PEPEES CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS
for the 12-month period ended 31 December 2019

PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS APPROVED BY THE EUROPEAN COMMISSION

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the 12-month period ended 31 December 2019 (data in PLN thousand)

SELECTED FINANCIAL DATA CONVERTED INTO EUR

No.	SELECTED FINANCIAL DATA	IN THOUS. PLN		IN THOUS. EUR	
	Year	2019	2018	2019	2018
I	Total revenue from sales	231,981	239,941	53,927	56,233
II	Net profit or loss of the Parent Company	24,091	23,091	5,600	5,412
III	Total net income of the Parent Company	24,052	22,945	5,591	5,377
IV	Net cash flows from operating activities	36,688	30,474	8,529	7,142
V	Net cash flows from investment activities	(36,933)	(32,719)	(8,586)	(7,668)
VI	Net cash flows from financial activities	1,407	11,361	327	2,663
VII	Net cash flows	1,162	9,116	270	2,136
VIII	Total assets	363,622	333,925	85,387	77,657
IX	Shareholders' equity	178,773	165,399	41,980	38,465
X	Profit (loss) per one ordinary share	0.20	0.18	0.05	0.04
XI	Total net income per one share	0.25	0.24	0.06	0.06
XII	Book value per one share	1.88	1.74	0.44	0.40

The following exchange rates announced by the National Bank of Poland were used to convert selected financial data into EUR:

- selected items of the consolidated statement of financial position as at 31.12.2019 according to the average exchange rate as of the balance sheet date of 1 EUR = 4.2585 PLN,
- selected items of the consolidated statement of financial position as at 31.12.2018 according to the average exchange rate as of the balance sheet date 1 EUR = 4.000 PLN,
- selected items of the consolidated statement of comprehensive income and consolidated cash flow statement for the period from 1 January 2019 to 31 December 2019 according to the exchange rate being the arithmetic mean of average exchange rates announced by the National Bank of Poland and in force on the last day of each month of 2019 - 1 EUR = 4.3018 PLN,
- selected items of the consolidated statement of comprehensive income and the consolidated statement of cash flows for the period from 1 January 2018 to 31 December 2018 according to the exchange rate being the arithmetic mean of the average exchange rates announced by the National Bank of Poland and in force on the last day of each month of 2018 - 1 EUR = 4.2669 PLN.

for the 12-month period ended 31 December 2019 (data in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

No.	ASSETS	Note	As at 31.12.2019	As at 31.12.2018
I	**Fixed (long-term) assets**		**200,342**	**173,688**
1.	Tangible fixed assets (property, plant and equipment)	11.1	179,454	164,885
2.	Intangible assets	11.2	416	534
3.	Rights to assets	11.3	11,076	47
4.	Investment properties	11.4	593	-
5.	Goodwill	11.5	3,140	3,140
6.	Investments in other entities	11.6	613	113
7.	Deferred income tax assets	11.24	5,050	4,969
II.	**Current (short-term) assets**		**163,280**	**160,237**
1.	Inventory	11.7	85,893	78,065
2.	Biological assets	11.8	322	330
3.	Trade receivables	11.9	20,506	27,651
4.	Other receivables	11.10	6,227	6,044
5.	Advances	11.13	1,740	1,964
6.	Granted loans		721	941
7.	Other financial assets	11.6	5,838	5,436
8.	Cash and cash equivalents	11.14	42,033	39,806
	Total assets		**363,622**	**333,925**

No.	LIABILIT IES	Note	As at 31.12.2019	As at 31.12.2018
I	**Equity**		**180,541**	**166,476**
	Shareholders' equity		**178,773**	**165,399**
1.	Share capital	11.15	5,700	5,700
2.	Supplementary capital and reserve capital	11.16	152,918	141,857
3.	Revaluation reserve	11.16	(65)	(26)
4.	Retained earnings	11.17	(3,871)	(5,223)
5.	Result for the current year		24,091	23,091
	Non-controlling interest		***1,768***	***1,077***
II.	**Long-term liabilities**		**54,664**	**50,293**
1.	Credits and loans	11.18	24,789	30,398
2.	Liabilities on account of assets under lease	11.19	15,014	4,775
3.	Provision for deferred income tax	11.24	6,447	6,470
4.	Liabilities from retirement and similar benefits	11.20	2,782	2,381
5.	Grants	11.23	5,632	6,269
III.	**Short-term liabilities**		**128,417**	**117,156**
1.	Trade liabilities	11.21	7,424	13,063
2.	Current income tax payables		2,528	1,712
3.	Other short-term liabilities	11.21	5,190	4,749
4.	Credits and loans	11.18	104,815	90,644
5.	Liabilities due to assets under lease	11.19	3,728	2,876
6.	Liabilities due to retirement and similar benefits	11.20	413	296
7.	Provisions for other liabilities and other charges	11.23	4,319	3,816
	Total equity and liabilities		**363,622**	**333,925**

for the 12-month period ended 31 December 2019 (data in PLN thousand)

CONSOLIDATED STATEMENT OF PROFITS OR LOSSES AND OTHER COMPREHENSIVE INCOME

No.	Revenue and cost Profits and losses	Note	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
I	**Revenue from sales**			
1.	Revenue from sales of products	12.11	208,355	224,087
2.	Revenue from sales of services	12.2	1,823	1,184
3.	Revenue from sales of goods and materials	12.3	21,803	14,670
	Total revenue from sales, including:		**231,981**	**239,941**
	- revenue from continuing operations		***231,981***	***239,941***
II.	**Cost of sales**			
1.	Cost of products sold	12.4	(134,447)	(152,775)
2.	Costs of services sold	12.4	(736)	(241)
3.	Costs of goods and materials sold		(14,075)	(12,393)
4.	Result of agricultural production	12.6	(3,673)	(2,121)
	Total costs of sales, including:		**(152,931)**	**(167,530)**
	- cost of continuing operations		***(152,931)***	***(167,530)***
III.	**Gross profit on sales (I-II)**		**79,050**	**72,411**
1.	Costs of sales and marketing	12.4	(10,461)	(10,746)
2.	Administrative expenses	12.4	(33,099)	(31,351)
3.	Other operating revenue	12.7	1,141	1,376
4.	Other operating expenses	12.8	(1,376)	(1,768)
IV.	**Operating profit (loss)**		**35,255**	**29,922**
1.	Financial expenses	12.9	(3,700)	(3,074)
2.	Financial revenue	12.10	981	3,571
V	**Profit (loss) before tax, including:**		**32,536**	**30,419**
	- profit (loss) before tax on continuing operations		***32,536***	***30,419***
	Income tax	12.11	(7,754)	(7,005)
VI.	**Net profit (loss)**		**24,782**	**23,414**
	- attributable to equity holders of the Parent Company		24,091	23,091
	- attributable to non-controlling interests		691	323
VII.	**Other comprehensive income**		**(39)**	**(146)**
1.	Effects of valuation of financial assets available for sale		-	-
2.	Revaluation of employee benefit liabilities		(39)	(146)
VIII	**Total comprehensive income, including**		**24,743**	**23,268**
	Net profit (loss) attributable to equity holders of the Parent Company		24,052	22,945
	Net profit (loss) attributable to non-controlling interests		691	323
	- total net profit (loss) on continuing operations		*24,052*	*22,945*
IX	**Net profit (loss) per one share**		**0.20**	**0.18**
	- net profit per one share on continuing operations		***0.20***	***0.18***
	- net profit (loss) on discontinued operations		-	-

for the 12-month period ended 31 December 2019 (data in PLN thousand)

CONSOLIDATED STATEMENT ON CHANGES IN EQUITY

Specification	Share capital	Supplementary capital	Reserve capital from revaluation	Other reserve capital	Retained earnings	Total equity attributed to shareholders of the Parent Company	Non-controlling interest	Total equity
As at 1 January 2018	**5,700**	**55,103**	**(172)**	**69,315**	**11,336**	**141,282**	**4,265**	**145,547**
in the period from 01.01.2018 to 31.12.2018	**-**	**5,120**	**146**	**12,319**	**6,532**	**24,117**	**(3,188)**	**20,929**
Distribution of profit (losses) for 2017	-	5,120	-	12,319	(17,439)	-	-	-
Net profit (loss) for the period	-	-	-	-	23,091	23,091	323	23,414
Takeover of control over the new entity	-	-	-	-	-	-	(3,510)	(3,510)
Other comprehensive income for the financial year (net)	-	-	146	-	-	146		146
Other consolidation adjustments	-	-	-	-	880	880	(1)	879
As at 31 December 2018	**5,700**	**60,223**	**(26)**	**81,634**	**17,868**	**165,399**	**1,077**	**166,476**
As at 01 January 2019	**5,700**	**60,223**	**(26)**	**81,634**	**17,868**	**165,399**	**1,077**	**166,476**
Changes in the period from 01.01.2019 to 31.12.2019								
Distribution of profit (losses) for 2018	-							
- increase in the supplementary capital	-	11,061	-	-	(11,061)	-	-	-
- transactions with owners (dividend)	-	-	-	-	(11,400)	(11,400)	-	(11,400)
Net profit (loss) for the period	-	-	-	-	24,091	24,091	691	24,782
Takeover of control over the new entity	-	-	-	-	-	-	-	-
Goodwill write-off	-	-	-	-	-	-		-
Other comprehensive income for the financial year (net)	-	-	(39)	-	-	(39)	-	(39)
Other consolidation adjustments	-	-	-	-	722	722	-	722
As at 31 December 2019	**5,700**	**71,284**	**(65)**	**81,634**	**20,220**	**178,773**	**1,768**	**180,541**

for the 12-month period ended 31 December 2019 (data in PLN thousand)

CONSOLIDATED CASH FLOW STATEMENT

	CASH FLOW STATEMENT - indirect method	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
A.	**Cash flows from operating activities (indirect method)**		
I	**Profit (loss) before tax**	**32,536**	**30,419**
II.	**Total adjustments**	**4,152**	**55**
1.	Amortisation and depreciation	13,799	12,443
2.	Foreign exchange gains (losses)	341	(278)
3.	Interest and profit sharing (dividend)	2,314	2,407
4.	(Profit) loss from investment activities	235	(145)
5.	Changes in provisions	810	1,939
6.	Changes in inventories	(7,828)	6,069
7.	Changes in biological assets	8	(330)
8.	Changes in receivables	6,962	(5,134)
9.	Changes in short-term liabilities, except credits and loans	(4,493)	(3,031)
10.	Changes in advances	925	(1,137)
11.	Paid income tax	(7,043)	(8,061)
12.	Changes in grants	(637)	(632)
13.	Change in accrued interest on loans and commissions	196	(260)
14.	Subsidies received	(1,104)	(948)
15.	Revaluation of financial assets	(402)	(2,886)
16.	Other adjustments	69	39
III.	**Net cash flows from operating activities**	**36,688**	**30,474**
B.	**Cash flows from investment activities**	-	
I	**Inflows**	**1,347**	**5,398**
1.	Disposal of intangible assets and tangible fixed assets	1,216	300
2.	From financial assets, including interest:	2	-
3.	Dividends received	122	122
4.	Revenue from securities	-	4,976
6.	Repayment of granted loans	7	-
II.	**Outflows**	**38,280**	**38,117**
1.	Purchase of intangible assets and tangible fixed assets	26,230	30,488
2.	Purchase of shares	250	3,510
3.	Purchase of bonds	250	-
4.	Purchase of securities	-	3,979
5.	Granted loans	150	140
6.	Dividend and other payments to shareholders	11,400	-
III.	**Net cash flows from investment activities**	**(36,933)**	**(32,719)**
C.	**Cash flows from financial activities**		
I	**Inflows**	**100,450**	**98,056**
1.	Credits and loans	99,346	97,108
2.	Subsidies received	1,104	948
II	**Outflows**	**99,043**	**86,695**
1.	Repayment of credits and loans	93,392	81,628
2.	Interest on received credits and loans	1,838	2,176
3.	Payments under lease agreements	3,813	2,891
III	**Net cash flows from financial activities (I-II)**	**1,407**	**11,361**
D.	**Total net cash flows (A.III+/-B.III+/-C.III)**	**1,162**	**9,116**
E.	**Opening balance of cash**	**39,764**	**30,648**
F.	**Closing balance of cash (F+D)**	**40,926**	**39,764**
	- including of limited disposability	-	-

for the 12-month period ended 31 December 2019 (data in PLN thousand)

INFORMATION ON THE ADOPTED ACCOUNTING PRINCIPLES (POLICIES) AND OTHER EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE PEPEES CAPITAL GROUP FOR THE 12-MONTH PERIOD ENDED 31 DECEMBER 2019

1. General information on the Parent Company

Full name:	Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A.
Address of the registered office:	18-402 Łomża, ul. Poznańska 121
Identifier:	REGON: 450096365
Tax identification number NIP:	718-10-05-512
Registration body:	District Court in Białystok, 12ve Commercial Division of the National Court Register
Number of register:	000038455
Legal form:	Joint Stock Company
Organisation form:	Single-plant enterprise

Major business activity, according to the Polish Classification of Activity (PKD list): 1062Z Manufacture of starches and starch product.

Industry: Food

Duration of the Company: unlimited.

Composition of the Management Board as at 31 December 2019:

Wojciech Faszczewski	President of the Management Board
Tomasz Krzysztof Rogala	Member of the Management Board

Composition of the Supervisory Board as at 31 December 2019:

Maciej Kaliński	Chairman of the Supervisory Board
Tomasz Nowakowski	Deputy Chairman of the Supervisory Board
Robert Malinowski	Secretary of the Supervisory Board
Krzysztof Stankowski	Member of the Supervisory Board
Piotr Marian Taracha	Member of the Supervisory Board
Agata Czerniakowska	Member of the Supervisory Board

Composition of the Audit Committee as at 31 December 2019:

Maciej Kaliński	Chairman of the Audit Committee
Piotr Marian Taracha	Deputy Chairman of the Audit Committee
Krzysztof Stankowski	Member of the Audit Committee.

STATEMENT OF THE MANAGEMENT BOARD

A. on the reliability of the consolidated financial statements

The Management Board of Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. declares that, to the best of its knowledge, it has ensured the annual consolidated financial statement to be prepared in a way presenting in a true, fair and clear manner all information relevant to the assessment of the economic and financial condition of the PEPEES Capital Group as at 31.12.2019 as well as its financial result for the financial year from 01.01.2019 to 31.12.2019.

These annual consolidated financial statements have been prepared using accounting principles consistent with the International Financial Reporting Standards which have been approved by the European Union.

In preparing the annual consolidated financial statements, the Management Board ensured that appropriate principles for valuation and preparation of the annual consolidated financial statements were selected. The assets and equity & liabilities have been valued and the financial result has been determined presuming that in the foreseeable future PEPEES Capital Group would be able to continue its business as a going concern at a level not significantly lower than so far, which is consistent with the factual and legal situation.

The Management Board is responsible for the performance of accounting duties, as defined by law.

These annual consolidated financial statements were approved for publication by the Management Board of Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. on 19 March 2020.

B. on the entity authorised to audit financial statements

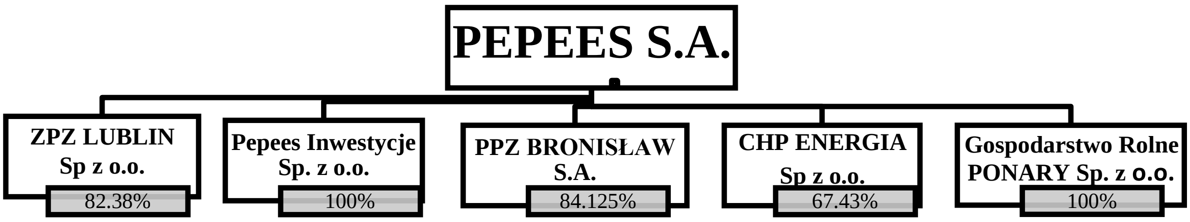
The Management Board of Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. declares that the entity authorised to audit financial statements, which was auditing the annual consolidated financial statements, has been selected in accordance with law and that this entity and the statutory auditors conducting the audit fulfilled the conditions to issue an impartial and independent audit opinion, in accordance with the applicable laws.

