, the amount of the jubilee benefit is calculated in proportion to the working hours specified in their contracts of employment.
Retirement and disability benefits are paid by the Company in accordance with Article 92^1 of the Polish Labour Code.
An employee entitled to an invalidity or retirement pension, whose employment was terminated due to becoming retired or disabled, is entitled to a severance pay equal to one-month remuneration.
Re-employed retirees and pensioners do not re-acquire the right to the severance pay.

Basic actuarial assumptions

Specification	Balance sheet date 31.12.2016	Balance sheet date 31.12.2015
Basic actuarial assumptions		
Number of employees	223	214
Annual wages growth rate	3.50%	3.50%
Discount rate	3.40%	3.0%

Actuarial assumptions
To calculate provisions as at 31.12.2016, the following assumptions were adopted:

- The calculations were made in the Polish złoty (PLN), and the results were rounded to one grosz (1 grosz = 0.01 PLN).
- The Company has assumed that the minimum monthly salary in the Polish economy since 1 January 2017 has been PLN 2,000.00.
- The Company has assumed that the long-term annual wages growth rate is 2.5%, i.e. it is at the level of the projected long-term annual inflation rate (the inflation target of the National Bank of Poland).
- The Company has assumed that the long-term annual minimum monthly salary growth rate is 3.5%, i.e. it is at the level higher by 1% p.p. than the projected long-term annual inflation rate (the inflation target of the National Bank of Poland).
- The Company, to discount future payments of benefits, applies the discount rate of 3.4%, i.e. the rate of return on the safest long-term securities traded on the Polish capital market as at the valuation date.
- The probability of employee attrition was calculated on the basis of historical data on the staff turnover in the Company and statistical data on employee attrition in the industry.
- Mortality and life expectancy rates are based on the *Life Expectancy Tables of Poland 2015* published by the Polish Central Statistics Office (GUS). The Company has assumed that the mortality rate for the population of the Company's employees is the average mortality rate for Poland.
- The Company has assumed that its employees will retire according to the standard system (its detailed principles are provided for in the retirement law), except for those employees who, based on the information provided by the Company, meet the conditions for early retirement.
- The provision for disability benefits was not calculated separately; in return, the employees who began to draw disability pensions were not taken into account when calculating the probability of employee attrition.
- Current liabilities (with maturities of up to 1 year) and non-current liabilities (with maturities of over 1 year) were calculated separately.

PLN 000s

6.20 Trade and other payables

CURRENT PAYABLES	As at 31.12.2016	As at 31.12.2015
- trade payables, falling due:	6,353	6,380
- up to 12 months	6,353	6,380
- over 12 months		
- social security, taxes, customs and other	1,530	876
- remunerations	737	534
- advances for supplies	234	119
- other	122	115
Total trade and other payables	**8,976**	**8,024**

Payables to related parties amount to PLN 187 thousand and are related to deliveries of raw materials and trade goods.

6.21 Liabilities related to leased assets

FINANCE LEASE PAYABLES	As at 31.12.2016	As at 31.12.2015
a) long-term (from 1 year to 5 years)	4,137	3,942
b) short-term (up to 1 year)	1,523	1,151
Total	**5,660**	**5,093**

This payable results from agreements concluded with the companies: BRE Leasing, Leasing, BZ WBK Leasing, ING Lease, Raiffeisen Leasing and BGŻ BNP Paribas, to finance cars, and plant and machinery. Payments are made in monthly instalments according to the repayment schedule; the last payment will be in made in 2022. The payable bears interest at a variable interest rate of 1M WIBOR plus margin. Under the agreements, the Lessee assumes all the rights related to the statutory warranty and the manufacturer's guarantee. The possibility of withdrawing from a sales contract is an exception; only the Lessor has this right. The Lessee's obligations comprise timely payments of lease payments in accordance with the schedule approved by him. In the event of late or no payments, the Lessor has the right to terminate the lease and demand the return of the leased asset. Upon the end of the lease, the ownership of the leased asset is transferred by the Lessor to the Lessee.

