

**THE CORPORATE GROUP OF  
PRZEDSIĘBIORSTWO PRZEMYSŁU  
SPOŻYWCZEGO PEPEES S.A.**

**CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE PERIOD FROM 1 JANUARY 2017  
TO 30 JUNE 2017**

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

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**1. INTERIM CONSOLIDATED STATEMENT  
OF FINANCIAL POSITION**

<b>ASSETS</b>		<b>30.06.2017</b>	<b>31.12.2016</b>	<b>30.06.2016</b>
<b>I</b>	<b>Non-current (long-term) assets</b>	<b>142,517</b>	<b>138,339</b>	<b>101,711</b>
1	Property, plant and equipment	119,859	119,315	88,757
2	Intangible assets	112	298	117
3	Goodwill arising on consolidation	6,607	6,607	486
4	Investments in associates	4,310	-	
5	Investments in other entities	113	113	113
6	Granted loans	-	-	-
7	Long-term advances	9,362	9,649	10,020
8	Deferred tax assets	2,154	2,357	2,218
<b>II</b>	<b>Current (short-term) assets</b>	<b>84,683</b>	<b>133,827</b>	<b>72,522</b>
1	Inventories	29,300	77,283	25,324
2	Biological assets	747	158	830
3	Trade receivables	32,769	25,763	28,425
4	Other receivables	1,682	2,317	647
5	Advances	5,845	1,398	4,838
6	Loans granted	863	182	2,907
7	Investments held for trading	2,550	2,550	2,550
8	Cash and cash equivalents	10,927	24,176	7,001
	<b>Total assets</b>	<b>227,200</b>	<b>272,166</b>	<b>174,233</b>
<b>EQUITY AND LIABILITIES</b>		<b>30.06.2017</b>	<b>31.12.2016</b>	<b>30.06.2016</b>
	<b>Equity</b>	<b>137,185</b>	<b>129,119</b>	<b>115,000</b>
	<i>Equity attributable to equity holders of the parent</i>	<b>136,105</b>	<b>128,199</b>	<b>114,223</b>
1	Share capital	5,700	5,700	5,700
2	Reserve capital and other reserves	124,418	106,065	106,065
3	Revaluation reserve	(328)	(278)	(492)
4	Retained earnings/loss from previous years and the present year	(1,877)	(888)	(2,229)
5	Profit/loss for the year	8,192	17,600	5,179
	<i>Non-controlling interests</i>	<b>1,080</b>	<b>920</b>	<b>777</b>
<b>II</b>	<b>Non-current liabilities</b>	<b>41,490</b>	<b>42,696</b>	<b>22,862</b>
1	Loans and borrowings	22,200	22,370	7,517
2	Liabilities related to leased assets	4,340	4,677	4,106
3	Deferred tax liabilities	5,655	5,722	5,974
4	Retirement and similar benefits obligations	2,296	2,240	2,609
5	Grants	6,999	7,687	2,656
<b>III</b>	<b>Current liabilities</b>	<b>48,525</b>	<b>100,351</b>	<b>36,371</b>
1	Trade payables	10,618	11,956	7,434
2	Current income tax liabilities	1,165	3,118	453
3	Other current liabilities	3,358	5,088	2,292
4	Loans and borrowings	29,607	76,080	23,501
5	Liabilities related to leased assets	1,748	1,901	1,244
6	Retirement and similar benefits obligations	349	331	278
7	Provisions for other liabilities and other charges	1,680	1,877	1,169
	<b>Total equity and liabilities</b>	<b>227,200</b>	<b>272,166</b>	<b>174,233</b>

## 2. INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>Revenue and expenses Profit and loss</i>		<i>01.01.2017- 30.06.2017</i>	<i>01.01.2016- 30.06.2016</i>
<b>I</b>	<b>Sales revenue</b>		
1	Revenue from the sales of products	98,044	70,962
2	Revenue from services	589	355
3	Revenue from the sales of trade goods and materials	17,378	15,178
	<b>Total sales revenue, including:</b>	<b>116,011</b>	<b>86,495</b>
	- revenue from continuing operations	<i>116,011</i>	<i>86,495</i>
<b>II</b>	<b>Cost of sales</b>		
1	Cost of products sold	(69,627)	(52,027)
2	Cost of services sold	(349)	(74)
3	Costs of trade goods and materials sold	(15,041)	(14,076)
4	Profit/loss from agricultural production	(457)	(388)
	<b>Total cost of sales, including:</b>	<b>(85,474)</b>	<b>(66,565)</b>
	- cost from continuing operations	<i>(85,474)</i>	<i>(66,565)</i>
<b>III</b>	<b>Gross profit from sales (I-II)</b>	<b>30,537</b>	<b>19,930</b>
1	Selling and marketing expenses	(5,450)	(3,460)
2	Administrative expenses	(12,626)	(9,285)
3	Other operating income	487	241
4	Other operating expenses	(272)	(214)
<b>IV</b>	<b>Operating profit (loss)</b>	<b>12,676</b>	<b>7,212</b>
1	Finance costs	(2,147)	(802)
2	Finance income	150	497
3	Share of profit of an associate	(2)	(276)
<b>V</b>	<b>Profit (loss) before tax, including:</b>	<b>10,677</b>	<b>6,631</b>
	- profit (loss) before tax from continuing operations	<i>10,677</i>	<i>6,631</i>
	Income tax expense	(2,325)	(1,393)
<b>VI</b>	<b>Net profit (loss)</b>	<b>8,352</b>	<b>5,238</b>
	- attributable to non-controlling interests	160	59
	- attributable to the equity holders of the parent	8,192	5,179
<b>VII</b>	<b>Other comprehensive income</b>	<b>(50)</b>	<b>(101)</b>
	Effects of the valuation of financial assets		
1	available-for-sale	-	
2	Revaluation of employee benefit liabilities	(50)	(101)
<b>VIII</b>	<b>Total comprehensive income, including</b>	<b>8,302</b>	<b>5,137</b>
	- attributable to non-controlling interests	160	59
	- attributable to the equity holders of the parent, including:	8,142	5,078
	- net comprehensive income (loss) from continuing operations	<i>8,142</i>	<i>5,078</i>

	Share capital	Reserve capital	Revaluation reserve	Other reserves	Retained earnings/loss	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
As at 1 January 2016	5,700	52,255	(391)	47,480	4,092	109,136	718	109,854