The entity authorised to audit the annual consolidated financial statements of PEPEES Capital Group for 2019 is WBS Audyt Spółka z ograniczoną odpowiedzialnością with its registered office in Warsaw, ul. Grzybowska 4, lok. U9B, 00-131 Warsaw, entered in the list of entities authorised to audit financial statements under the number 3685 in the Polish Chamber of Statutory Auditors, on the basis of an agreement concluded on 04.07.2018.

for the 12-month period ended 31 December 2019 (data in PLN thousand)

2. The structure of PEPEES Capital Group

2.1. The structure of Capital Group as at 31 December 2019.



2.2. General information on related entities in the PEPEES Capital Group

In the consolidated financial statements of the PEPEES Capital Group for the 12-month period ended 31 December 2019, the following related entities were consolidated, apart from Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A.:

Name	Registered office	Scope of business activity	Registration Court	Issuer's share in the capital (%)	Share in the total number of votes (%)
ZPZ LUBLIN Sp z o.o.	Lublin	Production and sale of potato syrup and dried potato, fruit and vegetable processing	District Court in Lublin 11th Commercial Division of the National Court Register	82.38	82.38
Pepees Inwestycje (earlier OZENERGY Sp. z o.o.)	Łomża	Buying and selling of own real estate	District Court in Białystok 12ve Commercial Division of the National Court Register	100	100
PPZ BRONISŁAW S.A.	Bronisław	Manufacture of starches and starch products	District Court in Bydgoszcz 13th Commercial Division of the National Court Register	84.125	84.125
CHP ENERGIA Sp z o.o.	Wojny Wawrzyńce	Production of electricity and heat from gas extracted from a biogas plant	District Court in Białystok 12ve Commercial Division of the National Court Register	67.43	67.43
Gospodarstwo Rolne Ponary Sp z o.o.	Łomża	Agricultural cultivation together with raising of animals	District Court in Białystok 12ve Commercial Division	100	100

All subsidiaries have been consolidated using the full method.

No changes in the structure of the Issuer's Capital Group took place in the reporting period or until the date of these annual consolidated financial statements.

2.3. Basic financial information concerning related entities

Specification	PPZ BRONISŁAW S.A.	ZPZ LUBLIN Sp. z o.o.	CHP ENERGIA Sp z o.o.	Gospodarstwo Rolne PONARY Sp z o.o.	PEPEES Inwestycje Sp. z o.o.
Current assets	30,408	11,697	2,762	133	155
Fixed assets	37,037	6,872	17,157	21,313	-
Short-term liabilities	31,918	12,281	13,094	554	86
Long-term liabilities	16,236	2,636	13,012	8,165	-
Revenue	45,342	19,769	7,473	-	284
Financial result on continuing operations	5,199	1,070	(991)	100	110
Total comprehensive income	5,199	1,070	(991)	100	110

3. Information on reporting periods

The presented annual consolidated financial statements cover the period from 1 January 2019 to 31 December 2019, and comparable financial data and explanatory notes cover the period from 1 January 2018 to 31 December 2018.

4. Basis for preparation of the annual financial statements

These annual consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and related interpretations published in the form of European Commission regulations as well as adopted accounting principles (policies) of the PEPEES Capital Group. As at the date of approval of these consolidated financial statements, taking into account the ongoing process of implementing the IFRS in the EU as well as the Group's operations, there is no difference between the IFRS that came into force and the IFRS approved by the EU within the scope of accounting principles adopted by the Group. IFRS include standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

These annual consolidated financial statements are presented in Polish zlotys ("PLN") and all figures are presented in thousands of PLN, unless stated otherwise.

These annual consolidated financial statements were prepared on the assumption that the PEPEES Capital Group will continue as a going concern in the foreseeable future. As at the date of approval of these annual consolidated financial statements, the Management Board of Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. does not observe any circumstances indicating a threat to the continuation of business activity by the Group. PEPEES Capital Group.

5. Significant accounting principles (policies)

5.1. Changes of Accounting Principles

The Group has not changed the previously applied accounting principles, except for the application of the following new or amended standards and interpretations effective for annual periods beginning on or after 1 January 2019.

5.2. Corrections of prior periods' errors

There were no corrections of prior periods' errors.

5.3. Statement of compliance

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

5.4. Consolidation principles

For the reporting period and comparable periods, the companies of PEPEES Capital Group have been consolidated using the full method.

The financial statements of the subsidiaries have been prepared for the same reporting period as the financial statements of the Parent Company, using consistent accounting principles. Adjustments are made in order to reconcile any divergent principles.

In the course of consolidation, appropriate exclusions were made with regard to mutual receivables and liabilities, revenue and costs relating to operations between the consolidated entities, profits and losses resulting from intra-group operations, included in the values of assets and liabilities subject to consolidation. In addition, the value of shares held by the Parent Company in the capitals of subsidiaries was excluded.

The consolidated cash flow statement has been prepared on the basis of the consolidated statement of comprehensive income and the consolidated statement of financial position as well as additional explanatory notes of the consolidated companies.

The statement of changes in consolidated equity has been prepared on the basis of the consolidated statement of financial position, statements of changes in equity and additional explanatory notes of the consolidated companies.

5.5. Conversion of items denominated in foreign currency

The functional currency (for the valuation) and presentation currency of the PEPEES Capital Group is Polish zloty. Monetary assets and liabilities expressed in foreign currencies have been converted as at the balance sheet date at the exchange rate applied by the bank used by the Group. All exchange rate differences are recognised in the consolidated statement of comprehensive income for the period.

5.6. Tangible fixed assets (property, plant and equipment)

At the moment of transition to IAS, the Group adopted the fair value of tangible assets evaluated by an expert as assumed cost.

Tangible assets under construction, arising for production, rental or administrative purposes as well as for purposes not yet defined, are presented in the consolidated statement of financial position at production cost less impairment losses. The production cost is increased by fees and, for specific assets, by borrowing costs. The Group applies the straight-line depreciation/amortisation. Depreciation relating to tangible assets begins when they are put into use. Depreciation is calculated for all tangible assets, excluding land and tangible assets under construction, over the estimated period of their actual use, using the straight-line method. Useful lives for particular groups of tangible assets are as follows:

- buildings and structures	10 - 40 years
- machinery and equipment	2 - 20 years
- means of transport	3 - 8 years
- fixed and other equipment	2 - 15 years.

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

Own land is not subject to depreciation.

Profits or losses resulting from the sale (liquidation) of tangible fixed assets (property, plant and equipment) are defined as the difference between sales revenue and the carrying value of these items, and are recognised in the consolidated income statement.

As at the balance sheet date, tangible assets are valued at cost less depreciation write-downs and possible impairment losses (revaluation write-offs).

5.7. Intangible assets

Intangible assets are recognised if it is probable that they will result in the future inflow to the Group of economic benefits that can be directly associated with those assets. The Group does not have intangible assets with an indefinite useful life.

As at the balance sheet date, intangible assets are valued at cost less amortisation write-downs and possible impairment losses (revaluation write-offs).

(a) Trademarks and licences

Trademarks and licences have limited (finite) useful lives and are shown in the consolidated statement of financial position at historical cost less accumulated amortisation. Amortisation is calculated on a straight-line basis to spread the cost over the estimated economic useful life (2-10 years).

b) Software

Purchased licences for computer software are capitalised in the amount of costs incurred for the purchase and preparation for use of specific computer software. Capitalised costs are written down over the estimated useful life of the software (2-10 years).

Costs related to creation or maintenance of computer software are written down as soon as incurred.

c) Emission allowances

CO_2 emission allowances are recognised as intangible assets which are not subject to amortisation but are analysed for impairment.

Purchased emission allowances units are recognised at purchase price and received free of charge at their nominal value, i.e. at zero.

In the reporting period, a provision is created for the estimated CO_2 emissions as costs of core business operations.

Based on the verified annual report referred to in Art. 57(3) of the Emissions Trading Act, used and redeemed emission allowances are excluded from the records. Allowances are recognised according to the first-in-first-out (FIFO) method.

5.8. Goodwill

Goodwill is measured as a surplus of the fair value of the effectively transferred payment for the Group's shares in the acquired entity over the net amount of identifiable recognised assets and liabilities of the acquired entity.

Goodwill is initially recognised as an asset at cost, and then measured at cost less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to particular Group cash-generating units that should benefit from the synergies resulting from the merger. Cash-generating units to which goodwill is allocated are tested for impairment once a year or more frequently if it can be credibly assumed that impairment has occurred. If the recoverable amount of the cash-generating unit is lower than its carrying value, the impairment loss is allocated first to reduce the carrying value of goodwill allocated to this unit, and then to other assets of this unit in proportion to the carrying value of particular assets of this unit. Impairment loss recognised for goodwill is not reversed in the next period.

When a subsidiary or jointly controlled entity is sold, its goodwill is included in the calculation of profit/loss on disposal.

5.9. Rights to asset (The right to perpetual use of land)

As of 1 January 2019, the Group has implemented International Financial Reporting Standard 16 “Leases:” which introduces a uniform accounting model for the lessee and requires the lessee to recognise the assets and liabilities arising from each lease with a period exceeding 12 months, unless the underlying asset is of low value. At the inception of the lease, the lessee recognises an asset for the right to use the underlying asset and a lease liability that reflects its obligation to pay the lease. The lessee recognises separately amortisation of the asset due to the right of use and interest on the lease liability.

The Group has so far treated the right to perpetual usufruct of land as an operating lease, recognising the payments made in this respect in the profit or loss of the period to which they relate. Currently, the perpetual usufruct right has been classified by the Group as a lease agreement, according to IFRS 16.

The asset under the right of usufruct and advance payments for the lease of real estate are presented in the consolidated statement of financial position under "Rights to assets".

5.10. Investment properties

Investment properties are real properties which are treated as a source of income from rents and/or are kept due to the expected increase in their value.

Investment properties as at the day of transition to IAS were measured at fair value and this value is used as an assumed cost. Each new property is valued at the purchase price or production cost.

Depreciation is calculated over the estimated useful lives of these assets, using the straight-line method. Land is not depreciated.

Profits or losses resulting from sales (liquidation) of investment properties are defined as the difference between sales revenue and the carrying value of these items and are recognised in the consolidated statement of comprehensive income.

5.11. Financial instruments

As of 1 January 2018 the Group classifies financial assets to one of three categories defined in IFRS 9:

- measured at amortised cost,
- measured at fair value through profit or loss,
- measured at fair value through other comprehensive income.

The Group classifies trade receivables, loans granted, other receivables, deposits as well as cash and cash equivalents into the category of assets measured at amortised cost.

The Group measures financial assets at amortised cost using the effective interest rate method, including impairment losses. Long-term receivables subject to IFRS 9 are discounted as at the balance sheet date.

Trade receivables with a maturity of less than 12 months are measured at the amount of the payment required, less any write-off due to expected loss.

The category of assets measured at fair value through profit or loss includes all financial instruments that have not been classified as measured at amortised cost or as measured at fair value through other comprehensive income, as well as those for which the Group has decided on such classification in order to eliminate an accounting mismatch.

The Group classifies into this category loans granted which have not passed the contractual cash flow test and derivatives which are assets, unless they have been designated as hedging instruments.

Profits and losses on a financial asset classified as measured at fair value through profit or loss are recognised in the financial result in the period in which they occurred (including interest and dividend income received from equity instruments listed on an active market).

Assets measured after initial recognition at fair value through other comprehensive income – these are financial assets held in accordance with a business model, which is aimed to both maintain financial assets for obtaining cash flows under the contract and to sell financial assets, and the characteristics of the contract relating to these financial assets provide for the creation of cash flows that are only the repayment of principal and interest.

Profits and losses on a financial asset constituting an equity instrument for which options of fair value measurement through other comprehensive income have been applied are recognised in other comprehensive income, except for dividend income.

In accordance with IFRS 9, the Group monitors changes in credit risk related to individual financial assets and for each of them it assesses, at each balance sheet date, whether there is objective evidence that a financial asset or a group of financial assets has lost value.

5.12. Inventory

Inventory is recognised at purchase price or production costs not higher than the net selling price. The cost of finished goods and work in progress includes design costs, raw materials, direct labour, other direct costs and related departmental production costs (based on normal production capacity), but excludes borrowing costs. Materials and goods inventories (stocks) are valued using the weighted average method.

As at the balance sheet date, inventories are valued in accordance with the prudence principle, i.e. according to the purchase price or the sale price possible to obtain, whichever is lower. The net selling price corresponds to the estimated selling price less any costs necessary to complete production and the costs of bringing the inventory to sale or finding a buyer (i.e. costs of sales, marketing, etc.). If the purchase price is higher than the obtainable selling price, the Group creates revaluation write-downs against the costs of products sold.

5.13. Biological assets

The Parent Company leases farms where it grows annual crops such as potatoes, beans and cereals. Biological assets are measured at initial recognition and at the end of each reporting period at fair value less selling costs, taking into account the degree of ripeness of plants.

5.14. Short- and long-term receivables

Trade receivables are recognised and disclosed at initially invoiced amounts, including impairment losses. Impairment losses on trade receivables are created when there is objective evidence that the Group will not be able to receive all amounts due under the original terms of the receivables. Write-downs on receivables are charged to other operating expenses.

Write-downs are made based on the age analysis of receivables, analysis of collection and receivables in litigation (under court, liquidation or bankruptcy proceedings).

5.15. Foreign currency transactions

Transactions denominated in currencies other than the Polish zloty are translated into Polish zloty using the exchange rate prevailing at the transaction date.

As of the balance-sheet date, assets and liabilities in other currencies than the Polish zloty are converted into Polish zlotys according to the average exchange rate table of the bank that supports the Group. Foreign currency differences that result from the conversion are included into financial income or expenses, respectively.

5.16. Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits payable on demand, other short-term investments with an original maturity of up to three months and high liquidity, as well as an overdraft.

Term deposits are measured at amortised cost using the effective interest rate.

The overdraft is presented in the consolidated statement of financial position as a component of short-term credits and loans under short-term liabilities.

5.17. Advances

In the case of expenses that are expected to generate economic benefits over several financial periods, whose relationship with revenue can be determined only generally and indirectly, the costs are recognised in the consolidated statement of comprehensive income by a systematic and rational distribution over time. Costs are recognised immediately in the consolidated statement of comprehensive income if the expenses incurred do not bring any future economic benefits.

5.18. Equity

Share capital is recognised at the value specified in the Company's Articles of Association entered into KRS.

Supplementary capital is created in accordance with the Company's Articles of Association or Company Deed and the Code of Commercial Companies, which indicate that its *increase* may occur through:

- allocation of a part of the net profit,
- transfer of the surpluses achieved on the issue of shares above their nominal value,
- shareholders' additional contributions in exchange for granting special rights to their existing shares, provided that these additional contributions are not used to compensate for extraordinary write-downs or losses,
- transfer of the positive net difference from the revaluation of tangible assets due to their disposal for sale or liquidation if the separate regulations do not provide for these differences to be charged to the financial result,

and the *reduction* through:

- covering the loss,
- making own redemptions of shares,
- covering the costs of shares issue up to the amount of share premium (surplus of issue value over nominal value of shares); the remaining part of the costs is included in financial expenses,
- free of charge transfer of tangible assets, in accordance with the resolution of the General Meeting of Shareholders,
- transfer of the negative net difference from the revaluation of tangible assets due to their disposal for sale or liquidation if the separate regulations do not provide for these differences to be charged to the financial result.

