Condensed Consolidated Financial Statements of the Makarony Polskie Group for the period from 1 January to 30 September 2018



Rzeszów, 15 September 2018

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General Information

Organisational structure of the Makarony Polskie Group

The Makarony Polskie Group ("Group") consists of three companies:

- Makarony Polskie SA ("Company", "Parent Company"),
- Stoczek Natura Sp. z o.o.
- MP Trade Sp. z o.o.



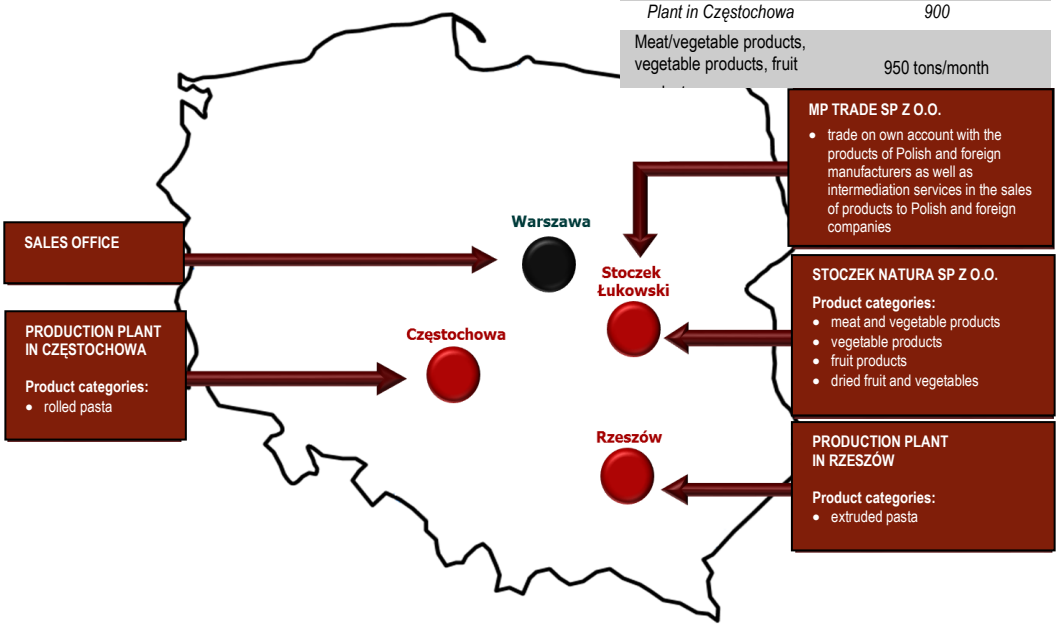
Makarony Polskie SA is a manufacturer of a broad assortment of pasta made by extrusion or rolling. The Company offers pasta in various forms, produced from durum wheat flour or regular wheat flour. In its portfolio the Company has also products which reply to the health-promoting food trends, such as pasta made of rare spelt, buckwheat or rye flours, as well as BIO products. The product offer is supplemented by flavoured pasta (e.g. with addition of spinach, garlic, chilli pepper, lovage, parsley or dill) and large pasta forms for stuffing.
The basic offered pasta brands are Makarony Polskie, Sorenti and Abak (bi-brand with Makarony Polskie). Under the Sorenti brand also pasta sauces are offered.

Stoczek Natura Sp. z o.o. is the manufacturer of meat and vegetable products (ready-cooked meals, pâtés, lard, tinned food), vegetable products (salads, pickles, bakery stuffing) and fruit products (jams, syrups, fruit pastes, sweet fillings). The company offers its products under the brands Stoczek, Tenczynek and Męska Rzecz.
In the Q.4, 2017 the company extended its portfolio for dried fruits and vegetables, offered under the Deli-Susz brand.

MP Trade Sp. z o.o. On its own account, MP trade develops trade in third party goods of Polish and external manufacturers and also provides intermediation services in selling products to Polish and foreign entities.

ORGANISATION OF THE MAKARONY POLSKIE GROUP

Product category	Production capacity
Pasta	4,600 tons/month
Plant in Rzeszów	*3,200*
Plant in Płock (relocation pending)	*500*
Plant in Częstochowa	*900*
Meat/vegetable products, vegetable products, fruit	950 tons/month



Organisational data

Makarony Polskie SA

Registered office: 35-082 Rzeszów, ul. Podkarpacka 15a,
District Court in Rzeszów, 12th Commercial Division of the National Court Register,
court registration number (KRS): 0000212001,
share capital: PLN 27,750,213 (paid up in full),
statistical identification number (REGON): 691674708,
tax identification number (NIP): 813-32-78-856,
www.makarony.pl

Stoczek Natura Sp. z o.o.

Registered office: 21-450 Stoczek Łukowski, ul. Dwernickiego 5,
District Court for Lublin Wschód with its registered office in Świdnik, 6th Commercial Division,
court registration number (KRS): 0000050439,
share capital: PLN 15,707,800,
statistical identification number (REGON): 711584640,
tax identification number (NIP): 825-17-27-212,
www.stoczek.com.pl

MP Trade Sp. z o.o.

Registered office: 21-450 Stoczek Łukowski, ul. Dwernickiego 5,

District Court for Lublin Wschód with its registered office in Świdnik, 6th Commercial Division,

court registration number (KRS): 0000579926,

share capital: PLN 500,000 (as at 30 June 2018) and PLN 1,500,000 (as at 28 August 2018)

statistical identification number (REGON): 362706449,

tax identification number (NIP): 825-21-76-004,

www.mp-trade.pl

100% in the share capital of Stoczek Natura Sp. z o.o. and MP Trade Sp. z o.o. belongs to Makarony Polskie SA. As at 30 September 2018 the share in the total number of votes in the General Meetings of these companies held by the Parent Company was equal to the share in the capital of each of the subsidiaries.

The duration of all companies of the Makarony Polskie Group is unlimited.

Headcount at Makarony Polskie Group as at 30 September 2018

In accordance with the adopted policy, the Makarony Polskie Group has consequently maintained the total headcount at the level of the necessary minimum, at the same time caring for the flexibility of employment at the production plants and correlation of the same with the changes in production volumes.

Headcount at the Makarony Polskie Group as at 30 September 2018 was as follows:

– Makarony Polskie SA – 135 people,
– Stoczek Natura Sp. z o.o. – 47 people,
– MP Trade Sp. z o.o. – 0 employees (the President of the Company Management Board fulfils the function based on appointment)

Management Board of the Parent Company

On 30 September 2018 and on the date of submitting these statements, the Management Board of the Parent Company consisted of one person, and the President of the Management Board of Makarony Polskie SA was Zenon Daniłowski.

The number and nominal value of shares of Makarony Polskie SA and shares in the companies of the Makarony Polskie Group held by the Members of the Management Board as at the date of preparing the statements:

Management Board Member	Q.3, 2018		First half of 2018	
	Number of shares	Nominal value	Number of shares	Nominal value
Zenon Daniłowski	140,000	420,000	140,000	420,000

According the information possessed by the Company, no changes in the status of shares held by the President of the Management Board occurred during the third quarter of 2018 and by the date of publishing these statements.

The President of the Management Board of Makarony Polskie SA has no shares in the subsidiaries of the Makarony Polskie Group.

Supervisory Board of the Parent Company

From 1 January 2018 to 28 June 2018, the Supervisory Board consisted of:

- Roman Sobiecki – Chairman of the Supervisory Board,
- Samer Abdelfatah Mohamed El Waziri – Member of the Supervisory Board,
- Marek Rocki – Member of the Supervisory Board,
- Michał Słomkowski – Member of the Supervisory Board,
- Wiesław Wasilewski – Member of the Supervisory Board.

In reference to the end of the seventh term of the Supervisory Board on 28 June 2018, the Annual General Meeting of the Company appointed the Supervisory Board of the eighth term. Until now the membership of the Supervisory Board has not changed and the Board consists of:

- Roman Sobiecki,
- Samer Abdelfatah Mohamed El Waziri
- Marek Rocki,
- Michał Słomkowski,
- Wiesław Wasilewski.

The Supervisory Board was formed on 29 June 2018. Mr Roman Sobiecki became Chairman of the Supervisory Board, and the function of the Deputy Chairman was taken by Mr Samer El Waziri.

The number and nominal value of shares of Makarony Polskie SA and shares in the companies of the Makarony Polskie Group held by the Members of the Supervisory Board as at the date of preparing these statements (based on the information possessed):

Member of the Supervisory Board	Q.3, 2018		2017	
	Number of shares	Nominal value	Number of shares	Nominal value
Michał Słomkowski	0	0	–	–
Wiesław Wasilewski	5,000	15,000	5,000	15,000
Marek Rocki	0	0	0	0
Roman Sobiecki	0	0	0	0
Samer El Waziri	0	0	–	–

According to the information possessed by the Company no changes in the status of shares held by the Member of the Supervisory Board occurred during the third quarter of 2018 and by the date of publishing these statements.

The supervising staff of Makarony Polskie SA have no shares in the subsidiaries of the Makarony Polskie Group.

AUDIT COMMITTEE

From 1 January 2018 to the date of publication of these statements, the Audit Committee consisted of:

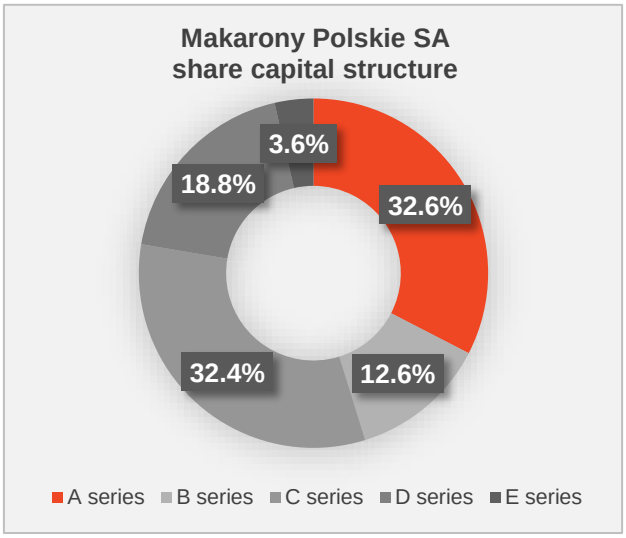
- Roman Sobiecki – Chairman of the Audit Committee (independent member),
- Michał Słomkowski – Member of the Audit Committee (independent member),
- Wiesław Wasilewski – Member of the Audit Committee (independent member).

On 29 June 2018, in reference to the end of the seventh term of the Supervisory Board, the Company Supervisory Board appointed the Audit Committee for a new term, consisting of the same members.

In accordance with the legal requirements, the members of the Audit Committee possess knowledge and skills in accounting or auditing financial statements, as well as knowledge and skills in the sector in which the Company operates.

General Meeting of the Parent Company

The share capital of Makarony Polskie SA as at 30 September 2018 amounted to PLN 27,750,213 and was divided into 9,250,071 shares of the nominal value of PLN 3.00 each. The value of the share capital has not changed by the date of submitting these statements.



The shares of the Company are ordinary bearer shares quoted on regulated market maintained by Giełda Papierów Wartościowych w Warszawie SA [Warsaw Stock Exchange]. The Company has not issued securities which would grant special control rights to any of the shareholders.