FINANCE LEASE PAYABLES	2017	2018-2022	Total
Nominal value of lease payments	1,690	4,365	6,055
Future finance costs	(189)	(206)	(395)
Present value of minimum lease payments	**1,501**	**4,159**	**5,660**

The Company treats the right of perpetual use of land as an operating lease and recognises it in off-balance-sheet records. Information about specific amounts is available in note 11.

6.22 Provisions, accruals and deferred income

PROVISIONS, ACCRUALS, DEFERRED INCOME (BY TITLES)	As at 31.12.2016	As at 31.12.2015
a) long-term, including:	**2,421**	**2,548**
- grants related to property, plant and equipment	2,413	2,514
- grants related to loans	8	34

PLN 000s

b) short-term, including:	**1,324**	**1,685**
- grants related to property, plant and equipment	101	257
- grants related to loans	26	62
- environmental protection costs	165	126
- provisions for compensations for annual leaves	388	343
- provisions for bonuses for suppliers		
- provision for bonuses for the Board of Directors and employees	284	195
- provision for non-invoiced services	23	26
- provision for used CO_2 emission allowances	337	676
Total	**3,745**	**4,233**

MOVEMENT ON SHORT-TERM PROVISIONS AND ACCRUALS (BY TITLES)	01.01.2016-31.12.2016	01.01.2015-31.12.2015
a) balance at the beginning of the period, including:	**1,685**	**1,566**
- provision for greenhouse gas emission allowance	676	685
- provision for damages payable to employees		
- fee for the use of the environment	126	110
- provisions for compensations for annual leaves	343	239
- grants related to property, plant and equipment	257	307
- grants related to loans	62	98
- provisions for bonuses for suppliers		35
- provisions for bonuses for the Board of Directors and employees	195	70
- provisions for benefits to customers	26	22
b) increase (due to)	**1,196**	**1,384**
- recognition of a provision for used CO_2 emission allowances	337	676
- fee for the use of the environment	164	129
- provisions for compensations for annual leaves	388	343
- provisions for benefits to customers	23	41
- provisions for bonuses for suppliers		
- provisions for bonuses for the Board of Directors and employees	284	195
c) utilisation (due to)	**1,557**	**1265**
- fee for the use of the environment	125	113
- provisions for compensations for annual leaves	343	239
- provisions for benefits to customers	26	37
- provision for damages payable to employees		
- grants related to property, plant and equipment	156	50
- grants related to loans	36	36
- provisions for bonuses for suppliers		35
- provisions for bonuses for the Board of Directors and employees	195	70
- greenhouse gas emission allowance	676	685
d) balance at the end of the period, including:	**1,324**	**1685**
- fee for the use of the environment	165	126
- provisions for compensations for annual leaves	388	343
- provisions for bonuses for suppliers		
- provisions for bonuses for the Board of Directors and employees	284	195
- provision for greenhouse gas emission allowance	337	676
- grants related to property, plant and equipment	101	257

PLN 000s

- grants related to loans	26	62
- provisions for benefits to customers	23	26

6.23 Deferred income tax

DEFERRED TAX LIABILITIES	*As at 31.12.2016*	*As at 31.12.2015*
The difference between the carrying amount and the tax value of property, plant and equipment	5,541	5,710
Interest accrued, but not yet received	5	130
Unrealised foreign exchange differences	2	
Valuation of loans	2	4
Total deferred tax liabilities	**5,550**	**5,844**

DEFERRED TAX ASSETS	*As at 31.12.2016*	*As at 31.12.2015*
Outstanding remunerations	127	82
Provisions for compensations for annual leaves	74	65
Provision for bonuses for the Board of Directors and employees	54	37
Retirement and jubilee benefits	367	394
Unrealised foreign exchange differences	58	36
Write-downs of inventories	35	7
Write-downs of interests	18	18
Provision for used CO_2 emission allowances	64	129
Lease payables	700	657
Other accruals	4	5
Total deferred tax assets	**1,501**	**1430**

7. Explanatory notes to the statement of comprehensive income

7.1 Revenue from the sales of products

NET REVENUE FROM THE SALE OF PRODUCTS (ITEM-BY-ITEM STRUCTURE - TYPES OF ACTIVITIES)	2016	2015
- potato-based products	119,902	87,725
- including: from related parties	456	189
- heat	3,429	3,537
Total net revenue from the sale of products	**123,331**	**91,262**
- including: from related parties	456	189