Capital from revaluation of assets is used to recognise revaluations of fixed assets, resulting in an increase in their value. Revaluation of provisions for future employee benefits is also included in this capital.

Reserve capital is created in accordance with the Articles of Association and resolutions of the General Meeting of Shareholders from net profit and is used to cover investment expenses.

5.19. Credits and loans

Interest-bearing bank credits and loans (including overdraft facilities) are booked at the value of proceeds received. Financial expenses (except for those directly related to the acquisition or production of tangible fixed assets), including commissions payable at the time of repayment or redemption and direct costs of borrowing, are recognised in the consolidated statement of comprehensive income using the effective interest rate method and increase the book value of the instrument, taking into account repayments made in the current period.

Credits with interest rates below market rates are discounted to market rates and the difference between the discounted value and the proceeds received is reported as a government subsidy.

Credits and loans are classified as current liabilities unless the Group has an unconditional right to defer the settlement for at least 12 months from the balance sheet date. Then they are shown as long-term liabilities.

5.20. External financing costs (borrowing costs)

Borrowing costs related directly to construction, assembly, adaptation or amelioration of fixed assets or intangible assets, within the period of their construction, adaptation, assembly, adaptation or improvements, are recognised within values of these assets if liabilities were incurred for this purpose. Other borrowing costs are recognised in the consolidated statement of comprehensive income.

5.21. Deferred income tax

Deferred income tax is recognised in full, using the liability method, for temporary differences between the tax value of assets and liabilities and their carrying value in the financial statements. However, if the deferred income tax arose from the initial recognition of an asset or liability under a transaction other than a business combination which affects neither the financial result nor the tax profit (loss) – it is not recognised.

Deferred income tax is determined using tax rates (and applying tax regulations) that are legally or actually in force as at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised if it is probable that future taxable profit will be available against which the temporary differences can be utilised. The value of deferred tax assets is subject to analysis as at each balance sheet day, and if the expected future tax profits are not sufficient to realise an asset component or part thereof, it is written off.

5.22 Employee benefits

The expected costs of employee benefits (long service bonuses, retirement severance pay, etc.) are accrued over the period of employment using actuarial methods. Actuarial profits and losses arising from ex post adjustments of actuarial assumptions and changes in actuarial assumptions are recognised in other comprehensive income in the statement of comprehensive income over the average, expected, remaining employment period of the employees concerned. The valuation of relevant liabilities is carried out every six months by independent actuaries.

Employee benefits may also occur due to termination of the employment relationship prior to the employee's normal retirement date or whenever the employee voluntarily accepts the termination of the employment relationship in exchange for these benefits. The Group recognises benefits due to termination of employment if it is clearly determined to terminate the employment relationship with employees in accordance with the existing detailed official plan, without the possibility of withdrawal, or if it is determined to pay benefits due to termination of employment as a result of an offer made to encourage voluntary termination of the employment relationship. Benefits due over 12 months after the balance sheet date are discounted to their present value.

5.23. Trade liabilities

Trade liabilities, if they are not an interest instrument, are recognised in the balance sheet at the amount of the required payment. If valuation at adjusted purchase price differs significantly from valuation at the amount of required payment, then trade liabilities are valued at the adjusted purchase price.

5.24. Provisions

Provisions are recognised when the Group has an obligation (legal or customary) as a result of past events, and if it is certain or highly probable that the fulfilment of this obligation will cause an outflow of resources embodying economic benefits, and if it is possible to make a reliable estimate of the amount of the obligation.

No provisions are created for future operating losses.

5.25. Accruals

Accruals are liabilities due for goods or services that have been received (performed) in full or in part, but have not been invoiced or the terms of payment have not been formally agreed with the supplier. Accruals also include amounts relating to accrued holiday pay. Accruals are recognised when the amounts of the future liability and the date of payment can be reliably estimated.

5.26. Loss in assets value

As at each balance-sheet day the Group makes an assessment whether there is objective evidence showing the permanent impairment of an asset or a group of assets. If such evidence exists, the Group estimates the recoverable value of the asset and makes allowance for impairment losses in the amount equal to the difference between the value of the recoverable amount and the carrying value.

An impairment loss is shown in the comprehensive income statement in the current period. If the impairment loss is subsequently reversed, the net value of the asset is increased to a new estimated recoverable value not exceeding the asset's carrying value that would have been determined had no impairment loss been recognised for the asset in prior years. The loss reversal is recognised immediately in the consolidated income statement.

5.27. Leases

A lease is an agreement under which, in return for a payment or series of payments, the lessor transfers to the lessee the right to use the asset for an agreed period.

On 1 January 2019, a new standard, applied by the Group, came into force – IFRS 16 "Lease", which replaced the previous IAS 17 of the same title and accompanying interpretations:

- IFRIC 4 Determining whether an arrangement contains a lease;

- SIC 15 Operating Leases – Incentives;

- SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

For lessees, the new standard introduces a single accounting model for leases based on the concept of control (benefits + power) and requires the recognition of assets (right-of-use assets) and liabilities arising from a lease. An asset that is recognised is not an object in use, e.g. a machine or car, but the right to use it. The new standard eliminates off-balance sheet recognition of leased assets, the division into operating and finance leases disappears for the lessee. As regards lessors, IFRS 16 transfers the requirements of IAS 17.Lessors will continue to classify leases as operating and finance leases. From 1 January 2019, service type agreements are also treated as leases. This applies primarily to lease and tenancy contracts, perpetual usufruct right to land or quasi service contracts, such as contracts in the field of IT, telecommunications, which are performed using tangible assets (e.g. servers, optical fibres, etc.).

IFRS 16 introduces some simplifications and allows lessees not to apply the requirements for the recognition, measurement and presentation of leases in relation to:

- short-term leases (contract period <1 year from the commencement of the contract); the exemption is applied consistently to individual classes of leased assets; when determining the lease term, the Group should consider an option to extend the lease term if it is sufficiently certain that it will exercise the extension option or will not exercise the termination option; any lease that includes an option to purchase the asset does not automatically qualify as a short-term lease;
- leases where the leased asset is of low value; the IASB has specified in its Explanatory Memorandum that the maximum value of the asset qualifying for the exemption is USD 5,000 (the initial value of the new asset, regardless of the age of the leased asset); the exemption does not apply to subleased items. The permitted exemption for leases of short-term contracts and leases of low-value assets is intended to reduce the costs associated with implementing the new standard without clearly weakening the quality of information in the financial statements. In this case, the lessee recognises the lease payments in the income statement on a straight-line basis over the lease term or on another systematic basis if more representative.

At the time of concluding an agreement, the Group assesses whether the agreement is or contains a lease. A lease is an agreement or part of an agreement in which the right-of-use of a component for a given period is transferred in exchange for remuneration. The assessment consists in checking whether the agreement transfers the right to control the use of a given asset for a given period, i.e. whether throughout the Group's use:

- it has the right to obtain substantially all the economic benefits of using the identified asset (the benefit element);
- it has the right to govern the use of the identified asset (power element).

Leases under which substantially all risks and benefits arising from the possession of the leased asset are transferred to the Group are recognised in assets and liabilities at the commencement of the lease term. The value of assets and liabilities is determined at the commencement of the lease term at the lower of the following two values: the fair value of the leased asset and the present value of the minimum lease payments.

The minimum lease payments are divided between the financial expenses and reduction of the balance of the lease liability in such a way as to obtain a fixed interest rate on the outstanding balance of the liability. Conditional lease payments are recognised in the costs of the period in which they are incurred.

Assets used under lease agreements are depreciated in accordance with the same principles as those applied to the Group's own assets. However, if there is no reasonable certainty that the Group will obtain ownership before the end of the lease term, the asset is depreciated over the shorter of the following: the estimated useful life of the asset or the lease term.

Leases under which the lessor retains substantially all the risks and rewards inherent to ownership of the leased asset are classified as operating leases. Payments made under operating leases are recognised as an expense in the income statement (profit and loss account) on a straight-line basis over the lease term.

5.28. Revenue Recognition

Revenue is recognised to the extent that it is probable that the Group will obtain economic benefits associated with the transaction and the amount of revenue can be measured reliably.

Revenue from sales includes the fair value of revenue from the sale of products, goods and services, less value added tax, discounts and rebates, and less excise duty. Revenue is recognised in the following manner:

a) revenue from sales of products and goods

In accordance with IFRS 15 "Revenue from contracts with customers", from 1 January 2018 the Group has started to recognise the revenue from contracts with customers when the performance obligation is met, by transferring the promised goods to the buyer, where the transfer simultaneously constitutes the acquisition of control over the asset by the buyer, i.e. the ability to directly dispose of the transferred asset and obtain substantially all other benefits from it and the ability to prevent other entities from disposing of and obtaining benefit from the asset.

As the performance obligation, the Group recognises any promises in a contract to transfer to a customer separately identifiable goods or groups of identifiable goods that are substantially the same and are provided to the customer in the same way. For each performance obligation, the Group's entity determines (on the basis of contractual terms and conditions) whether it will perform it over time or will perform it at a specific time.

Revenue from the sale of products, goods and materials is recognised in the financial result once, at a specific moment, consistent with the moment of fulfilment of the obligation to perform.

b) revenue from sales of services

In accordance with IFRS 15 "Revenue from contracts with customers", from 1 January 2018 the Group has started to recognise the revenue from contracts with customers when the performance obligation is met, by transferring the promised service to the buyer, where the transfer simultaneously constitutes the acquisition of control over the asset by the buyer, i.e. the ability to directly dispose of the transferred asset and obtain substantially all other benefits from it and the ability to prevent other entities from disposing of and obtaining benefit from the asset.

As the performance obligation, the Group recognises any promises in a contract to transfer to a customer separately identifiable services or groups of identifiable services that are substantially the same and are provided to the customer in the same way. For each performance obligation, the Group determines (on the basis of contractual terms and conditions) whether it will perform it over time or will perform it at a specific time.

Revenue from the sale of services is recognised in the financial result over time if one of the following conditions is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs, or
- as a result of the Group's fulfilment of its obligation, an asset (e.g. work in progress) is created or enhanced and is controlled by the customer as it is created or enhanced, or
- as a result of the Group's fulfilment of its obligation, an asset is created which has no alternative use for the Group and at the same time the Group has an enforceable right to payment for performance completed to date.

IFRS 15 "Revenue from contracts with customers" for the sale of products and goods and the sale of services has introduced the so-called Five-Step Model, which has been applied by the Group from 1 January 2018:

1. identifying contracts with customers – their verification for completeness and correctness, taking into account the probability of receiving payment;
2. identifying the performance obligations in the contract, i.e. the Group's performance to its customers (in some cases, it may be necessary to analyse several contracts and recognise revenues as if they resulted from a single contract concluded with a customer);
3. determining the transaction price, i.e. the consideration to which the Group expects to be entitled, taking into account the fixed or variable nature of the price, its form (monetary and/or non-monetary) as well as the time value of money when a longer trade credit is granted to the counterparty;
4. allocating the transaction price to the performance obligations in the contract – allocation of revenue to individual performances based on their standalone selling price, and in the case of discount and other price changing elements, analysis of which performances these elements relate to, followed by their appropriate allocation;
5. recognition of revenue in the books of account and in the financial statements at the moment when the Group satisfies a performance obligation (after the goods have been handed over to the counterparty or services have been provided thereto).

Revenue from contracts with customers in the consolidated statement of comprehensive income includes revenue arising from the Group's ordinary operations, i.e. revenue from the sale of products, goods and materials.

Revenue from contracts with customers is recognised at an amount equal to the transaction price (including all discounts and rebates).

The transaction price also reflects the change in the value of money over time if the contract with the customer contains a significant financing component, which is determined on the basis of contractual payment terms and conditions, regardless of whether it is explicitly stated in the contract. A financing component is considered significant if, at the time of conclusion of the contract, the period from the delivery of the promised goods or services to the customer until the payment for the goods or services by the customer is more than 1 year.

In accordance with IFRS 15, if the contract consideration includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring promised goods or services to the customer and includes in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

c) revenue from interest

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

d) dividends

Revenue from dividends is recognised when the right to receive payment is acquired (provided that it is probable that the Group will obtain economic benefits and that the amount of revenue can be measured reliably).

5.29. Other operating revenue

Other operating income includes revenue and profits not directly related to the Group's operating activities. This category includes e.g. profits arising from the sale of fixed assets, profits from revaluation of assets, reversal of receivables revaluation write-downs, received damages, overpaid tax liabilities except for corporate income tax, etc.

5.30. Government grants

Grants are not recognised until there is reasonable assurance that the Group will comply with the necessary conditions and will receive such grants.

Government grants are recognised systematically in the result for each period in which the Group recognises expenses as costs to be compensated by the grant. In particular, grants whose primary condition for awarding is the purchase, construction or other type of tangible assets acquisition are recognised as deferred income in the consolidated statement of financial position and are recognised in the result systematically in justified amounts over the period of economic useful life of the related assets.

Government grants due as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs shall be recognised as the result of the period in which they become receivable.

Benefits resulting from the receipt of preferential credits below the market interest rate are treated as grants and measured as the difference between the value of received credits and the fair value of credits established with the application of an appropriate market interest rate.

5.31. Costs

The Group presents the cost account by function. The costs resulting from the core business include cost of sales, selling and distribution costs and general administration costs.

5.32. Other operating expenses

Other operating expenses include costs and losses not directly related to the Group's operating activities. This category includes losses on disposal of fixed assets, losses on revaluation of assets and liabilities, write-downs on receivables, donations made, effects resulting from guarantees and sureties, etc.

5.33. Financial expenses

The costs of interest, dividends and investments are presented under "financial expenses".

5.33. Financial revenue

Financial revenue includes revenue from dividends received, interest on investment and foreign exchange gains.

5.34. Earnings per share

Earnings per share for each period are calculated by dividing the net profit for a given period by the weighted average number of the Group's shares, as there are no privileged shares.

5.35. Estimates and related assumptions

The Group makes estimates and assumptions based on historical experience and various other factors that are considered reasonable under the circumstances, the results of which provide a basis for judgement as to the carrying value of assets and liabilities that are not directly attributable to other sources. The actual value may differ from the estimated value.

Estimates and associated assumptions are subject to ongoing verification. Changes in accounting estimates are recognised in the period in which they were made.

In the reporting period, the Group conducted tests for impairment of fixed assets and did not find any impairment.

Revaluation write-downs on inventories take into account the degree of their impairment.

Write-downs on receivables were updated in the amount taking into account the degree of risk of not receiving payments from customers.

Provisions for retirement benefits and long service bonuses were updated based on actuarial calculations as at 31.12.2019. To discount future benefit payments, a discount rate was adopted at the level of average profitability of the safest long-term securities listed on the Polish capital market as at the valuation date.

The provision for unused holidays was updated on the basis of the amount of expected employee remuneration together with the mark-ups charged to the employer for unused holidays as at 31.12.2019.

The Group recognises deferred tax assets on the assumption that tax profit will be achieved in the future allowing for their use.

Each year, the Group verifies the adopted periods of economic useful life for tangible and intangible assets. The last update took place on 31.12.2019.

5.36. Cash flow statement

The Group prepares its cash flow statement according to the indirect method, broken down into operating, investment and financial activities.

Cash flows from operating activities come primarily from the core business. They do not include external sources of financing.

Cash flows from investment activities include primarily:

- cash paid and received for the acquisition (disposal) of tangible fixed assets, intangible assets and other fixed assets,
- cash related to the purchase or sale of equity instruments,
- dividends received,
- loans granted to third parties,
- cash from the settlement of forward contracts.

Cash flows from financial activities relates primarily to external sources of financing. They include, among others:

- proceeds from the issue of shares (did not occur in the presented period),
- expenditure on the purchase of own shares (did not occur in the presented period),
- dividends and other payments to shareholders,
- credits and loans taken out and repaid,
- grants and all other non-refundable receipts from a foreign source of finance.