The shareholders who held directly or indirectly through their subsidiaries at least 5% of the total number of votes in the General Meeting of the Company were as follows as at the date of preparing these statements (based on the information possessed):

Shareholder	Shares in the share capital		Votes in the General Meeting	
	number	% share	number	% share
Praska Giełda Spożywcza SA Group, of which:	2,311,594	24.99%	2,311,594	24.99%
Praska Giełda Spożywcza SA (formerly: Agro-Technika SA)	*2,050,000*	*22.16%*	*2,050,000*	*22.16%*
Zenon Daniłowski	*140,000*	*1.51%*	*140,000*	*1.51%*
Polskie Smaki Sp. z o.o.	*121,594*	*1.31%*	*121,594*	*1.31%*
Raya Holding for Technology & Communications S.A.E., of which:	1,793,406	19.39%	1,793,406	19.39%
Madova Sp. z o.o.	*1,793,406*	*19.39%*	*1,793,406*	*19.39%*
Elżbieta and Grzegorz Słomkowski, of which:	1,183,040	12.79%	1,183,040	12.79%

Z.P.H. „ELPAST" Elżbieta i Grzegorz Słomkowscy s.c.	*1,169,750*	*12.65%*	*1,169,750*	*12.65%*
Grzegorz Słomkowski	*13,290*	*0.14%*	*13,290*	*0.14%*
Krzysztof Moska	580,969	6.28%	580,969	6.28%
Other shareholders	3,381,062	36.55%	3,381,062	36.55%
TOTAL	9,250,071	100.00%	9,250,071	100.00%

CHANGES IN THE SHAREHOLDING IN Q.3, 2018

On 31 July 2018 the Company received a notification sent by Mr Krzysztof Moska regarding an increase in the number of shares of Makarony Polskie SA held by him. Pursuant to Article 69.1.1, Mr Krzysztof Moska informed that on 27 July 2018, as a result of a purchase transaction of 232,893 shares of Makarony Polskie SA within on-session transactions of shares purchase on the regulated market of Giełda Papierów Wartościowych w Warszawie SA [Warsaw Stock Exchange], a change occurred in the stake of shares held by him so far, such that he exceeded the threshold of 5% of the total number of votes in the General Meeting of the Company ("Change of Possession Transaction").

Before the Change of Possession Transaction Mr Krzysztof Moska held 348,076 shares of the Company, representing 3.76% share in the share capital of the Company and 3.76% of the total number of votes in the General Meeting of the Company, i.e. shares of the Company entitling him to exercise 348,076 votes. After the Change of Possession Transaction Mr Krzysztof Moska holds the total of 580,969 shares of the Company, representing 6.28% of the share capital of the Company and 6.28% of the total number of votes in the General Meeting of the Company, i.e. shares of the Company entitling him to exercise 580,969 votes.

At the same time Mr Krzysztof Moska informed that he had no subsidiaries holding shares of the Company and that there were no persons specified in Article 87.1.3.c of the Act and he held no financial instruments referred to in Article 69b.1 of the Act.

The Company does not have any other information that would indicate changes in the number of shares held by the shareholders (holding shares stakes exceeding 5%) during the third quarter 2018 and by the date of publishing these statements.

The Company has no knowledge about any other agreements (including ones concluded post the balance-sheet date) that might lead to the future changes in the structure of shareholding held by the current shareholders.

Management Boards of subsidiaries

Stoczek Natura Sp. z o.o. – the Management Board consists of two persons:

- Rafał Dziobko – President of the Management Board,
- Adam Ławnik – Vice President of the Management Board.

In Q.3, 2018 and by the date of publishing these statements, there were no changes in the Management Board of Stoczek Natura Sp. z o.o.

MP Trade Sp. z o.o. – the Management Board consists of one person:

- Zenon Daniłowski – President of the Management Board.

In Q.3, 2018 and by the date of publishing these statements, there were no changes in the Management Board of MP Trade Sp. z o.o.

Publication and approval of financial statements

These condensed consolidated and separate financial data have not been subject to audit by an entity authorised to audit financial statements. The Management Board approved the statements publication on 15 November 2018.

Legal basis for the consolidated financial statements

Declaration of compliance and basis for preparing the statements

These condensed consolidated financial statements have been prepared based on the International Accounting Standards in the form approved by the European Union (EU) and the related interpretations announced in the form of enforcement regulations by the European Commission (hereinafter referred to as "IFRS"), applicable to interim financial reporting in the form approved by the European Union (IAS 34 "Interim Financial Reporting"), in accordance with Article 55.5 of the Act on Accounting (Journal of Laws of 2018, item 395, as amended) the enforcement regulations issued based thereon, as well as the requirements of the Regulation of the Minister of Finance of 29 March 2018 on current and interim information disclosed by the issuers of securities and conditions of considering equivalent the information required by the laws of a country other than a member state (Journal of Laws of 2018, item 757) published and binding at the moment of preparing these condensed consolidated financial statements.

The interim condensed financial statements do not cover all information and disclosures required to be made in the annual financial statements, and must be read together with the financial statements of the Group and the Parent Company for the year ending 31 December 2017.

Basis for valuation

The presented consolidated financial statements were prepared based on the historical cost concept, except for some assets which were measured at fair value, i.e. assets acquired through the purchase transactions of the assets of Abak Sp. z o.o.

Functional and presentation currency

The measurement currency for the Group applied in these financial statements as well as the reporting currency of these financial statements is Polish zloty (PLN).

Unless otherwise specified, financial data are expressed in thousands of zlotys.

Legal basis for the consolidated financial statements

Applied accounting policy and basis for preparing the statements

The accounting policy applicable to these condensed consolidated financial statements complies with that applied in preparing the annual financial statements of the Capital Group for the year ending 31 December 2017 (published on 20 March 2018).

The financial statements of all companies were prepared for the same reporting period, by application of cohesive financial principles. The reporting year of the Group companies is a calendar year.

The Parent Company – Makarony Polskie SA and its subsidiaries – Stoczek Natura Sp. z o.o. and MP Trade Sp. z o.o. prepare financial statements in accordance with IAS/IFRS. Consolidation exclusion applies to any transactions, balances, revenues and costs between the related companies subject to consolidation.

The term of the Group companies is unlimited.

Explanations regarding seasonality and cycles in reference to interim activities of the Group

The activity of the Group does not reflect major seasonal or cyclical trends.

Changes in the principles of preparing financial statements

In Q.3, 2018 no changes occurred in the measuring principles applied when preparing the financial statements.

Uncertainty of estimations

Below presented are the basic assumptions regarding the future and other key sources of uncertainty present as at the balance-sheet date, for which there is a major risk of a significant adjustment of the carrying amount of assets and liabilities in the subsequent financial year:

- depreciation rates;
- assets loss of value (including receivables);
- value of provisions;
- deferred tax assets (the companies disclose deferred tax assets based on the assumption that in the future taxable profit will be generated enabling the deferred assets utilisation; deterioration of the generated tax results in future could make this assumption unjustified);

- valuation of assets of unspecified period of use (as at the date of preparing these financial statements there are no reasons for impairment allowance on account of Stoczek goodwill or value of the Abak and Tenczynek brands. The applicable tests compliant with the binding policies were performed as for the balance of 31 December 2017).

Assumptions regarding the future and the assumed estimations are cohesive with the assumptions and estimations made by the Group in the financial statements for 2017.

Going concern

The consolidated financial statements of the Makarony Polskie Group was prepared on going concern basis applied in reference to the Group companies, as regards foreseeable future, and in the scope which is not going to change significantly. The Group did not carry out any activities which would have been abandoned in the third quarter of 2018.

Factors and risks significantly affecting the financial results

Factors and risks significantly affecting the financial results in Q.3, 2018 and in the subsequent periods

Post Q.3, 2018 the Makarony Polskie Group generated net profit at the level of PLN 4.6 million. Changes were introduced at the Group in order to improve production effectiveness and reduce fixed costs.

The following activities, among others, will contribute to the generated results.

Building competitive advantage by investments in R&D as well as product, process and organisational innovations:

- R&D development in the area of innovative products such as functional or health-promoting food – an interdisciplinary team has been established at Makarony Polskie SA which in cooperation with scientific institutions works on the development of innovative manufacturing technologies of new low-processed and health-promoting products that are easy to prepare;
- extension of the production and warehouse building for another part, i.e. flour handling station to house the store of bulk raw materials and additives as well as the cooling plant for liquid raw materials and additives within the performance of the R&D Centre creation project;
- completion of investment in automated flour and bulk ingredients dosing system at the production plant in Częstochowa, which will enable extension of the production capacity and make the production process more flexible;
- purchase of an automatic horizontal packing machine, which will enable packing products in a new attractive type of packaging and forming promotional packages to be broadly used in marketing activities;
- in 2018 Makarony Polskie SA will purchase a machine to produce non-standard shapes from long rolled pasta, within the ribbon and papardelle types;
- in 2018 rolled tagliatelle type egg pasta were introduced in sales;
- at the Częstochowa plant a series of investments will be made in order to reduce energy consumption and workload in the production process, and to improve product safety;

- at Stoczek Natura Sp. z o.o. research has been carried out in order to adjust the plant to the global trends in food production: convenience products, health-promoting products, and innovative forms of packaging of the offered products;
- a modern line for packing stuffing and fillings, with thermal-forming function, purchased by Stoczek Natura Sp. z o.o., enables the company to offer products in a new better quality formula and extended shelf life compared to the products offered at present.

Attracting EU funds for the performance of activities and projects planned by the Group:

- the project entitled "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA" carried out within Measure 1.4 – Support to SMEs, under the Regional Operational Programme of the Podkarpackie Province 2014–2020, assumes the implementation of the research and development works carried out in cooperation with a scientific unit, consisting in the development of innovative products recipes, with the use of raw-materials which have not been used in the pasta sector on a standard basis. The main objective of the project is the expansion of Makarony Polskie SA on the market of functional food;
- the project entitled "Creation of a Research and Development Centre of the Pasta Industry at Makarony Polskie SA", carried out within Measure 2.1 "Support for Investments in R&D Infrastructure of Enterprises", under the Smart Growth Operational Programme 2014–2020, assumes creation of an R&D Centre of the Pasta Industry at Makarony Polskie SA. At the Centre works will be carried on innovative health-promoting products, which will finally enlarge the product offer of the Company, as well as research work on issues important to the whole pasta industry. Within the project the Company plans to purchase fixed assets and finance construction works. For the purposes of the R&D Centre a modern line for production tests will be purchased, among other things, the parameters of which will reflect the conditions of the actual industrial production process (the line will be an asset of significant value);
- the "Makarony Europy" [European Pasta] programme introduced in 2016 by the Polish Pasta Chamber (PIM), in which Makarony Polskie participates along with other manufacturers associated with the PIM, is to promote pasta in Ukraine and the People's Republic of China. The Ukrainian and Chinese recipients (consumers, distributors) have been educated about the healthy characteristics of pasta, variety of pastas and high quality of products originating from the EU, including Poland (advertisements broadcast on TV, published in newspapers and on the Internet, as well as promotional actions carried out during fairs and at sales outlets). The programme is to contribute to the development of sales markets and increase in the sales volume of pasta manufactured in the European Union. The programme will last three years (2016–2018);

- the project of Stoczek Natura Sp. z o.o. entitled "Energy effectiveness improvement at Stoczek Natura Sp. z o.o." carried out within Priority Axis 5 – Energy efficiency and low-emission economy, Measure 5.1. Improvement of energy efficiency of the companies within the Regional Operational Programme of the Lubelskie Province for the years 2014–2020, assumes the improvement of energy effectiveness of Stoczek Natura Sp. z o.o. through extensive thermal upgrading of the company building.

