Management Report on the Operations of the Makarony Polskie Group in the first half of 2017



Rzeszów, on 25 August 2017

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In the first half of 2017, the Makarony Polskie Group generated total sales at the level of PLN 66.0 million, net profit of PLN 3.05 million, and EBITDA of PLN 6.4 million.

Introduction



Dear Sirs/Madams!

Dear Shareholders!

Please, let me present the Financial Statements of the Makarony Polskie Group for the first half of 2017. In this period, our Group generated total sales at the level of PLN 66.0 million, net profit of PLN 3.05 million, and EBITDA of PLN 6.4 million.

The Management Board has been consistent in the policy of goodwill increase through both quantitative and qualitative activities. In the first half of 2017, net profit per share was at the level of PLN 0.33, i.e. it increased from PLN 0.26 in the first half of 2016, and the book value of one share was PLN 7.95 while in the first half of 2016 it was PLN 7.87.

As it has been announced earlier, in 2017 the Group has been carrying out the strategy of building strong brands, introduction of B2B and HoReCa products and continued expansion in Poland and abroad.

I would like to encourage you to get to know the whole content of the report.

Truly yours,

Zenon Daniłowski
President of the Management Board

The Makarony Polskie Group consists of three companies: two of them deal with production and one with trading.

Characteristics of the Makarony Polskie Group

Organisation of the 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.

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

Characteristics of the Makarony Polskie Group

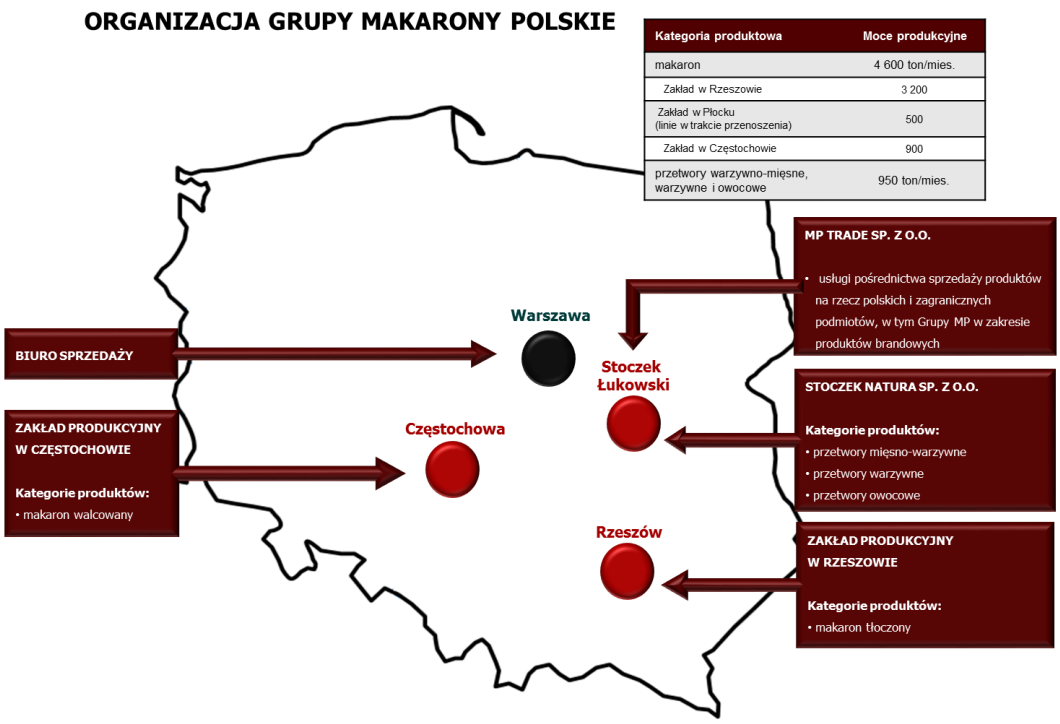
Within the Group, the particular companies make intercompany purchase and sale transactions with regard to products, merchandise and services.

All transactions are made on arm's length basis.

Changes in the organisation of the Makarony Polskie Group in the first half of 2017

In the first half of 2017, no changes were introduced in the Makarony Polskie Group which would have a major impact on the structure or organisation of the Group.

Within the Makarony Polskie Group the particular companies make intercompany purchase and sale transactions with regard to products, merchandise and services. All transactions are made on an arm's length basis.



At the end of the second quarter and beginning of the third quarter 2017, Makarony Polskie SA effected organisational changes, namely modified and enlarged their in-house sales team, among others, by way of taking over from MP Trade Sp. z o.o. their traditional trade team (in Q.3 2017). Since the third quarter of 2017, the new sales team of Makarony Polskie SA have been responsible for the whole domestic sale of Makarony Polskie SA and Stoczek Natura Sp. z o.o., that is the sale both under their own brands, as well as private label, in all distribution channels. As a target, it is planned that the team shall also service export sale of the production companies of the Group on European markets.

A decision about effecting the above mentioned organisational changes resulted from the growing specialisation of MP Trade Sp. z o.o. and focussing on development of the export sale, most notably on the African and Arabic markets. Reorganisation aims, most of all, at facilitating of the functioning of the domestic sales structures and does not affect significantly profitability of the serviced contracts.

Changes in the composition of the management and supervisory bodies

Composition of the Supervisory Board

From 1 January 2017 to the date of publication of this report, 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.

Composition of the Management Board

Since 1 January 2017 to the date of publication of these statements, the Management Board has consisted of one person. The office of the President of the Management Board is held by Mr Zenon Daniłowski.

On 24 May 2017, in reference to the end of the seventh term of the Company Management Board, the Supervisory Board of Makarony Polskie SA decided that in the eighth term the Management Board will consist of one person and again entrusted the function of the President of the Management Board to Mr Zenon Daniłowski.

As at the date of publication of this report, the functions of the Company Proxies have been fulfilled by:

- Grażyna Kozielec – since 31 May 2012,
- Beata Majewska-Karp – since 31 May 2012,
- Witold Żarek – since 4 March 2013,
- Dariusz Cylka – since 30 August 2016
- Tomasz Blat – since 7 August 2017.

The rights of proxies granted are binding jointly – a Proxy may represent the Company only in liaison with another Proxy or a Member of the Management Board.

HR policy of the Group focuses on maintaining the best specialists and managers who, thanks to their knowledge, experience and involvement, ensure the top level of execution of the business goals of the Group entrusted to them.

Supervisory Boards of subsidiaries

Group subsidiaries do not have Supervisory Boards. The governing bodies of the subsidiaries Stoczek Natura Sp. z o.o. and MP Trade Sp. z o.o. are the General Meeting and the Management Board.

Management Boards of subsidiaries

As at 30 June 2017 and as at the date of publication of these financial statements, the composition of Management Boards of subsidiaries has been as follows:

- Stoczek Natura Sp. z o.o. – Rafał Dziobko – President of the Management Board and Adam Ławnik – Vice President of the Management Board,
- MP Trade Sp. z o.o. – Piotr Wyszecki – President of the Management Board.

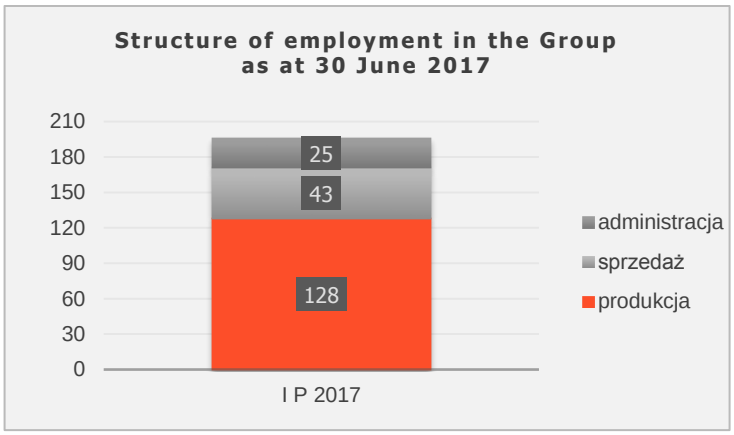
Alicja Hinz, Chief Accountant, is the Proxy of Stoczek Natura Sp. z o.o. (the rights of proxy granted are binding jointly – the Proxy may represent the Company only in liaison with another Proxy or a Member of the Management Board).