5.37. Segment Reporting

Four segments are distinguished in the PEPEES Capital Group, namely: "Potato processing", “production of electricity”, “agricultural cultivation together with raising of animals”, as well as “buying and selling of own real estate”.
All assets and liabilities of CHP Energia are allocated to the "production of electricity" segment. All assets and liabilities of Gospodarstwo Rolne Ponary are allocated to the “agricultural cultivation together with raising of animals” segment, all assets and liabilities of Pepees Inwestycje Sp. z o.o. are allocated to

the "buying and selling of own real estate" segment and all other assets and liabilities shown in the consolidated financial statements are allocated to the "potato processing" segment.

Due to the fact that Ponary did not generate any sales revenue in 2019, the "agricultural cultivation together with raising of animals" segment was not distinguished in the segments' revenue and results. Due to the value of land owned by Ponary, the third segment has been identified in these statements solely for the purposes of presenting its assets and liabilities.

6. Application of accounting standards in 2019

The application of new interpretations and amendments to standards in 2019 had an impact on the financial situation of PEPEES Capital Group.

IFRS 16 "*Leases*" has been implemented, which introduces a uniform accounting model for the lessee and requires the lessee to recognise the assets and liabilities arising from each lease with a period exceeding 12 months, unless the underlying asset is of low value. At the inception of the lease, the lessee recognises an asset for the right to use the underlying asset and a lease liability that reflects its obligation to pay the lease.

The lessee recognises separately amortisation of the asset due to the right of use and interest on the lease liability.

The lessee updates the measurement of the lease liability after the occurrence of certain events (e.g. changes in relation to the lease term, changes in future lease payments resulting from a change in the index or rate used to determine those payments). As a general rule, the lessee recognises the revaluation of the lease liability as an adjustment to the value of the asset due to the right of use.

The lessee has the right to choose either a full or a modified retrospective approach and the transitional provisions provide some practical arrangements. IFRS 16 applies to annual periods beginning on or after 1 January 2019.

Based on paragraph C5(b) of IFRS 16, the Group has implemented IFRS 16 without restating comparative data, therefore data for 2018 and 2019 are not comparable. The total effect of the first application of this standard was recognised by the Group as an adjustment to the opening balance of retained earnings (due to the fact that the lease assets and liabilities were estimated at equal value, as at 1 January 2019 there was no impact of standard implementation on previous years' profits).

Under lease agreements, the Group is a user of machinery, equipment and means of transport. All these agreements were treated as financial leases in accordance with IAS 17 and recognised in the consolidated statement of financial position as fixed assets and lease liabilities. Application of IFRS 16 to these agreements did not affect the financial statement.

The Group has so far treated the right to perpetual usufruct of land as an operating lease, recognising the payments made in this respect in the profit or loss of the period to which they relate. Currently, the right of perpetual usufruct of land has been classified by the Group as a lease agreement, according to IFRS 16. As a result, the Group recognised the lease liabilities at the present value of the remaining payments for perpetual usufruct of land (for "PEPEES" S.A. the right expires in 2089; for PPZ Bronisław in 2092, and for ZPZ Lublin in 2090), discounted at the marginal interest rate (6.92%) on the first application date. The lease liability (payments for perpetual usufruct of land) as at the date of first application of IFRS 16 amounted to PLN 10,041 thousand. The Group recognised an asset due to the right of use in amount equal to the above liability, so the value of equity as at 1 January 2019 has not changed. The asset under the right of usufruct has been presented in the consolidated statement of financial position under "Rights to assets".

The analysis carried out in the Group shows that the criteria of the lease agreement according to IFRS 16 are also met by the land lease agreements, which have been previously shown in the consolidated statement of financial position as advances, because the lease fee has been paid in advance. Currently, the Group has shown the current value resulting from these agreements as the right to assets.

for the 12-month period ended 31 December 2019 (data in PLN thousand)

The implementation of IFRS 16 affected the presentation of the statement according to the table below:

Specification	As at			
	31 December 2018	Adjustment resulting from the first application of IFRS 16	01 January 2019	31 December 2019
Fixed (long-term) assets, including	**173,688**	**11,156**	**184,844**	**200,342**
- rights to assets	-	11,156	11,156	11,076
Current assets	**160,237**	**-**	**160,237**	**163,280**
Total assets	**333,925**	**11,156**	**345,081**	**363,622**
Liabilities, including:				
Equity	**166,476**	**-**	**166,476**	**180,541**
Long-term liabilities, including:	**50,293**	**10,406**	**60,699**	**54,664**
- liabilities from lease	4,775	10,406	15,181	15,014
Short-term liabilities, including:	**117,156**	**750**	**117,906**	**128,417**
- liabilities from lease	2,876	750	3,626	3,728
Total equity and liabilities	**333,925**	**11,156**	**345,081**	**363,622**

7. New accounting standards and interpretations not applied in these statements

- Changes regarding the references to the Framework [for the Preparation and Presentation of Financial Statements] in IFRS, which also introduced changes to standards in order to update references to the Framework. The amendments apply to annual periods beginning on or after 1 January 2020.
- Amendments to IAS 1 and IAS 8 – definition of "material". The amendment has not been approved by the European Commission;
- Amendments to IFRS 3 "Business Combinations" – definition of a business. The amendment has not been approved by the European Commission;
- Amendments to IFRS 9, IAS 39 and IFRS 7 – IBOR reform. The amendment has not been approved by the European Commission;
- IFRS 17 "Insurance Contracts". This standard defines a new approach to the recognition, measurement, presentation and disclosure of insurance contracts.

The Group is in the process of analysing how the introduction of these standards and interpretations may affect the financial statements and the accounting principles (policies) applied by the Group.

8. Changes in applied accounting principles, correction of errors and presentation

PEPEES Capital Group did not correct errors of previous years. The Group has not changed the previously applied accounting principles, except for the application of the new or amended standards and interpretations effective for annual periods beginning on or after 1 January 2019.

In connection with the implementation of IFRS 16, the Group changed the presentation of advance payments for lease of farms. As of 01.01.2019, they are presented in the annual consolidated statement of financial position as rights to assets (in previous reporting periods, advance payments for lease were presented as long-term advances).

For the purposes of data comparability, long-term advances as at 31.12.2018 were presented in these annual consolidated financial statements as rights to assets.

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9. Financial instruments

The main financial instruments used by the Group include bank credits, lease, cash and short-term deposits. The main purpose of these financial instruments is to raise funds for the Group's operations. The Group also has other financial instruments such as trade receivables and liabilities that arise directly from its operations.

Financial assets	As at 31 December 2019	As at 31 December 2018
Assets measured at purchase price	-	-
Assets measured at fair value through profit or loss,	50,234	47,355
Financial assets measured at amortised cost:	25,704	32,636
Total financial assets	**75,938**	**79,991**

Financial assets disclosed in the financial statements as:	As at 31 December 2019	As at 31 December 2018
Investments in other entities	613	113
Other financial assets	5,838	5,436
Trade receivables	20,506	27,651
Other receivables	6,227	6,044
Granted loans	721	941
Cash and cash equivalents	42,033	39,806
Total financial assets	**75,938**	**79,991**

Financial liabilities	As at 31 December 2019	As at 31 December 2018
Financial liabilities measured at amortised cost:	160,960	146,505
Total financial liabilities	**160,960**	**146,505**

Financial liabilities disclosed in the financial statements as:	As at 31 December 2019	As at 31 December 2018
Long-term credits and loans	24,789	30,398
Liabilities due to assets under lease	18,742	7,651
Trade liabilities	7,424	13,063
Short-term credits and loans	104,815	90,644
Other short-term liabilities	5,190	4,749
Total financial liabilities	**160,960**	**146,505**

10. Segment Reporting

Four segments are distinguished in the PEPEES Capital Group, namely: “potato processing”, “production of electricity”, “agricultural cultivation together with raising of animals”, as well as “buying and selling of own real estate”.

10.1. Information on products and services

PEPEES Capital Group operates mainly in the segment: "potato processing". Within this segment, it produces:

- potato starch, used in households and by the food, pharmaceutical, paper and textile industries,
- several assortments of glucose, used by the food, confectionery and pharmaceutical industries,
- Maltodextrin, which is an essential ingredient in powdered products (ice cream, sauces, soups, fruit extracts, flavour sprinkles) and vitamin and mineral nutrients and preparations for children and athletes,
- protein, which is obtained from potato cellular juice by coagulation, separation and drying; it is a valuable component of compound animal feed and is an excellent substitute for animal protein,
- a wide range of starch syrups for use in the confectionery and bakery industries,
- potato grits, potato flakes, potato cubes and dumplings; products used by the food industry.

Other activities relate to:

- production of heat, which is produced primarily for own use and part of it is sold to neighbouring plants,
- works and services,
- the sale of certain goods and materials,
- growing and selling annual plants,
- buying and selling of own real estate.

for the 12-month period ended 31 December 2019 (data in PLN thousand)

10.2 Revenue and results of segments

Segment	Revenue		Profit in segment	
	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
Potato processing	225,291	231,500	36,819	31,356
- including between segments	*707*	*243*	-	-
Production of electricity	7,473	9,239	(1,521)	(1,042)
- including between segments	*358*	*555*	-	-
Buying and selling of own real estate	282	-	192	-
Revenue from sales	**231,981**	**239,941**	**35,490**	**30,314**
Other operating revenue			1,141	1,376
Other operating expenses			(1,376)	(1,768)
Financial revenue			981	3,571
Financial expenses			(3,700)	(3,074)
Profit (loss) before tax			**32,536**	**30,419**

10.3. Assets and liabilities of segments

Segments' assets	As at 31 December 2019	As at 31 December 2018
Potato processing	348,026	315,686
Production of electricity	13,703	17,297
Agricultural cultivation together with raising of animals	1,762	921
Buying and selling of own real estate	131	21
Total segments' assets	**363,622**	**333,925**

Segments' liabilities	As at 31 December 2019	As at 31 December 2018
Potato processing	164,131	145,858
Production of electricity	18,870	21,591
Agricultural cultivation together with raising of animals	-	-
Buying and selling of own real estate	80	-
Total segments' liabilities	**183,081**	**167,449**

All assets and liabilities of CHP Energia are allocated to the "production of electricity" segment. All assets and liabilities of Gospodarstwo Rolne Ponary are allocated to the "agricultural cultivation together with raising of animals", all assets and liabilities of Pepees Inwestycje Sp. z o.o. are allocated to the "buying and selling of own real estate" segment and all other assets and liabilities shown in the consolidated financial statements are allocated to the "potato processing" segment.

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Due to the fact that Ponary did not generate any sales revenue in 2019, the "agricultural cultivation together with raising of animals" segment was not distinguished in the segments' revenue and results. Due to the value of land owned by Ponary, the third segment has been identified in these statements solely for the purposes of presenting its assets and liabilities.

10.4. Other information about the segments

Segment	Amortisation and depreciation		Increase in fixed assets	
	2019	2018	2019	2018
Potato processing	11,828	9,633	29,173	33,712
Production of electricity	1,562	1,750	227	249
Total continued operations	**13,390**	**11,383**	**29,400**	**33,961**

10.5. Revenue by product

Revenue from sales Name of product or service	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
Starch	142,827	148,575
Protein	8,208	15,225
Glucose	9,474	10,170
Maltodextrin	19,894	20,815
Potato flakes	8,925	9,553
Starch syrups	5,884	5,852
Dehydrated potatoes (semolina, cubes, dumplings)	8,877	8,477
Feed and fertilisers	727	961
Electricity	3,540	4,460
Property rights (electricity and heat)	2,626	3,185
Goods and materials	19,176	11,484
Services	1,823	1,184
Total	**231,981**	**239,941**

for the 12-month period ended 31 December 2019 (data in PLN thousand)

10.6. Revenue from sales by territorial structure

Specification	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
Poland, of which	**154,696**	**154,019**
Starch	80,807	77,469
Protein	6,039	8,297
Glucose	8,513	9,187
Maltodextrin	16,048	18,052
Potato flakes	8,054	5,230
Starch syrups	5,884	5,852
Dehydrated potatoes (semolina, cubes, dumplings)	8,824	12,626
Feed and fertilisers	727	961
Electricity	3,540	4,460
Property rights (electricity and heat)	2,626	3,185
Goods and materials	11,811	7,516
Services	1,823	1,184
EU countries - intra-Community supplies, of which:	**19,299**	**23,249**
Starch	13,020	16,417
Protein	929	3,636
Maltodextrin	3,668	2,752
Glucose	619	246
Potato flakes	860	102
Dehydrated potatoes (semolina, cubes, dumplings)	53	70
Goods	150	26
Other countries - exports	**57,986**	**62,673**
Starch	49,000	54,691
Protein	1,240	3,292
Glucose	342	737
Maltodextrin	178	11
Potato flakes	11	-
Goods	7,215	3,942
Total	**231,981**	**239,941**

10.7. Information on key customers

The Group does not have a customer from whom sales revenue would exceed 10% of total revenue. On the other hand, in the group of particular products there are customers whose share constitutes over 10% of the total sales of a given product. And so:

- almost 42% of the protein was sold to one domestic customer,
- more than 10% of Maltodextrin was sold to each of the three domestic customers (29.5%, 12.6% and 10.7% respectively),
- almost 15% of glucose was sold to one domestic customer.

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11. Explanatory notes to the consolidated statement of financial position

11.1. Tangible fixed assets (property, plant and equipment)

TANGIBLE FIXED ASSETS (PROPERTY PLANT AND EQUIPMENT)	As at 31 December 2019	As at 31 December 2018
a)tangible assets, including:	174,548	148,257
- land	22,529	22,528
- buildings, premises, civil and hydro-engineering structures	64,941	63,273
- technical equipment and machines	80,046	55,751
- vehicles	3,796	3,396
- other tangible assets	3,236	3,309
b) tangible assets under construction	4,906	16,628
Total tangible fixed assets	**179,454**	**164,885**

CHANGES IN TANGIBLE ASSETS (BY GENERIC GROUPS)	land	buildings, premises, civil and hydro-engineering structures	technical equipment and machines	vehicles	other tangible assets	Total
As at 1 January 2018						
Gross value	**22,528**	**99,996**	**98,652**	**6,262**	**4,445**	**231,883**
Accumulated depreciation	**0**	**35,856**	**48,252**	**2,087**	**1,244**	**87,439**
Net book value	**22,528**	**64,140**	**50,400**	**4,175**	**3,201**	**144,444**
2018						
Opening balance of the gross value	22,528	99,996	98,652	6,262	4,445	231,883
Increases (due to)	-	4,015	11,586	678	385	16,664
- investments	-	2,879	6,979	-	-	9,858
- purchase	-	1,136	4,528	163	385	6,212
- lease	-	-	79	515	-	594
Decreases (due to)	-	2,119	849	150	104	3,222
- sale	-	-	-	109	-	109
- liquidation	-	2,119	849	41	104	3,113
Derecognition of accumulated depreciation of sold and liquidated tangible assets	-	(1,000)	(553)	(111)	(74)	(1,738)
Depreciation	-	3,763	5,939	1,418	247	11,367
Closing balance of net book value	22,528	63,273	55,751	3,396	3,309	148,257
As at 31 December 2018						
Gross value	**22,528**	**101,892**	**109,389**	**6,790**	**4,726**	**245,325**
Accumulated depreciation	**-**	**38,619**	**53,638**	**3,394**	**1,417**	**97,068**
Net book value	**22,528**	**63,273**	**55,751**	**3,396**	**3,309**	**148,257**

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CHANGES IN TANGIBLE ASSETS **(BY GENERIC GROUPS)**	land	buildings, premises, civil and hydro-engineering structures	technical equipment and machines	vehicles	other tangible assets	**Total**
2019						
Opening balance of the gross value	22,528	101,892	109,389	6,790	4,726	245,325
Increases (due to)	-	5,614	35,594	2,230	232	43,670
- investments	-	3,659	11,175	4	42	14,880
- purchase		1,955	23,150	734	190	26,029
- lease	-	-	1,269	1,492	-	2,761
Decreases (due to)	-	119	4,583	712	45	5,459
- sale	-	-	3,286	225	8	3,519
- liquidation	-	119	1,297	487	37	1,940
Derecognition of accumulated depreciation of sold and liquidated tangible assets	-	(90)	(637)	(518)	(37)	(1,282)
Depreciation	-	3,917	7,353	1,636	297	13,203
Closing balance of net book value	22,528	64,941	80,046	3,796	3,236	174,547
As at 31 December 2019						
Gross value	**22,528**	**107,387**	**140,400**	**8,308**	**4,913**	**283,536**
Accumulated depreciation	**0**	**42,446**	**60,354**	**4,512**	**1,677**	**108,989**
Net book value	**22,528**	**64,941**	**80,046**	**3,796**	**3,236**	**174,547**

At the moment of transition to IFRS, the Group adopted the fair value of tangible assets evaluated by an expert as assumed cost. The difference from the valuation reduced by the deferred income tax was charged to equity.