  Based on the energy audit the company is going to implement within the project some improvements contributing to lower demand for heat and electricity needed to ensure conditions enabling the performance of the production processes carried out at the respective premises. The objective of the project will be achieved through the performance of preparatory works, purchase of materials and construction works, as well as the necessary fixed assets;
- the project of Stoczek Natura Sp. z o.o. entitled "Growth of competitiveness of Stoczek Natura Sp. z o.o." within Measure 3.7 under the Regional Operational Programme of the Lubelskie Province for the years 2014–2020, assumes growth of competitiveness and innovativeness of the company on the domestic and international markets by way of implementation of the results of R&D works possessed and introduction of production innovations in the form of manufacturing technology of a ready-cooked meat product. The objective of the project is to implement innovative solutions by way of modernisation of the line for production of ready-cooked meals in jars and cans.

  The performance of the project will positively affect the improvement of quality and innovativeness of the offered products, their repeatability and increase of production capacity. Additionally, as a result of the project performance, the subsidiary will gain the opportunity to introduce in its commercial offer new health-promoting products, which will be directed to a new group of consumers.
- Within the 2014–2020 perspective the Group companies have applied for EU funds in order to accelerate investments and extend the scope of investments in modernisation of the currently used production machines and to develop new areas of operation, e.g. fillings and stuffing production, initiation of presence in the HoReCa segment with the aim to maintain the market position and cope with the growing demand for new innovative products and packaging. Among other things, a design audit was carried out at Stoczek Natura Sp. z o.o. in 2017 within which the design strategy was developed. The document comprises a recommendation for further actions related to the use of design at the company. At the further stage, the recommendations of the design strategy may be implemented, which means that actions with the use of design processes will be carried out with the final result of introducing innovations on the market.

Development of Private Label segment activities:

- extension of the product offer directed to new and existing customers with health-promoting products, flavoured pasta and premium products (e.g. new forms and shapes, innovative packaging);
- extension of the product offer directed to new and existing customers with ready-cooked meals, meat products, meat preserves and soups;
- activities focused on the sales channel profitability improvement.

Development of B2B and Institutions sales channel, as well as HoReCa:

- development of pasta categories, as well as meat/vegetable products and fruit products tailored to the expectations of the channel customers;
- establishing cooperation with other pasta and ready-cooked meals manufacturers, as well as complementary products manufacturers in order to supplement the offer for the final recipient;
- products assortment individualisation and, thus, competitiveness improvement;
- use of the production potential of Stoczek Natura Sp. z o.o. as regards products packing as a subcontractor and utilisation of new forms of packaging;
- further development of semi-products manufacturing based on the production capacity of the plant in Stoczek Łukowski, which includes sweet fillings and salty stuffing.

Increase of domestic market share and distribution level:

- intensification of marketing activities focusing on the development of the Makarony Polskie brand, as well as rebranding and new definition of the brands of Stoczek Natura, Sorenti and Tenczynek. In 2018 the Group plans to prepare a marketing programme;
- development and implementation of the mechanisms of cooperation with wholesale customers, local retail networks and shop chains, particularly as regards convenience and international medium and small scale chains – as a strategy of selective distribution in consideration of the specifics of the categories within the Group area of operation;
- introduction of new products for sales in order to diversify the offer, including within the key Makarony Polskie brand;
- concentration on fast and effective creation of brand assortment availability in the modern channel and implementation of effective distribution policy in the traditional channel;
- intensified trade marketing activities to support sale and resale of products and build standing relations with the customers.

Factors and risks significantly affecting the financial results

Exports development:

- focus on two strategic directions: Ukraine and Egypt, where the Group offers its products under the Sorenti brand, and were most of the exports are directed. Year 2018 shall be the period of strengthening the Group cooperation with the chains in Ukraine and with RAYA/Eden in Egypt. On the Egyptian, Middle East and African markets the Company operates jointly with the Egyptian partner in order to carry out market research and establish new commercial contacts;
- systematic growth in the number of customers on foreign markets, and specifically in the EU;
- intensified communication with the current and potential recipients by virtue of participation in sector fairs and organisation of B2B meetings on the target markets, for example;
- attracting and performing projects focused on the supply of products identified with the recipient's own brand, mainly to the African market;
- product assortment extension by offering functional products on foreign markets, e.g. wholemeal pastas with high fibre content, spelt and buckwheat flour pastas, BIO products as well as new product categories.

In the opinion of the Management Board of Makarony Polskie SA, the current financial standing of the Group allows for the implementation of the above presented development directions.

Events affecting assets, liabilities, equity, net result or cash flow statement, which are atypical owing to their nature, size or frequency

In Q.3, 2018 no such events occurred.

Management Board stand regarding publication of the projected results of the Group

The Makarony Polskie Group has not published any financial projections for 2018.

Hazards and risks related to the Group activities in the remaining months of 2018

The current financial standing of the Group, its production potential and market position provide opportunities for further development. There are, however, many factors, specifically external ones, which may directly or indirectly impact the financial results generated in the coming years.

Risk of market trends changes

The risk may result from the possible changes in consumer purchasing and nutritional habits, e.g. due to growing prices or generally published information, for example regarding the health advantage of a given category of products.

Market trends are monitored on a current basis. The Group companies adjust their offer in a fast and flexible manner, both as regards the very products and the technology of the products manufacturing. The current product offer of the Group has been modified in accordance with the market trends, e.g. systematically developed have been health-promoting products, "Fit" products, and ones with lower gluten content, flavoured pasta and pasta made of antique grains (e.g. spelt, buckwheat), or products based on vegetable flours.

Competition risk

All areas of activity of the Makarony Polskie Group fall within strong competition segments. There is a risk that increased activity of the competitors, reflected mainly in commercial conditions deterioration, will affect the profitability and revenues of the Group and, thus, achievement of the objectives assumed by the Group. The activities of the competitors are monitored on a current basis and carefully analysed. Therefore, the Group is capable of fast reacting to the possible threats.

The Group has been trying to minimise the risk through diversification of its activities, and development of innovative products (e.g. teams have been established to work on R&D projects).

Risk of dependence on the recipients

A major part of revenues is generated by the Group through cooperation with organised commercial networks, which are centralised as regards decision-making. The possible lack of continuity in cooperation with the recipients may affect sales values. Some commercial agreements do not include strictly determined values of planned purchases to be made by the recipient during the term of the agreement. There is a risk that the recipients will file orders which are different in quantity from those assumed by the Group in its monthly plans. This may result in an inability to satisfy the demand or in incomplete use of the production capacity, which will obviously translate into the Group results. In the opinion of the Group, the risk is not high, because the quantities of products supplied so far have not

significantly fluctuated within a yearly timeframe, staying at the levels which were possible to foresee. Additionally, the Group companies have been systematically implementing solutions for recipients diversification and increase of the number of medium-sized customers.

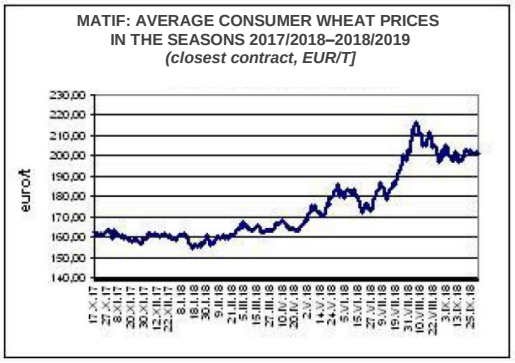
Risk related to changes in raw materials prices

The Group policy as regards securing raw materials prices with long-term purchase contracts in annual and semi-annual periods made it possible to maintain the average flour purchase prices on a stable level and, thus, prevent major profitability reduction for the manufactured pasta. As regards liquid egg pulp, the unwillingness on the part of manufacturers to enter into long-term contracts forced the company to strictly monitor the egg market in order to purchase good quality egg pulp at the lowest price.

In relation to the current situation on the grain market, the Company has monitored on a current basis the forecasts regarding both the domestic market and consumer wheat quoting on the world's markets. In the first half of 2018 the prices of the raw materials have been stable. With regard to unfavourable weather conditions in 2018 (drought and pouring rains alternatively in the improper period of cereal growing), which affected the level and quality of this year's harvest, the prices in Q.3 reflected a growing trend, and as appears from the information originating from the European and non-European markets, the unfavourable trend is still going to be maintained within the subsequent several months perspective.

In accordance with the assumed internal policy, the Company has been systematically taking actions in order to secure the purchase prices of some raw materials and minimise the consequences of flour prices fluctuations. However, the end of Q.3 shows a high resistance among the suppliers to concluding long-term contracts for the subsequent periods, which may have a negative impact on the profitability of operations.

The chart below presents the prices of soft grains in Poland in the recent years.



Source: Daily quotations of grains and oilseeds on world's stock exchanges and market information – 1 October 2018, Sparks Polska

After significant increases of liquid egg pulp prices (by 250–260%) in the last months of 2017 resulting from withdrawal from the EU market of a large quantity of eggs contaminated with nitrofen, wiping out of large flocks of lying hens, the market stabilised as expected in the first half of 2018, and the prices have been systematically dropping. The end of Q.3 has again reflected a growing trend in the egg prices due to the growing prices of grains. The current market prices of liquid egg pulp oscillate around PLN 4.7-5.0 thousand per ton. The forecasts for the subsequent months assume that the prices of eggs and liquid egg pulp may slightly rise by the end of the year (owing to a large demand before Christmas). The possible downward revision in prices may be expected at the beginning of 2019. That fluctuation should not have a major impact on the profitability of products.

Stoczek Natura Sp. z o.o. is a manufacturer of fruit and vegetable products (including jams and salads) as well as ready-cooked meals. The prices of fruit and vegetables are highly dependent on weather conditions. The Company cooperates with the domestic suppliers of fruit and vegetables and, additionally, the base of foreign suppliers of key raw materials was extended in 2017, which gives the company better possibilities to obtain cheap raw materials of good quality. The purchase of fruit and vegetables is carried out seasonally, in the months in which the prices are the lowest. In need, the purchased raw materials are stored in the in-house warehouses, cold stores and refrigeration units. Stoczek Natura Sp. z o.o. is exposed to the growth of raw materials prices resulting from various abnormal weather conditions. Striving for the risk mitigation the company has extended the base of key raw materials suppliers.

Risk of changing legal and tax environment

The Polish legal and tax system is characterised with frequent changes. Unfavourable factors for the operations of the Group companies may be both the changing legal regulations and differentiated interpretations thereof. In practice, the interpretation of legal regulations by the Polish tax authorities and courts as regards taxes is often non-cohesive. As refers to companies operating on the Polish market the risk of running business is higher than in the countries with stable and long-established legal and tax systems.

The security of the interest of the Group as regards legal changes is ensured by legal teams, which undertake proper steps in due time, with the aim of minimising the possible consequences of such changes. Quality teams watch all legal regulations regarding products and packaging on a current basis in order to implement the changes required by law without undue delay.

Risk related to foreign exchange rates fluctuation

The Makarony Polskie Group is an importer of semolina and exporter of finished products. The Company products sales prices are determined on case by case basis in consideration of the current foreign exchange rates, such as to ensure satisfactory sales profitability.