<b>Changes in the period from 01.01.2016 to 30.06.2017</b>	-	413	(101)	5,917	(1,142)	5,087	59	5,146
Other consolidation adjustments					9	9		9
Distribution of profit (loss) for 2015		413		5,917	(6,330)			
Net profit for the period					5,179	5,179	59	5,238
Other comprehensive income			(101)					
<b>As at 30.06.2016</b>	<b>5,700</b>	<b>52,668</b>	<b>(492)</b>	<b>53,397</b>	<b>2,950</b>	<b>114,223</b>	<b>777</b>	<b>115,000</b>
<b>Changes in the period from 01.01.2016 to 31.12.2016</b>	-							
Distribution of profit (loss) for 2015		413		5,917	(6,330)	-		-
Net profit (loss) for the period					17,600	17,600	298	17,898
Other comprehensive income for the year (net)			113			113		113
Other changes in equity					1,350	1,350	(96)	1,254
<b>As at 31.12.2016</b>	<b>5,700</b>	<b>52,668</b>	<b>(278)</b>	<b>53,397</b>	<b>16,712</b>	<b>128,199</b>	<b>920</b>	<b>129,119</b>
<b>As at 1 January 2017</b>	<b>5,700</b>	<b>52,668</b>	<b>(278)</b>	<b>53,397</b>	<b>16,712</b>	<b>128,199</b>	<b>920</b>	<b>129,119</b>
<b>Changes in the period from 01.01.2017 to 30.06.2017</b>								
Changes in accounting policies					(236)	(236)		(236)
Other consolidation adjustments						-		-
Distribution of profit (loss) for 2016		2,435		15,918	(18,353)	-		-
Net profit for the period					8,192	8,192	160	8,352
Other comprehensive income			(50)			(50)		(50)
<b>As at 30.06.2017</b>	<b>5,700</b>	<b>55,103</b>	<b>(328)</b>	<b>69,315</b>	<b>6,315</b>	<b>136,105</b>	<b>1,080</b>	<b>137,185</b>

### 3. INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### 4. INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Indirect method	For the period 01.01.2017- 30.06.2017	For the period 1.01.2016- 30.06.2016
<b>A. Cash flows from operating activities</b>		
<b>I. Profit (loss) before tax</b>	<b>10,677</b>	<b>6,631</b>
<b>II. Total adjustments</b>	<b>33,442</b>	<b>29,163</b>
1. Depreciation/Amortisation	4,365	3,809
2. Foreign exchange (gains) losses	(263)	(38)
3. Interest and share of profit (dividend)	1,174	812
4. (Profit) loss from investing activities	(318)	19
5. Net increase/decrease in provisions	(197)	(415)
6. Net increase/decrease in inventories	47,983	38,787
7. Net increase/decrease in biological assets	(589)	(658)
8. Net increase/decrease in receivables	(6,371)	(6,717)
9. Net increase/decrease in current liabilities, except for loans and borrowings	(3,068)	(703)
10. Net increase/decrease in advances	(4,160)	(3,382)
11. Income tax expense	(3,977)	(1,721)
12. Net increase/decrease in grants	(688)	(72)
13. Other adjustments	(449)	(558)
<b>III. Net cash flows from operating activities (I+/-II)</b>	<b>44,119</b>	<b>35,794</b>
<b>B. Cash flows from investing activities</b>		
<b>I. Proceeds</b>	<b>357</b>	<b>69</b>
1. Disposal of intangible assets and property, plant and equipment	357	69
2. Repayments of cash loans	-	
<b>II. Expenses</b>	<b>9,467</b>	<b>3,307</b>
1. Acquisition of intangible assets and property, plant and equipment	4,473	3,132
2. Purchase of shares	4,313	
3. Loans granted	681	175
<b>III. Net cash flows from investing activities (I-II)</b>	<b>(9,110)</b>	<b>(3,238)</b>
<b>C. Cash flows from financing activities</b>		

<b>I. Proceeds</b>	<b>5,102</b>	<b>4,223</b>
1. Loans and borrowings	4,692	3,716
2. Grants	410	507
<b>II. Expenses</b>	<b>53,188</b>	<b>46,413</b>
1. Repayments of loans and borrowings	50,919	44,967
2. Interest on loans and borrowings	1,299	638
3. Lease payments	970	808
<b>III. Net cash flows from financing activities (I-II)</b>	<b>(48,086)</b>	<b>(42,190)</b>
<b>D. Total net cash flows (A.III+/-B.III+/-C.III)</b>	<b>(13,077)</b>	<b>(9,634)</b>
<b>E. Balance sheet change in cash, including:</b>	<b>(13,249)</b>	<b>(17,836)</b>
- net increase/decrease in cash due to foreign exchange differences		-
- net increase/decrease in bank overdrafts	172	8,202
<b>F. Cash at the beginning of period</b>	<b>23,192</b>	<b>16,167</b>
<b>G. Cash at the end of period (F+/-D)</b>	<b>10,115</b>	<b>6,533</b>
<i>- including restricted cash</i>		

## SELECTED FINANCIAL FIGURES TRANSLATED INTO EUR

NO	SELECTED FINANCIAL FIGURES	PLN 000s		EUR 000s	
		First half of 2017	First half of 2016	First half of 2017	First half of 2016
I	Total sales revenue	116,011	86,495	27,313	19,745
II	Net profit or loss attributable to equity holders of the Company	8,192	5,179	1,929	1,182
III	Net comprehensive income attributable to equity holders of the Company	8,142	5,078	1,917	1,159
IV	Net cash flows from operating activities	44,119	35,794	10,387	8,171
V	Net cash flows from investing activities	(9,110)	(3,238)	(2,145)	(739)
VI	Net cash flows from financing activities	(48,086)	(42,190)	(11,321)	(9,631)
VII	Total net cash flows	(13,077)	(9,634)	(3,079)	(2,199)
VIII	Total assets	227,200	272,166	53,756	61,520
IX	Equity attributable to the Company's equity holders	136,105	128,199	32,203	28,978
X	Earnings (loss) per share	0.06	0.05	0.02	0.01
XI	Book value per share	1.43	1.35	0.34	0.31

Figures presented in lines: VIII, IX and XI, in columns "First half of 2016" are as at 31.12.2016.

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

- selected items of the statement of financial position as at 30.06.2017 – at the average exchange rate as at the balance sheet date: EUR 1 = PLN 4.2265;

- 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 comprehensive income and of the statement of cash flows for the period from 01.01.2017 to 30.06.2017 – 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 2017: 1 EUR = 4.2474 PLN;

- selected items of the statement of comprehensive income and of the statement of cash flows for the period from 01.01.2016 to 30.06.2016 – 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: 1 EUR = 4.3805 PLN.

## EARNINGS PER SHARE

	<b>30.06.2017</b>	<b>30.06.2017</b>
Net earnings attributable to the equity holders of PEPEES	8,192	5,179
Weighted average number of shares	95,000,000	95,000,000
Basic earnings per share (in PLN per share)	0.09	0.05
Net earnings attributable to the equity holders of PEPEES applied in the	8,142	5,179

calculation of diluted earnings per share

Weighted average number of ordinary shares for diluted earnings per share	95,000,000	95,000,000
Diluted earnings per share (in PLN per share)	0.09	0.05
Annualised net earnings attributable to the equity holders of PEPEES	17,282	8,573
Weighted average number of shares	95,000,000	95,000,000
Annualised net earnings per share (in PLN per share)	0.18	0.09



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.