In the reporting period, depreciation write-downs increased the costs of products, goods and materials sold, costs of sales and marketing and administrative expenses.

Charges on tangible fixed assets due to bank credits:

- contractual mortgage in the amount of PLN 58,500 thousand for the benefit of Bank Zachodni WBK SA. (currently Santander Bank Polska S.A.),
- contractual mortgage in the amount of PLN 58,500 thousand for the benefit of PKO Bank Polski S.A,
- ordinary mortgage of PLN 1,596 thousand for the benefit of Bank Polskiej Spółdzielczości,
- ordinary mortgage in the amount of PLN 404 thousand for the benefit of Bank Spółdzielczy in Łomża,
- ordinary mortgage of PLN 1,295 thousand for the benefit of Bank Polskiej Spółdzielczości,
- capped mortgage up to the amount of PLN 1,197 thousand for the benefit of Bank Polskiej Spółdzielczości,
- capped mortgage up to the amount of PLN 880,6 thousand for the benefit of Bank Polskiej Spółdzielczości,
- capped mortgage up to the amount of PLN 303 thousand for the benefit of Bank Spółdzielczy in Łomża,

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- contractual mortgage of PLN 8,288 thousand for the benefit of Spółdzielczy Bank Rozwoju, Szepietowo Branch, contractual mortgage of PLN 6,761 thousand for the benefit of Bank Spółdzielczy in Brańsk,
- contractual mortgage in the amount of PLN 6,761 thousand for the benefit of the Bank Spółdzielczy, Andrzejewo Branch,
- contractual mortgage in the amount of PLN 15,795 thousand for the benefit of PKO Bank Polski S.A,
- registered pledge on tangible assets for the amount of PLN 15,227 thousand for the benefit of Spółdzielczy Bank Rozwoju, Szepietowo Branch,
- contractual mortgage in the amount of PLN 1,360 thousand for the benefit of the Spółdzielczy Bank Rozwoju, Szepietowo Branch,
- contractual mortgage in the amount of PLN 5,100 thousand for the benefit of the Spółdzielczy Bank Rozwoju, Szepietowo Branch,
- contractual mortgage in the amount of PLN 1,700 thousand for the benefit of the Spółdzielczy Bank Rozwoju, Szepietowo Branch,
- registered pledge on plant and equipment for the amount of PLN 15,631 thousand for the benefit of Spółdzielczy Bank Rozwoju, Szepietowo Branch,
- registered pledge on machines and equipment for the amount of PLN 3,465 thousand for the benefit of Bank Spółdzielczy in Łomża,
- transfer of title to machinery and equipment in the amount of PLN 1,295 thousand for the benefit of Bank Polskiej Spółdzielczości.

In connection with the purchase of tangible fixed assets, investment loans were taken out, the outstanding value of which as at the reporting date amounts to PLN 20,738,000 (31 December 2018 – PLN 24,107,000).

In the consolidated statement of comprehensive income, the item "other operating income" includes compensation received from the insurance company for the loss of value of tangible fixed assets caused by random events in the amount of PLN 56 thousand (2018: PLN 68 thousand).

11.2. Intangible assets

INTANGIBLE ASSETS	**As at 31 December 2019**	**As at 31 December 2018**
a) acquired permits, patents, licences and similar values, including:	214	211
- software	130	131
b) emission allowances	202	323
Intangible assets, total	**416**	**534**

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CHANGES IN INTANGIBLE ASSETS	research and development expenses	goodwill	acquired permits, patents, licences, including: software	Emission allowances	**Total**
As at 1 January 2018					
Gross value	-	-	**643**	-	**643**
Accumulated amortisation	-	-	**432**	-	**432**
Net book value	-	-	**211**	-	**211**
2018					
Opening balance of the gross value	-	-	643	-	643
Increases (due to)	-	-	19	323	342
- purchase	-	-	19	323	342
- granting	-	-	-	-	-
Decreases (due to)	-	-	19	-	19
- sale	-	-	-	-	-
- utilisation	-	-	19	-	19
Derecognition of accumulated amortisation of sold and liquidated intangible assets	-	-	(19)	-	(19)
Amortisation	-	-	19	-	19
Closing balance of net book value	-	-	211	323	534
As at 31 December 2018					-
Gross value	-	-	**643**	**323**	**966**
Accumulated amortisation	-	-	**432**	-	**432**
Net book value	-	-	**211**	**323**	**534**
2019					-
Opening balance of the gross value	-	-	643	323	966
Increases (due to)	-	-	28	558	586
- purchase	-	-	28	558	586
Decreases (due to)	-	-	-	679	679
- utilisation	-	-	-	679	679
Amortisation	-	-	25	-	25
Closing balance of net book value	-	-	214	202	416
As at 31 December 2019					-
Gross value	-	-	**671**	**202**	**873**
Accumulated amortisation	-	-	**457**	-	**457**
Net book value	-	-	**214**	**202**	**416**

The entire amortisation of intangible assets was included in the consolidated statement of comprehensive income under "administrative expenses".

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11.3. Rights to assets

Detailed information is presented in note 6 of this statement.

11.4. Investment properties

Investment properties	As at 31 December 2019	As at 31 December 2018
Investment properties	593	-
Investment properties, total	**593**	**-**

The investment properties present the value of a flat in Poznań which is rented out by the Issuer (PLN 393 thousand) and the value of ponds owned by PPZ Bronisław located in Roje, Miłakowo municipality (PLN 200 thousand).

11.5. Goodwill

Consolidation goodwill arising from the acquisition of subsidiaries.

Name of the subsidiary	As at 31 December 2019	As at 31 December 2018
CHP Energia Sp. z o.o.	6,120	6,120
PPZ Bronisław Sp. z o.o.	486	486
Gospodarstwo Rolne PONARY Sp. z o.o.	879	879
Goodwill write-off in CHP Energia Sp. z o.o.	(4,345)	(4,345)
Total	**3,140**	**3,140**

The Company has carried out impairment tests on goodwill and financial assets held in each of its subsidiaries.

The impairment test at CHP Energia was carried out on the basis of discounted cash flows ("DCF") assuming: discount rate in the forecast period (weighted average cost of capital, WACC) of 16.44% (pre-tax rate), the estimates adopted by the Management Board cover a 5-year period, i.e. the period from 2020 to 2024. The adopted CAGR for revenue was 8.0%. For the purpose of the valuation of the value in use, the operating profit was adopted, adjusted by the value of other operating revenue from the settlement of grants received in the previous periods. The forecast assumes profitability on operating activity taking into account the above adjustment in the range of 10% - 23%.

Moreover, the sales forecasts of CHP Energia Sp. z o.o. assume an increase, from 2019 onwards, in the sales ratio through the use of electricity generation capacity at a level from 94.9% in 2020 to 99.6% in 2024 of the cogeneration capacity, which should be assessed as optimistic assumption from the point of view of the current operation of the company. Therefore, for the purposes of the test, an additional risk premium was assumed when determining the discount value. The parameter of cash flow growth after the forecast period was assumed at 1.5%.

In the case of PPZ Bronisław, the asset impairment test was carried out using the discounted cash flow ("DCF") method based on forecasts prepared by the company's Management Board for the years 2020-2024. The Management Board's forecasts assume CAGR for revenue at the level of 5.7% and EBIT profitability in the range of 13.4% - 15.2%. A discount rate (WACC before tax) of 10.33% has been defined for the purpose of the test, while the post forecast cash flow growth rate was adopted at the level of 2%.

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The asset impairment test in the company Gospodarstwo Rolne PONARY was carried out by estimating the recoverable amount as the fair value of the company's equity less costs to sell. The fair value of the company's equity was determined based on the adjusted net asset value method, taking into account the market value of rights to real estate estimated by a property valuer.

11.6. Investments in other entities

CHANGE IN INVESTMENTS IN OTHER ENTITIES	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
a) opening balance	5,549	3,659
- shares or stocks	5,549	2,663
- bonds	-	996
b) increases:	902	2,886
- shares or stocks	250	-
- purchase of bonds	250	-
- share revaluation	402	2,886
c) decreases:	-	996
- bond sales	-	996
d) closing balance	**6,451**	**5,549**
- shares or stocks	6,201	5,549
- bonds	250	-

INVESTMENTS IN OTHER ENTITIES	As at 31.12.2019	As at 31.12.2018
Shares or stocks (measured at fair value through profit or loss):	**6,201**	**5,549**
Bank Polskiej Spółdzielczości	75	75
Warszawski Rolno-Spożywczy Rynek Hurtowy w Broniszach	5,838	5,436
Zakłady Mięsne Ostrołęka S.A.	37	37
Agencja Rozwoju Regionalnego S.A.	1	1
Spółdzielczy Bank Rozwoju	250	-
Bonds (measured at amortised cost),	**250**	**-**
Spółdzielczy Bank Rozwoju	250	-
Total	**6,451**	**5,549**

"PEPEES S.A. holds 3,000 non-privileged shares of the company "Warszawski Rolno-Spożywczy Rynek Hurtowy" Spółka Akcyjna with its registered office in Bronisze ("WRSRH") with a nominal value of PLN 3,000 thousand, purchased for PLN 2,550 thousand.

The fair value of the block of shares held by "PEPEES" S.A. as at 31.12.2019 was estimated by an independent actuary at PLN 5,838 thousand. The revaluation of the said shares in the amount of PLN 402 thousand was recognised in financial revenue of 2019.

These shares account for 2.5% of the WRSRH capital and 1.6% of votes at the General Meeting. The main owner of WRSRH is the State Treasury, which holds over 59% of the share capital. PEPEES has no control over WRSRH. This investment is measured at fair value through profit or loss and is shown in short-term assets.

In 2019, the Company acquired shares and bonds of SBR Bank Spółdzielczy in Szepietowo for the total amount of PLN 500 thousand. This is a long-term investment.

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The Company still holds shares in three other entities, which provide less than 5% of the total number of votes at the General Meeting and are not material due to the value and investment policy of the Company. Therefore, these shares were included in the statements at the transaction price.

11.7. Inventory

INVENTORY	As at 31 December 2019	As at 31 December 2018
a) materials	4,960	6,166
b) semi-finished products and work-in-process products	792	703
c) finished products	72,138	67,120
d) goods	8,524	4,687
Gross value of inventory	**86,414**	**78,676**
Revaluation charges	**(521)**	**(611)**
Net value of inventory	**85,893**	**78,065**

The value of inventories recognised as cost in the reporting period amounted to PLN 148,522 thousand (in 2018 – PLN 162,943 thousand).
The amount of write-downs recognised as costs during the period was PLN 633 thousand while in 2018 it was PLN 229 thousand.
The amount of reversal of inventory write-downs in 2019 was PLN 488 thousand (2018 – PLN 51 thousand).
The value of write-downs as at 31.12.2019 is PLN 521 thousand (31.12.2018 – PLN 611 thousand).

The carrying value of inventories constituting a collateral for bank borrowings is PLN 46,602 thousand (31.12.2018 – PLN 69,452 thousand).

Charges on inventories due to bank borrowings:

- registered pledge on stocks of potatoes, finished and semi-finished products for the benefit of Powszechna Kasa Oszczędności Bank Polski S.A. as a collateral for bank borrowing, whose debt as at 31.12.2019 is PLN 28,753 thousand,
- registered pledge on stocks of materials, finished products and goods for the benefit of Bank Zachodni WBK S.A. (currently Santander Bank Polska S.A.) as a collateral for bank borrowings, whose debt as at 31.12.2019 is PLN 26,296 thousand.

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11.8. Biological assets

Plant assets	As at 31 December 2019	As at 31 December 2018
Biological assets	322	330-
Total	**322**	**330**

Since March 2014, "PEPEES" S.A. has been leasing a farm and since March 2018 new land that has been sown with annual plants. Costs related to the purchase of seeds and cultivation as at the balance sheet date amount to PLN 6,920 thousand, revenue from agricultural activities – PLN 3,247 thousand, and the fair value of inventories is approximately PLN 444 thousand. Biological assets were recognised at fair value.

11.9. Trade receivables

CURRENCY STRUCTURE OF TRADE RECEIVABLES	As at 31 December 2019	As at 31 December 2018
a) in Polish currency	15,887	18,094
b) in foreign currencies (by currencies and after conversion into PLN)	4,619	9,557
B1. unit/currency USD/thousand	394	799
thous. PLN	1,454	2,921
B2. unit/currency EUR/thousand	767	1,588
thous. PLN	3,165	6,636
Total short-term receivables	**20,506**	**27,651**

RECEIVABLES FOR DELIVERIES AND SERVICES (GROSS) – WITH THE FOLLOWING PAYMENT PERIOD FROM THE BALANCE SHEET DATE:	As at 31 December 2019	As at 31 December 2018
a) up to 1 month	15,037	15,437
b) from more than 1 month up to 3 months	2,546	8,064
c) from more than 3 months up to 6 months	-	-
d) from more than 6 months up to 1 year	-	152
e) more than 1 year	50	-
f) overdue receivables	4,855	5,013
Total receivables for deliveries and services (gross)	22,488	28,666
g) revaluation write-offs for the receivables for deliveries and services	(1,982)	(1,015)
Total receivables for deliveries and services (net)	**20,506**	**27,651**

Overdue receivables, on which no write-downs were made, are receivables from debtors with whom the Group has cooperated for several years and the assessment of their economic and financial situation does not indicate that they are doubtful. The period for which these receivables are overdue is from several days to three months.

for the 12-month period ended 31 December 2019 (data in PLN thousand)

11.10. Other receivables

OTHER RECEIVABLES	As at 31 December 2019	As at 31 December 2018
- in respect of receivables from tax, subsidy, customs, social and health insurance and other benefits	5,841	5,194
- other	386	850
Total other short-term receivables, net	**6,227**	**6,044**
- receivables' write-downs	-	-
Total other short-term receivables, gross	**6,227**	**6,044**

11.11. Receivables in litigation

RECEIVABLES IN LITIGATION	As at 31 December 2019	As at 31 December 2018
Gross receivables in litigation	45	78
Receivables' write-downs	(45)	(78)
TOTAL RECEIVABLES IN LITIGATION	-	-

11.12. Receivables write-downs

CHANGE IN SHORT-TERM RECEIVABLES' WRITE-DOWNS	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
Opening balance	**1,093**	**1,082**
a) increases (due to)	1,031	236
- creation for doubtful trade receivables	1,017	135
- creation for interest due	-	24
- creation for receivables claimed in court	14	77
b) decreases (due to)	96	225
- release of provisions for payment	76	110
- utilisation due to amortisation and sale of receivables	-	4
- cancellation	20	111
Closing balance short-term receivables' write-downs	**2,028**	**1,093**

Increases and decreases in write-downs for receivables were recognised in the statement of comprehensive income under "other operating expenses".

for the 12-month period ended 31 December 2019 (data in PLN thousand)

11.13. Advances

ADVANCES	As at 31 December 2019	As at 31 December 2018
a) long-term, including:	-	-
b) short-term, including:	1,740	1,964
- rent for farm lease	624	24
- departmental seasonal production costs	77	59
- advances for supplies	451	1,583
- property insurance	277	235
- periodic review of devices	233	-
- other	78	63
Total	**1,740**	**1,964**

11.14. Cash and cash equivalents

CASH AND CASH EQUIVALENTS	As at 31 December 2019	As at 31 December 2018
Cash at bank and on hand	9,590	7,915
Short-term deposits	32,443	31,891
Total cash and cash equivalents	**42,033**	**39,806**
- including of limited disposability	-	-

Short-term deposits are made for various periods, from one day to several months, depending on the company's current demand for cash and are subject to interest rates set for them.