PLN 000s

NET REVENUE FROM THE SALE OF PRODUCTS (GEOGRAPHICAL STRUCTURE)	2016	2015
a) Poland	**66,731**	**63,625**
- including: from related parties	456	189
- potato-based products	63,302	60,088
- including: from related parties	456	189
- heat	3,429	3,537
b) intra-Community supplies	**12,973**	**10,300**
- including: from related parties		
- potato-based products	12,973	10,300
c) exports	**43,627**	**17,337**
- including: from related parties		
- potato-based products	43,627	17,337
Total net revenue from the sale of products	**123,331**	**91,262**

7.2 Revenue from services

NET REVENUE FROM THE SALE OF SERVICES (ITEM-BY-ITEM STRUCTURE - TYPES OF ACTIVITIES)	2016	2015
- revenue from real property lease	5	5
- revenue from plant and machinery rental	279	129
- transmission of electricity	1	3
- water supply and wastewater collection		3
- services for farmers	355	266
- other services	35	26
Total net revenue from the sale of services	**675**	**432**
- including: from related parties	239	83

All services were rendered in Poland.

7.3 Revenue from the sales of trade goods and materials

NET REVENUE FROM THE SALE OF TRADE GOODS AND MATERIALS (ITEM-BY-ITEM STRUCTURE - TYPES OF ACTIVITIES)	2016	2015
- potatoes	8,009	7,385
- including: from related parties	1,818	1,136
- potato-based products	7,571	5,313
- including: from related parties		
- pesticides and fertilisers	3,531	3,330
- including: from related parties		
- materials	650	205
- including: from related parties	186	
Total net revenue from the sale of trade goods and materials	**19,761**	**16,233**
- including: from related parties	**2,004**	**1,136**

PLN 000s

NET REVENUE FROM THE SALE OF TRADE GOODS AND MATERIALS (GEOGRAPHICAL STRUCTURE)	2016	2015
a) Poland	**17,601**	**14,993**
- potatoes	8,009	7,385
- including: from related parties	1,818	1,136
- potato-based products	5,411	4,073
- including: from related parties		
- pesticides and fertilisers	3,531	3,330
- including: from related parties		
- materials	650	205
- including: from related parties	1	
b) exports	**889**	**1,216**
- including: from related parties		
- potato-based products	889	1,216
c) intra-Community supplies	**1,271**	**24**
- including: from related parties		
- potato-based products	1,271	24
Total net revenue from the sale of trade goods and materials	**19,761**	**16,233**

7.4 Expenses by nature

EXPENSES BY NATURE	2016	2015
a) depreciation/amortisation	6,117	5,766
b) materials and energy	74,688	49,101
c) third-party services	13,625	10,246
d) taxes and charges	2,725	2,556
e) remunerations	13,252	10,348
f) social security contributions and other payments	2,986	2,227
g) other expenses by nature (due to)	1189	882
- entertainment and advertising expenses	179	190
- business trips	127	149
- non-life insurance expenses	257	235
- costs of analyses, tests and scientific expert opinions	259	137
- other expenses	367	171
Total expenses by nature	**114,582**	**81,126**
Net increase/decrease in inventories, products and prepaid expenses/accruals	(8,155)	4,575
Cost of manufacturing products for the entity's own needs	(683)	(91)
Costs of sales (negative value)	(7,622)	(5,709)
Administrative expenses (negative value)	(14,945)	(12,459)
Cost of products and services sold	**83,177**	**67,442**

PLN 000s

7.5 Employee benefits expense

EMPLOYEE BENEFITS EXPENSE	2016	2015
e) remunerations, including:	**13,252**	**10,348**
- remunerations under contracts of employment	11,293	8,610
- remunerations under mandate and similar contracts	1,282	1,006
- remunerations of the members of the Supervisory Board	336	314
- severance pays (due to redundancies) and jubilee benefits	206	189
- provisions for compensations for unused annual leaves	46	104
- provisions for bonuses for the Board of Directors and employees	89	125
f) social security contributions and other payments, including:	**2,986**	**2,227**
- social security costs	2,081	1,512
- contributions to the Labour Fund	248	185
- contributions to the Corporate Social Benefits Fund	300	322
- employee training expenses	75	72
- working clothes	206	66
- medical examinations and H&S expenses	76	70
Total employee benefits expense	**16,238**	**12,544**