PLN weakening may have a negative impact on the profitability level of the Group activities as an importer. In order to minimise foreign exchange rate risk, the money received by the Group from export sales is used to purchase raw materials outside of Poland.

Risk related to payroll pressure

Systematic increases in minimum wage and determination of minimum hourly rate for civil-law agreements result in growing payroll pressure among the employees and potential candidates. The phenomenon is intensified by the fact that the labour market is growingly more favourable to the employees. The employers, including the Group companies, may have greater problems in finding adequate candidates to cover vacates among the specialists and managerial staff as well as non-qualified workers.

Striving to minimise staff rotation, particularly among the key staff and specialists, the Group has been striving to systematically implement incentive remuneration systems (e.g. related to production and sales effectiveness), which by close relationship between the results of work of the particular teams/persons and the effective performance of the Group objectives imposed on the teams/persons allow connecting the level of remuneration satisfactory to the employees with the profitability of the company operations. For the purpose of building motivation and loyalty of the employees towards the employer, the Group companies have systematically diversified the package of in-kind benefits, such as gym cards, group insurance, Christmas vouchers, or private medical care, for the best adjustment of the same to the needs and expectations of the employees.

Interest rate risk

Interest rate risk is the risk of losses as a result of change in the interest rates applied by the market and change in the statutory interest. The Group finances its activities with credits and loans, which increases the Group's sensitivity to the interest rate risk, both as regards long-term and short-term financial liabilities.

In the Q.3, 2018 the Group companies availed of external sources of finance taken out at a bank in the form of a working capital credit, credit in the current account and investment credits.

As at 30 September 2018 the Company was liable PLN 21,951,000 on account of the credits taken out.

Currency	Interest rate	Credit/loan balance	Including	
			Short-term	Long-term
PLN	WIBOR + bank margin	21,951	12,434	9,517

The Group is liable on account of credits and loans to which variable interest rates apply. Therefore, there is a risk of the interest rates increase in reference to the interest level as at the date of signing the agreement.

Credit risk

Credit risk is the risk of failure to service liabilities by the Group contractors. The Group follows the principle of making transactions with contractors of verified creditworthiness. In need, proper security bonds are requested in order to reduce the risk of financial losses on account of the contractor's failure to abide by the contract conditions. The Group uses generally available financial information as well as its own data regarding transactions when assessing the financial position of its main customers.

The Group exposure to the creditworthiness risk of the contractors has been monitored on a standing basis. The credit risk control is possible by virtue of limits verified and approved on a current basis within the Group controlling structures. Additionally, the Group has covered the selected contractors with trade receivables insurance provided by one of the major insurance companies operating in that segment on the Polish market.

The Group is not exposed to a major credit risk of a single contractor or a group of contractors.

Selected financial data – the Makarony Polskie Group

The selected financial data in EUR are presented in accordance with the Regulation of the Minister of Finance of 29 March 2018 on current and periodical information disclosed by the issuers of securities and conditions of considering equivalent the information required by the laws of a country other than a member state (Journal of Laws of 2018, item 757).

- the items of the statement of financial position were converted at the mean exchange rate announced by the National Bank of Poland and binding as at the balance-sheet dates (EUR 1 = PLN 4.2714 as at 30 September 2018, and EUR 1 = PLN 4.1709 as at 31 December 2017);
- the items of the statement of comprehensive income and statement of cash flows were converted at the rate being the arithmetic mean of the mean rates announced by the National Bank of Poland and binding as at the last day of each month of quarters 1, 2 and 3, 2018 (i.e. EUR 1 = PLN 4.2535) and as at the end of each month of quarters 1, 2 and 3, 2017 (i.e. EUR 1 = PLN 4.2566).

Selected financial data	30.09.2018	30.09.2017	30.09.2018 (EUR '000)	30.09.2017 (EUR '000)
Net sales of products, services, merchandise and materials	112,149	101,543	26,366	23,855
Profit (loss) on continued operations	6,553	5,572	1,541	1,309
Gross profit (loss)	5,843	4,966	1,374	1,167
Net profit (loss) on continued operations	4,634	4,021	1,089	945
EBIT	6,553	5,572	1,541	1,309
EBITDA (EBIT + depreciation)	10,868	9,281	2,555	2,180
Net cash flows on operating activities	5,876	2,177	1,381	511
Net cash flows on investing activities	-4,788	-2,390	-1,126	-561
Net cash flows on financing activities	-1,960	-147	-461	-35
Total net cash flows	-872	-360	-205	-85
Total assets ***	137,767	137,208	32,253	32,896
Liabilities and provisions for liabilities ***	59,419	61,188	13,911	14,671
Long-term liabilities ***	21,238	20,523	4,972	4,921
Short-term liabilities ***	38,181	40,665	8,939	9,750

Selected financial data – the Makarony Polskie Group

Equity ***	78,348	76,020	18,342	18,226
Share capital ***	27,750	27,750	6,497	6,653
Number of shares	9,250,071	9,250,071	9,250,071	9,250,071
Average weighted number of shares in the given reporting year	9,250,071	9,250,071	9,250,071	9,250,071
Profit/loss per ordinary share (PLN/EUR) *	0.50	0.43	0.12	0.10
Book value per share (PLN/EUR) **	8.47	8.22	1.98	1.97

* Net profit/loss per ordinary share = net result/weighted average number of shares in the period

** Book value per ordinary share = equity/number of shares at the balance-sheet date

*** Comparative data from the statement of financial position as at the 31 December 2017

Consolidated statement of comprehensive income

FOR THE PERIOD	Q.3, 2018	01.01.2018-30.09.2018	Q.3, 2017	01.01.2017-30.09.2017
Net sales	36,137	112,149	35,496	101,543
Net sales of products and services	35,735	108,889	34,622	98,037
Net sales of merchandise and materials	402	3,260	874	3,506
Prime cost	27,132	86,105	27,430	78,119
Cost of manufacturing of products and services sold	26,650	83,169	26,711	74,830
Value of merchandise and materials sold	482	2,936	719	3,289
Gross profit (loss) on sales	9,005	26,044	8,066	23,424
Costs of sales	5,120	14,310	4,912	13,852
General management costs	1,574	,5,016	1,638	4,383
Other revenues	128	675	251	645
Other costs	435	840	68	262
Profit (loss) on continued operations	2,004	6,553	1,699	5,572
Financial revenues	0	21	-19	160
Financial costs	199	731	287	766
Gross profit	1,805	5,843	1,393	4,966
Income tax – current part	339	924	335	987
Income tax – deferred part	26	285	88	-42
Net profit (loss) on continued operations, applicable to:	1,440	4,634	970	4,021
Shareholders of the Parent Company	*1,440*	*4,634*	*970*	*4,021*
Non-controlling interest				
Basic net earnings per share in PLN	0,16	0,50	0,10	0,43
Diluted net earnings per share in PLN	0,16	0,50	0,10	0,43
Other comprehensive income/loss, net				
Total net comprehensive income	1,440	4,634	970	4,021
Net comprehensive income assigned to:				
Shareholders of the Parent Company	1,440	4,634	970	4,021
Non-controlling interest				

Statement of other comprehensive income, net – hedge accounting

FOR THE PERIOD	Q.3, 2018	01.01.2018-30.09.2018	Q.3, 2017	01.01.2017-30.09.2017
Net comprehensive income	1,440	4,634	970	4,021
Profit/loss on account of hedge accounting application	0	0	0	0
Total net comprehensive income	1,440	4,634	970	4,021

Consolidated statement of financial position

ASSETS	30 September 2018	31 December 2017	30 September 2017
FIXED ASSETS	**91,000**	**91,110**	**91,244**
Tangible fixed assets	74,238	74,061	74,119
Investment properties	642	642	1,235
Goodwill	5,949	5,949	5,949
Other intangible fixed assets	9,954	9,953	9,437
Long-term financial assets	0	0	0
Deferred income tax assets	2	5	9
Other long-term assets	215	500	495
CURRENT ASSETS	**46,767**	**46,098**	**44,126**
Inventories	19,492	15,624	17,640
Short-term receivables	26,377	28,513	25,594
Deferred income tax receivables	0	29	0
Loans granted	0	0	0
Cash and cash equivalents	581	1,454	556
Other short-term assets	317	478	336
FIXED ASSETS HELD FOR SALE	0	0	0
TOTAL ASSETS	**137,767**	**137,208**	**135,370**

EQUITY/LIABILITIES	30 September 2018	31 December 2017	30 September 2017
EQUITY CAPITAL	**78,348**	**76,020**	**74,524**
Share capital	27,750	27,750	27,750
Other reserve capital	46,095	42,184	42,184
Retained profit/loss (profit/loss from previous years)	-131	569	569
Net profit/loss	4,634	5,517	4,021
LONG-TERM LIABILITIES	**21,238**	**20,523**	**20,035**
Deferred income tax provision	3,820	3,538	3,337

Consolidated statement of financial position

Long-term bank credits and loans	9,517	8,221	7,577
Provision for retirement benefits and equivalent (long-term)	242	190	187
Deferred income (long-term)	6,198	6,538	6,710
Long-term financial liabilities	1,461	2,036	2,224
SHORT-TERM LIABILITIES	**38,181**	**40,665**	**40,811**
Short-term bank credits and loans	12,434	12,272	15,597
Short-term financial liabilities	750	826	895
Other short-term liabilities	23,951	26,800	23,401
Deferred income tax payables	148	65	84
Deferred income (short-term)	545	553	510
Provision for retirement benefits and equivalent (short-term)	128	149	96
Other short-term provisions	225	0	228
TOTAL LIABILITIES	**59,419**	**61,188**	**60,846**
TOTAL EQUITY/LIABILITIES	**137,767**	**137,208**	**135,370**

Consolidated statement of cash flows

FOR THE PERIOD	01.01.2018-30.09.2018	01.01.2017-30.09.2017
Net cash flows on operating activities		
Profit before tax	**5,843**	**4,966**
Adjustments for items:	33	-2,789
Depreciation	4,315	3,709
Foreign exchange gains/losses	1	4
Interest cost and income	489	629
Dividend income	0	0
Profit/loss on investing operations	295	-7
Change in the balance of provisions	256	297
Change in the balance of inventories	-3,868	-4,625
Change in the balance of receivables	2,137	-2,096
Change in the balance of liabilities and accruals	-2,787	247
Corporate income tax paid/reimbursed	-811	-947
Other adjustments	6	0
Net cash flows on operating activities	**5,876**	**2,177**
Cash flows on investing activities		
Revenues from sale of tangible and intangible fixed assets	330	78
Revenue from sale of financial assets	0	0
Expenses on purchase of tangible and intangible fixed assets	-5,118	-2,468
Expenses on acquisition of subsidiaries and associated companies	0	0
Interest revenues	0	0
Revenues on loans granted	0	0
Loans granted	0	0
Other	0	0
Net cash flows on investing activities	**-4,788**	**-2,390**
Cash flows on financing activities		

Consolidated statement of cash flows

Revenues from credits and loans	4,747	6,604
Repayment of credits and loans	-3,289	-3,001
Payment of liabilities under financial lease agreements	-651	-809
Interest paid	-489	-628
Dividend paid out to shareholders	-2,313	-2,313
Expenses on purchase of financial assets	0	0
Other financial revenues	35	0
Net cash flows on financing activities	**-1,960**	**-147**
Increase/decrease in the balance of cash and cash equivalents	**-872**	**-360**
Cash, cash equivalents and credit in the current account at the beginning of the period	1,454	920
Foreign exchange gains/losses on valuation of cash, cash equivalents and credit in the current account	-1	-4
Cash, cash equivalents and credit in the current account at the end of the period	**581**	**556**

