

**QUARTERLY FINANCIAL INFORMATION
OF THE PARENT COMPANY —
PEPEES S.A.**

**FOR THE PERIOD FROM 1 JANUARY 2018
TO 30 SEPTEMBER 2018**

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

16 NOVEMBER 2018

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

ASSETS		30.09.2018	30.06.2018	31.12.2017	30.09.2017
I	Non-current (long-term) assets	128,796	126,340	118,847	124,958
1	Property, plant and equipment	94,850	92,366	91,659	90,123
2	Intangible assets	384	216	211	201
3	Investments in subsidiaries	21,632	21,632	15,122	17,997
4	Investments in associates	-	-	-	-
5	Investments in other entities	113	113	113	113
6	Loans granted	700	700	-	5,800
7	Long-term advances	8,404	8,596	8,979	9,170
8	Deferred tax assets	2,713	2,717	2,763	1,554
II	Current (short-term) assets	92,534	87,786	118,054	76,232
1	Inventories	35,432	25,887	56,386	30,196
2	Biological assets	219	2,251	-	300
3	Trade receivables	25,008	26,687	19,807	27,447
4	Other receivables	4,680	1,605	4,076	4,756
5	Advances	4,914	6,213	1,279	5,279
6	Loans granted	13,112	13,152	8,381	3,696
7	Other financial assets	273	181	-	-
8	Investments held for trading	2,550	4,540	3,546	3,545
9	Cash and cash equivalents	6,346	7,270	24,579	1,013
Total assets		221,330	214,126	236,901	201,190

EQUITY AND LIABILITIES		30.09.2018	30.06.2018	31.12.2017	30.09.2017
I	Equity	148,578	145,345	139,112	135,992
1	Share capital	5,700	5,700	5,700	5,700
2	Reserve capital and other reserves	133,584	121,265	121,265	121,265
3	Revaluation reserve	(26)	(26)	(172)	(328)
4	Retained earnings/loss from previous years and the present year	9,320	18,406	12,319	9,355
II	Non-current liabilities	27,879	29,415	28,474	19,211
1	Loans and borrowings	12,472	13,138	11,248	5,478
2	Liabilities related to leased assets	5,321	6,119	7,029	4,177
3	Deferred tax liability	6,038	6,085	6,133	5,488
4	Retirement and similar benefits obligations	1,806	1,806	1,752	1,731
5	Grants	2,242	2,267	2,312	2,337
III	Current liabilities	44,873	39,366	69,315	45,987
1	Trade payables	19,270	11,556	7,552	21,881
2	Current income tax liabilities	-	-	2,757	1,511
3	Other current liabilities	2,505	1,937	2,626	4,823
4	Loans and borrowings	18,383	21,274	52,573	14,946
5	Liabilities related to leased assets	2,540	2,316	2,225	1,690
6	Retirement and similar benefits obligations	235	235	274	259
7	Provisions for other liabilities and other charges	1,940	2,048	1,308	877
Total equity and liabilities		221,330	214,126	236,901	201,190

THE INCOME STATEMENT AND THE STATEMENT OF OTHER COMPREHENSIVE INCOME OF PRZEDSIĘBIORSTWO PRZEMYSŁU SPOŻYWCZEGO PEPEES S.A.