CASH AND CASH EQUIVALENTS (CURRENCY STRUCTURE)	As at 31 December 2019	As at 31 December 2018
a) in Polish currency	34,976	37,059
b) in foreign currencies (by currencies and after conversion into PLN)	7,057	2,747
B1. unit/currency USD/thousand	737	232
thous. PLN	2,717	847
B2. unit/currency EUR/thousand	1,049	454
thous. PLN	4,340	1,901
Total cash and cash equivalents	**42,033**	**39,806**

for the 12-month period ended 31 December 2019 (data in PLN thousand)

11.15. Share capital

Series / issue	Type of shares	Type of preferential rights attached to shares	Type of limitation of rights to shares	Number of shares	Value of the series / issuance according to the face value	Date of registration
A	ordinary bearer shares	Non-privileged	unrestricted	83 million	4,980	09.05.2008
B	ordinary bearer shares	Non-privileged	unrestricted	12 million	720	30.09.2014
Total no. of shares				95 million		
Total share capital					**5,700**	
Nominal value per share = PLN 0.06						

To the best of the Issuer's knowledge, the ownership structure as at the balance sheet date was as follows:

SHAREHOLDING	Number of shares [units]	Share in capital %	Number of votes	Share in total no. of votes at general meeting %
Epsilon Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych*	27,714,832	29.17%	6,312,599	6.64%
Michał Skotnicki**	21,399,174	22.53%	21,399,174	22.53%
Maksymilian Maciej Skotnicki**	20,703,282	21.79%	20,703,282	21.79%
Newth Jonathan Reginald	7,995,200	8.42%	7,995,200	8.42%
Richie Holding Ltd.	6,133,100	6.46%	6,133,100	6.46%
Other	11,054,412	11.63%	11,054,412	11.63%

*In connection with the failure to comply with the obligation to notify the acquisition of significant blocks of shares under the Act of 29 July 2005 on public offering and the conditions for admitting financial instruments to the regulated system of trading and on publicly traded companies, EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, holding – according to the information available to the Company – 27,714,832 shares in the Company, has lost and cannot exercise the voting rights from 21,402,233 shares. Therefore, the Management Board of the Company has filed with the District Court in Białystok a lawsuit for determination. Epsilon FIZ AN takes a different position, maintaining that it is entitled to vote from 27,714,832 shares constituting 29.17% of the total number of votes at the General Meeting. The case was joined by the President of the Polish Financial Supervision Authority, presenting his position on 24 July 2019. The Management Board is waiting for a final court decision. The Company informed about the case in current reports No. 13/2019, 14-23/2019 and 30/2019.

** Mr. Maksymilian Maciej Skotnicki and Mr. Michał Skotnicki are the persons referred to in Art. 87(4)(1) of the Act of 29 July 2005 on public offering and the conditions for admitting financial instruments to the regulated system of trading and on publicly traded companies, and thus the total number of shares/votes held by the above mentioned persons is 42,102,456, which corresponds to a 44.32% share in the share capital/total number of votes in the Company.

None of the other shareholders have reported a shareholding of at least 5% in the share capital and in the total number of votes at the GMS.

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11.16. Supplementary capital and reserve capital

SUPPLEMENTARY CAPITAL	As at 31 December 2019	As at 31 December 2018
a) from sale of shares above their face value	7,562	7,562
b) created statutorily	1,660	1,660
c) created from revaluations of assets (not subject to division)	31,122	31,122
d) created from profits	30,940	19,879
Total supplementary capital	**71,284**	**60,223**

OTHER RESERVE CAPITAL (BY INTENDED USE)	As at 31 December 2019	As at 31 December 2018
- investment fund	81,634	81,634
Other reserve capital, in total	**81,634**	**81,634**

REVALUATION RESERVE	As at 31 December 2019	As at 31 December 2018
- revaluation of employee benefit liabilities	(80)	(32)
- deferred tax on revaluation effects	15	6
Other reserve capital, in total	**(65)**	**(26)**

11.17. Retained earnings

RETAINED EARNINGS FROM PREVIOUS YEARS AND CURRENT YEAR	As at 31 December 2019	As at 31 December 2018
- retained profit (loss) from previous years	(3,871)	(5,223)
- net result for the period	24,091	23,091
Total retained earnings	**20,220**	**17,868**

11.18. Credits and loans

Long-term

LONG-TERM LIABILITIES, WITH THE PAYMENT PERIOD FROM THE BALANCE SHEET DATE	As at 31 December 2019	As at 31 December 2018
a) from more than 1 year up to 3 years	8,160	13,838
b) from more than 3 years up to 5 years	4,903	7,954
c) more than 5 years	11,726	8,606
Total long-term liabilities	**24,789**	**30,398**

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No.	Type of credit	Borrower	Credit amount pursuant to the contract	Currency	Outstanding amount of the credit	Currency	Interest rate	Time limit for payment
1	Investment loan for the construction of a starch dryer, an unloading hub and a water treatment plant	Pepees	9,822	PLN	3,001	PLN	WIBOR interest rate for 3-month deposits increased by the Bank's margin	25.02.2022
2	Investment loan for modernisation of steam boiler dust extraction system	Pepees	1,200	PLN	279	PLN	WIBOR interest rate for 3-month deposits increased by the Bank's margin	31.12.2020
3	Investment loan intended to finance and refinance the acquisition of 100% of shares in the company Gospodarstwo Rolne Ponary Sp. z o. o.	Pepees	10,530	PLN	8,274	PLN	WIBOR interest rate for 1-month deposits increased by the Bank's margin	30.06.2025
4	Investment loan	Bronisław	800	PLN	310		WIBOR interest rate for 1-month deposits increased by the Bank's margin	30.11.2021
5	Investment loan	Bronisław	8,456	PLN	7,505		WIBOR interest rate for 1-month deposits increased by the Bank's margin	31.12.2027
6	Investment syndicated loan	CHP	12,830	PLN	9,643		WIBOR interest rate for 3-month deposits increased by the Bank's margin	31.12.2023
7	Working capital loan to finance current liabilities	CHP	3,000	PLN	1,741		WIBOR interest rate for 3-month deposits increased by the Bank's margin	31.05.2022
8	Working capital loan, related to the conducted business activity	CHP	2,500	PLN	1,133		WIBOR interest rate for 3-month deposits increased by the Bank's margin	31.08.2021
			49,138	**PLN**	**31,886**	**PLN**		

The loans were measured in accordance with IFRS 9, at amortised cost.

The amount of PLN 7,097 thousand was recognised in the consolidated statement of financial position as short-term liabilities, as it will be repaid within 12 months of the balance sheet date.

Securities

Ad.1

The loan is secured with a contractual mortgage of PLN 14,734 thousand, assignment of rights under the insurance policy, statement of submission to enforcement.

Ad. 2

The loan is secured with an ordinary mortgage up to PLN 1,800,000, blank promissory note, power of attorney for bank accounts.

Ad. 3

The loan is secured with a joint mortgage of up to PLN 15,795 thousand, transfer of cash receivables under an insurance contract, registered pledges on 32,400 shares (100% of shares) in Gospodarstwo Rolne Ponary, a blank promissory note.

Ad. 4

The loan is secured with a contractual mortgage of PLN 1,200 thousand, which is credited by Bank Zachodni WBK, with its registered office in Wrocław, and with an aval together with a promissory note agreement.

Ad. 5

The loan is secured with a loan repayment surety granted by "PEPEES" S.A. in the amount of PLN 12,684 thousand.

Ad. 6

The syndicated loan is secured with the following contractual mortgages issued on three creditors:

- in the amount of PLN 8,288 thousand for the benefit of the Spółdzielczy Bank Rozwoju, Szepietowo Branch,
- in the amount of PLN 6,761 thousand for the benefit of Bank Spółdzielczy in Brańsk,
- in the amount of PLN 6,761 thousand for the benefit of the Bank Spółdzielczy, Andrzejewo Branch.

Additionally, the syndicated loan is secured with: blank promissory notes together with a promissory note agreement, aval, statement of submission to enforcement, power of attorney to the current account, transfer of receivables from the insurance contract, registered pledge of PLN 15,227 thousand on tangible assets for the benefit of the Spółdzielczy Bank Rozwoju, Szepietowo Branch.

Ad. 7

The loan is secured with a contractual mortgage of PLN 5,100 thousand, which is credited by the Spółdzielczy Bank Rozwoju, Szepietowo Branch, blank promissory note together with a promissory note agreement, statement of submission to enforcement, power of attorney to the current account, transfer of receivables from the insurance contract on construction risks and from the insurance contract on buildings and constructions.

Ad. 8

The loan is secured with a blank promissory note together with a promissory note agreement, aval granted by "PEPEES" S.A. and power of attorney to the current account.

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Short-term

Item	Type of credit	Borrower	Loan / borrowing amount pursuant to the contract	Currency	Outstanding amount of the credit	Currency	Interest rate	Time limit for payment
1	Overdraft	Pepees	4,000	PLN	-	PLN	. WIBOR 1M+ bank margin	31.08.2020
2	Revolving credit	Pepees	13,000	PLN	13,000	PLN	. WIBOR 1M+ bank margin	31.08.2020
3	Working capital loan	Pepees	17,000	PLN	17,000	PLN	. WIBOR 1M+ bank margin	31.08.2020
4	Overdraft	Pepees	4,000	PLN	-	PLN	. WIBOR 1M+ bank margin	31.08.2020
5	Revolving credit	Pepees	13,000	PLN	13,000	PLN	. WIBOR 1M+ bank margin	31.08.2020
6	Working capital loan for buying potatoes	Pepees	17,000	PLN	16,914	PLN	. WIBOR 1M+ bank margin	31.08.2020
7	Working capital loan	Lublin	2,000	PLN	1,841	PLN	. WIBOR 1M+ bank margin	31.08.2020
8	Working capital loan	Lublin	2,000	PLN	1,946	PLN	. WIBOR 1M+ bank margin	31.08.2020
9	Revolving credit	Lublin	3,000	PLN	2,688	PLN	. WIBOR 1M+ bank margin	31.08.2020
10	Working capital loan	Lublin	3,000	PLN	2,774	PLN	. WIBOR 1M+ bank margin	31.08.2020
11	Overdraft	Lublin	750	PLN	-	PLN	. WIBOR 1M+ bank margin	31.08.2020
12	Overdraft	Lublin	750	PLN	-	PLN	. WIBOR 1M+ bank margin	31.08.2020
13	Overdraft	Bronisław	750	PLN	552	PLN	. WIBOR 1M+ bank margin	31.08.2020
14	Purchase loan	Bronisław	10,000	PLN	6,522	PLN	. WIBOR 1M+ bank margin	31.08.2020
15	Revolving credit	Bronisław	5,000	PLN	5,000	PLN	. WIBOR 1M+ bank margin	31.08.2020
16	Overdraft	Bronisław	750	PLN	633	PLN	. WIBOR 1M+ bank margin	31.08.2020
17	Purchase loan	Bronisław	10,000	PLN	9,998	PLN	. WIBOR 1M+ bank margin	31.08.2020
18	Revolving credit	Bronisław	5,000	PLN	5,000	PLN	. WIBOR 1M+ bank margin	31.08.2020
19	Working capital loan, related to the conducted business activity	CHP	1,000	PLN	850	PLN	. WIBOR 1M+ bank margin	14.09.2020
			112,000	**PLN**	**97,718**	**PLN**		

**In the statement of financial position there is an amount of PLN 104,815 thousand; the difference relates to the part of long-term credits which will be repaid within 12 months from the balance sheet date.*

Securities

Credits were concluded on the basis of one agreement, the so-called "Multiline Agreement" and the so-called "Multi-purpose Credit Limit Agreement", and they are collateralised by:

- contractual mortgage in the amount of PLN 58,500 thousand on real estate:
  - belonging to PPZ Bronisław S.A.
  - belonging to ZPZ Lublin Sp. z o.o.

  - assignment of rights under the real estate insurance policy:
  - belonging to PPZ Bronisław S.A.
  - belonging to ZPZ Lublin Sp. z o.o.

  - registered pledge on assets:
  - belonging to PEPEES S.A.
  - belonging to PPZ Bronisław S.A.
  - belonging to ZPZ Lublin Sp. z o.o.
- assignment of rights under the fixed assets insurance policy
- registered pledge on inventories with a value not lower than 145% of the balance of the working capital loan together with the assignment of the inventory insurance policy,
- assignment of rights under the inventory insurance policy,
- transfer of receivables arising from the conducted activity of PEPEES S.A., PPZ Bronisław S.A., ZPZ Lublin Sp. z o.o,
- blank promissory note together with a promissory note agreement.
- blank promissory note together with a promissory note agreement issued by:
  - PEPEES S.A.
  - PPZ Bronisław S.A.
  - ZPZ Lublin Sp. z o.o.
- contractual mortgage up to the amount of PLN 58,500 thousand on real estate:
  - belonging to PPZ Bronisław S.A.
  - belonging to ZPZ Lublin Sp. z o.o.
- assignment of rights under the real estate insurance policy:
  - belonging to PPZ Bronisław S.A.
  - belonging to ZPZ Lublin Sp. z o.o.
- registered pledge on tangible assets
  - belonging to PEPEES S.A.
  - belonging to PPZ Bronisław S.A.
  - belonging to ZPZ Lublin Sp. z o.o.
- assignment of rights under the tangible assets insurance policy
- registered pledge on inventory
  - belonging to PEPEES S.A.
  - belonging to PPZ Bronisław S.A.
  - belonging to ZPZ Lublin Sp. z o.o.
- assignment of rights under the inventory insurance policy,

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- general assignment of 40% of receivables
    - belonging to PEPEES S.A.
    - belonging to PPZ Bronisław S.A.
    - belonging to ZPZ Lublin Sp. z o.o.

Ad. 19
The credit is secured by an aval for the benefit of SBR Bank granted by the Parent Company of Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A., a blank promissory note together with a promissory note agreement and power of attorney to the current account.

Information on not repaying a loan or breach of the relevant provisions of the credit agreement, in respect of which no action was taken until the end of the reporting period

All loans are repaid in accordance with the maturity dates resulting from the concluded agreements. In the reporting period no provisions of credit agreements were violated.

11.19. Liabilities due to assets under lease

FINANCIAL LEASE LIABILITIES	As at 31 December 2019	As at 31 December 2018
a) long-term (from 1 year to 5 years)	15,014	4,775
b) short-term (up to 1 year)	3,728	2,876
Total	**18,742**	**7,651**

The above liability results from agreements concluded to finance passenger cars and machinery and equipment. Payments are made in monthly instalments according to the repayment schedule, the last payment will be made in November 2023. The liability bears interest at a variable 1M WIBOR rate and a margin. In accordance with contractual provisions, all rights related to the implied and express warranty are transferred to the Lessee. An exception is the possibility of withdrawing from the sales contract, which is only the Lessor's right. The Lessee's obligations include timely payment of instalments, according to the schedule accepted thereby. In case of delays in instalment payments or lack thereof, the Lessor shall have the right to terminate the agreement and the right to the leased item return. After the end of the lease agreement, the ownership of the leased item is transferred by the Lessor to the Lessee.