Statement of changes in consolidated equity

For the period from 1 January 2018 to 30 September 2018

	Share capital	Other reserve capital	Result for the current year	Profit/loss from previous years	Total
As at 1 January 2018	27,750	42,184	0	6,086	76,020
Profit distribution/loss coverage	0	3,911	0	-3,911	0
Reversal of an unrealised margin from previous years	0	0	0	7	7
Profit/loss on account of hedge accounting application	0	0	0	0	0
Dividend payout	0	0	0	-2,313	-2,313
Net result after Q.3, 2018			4,634		4,634
As at 30 September 2018	27,750	46,095	4,634	-131	78,348

For the period from 1 January 2017 to 31 December 2017

	Share capital	Other reserve capital	Result for the current year	Profit/loss from previous years	Total
As at 1 January 2017	27,750	39,505	0	5,561	72,816
Profit distribution/loss coverage	0	2,679	0	-2,679	0
Profit/loss on account of hedge accounting application	0	0	0	0	0
Dividend payout	0	0	0	-2,313	-2,313
Net result for 2017	0	0	5,517	0	5,517
As at 31 December 2017	27,750	42,184	5,517	569	76,020

Statement of changes in consolidated equity

For the period from 1 January 2017 to 30 September 2017

	Share capital	Other reserve capital	Result for the current year	Profit/loss from previous years	Total
As at 1 January 2017	27,750	39,505	0	5,561	72,816
Profit distribution/loss coverage	0	2,679	0	-2,679	0
Profit/loss on account of hedge accounting application	0	0	0	0	0
Dividend payout	0	0	0	-2,313	-2,313
Net result after Q.3, 2017	0	0	4,021	0	4,021
As at 30 September 2017	27,750	42,184	4,021	569	74,524

Additional explanatory notes

Net sales of products, services, merchandise and materials broken down into segments of activities

For management purposes the Group has been divided into business units based on the offered product and services.

	01.07.2018 – 30.09.2018	01.01.2018 – 30.09.2018	01.07.2017 – 30.09.2017	01.01.2017 – 30.09.2017
Sales of products	34,038	103,257	33,592	95,372
Sales of services	1,697	5,632	1,030	2,665
Sales of materials	159	1,872	373	2,541
Sales of merchandise	243	1,388	501	965
Total	**36,137**	**112,149**	**35,496**	**101,543**

Operating segments

The Makarony Polskie Group is divided into the operating segments identified in the table below.

	01.07.2018 – 30.09.2018	01.01.2018 – 30.09.2018	01.07.2017 – 30.09.2017	01.01.2017 – 30.09.2017
Pasta	25,775	74,057	24,193	72,382
Meat and vegetable products	6,551	24,164	8,266	19,077
Vegetable products and stuffing	464	1,947	461	1,721
Fruit products	1,656	5,608	1,166	3,146
Other	1,691	6,373	1,410	5,217
Total	**36,137**	**112,149**	**35,496**	**101,543**

Basic information regarding operating segments:

Quarters 1-3, 2018	Pasta	Meat and vegetable products	Vegetable products and stuffing	Fruit products	Other	Total segments
Total revenues of the segments	**74,057**	**24,164**	**1,947**	**5,608**	**6,373**	**112,149**
Sales to third party customers	74,057	24,164	1,947	5,608	6,373	112,149
Sales between the segments						
Costs of the segments	**56,644**	**20,155**	**1,429**	**4,777**	**3,100**	**86,105**
Profits/losses of the segments	**17,413**	**4,009**	**518**	**831**	**3,273**	**26,044**

Quarters 1-3, 2018 *	Pasta	Meat and vegetable products	Vegetable products and stuffing	Fruit products	Other	Total segments
Total revenues of the segments	**72,382**	**19,077**	**1,721**	**3,146**	**5,217**	**101,543**
Sales to third party customers	72,382	19,077	1,721	3,146	5,217	101,543
Sales between the segments						
Costs of the segments	**54,956**	**15,326**	**1,406**	**2,815**	**3,616**	**78,119**
Profits/losses of the segments	**17,426**	**3,751**	**315**	**331**	**1,601**	**23,424**

* Compared to the statements for Q.3, 2017, the Group changed the assignment for the stuffing products group, separating it from the meat and vegetable products and combining with the vegetable products segment, which resulted in a change of comparative data.

The Group applies IFRS 8 "Operating Segments". In accordance with the IFRS 8 requirements, operating segments must be identified based on the internal reports regarding those elements, which are regularly verified by the persons deciding about the allocation of resources to the respective segments and assessing the segment financial results. The Group companies operate mainly in the territory of Poland, the regions of which should be treated as a uniform area due to the closeness of location, similar economic conditions and general risk.

Sales revenues of the Makarony Polskie Group in the period of January to September 2018 amounted to PLN 112.1 million and were by approx. PLN 10.6 million higher than in the same period of 2017.

Sales in the pasta category grew by PLN 1.7 million (i.e. 2%) compared to 2017 and amounted to approx. PLN 74.1 million. This resulted from export sales development in Q.3.

Sales of meat and vegetable products in the analysed period increased by approximately PLN 5.1 million, to PLN 24.2 million. The growth of about 27% (January to September 2018 compared to January to September 2017) resulted from the performance of the agreement for delivery of ready-cooked meals for the National Centre for the Support of Agriculture (the agreement had not yet been performed in the first half of 2017). Further growth of the category has been planned for the future, including by introduction of market novelties.

Another segment where high growth rate was observed is the fruit products one. The sales of fruit products in the analysed period amounted to nearly PLN 5.6 million and was by PLN 2.5 million (78%) higher than in 2017, which resulted from attracting new contracts for manufacturing under chain private labels, development of own brands and dried fruit offering from the beginning of 2018.

The segment of vegetable products and stuffing increased in the analysed period by approximately PLN 0.2 million, up to nearly PLN 1.9 million. This resulted from the extension of sales in the stuffing part of the segment.

Sales of products, services, merchandise and materials – geographic structure

	01.07.2018 – 30.09.2018	01.01.2018 – 30.09.2018	01.07.2017 – 30.09.2017	01.01.2017 – 30.09.2017
Poland	33,160	105,530	33,497	95,954
Exports, including:	2,977	6,619	1,999	5,589
– EU member states	458	1,385	310	1,717
– other countries	2,519	5,234	1,689	3,872
Total	**36,137**	**112,149**	**35,496**	**101,543**

The sales markets of the Makarony Polskie Group may be divided into domestic market (including private label, traditional trade, modern trade, and B2B and institutions) and exports market (including sales to domestic intermediaries). In Q.3, 2018 sales amounted to PLN 105.6 million on the domestic market and PLN 6.6 million in exports. In the same period of 2017, the values were PLN 96.0 million and PLN 5.6 million, respectively.

Data on the financial results and shares, used in calculating the basic and diluted earnings per share

	01.01.2018 – 30.09.2018	01.01.2017 – 30.09.2017
Net profit/loss per share	0.50	0.43
Book value per share in PLN (as at 30.09.2018 and 31.12.2017)	8.47	8.22

	01.01.2018 – 30.09.2018	01.01.2017 – 30.09.2017
Net profit/loss on continued activities assigned to the Parent Company shareholders	4,634	4,021
Profit/loss on discontinued activities assigned to the Parent Company shareholders	0	0
Net profit/loss assigned to the Parent Company shareholders	4 634	4 021
Net profit/loss assigned to regular shareholders, applied in calculation of diluted profit/loss per share	0	0

	01.01.2018 – 30.09.2018	01.01.2017 – 30.09.2017
Weighted average number of ordinary shares issued, applied in calculation of basic profit/loss per share	9,250,071	9,250,071
Dilution impact	N/A	N/A
Weighted average number of ordinary shares issued, applied in calculation of basic profit/loss per share	N/A	N/A

Net profit per share is calculated by dividing net profit for the period assigned to regular shareholders of the Parent Company by the weighted average number of ordinary shares issued and outstanding during the period.

Diluted profit per share is calculated by dividing net profit for the period assigned to regular shareholders of the Parent Company (upon deduction of interest on redeemable privileged shares convertible to ordinary shares) by the weighted average of ordinary shares issued and outstanding during the period (adjusted for the impact of diluting options and diluting redeemable shares convertible to ordinary shares).

In Q.3, 2018 there were no factors at the Parent Company that would dilute share capital.

Book value per share is the quotient of equity and the number of shares as at the respective balance-sheet date.

Share capital

Share capital of Makarony Polskie SA as at 30 September 2018 amounted to PLN 27,750,213 and was divided as follows:

	Type of share	Type of privilege	Number of shares	Nominal value of one share in PLN	Series nominal value in PLN '000	Capital coverage method	Date registered	Right to dividend (from)
A series	bearer shares	ordinary shares	3,013,250	3	9,040	cash contributions	05.07.2004	01.01.2004
B series	bearer shares	ordinary shares	1,169,750	3	3,509	in-kind contributions	29.10.2004	01.01.2004
C series	bearer shares	ordinary shares	3,000,000	3	9,000	cash contributions	18.04.2007	01.01.2007
D series	bearer shares	ordinary shares	1,735,821	3	5,207	cash contributions	22.06.2007	01.01.2007
E series	bearer shares	ordinary shares	331,250	3	994	cash contributions	11.02.2008	01.01.2008
Total			**9,250,071**		**27,750**			

Information about changes in estimations regarding consolidated financial statements

CHANGES ON ACCOUNT OF PROVISIONS

Change of balance as at 30.09.2018	Balance as at 01.01.2018	Created	Utilised or reversed	Balance at the end of the period
On account of pension benefits and similar, including:	339	53	22	370
a) long-term	190	52	0	242
b) short-term	149	1	22	128
Other provisions, including:	0	225	0	225
b) other	0	225	0	225
Total	339	278	22	595

Change of balance as at 30.09.2017	Balance as at 01.01.2017	Created	Utilised or reversed	Balance at the end of the period
On account of pension benefits and similar, including:	214	69	0	283
a) long-term	143	44	0	187
b) short-term	71	25	0	96
Other provisions, including:	0	228	0	228
b) other	0	228	0	228
Total	214	297	0	511

DEFERRED TAX ASSETS AND PROVISIONS

Change of balance as at 30.09.2018	Balance as at 01.01.2018	Created	Utilised or reversed	Balance at the end of the period
Deferred income tax assets	355	143	231	267
Deferred income tax provisions	3,888	272	75	4,085
Deferred income assets/provisions after set-off				3,818

Change of balance as at 30.09.2017	Balance as at 01.01.2017	Created	Utilised or reversed	Balance at the end of the period
Deferred income tax assets	385	216	78	523
Deferred income tax provisions	3,755	140	44	3,851
Deferred income assets/provisions after set-off				3,328

As regards income tax, the Group is subject to the generally binding regulations in that scope. The group is not a tax Group, nor carries out any activities in a special economic zone, which would require a differentiation in the principles of determining tax charges in reference to the generally binding regulations in that regard. The tax year and the reporting year are equivalent to the calendar year. Starting from 1 January 2018, Makarony Polskie SA has chosen a simplified form of paying monthly corporate income tax advances. As at 30 September 2018 a provision was established for deferred tax amounting to PLN 253,000, as a difference between the advances paid, as reflected in the statement of comprehensive income, and the actual tax resulting from the calculated tax basis.