<i>Revenue and expenses Profits and losses</i>		<i>01.07.2018- 30.09.2018</i>	<i>01.01.2018- 30.09.2018</i>	<i>01.07.2017- 30.09.2017</i>	<i>01.01.2017- 30.09.2017</i>
I	Sales revenue	42,822	126,068	35,328	116,215
1	Revenue from the sales of products	39,663	110,188	32,135	98,103
2	Revenue from the sales of services	241	514	240	436
3	Revenue from the sales of trade goods and materials	2,918	15,366	2,953	17,676
II	Cost of sales	(30,589)	(90,838)	(25,054)	(83,664)
1	Cost of products sold	(26,717)	(74,325)	(21,900)	(66,449)
2	Cost of services sold	(159)	(341)	(93)	(265)
3	Costs of trade goods and materials sold	(2,609)	(14,161)	(2,559)	(15,991)
4	Profit/loss from agricultural production	(1,104)	(2,011)	(502)	(959)
III	Gross profit from sales (I-II)	12,233	35,230	10,274	32,551
1	Selling and marketing expenses	(2,658)	(6,682)	(2,291)	(7,017)
2	Administrative expenses	(5,587)	(16,433)	(4,283)	(13,284)
3	Other operating income	162	376	223	387
4	Other operating expenses	60	(439)	(59)	(255)
IV	Operating profit	4,210	12,052	3,864	12,382
1	Finance costs	(364)	(1,232)	(149)	(1,209)
2	Finance income	289	1,232	170	535
V	Profit (loss) before tax	4,135	12,052	3,885	11,708
VI	Income tax expense	(902)	(2,732)	(730)	(2,353)
VII	Net profit (loss)	3,233	9,320	3,155	9,355
VIII	Other comprehensive income	-	146	-	(50)
1	Revaluation of employee benefit liabilities		146	-	(50)
VIII	Total comprehensive income, including	3,233	9,466	3,155	9,305
IX	Net earnings (loss) per share	0.03	0.10	0.03	0.10

THE STATEMENT OF CHANGES IN EQUITY OF PRZEDSIĘBIORSTWO PRZEMYSŁU SPOŻYWCZEGO PEPEES

	<i>Share capital</i>	<i>Reserve capital</i>	<i>Revaluation reserve</i>	<i>Other reserves</i>	<i>Retained earnings/loss</i>	<i>Total equity</i>
As at 1 January 2017	5,700	51,950	(278)	53,397	15,918	126,687
Corrections of errors from previous years						-
As at 1 January 2017	5,700	51,950	(278)	53,397	15,918	126,687
Changes in the period from 01.01.2017 to 30.09.2017						
Distribution of profit for 2016				15,918	(15,918)	-
Net profit (loss) for the period					9,355	9,355
Other comprehensive income for the year (net)			(50)			(50)
As at 30 September 2017	5,700	51,950	(328)	69,315	9,355	135,992
Changes in 2017						-
Distribution of profit for 2016	-		-	15,918	(15,918)	-
Net profit (loss) for the period		-			12,319	12,319
Other comprehensive income for the year (net)			106			106
As at 31 December 2017	5,700	51,950	(172)	69,315	12,319	139,112
Changes in the period from 01.01.2018 to 30.09.2018						-
As at 1 January 2018	5,700	51,950	(172)	69,315	12,319	139,112
Distribution of profit for 2017				12,319	(12,319)	-
Net profit (loss) for the period					9,320	9,320
Other comprehensive income for the year (net)			146			146
As at 30 September 2018	5,700	51,950	(26)	81,634	9,320	148,578