Management Board of MP Trade Sp. z o.o. appointed no proxies.

Employees

In accordance with the adopted policy, Makarony Polskie Group maintains consistently the total headcount at the level of the necessary minimum, taking care, at the same time, of flexibility of employment in the production plants and correlating it with the changes in production volumes.

As at 30 June 2017, the headcount of Makarony Polskie totalled 196 people (compared to 198 as at the end of the first half of 2016 and 220 people as at the end of the first half of 2015).



HR policy of the Makarony Polskie Group is focussed on permanent improvement of the organisation and increasing quality of the offered products and provided services by way of keeping highly qualified specialists and managers who thanks to their knowledge,

experience and involvement, ensure the top level of execution of the business goals of the Group entrusted to them.

The Group has implemented and carried out systematic identification of future HR needs, in close cooperation with managers of organisational units. Recruitment processes are carried out in such a way to be not only effective for the company but also to be as transparent for and friendly to the people being recruited as possible.

Recruiting and selecting candidates, first of all, the Group carries out internal recruitment, which makes it possible to keep within the organisation employees who are involved, have great experience and required qualifications. Should no proper candidates be found in internal recruitment, recruitment processes addressed to external candidates are carried out, using for that sources of recruitment adequate to the profile of a vacant position, including, but not limited to, Internet portals, career offices, placements and student's internships.

In the decision making process with regard to employing the candidates, the Group companies take into account their work history, number of years worked, education, adequately to the scope of the entrusted tasks. The Group sees to ensure diverse staff in terms of age, sex and it endeavours to prevent any forms of discrimination.

per age and sex	Headcount structure of the Group as at 30 June 2017		
	women	**men**	**total**
18-29	9	14	23
30-49	60	66	126
50+	24	23	47

Share capital

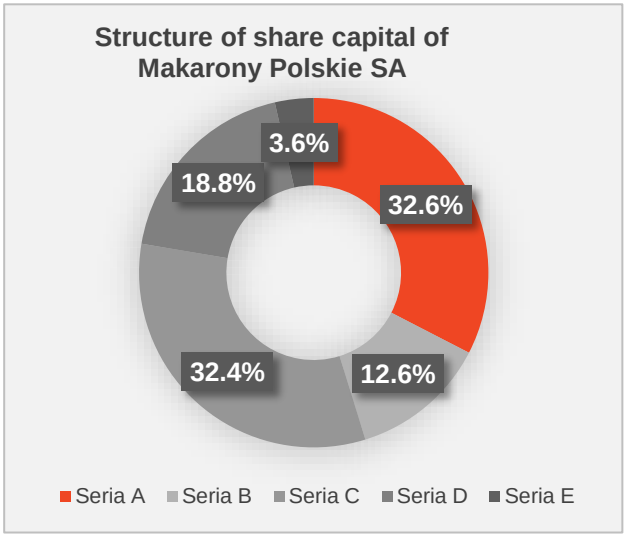
Share capital of Makarony Polskie SA:

- share capital value PLN 27,750,213;
- total number of shares 9,250,071;
- total number of votes in General Meeting 9,250,071.

Structure of the share capital of the Company:

- 3,013,250 ordinary bearer shares, A series;
- 1,169,750 ordinary bearer shares, B series;

- 3,000,000 ordinary bearer shares, C series;
- 1,735,821 ordinary bearer shares, D series;
- 331,250 ordinary bearer shares, E series.



The shares of the Company are ordinary bearer shares listed on the regulated market run 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.

There are no limitations at the Company with regard to exercising the right of vote. Moreover, there are no limitations regarding the transfer of ownership rights to the securities issued by the Company.

Shares held by the main shareholders (above 5% of the capital)

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 the report (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 (former: 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%*
Other shareholders	3,962,031	42.83%	3,962,031	42.83%
TOTAL	9,250,071	100.00%	9,250,071	100.00%

Changes in the shareholding in the course of the first half of 2017

During the first half of 2017, the following notifications regarding changes in the possession of shares of 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 (hereinafter referred to as: General Meeting):

- Praska Giełda Spożywcza SA with its registered office in Ząbki (hereinafter referred to as: PGS):
  - on 20 February 2017 informed about a shares disposal transaction concluded through a brokerage office on 17 February 2017 outside of the regulated market, as a result of which PGS disposed of a stake of 350,000 shares of the Company entitling to the same number of votes in the General Meeting;
  - on 24 March 2017 informed that within two shares disposal transactions concluded on 22 March 2017 and 23 March 2017 on regulated market, it disposed of a stake of 400,000 shares of the Company entitling to the same number of votes in the General Meeting;
  - on 30 March 2017 informed that within three shares acquisition transactions concluded on 28 March 2017 on regulated market, it acquired a stake of 800,000 shares of the Company entitling to the same number of votes in the General Meeting.

  Before the share change PGS held directly and indirectly together with its subsidiaries 2,121,594 shares of the Company, representing 22.93% of the share capital and entitling to 2,121,594 votes in the General Meeting (22.93% of the total number of votes), out of which PGS held directly 2,000,000 shares representing 21.62% of the share capital of the Company and entitling to 2,000,000 votes in the General Meeting (21.62% of the total number of votes)

and indirectly 121,594 shares representing 1.31% of the share capital of the Company and entitling to 121,594 votes in the General Meeting (1.31% of the total number of votes).

Having effected the above said transactions, PGS holds directly and indirectly 2,171,594 shares of the Company, which represents the shareholding of 23.47% in the share capital, entitling to 2,171,594 votes at the General Meeting (23.47% of the total number of votes), of which PGS holds: directly 2,050,000 shares representing 22.16% of the share capital of the Company, entitling to 2,050,000 votes at the General Meeting (22.16% of the total votes); indirectly 121,594 shares representing 1.31% of the share capital of the Company, entitling to 121,594 votes at the General Meeting (1.31% of the total number of votes).

Polskie Smaki Sp. z o.o. is a subsidiary of PGS that holds shares of Makarony Polskie SA. At the same time PGS informed that there are no persons referred to in Article 87.1.3.C of the Act on Public Offering and that it does not possess any financial instruments referred to in Article 69b.1 of the Act on Public Offering

- On 29 March 2017 Mr Krzysztof Moska informed that as a result of disposal of 800,000 Company shares, representing 8.65% of the share capital and 8.65% of the total number of votes in the General Meeting, carried out on 28 March 2017 within three stake disposal session transactions on the main market of the Warsaw Stock Exchange, the share of Mr Krzysztof Moska in the total number of votes in the General Meeting of the Company changed, such that his holdings dropped below the 5% threshold of the total number of votes in the General Meeting.

  Before the transactions Mr Krzysztof Moska held 1,101,047 shares of the Company, representing 11.90% of the share capital of the Company and 11.90% of the total number of votes in the General Meeting, entitling him to exercise 1,101,047 votes.

  After the change in ownership, Mr Krzysztof Moska holds in total 301,047 shares of the Company, representing 3.25% of the share capital of the Company and 3.25% of the total number of votes at the General Meeting of the Company entitling to exercising 301,047 voting rights.