IMPAIRMENT ALLOWANCES FOR ASSETS

Change of balance as at 30.09.2018	Balance as at 01.01.2018	Created	Utilised or reversed	Balance at the end of the period
Impairment allowances for receivables	76	95		171
Impairment allowances for inventories	0	18	0	18
Impairment allowances for tangible fixed assets	1,674		71	1,603

Change of balance as at 30.09.2017	Balance as at 01.01.2017	Created	Utilised or reversed	Balance at the end of the period
Impairment allowances for receivables	76			76
Impairment allowances for inventories	21		21	0
Impairment allowances for tangible fixed assets	1,769		71	1,698

The Group monitors assets on a current basis and in case of their loss of value makes impairment allowances for such assets.

Dividends paid out and proposed to be paid out

The Management Board recommended to the Annual General Meeting that all of the net profit for the reporting year 2017 amounting to PLN 5,249,000 be exempt from distribution among the shareholders and allocated to the supplementary capital of Makarony Polskie SA. The decision resulted from ambitious multimillion investment plans assumed by the Group for the years 2018–2019. For the performance of the investment projects the Group companies have acquired European Union subsidies as well as third-party finance (long-term investment credits), however, for the purpose of proper cash flows, it is necessary, in the opinion of the Management Board, to ensure adequate own contribution on the part of the Group.

On 28 June 2018, the Annual General Meeting of Makarony Polskie SA passed Resolution No. 15 regarding the payment of dividend amounting to PLN 2,312,517.75, i.e. PLN 0.25 gross per share.

The dividend date was set for 14 August 2018. The dividend was paid out on 28 August 2018. 9,250,071 shares of the Company were subject to dividend payout.

Settlements with related companies

In the Q.3, 2018 the Makarony Polskie Group companies did not make any major intercompany transactions on other than arm's length basis.

Within the Makarony Polskie Group the particular companies make intercompany purchase and sale transactions with regard to products, merchandise and services. There have been signed agreements by and between the companies, determining the cooperation conditions, adequately to the organisational structure of the Group. All transactions are made on arm's length basis.

Related company	Sales to related companies			
	Q.3, 2018	Quarters 1–3, 2018	Q.3, 2017	Quarters 1–3, 2017
Parent Company – Makarony Polskie S.A.	91	481	365	3 553
to Stoczek Sp. z o.o.	78	444	223	624
to MP Trade Sp. z o.o.	13	37	142	2 929

Related company	Purchases from related companies			
	Q.3, 2018	Quarters 1–3, 2018	Q.3, 2017	Quarters 1–3, 2017
Parent Company – Makarony Polskie S.A.	6,479	17,800	6,109	13,036
from Stoczek Sp. z o.o.	6,096	16,541	5,393	11,621
from MP Trade Sp. z o.o.	383	1,259	716	1,415

Related company	Receivables from related companies		Liabilities to related companies	
	As at 30.09.2017	As at 30.09.2017	As at 30.09.2018	As at 30.09.2017
Total subsidiaries	93	4,275	2,108	889
– from/to Stoczek Sp. z o.o.	87	3,323	1,698	387
– from/to MP Trade Sp. z o.o.	6	952	410	502

SETTLEMENTS WITH SUBSIDIARIES

Subsidiaries	Sales and purchases among the subsidiaries			
	Q.3, 2018	Quarters 1–3, 2018	Q.3, 2017	Quarters 1–3, 2017
Total subsidiaries	1	53	294	3,635
– from Stoczek Sp. z o.o. to MP Trade Sp. z o.o.	1	6	190	3,478
– from MP Trade Sp. z o.o. to Stoczek Sp. z o.o.	0	47	104	157

Subsidiaries	Receivables from subsidiaries		Liabilities to subsidiaries	
	As at 30.09.2018	As at 30.09.2017	As at 30.09.2018	As at 30.09.2017
Total subsidiaries	0	1,044	0	1,044
– from/to Stoczek Sp. z o.o.	0	917	0	127
– from/to MP Trade Sp. z o.o.	0	127	0	917

Information on the issue, redemption and repayment of debt securities

In Q.3, 2018 the companies of the Makarony Polskie Group did not issue, redeem or repay any debt securities.

Information on the carried out and planned issues of shares

In Q.3, 2018 and in the period ending on the date of publication of these statements, the Company did not issue any shares.

Agreements and events important for the operations of the Group

Annexes to credit agreements with Bank Gospodarstwa Krajowego

The Company concluded with Bank Gospodarstwa Krajowego annexes to the credit agreements fulfilling the criteria of a significant agreement, of the total contractual value of PLN 8.0 million (with the initial value of the credit agreements of PLN 11.0 million), i.e. agreement on credit in the current account and agreement of non-revolving working capital credit in the credit account.

The agreement of the highest value is the agreement on credit in the current account with the credit limit of PLN 6.0 million. The annex to the agreement on the credit in the current account extends the liability repayment period from 30 June 2018 to 30 June 2019.

The other terms and conditions of the credit agreement have not changed.

In reference to concluding the annexes, the period of validity of the security bond granted to Makarony Polskie SA by its subsidiary Stoczek Natura Sp. z o.o. has been extended. The security bond referring to the agreement on credit in the current account is valid till 30 December 2019 (previous deadline 31 December 2018), whereas the security bond referring to the agreement on working capital non-revolving credit in the credit account is valid till 29 December 2020 (previous deadline 29 December 2018). Detailed terms and conditions of the security bond granted do not differ from the market standards binding in that regard. The remuneration for Stoczek Natura Sp. z o.o. is the commission on granting the security-bond.

AGREEMENT ON CO-FINANCING THE PROJECT ENTITLED "IMPLEMENTATION OF THE RESULTS OF R&D WORKS ON FUNCTIONAL FOOD AT MAKARONY POLSKIE SA"

In July 2018 Makarony Polskie SA concluded with the Authorities of the Podkarpackie Province an annex to the co-finance agreement of March 2017 concerning the project entitled "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA" under Measure 1.4 "Support for SMEs" of the Regional Operational Programme of the Podkarpackie Province for the years 2014-2020.

The annex amends the project completion date, i.e. 31 December 2018 (the previous date was 30 June 2018). The annex results from the application filed by the Company for amending the project completion date, resulting from the same request received from one of the suppliers. The postponement of the project completion date will enable the Company to thoroughly fulfil its obligations and complete the project in accordance with the assumptions.

The subject of the subsidy agreement is the implementation of the results of R&D works carried out in cooperation with a scientific unit, and consisting in the development of innovative product recipes with the use of raw materials which are not applied on a standard basis in the pasta sector. The main objective of the project is the expansion of Makarony Polskie SA on the market of functional food.

Within the project the Company plans to purchase fixed assets. An asset of significant value to be purchased within the project will be a modern line for pasta production.

The total cost of the project is PLN 12.3 million. The total maximum amount of subsidy eligible costs is PLN 10.0 million. The co-financing value is PLN 5.5 million.

The agreement complies with the terms and conditions generally applied to such agreements. The agreement performance is secured by a blank promissory note with promissory note declaration issued by the Company.

Information about credit and factoring agreements signed and terminated

LONG-TERM AND SHORT-TERM CREDITS AND LOANS

	30.09.2018	31.12.2017
– long-term	9,517	8,221
– short-term	12,434	12,272
Total	**21,951**	**20,493**

In Q.3, 2018 parties to credit and factoring agreements were Makarony Polskie SA and Stoczek Natura Sp. z o.o.

The balance of credit ad factoring agreements binding as at 30 September 2018, in which Makarony Polskie SA was the party, is presented in the tables below:

– Credit in the current account at BZ WBK SA

Credit conditions	
Credit agreement value	PLN 5,000,000
Credit period	18.10.2013 – 01.06.2019
Interest rate	WIBOR 1M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 1,076,000
Repayment schedule	One-off at the date of maturity
Credit collateral	– Joint mortgage up to PLN 33,000,000 on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy; – blank promissory note issued by the Borrower and promissory note declaration; – registered pledge on inventories of the value not lower than PLN 5,000,000, including the assignment of rights under the registered pledge insurance policy; – security bond by Stoczek Natura Sp. z o.o.; – declaration on submission to enforcement, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed.

– Investment credit at BZ WBK SA

Credit conditions	
Credit agreement value	PLN 13,849,000
Credit period	18.10.2013 – 30.04.2020
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 7,744,000
Repayment schedule	The credit will be repaid in 52 monthly instalments starting from 31 December 2015, in the following values: 52 instalments of PLN 0.17 million each, plus the 53rd settlement instalment to zero balance.
Credit collateral	– Joint mortgage up to PLN 33,000,000 on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy; – registered pledge on fixed assets (production lines at the Rzeszów plant);

	– transfer of receivables on account of insurance agreement of the object of the pledge; – blank promissory note issued by the Borrower and promissory note declaration; – civil-law security bond by Stoczek Natura Sp. z o.o.; – declaration on submission to enforcement, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed.

– EU investment credit at BZ WBK SA

Credit conditions	
Credit agreement value	PLN 12,121,000
Credit period	07.02.2017 - 28.02.2022
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 0,000
Repayment schedule	The credit will be repaid in 32 monthly instalments starting from 31 July 2019, in the following values: 31 instalments of PLN 0.15 million each, plus the 32th settlement instalment amounting to PLN 7.65 million. In case the credit is repaid from the subsidy received, the repayment schedule shall change in reference to the balloon instalment repayment. The instalments of the credit will be changed in such proportion to the instalments determined in the original schedule, in which the amount of the credit utilised compares to the amount of the credit granted. After the subsidy is received, the credit will be repaid in 32 monthly instalments starting from 31 July 2019, in the following values: 31 instalments of PLN 0.04 million each, plus the 32th settlement instalment amounting to PLN 1.90 million.
Credit collateral	– Joint mortgage up to PLN 18,200,000 on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy; – registered pledge on semi-industrial test line complete with accessories; – transfer of receivables on account of insurance agreement of the object of the pledge; – blank promissory note issued by the Borrower and promissory note declaration; – civil-law security bond by Stoczek Natura Sp. z o.o.; – declaration on submission to enforcement, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed.

– EU investment credit at BZ WBK SA

Credit conditions	
Credit agreement value	PLN 8,000,000
Credit period	15.09.2017 - 31.01.2022
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank

Credit balance	PLN 3,426,000
Repayment schedule	The credit will be repaid in 37 monthly instalments starting from 31 January 2019, in the following values: 36 instalments of PLN 0.1 million each, plus the 37th settlement instalment amounting to PLN 4.23 million. In case the credit is repaid from the subsidy received, the repayment schedule shall change in reference to the balloon instalment repayment. The instalments of the credit will be changed in such proportion to the instalments determined in the original schedule, in which the amount of the credit utilised compares to the amount of the credit granted.
Credit collateral	– Joint mortgage up to PLN 12,000,000 on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy; – registered pledge on the production line purchased within the subsidised project; – transfer of receivables on account of insurance agreement of the object of the pledge; – blank promissory note issued by the Borrower and promissory note declaration; – civil-law security bond by Stoczek Natura Sp. z o.o.; – assignment of rights under the subsidy agreement.