## General information about the parent company

**Full business name:** Przedsiębiorstwo Przemysłu Spożywczego "PEPEES"  
S.A.

**Registered office:** 18-402 Łomża, ul. Poznańska 121

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

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

**Registration body:** District Court in Białystok, XII Economic

Division of the National Court Register (KRS)

**KRS Reg. No.:** 000038455

**Legal form:** Spółka Akcyjna [a joint stock company]

**Organisational form:** A single-establishment company

**Primary objects according to the Polish Classification of Activities (PKD) – 1062Z**  
Manufacture of starches and starch products.

**Industry** – food industry

**Company's lifetime** – indefinite

### The composition of the Board of Directors as at 30.06.2017:

Mr Wojciech Faszczeński – President

Mr Tomasz Rogala – Member

### The composition of the Supervisory Board as at 30.06.2017:

1. Mr Maciej Kaliński – Chairman

2. Mr Piotr Marian Taracha – Vice-Chairman

3. Mr Krzysztof Stankowski – Secretary

4. Mr Robert Malinowski – Member

5. Ms Agata Czerniakowska – Member

2.

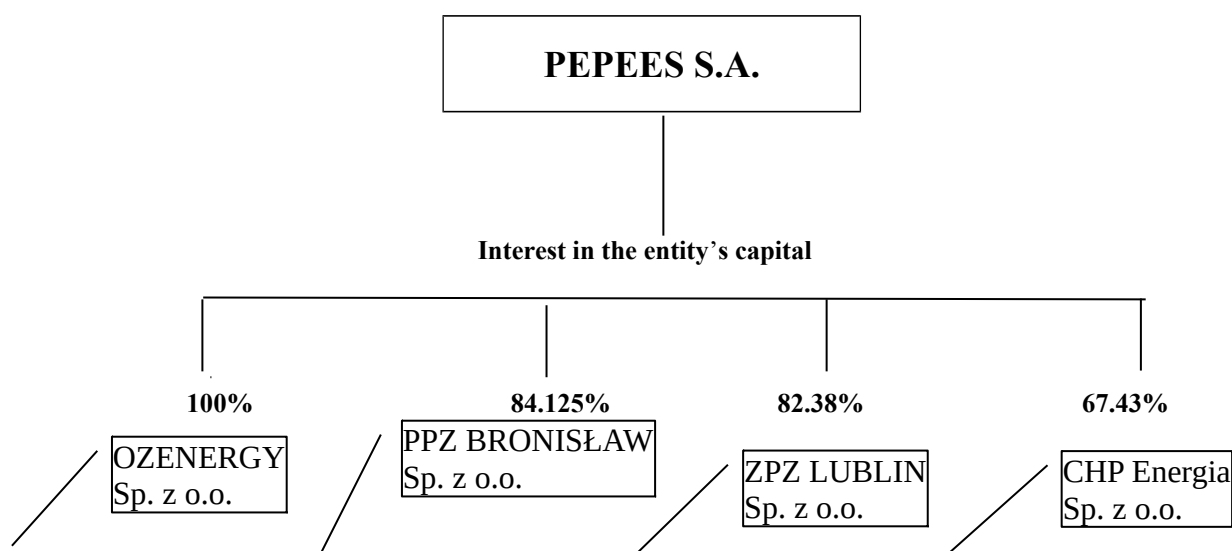
## Reporting periods

These interim consolidated financial statements cover the period from 1 January 2017 to 30 June 2017, and comparative financial figures and notes cover the period from 1 January 2016 to 30 June 2016 and, additionally, as at 31 December 2016 in the case of the statement of financial position and the statement of changes in equity.

These financial statements have been prepared assuming that the Group would remain a going concern in the foreseeable future. There are no circumstances indicating any threats to the activities of PEPEES Group.

3.

## The Group's structure as at 30 June 2017



### 3.1 General information about related parties

Name	Place of business	Objects	Registry court	Issuer's interest in capital	Share in total votes
ZPZ LUBLIN sp. z o.o.	Lublin	Production and sale of potato syrup and dried potatoes; fruit and vegetable processing	District Court in Lublin, XI Economic Division of the National Court Register (NCR)	82.38%	82.38%
PPZ BRONISŁAW sp. z o.o.	Bronisław	Manufacture of starches and starch products	District Court in Bydgoszcz, XIII Economic Division of the National Court Register (NCR)	84.125%	84.125%
OZENERGY sp. z o.o.	Łomża	Power generation	District Court in Białystok, XII Economic Division of the National Court Register (NCR)	100%	100%
CHP ENERGIA sp. z o.o.	Wojny Wawrzyńce	Production of electricity and heat from gas produced in a biogas plant	District Court in Białystok, XII Economic Division of the National Court Register (NCR)	67.43%	67.43%
Gospodarstwo Rolne PONARY sp. z o.o. (an associate)	Warsaw	Growing of crops combined with farming of animals (mixed farming)	District Court for the capital city of Warsaw, XIII Economic Division of the National Court Register	34.92%	34.92%

### 3.2 Changes in the Group

On 27.04.2017, the Company entered into a conditional sales agreement with a natural person, who is a shareholder of the Company, under which the Company has acquired a 34.9167% stake in Gospodarstwo Rolne Ponary sp. z o.o. ('Ponary'). As a result of the shares subscription, Ponary has become an associate.

At the same time, the Company entered into agreements to secure its right to acquire all other shares in Ponary. The Company intends to exercise this right and acquire the remaining shares of the company gradually when it has free funds available. The acquisition of the remaining shares of Ponary will each time depend on the failure of the Polish Agricultural Property Agency to exercise its right of pre-emption.

### 3.3 Basic financial information about related parties

	PPZ BRONISLAW sp. z o.o.	ZPZ LUBLIN sp. z o.o.	CHP ENERGIA Sp. z o.o.	OZENERGY sp. z o.o.	Gospodarstw o Rolne PONARY sp. z o.o. (an associate)
Current assets as at 30.06.2017	11,658	6,098	2,560	8	58
Non-current assets as at 30.06.2017	10,137	4,397	22,527	0	29,920
Current liabilities as at 30.06.2017	10,077	4,397	7,348	5	33
Non-current liabilities as at 30.06.2017	5,209	3,349	19,320	0	499
Revenue for the first half of 2017	24,334	9,060	5,936	0	-
Financial result on continuing operations for the first half of 2017	2,556	224	(875)	(1)	(5)
Net financial result on discontinued operations for the first half of 2017	0	0	0	0	-
Other comprehensive income for the first half of 2017	0	0	0	0	-
Total comprehensive income for the first half of 2017	2,556	224	(875)	(1)	(5)

#### 4. Compliance declaration and the basis for the preparation of the interim condensed consolidated financial statements

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. When preparing these condensed interim consolidated financial statements, the Group adhered to the same accounting principles and calculation methods as applied in the most recent annual consolidated financial statements.