  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 section 1 item 3 letter C of the Act on Public Offering. Mr Krzysztof Moska declares also that he did not possess any financial instruments referred to in Article 69b.1 of the Act on Public Offering.

- On 5 April 2017, Mr Leszek Sobik informed that on 3 April 2017 he carried out a D+1 stake disposal off-session transaction in reference to 150,000 shares of the Company, this reducing his holdings in the Company below the 5% threshold, namely to 3.89%. Before the transaction Mr Leszek Sobik held 509,541 shares of the Company, representing 5.51% the share capital and entitling him to 509,541 votes in the General Meeting, i.e. 5.51% of the total votes in the General Meeting. After the transaction Mr Leszek Sobik holds 359,541 shares of Makarony Polskie SA, representing 3.89% of the share capital of the Company and entitling him to 359,541 votes in the General Meeting, i.e. 3.89% of the total number of votes. At the same time Mr Leszek Sobik informed that his subsidiaries did not hold any Company shares.

On 18 April 2017, Praska Giełda Spożywcza SA (hereinafter referred to as: PGS) – a person closely associated with Mr Zenon Daniłowski, President of the Management Board of Makarony Polskie SA - notified the Company about transactions on the shares of the Company, mentioned under Article 19.1 of the Market Abuse Regulation. PGS informed that on 13 April 2017 it established a pledge on 800,000 shares of the Company.

The Company has no other information which would reflect any changes in the number of shares possessed by major shareholders (holding stakes of more than 5% shares) in the first half of 2017 and by the date of publishing this report.

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

Shares held by the Members of the Management Board

Number and nominal value of the shares of the Company held by the Management Board Members as at the end of the reporting period:

Member of the Management Board	1H 2017		2016	
	Number of shares	**Nominal value**	**Number of shares**	**Nominal value**
Zenon Daniłowski*	140,000	420,000	140,000	420,000

* President of the Management Board Zenon Daniłowski is related to Praska Giełda Spożywcza SA (former: Agro-Technika SA) and Polskie Smaki Sp. z o.o. that also hold shares of the Company; the total shareholding is 2,311,594 shares worth PLN 6,934,782.

In accordance with the information possessed by the Company no changes in the status of shares held by the President of the Management Board occurred during the first half of 2017 and by the date of publishing this report.

Shares held by the Members of the Supervisory Board

Number and nominal value of the shares of the Company held by the Members of the Supervisory Board as at the end of the reporting period:

Member	1H 2017	2016

of the Supervisory Board	Number of shares	Nominal value	Number of shares	Nominal value
Marek Rocki	0	0	0	0
Michał Słomkowski	0	0	0	0
Roman Sobiecki	0	0	0	0
Samer El Waziri	0	0	0	0
Wiesław Wasilewski	5,000	15,000	5,000	15,000

In accordance with the information possessed by the Company no changes in the status of shares held by the Members of the Supervisory Board occurred during the first half of 2017 and by the publication date of this report.

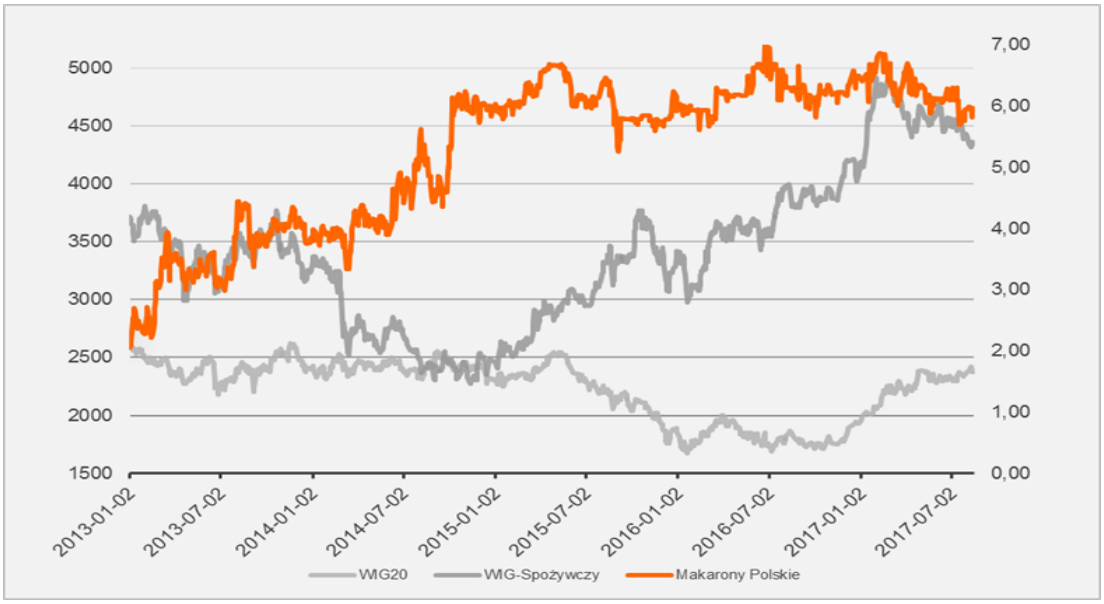
Shares in subsidiaries

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

Makarony Polskie SA on the capital market

Listings and major indicators

Since April 2007 the shares of Makarony Polskie SA have been listed on the Warsaw Stock Exchange.



In 2017, the Company paid dividend in the gross amount of PLN 0.25 per share, which totals PLN 2.3 million.

	2013-01-02	2014-01-02	2015-01-02	2016-01-04	2017-01-02	2017-08-14	% change since 2013-01-02
Makarony Polskie SA	2.06	3.8	6.03	6.03	6.45	5.96	189%
WIG20	2,626	2,431	2,309	1,804	1,957	2,377	-10%
WIG-Spożywczy	3,719	3,330	2,452	3,409	4,195	4,339	17%

Information about dividend in Makarony Polskie SA

The Management Board of the Company recommended to the Annual General Meeting to divide the net profit for 2016 amounting to PLN 4,965,759.43 in the following manner:

- assign PLN 2,312,517.75 to the dividend pay-out, i.e. pay out dividend in the amount of PLN 0.25 gross per share;
- assign the remaining part of the profit amounting to PLN 2,653,241.68 to the supplementary capital of the Company.

On 29 June 2017 the AGM of Makarony Polskie SA decided to divide profit for the reporting year 2016 in accordance with the recommendation of the Management Board.

The dividend pay-out date was set for 14 July 2017. The dividend was actually paid out on 28 July 2017. There were 9,250,071 shares of the Company entitled to the dividend.

Application of revenues from the shares issue

In the period from 1 January 2017 to the date of publication of this report, the Company has not carried out any issue of shares.

"In 2020, the world pasta market will be worth more than USD 86 billion The Compound Annual Rate Growth (CARG) will be 5%." (Source: Portal Spożywczy)

Operations of the Makarony Polskie Group

Selected market data

"World pasta market will be worth over 86 billion dollars in 2020. The Compound Annual Rate Growth (CARG) is planned to reach 5%, and the largest sales market for pasta will still remain Asia and Pacific" (Source: Portal Spożywczy at technavio.com „Global Pasta and Noodles Market 2016-2020")

The Makarony Polskie Group has been operating on the domestic market (covering for modern trade, traditional trade, and B2B and institutions), and also on foreign markets. Under export activities, the Group establishes relationships with new customers from the European markets (Portugal, Ukraine, Norway, Slovak Republic, Hungary, France) and African ones, and also adds new items to its assortment offer addressed to the current customers on a permanent basis.

The products of the Makarony Polskie Group are highly esteemed among the foreign recipients. They are synonymous to healthy and tasty products originating from ecologically clean areas of Poland, which contributes to their growing popularity on foreign markets. In the coming years the companies of the Group are going to focus mainly on attracting and serving customers on European and African markets.