7.6 Profit/loss from agricultural production

	2016	2015
Revenue from the sales of agricultural products	572	999
Grants	795	563
Operating expenses	(2,855)	(2,149)
Profit/loss from agricultural production	**(1,488)**	**(587)**

7.7 Other operating income

OTHER OPERATING INCOME	2016	2015
a) gains from disposal of non-financial non-current assets	**1,135**	**105**
b) reversal of provisions, due to:	**11**	**185**
- write-downs of receivables	11	18
- retirement of emission allowances		132
- liabilities		35
c) government grants, including:	**319**	**405**
- grants related to property, plant and equipment	257	307
- grants related to investment loans	62	98
d) other, including:	**234**	**46**
- expenses adjustment		
- indemnities, damages, penalties and fines received	164	33
- surplus assets	46	7
- other	24	6
Total other operating income	**1,699**	**741**

PLN 000s

7.8 Other operating expenses

OTHER OPERATING EXPENSES	2016	2015
a) revaluation of non-financial assets		**24**
b) other, including:	**209**	**247**
- discontinued investments		144
- donations	14	14
- cost of the retirement of non-financial non-current assets	54	1
- litigation expenses	4	16
- write-downs of receivables	76	1
- unplanned depreciation/amortisation charges	1	6
- indemnities, damages, penalties and fines paid	39	48
- written-off receivables	1	
- asset shortages	17	11
- other	3	6
Total other operating expenses	**209**	**271**

7.9 Finance costs

FINANCE COSTS	2016	2015
a) interest on loans and borrowings	470	549
b) interest on payables	1	5
c) loan revaluation	72	112
d) write-downs of interests		96
e) foreign exchange losses		79
- realised		(36)
- unrealised		115
f) other finance costs	361	153
- refund of Bank Guarantee Fund bank charges	135	
- provisions for finance costs	10	16
- lease payments	137	66
- fees and commissions on loans	61	51
- discount on the purchase of receivables	18	20
Total finance costs	**904**	**994**

7.10 Finance income

FINANCE INCOME	2016	2015
a) dividends	122	61
b) interest on loans	641	1,164
c) interest on deposits	110	15
d) interest on receivables	86	69
e) foreign exchange gains	93	
- realised	383	

PLN 000s

- unrealised	(290)	
Total finance income	**1,052**	**1,309**

7.11 Income tax expense

INCOME TAX EXPENSE	2016	2015
Current income tax	(4,454)	(1,418)
Deferred income tax	391	(202)
Total income tax expense	**(4,063)**	**(1,620)**

The reconciliation of the income tax on gross profit/loss before tax at the statutory tax rate with the income tax calculated at the effective tax rate is as follows:

Specification	2016	2015
Gross profit/loss before tax	19,981	7,537
Income tax at the statutory rate of 19%	(3,796)	(1,432)
Tax on permanent differences between the gross profit and the tax base	(267)	(188)
Income tax expense at the effective tax rate of 19.6% and 21.5% in 2015	**(4,063)**	**(1,620)**

In 2016, the Company paid to the tax authorities PLN 2,467 thousand of tax, including PLN 807 thousand for 2015. Tax payable for 2016 amounts to PLN 2,794 thousand.

7.12 Earnings per share

Earnings per share were calculated by dividing profit for the period by the weighted average number of shares. All shares are ordinary bearer shares.