These interim condensed consolidated financial statements do not comprise all the information required in the annual consolidated financial statements and they should be read together with the consolidated financial statements for the financial year ended on 31.12.2016.

#### 5. The application of standards in 2017

The application of new interpretations and amendments to standards in the first half of 2017 had no impact on the Group's financial position.

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

The standards below have not been applied yet by the Group in the process of the preparation of these consolidated 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, effective for annual 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) IFRS 17 *Leases* — the standard will be effective for annual periods beginning on or after 1 January 2021.
- f) 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; not approved by the European Commission as at 30.06.2017.
- g) 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; not approved by the European Commission as at 30.06.2017.
- h) 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.
- i) 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).
- j) 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.
- k) Amendments to IAS 40 *Investment Property* effective for annual periods beginning on or after 1 January 2018. The amendments address the issue of transfers of property to, or from, investment property. The amendments clarify that such a transfer can only be made when there has been a change in use of the property. A change in use occurs if property meets, or ceases to meet, the definition of investment property and there is evidence of a change in use.
- l) Amendments to various standards *Annual Improvements to IFRSs: 2014-2016 Cycle* — amendments resulting from annual improvements to IFRSs (IFRS 1, IFRS 12 and IAS 28) focused primarily on eliminating inconsistencies and clarifying terminology and wording (amendments to IFRS 12 are effective for annual periods beginning on or after 1 January 2017), and amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018.
- m) 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.

n) IFRIC 23 *Uncertainty over Income Tax Treatments* that will be effective for annual periods beginning on or after 1 January 2019.

The Group has not decided to apply on an earlier date any standard, interpretation or amendment that was published but has not come into force yet in the light of EU's laws.

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

## **7. Changes in applied accounting policies; correcting errors and presentations**

CHP Energia sp. z o.o. ('CHP'), since 01.01.2017, according to the resolution of its General Meeting of Shareholders, has prepared financial statements in accordance with IAS's, IFRS's and related interpretations published in the form of regulations of the European Commission, and with the accounting policies adopted by the Company. Previously, CHP presented work in progress in the statement of financial position. The power and heat produced from biogas are not stored, hence the value of such inventories is not determined. Biogas production is a biological and chemical process. The fermentation of ingredients lasts ca. 81 days and it is not even, as ca. 70% of biogas is produced in the first 30 days of the process. The amounts of ingredients (maize silage, fruit pomace, potato pulp and other vegetable products) used for the production of biogas are very similar in each reporting period. As a result, from 01.01.2017, work in progress in the production of power and heat has not been valued, because it does not distort the balance of assets (power and heat are not stored) and the financial result (similar quantity of raw materials in the fermentation phase). The impact of the assumptions is (-) PLN 236 thousand and has been presented in the statement of changes in equity.

## **8. Seasonality or cyclical nature of operations**

The Group operates in an industry sector: 'potatoes processing'. The purchase and processing of potatoes takes place in autumn in the period of 3 months, while the sale of manufactured products lasts all year long.

## **9. Non-typical items having significant impact on assets, liabilities, equity and financial result**

In the reporting period, there were no non-typical items having significant impact on assets, liabilities, equity and financial result.

## **10. Estimates**

In the reporting period, the Group carried out the impairment test for shares in CHP Energia, which has shown that there has been no impairment.

Write-downs of receivables have been revalued by the amount reflecting the level of customers default risk.

Provisions for retirement benefits and jubilee benefits have been revalued on the basis of actuarial calculations as at 30.06.2017.

Provisions for unused annual leaves have been revalued on the basis of expected remunerations of employees including adds-on for the employer for unused annual leaves unused as at 30.06.2017.

The Group recognises deferred tax assets on the basis of the assumption that, in the future, it will generate tax profit enabling their utilisation.

The Group verifies, on an annual basis, useful lives of property, plant and equipment and intangible assets. The last revaluation was made on 31.12.2016.

## 11. Acquisition and sales of property, plant and equipment

In the first half of 2017, the Group acquired property, plant and equipment for PLN 4,017 thousand. The purchases comprised mainly production plant and machinery and the upgrade of the wastewater treatment plant.

The Group sold property, plant and equipment for PLN 324 thousand.

## 12. Commitments to purchase property, plant and equipment

The Group did not borrow any new loans to purchase property, plant and equipment. In the reporting period, there was only one instalment paid amounting to PLN 198 thousand, according to the agreement concluded in the previous period.

## 13. Inventories

Types of inventories	As at 30.06.2017	As at 31.12.2016	As at 30.06.2016
a) materials	4,445	6,414	2,386
b) semi-finished products and work in progress	1,111	4,310	3
c) finished products	21,437	63,557	22,767
d) trade goods	2,546	3,184	203
<b>Gross inventories</b>	<b>29,539</b>	<b>77,465</b>	<b>25,359</b>
<b>Write-downs</b>	<b>(239)</b>	<b>(182)</b>	<b>(35)</b>
<b>Net inventories</b>	<b>29,300</b>	<b>77,283</b>	<b>25,324</b>

The value of inventories recognised as an expense in the reporting period amounted to PLN 83,476 thousand (the first half of 2016: PLN 64,830 thousand).

The carrying amount of inventories used as security for bank loans is PLN 22,233 thousand.

In the reporting period, the Group increased write-downs of inventories.

Write-downs as at 30.06.2017 amount to PLN 239 thousand (30.06.2016: PLN 35 thousand).

Encumbrances on inventories due to borrowed bank loans:

- 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 30.06.2017 amounts to PLN 6,039 thousand
- a registered pledge on inventories for the benefit of BGŻ BNP PARIBAS, securing loans for which the debt as at 30.06.2017 amounts to PLN 10,119 thousand

## 14. Biological assets

Since March 2014, PEPEES S.A. has leased a farm that was sown with annual plants; as at the balance sheet date, they are not ripe. The costs associated with the acquisition of seeds and with the cultivation as at the balance sheet date amount to PLN 1,164 thousand, received subsidies amount to PLN 707 thousand, and the fair value less costs to sell amounts to PLN 747 thousand. Biological assets are recognised in the financial statements at fair value.

## 15. Trade receivables

(GROSS) TRADE RECEIVABLES – WITH PAYMENT PERIODS REMAINING AFTER THE BALANCE SHEET DATE OF:	As at 30.06.2017	As at 31.12.2016	As at 30.06.2016
a) up to 1 month	11,056	18,623	6,667
b) over 1 month up to 3 months	7,014	4,029	9,727
c) over 3 months up to 6 months	11,361		11,284
d) over 6 months up to 1 year	-	1,020	
e) over 1 year	-		
f) past due receivables	4,205	3,080	1,673
Total (gross) trade receivables	33,636	26,752	29,351

- write-downs of trade receivables	(867)	(989)	(926)
<b>Total (net) trade receivables</b>	<b>32,769</b>	<b>25,763</b>	<b>28,425</b>

Past due receivables for which no write-downs are recognised are receivables from debtors with whom the Group 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 for those receivables ranges from a few days to three months. There are no receivables overdue more than 180 days not subject to a write-down.