FINANCIAL LEASE LIABILITIES	2020	2021-2023	Total
Nominal value of lease payments	4,512	17,011	21,523
Future financial expenses	(784)	(1,997)	(2,781)
Present value of minimum lease payments	**3,728**	**15,014**	**18,742**

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11.20. Liabilities due to retirement and similar benefits

LIABILITIES ON ACCOUNT OF RETIREMENT AND SIMILAR BENEFITS (BY TITLE)	As at 31 December 2019	As at 31 December 2018
a) long-term, including:	2,782	2,381
- retirement severance pay	538	467
- long service bonus	2,244	1,914
b) short-term, including:	413	296
- retirement severance pay	100	82
- long service bonus	313	214
Total	**3,195**	**2,677**

CHANGE IN LIABILITIES ON ACCOUNT OF RETIREMENT AND SIMILAR BENEFITS (BY TITLE)	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
a) opening balance	**2,677**	**2,576**
- retirement severance pay	550	468
- long service bonus	2,127	2,108
b) increases (due to)	**794**	**468**
- retirement severance pay	101	116
- long service bonus	693	352
c) utilisation (due to)	**261**	**345**
- retirement severance pay	38	22
- long service bonus	223	323
d) release (due to)	**15**	**22**
- retirement severance pay	13	12
- long service bonus	2	10
e) closing balance	**3,195**	**2,677**
- retirement severance pay	600	550
- long service bonus	2,595	2,127

Long service bonuses are paid every 5 years to employees who have at least 20 years of total employment period. The employment period entitling the employee to acquire the right to the long service bonus includes the periods of work in "PEPEES" S.A. and in companies separated from "PEPEES" S.A. subject to the employee's transfer from "PEPEES" S.A. to those companies pursuant to Art. 231 of the Labour Code, as well as the period of work in all entities that are employers within the meaning of the Labour Code and the periods of work on the farm in the case of taking over the farm by the employee.

The condition for acquiring the right to the long service bonus is working in "PEPEES" S.A. and the subsidiaries separated from "PEPEES" S.A., subject to the employee's transfer from "PEPEES" S.A. to these companies pursuant to Art. 231 of the Labour Code, for at least 5 years.

The assessment basis for the bonus is 150% of the gross minimum wage determined on the basis of generally applicable regulations.

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The amount of the long service bonus is calculated only for the working time in "PEPEES" S.A. and in the companies separated from PEPEES S.A. subject to the employee's transfer from "PEPEES" S.A. to these companies pursuant to Art. 231 of the Labour Code.

The amount of the bonus, depending on the total employment period, amounts to the following percentage of the assessment basis:

- after 20 years of work - 200%,
- after 25 years of work - 250%,
- after 30 years of work - 300%,
- after 35 years of work - 350%,
- after 40 years of work and every next 5-year period - 400%.

Part-time employees are awarded the long service bonus calculated in proportion to the working hours specified in the employment contract.

Retirement and disability severance pay in the Group is paid in accordance with the provisions of Art. 921 of the Labour Code.

An employee who meets the conditions entitling him/her to a disability or old-age pension, and whose employment relationship has ceased due to retirement for disability or old-age pension, is entitled to the severance pay in the amount of one month's remuneration.

Reemployed pensioners do not acquire the right to the severance pay again.

The amount of liabilities in **ZPZ Lublin** for particular periods has been calculated by an independent actuary.

The assessment basis for the bonus is the basic wage/salary on the day of acquiring the right to the bonus. Bonus amount depends on the employment period and equals 100% of the basic remuneration for each 5 years worked.

The periods of work entitling to the severance pay were defined in the Company Collective Labour Agreement. After 20 or more years of service, the severance pay amounts to 200% of the basic wage/salary.

An employee who has received the severance pay cannot acquire the right to it again.

Basic actuarial assumptions	**Balance-sheet date**	**Balance-sheet date**
	31.12.2019	**31.12.2018**
Remuneration annual growth rate	3.50%	3.50%
Discount rate	2.00%	2.80%

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11.21. Trade and other liabilities

SHORT-TERM LIABILITIES	As at 31 December 2019	As at 31 December 2018
- trade liabilities, with the maturity period:	7,424	13,064
- up to 12 months	7,424	13,064
- above 12 months	-	-
- due to tax, customs, insurance and other benefits	2,504	2,651
- due to payroll	1,474	1,341
- advances received for deliveries	543	575
- other	669	181
Total trade and other liabilities	**12,614**	**17,812**

11.22. Derivative financial instruments

As at the balance sheet date of 31.12.2019, PEPEES Capital Group did not have any unsettled forward contracts.

11.23. Provisions, accruals and deferred income

PROVISIONS, ACCRUALS, DEFERRED INCOME (BY TITLE)	As at 31 December 2019	As at 31 December 2018
a) long-term, including:	**5,632**	**6,269**
- grants to tangible fixed assets (property, plant and equipment)	5,632	6,269
b) short-term, including:	**4,319**	**3,816**
- grants to tangible fixed assets (property, plant and equipment)	622	622
- provision for environmental protection costs	83	96
- provision for holiday pay	702	753
- provision for bonuses for the Management Board and employees	1,456	1,379
- provision for non-invoiced services	23	24
- provision for CO2 emission allowances	1,433	942
Total	**9,951**	**10,085**

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CHANGE IN SHORT-TERM PROVISIONS (BY TITLES)	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
a) opening balance	**3,816**	**1,978**
- grants to tangible fixed assets (property, plant and equipment)	622	625
- provisions for services provided by counterparties	24	31
- surcharges on loans	-	8
- environmental fee	96	123
- provision for holiday pay	753	616
- emission allowances	942	305
- bonuses for the Management Board and employees	1,379	270
b) increases (due to)	**1,961**	**2,192**
- provision for CO2 emission allowances	1,433	637
- environmental fee	89	96
- provision for holiday pay	155	326
- provisions for services provided by counterparties	5	24
- bonuses for the Management Board and employees	279	1,109
c) utilisation (due to)	**1,458**	**354**
- environmental fee	102	123
- provision for holiday pay	206	189
- provision for CO2 emission allowances	941	-
- provisions for services provided by counterparties	6	31
- grants to tangible fixed assets (property, plant and equipment)	-	3
- surcharges on loans	-	8
- bonuses for the Management Board and employees	203	-
e) closing balance	**4,319**	**3,816**
- grants to tangible fixed assets (property, plant and equipment)	622	622
- provision for CO2 emission allowances	1,434	942
- environmental fee	83	96
- provision for holiday pay	702	753
- bonuses for the Management Board and employees	1,455	1,379
- provisions for services provided by counterparties	23	24

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11.24. Deferred income tax

PROVISION FOR DEFERRED INCOME TAX	As at 31 December 2019	As at 31 December 2018
Difference between balance sheet and tax value of tangible fixed assets	5,799	5,836
Unrealised foreign exchange differences	1	2
Investment valuation	625	548
Interest due but not received	22	80
Other	-	4
Total reserve for deferred income tax	**6,447**	**6,470**

DEFERRED INCOME TAX ASSETS	As at 31 December 2019	As at 31 December 2018
Unpaid wages/salaries	165	137
Provisions for unused holidays	113	123
Retirement benefits and long service bonuses	608	508
Unrealised foreign exchange differences	54	62
Receivables' write-downs	1	-
Inventory's write-downs	106	78
Shares write-downs	565	565
Liabilities from lease	1,016	1,095
Consolidation adjustments – retained earnings	(516)	(500)
Provision for bonuses for the Management Board and employees	261	262
Provision for CO2 emission allowances	272	179
Valuation of assets	2,392	2,428
Tax loss	-	26
Other	13	6
Total assets from deferred income tax	**5,050**	**4,969**

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12. Explanatory notes to the statement of comprehensive income

12.1. Revenue from sales of products

NET REVENUE FROM SALES OF PRODUCTS (STRUCTURE IN TERMS OF TYPES OF ACTIVITIES)	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
from continuing operations	***208,355***	***224,087***
- potato products	204,088	218,666
- electricity	3,540	4,460
- other products (feed and fertilisers)	727	961
from discontinued operations	-	-
Net revenue from sales of products, in total	**208,355**	**224,087**

12.2. Revenue from sales of services

NET REVENUE FROM SALES OF PRODUCTS (STRUCTURE IN TERMS OF TYPES OF ACTIVITIES)	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
- revenue from real estate lease	658	605
- electricity transmission	59	53
- water supply and sewage disposal	4	-
- equipment and car rental	52	51
- services to farmers	333	307
- real estate agency	284	-
- other services	433	168
Total net income from sales of services, including:	**1,823**	**1,184**
from continuing operations	*1,823*	*1,184*

for the 12-month period ended 31 December 2019 (data in PLN thousand)

12.3. Revenue from sales of goods and materials

NET REVENUE FROM SALES OF GOODS AND MATERIALS (BY TYPES OF ACTIVITY)	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
- potato	8,326	7,324
- potato products	7,480	661
- plant protection products	2,461	3,213
- materials and waste (scrap, waste paper, digestate)	910	235
- energy certificates	2,626	3,185
- other	-	52
Net revenue from sales of goods and materials, in total	**21,803**	**14,670**
from continuing operations	*21,803*	*14,670*

12.4. Costs by type

COSTS BY TYPE	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
a) amortisation	13,390	11,383
b) consumption of materials and energy	104,826	116,340
c) outsourced services	24,968	23,108
d) taxes and charges	4,348	5,014
e) payroll	30,437	27,056
f) social security and other benefits	7,002	5,914
g) other prime costs (due to)	2,880	2,507
- representation and advertising costs	374	513
- business trips	237	192
- costs of property and personal insurance	678	591
- costs of scientific analyses, studies and expert opinions	324	446
- other costs	1,267	765
Costs by type, in total	**187,851**	**191,322**
Change in the inventory, products as well as prepayments and accruals	(5,712)	7,572
Cost of manufacturing of products for entity's own needs	(3,396)	(3,785)
Selling costs (negative value)	(10,461)	(10,746)
General administration costs (negative value)	(33,099)	(31,347)
Cost of products and services sold	**135,183**	**153,016**

for the 12-month period ended 31 December 2019 (data in PLN thousand)

12.5. Costs of employee benefits

COSTS OF EMPLOYEE BENEFITS	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
e) payroll costs, including:	**30,437**	**27,056**
- remuneration under employment contracts	26,340	22,977
- remuneration under contracts of mandate and similar	2,387	1,795
- remuneration of the Supervisory Board members	1,249	782
- severance pay and long service bonus	452	243
- provision for pay in respect of unused holiday	9	150
- provision for bonuses for the Management Board and employees	-	1,109
f) social insurance and other benefits, of which:	**7,002**	**5,914**
- costs of social insurance	5,432	4,385
- write-downs for labour fund	557	471
- write-downs for social benefits fund	587	588
- staff training costs	104	76
- workwear	74	88
- costs of medical examinations and occupational health and safety	248	184
- other benefits	-	122
Total costs of employee benefits	**37,439**	**32,970**

12.6. Result of agricultural production

Specification	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
Revenue from sales of agricultural products	1,884	1,904
Revenue from the lease of agricultural land	372	441
Grants	859	981
Result on sales of agricultural machinery	52	-
operating expenses	(6,840)	(5,289)
Other agricultural costs	-	(158)
Result of agricultural production	**(3,673)**	**(2,121)**

for the 12-month period ended 31 December 2019 (data in PLN thousand)

12.7. Other operating revenue

OTHER OPERATING REVENUE	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
a) profit from sale of non-financial fixed assets	160	184
b) released provisions, due to:	86	185
- receivables' write-downs	86	185
c) governmental grants, including:	636	630
- grants to tangible fixed assets (property, plant and equipment)	636	622
- surcharges on investment loans	-	8
d) other, including:	259	377
- received damages, penalties, fines	184	276
- assets surplus	11	2
- other	64	99
Other operating revenue, in total	**1,141**	**1,376**

12.8. Other operating expenses

OTHER operating expenses	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
a) loss on disposal of non-financial fixed assets	-	-
b) other, including:	**1,376**	**1,768**
- donations	88	73
- costs of non-financial fixed assets' liquidation	73	-
- liquidation of warehouse stocks	-	11
- costs of litigation	67	45
- receivables' write-downs	208	201
- not planned amortisation (depreciation) write-downs	411	1,060
- paid damages, penalties, fines	118	65
- written-off debts	17	87
- shortages in assets	90	18
- bailiff costs	-	2
- costs of accident repair	108	40
- goods requalification	-	3
- other	201	163
Other operating expenses, in total	**1,376**	**1,768**

for the 12-month period ended 31 December 2019 (data in PLN thousand)

12.9. Financial expenses

financial expenses	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
a) interest on credits and loans	2,220	2,265
b) interest on liabilities	632	18
c) revaluation of credits	-	10
g) negative exchange differences	265	268
- realised	265	268
h) other financial expenses	583	513
- lease payments	282	343
- commissions on credits and reimbursement of BFG bank fees	209	147
- discount on debt redemption	92	23
Financial expenses, in total	**3,700**	**3,074**

12.10. Financial revenue

FINANCIAL REVENUE	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
a) dividends	150	122
b) interest on loans	35	206
c) interest on deposits	274	142
d) interest on receivables	30	46
e) revaluation of financial assets	402	2,886
f) revenue on sales of financial assets	-	24
g) positive exchange differences	90	145
- realised	90	248
- non-realised	-	(103)
Financial revenue, in total	**981**	**3,571**

for the 12-month period ended 31 December 2019 (data in PLN thousand)

12.11. Income tax

INCOME TAX	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
Current tax	(7,842)	(7,367)
Dividend tax	(29)	
Deferred tax	117	362
Income tax, in total	**(7,754)**	**(7,005)**

Reconciliation of income tax on the gross financial result before tax at the statutory tax rate with income tax calculated at the effective tax rate:

Specification	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
Gross financial result before tax	32,536	30,419
Consolidation exclusions	(128)	(2,593)
Losses of companies	991	1,776
Gross financial result without consolidation exclusions	**33,399**	**29,602**
Income tax in accordance with the statutory 19% rate	(6,346)	(5,624)
Tax on permanent differences between gross profit and tax base	(1,408)	(1,381)
Charging the result at the effective tax rate of 23.83% in 2019 and 23.03% in 2018	**(7,754)**	**(7,005)**

The Group does not constitute a tax capital group according to the provisions of the Corporate Income Tax Act. Each company settles its income tax independently.

In 2019, the Parent Company paid to the tax office PLN 5,110 thousand of tax, including 1,363 thousand for 2018, as well as 29 thousand due to the received dividend. Tax due to be paid for 2019 - PLN 2,394 thousand.

12.12. Earnings per share

Earnings per share were calculated by dividing profit attributable to shares of the Parent Company for a given period by the weighted average number of shares. All shares are ordinary bearer shares.