Weighted average number of shares				
period beginning	period end	number of days (A)	number of shares in the period (B)	(A) x (B) / 365
2016-01-01	2016-12-31	365	95,000,000	95,000000
total:		365	**weighted average:**	**95,000000**

EARNINGS (LOSS) PER SHARE	2016	2015
Net profit (loss) in PLN	15,918,407.00	5,916,739.03
Weighted average number of shares	95,000000	95,000000
Basic earnings per share (in PLN per share)	0.17	0.06
Net earnings used to calculate diluted earnings per share	15,918,407.00	5,916,739.03
Weighted average number of ordinary shares for diluted earnings per share	95,000000	95,000000
Diluted earnings per share (PLN)	**0.17**	**0.06**

The Board of Directors proposes to allocate the profit to reserves.

PLN 000s

8. Explanatory notes to the statement of cash flows

8.1 Reconciliation of amounts recognised in the statement of cash flows with the balance of cash and cash equivalents in the balance sheet

Specification	2016	2015
Cash and equivalents in the statement of financial position	21,648	23,422
Bank overdrafts	0	(7,858)
Foreign exchange differences from the valuation of cash	4	(1)
Cash in the statement of cash flows	**21,652**	**15,563**

The Company does not have any restricted cash.

8.2 Non-monetary transactions

Specification	2016	2015
Acquisition of assets under finance lease	(2,009)	(1,185)
Loan valuation at amortised cost (change)	73	112
Interest on a cash loan accrued but not yet paid (change)		(442)

8.3 Undrawn overdraft facilities

As at 31.12.2016, the Company had undrawn overdraft facilities in the current account amounting to PLN 8,000 thousand (31.12.2015 : PLN 144 thousand).

9. Financial instruments

9.1. Categories of financial instruments

Major financial instruments used by the Company comprise bank loans, leases, cash and short-term bank deposits. The main purpose of these financial instrument is sourcing funds for the Company's business activities. In addition, the Company holds other financial instruments such as trade receivables and payables arising directly in the course of its business.

Financial assets	As at 31.12.2016	As at 31.12.2015
At fair value through profit or loss		
Held for trading	2,550	2,550
Derivatives		
Held-to-maturity investments		
Loans and receivables (including cash)	51,367	53,875
Available-for-sale financial assets	9,789	4,679
Total financial assets	**63,706**	**61,104**

PLN 000s

Financial assets recognised in the financial statements as:	As at 31.12.2016	As at 31.12.2015
Investments in subsidiaries	9,676	3,755
Investments in associates		811
Investments in other entities	113	113
Trade receivables	19,897	15,474
Other receivables	1,246	2,832
Loans granted	8,576	12,147
Investments held for trading	2,550	2,550
Cash and cash equivalents	21,648	23,422
Total financial assets	**63,706**	**61,104**

Financial liabilities	As at 31.12.2016	As at 31.12.2015
At fair value through profit or loss		
Held for trading		
Derivatives		
Amortised cost	61,273	65,075
Other liabilities	8,992	8,024
Total financial liabilities	**70,265**	**73,099**

Financial liabilities recognised in the financial statements as:	As at 31.12.2016	As at 31.12.2015
Long-term loans and borrowings	6,939	7,916
Non-current liabilities related to leased assets	4,137	3,942
Trade payables	6,353	6,380
Short-term loans and borrowings	48,674	52,066
Current liabilities related to leased assets	1,523	1,151
Other current liabilities	2,639	1,644
Total financial liabilities	**70,265**	**73,099**

9.2. Financial risk management

The main types of risks associated with the Company's financial instruments include the interest rate risk, the liquidity risk, the currency risk and the credit risk. The Boards of Directors verifies and agrees on the principles of the management of each of the aforementioned risks and these principles are briefly discussed below. The Company also monitors the risk of market prices related to all financial instruments held by it.

Interest rate risk
The Company's exposure to the interest rate risk pertains primarily to loans whose interest rates are based on the rediscount rate on bills of exchange and WIBOR rate. As all long-term loans are subsidised and bear low interest rates, the interest rate risk is not high and the Company have not concluded interest rate swaps.
The table below shows the sensitivity of the gross profit/loss on an annual basis to reasonably possible changes in interest rates, all other things being equal (due to commitments with a variable interest rate).

PLN 000s

Increase/decrease by percentage points	Impact on profit/loss 2016	2015
Increase in interest rates of loans by 1%	(299)	(301)
Decrease in interest rates of loans by 1%	299	301

Currency risk

The Company is exposed to currency risk arising from transactions. Such a risk arises as a result of export sales and the sales to the European Union countries in currencies other than the Polish złoty. In the reporting period, exports and intra-Community supplies accounted for more than 40% of total sales revenue.