– Revolving credit at BZ WBK SA

Credit conditions	
Credit agreement value	PLN 1,800,000
Credit period	15.09.2017 - 31.10.2019
Interest rate	WIBOR 1M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 0,000
Repayment schedule	Repayment of the credit tanche paid takes place after 90 days
Credit collateral	– Joint mortgage up to PLN 2,700,000 on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy; – registered pledge on the production lines purchased within the subsidised projects; – transfer of receivables on account of insurance agreement of the object of the pledge; – blank promissory note issued by the Borrower and promissory note declaration; – declaration on submission to enforcement, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed.

– Credit in the current account at Bank Gospodarstwa Krajowego

Credit conditions	
Credit agreement value	PLN 6,000,000
Credit period	14.06.2013 – 30.06.2019
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 5,456,000
Repayment schedule	One-off at the date of maturity
Credit collateral	– Joint mortgage up to PLN 16,500,000 on properties entered in: a) land and mortgage register No. KW CZ1C/00111425/8 located in Częstochowa, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW LU1U/00022979/2 located in Stoczek Łukowski, including the assignment of rights under the property insurance policy; – blank promissory note issued by the Borrower and promissory note declaration; – power of attorney to dispose of the current account at BGK; – security bond by Stoczek Natura Sp. z o.o.; – declaration on submission to enforcement by the Borrower and the security bond provider, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed (up to the amount of PLN 12 million).

Makarony Polskie SA signed an annex to the agreement on credit in the current account with Bank Gospodarstwa Krajowego. The annex to the agreement on the credit in the current account extends the liability repayment period from 30 June 2018 to 30 June 2019.

– Non-revolving working capital credit in the credit account at Bank Gospodarstwa Krajowego

Credit conditions	
Credit agreement value	PLN 5,000,000
Credit period	30.06.2015 – 29.06.2020
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 1,750,000
Repayment schedule	20 equal quarterly capital instalments of PLN 0.25 million, starting from 30 September 2015 and ending on 29 June 2020.
Credit collateral	– Joint mortgage up to PLN 16,500,000 on properties entered in: a) land and mortgage register No. KW CZ1C/00111425/8 located in Częstochowa, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW LU1U/00022979/2 located in Stoczek Łukowski, including the assignment of rights under the property insurance policy; – blank promissory note issued by the Borrower and promissory note declaration; – power of attorney to dispose of the current account at BGK;

	– security bond by Stoczek Natura Sp. z o.o.; – transfer of receivables on account of insurance agreement of the object of the pledge; – declaration on submission to enforcement by the Borrower and the security bond provider, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed (up to the amount of PLN 4 million).

Makarony Polskie SA signed an annex to the agreement on working capital non-revolving credit in the credit account with Bank Gospodarstwa Krajowego. The object of the annex was, among other things, postponement of the maturity date to 29 June 2020 and change of the instalments repayment schedule.

– (Full) factoring agreement with BZ WBK Faktor Sp. z o.o.

Terms of the agreement	
Agreement value	PLN 9,500,000
Period	Agreement signed for unlimited term
Interest rate	WIBOR 1M + bank margin compliant with the standards applied by the bank
Factoring balance	PLN 4,050,000
Agreement collateral	– irrevocable power of attorney to dispose of the account; – blank promissory note with promissory note declaration.

As at 30 September 2018, Stoczek Natura Sp. z o.o. was a party to one credit agreement, with the balance presented in the table below.

– Credit in the current account at Bank Gospodarstwa Krajowego

Credit conditions	
Credit agreement value	PLN 3,000,000
Credit period	16.11.2017–16.11.2018
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 2,479,000
Repayment schedule	One-off at the date of maturity
Credit collateral	– Contractual mortgage up to PLN 4,500,000 on properties entered in land and mortgage register No. KW LU1U/00022979/2 located in Stoczek Łukowski, including the assignment of rights under the property insurance policy – power of attorney to dispose of the current account at BGK; – security bond by Makarony Polskie SA; – registered pledge on a set of machines and equipment (located at the Stoczek Łukowski plant); – declaration on submission to enforcement by the Borrower and the security bond provider, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed (up to the amount of PLN 6 million).

Security bonds and guarantees

INFORMATION ON GUARANTEES GRANTED AND OBTAINED

In Q.3, 2018 the Group companies did not grant any guarantees. As regards guarantees obtained, Makarony Polskie SA and Stoczek Natura Sp. z o.o. availed of guarantees.

All guarantees binding for Makarony Polskie SA as at 30 September 2018 are presented in the table below.

Guarantor	Guarantee amount PLN '000	Guarantee validity	Object of guarantee	Collateral
BZ WBK SA	1,011	to 28.12.2021	Guarantee securing the liabilities of the Company under the agreement with the Material Reserves Agency (ARM) with regard to sales and storage of pasta reserves	Joint mortgage up to PLN 1,517,000 on properties entered in: - land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów, including the assignment of rights under the property insurance policy - land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy – blank promissory note with promissory note declaration.
BZ WBK SA	249	22.01.2021	Guarantee securing the liabilities of the Company under the agreement with the Material Reserves Agency (ARM) with regard to keeping pasta reserves	Joint mortgage up to PLN 373,000 on properties entered in: - land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów, including the assignment of rights under the property insurance policy - land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy – blank promissory note with promissory note declaration.

All guarantees binding for Stoczek Natura Sp. z o.o. as at 30 September 2018 are presented in the table below.

Guarantor	Guarantee amount PLN '000	Guarantee validity	Object of guarantee	Collateral
Bank Gospodarstwa Krajowego	504	13.12.2021	Guarantee securing the liabilities of the company under the agreement with the Material Reserves Agency (ARM) with regard to keeping ready-cooked meals reserves	– mortgage up to PLN 756,000 on properties entered in land and mortgage register No. KW LU1U/00022979/2 located in Stoczek Łukowski, including the assignment of rights under the property insurance policy; – blank promissory note issued by the Ordering Party and promissory note declaration; – power of attorney to dispose of the current account at BGK; – security bond by Makarony Polskie SA.
Bank Gospodarstwa Krajowego	1,549	15.12.2021	Guarantee securing the liabilities of the company under the agreement with the Material Reserves Agency (ARM) with regard to keeping ready-cooked meals reserves	– mortgage up to PLN 2,323,000 on properties entered in land and mortgage register No. KW LU1U/00022979/2 located in Stoczek Łukowski, including the assignment of rights under the property insurance policy; – blank promissory note issued by the Ordering Party and promissory note declaration;

				– power of attorney to dispose of the current account at BGK; – security bond by Makarony Polskie SA.
Bank Gospodarstwa Krajowego	24	25.03.2022	Guarantee securing the liabilities of the Company under the agreement with the Material Reserves Agency (ARM) with regard to keeping canned food reserves	– blank promissory note issued by the Ordering Party and promissory note declaration; – Power of attorney to dispose of the current account at BGK

By August 2018, Stoczek Natura Sp. z o.o. availed of a guarantee amounting to PLN 1,472,000 granted by Bank Gospodarstwa Krajowego. The guarantee served as a performance bond for the agreement with the National Centre for the Support of Agriculture (KOWR) and owing to the complete settlement of the secured contract, the guarantee was released.

INFORMATION ON SECURITY BONDS GRANTED AND OBTAINED

In the Q.3, 2018 MP Trade Sp. z o.o. did not grant any security bonds.

As at 30 September 2018, Makarony Polskie SA granted security bonds to the Polish Pasta Chamber (PIM) and Stoczek Natura Sp. z o.o. subsidiary:

Third party liabilities	Name of creditor	Security bond value PLN `000	Validity date	Balance of the secured liability in PLN `000 as at 30.09.2018
Security bond for a revolving credit amounting to PLN 2.35 million *	BPS	4,275,	30.05.2021	965
Security bond for a revolving credit amounting to PLN 0.5 million *	BPS	750,	30.05.2021	277
Security bond for a credit in the current account amounting to PLN 3.0 million	Bank BGK	3,000,	16.05.2019	2,479
Security bond for a bank guarantee amounting to PLN 0.5 million	Bank BGK	504,	13.06.2022	-
Security bond for a bank guarantee amounting to PLN 1.5 million	Bank BGK	1,549,	15.06.2022	-

* Credits intended for financing of the 3-year information and promotional campaign entitled "Makarony Europy" [European Pasta]. The activities will be carried on the Chinese and Ukrainian markets. The cost of the campaign is co-financed by the European Union and the Agricultural Market Agency (ARR). The external finance is a security for the loan repayment.

In Q.3, 2018, Makarony Polskie SA provided a security bond for Stoczek Natura Sp. z o.o. for the guarantee amounting to PLN 1,472,000 granted by Bank Gospodarstwa Krajowego. The guarantee served as a performance bond for the agreement with the National Centre for the Support of Agriculture (KOWR) and owing to the complete settlement of the secured contract, the guarantee was released and the security bond expired.

Makarony Polskie SA received remuneration for the security bonds granted.

As at 30 September 2018, Stoczek Natura Sp. z o.o. granted security bonds to the Parent Company Makarony Polskie SA. The value of the security bonds is presented below:

Third party liabilities	Name of creditor	Security bond value PLN '000	Validity date	Balance of the secured liability in PLN '000 as at 30.09.2018
Security bond for a credit in the current account amounting to PLN 5.0 million	BZ WBK	7,500	31.05.2019	1,076
Security bond for an investment credit amounting to PLN 13.8 million	BZ WBK	30,000	30.09.2021	7,744
Security bond for a non-revolving working capital credit in the credit account amounting to PLN 5.0 million *	Bank BGK	5,000	29.12.2020	1,750
Security bond for a credit in the current account amounting to PLN 6.0 million *	Bank BGK	6,000	31.12.2019	5,456
Security bond for an EU investment credit amounting to PLN 8.0 million	BZ WBK	8,000	binding till the moment of the subsidy settlement	3,426
Security bond for an EU investment credit amounting to PLN 12.1 million	BZ WBK	12,121	binding till the moment of the subsidy settlement	0

* Stoczek Natura Sp. z o.o. signed an annex to the agreement with BGK on security bond for the credits taken out by Makarony Polskie SA. As stated in the annex, the validity period for the respective liabilities has been extended as follows: security bond referring to the agreement on credit in the current account is valid till 30 December 2019 (previous deadline 31 December 2018); security bond referring to the agreement on working capital non-revolving credit in the credit account is valid till 29 December 2020 (previous deadline 29 December 2018).

Stoczek Natura Sp. z o.o. received remuneration on account of the security bonds granted to the Parent Company Makarony Polskie SA.

INFORMATION ON LOANS GRANTED

As at 30 September 2018 Makarony Polskie SA granted a short-term loan to its subsidiary Stoczek Natura Sp. z o.o. in the amount of PLN 2.00 million with the repayment date on 31 December 2018 (one-off repayment by the date of the loan maturity). The interest rate on the loan was set on arm's length basis.

Stoczek Natura Sp. z o.o. and MP Trade Sp. z o.o. did not grant any loans in Q.3, 2018.

Off-balance-sheet items

The values of guarantees, security bonds, promissory note payables, mortgages and other off-balance-sheet liabilities have been presented in the above table in their maximum values.

Off-balance-sheet items [PLN `000]	30 September 2018	31 December 2017
1. Contingent assets	3,649	5,329
– guarantees and security bonds obtained	3,337	5,329
– secured on property	0	0
– promissory notes	312	0
2. Contingent liabilities	174,233	171,729
– guarantees and security bonds granted	5,025	5,025
– secured on property	116,517	118,725
– promissory note payables	52,691	47,929
Total off-balance-sheet items	-170,584	-166,400

* The specification does not cover for security bonds among the Group companies owing to the fact that this does not affect the value of the off-balance-sheet items.