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

STATEMENT OF CASH FLOWS	01.07.2018- 30.09.2018	01.01.2018- 30.09.2018	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017
A. Cash flows from operating activities - indirect method				
I. Profit (loss) before tax	4,135	12,052	3,885	11,708
II. Total adjustments	2,398	25,357	1,359	23,450
1. Depreciation/Amortisation	2,561	6,915	1,646	4,844
2. Foreign exchange (gains) losses	(164)	(190)	2	2
3. Interest and share of profit (dividend)	159	785	(315)	141
4. (Profit) loss on investing activities	(1)	(99)	189	(134)
5. Net increase/decrease in provisions	(108)	647	47	(394)
6. Net increase/decrease in inventories	(9,545)	20,954	(10,013)	20,759
7. Net increase/decrease in biological assets	2,032	(219)	447	(142)
8. Net increase/decrease in receivables	(1,396)	(5,805)	(4,935)	(11,060)
9. Net increase/decrease in current liabilities, except for borrowings	8,282	11,597	14,269	15,745
10. Net increase/decrease in advances	1,491	(3,060)	76	(2,424)
11. Income tax expense	(1,114)	(5,727)	(355)	(3,740)
12. Net increase/decrease in grants	(25)	(70)	(28)	(84)
13. Net increase/decrease in accrued interest on loans	121	(191)	(28)	(28)
14. Other adjustments	105	(180)	357	(35)
III. Net cash flows from operating activities	6,533	37,409	5,244	35,158
B. Cash flows from investing activities				
I. Proceeds	1,076	1,334	881	2,609
1. Disposal of intangible assets and property, plant and equipment	1	129	(127)	197
2. Repayments of cash loans	1,075	1,205	1,008	2,412
II. Expenses	4,597	21,878	10,249	21,593
1. Acquisition of intangible assets and property, plant and equipment	4,597	9,918	7,246	11,309
2. Purchase of shares	-	3,510	2,025	6,338
3. Purchase of bonds	-	3,000	995	995
4. Loans granted	-	5,450	(17)	2,951
III. Net cash flows from investing activities	(3,521)	(20,544)	(9,368)	(18,984)
C. Cash flows from financing activities				
I. Proceeds	10,123	13,878	9,354	9,962
1. Loans and borrowings	10,123	13,598	9,343	9,541
2. Received additional payments	-	280	11	421
II. Expenses	16,788	54,188	16,118	50,256
1. Repayments of loans and borrowings	15,958	51,316	15,466	48,244
2. Interest on loans and borrowings	159	785	65	521
3. Lease payments	671	2,087	587	1,491
III. Net cash flows from financing activities (I-II)	(6,665)	(40,310)	(6,764)	(40,294)
D. Total net cash flows (A.III+/-B.III+/-C.III)	(3,653)	(23,445)	(10,888)	(24,120)
E. Balance sheet change in cash, including:	(924)	(18,233)	(7,403)	(20,635)
- net increase/decrease in cash due to foreign exchange differences	(184)	(200)	2	2
- net increase/decrease in bank overdrafts	(2,545)	(5,012)	(3,487)	(3,487)
F. Cash at the beginning of period	4,797	24,589	8,416	21,648
G. Cash at the end of period (F+/-D)	1,144	1,144	(2,472)	(2,472)
- including restricted cash	-	-	-	-

SELECTED NOTES

1. Accounting principles

The figures and data for the financial statements for the third quarter of 2018 have been prepared with the application of the same accounting policies as those applied for the annual consolidated financial statements for the year ended 31 December 2017, except for the application of the following new or revised standards and interpretations applicable to annual periods beginning on or after 1 January 2018.

The IFRSs comprise standards and interpretations adopted by the International Accounting Standards Board ('IASB') and the International Financial Reporting Interpretations Committee ('IFRIC'). The IFRSs as approved by the EU do not differ significantly from the regulations approved by the International Accounting Standards Board (IASB), except for the following items awaiting the approval by the European Union.

When preparing this financial information of the parent company, certain information and disclosures which, in accordance with the IFRSs adopted by the EU, are usually included in the full financial statements, are presented here in an abbreviated form or omitted in accordance with IAS 34.

Therefore, this financial information should be read together with the most recent full separate financial statements of the Company prepared for the year ended 31 December 2017 and published on 29 March 2018.

The Issuer has not decided to apply any standard, interpretation or amendment which has not come into force yet, on an earlier date. The Company's Board of Directors is in the process of analysing and assessing their impact on the accounting policies applied by the Issuer and future separate financial statements.

The application of standards in 2018

IFRS 9 – first-time adoption and accounting policies

The Company implemented IFRS 9 on 1 January 2018 and decided to apply a modified retrospective approach with effect from 1 January 2018. Also in this case, in accordance with the option allowed by the standard, the Company has decided not to restate comparative data, which means that the data presented as at 31 December 2017 and for the periods of 9 months ended on 30 September 2017 have been prepared on the basis of IAS 39.

Classification and measurement

From 1 January 2018, the Company has classified financial assets into one of three categories specified in IFRS 9:

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

The Company classifies investments in debt instruments in a given category of assets on the basis of the business model for managing groups of financial assets and the contractual cash flow characteristics of a financial asset.