## 16. Trade payables

<b>TRADE PAYABLES</b>	<b>As at 30.06.2017</b>	<b>As at 31.12.2016</b>	<b>As at 30.06.2016</b>
- trade payables, falling due:	10,618	11,956	7,434
- up to 12 months	10,192	11,956	7,434
- overdue more than 180 days	426	-	-

## 17. Litigation settlements

As at the balance sheet date, there is an unresolved case due to the lawsuit made by EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych w Warszawie against PEPEES S.A. to repeal or to declare the invalidity of resolutions adopted on 25.04.2017 by the Annual General Meeting of Shareholders concerning the distribution of profit and the acquisition of Treasury shares. The proceedings are at an early stage and it is difficult to predict the outcome of the proceedings and to assess the chances of winning the case and thus the financial consequences.

## 18. Changes in business operation conditions and economic situation that affect the fair value of financial assets and financial liabilities

In the reporting period, there were no changes in business operation conditions and economic situation that affect the fair value of financial assets and financial liabilities of the Group.

## 19. Outstanding loans and borrowings or agreement infringements

As of the balance sheet date, the bank loans listed in the table below have been repaid when due. No loan or borrowing agreement was infringed. Intra-Group cash loans were eliminated from the consolidated financial statements.

<b>No.</b>	<b>Loan type</b>	<b>Lending bank</b>	<b>Contractual loan value</b>	<b>Debt as at 30.06.2017</b>	<b>Repayment date</b>
1	Bank overdraft	Bank Zachodni WBK S.A.	4,000	0	31.08.2017
2	Revolving loan	Bank Zachodni WBK S.A.	10,000	1,575	31.08.2017
3	Working capital loan	Bank Zachodni WBK S.A.	15,000	3,750	31.08.2017
4	Bank overdraft	BGŻ BNP Paribas S.A.	4,000	0	31.08.2017
5	Revolving loan	BGŻ BNP Paribas S.A.	10,000	3,750	31.08.2017
6	Working capital loan for the purchase of potatoes	BGŻ BNP Paribas S.A.	15,000	5,625	31.08.2017
7	Subsidised investment loan	Bank Spółdzielczy S.A./Bank Polskiej Spółdzielczości S.A.	3,465	0	30.06.2017
8	Subsidised investment loan	Bank Polskiej Spółdzielczości S.A.	1,295	332	30.11.2018
9	Investment loan	BGŻ BNP Paribas S.A.	9,822	6,464	25.02.2022
10	Investment loan to upgrade the dust removal system for boilers	BOŚ	1,200	1,024	31.12.2020
11	Cash loan	BGŻ BNP Paribas S.A.	533	267	13.06.2018
12	Bank overdraft	Bank Zachodni WBK S.A.	500	0	31.08.2017
13	Revolving loan	Bank Zachodni WBK S.A.	3,000	1,125	31.08.2017

14	Working capital loan	Bank Zachodni WBK S.A.	1,500	375	31.08.2017
15	Bank overdraft	BGŻ BNP Paribas S.A.	500	0	31.08.2017
16	Revolving loan	BGŻ BNP Paribas S.A.	3,000	1,125	31.08.2017
17	Working capital loan for the purchase of potatoes	BGŻ BNP Paribas S.A.	1,500	562	31.08.2017
18	Bank overdraft	Bank Zachodni WBK S.A.	500	0	31.08.2017
19	Revolving loan	Bank Zachodni WBK S.A.	3,000	1,125	31.08.2017
20	Working capital loan	Bank Zachodni WBK S.A.	8,000	1,914	31.08.2017
21	Bank overdraft	BGŻ BNP Paribas S.A.	500	0	31.08.2017
22	Revolving loan	BGŻ BNP Paribas S.A.	3,000	746	31.08.2017
23	Working capital loan for the purchase of potatoes	BGŻ BNP Paribas S.A.	8,000	3,932	31.08.2017
24	Investment loan to finance the purchase of a real property by PPZ Bronisław	Bank Zachodni WBK S.A.	800	716	30.11.2021
25	Syndicated investment loan	Spółdzielczy Bank Rozwoju in Szepletowo and Bank Spółdzielczy in Ostrowia Mazowiecka	12,830	12,224	31.12.2023
26	Working capital loan associated with business activities	Spółdzielczy Bank Rozwoju in Szepletowo	800	720	31.12.2019
27	Working capital loan to finance current liabilities	Spółdzielczy Bank Rozwoju in Szepletowo	3,000	2,820	31.05.2022
28	Bank overdraft	Spółdzielczy Bank Rozwoju in Szepletowo	1,000	812	23.02.2018
29	A cash loan from a counterparty	CES	1,500	823	07.12.2017

#### *Securities:*

Re: 1, 2, 3, 12, 13, 14, 18, 19, 20

All the aforementioned working capital loans were obtained pursuant to a single agreement called 'Multi-Line 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 belonging to 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.

Re: 7

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: 8

The loan is secured with a general mortgage amounting to PLN 1,295 thousand; a capped mortgage up to PLN 880.6 thousand; the 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: 9

The loan is secured with a contractual joint mortgage up to PLN 14,734 thousand, the assignment of rights under an insurance policy and the statement on the submission to execution.

Re: 10

The loan is secured with a mortgage amounting to 150% of the loan amount, i.e. PLN 1,800 thousand, established on the Company's real properties, an authorisation to use bank accounts and a blank promissory note.

Re: 11

The cash loan is secured with a registered pledge on a fixed asset.

Re: 4, 5, 6, 15, 16, 17, 21, 22, 23

All the aforementioned working capital loans were obtained pursuant to a single agreement 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.

Re: 24

The loan is secured with a contractual mortgage amounting to PLN 1,200 thousand, with Bank Zachodni WBK with its registered office in Wrocław as the creditor, and the endorsement on a bill of exchange with the bill of exchange agreement.

Re: 25

The syndicated loan is secured with the following contractual mortgages for the benefit of three creditors:

- amounting to PLN 8,288 thousand for the benefit of Spółdzielczy Bank Rozwoju Branch in Szepietowo;
- amounting to PLN 6,761 thousand for the benefit of Bank Spółdzielczy in Brańsk;
- amounting to PLN 6,761 thousand for the benefit of Bank Spółdzielczy Branch in Andrzejów.

In addition, the syndicated loan is secured with: blank promissory notes with promissory note agreements; endorsements on bills of exchange; the statement on the submission to bank execution; the authorisation to use a current account; the assignment of receivables under an

insurance policy; a registered pledge amounting to PLN 15,227 thousand on fixed assets for the benefit of Spółdzielczy Bank Rozwoju Branch in Szepietowo.