The table below shows the sensitivity of the gross profit/loss to changes in the value of revenue and expenses in the case of the fluctuations of the USD and EUR exchange rates by 0.1 for PLN/EUR/USD.

Increase/decrease in exchange rates	Impact on profit/loss 2016	2015
Increase in PLN/USD exchange rate by 0.1	282	11
Increase in PLN/EUR exchange rate by 0.1	1,221	874
Decrease in PLN/USD exchange rate by 0.1	(282)	(11)
Decrease in PLN/EUR exchange rate by 0.1	(1,221)	(874)
Total impact on profit/loss	**+/-1,503**	**+/-885**

In addition, the Company holds cash in the bank account and receivables denominated in the euro and in the US dollar.

The effects of changes in the exchange rates as at the balance sheet date for USD and EUR by 0.1 for PLN/EUR/USD are presented in the table below.

Increase/decrease in exchange rates	Impact on profit/loss 2016	2015
Increase in PLN/USD exchange rate by 0.1	42	4
Increase in PLN/EUR exchange rate by 0.1	133	128
Decrease in PLN/USD exchange rate by 0.1	(42)	(4)
Decrease in PLN/EUR exchange rate by 0.1	(133)	(128)
Total impact on profit/loss	**+/-175**	**+/-132**

Credit risk

The Company enters into transactions only with tested customers with good credit ratings. All customers who wish to obtain trade credits are subject to pre-screening. In addition, owing to the permanent receivables monitoring process, the Company's exposure to bad debts is very limited. The assessment of the financial credibility carried out by KUKE and of the granted financial limit, is also crucial.

There are no material concentrations of credit risk in the Company.

Liquidity risk

The Company aims to maintain the balance between the continuity and flexibility of financing, using various sources of finance such as bank overdrafts, or short- and long-term subsidised bank loans.

The Company manages the liquidity risk by maintaining adequate reserves, taking advantage of banking services and reserve lines of credit, continuously monitoring projected and actual cash flows, and matching maturity profiles of financial assets and financial liabilities.

10. Capital management

The primary objective of the Company's capital management is to ensure the ability to continue as a going concern, having regard for the completion of planned investments, and, at the same time, to maximize the Company's shareholder value.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company's net debt comprises loans, borrowings, finance lease payables, trade and other payables, less cash and cash equivalents.

Amounts in PLN 000s

	31.12.2016	31.12.2015
Loans, borrowings, finance lease	61,273	65,075
Trade and other payables	8,976	8,024
Cash and cash equivalents (-)	21,651	(23,422)
Net debt	48,598	49,677
Equity	126,687	110,656
Equity and net debt	175,285	160,333
Gearing ratio	**27.73%**	**30.98%**

The financing structure is monitored to ensure the necessary funds for investments provided for in the Strategy of PEPEES Group for 2013-2018.
The leverage ratio improved in 2016 as a result of an increase in equity due to the generation of high profit.

11. Contingencies

11.1 Contingent receivables

The Company uses, pursuant to the right of perpetual usufruct, 493,591 m^2 of land; its value as at 31.12.2016 resulting from the decision on the annual fee amounts to PLN 10,822 thousand (31.12.2015: PLN 10,822 thousand). The market value approximates the value from the decision. The Company pays the annual fee of 3% of the value. The fee in 2016 and in the previous year amounted to PLN 325 thousand.

11.2 Contingent liabilities

The Company granted its surety for the loan granted by SBR Bank to the associate CHP Energia up to PLN 6 million.
PEPEES receives subsidies to the interest rates of investment loans. The value of the subsidies received until 31.12.2016 is PLN 919 thousand. In the case of the failure to satisfy the terms of loan agreements, e.g.
- the failure to pay repayment instalments and interest by the dates set in agreements;
- the failure to complete investment projects as planned;
- using the loan contrary to its intended purpose;

the subsidies must be returned. The Company will meet the aforementioned conditions, as the investment projects have already been completed as planned; the loans have been used for their intended purpose; and the instalments and interest are paid by the Company as scheduled.