Within the perspective of the next few years the most important will be the e-commerce sector, as a rightful sales channel. The Group plans a multi-level entrance in that promising sector, mainly by presence on the commercial platforms of its contractors and improved activities in social networking media, also in the context of sales promotion.

Currently, the market observes better development of the sector of services than that of trading goods, which may translate in future in slower growth rates of the food categories in which the Group is present as regards business to customer (B2C) segments. Therefore, the Group sees its potential in the business to business (B2B) sector, particularly in the

The Group portfolio has been constantly adjusted to the market trends and customer needs. It has been lately extended for functional dietetic and health-promoting products.

category of products for catering. In its B2C distribution policy the Group is going to concentrate on customers with the highest sales potential in the food products categories represented by the Group as food manufacturer.

Main products and services

Brand products assortment:

PASTA:

MAKARONY POLSKIE – A brand with clear identity, fitting the popular and stable market trend of promoting Polish-made and local food, dedicated to consumers who care for good Polish quality at a reasonable price.



The brand portfolio covers both the traditional egg-made pasta (rolled) and extruded pasta (that since the first half of 2017 have been offered in a new recipe), made of various types of flour, including wholemeal flours acquired from qualified suppliers, as well as functional pasta of dietary and health-promoting character (100% spelt pasta, or wholemeal pasta with increased content of fibre).



Additionally, under the same brand a completely new product line has been introduced under the name of "W Kuchniach Świata" [World's Cuisines], inspired with the taste of the sunny Italy, based on the "large" pasta forms manufactured in 100% of hard durum wheat, intended for stuffing.



Following numerous trends present on the food market, in the first half of 2017, the line of flavoured pasta was added to

Management [illegible] the Operations of the Makarony Polskie Group in the first half of 2017

the offer – flavoured ribbons and flavoured noodles that go well with soup. Works c

Our ambition is that the Makarony Polskie brand becomes a key to put order to the currently fragmented middle shelf, locating just below the leader and taking over the market share which is now held by a large number of small manufacturers.

SORENTI - a brand created with a thought about connoisseurs of the Italian cuisine. The brand assortment includes the most popular forms of pasta produced in 100% of the highest-quality milled hard durum wheat.



On the domestic market the Sorenti brand is basically present in the modern channel. The advantage of the Sorenti brand in the tight competition environment is the reasonable price of products. The Sorenti brand is also a very attractive exports product with a high development and further internationalisation potential.

MEAT AND VEGETABLE PRODUCTS

In the first half of 2017 the assortment of meat and vegetable products covered ready-cooked meals under the brands of Stoczek and Męska Rzecz. The ready-cooked meals offered by the Group, being classical lunch meals of the Polish cuisine, combine the home taste with the comfort and speed of their preparing. Therefore they perfectly fit the current trends on the food market. Market development of the "Męska Rzecz" brand assortment is supported with non-standard forms of promotion and stimulating the sale. Męska Rzecz is a brand dedicated to the broadest group of consumers in that food category, seasoned particularly to fit the men's taste, which competes on the shelf with its very reasonable price.



The Męska Rzecz brand offer includes also the "W Kuchniach Świata" [World's Cuisines] line that is our answer to the new consumer trends.



In the first half of 2017, thick soups in jars and tasteful sandwich meat were added to the Męska Rzecz brand.



For selected customers, also in-out campaigns for XXL tinned soups of unique tastes, like highland sauerkraut soup or woodcutter's soup, were effected. The products went well with the market and as a target they will be added to the standard product offer of the Group.

VEGETABLE PRODUCTS

In the first half of 2017 the vegetable products assortment covered mainly salads and pickles under the brand name of Tenczynek – traditional vegetable additions which make meals more attractive and differentiated, both cold and hot. The products have a loyal group of consumers. Moreover, this assortment fits the exports policy of the Group – the Tenczynek brand is positioned on the "ethnic food" shelves as a premium product.



Moreover, the Tenczynek brand comprises salty stuffing for the bakery sector and catering. This is a rapidly developing market. The Company has started up the highest output lines to manufacture fillings and stuffing, which is going to result in higher B2B sales.

FRUIT PRODUCTS

In the first half of 2017, the fruit products assortment covered plum and other fruit jams (Stoczek and Tenczynek) as well as syrups (Tenczynek) – manufactured to the highest quality without artificial colouring or preservatives. A trend has been observed on the market to developing new flavour categories. As an answer to market trends, the Group added products of that type to the portfolio, mostly for export.

The fruit products of the Group have long enjoyed high interest on export markets, particularly in Germany and China.

Private label products assortment:

Products identified with a third party brand are present in each segment of the commercial offer of the Group. As regards private label, the Group is a leading manufacturer of rolled and extruded pasta, as well as an important manufacturer of meat/vegetable products, vegetable products and fruit products.

In the first half of 2017 the Makarony Polskie Group focused on product development, based on the trends shaping the market of own brands in the European and World's food sector, as well as on the fact that the Group has been perceived as an innovator with whom it is worth facing the challenge of testing new products. In 2017 works on the implementation of consecutive health-promoting products (made of wholemeal flours other than wheat, rich in fibre and mineral ingredients), flavoured pastas (with herbs and spices) as well as other premium pasta products were pending.

Considerable interest of large and small shop chains in the purchases of private label products from the Polskie Makarony Group confirms the high quality of products and the organisational efficiency of the Group and contributes to its competitive position and reliability.

Services offered by the Makarony Polskie Group:

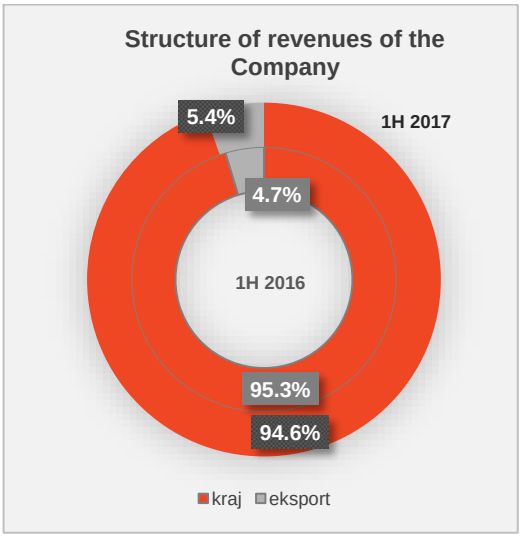
In the first half of 2017, the Makarony Polskie Group, through its subsidiary MP Trade Sp. z o.o., operated on the market of commercial services. On its own account, MP trade develops trade in third party goods of Polish and external manufacturers and also provides intermediation services in selling products to Polish and foreign entities.

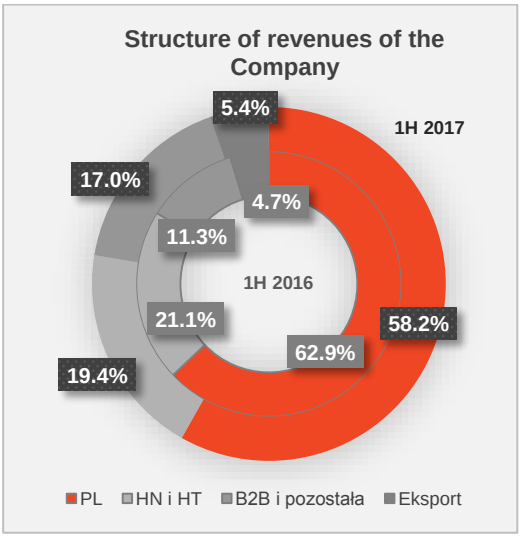
As a target, MP Trade Sp. z o.o. intends to focus its business mostly on development of the export sale, most notably on the African and Arabic markets.