Weighted average number of shares				
the beginning of the period	the end of the period	number of days (A)	number of shares within a given period (B)	(A) x (B) / 365
01.01.2019	31.12.2019	365	95,000,000	95,000,000
Total:		**365**	**Weighted average:**	**95,000,000**

PROFIT (LOSS) PER ONE SHARE	**For the 12-month period ended 31 December 2019**	**For the 12-month period ended 31 December 2018**
Net profit (loss) (in PLN)	24,091	23,091
Weighted average number of shares	95,000,000	95,000,000
Basic net profit per share (expressed in PLN per share)	0.254	0.243
Net profit, used to determine diluted earnings per share	24,091	23,091
Weighted average number of ordinary shares for diluted earnings per share	95,000,000	95,000,000
Diluted net profit per share (expressed in PLN)	0.254	0.243

TOTAL NET INCOME PER ONE SHARE	**For the 12-month period ended 31 December 2019**	**For the 12-month period ended 31 December 2018**
Total net income in thousand PLN	24,052	22,945
Number of shares	95,000,000	95,000,000
Total income (loss) per share in PLN	**0.253**	**0.242**

12.13. Management Board's position on the implementation of the forecast

The Group did not publish forecasts for individual results. In the near future, the Group does not plan to publish forecasts for the following years.

12.13. Information on paid (or declared) dividend, in total and per one share, divided into ordinary and privileged shares

On 28 June 2019, the Ordinary General Meeting of Przedsiębiorstwo Przemysłu Spożywczego "PEPEES S.A. adopted Resolution No. 15 on the distribution of profit for the financial year 2018 in the amount of PLN 17,442 thousand in such a way that a part of the profit, i.e. the amount of PLN 11,400 thousand is allocated to the payment of dividend in the amount of PLN 0.12 per share and the rest of the profit, in the amount of PLN 6,042 thousand is allocated to the Company's supplementary capital.

for the 12-month period ended 31 December 2019 (data in PLN thousand)

The date on which the list of shareholders entitled to receive the dividend was established was 8 July 2019 and the payment date was set for 27 September 2019. The dividend was paid on time.

13. Explanatory notes to the cash flow statement

13.1. Reconciliation of amounts recognised in the cash flow statement with the balance of cash and cash equivalents in the balance sheet

Specification	As at 31 December 2019	As at 31 December 2018
Cash and cash equivalents in the statement of financial position	42,033	39,806
Overdraft	(1,185)	(35)
Exchange rate differences on cash valuation	78	(7)
Cash balance in cash flow statement	**40,926**	**39,764**

The Group has no restricted cash.

13.2. Non-monetary transactions

Specification	2019	2018
Acquisition of assets through finance lease	(2,761)	(594)
Credit valuation at adjusted cost (change)	-	10
Accrued but unpaid interest on the loan (change)	338	204

13.3. Unused overdraft limits

As at 31.12.2019, the Group had unused overdraft facilities in the amount of PLN 9,815 thousand (31.12.2018: PLN 10,865 thousand).

14. Contingent items

a) Contingent assets

The Group has 680,849 m^2 of land in perpetual usufruct, the value of which as at 31.12.2019, resulting from the decision setting the annual fee, amounts to PLN 24,011 thousand (2018 - 23,336,000 PLN

Group companies pay an annual fee of 3% of the value. The fee in 2019 was PLN 714 thousand (2018 - PLN 419 thousand)

From 2019 onwards, the perpetual usufruct of land is shown in the statement of financial position under "rights to assets".

b) Contingent liabilities

CHANGE IN CONTINGENT LIABILITIES (BY TITLES)	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
a) opening balance, including	**32,142**	**19,052**
- liabilities under non-competition agreements	1,407	818
- sureties for credits to related companies	30,918	18,234
b) increases (due to)	**1,456**	**13,090**
- liabilities under non-competition agreements	156	406
- sureties for credits to related companies	1,300	12,684
c) utilisation (due to)	-	-
d) release (due to)	-	-
e) closing balance, including:	**33,781**	**32,142**
- liabilities under non-competition agreements	1,563	1,224
- sureties for credits to related companies	32,218	30,918

for the 12-month period ended 31 December 2019 (data in PLN thousand)

15. Issuer's transactions with related entities

15.1. Transactions with subsidiaries

a. Revenue from sales of products and goods

Types of revenue	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
Revenue from sales of products to subsidiaries	1,240	211
Revenue from sales of services to subsidiaries	411	356
Revenue from sales of goods to subsidiaries	559	130
Revenue from sales of materials to subsidiaries	39	61
Revenue from sales of raw materials to subsidiaries	2,789	3,078
Revenue from sales of tangible fixed assets to subsidiaries	28	-
Total revenue from related entities	**5,066**	**3,836**

The sales price is determined using the "cost plus" method or on the basis of price lists applicable to unrelated entities.

b. Purchases of products, goods and services from subsidiaries

Types of purchases	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
Purchases of products from subsidiaries	8,399	5,365
Purchases of services from subsidiaries	187	365
Purchases of goods and materials from subsidiaries	198	2,361
Purchases of raw materials from subsidiaries	2,720	-
Total revenue from related entities	**11,504**	**8,091**

c. Settlement balances as at the balance sheet date arising from the sale/purchase of goods/services

Receivables from related entities	As at 31 December 2019	As at 31 December 2018
PPZ BRONISŁAW	295	1,241
CHP Energia	1,023	371
CHP Energia zaliczki	323	461
GR PONARY	1	1
Pepees Inwestycje (earlier OZENERGY)	6	5
Total receivables from related entities	**1,648**	**2,079**

for the 12-month period ended 31 December 2019 (data in PLN thousand)

Liabilities towards related entities	As at 31 December 2019	As at 31 December 2018
ZPZ Lublin	53	82
PPZ BRONISŁAW	-	19
Other liabilities towards the related entities	**53**	**101**

d. Loans granted to related entities

Loans granted to related entities	As at 31 December 2019	As at 31 December 2018
ZPZ LUBLIN Sp. z o.o.	1,800	3,000
CHP Energia Sp. z o.o.	4,788	4,905
GR PONARY Sp. z o.o.	553	553
Pepees Inwestycje Sp. z o.o.	-	1,465
Loans granted, of which:	**7,141**	**9,923**
- repayable within one year	7,141	9,923
- with repayments over one year	-	-
Write-offs for loans granted to CHP	(2,268)	(2,452)
Loans in the statement of financial position	**4,873**	**7,471**

e. Interest on granted loans and sureties

Entity	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
ZPZ Lublin	116	128
PPZ BRONISŁAW	127	178
CHP Energia	476	551
GR PONARY	19	18
Pepees Inwestycje	35	40
Total	**773**	**915**

f. Interest on sureties received

Entity	For the 12-month period ended 31 December 2019	For the 12-month period ended 31 December 2018
GR PONARY	158	166
Total	**158**	**166**

g. contingent items

Contractual mortgages have been established on assets of subsidiaries (ZPZ Lublin and PPZ Bronisław) to secure credits taken by "PEPEES" S.A. up to the amount of PLN 68,000 thousand.

15.2. Transactions with the key management personnel of the Issuer

a) benefits for key management personnel

Management Board in thousand PLN:	**For the 12-month period ended 31 December 2019**	**For the 12-month period ended 31 December 2018**
Short-term benefit	1,819	1,378
Post-employment benefits		
Other long-term benefits		
Benefits due to termination of employment		
Share-based payments		
Supervisory Board in thousand PLN	**For the 12-month period ended 31 December 2019**	**For the 12-month period ended 31 December 2018**
Short-term employee benefits	739	412
Post-employment benefits		
Other long-term benefits		
Benefits due to termination of employment		
Share-based payments		

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

Information on remuneration received by individual Members of the Issuer's Management Board and Supervisory Board is included in the report on activities.

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

16. Financial risk management

The main risks arising from the Group's financial instruments include interest rate risk, liquidity risk, foreign currency risk and credit risk. The Management Board reviews and agrees rules for managing each of these risks - these rules are summarised below. The Group also monitors the market price risk arising from all financial instruments that it holds.

Interest rate risk

The Group's exposure to the risk caused by changes in interest rates relates primarily to loans whose interest rate depends on the bills rediscount rate and WIBOR rate. The Group did not conclude any contracts for the exchange of interest rates.

The table below shows the sensitivity of the gross financial result on an annual basis to reasonable possible changes in interest rates, assuming that other factors remain unchanged (in connection with variable interest rate liabilities).

for the 12-month period ended 31 December 2019 (data in PLN thousand)

Increases/decreases by percentage points	**Impact on the result**	
	2019	**2018**
Increase in interest rate on credits by 1%	(425)	(429)
Decrease in interest rate on credits by 1%	425	429

Currency risk

The Group is exposed to foreign exchange risk on account of concluded transactions. Such risk arises as a result of sales for export and to European Union countries in currencies other than PLN. During the reporting period, export and intra-Community supply accounted for over 39% of all sales revenue.

The table below shows the sensitivity of the gross financial result due to the change in the value of revenue and costs in case of USD and EUR exchange rate fluctuations by 0.1 PLN/EUR/USD.

Increases/decreases in foreign exchange rate	**Impact on the result**	
	2019	**2018**
PLN/USD exchange rate increase by 0.1	549	475
PLN/EUR exchange rate increase by 0.1	759	1,206
PLN/USD exchange rate decrease by 0.1	(549)	(475)
PLN/EUR exchange rate increase by 0.1	(759)	(1,206)
Total impact on the result	**+/-1,308**	**+/-1,681**

In addition, the Group has cash in bank and receivables in EUR and USD.

The table below presents the effects of a change in the exchange rate of USD and EUR by 0.1 PLN/EUR/USD held as at the balance sheet date.

Increases/decreases in foreign exchange rate	**Impact on the result**	
	2019	**2018**
PLN/USD exchange rate increase by 0.1	272	84
PLN/EUR exchange rate increase by 0.1	433	171
PLN/USD exchange rate decrease by 0.1	(272)	(84)
PLN/EUR exchange rate increase by 0.1	(433)	(171)
Total impact on the result	**'+/705**	**+/255**

Credit risk

The Group concludes transactions only with proven customers with good creditworthiness. All customers who wish to use trade credits are subject to preliminary verification procedures. Moreover, thanks to the ongoing monitoring of receivables, the Group's exposure to the risk of uncollectible receivables is insignificant. Assessment of financial credibility by the insurer, KUKU company, and assessment of the financial limit granted is also of crucial importance.

There are no significant concentrations of credit risk in the Group.

for the 12-month period ended 31 December 2019 (data in PLN thousand)

Liquidity-related risk

The objective of the Group is to maintain a balance between continuity and flexibility of financing, by using various financing sources, such as overdrafts, short-term and long-term preferential bank credits. The Group manages its liquidity risk by maintaining an adequate amount of reserve capital, using offers of banking services and reserve credit lines, by constantly monitoring projected and actual cash flows and by adjusting the maturity profiles of financial assets and liabilities.

17. Capital management

The main objective of the Group's capital management is to ensure the ability to continue as a going concern, taking into account the implementation of planned investments, while increasing the Group's value for shareholders.
The Group monitors its capital using the leverage ratio, which is calculated as the ratio of net debt to total equity increased by net debt. The Group's net debt includes credits, loans, financial lease liabilities, trade liabilities and other liabilities, less cash and cash equivalents.

Specification	As at 31 December 2019	As at 31 December 2018
Credits, loans and finance lease liabilities	148,346	128,693
Trade and other liabilities	12,614	17,812
Cash and cash equivalents (-)	(42,033)	(39,806)
Net debt	118,927	106,699
Equity	178,773	165,399
Capital and net debt	297,700	272,098
Leverage ratio	**39.95%**	**39.21%**

The leverage ratio in 2019 was higher than in 2018. There was an increase in credits, loans and financial lease liabilities by PLN 19,653 thousand in relation to the previous year. There was also an increase in cash by PLN 2,227,000 in relation to 2018, thanks to which, despite the increase in debt, the leverage ratio did not change significantly.

18. Average employment in the Group

Specification	Average employment in 2019	Average employment in 2018
White-collar employees	154	150
Blue-collar employees	315	347
Persons taking advantage of child-care leaves or unpaid leaves	1	-
Total	**470**	**497**

19. Remuneration of the auditor

Auditor's remuneration due for the review of semi-annual financial statements and consolidated financial statements as well as the audit of financial statements and consolidated financial statements is PLN 59,700 plus VAT. The auditor has not provided any other services to PEPEES.

20. Indication of significant proceedings pending before a court, competent arbitration authority or public administration body, concerning the Group's liabilities and receivables, with indication of the subject of the proceedings, the value of the subject of the dispute, the date on which the proceedings were initiated, the parties to the proceedings and the Group's position.

On 25.06.2019 the Management Board of Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. filed a lawsuit with the court to determine that a shareholder of EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, holding – according to information held by the Parent Company – 27,714,832 shares, due to violation of the obligation to notify the acquisition of significant blocks of shares pursuant to Art. 89(1)(1) of the Act on public offering and the conditions for admitting financial instruments to the regulated system of trading and on publicly traded companies, has lost and cannot exercise the voting rights from 21,402,233 shares. Epsilon FIZ AN takes a different position, maintaining that it is entitled to vote from 27,714,832 shares constituting 29.17% of the total number of votes at the General Meeting. The case was joined by the President of the Polish Financial Supervision Authority, presenting his position on 24 July 2019. The Management Board is waiting for a final court decision. The Parent Company informed about the case in current reports No. 13/2019, 14-23/2019 and 30/2019.

As at the date of preparation of these statements there is an unresolved case brought by EPSILON Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych w Warszawa against "PEPEES" S.A. for revoking or declaring the invalidity of resolutions No. 24-29 adopted on 28 June 2019 by the Ordinary General Meeting of Shareholders, including resolution No. 28 on amending the Company's Articles of Association and authorising the Management Board of the Company to increase the share capital of the Parent Company within the limits of the authorised capital together with the possibility for the Management Board to exclude the pre-emptive rights of the present shareholders of the Company in whole or in part with the consent of the Supervisory Board of the Company.

In the remaining scope there are no other significant proceedings pending before a court, arbitration authority or public administration authority concerning liabilities and receivables of the Issuer or its subsidiaries.

21. Important events that occurred after the balance sheet date

On 25 February 2020 Przedsiębiorstwo Przemysłu Spożywczego "PEPEES" S.A. signed a letter of intent with the Korean Daesang Corporation ("Daesang") in which the parties undertook to continue negotiations in good faith on cooperation in the production of potato starch modifiers and other starch derivatives, including the necessary research and investments, as well as to develop and agree on appropriate documentation.

At the end of 2019, first news from China on COVID-19 (coronavirus) appeared. In the first months of 2020, the virus spread around the world and its negative impact affected many countries. Although this situation is still evolving at the time of publication of these financial statements, it appears that the negative impact on global trade and the entity may be more serious than originally expected. The exchange rates of currencies used by the entity have weakened, market shares have fallen, and goods prices fluctuate significantly / are significantly lower. The management considers such a situation as an event that does not result in adjustments to the 2019 financial statements, but rather as an event after the balance sheet date that requires additional disclosures. Because the situation is still developing, the management believes that it is not possible to provide quantitative estimates of the potential impact of the current situation on the entity. The potential impact will be included in impairment losses on assets and provisions for expected losses in 2020.

22. Approval of the Financial Statements

The annual consolidated financial statements were approved by the Management Board on 19 March 2020 and approved for publication on 20 March 2020.

SIGNATURES OF THE MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT COMPANY

President of the Management Board – Wojciech Faszczewski

Signed by / Podpisano przez:

Wojciech Faszczewski
Przedsiębiorstwo Przemysłu Spożywczego PEPPES S.A.

Date / Data: 2020-03-19 11:46

Member of the Management Board - Tomasz Krzysztof Rogala

Signed by / Podpisano przez:

Tomasz Krzysztof Rogala
Przedsiębiorstwo Przemysłu Spożywczego PEPPES S.A.

Date / Data: 2020-03-19 11:19

SIGNATURE OF THE PERSON WHO HAS DRAWN UP THE REPORT

Chief Accountant – Wiesława Załuska

Signed by / Podpisano przez:

Wiesława Załuska
Przedsiębiorstwo Przemysłu Spożywczego PEPEES SA

Date / Data: 2020-03-19 10:50