Important court litigations, arbitration proceedings or administrative proceedings

In the presented reporting period there were no pending important court ligations or any arbitration or administrative proceedings regarding the liabilities or receivables of Makarony Polskie SA or its subsidiaries.

Other major events and transactions

In Q.3, 2018 no major events and transactions other than those described above occurred which would require disclosure in these financial statements of the Group.

Major post-balance-sheet events

No other post-balance-sheet events occurred which could have a major impact on the operations of the Makarony Polskie Group.

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Zenon Daniłowski

President of the Management Board

Rzeszów, 15 November 2018

Condensed separate financial statements of Makarony Polskie SA for the period from 1 January to 30 September 2018

Selected financial data of Makarony Polskie SA

Selected financial data	30.09.2018	30.09.2017	30.09.2018 (EUR '000)	30.09.2017 (EUR '000)
Net sales of products, services, merchandise and materials	98,040	87,810	23,049	20,629
Profit (loss) on continued operations	5,694	5,363	1,339	1,260
Gross profit (loss)	5,159	4,902	1,213	1,152
Net profit (loss) on continued operations	4,139	3,958	973	930
EBIT	5,694	5,363	1,339	1,260
EBITDA (EBIT + depreciation)	8,387	8,117	1,972	1,907
Net cash flows on operating activities	3,705	1,364	871	320
Net cash flows on investing activities	-2,216	-1,324	-521	-311
Net cash flows on financing activities	-1,393	-119	-327	-28
Total net cash flows	96	-79	23	-19
Total assets ***	126,006	122,883	29,500	29,462
Liabilities and provisions for liabilities ***	52,020	50,723	12,179	12,161
Long-term liabilities ***	20,840	20,229	4,879	4,850
Short-term liabilities ***	31,180	30,494	7,300	7,311
Equity ***	73,986	72,160	17,321	17,301
Share capital ***	27,750	27,750	6,497	6,653
Number of shares	9,250,071	9,250,071	9,250,071	9,250,071
Average weighted number of shares in the given reporting year	9,250,071	9,250,071	9,250,071	9,250,071
Profit/loss per ordinary share (PLN/EUR) *	0.45	0.43	0.11	0.10
Book value per share (PLN/EUR) **	8.00	7.80	1.87	1.87

* Net profit/loss per ordinary share = net result/weighted average number of shares in the period

** Book value per ordinary share = equity/number of shares at the balance-sheet date

*** Comparative data from the statement of financial position as at the 31 December 2017

Statement of comprehensive income of Makarony Polskie SA

FOR THE PERIOD	Q.3, 2018	01.01.2018-30.09.2018	Q.3, 2017	01.01.2017-30.09.2017
Net sales	33,843	98,040	31,515	87,810
Net sales of products and services	26,590	76,303	25,072	72,990
Net sales of merchandise and materials	7,253	21,737	6,443	14,820
Prime cost	26,056	75,722	24,331	68,848
Cost of manufacturing of products and services sold	19,541	56,520	18,390	54,547
Value of merchandise and materials sold	6,515	19,202	5,941	14,301
Gross profit (loss) on sales	7,787	22,318	7,184	18,962
Costs of sales	4,880	13,501	4,375	10,799
General management costs	1,071	3,284	1,070	3,168
Other revenues	154	543	242	588
Other costs	126	382	51	220
Profit (loss) on continued operations	1,864	5,694	1,930	5,363
Financial revenues	17	66	19	301
Financial costs	181	601	285	762
Gross profit	1,700	5,159	1,664	4,902
Income tax – current part	287	861	347	987
Income tax – deferred part	46	159	12	-,43
Net profit (loss) on continued operations, applicable to:	1,367	4,139	1,305	3,958
Shareholders of the Parent Company	*1,367*	*4,139*	*1,305*	*3,958*
Non-controlling interest				
Basic net earnings per share in PLN	0.15	0.45	0.14	0.43
Diluted net earnings per share in PLN	0.15	0.45	0.14	0.43
Other comprehensive income/loss, net				
Total net comprehensive income	1,367	4,139	1,305	3,958
Net comprehensive income assigned to:				
Shareholders of the Parent Company	1,367	4,139	1,305	3,958
Non-controlling interest				

Statement of other comprehensive income, net – hedge accounting

FOR THE PERIOD	Q.3, 2018	01.01.2018-30.09.2018	Q.3, 2017	01.01.2017-30.09.2017
Net comprehensive income	1,367	4,139	1,305	3,958
Profit/loss on account of hedge accounting application	0	0	0	0
Total net comprehensive income	1,367	4,139	1,305	3,958

Statement of financial position of Makarony Polskie SA

ASSETS	30.09.2018	31.12.2017	30.09.2017
FIXED ASSETS	**86,261**	**86,688**	**86,735**
Tangible fixed assets	50,364	51,763	52,484
Investment properties	642	642	642
Goodwill	0	0	0
Other intangible fixed assets	4,978	4,970	4,909
Total long-term financial assets, of which:	30,080	29,080	28,450
Shares	30,080	29,080	26,080
Loans granted	0	0	2,370
Deferred income tax assets	0	0	0
Other long-term assets	197	233	250
CURRENT ASSETS	**39,745**	**36,195**	**38,814**
Inventories	12,675	10,359	11,764
Short-term receivables	24,319	23,121	23,742
Deferred income tax receivables	0	0	0
Loans granted	2,005	2,013	2,688
Cash and cash equivalents	510	415	374
Other short-term assets	236	287	246
Fixed assets held for sale	0	0	0
TOTAL ASSETS	**126,006**	**122,883**	**125,549**

EQUITY/LIABILITIES	30.09.2018	31.12.2017	30.09.2017
EQUITY CAPITAL	**73,986**	**72,160**	**70,868**
Share capital	27,750	27,750	27,750
Other reserve capital	42,097	39,161	39,160
Retained profit/loss (profit/loss from previous years)	0	0	0
Net profit/loss	4,139	5,249	3,958
LONG-TERM LIABILITIES	**20,840**	**20,229**	**19,876**
Deferred income tax provision	3,542	3,383	3,349
Long-term bank credits and loans	9,517	8,221	7,577
Provision for retirement benefits and equivalent (long-term)	195	155	131
Deferred income (long-term)	6,198	6,538	6,710
Long-term financial liabilities	1,388	1,932	2,109

Statement of financial position of Makarony Polskie SA

SHORT-TERM LIABILITIES	**31,180**	**30,494**	**34,805**
Short-term bank credits and loans	9,946	9,284	15,597
Short-term financial liabilities	708	785	854
Other short-term liabilities	19,622	19,730	17,483
Deferred income tax payables	96	65	84
Deferred income (short-term)	510	553	510
Provision for retirement benefits and equivalent (short-term)	73	77	49
Other short-term provisions	225	0	228
TOTAL LIABILITIES	**52,020**	**50,723**	**54,681**
TOTAL EQUITY/LIABILITIES	**126,006**	**122,883**	**125,549**

Statement of cash flows of Makarony Polskie SA

FOR THE PERIOD	01.01.2018-30.09.2018	01.01.2017-30.09.2017
Net cash flows on operating activities		
Profit before tax	**5,159**	**4,902**
Adjustments for items:	**-1,454**	**-3,538**
Depreciation	2,693	2,754
Foreign exchange gains/losses	1	0
Interest cost and income	369	495
Dividend income	0	0
Profit/loss on investing operations	-29	-16
Change in the balance of provisions	260	265
Change in the balance of inventories	-2,317	-2,110
Change in the balance of receivables	-1,197	-2,978
Change in the balance of liabilities and accruals	-404	-1,052
Corporate income tax paid/reimbursed	-830	-896
Other adjustments	0	0
Net cash flows on operating activities	**3,705**	**1,364**
Cash flows on investing activities		
Revenues from sale of tangible and intangible fixed assets	29	29
Revenue from sale of financial assets	0	0
Expenses on purchase of tangible and intangible fixed assets	-1,302	-1,444
Expenses on purchase of financial assets	-1,000	0
Interest revenues	57	91
Revenues on loans granted	0	0
Loans granted	0	0
Other	0	0
Net cash flows on investing activities	**-2,216**	**-1,324**

Statement of cash flows of Makarony Polskie SA

Cash flows on financing activities		
Revenues from credits and loans	4,738	6,604
Repayment of credits and loans	-2,780	-3,001
Payment of liabilities under financial lease agreements	-620	-784
Interest paid	-418	-625
Dividend paid out to shareholders	-2,313	-2,313
Expenses on purchase of financial assets	0	0
Other financial revenues	0	0
Net cash flows on financing activities	**-1,393**	**-119**
Increase/decrease in the balance of cash and cash equivalents	**96**	**-79**
Cash, cash equivalents and credit in the current account at the beginning of the period	415	453
Foreign exchange gains/losses on valuation of cash, cash equivalents and credit in the current account	-1	0
Cash, cash equivalents and credit in the current account at the end of the period	**510**	**374**

Statement of changes in equity of Makarony Polskie SA

For the period from 1 January 2018 to 30 September 2018

	Share capital	Other reserve capital	Result for the current year	Profit/loss from previous years	Total
As at 1 January 2018	27,750	39,161	0	5,249	72,160
Profit distribution/loss coverage	0	2,936	0	-2,936	0
Profit/loss on account of hedge accounting application	0	0	0	0	0
Dividend payout	0	0	0	-2,313	-2,313
Net result after Q.3, 2018	0	0	4,139	0	4,139
As at 30 September 2018	27,750	42,097	4,139	0	73,986

For the period from 1 January 2017 to 31 December 2017

	Share capital	Other reserve capital	Result for the current year	Profit/loss from previous years	Total
As at 1 January 2017	27,750	36,507	0	4,966	69,223
Profit distribution/loss coverage	0	2,654	0	-2,654	0
Profit/loss on account of hedge accounting application	0	0	0	0	0
Dividend payout	0	0	0	-2,312	-2,312
Net result for 2017	0	0	5,249	0	5,249
As at 31 December 2017	27,750	39,161	5,249	0	72,160

Statement of changes in equity of Makarony Polskie SA

For the period from 1 January 2017 to 30 September 2017

	Share capital	Other reserve capital	Result for the current year	Profit/loss from previous years	Total
As at 1 January 2017	27,750	36,507	0	4,966	69,223
Profit distribution/loss coverage	0	2,653	0	-2,653	0
Profit/loss on account of hedge accounting application	0	0	0	0	0
Dividend payout	0	0	0	-2,313	-2,313
Net result after Q.3, 2017	0	0	3,958	0	3,958
As at 30 September 2017	27,750	39,160	3,958	0	70,868

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Zenon Daniłowski
President of the Management Board

Rzeszów, 15 November 2018

Information about the Company

Makarony Polskie SA
with its registered office in Rzeszów
ul. Podkarpacka 15A, 35-082 Rzeszów

www.makarony.pl

The Company was registered by the District Court in Rzeszów, 12th Commercial Division of the National Court Register, on 5 July 2004, under the number 0000212001.

Share capital: PLN 27,750,213 (paid up in full)

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The source of data in these financial statements is the Makarony Polskie Group, unless otherwise specified.