Upon initial recognition, the Company classifies investments in equity instruments (other than related to investments in subsidiaries and associates) that are not held for trading and are not quoted on an active market as measured at fair value through other comprehensive income. Whereas derivatives and investments in equity instruments quoted on an active market are measured by the Company at fair value through profit or loss. For the measurement at amortised cost, the Company classifies loans granted, trade receivables and other receivables subject to IFRS 9. Interest income on investments in debt instruments is recognised by the Company in profit or loss. Upon the disposal of investments in debt instruments, the Issuer recognises cumulative gain or loss from the measurement in profit or loss.

Measurement of financial assets at amortised cost

The Company measures financial assets at amortised cost using the effective interest rate method. Non-current receivables subject to IFRS 9 are discounted as at the balance sheet date. Trade receivables with maturities of less than 12 months are measured at the amount payable, less any expected loss allowance.

Measurement of financial liabilities at fair value through profit or loss

The Company recognises in profit or loss changes in the fair value of financial assets classified in this category of financial assets. Also, interest income and income from dividends received from equity instruments quoted on the active market are recognised in profit or loss.

Measurement of financial assets at fair value through other comprehensive income

The Company recognises gains/losses on the measurement of investments in debt instruments and in equity instruments classified by the Entity upon initial recognition in this category of assets, in other comprehensive income. Dividends from equity instruments measured at fair value through other comprehensive income are recognised by the Company as revenue in profit or loss. Interest income on investments in debt instruments is recognised by the Entity in profit or loss. Upon the disposal of investments in debt instruments, the Entity recognises cumulative gain or loss from the measurement in profit or loss.

Financial liabilities

The Company classifies financial liabilities into one of the following categories:

- measured at amortised cost;
- measured at fair value through profit or loss.

IFRS 15 – first-time adoption

The Company implemented IFRS 15 on 1 January 2018 and decided to apply the modified retrospective method, i.e. with the combined effect of the first-time adoption of the standard recognised on the date of the first application.

Therefore, the Company has applied the practical expedient provided under IFRS 15 and has decided not to restate comparative data. This means that the data as at 31 December 2017

and for the period of nine month ended on 30 September 2017 have been prepared on the basis of the standards in force in these periods: IAS 18 *Revenue*, IAS 11 *Construction Contracts* and interpretations related to the recognition of revenue before the entry into force of IFRS 15.

International Financial Reporting Standard 15 *Revenue from Contracts with Customers* ('IFRS 15') establishes the so-called 'five-step model' for recognising revenue resulting from contracts with customers. Under IFRS 15, the Company recognises revenue at an amount that reflects the consideration to which the Issuer expects to be entitled in exchange for the transfer of promised goods or services to the customer.

2. Changes in accounting principles and presentations, and correcting errors

The Company did not change accounting policies and did not correct errors from previous periods.

3. Contingent liabilities or contingent assets

a) contingent liabilities

As at the balance sheet date, there is a surety for loans granted to two related entities: CHP Energia Sp. z o.o. up to PLN 18,234 thousand and PPZ Bronisław S.A. up to PLN 12,684 thousand.

There may be payables arising from non-competition agreements after termination of employment. Such agreements were concluded with members of the Board of Directors and several employees. In the case of the termination of their employment, the Company must pay damages of ca. PLN 1,104 thousand.

b) contingent assets

Mortgages are established on the assets of subsidiaries which secure loans granted to PEPEES Group by Bank Zachodni WBK and Powszechna Kasa Oszczędności Bank Polski S.A.

PEPEES possesses land under the right of perpetual usufruct with the value resulting from the decision on the annual fee amounting to PLN 10,822 thousand.

4. Related party transactions

The Issuer's transactions with related parties:

Transactions between PEPEES S.A. in Łomża and ZPZ LUBLIN Sp. z o.o.

In the reporting period, the Issuer purchased potato grits and starch from the subsidiary. The total value of purchases in ZPZ LUBLIN Sp. z o.o. amounted to PLN 1,576.8 thousand. In addition, PEPEES sold to LUBLIN starch and maltodextrin for PLN 145.7 thousand and leases a flakes production line — in the reporting period, the related turnover amounted to PLN 212 thousand.