Market landscape

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). As regards Like-for-Like (LFL) measure, the Group generated the following sales revenues in the first half of 2017:

PLN '000	1H 2017	1H 2016	YoY
Sales revenues	66,047	59,068	+11.8%





Private Label

The largest share in the Group revenues (58.2%) was contributed by the private label (PL) channel offering products under own brands of domestic and foreign shop chains (taking into account the sale to Lidl counterparty operating as one group in Europe):

PL [PLN '000]	1H 2017	1H 2016	YoY
Sales revenues	38,415	37,157	+3.4%

As regards the private label sector, the Group is a leading manufacturer of rolled and extruded pasta on the Polish market, as well as an important manufacturer of meat and vegetable products.

The sale in that channel totalled PLN 38.4 million in the first half of 2017, which represented 3.4% increase YoY.

In the first half of 2017 the Group implemented the buyers diversification process. As of the reporting date, the main buyers in this channel are Jeronimo Dystrybucja Polska and Lidl. In the period under analysis, two customers exceeded the threshold of 10% share in the

Within the B2B channel the Group has mainly developed the sales of pasta and semi-products for bakery sector, as well as activities consisting in filling jars and cans for customers as a subcontractor.

consolidated sales revenues (total for brand and private label products). This is the Biedronka chain with the share of approximately 29% and Lidl with the share of 10.3%. The Group companies are in no way related to the operator of that shop chain, whereas cooperation is carried out on partner basis and is favourable to the Makarony Polskie Group.

Modern and traditional trade

Another important part of the Group revenues at the level of 19.4%, generated in the first half of 2017 on the domestic market, is the sale of the Group own brands (brands: Makarony Polskie, Sorenti, Stoczek, Tenczynek and Męska Rzecz) through the modern trade channel (MT) and traditional trade channel (TT):

MT and TT (PLN '000)	1H 2017	1H 2016	YoY
Sales revenues	12,783	12,320	3.8%

Increase in sales by 3.8% in the first half of 2017 YoY was affected most of all by induction of the new assortment to the offer of the Group in the form of ready-cooked tinned meals weighing 820g. Sales revenues generated in the traditional trade and modern trade channels were also affected by the fact that the Group has been consequently resigning from the sales of non-profitable indexes and ordering its product portfolio offered on the market.

In the second half of 2017, the Group is planning to increase cooperation with the current buyers, among others by offering them new products under own brands, and the Group plans to win new, not yet served, foreign, domestic and local chains of shops. To achieve this goal, the Group has reorganised the sales teams and integrated the service of the top buyers.

B2B and institutions

B2B and institutions represented approx. 17.0% of the total revenues of the Group in the first half of 2017:

B2B and institutions (PLN '000)	1H 2017	1H 2016	YoY
Sales revenues	11,270	6,662	+69.2%

Within the B2B and institutions channel, the Group develops its service business, sale of pasta and semi-products - sweet fillings and salty stuffing - for the bakery and confectionery sectors.

Based on production capacity of Stoczek Natura Sp. z o.o., trade talks are underway concerning services of commissioned production of meat products and ready-cooked meals for other manufacturers, for instance, filling in tins and jars.

Sale in the B2B and institutions channel in the first half of 2017 amounted to PLN 11.27 million and was by approx. PLN 4.6 million (69.2%) higher than in the first half of 2016. Increase in revenues results mostly from winning new contracts for services provided by Stoczek Natura Sp. z o.o. Increase in revenues in this channel was affected, among others, by obtaining a contract for execution of commissioned production.

Exports

Within the total revenues of the Group for the first half of 2017 exports represented 5.4%:

Exports (PLN '000)	1H 2017	1H 2016	YoY
Sales revenues	3,579	2,781	+28.7%

Export sales of the Group brought PLN 3.2 million in H.1 2017 (through own trading team and through intermediaries). The result was higher by approx. 28.7% compared to the first half of 2016. The Group is now implementing a long-term strategy of attracting new sales markets, whereas the established direct relations with final recipients have positively translated in the margin level.

In the first half of 2017, the Makarony Polskie Group operated mostly on the European markets (Portugal, Austria, France, Germany, Hungary, Great Britain, Ukraine, the Slovak Republic and Belarus) and African ones.

In the first half of 2017, Makarony Polskie SA in liaison with other manufacturers associated within the Polish Pasta Chamber (PIM), have continued execution of the "Makarony Europy" [European Pasta] programme run by the Polish Pasta Chamber. The purpose of the programme is pasta promotion in Ukraine and the People's Republic of China. The Ukrainian and Chinese recipients (consumers, distributors) will be educated about the healthy characteristics of pasta, variety of pastas and high quality of products originating from the EU, including Poland (advertisements will be 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

The Company has been participating in the "Makarony Europy" [European Pasta] programme serving the education of Ukrainian and Chinese recipients about the healthy characteristics of pasta, variety of pastas and high quality of products originating from the EU, including Poland.

sales volume of pasta manufactured in the European Union. The Programme is planned for 3 years (2016-2018).

Major agreements

Credit agreement with BZ WBK SA

In February 2017 Makarony Polskie SA concluded an agreement with Bank Zachodni WBK SA on an EU investment credit amounting to PLN 12.1 million for the period of 5 years.

The credit is intended for financing an investment project entitled "Creation of a Research and Development Centre for the Pasta Industry at Makarony Polskie SA".

The credit funds will be paid out under the condition that Makarony Polskie SA signs an agreement with the Implementing Institution on providing support, with the purpose of refunding of some of the eligible costs of the project from the EU funds. The Company is obliged to submit the agreement to the Bank.

The facility will be repaid in 44 monthly instalments starting from 31 July 2019, in the following values: 43 instalments of PLN 0.144 million each, plus 44th settlement instalment amounting to PLN 5.972 million. In case the credit is repaid from the subsidy, the repayment schedule shall change by way of the balloon rate change. 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 loan granted.

The provisions of the credit agreement are not different from the ones generally applied by the Bank to such agreements. The interest rate on the credit was set out based on WIBOR 3M and is not different from the standard applied by the Bank in that regard.

The investment credit repayment is secured by:
1) joint contractual mortgage up to the amount of PLN 18.2 million established on:
- the real property located in Rzeszów, ul. Podkarpacka 15A, for which a Land and Mortgage Register no. RZ1Z/00076860/5 is kept, and
- the real property located in Płock, ul. Graniczna 46L, for which a Land and Mortgage Register no. PL PL1P/00094893/6 is kept;
2) transfer of receivables on account of insurance agreement of the said properties;
4) registered pledge on the semi-industrial line for tests, inclusive of tooling;

5) transfer of receivables on account of insurance agreement of the object of the pledge;
7) civil-law security bond by Stoczek Natura Sp. z o.o.;
8) declaration of the Issuer on submission to enforcement made pursuant to Article 777 of the Code of Civil Procedure.

An Agreement for co-financing of the project "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA"

In March 2017 the Company concluded with the Authorities of the Podkarpackie Province a co-finance agreement 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 2014-2020.

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 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.

The project will be performed until June 2018. 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. Co-financing value is approx. 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.

A subsidy agreement concerning the project called "Creation of a Research and Development Centre for the Pasta Industry at Makarony Polskie SA"

In April 2017 the Company concluded with the Minister of Development and Finance a co-finance agreement concerning 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.

The subject of the subsidy agreement is the creation of a 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.

The project will be performed until June 2019. 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 total project cost is approximately PLN 18.6 million. The total maximum amount of subsidy eligible costs is PLN 15.2 million. Subsidy will be approximately PLN 9.1 million.

The provisions of the agreement are not significantly different from the ones generally applied to such agreements. The agreement performance is secured by a blank promissory note with promissory note declaration issued by the Company.