PLN 000s

There may be payables arising from non-competition agreements after termination of employment. Such agreements were concluded with members of the Board of Directors and several employees. In the case of the termination of their employment, the Company must pay damages of ca. PLN 710 thousand.

There are no unresolved litigations as at the balance sheet date.

12. Related party transactions

12.1 Transactions with subsidiaries

a) Revenue from the sale of products and trade goods received from subsidiaries

Types of revenue	2016	2015
Revenue from the sales of products to subsidiaries	456	189
Revenue from the sale of services to subsidiaries	239	82
Revenue from the sale of trade goods to subsidiaries		
Revenue from the sale of raw materials to subsidiaries	2,004	1,422
Total revenue from related parties	**2,699**	**1,693**

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

b) Purchases of trade goods and services from subsidiaries

Types of purchases	2016	2015
Purchases of products from subsidiaries	6,546	6,835
Purchases of services from subsidiaries	85	86
Purchases of trade goods from subsidiaries	699	1,440
Total purchases from related parties	**7,330**	**8,361**

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

Receivables from related parties	31.12.2016	31.12.2015
CHP Energia	199	29
OZENERGY	6	5
Total receivables from related parties	**205**	**34**

Payables to related parties	31.12.2016	31.12.2015
ZPZ Lublin	129	
PPZ BRONISŁAW	58	902
Total payables to related parties	**187**	**902**

d) Loans granted to related parties

Entity	Contractual cash loan amount	Debt as at	
		31.12.2016	31.12.2015
ZPZ Lublin	3,000	3,011	3,000
PPZ BRONISŁAW	6,500	4,673	5,800
CHP Energia	700	710	3,347
Total	**10,200**	**8,394**	**12,147**

e) Interest on granted loans

Entity	2016	2015
ZPZ Lublin	128	218
PPZ BRONISŁAW	224	420
CHP Energia	282	523
Total	**634**	**1,161**

f) contingencies

Contractual mortgages are established on the assets of subsidiaries (ZPZ Lublin and PPZ Bronisław) securing loans taken out by PEPEES and amounting up to PLN 68,000 thousand.

12.2 Transactions with the key management personnel

a) benefits for the key management personnel

Board of Directors in PLN 000s

	2016	**2015**
Short-term benefits	1,136	1,091
Post-employment benefits	180	0
Other long-term benefits	0	0
Termination benefits	0	0
Share-based payments	0	0

Supervisory Board in PLN 000s	**2016**	**2015**
Short-term employee benefits	338	317
Post-employment benefits	0	0
Other long-term benefits	0	0
Termination benefits	0	0
Share-based payments	0	0

b) transactions with members of the Board of Directors and of the Supervisory Board, and with close members of their families

In the reporting period, there were no transactions within the meaning of IAS 24.

PLN 000s

13. Average employment in the Company

Specification	Average number of employees in 2016	Average number of employees in 2015
Administrative employees	87	82
Workers	180	152
Employees on parental leaves and unpaid leaves	4	4
Total	**271**	**238**

14. The registered auditor's remuneration

The registered auditor's remuneration for the review and audit of the financial statements and of the consolidated financial statements amounts to PLN 36,000 plus VAT, including PLN 13,000 paid in 2016. The registered auditor did not render any other services to PEPEES.

15. Events after the reporting period

After the balance sheet date, there were no events with material impact on these financial statements.

16. Authorising financial statements

These financial statements were approved of by the Board of Directors and authorised for issue on 17 March 2016. These separate financial statements are published together with the consolidated financial statements of PEPEES S.A. Group, which were authorised for issue by the Board of Directors on 17 March 2017.

SIGNATURES OF THE MEMBERS OF THE BOARD OF DIRECTORS

17.03.2017	Wojciech Faszczewski	President of the Board of Directors	
17.03.2017	Tomasz Rogala	Member of the Board of Directors	

SIGNATURE OF THE PERSON PREPARING THE FINANCIAL STATEMENTS

17.03.2017	Wiesława Załuska	Chief Accountant	