Re: 26

The loan is secured with a contractual mortgage amounting to PLN 1,360 thousand; for the benefit of Spółdzielczy Bank Rozwoju Branch in Szepietowo; a blank promissory note with a promissory note agreement; the statement on the submission to bank execution; the assignment of receivables under an insurance policy; the authorisation to use a current account.

Re: 27

The loan is secured with a contractual mortgage amounting to PLN 5,100 thousand, with Spółdzielczy Bank Rozwoju Branch in Szepietowo as the creditor; a blank promissory note with a promissory note agreement; the statement on the submission to bank execution; the authorisation to use a current account; the assignment of receivables under a contract of insurance for construction risks and under a contract of insurance for buildings and structures.

Re: 28

The loan is secured with a contractual mortgage amounting to PLN 1,700 thousand, with Spółdzielczy Bank Rozwoju Branch in Szepietowo as the creditor; a blank promissory note with a promissory note agreement; the authorisation to use a current account; the assignment of receivables under a contract of insurance for construction risks and under a contract of insurance for buildings and structures.

Re: 29

The loan is secured with a blank promissory note.

## 20. Related party transactions

### 20.1 The issuer's transactions with its subsidiaries

#### a) Revenue from the sale of products and trade goods

Types of revenue	2017 first half	2016 first half
Revenue from the sales of products to subsidiaries	103	360
Revenue from the sales of materials to subsidiaries	-	1
Revenue from services	136	141
<b>Total revenue from related parties</b>	<b>239</b>	<b>502</b>

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

Types of purchases	2017 first half	2016 first half
Purchases of products from subsidiaries	3,881	2,529
Purchases of trade goods from subsidiaries		
Purchases of services from subsidiaries	86	39
<b>Total purchases from related parties</b>	<b>3,967</b>	<b>2,568</b>

#### c) Other transactions

Types	2017 first half	2016 first half
Interest on granted loans	215	181
<b>Total</b>	<b>215</b>	<b>181</b>

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

Settlements with subsidiaries	2017 first half	2016 first half
Receivables – ZPZ Lublin sp. z o.o.	47	39
Receivables – CHP Energia sp. z o.o.	210	
Receivables – OZENERGY sp. z o.o.	5	
Liabilities – ZPZ Lublin sp. z o.o.	208	
Liabilities – PPZ BRONISŁAW sp. z o.o.	33	7
Liabilities – CHP Energia sp. z o.o.	29	
<b>Balance of settlements with related parties</b>	<b>(8)</b>	<b>32</b>

**e) Balance of settlements of cash loans**

Cash loans granted to subsidiaries	2017 first half	2016 first half
PPZ Bronisław sp. z o.o.	3,973	5,200
ZPZ Lublin sp. z o.o.	3,000	3,010
CHP Energia sp. z o.o.	2,304	3,528
<b>Balance of settlements with related parties</b>	<b>9,277</b>	<b>11,738</b>

All transactions with subsidiaries were eliminated from the consolidated financial statements.

## 20.2 The issuer's transactions with its associate

In the reporting period, there were no transactions with the associate, i.e. Gospodarstwo Rolne Ponary sp. z o.o.

## 20.3 The issuer's transactions with shareholders

The Issuer acquired from a shareholder, who is entitled to 11.26% (32.73% together with its related party) of the total number of votes at the General Meeting of Shareholders of Pepees, 11,313 shares in Gospodarstwo Rolne Ponary Sp. z o.o. for PLN 4,259.8 thousand, entitling to 34.9167% of the votes at the General Meeting of Shareholders.

## 20.4 The issuer's transactions with the key management and supervisory personnel

### a) benefits for the key management personnel (members of the Board of Directors) and members of the Supervisory Board (PLN 000s)

Benefits paid to the members of the Board of Directors and of the Supervisory Board	2017 first half	2016 first half
Short-term employee benefits	1,004	766
Post-employment benefits		

Other long-term benefits		
Termination benefits		30
Share-based payments		
<b>Total</b>	<b>1,004</b>	<b>796</b>

#### b) transactions with key employees and members of their families

In the reporting period, the Company did not enter into any transactions with key employees and members of their families.

### 21. Dividend

The companies of the Group did not pay any dividend in the reporting period and in the comparative period. Boards of Directors of the companies did not declare or propose dividend from the distribution of profit for 2017.

### 22. Changes in estimates

#### a. receivables

#### Write-downs of

<b>MOVEMENT ON WRITE-DOWNS OF CURRENT RECEIVABLES</b>	<b>2017 first half</b>	<b>2016</b>	<b>2016 first half</b>
Opening balance	996	1,558	1,558
a) increases (due to)	15	174	104
- recognition for doubtful trade receivables	0	64	19
- recognition for interest receivable	15	49	29
- recognition for receivables in litigation	0	61	56
b) decreases (due to)	144	736	685
- reversal of provisions due to payment	33	78	35
- utilisation due to the writing-off and sale of receivables	57		
- cancellations	54	658	650
<b>Write-downs of current receivables at the end of the period, including:</b>	<b>867</b>	<b>996</b>	<b>977</b>

#### b.

#### Write-downs of inventories

<b>MOVEMENT ON WRITE-DOWNS OF INVENTORIES</b>	<b>2017 first half</b>	<b>2016</b>	<b>2016 first half</b>
<b>Opening balance</b>	<b>182</b>	<b>35</b>	<b>93</b>
a) increases (due to)	57	147	0
- write-downs to net realisable value			
- impairment loss for materials	57	147	
b) decreases (due to)	0	0	58
- utilisation			58
- reversals of write-downs			
<b>Write-downs of inventories at the end of the period</b>	<b>239</b>	<b>182</b>	<b>35</b>

#### c. benefits obligations

#### Retirement and similar

<b>MOVEMENT ON RETIREMENT AND SIMILAR BENEFITS OBLIGATIONS (BY TITLES)</b>	<b>2017 first half</b>	<b>2016</b>	<b>2016 first half</b>
a) opening balance	<b>2,571</b>	<b>2,749</b>	<b>2,749</b>
- retirement benefits	429	340	340
- jubilee benefits	2,142	2,409	2,409
b) increases (due to)	<b>179</b>	<b>118</b>	<b>251</b>
- retirement benefits	47	107	32
- jubilee benefits	132	11	219
c) utilisation (due to)	<b>99</b>	<b>211</b>	<b>94</b>
- retirement benefits	12	13	6
- jubilee benefits	87	198	88
d) reversal (due to)	<b>6</b>	<b>85</b>	<b>19</b>
- retirement benefits	0	5	12
- jubilee benefits	6	80	7
e) closing balance	<b>2,645</b>	<b>2,571</b>	<b>2,887</b>
- retirement benefits	464	429	354
- jubilee benefits	2,181	2,142	2,533