The agreement was concluded under a resolutive condition. The agreement will be terminated as of 28 September 2018, if before that day the Company fails to submit to the Ministry of Development and Finance a filled in form entitled "Analysis of the Project Compliance with the Environmental Protection Policy" and documentation related to the filled in form, including a valid decision on the environmental conditions of the project performance and a valid building permit prepared in accordance with the Act on Disclosing Information on the Environment and Its Protection, Share of Society in the Environmental Protection and on the Environmental Impact Assessments as well as the Building Law, or documents confirming that the submission of the aforesaid document is not required.

Annexes to significant credit agreements with BZ WBK SA

In April 2017 the Company concluded with Bank Zachodni WBK SA annexes to four credit agreements of the total value of approximately PLN 33.9 million, which jointly fulfil the criteria of a significant agreement.

The object of the annexes is to ensure uniform provisions of credit agreements between the Company and the Bank, which applies among other things the Bank commission for management of the credits and credit agreements collaterals.

The highest value credit agreement was the annexed investment credit agreement amounting to PLN 13.8 million. The initial value of the agreement was PLN 15 million, out of which as at the date of signing the annex the Company repaid a part of principal instalments and the agreement balance dropped to PLN 9.7 million.

The annex to the investment facility agreement covers for the following amendments:

- the Company may make use of an additional functional limit under the agreement, in the amount of PLN 2.5 million, granted to the Company for financing of the investment project in the Production Plant in Rzeszów, until 30 June 2017 (the current utilization of the limit is approximately PLN 1.6 million),
- the value of collateral was adjusted to the credit exposure of the Bank,
- the registered pledge on fixed assets of Stoczek Natura Sp. z o.o. has been removed from collateral (Makarony Polskie SA holds 100% shareholding in that company).

The investment credit repayment is now secured by:

- joint contractual mortgage up to the highest amount of PLN 33.0 million (being also a collateral for other credit agreements concluded by the Company with BZ WBK) established on:
  - the real property located in Rzeszów, ul. Podkarpacka 15A, for which a Land and Mortgage Register no. RZ1Z/00076860/5 is kept, and
  - the real property located in Płock, ul. Graniczna 46L, for which a Land and Mortgage Register no. PL PL1P/00094893/6 is kept;
- transfer of receivables on account of insurance agreement of the said properties;
- registered pledge on fixed assets of Makarony Polskie SA – 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.

The interest rate on the facility was set out based on WIBOR 3M and is not different from the standard applied by the Bank to such credit facilities.

Decision on withdrawal from the procedure of application for a subsidy for the project entitled "Growth of competitiveness of Makarony Polskie SA by implementation of the results of research and development works in the form of process innovation"

In February Bank Gospodarstwa Krajowego published a list of projects selected for co-financing within Sub-Measure 3.2.2 – Loan on Engineering Innovation, under the Smart Growth Operational Programme 2014-2020, in which the Company project entitled "Increase of Makarony Polskie SA Competitiveness Level by Implementation of the Results of R&D Works in the Form of Process Innovation" was included.

In April 2017, the Company made a decision on withdrawal from the procedure of application for a subsidy. A written declaration on withdrawal from the application was sent to Bank Gospodarstwa Krajowego, European Programmes Department, pursuant to § 6.23 of the Rules of the Competition.

Withdrawal of the application for co-finance under the subsidy application procedure and, thus, withdrawal from signing a co-finance agreement and resignation from the project implementation results from the Company's engagement in the performance of two other above mentioned large investment projects, which have also been granted co-finance. This has translated into a change in the assessment of the subject-matter project return and the benefits gained as a result of its performance.

Annexes to credit agreements with Bank Gospodarstwa Krajowego

After the balance sheet date, the Company signed with Bank Gospodarstwa Krajowego annexes to the credit agreements of the total contractual value of PLN 11.0 million (as at 30 June 2017 the current credit limit was up to PLN 9 million). This refers to agreements on credit in the current account and non-revolving working capital credit in the credit account.

An agreement of the highest value was an agreement on loan in the current account with credit limit of PLN 6.0 million. Annex to that agreement introduces the following significant changes:

- the liability repayment period is extended by 30 June 2018,
- the stipulations concerning the Company's disclosure obligations towards the Bank are modified.

The other significant terms and conditions of the credit facility agreement were not changed.

In connection with conclusion of the mentioned above annexes, also a validity period of a security bond granted to the Company by its subsidiary Stoczek Natura Sp. z o.o. has been prolonged from 30 December 2017 to 31 December 2018.

A contract of Stoczek Natura Sp. z o.o. with the Agricultural Market Agency

In June 2017, the subsidiary Stoczek Natura Sp. z o.o. won a part of the tendering procedure for supply of food products to warehouses of partner organisations, organised by the Agricultural Market Agency (hereinafter referred to as: ARR) under the Operational Programme: Food Aid 2014 – 2020 Sub-programme 2017 (14/2017).

In the reporting period, in August 2017, Stoczek Natura Sp. z o.o. and ARR concluded a relevant agreement. The object of the concluded contract is supply of pork goulash with vegetables to warehouses of partner organisations of the Agricultural Market Agency, namely Federacja Polskich Banków Żywności [Federation of Polish Food Banks], Polski Komitet Pomocy Społecznej [Polish Committee of Social Aid], Caritas Polska [Caritas Poland], Polski Czerwony Krzyż [Polish Red Cross]. The contract will be executed in the period from August 2017 to 31 May 2018. Contract value is PLN 14.7 million.

In accordance with the requirements of the tendering procedure, Stoczek Natura Sp. z o.o. submitted a performance bond in the amount of PLN 1.47 million to the Agricultural Market Agency.

Positive assessment of an application of Stoczek Natura Sp. z o.o. for co-financing of the project "Creation of a Research and Development Centre at Stoczek Natura Sp. z o.o."

In June 2017, Department of Innovations at the Ministry of Development published a list of investment projects chosen to be co-financed under the competition 2.1/2/2016 to Measure 2.1 Support for Investments in R&D Infrastructure of Enterprises, Smart Growth Operational Programme 2014-2020. The list included the investment project of Stoczek Natura Sp. z o.o. "Creation of a Research and Development Centre at Stoczek Natura Sp. z o.o.".

The investment project assumes creation of the Research and Development Centre at Stoczek Natura Sp. z o.o. where R&D work will be carried out focusing on searching for innovative, novel solutions for fruit and vegetables processing and for meat processing. The results of the research of the R&D Centre will serve Stoczek to introduce improvements in the production of fruit and vegetable semi-products or sauces. The mission of the new R&D Centre will be implementation of process and product innovations as regards manufacturing of semi-products for the bakery/confectionery and HoReCa sectors.

Within the project the company plans to purchase fixed assets, construction works and materials, as well as intangible assets. The total cost of the project is about PLN 19.02 million. Co-financing value is approx. PLN 9.25 million. The project has been planned to be implemented in the period: June 2017 to April 2019.

A significant supply agreement signed with CESSI

In August 2017, the Company concluded by mail an agreement for commercial cooperation with CESSI with its registered office in Spisska Nova Ves as a supplier of raw materials.

The object of the contract are supplies of flour to the production plants of Makarony Polskie SA. The agreement specifies framework volume of deliveries and fixed purchase price in the period from 1 September 2017 to the end of August 2018, as well as the method of determining the delivery volumes and fixed purchase prices in the subsequent periods.

Signing of the said agreement complies with the Company policy regarding ensuring raw materials supplies at fixed prices, for the purpose of performance of the contracts signed with the recipients of the manufactured products and providing the Company with access to raw materials at relatively low fixed prices for a longer period of time, which is particularly important in the context of the current unstable situation on the raw materials market.