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

As at the balance sheet date, there is a balance of outstanding cash loans amounting to PLN 3 million, on which ZPZ LUBLIN paid PLN 95.3 thousand of interest to the Issuer.

Transactions between PEPEES S.A. in Łomża and PPZ BRONISŁAW Sp. z o.o.

Transactions between PEPEES S.A. in Łomża with its subsidiary PPZ BRONISŁAW S.A. involved the purchase of starch, potato flakes and a service from the subsidiary and the sales of potatoes and service. The total value of purchases in PPZ BRONISŁAW Sp. z o.o. amounted to PLN 3,949.3 thousand and the total value of sales to PLN 1,817.47 thousand.

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

In addition, as at the balance sheet date, there is a balance of outstanding cash loans amounting to PLN 3 million, on which PPZ BRONISŁAW paid PLN 124.4 thousand of interest to the Issuer.

Transactions between PEPEES S.A. in Łomża and CHP Energia Sp. z o.o.

Transactions between PEPEES S.A. in Łomża and its subsidiary CHP Energia Sp. z o.o. comprised the purchase from the subsidiary of dried sugar beet pulp, bio-compost and a service, and the sales of potato pulp, dried sugar beet pulp and a service. The total value of purchases from CHP Energia Sp. z o.o. amounted to PLN 421.1 thousand, and the total value of sales to PLN 68.2 thousand.

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

PEPEES granted a few cash loans to CHP Energia. Total balance of outstanding loans (with interest) due from this company as at 30.09.2018 amounts to PLN 4,849.4 thousand.

Transactions between PEPEES S.A. in Łomża and Gospodarstwo Rolne PONARY Sp. z o.o.

Transactions between PEPEES S.A. in Łomża with its subsidiary GR PONARY Sp. z o.o. involved the sales of a service to the subsidiary for PLN 7.7 thousand.

In addition, PEPEES granted a loan to GR PONARY. Total balance of the outstanding loan (with interest) due from this company as at 30.09.2018 amounts to PLN 553.2 thousand.

On the other hand, the subsidiary GR PONARY granted to PEPEES S.A. a surety for an investment loan intended for financing and refinancing the acquisition of 100% of shares in Gospodarstwo Rolne Ponary. The fees on the surety paid by PEPEES in the reporting period amounted to PLN 127 thousand.

Transactions between PEPEES S.A. in Łomża and Pepees Inwestycje Sp. z o.o.

Transactions between PEPEES S.A. in Łomża with its subsidiary Pepees Inwestycje Sp. z o.o. consisted in granting a loan to the subsidiary. Total balance of the outstanding loan (with interest) due from this company as at 30.09.2018 amounts to PLN 1,475.1 thousand.

Transactions with shareholders, and members of the management personnel and their family members in the reporting period:

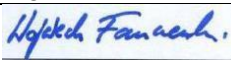

On 04.01.2018, the Company entered into a conditional sales agreements with two natural persons, who are shareholders of the Company, under which the Company acquired the remaining stake in Gospodarstwo Rolne Ponary sp. z o.o. comprising the total of ca. 32.6% of shares. Thus, the Company has become the holder of 100% of shares in Ponary.

In the reporting period, there were no transactions with members of the management/supervisory personnel and their family members.

5. Sureties and guarantees

On 30.07.2018, PEPEES guaranteed, up to PLN 12,684 thousand, an investment loan from funds from foreign lines of credit granted to a subsidiary Przedsiębiorstwo Przemysłu Ziemniaczanego Bronisław S.A. in the amount of PLN 8,456 thousand. The final loan repayment date has been scheduled for 31 December 2027.

SIGNATURES OF ALL MEMBERS OF THE BOARD OF DIRECTORS

Date	Name	Title/Function	Signature
16.11.2018	Wojciech Faszczewski	President of the Board of Directors	
16.11.2018	Tomasz Rogala	Member of the Board of Directors	

SIGNATURE OF THE PERSON WHO PREPARED THE FINANCIAL STATEMENTS

Date	Name	Title/Function	Signature
16.11.2018	Wiesława Załuska	Chief Accountant	