**d.**

**Short-term provisions**

<b>MOVEMENT ON SHORT-TERM PROVISIONS (BY TITLES)</b>	<b>2017 first half</b>	<b>2016</b>	<b>2016 first half</b>
a) opening balance	<b>1,877</b>	<b>1,722</b>	<b>1,722</b>
- grants related to property, plant and equipment	491	262	262
- provisions for services performed by contractors	71	38	38
- grants related to loans	22	62	62
- fee for the use of the environment	165	126	126
- provisions for compensations for annual leaves	498	363	363
- greenhouse gas emission allowance	337	676	676
- bonuses for the Board of Directors and employees	284	195	195
- other	9		
b) increases (due to)	<b>1,136</b>	<b>1,716</b>	<b>844</b>
- grants related to property, plant and equipment	413	385	
- provision for used CO <sub>2</sub> emission allowances	138	337	209
- fee for the use of the environment	36	164	44
- provisions for compensations for annual leaves	534	478	356
- provisions for services performed by contractors	15	59	15
- bonuses for the Board of Directors and employees	0	284	40
- provision for damages	0		180
- other	0	9	
c) utilisation (due to)	<b>1,354</b>	<b>1,561</b>	<b>1,397</b>
- fee for the use of the environment	165	125	124
- provisions for compensations for annual leaves	421	343	273
- provision for used CO <sub>2</sub> emission allowances	337	676	676
- provision for services performed by contractors	38	26	26
- grants related to property, plant and equipment	77	156	84
- grants related to loans	11	40	19
- bonuses for the Board of Directors and employees	284	195	195
- other	21		

e) closing balance	<b>1,680</b>	<b>1,877</b>	<b>1,169</b>
- grants related to property, plant and equipment	827	491	178
- grants related to loans	11	22	43
- provision for used CO <sub>2</sub> emission allowances	138	337	209
- fee for the use of the environment	36	165	46
- provisions for compensations for annual leaves	611	498	446
- bonuses for the Board of Directors and employees	0	284	40
- provision for damages			180
- provisions for services performed by contractors	48	71	27
- other	9	9	0

e.

#### Deferred income tax

<b>DEFERRED TAX LIABILITIES</b>	<b>As at 30.06.2017</b>	<b>As at 31.12.2016</b>	<b>As at 30.06.2016</b>
The difference between the carrying amount and the tax value of property, plant and equipment	5,635	5,713	5,801
Unrealised foreign exchange differences	0		1
Interest due but not received	15	5	166
Other	5	4	6
<b>Total deferred tax liabilities</b>	<b>5,655</b>	<b>5,722</b>	<b>5,974</b>

<b>DEFERRED TAX ASSETS</b>	<b>As at 30.06.2017</b>	<b>As at 31.12.2016</b>	<b>As at 30.06.2016</b>
The difference between the carrying amount and the tax value of property, plant and equipment	444	422	456
Outstanding remunerations	97	139	90
Provision for damages	0		34
Provision for unused annual leaves	104	79	84
Retirement and jubilee benefits	503	488	549
Unrealised foreign exchange differences	44	58	24
Write-downs of receivables	0	1	
Write-downs of inventories	45	35	7
Lease payables	705	700	724
Consolidation adjustments – retained earnings	39	116	3
Provision for benefits	3	4	3
Provision for bonuses for the Board of Directors and employees	0	54	8
Provision for the used CO <sub>2</sub> emission allowance	26	64	40
Tax loss	144	197	196
<b>Total deferred tax assets</b>	<b>2,154</b>	<b>2,357</b>	<b>2,218</b>

### 23. Changes in the classification of financial instruments as a result of a change of the purpose or use of such assets

In the reporting period, no financial instruments were reclassified.

### 24. Movement on contingent liabilities and contingent assets

<b>MOVEMENT ON CONTINGENT LIABILITIES (BY</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
---	-------------	-------------	-------------

TITLES)	first half	first half	first half
a) opening balance, including:	<b>6,818</b>	<b>6,758</b>	<b>7,176</b>
- liabilities related to non-competition agreements	818	758	1,176
- surety for a loan for CHP	6,000	6,000	6,000
b) increase (due to)	<b>6,224</b>	<b>60</b>	<b>0</b>
- liabilities related to non-competition agreements		60	
- surety for a loan for CHP	6,224		0
c) reversal (due to)	<b>0</b>	<b>0</b>	<b>418</b>
- liabilities related to non-competition agreements			418
d) closing balance, including:	<b>13,042</b>	<b>6,818</b>	<b>6,758</b>
- liabilities related to non-competition agreements	818	818	758
- surety for a loan for CHP	12,224	6,000	6,000

## 25. The issue, redemption and repayment of debt and equity securities.

In the reporting period, no debt or equity securities were issued, redeemed or repaid.

## 26. Segment reporting

Until October 2016, the Group had been operating in a single, main reporting segment covering the processing of potatoes to obtain starch, dried potato-based products and starch hydrolysates. It had identified a single segment in its daily records and internal reports.

An increased interest in CHP Energia sp. z o.o., whose main revenue-generating activities comprise the generation of electricity from agricultural biogas, has resulted in the separation of an additional segment. Currently, the Group presents two operating segments which are subject to a detailed assessment by the management authorities, i.e. 'processing of potatoes' and 'power generation'.

### 26.1 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 powdered products (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;
- potato grits, potato flakes, potato cubes and potato dumplings; products used by the food industry.

In the 'power generation' segment, the Company produces:

- electricity from agricultural biogas;
- heat for its own needs used e.g. to dry animal feeds.

Other types of activities:

- the generation of heat, which is produced mainly to meet own needs;
- works and services;
- the sale of certain trade goods and materials.

### 26.2 Segment revenue and results

Segment	Revenue		Segment profit	
	First half of 2017	First half of 2016	First half of 2017	First half of 2016
Processing of potatoes	110,476	86,495	12,960	7,185
- including inter-				

segmental			
Power generation	5,936	(499)	
- including inter-segmental	401		
Other operating income		487	241
Other operating expenses		(272)	(214)
Finance income		150	497
Finance costs		(2,147)	(802)
Share of profit (loss) of an associate		(2)	(276)
<b>Profit (loss) before tax</b>		<b>10,677</b>	<b>6,631</b>

### 26.3 Segment assets and liabilities

Segment assets	As at 30.06.2017	As at 31.12.2016
Processing of potatoes	202,113	243,806
Power generation	25,087	28,360
<b>Total segment assets</b>	<b>227,200</b>	<b>272,166</b>

Segment liabilities	As at 30.06.2017	As at 31.12.2016
Processing of potatoes	63,347	114,217
Power generation	26,668	28,830
<b>Total segment liabilities</b>	<b>90,015</b>	<b>143,047</b>

All assets and liabilities of CHP Energia sp. z o.o. are allocated to the 'power generation' segment, and all other assets and liabilities disclosed in the consolidated financial statements are allocated to the 'processing of potatoes' segment.