The agreement was signed for unlimited term. The estimated value of acquisitions under the first contract period will be more than PLN 7 million.

Factors important for the Group development

Factors affecting the future results of the Company and the Group

Building engineering and manufacturing advantage through investments in innovation and automation

- R&D development in the area of product innovations: functional food, health-promoting food and food dedicated to the specifically named target groups – 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 plant in Rzeszów for a production and warehouse building, with the planned completion date in the second half of 2017;
- completion of the investment in automated flour and bulk ingredients dosing system at the production plant in Częstochowa, which has enabled extension of the production capacity and made the production process more flexible;
- 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, products packed in modified atmosphere, innovative forms of packaging of the products offered;

- modern line to pack fillings and stuffing purchased by Stoczek Natura Sp. z o.o. allows the company to offer products of new, better quality and longer best before date.

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

- the project called "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA", realised under measure 1.4 Support for SMEs, Regional Operational Programme for the Podkarpacie Province 2014-2020, assumes implementation of the results of R&D works carried out in cooperation with a scientific unit, and consisting in 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.
- the project called "Creation of a Research and Development Centre for the Pasta Industry at Makarony Polskie SA", carried out within Measure 2.1 Support for Investments in R&D Infrastructure of Enterprises, Smart Growth Operational Programme 2014-2020, assumes Creation of a Research and Development Centre for 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 instance, a state-of-the-art line for production tests will be bought for the needs of the R&D Centre, the parameters of which will make it possible to create the conditions prevailing during the industrial production process (the said line will be an asset of significant value).
- the project "Promotional and Information Campaign on the Polish Market - Quality of Nature", executed by a consortium of Makarony Polskie SA (consortium leader), Stoczek Natura Sp. z .o.o. and Dary Natury, co-financed by the Agricultural Market Agency under the Rural Development Programme 2014-2020, Measure 3 "Quality Schemes for Agricultural Products and Foodstuffs", sub-measure "Support of Information and Promotional Activities Performed by Groups of Manufacturers on Internal Market".
  The project objective is to carry out a Poland-wide promotional and information campaign throughout the year, covering also foreign trade events, in order to promote the product of the consortium participants awarded with the "Jakość Tradycja" [Quality and Tradition] certificate. The total cost of the project is PLN 2.2 million net. The value of co-financing is PLN 1.6 million, which represents 70% of eligible costs. The project has been planned to be completed in the second quarter of 2018.
- The "European Pasta" Programme has been carried out since 2016 by Polska Izba Makaronu (PIM) [Polish Pasta Chamber]. Makarony Polskie SA, being a PIM participant,

together with other manufacturers associated with PIM, aims at promotion of 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).

- in June 2017, the project of Stoczek Natura Sp. z o.o. called "Creation of a Research and Development Centre at Stoczek Natura Sp. z o.o." was qualified by the Ministry of Development to be co-financed under the competition 2.1/2/2016 to Measure 2.1 Support for Investments in R&D Infrastructure of Enterprises, Smart Growth Operational Programme 2014-2020. The mission of the newly established Research and Development Centre will be implementation of process and product innovations in the field of manufacture of semi-finished products for the bakery and confectionery industries and for the HoReCa sectors. The project has been planned to be implemented in the period: June 2017 to April 2019. The total project cost is approximately PLN 19.02 million.
- Within the 2014-2020 perspective the Group companies apply 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, in the first half of 2017 design audits have been carried out at Makarony Polskie SA and Stoczek Natura Sp. z o.o. so as to develop a design strategy for the companies.

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, tinned preserved meat and soups;
- activities focused on the sales channel profitability improvement.

Development of B2B and institutions sales channels

- 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 on the basis 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

- improvement of the position of brand products through the strategy of concentration on 5 brands, and particularly on the key brands of Makarony Polskie, Męska Rzecz and Stoczek, as well as continuous portfolio optimisation (both as regards elimination of items which are dying out on the market, and introduction of new products expected by the market),
- development and implementation of mechanisms to cooperate with wholesale customers, local retail networks and large-scale chain shops, especially as regards mid-size and small international networks and convenience networks – being a selective distribution strategy, taking into account the specifics of the categories in which the Group is present,
- 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.

Exports development

- introduction of Novelle – a universal exports brand under which both current and new products will be offered, like stuffed pasta, BIO pasta, premium products, etc.;
- systematic increase in the number of customers on foreign markets;
- 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;

- continued cooperation with Raya Distribution – deliveries and distribution on the Egyptian market of the manufacturer's own brands;
- attracting and performing projects focused on 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, for instance, whole grain pasta with high content of fibre, spelt and buckwheat pasta and BIO products as well as new product categories (products acquired by MP Trade Sp. z o.o. from outside the Group).

Commencement of preliminary negotiations with RAYA Holding for Technology & Telecommunications S.A.E. with regard to determining the principles of cooperation and strategic partnership in the area of potential activities on the African markets

In the first half of 2017, Makarony Polskie and Raya Holding for Technology & Telecommunications S.A.E. with its registered office in Giza (Egypt) (hereinafter referred to as: Raya) commenced preliminary negotiations with regard to determining the principles of cooperation and strategic partnership in the area of potential activities on the African markets (the Company informed about receiving an invitation to negotiations in that regard in its current report No. 9/2016 of 9 June 2016). The negotiations refer to the possibility of:

- pasta sales development on the African markets together with the possible investment in constructing a production plant in Egypt;
- fruit and vegetables processing, including possible production commencement in Egypt;
- development of trade between the African and European markets.

As a result of the carried out negotiations a decision was taken to establish cooperation in the field of development of sale of pasta and other food products on the African and Arabic markets.

It was determined that a company from the Makarony Polskie Group - MP Trade Sp. z o.o., whose minority shareholder holding not more than 47% of the share capital, will be Raya (or its subsidiary), will be involved in development of sale on the European markets. Whereas, a subsidiary of Raya operating under the name of Eden for Import & Export with its registered office in Giza (Egypt), whose minority shareholder holding not more than 25% of the share capital, will be Makarony Polskie SA, will be involved in development of sale on the African markets.

The Company is going to inform about further progress of the negotiations in the stock exchange reports on a current basis.

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

Risks and threats important for the Group development

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 behaviour, 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 market trends, e.g. in reply to health-promoting and "fit" products trend the Group introduced spelt, rye and buckwheat flour pastas or BIO products. In reply to the diversification of assortment and offering premium products, at the end of 2016 flavoured rolled pasta intended for both main courses and soups was included in the offer.

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 assumed objectives. The activities of the competitors are monitored on a current basis and carefully analysed by the Group Marketing Department. 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 (teams have been established within the Group to work on R&D projects).

Risk of economic and physical wear and tear of machines and equipment and loss of the machines value on the market

Many domestic manufacturers have extended or are planning to modernise their engineering and machinery facilities in relation to the possibility of obtaining co-finance for

that purpose from the EU funds. This has been forced mainly by strong competition among the (domestic and foreign) manufacturers as well as market trends, e.g. as regards new innovative packaging, energy consumption in the production process, the efficiency of machines and equipment, or automation of manual processes.

The machines and equipment currently used at the production plants of the Group are in full working order and have been subject to periodical repairs and modernisations. The Group companies also carry out investments in new production assets on a current basis, which results from the reaction to the market needs (investments in new packing and boxing machines used in pasta production, new labelling machines for non-standard shaped jars at Stoczek Natura Sp. z o.o.) and refers mainly to maintenance of the current production profile of the plants. At the moment the Group has been undergoing a process of replacement of production machines and installing new ones, whereas the co-finance from the EU funds will accelerate the process.