### 26.4 Other segment information

Segment	Depreciation/Amortisation		Increase in non-current assets	
	First half of 2017	First half of 2016	First half of 2017	First half of 2016
Processing of potatoes	3,480	3,809	8,644	3,307
Power generation	885		142	
<b>Total for continuing operations</b>	<b>4,365</b>	<b>3,809</b>	<b>8,786</b>	<b>3,307</b>

### 26.5 Revenue by products

Sales revenue Product or service	2017 first half	2016 first half
Starch	62,422	44,537
Protein	5,312	3,773
Glucose	5,110	4,715
Maltodextrin	8,355	7,016
Starch syrups	2,925	2,775
Dried potato-based products (grits, flakes, cubes)	7,495	6,389



Feeds and fertilizers	372	
Electricity	2,519	
Heat	352	1,757
Property rights (electricity and heat)	2,365	
Trade goods and materials	18,195	15,178
Services	589	355
<b>Total</b>	<b>116,011</b>	<b>86,495</b>

#### 26.6 Sales revenue by territories:

Specification	2017 first half	2016 first half
<b>Poland, including</b>	<b>79,632</b>	<b>62,137</b>
Starch	32,173	24,077
Protein	3,773	1,889
Glucose	4,955	4,683
Maltodextrin	7,325	6,206
Starch syrups	2,925	2,775
Dried potato-based products (grits, flakes, cubes)	7,259	6,206
Feeds and fertilizers	372	
Electricity	2,519	
Heat	352	1,757
Property rights (electricity and heat)	2,365	
Trade goods and materials	15,025	14,189
Services	589	355
<b>EU countries - intra-Community supplies, including:</b>	<b>5,339</b>	<b>5,671</b>
Starch	2,887	4,601
Protein	864	26
Maltodextrin	1027	809
Glucose	35	32
Dried potato-based products (grits, flakes, cubes)	131	103
Trade goods	395	100
<b>Other countries – export</b>	<b>31,040</b>	<b>18,687</b>
Starch	27,362	15,859
Protein	675	1,858
Glucose	120	
Maltodextrin	4	1
Dried potato-based products (grits, flakes, cubes)	105	80
Trade goods	2774	889
<b>Total</b>	<b>116,011</b>	<b>86,495</b>

#### 26.7 Major customers

The Group does not have any customer for whom sales revenue would exceed 10% of total revenue. However, in the group of specific products, there are customers, whose share represents over 10% in the sale of a given product. And so:

- over 10% of starch sold to one foreign customer;
- 30% of protein sold to two Polish customers (18.4% and 11.6% respectively);

- over 44% of maltodextrin sold to three Polish customers (17.5%, 14.4% and 12.8% respectively);
- over 15% of glucose sold to one Polish customer.

## **27. Other significant events in the reporting period.**

1. On 25.04. 2017, the General Meeting of Shareholders approved of the financial statements for 2016 and adopted the resolution on the allocation of the profit for 2016 to capital reserves in order to make investments.
2. On 25.04.2017, the General Meeting of Shareholders authorised the Board of Directors to acquire Treasury shares representing not more than 20% of the Company's share capital.
3. On 27.04.2017, PEPEES entered into a conditional sales agreement with a natural person, who is a shareholder of the Company, under which the Company acquired a 34.9167% stake ('Stake') in Gospodarstwo Rolne Ponary sp. z o.o. ('Ponary'). At the same time, PEPEES S.A. entered into agreements to secure its right to acquire all other shares in Ponary. The Company intends to exercise this right and acquire the remaining shares of Ponary gradually when it has free funds available. The acquisition of the remaining shares of Ponary will each time depend on the failure of the Polish Agricultural Property Agency to exercise its right of pre-emption.
4. On 21.06.2017, another annex was signed to the multi-purpose credit line agreement concluded between the Issuer and its subsidiaries, i.e. Zakłady Przemysłu Ziemniaczanego "Lublin" Sp. z o.o. ('Lublin') and Przedsiębiorstwo Przemysłu Ziemniaczanego Bronisław Sp. z o.o. ('Bronisław'), and Bank BGŻ BNP Paribas S.A. ('Annex'). The Annex changed, in particular, the amounts of limits available for the revolving and non-revolving loan, as a result of which, at present the total credit limit granted to the Issuer and its subsidiaries amounts to PLN 37 million.
5. On 30.06.2017, PEPEES S.A. was notified by Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych about the reduction of its share in the total number of votes in the Company below 5%.

## **28. Events after the reporting period**

On 10.08.2017, an annex was signed to the multi-line agreement dated 07.10.2014 concluded with Bank Zachodni WBK S.A. Under the annex, the credit limit granted to PEPEES S.A. and its subsidiaries was increased to PLN 46.5 million and the repayment date was extended until 31.08.2018.

On 10.08.2017, the Group also signed a multi-purpose credit line agreement with Powszechna Kasa Oszczędności Bank Polski S.A. Under the agreement, the Bank granted to the Issuer and its subsidiaries a multi-purpose credit limit up to the total amount of PLN 46.5 million. The limit will be valid until 31.08.2018.

## **29. Effects of changes in the structure of the business entity, including those resulting from business combinations, acquisition or sale of the Group entities, long-term investments, division, restructuring and discontinuation of operations**

During the reporting period, there were no changes in the structure of the Group.

### 30. Fair values of financial instruments

The shares of 'Warszawski Rolno-Spożywczy Rynek Hurtowy' were classified as investments held for trading and measured at fair value using the discounted cash flow (DCF) model. Fair value measurement was classified at level 3 of the fair value hierarchy pursuant to IFRS 13.


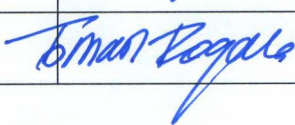
### 31. Interests in other entities, related to entities becoming or ceasing to be investment entities

PEPEES S.A. has not been and is not an investment entity pursuant to section 27 of IFRS 10.

### 32. Authorising the condensed interim consolidated financial statements

These condensed consolidated financial statements were authorised by the Board of Directors of the Parent Company on 30.08.2017. These condensed interim consolidated financial statements are published together with the condensed interim separate financial statements, which were authorised for publication on 30.08.2017.

#### PODPISY CZŁONKÓW ZARZĄDU

Data	Imię i Nazwisko	Stanowisko/Funkcja	Podpis
30.08.2017	Wojciech Faszczeniowski	Prezes Zarządu	
30.08.2017	Tomasz Rogala	Członek Zarządu	

#### PODPIS OSOBY, KTÓRA SPORZĄDZIŁA SPRAWOZDANIE

Data	Imię i Nazwisko	Stanowisko/Funkcja	Podpis
30.08.2017	Wiesława Załuska	Główna księgowa	