In order to maintain the market position and cope with the growing demand for new innovative products and packaging, the Group companies have successfully applied for EU funds within the 2014–2020 perspective. The Group has informed the market in its current reports about the subsidies obtained. The aim of the actions is mainly to modernise the machines used within the current production profile but also development of new areas of operation.

There is a risk that any delay in the implementation of development projects will result in a loss of the leading position in the pasta or fruit and vegetable products private label sector.

Risk of dependence on the recipients

A major part of the 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, which may result in inability to satisfy the demand or incomplete use of the production capacity and this will obviously translate into the Group results. Nevertheless, 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 and egg pulp purchase prices on a stable level and, thus, avoid major profitability reduction for the manufactured pasta.

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. As results from the information coming from the European and non-European grain markets, the grain prices should remain on a stable level in the perspective of the coming months. Yet, Makarony Polskie SA is aware that the current level of flour prices, which has not changed for many years, is so low that prices are highly exposed to growth resulting from the possible speculations or natural disasters. The Company has systematically implemented measures in order to secure purchase prices of some of the raw materials in order to minimise the consequences of the possible flour prices fluctuations.

The prices of liquid egg pulp currently applicable on the market range from PLN 3.3-3.7 thousand per ton. Since 2013, consumption of eggs in Poland has been on the same level. Now, it is approximately 144 eggs per person. After a sudden increase in the liquid egg pulp prices at the end of the third quarter and in the fourth quarter of 2016 (up to the level of PLN 4.4-4.8 thousands per ton), at the end of 2016 and beginning of 2017 the prices of eggs and liquid egg pulp dropped again. In the first quarter and in the second quarter of 2017, liquid egg pulp prices stabilised at PLN 3.3-3.7 thousand per ton. According to the forecasts, the prices of eggs and liquid egg pulp are going to grow slightly in the third quarter of 2017. This will result from the replacement of old hen stocks with new ones in the period of July and August. Cyclically, each year the fourth quarter is characterised with increased prices due to Christmas period.

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 domestic suppliers of fruit and vegetables. Additionally, in 2017, the base of foreign suppliers of key raw materials was developed, which gives the company more opportunities to buy 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 and cold stores. Stoczek Natura Sp. z o.o. is exposed to the growth of raw materials prices resulting from various abnormal weather conditions. Striving for risk minimisation the company has extended the base of key raw materials suppliers. Additionally, in order to optimise plant operation Stoczek Natura Sp. z o.o. has planned to

outsource production of those categories of fruit and vegetable products whose market share does not guarantee to the company the optimal use of the possessed production capacity and purchase of raw materials at attractive prices.

Risk of changing legal and tax environment

The Polish legal and tax system is characterised with frequent changes. An unfavourable factor 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 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

The latest changes in legal regulations (increase of minimum wage, 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 problems in finding adequate candidates to cover vacates among the specialists and managerial staff as well as non-qualified workers.

In order to minimize rotation of the employees, especially as regards key employees and specialists, the Group does its best to implement incentive remuneration systems on a regular basis (connecting remuneration to production and sale output, for instance) which - by relating deliverables of specific teams/persons closely to the effectiveness of meeting

the goals that the Group set for them - allow to connect the payroll satisfactory for the employees with the profitability of the Company's operation.

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 value of revenues and costs of the Company is sensitive to interest rates changes on the market.

To a major extent, the Company 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 first half of 2017 the Company availed itself of external sources of finance taken out at a bank in the form of a working capital credit, loan in the current account and investment credits.

As at 30 June 2017 the Company was liable PLN 18,787 thousand on account of the credits taken out.

Currency	Interest rate	Credit/loan balance	Including	
			Short-term	**Long-term**
PLN	WIBOR + bank margin	18,787	10,710	8,077

The Company 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 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 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. When assessing the credit risk level, the Group treats related companies as one customer.

Financial standing

Principles of preparing the consolidated financial statements

The financial statements were prepared based on IFRS, according to going concern assumption with regard to the Group companies in foreseeable future and in reference to the scope of activities which is not going to change significantly. The Group did not carry out any activities which would have been abandoned in the first half of 2017.

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 is a calendar year (except that the first reporting year for MP Trade Sp. z o.o. lasted from 28 September 2015 to 31 December 2016).

Companies subject to consolidation:

as at 30 June 2017	Stoczek Natura Sp. z o.o.	MP Trade Sp. z o.o.
Nature of relationship	direct subsidiary	direct subsidiary
Consolidation method	full	full
Control assumption date	1 June 2007	28 September 2015
% of share capital held	100%	100%

Group results discussion

The selected financial data of the Makarony Polskie Group for the first half of 2017, expressed in PLN thousands, are as follows:

Makarony Polskie Group (PLN '000)	**01.01.2017-30.06.2017**	**01.01.2016-30.06.2016**
Net sales of products, services, merchandise and materials	66,047	59,068
Profit (loss) on continued operations	3,873	3,600
Gross profit (loss)	3,573	3,012
Net profit (loss) on continued operations	3,051	2,362
EBIT	3,873	3,600
EBITDA (EBIT + depreciation)	6,384	5,846
Net cash flows on operating activities	3,104	4,917
Net cash flows on investing activities	-1,784	- 3,498
Net cash flows on financing activities	- 1,733	- 1,778
Total net cash flows	- 413	- 359
Total assets ***	129,686	128,386
Liabilities and provisions for liabilities ***	56,132	55,570
Long-term liabilities ***	20,802	23,129
Short-term liabilities ***	35,330	32,441
Equity ***	73,554	72,816
Share capital ***	27,750	27,750
Number of shares	9,250,071	9,250,071
Weighted average number of shares in the given reporting year	9,250,071	9,250,071
Profit/loss per ordinary share (PLN/EUR) *	0.33	0.26
Book value per share (PLN/EUR) **	7.95	7.87

* 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 31 December 2016

Consolidated revenues in H.1 2017 amounted to PLN 66.0 million and were higher by approximately 11.8% compared to H.1 2016. The largest increase in sales was reported by the Group in the meat and vegetable products - growth by PLN 4.3 million YoY resulted from carrying out successful promotional campaigns as regards Stoczek branded products and winning new private label and B2B contracts. The costs of products, services, merchandise and materials sold in H.1 2017 amounted to approximately PLN 50.7 million (increase by about 10.3%). Higher dynamics of revenues growth than the dynamics of the costs growth has resulted mainly from the carried out activities to increase effectiveness of the use of assets and sales profitability. This has led to increase in gross profit on sales in the first half of 2017 at the Makarony Polskie Group by PLN 2.2 million, that is to the amount of PLN 15.4 million, from the first half of 2016. Gross profitability on sales has been 23.3% (vs. 22.2% for the first half 2016).

In the first half of 2017 the result on operating activities (EBIT) was PLN 3.9 million, compared to PLN 3.6 million in the first half of 2016, i.e. 7.6% growth YoY.

The result on financing operations (financial revenues less financial costs) improved from PLN -0.6 million in the first half of 2016 to PLN -0.3 million in the first half of 2017.

Net profit in the first half of 2017 amounted to PLN 3.1 million and is higher by PLN 0.7 million than the result in the first half of 2016 (+29.2% YoY). Sales profitability calculated on the net profit level amounted to 4.6% (vs. 4.0% in the first half of 2016).

As at the end of the first half of 2017 the Group reported EBITDA of approximately PLN 6.4 million, compared to approximately PLN 5.8 million in the first half of 2016 (growth by approximately PLN 0.6 million, i.e. approximately 9.2% YoY).

Consolidated statement of other comprehensive income, net – hedge accounting

Makarony Polskie Group (PLN '000)	01.01.2017-30.06.2017	01.01.2016-30.06.2016
Net comprehensive income	3,051	2,362
Profit/loss on account of hedge accounting application	0	43
Total net comprehensive income	3,051	2,405

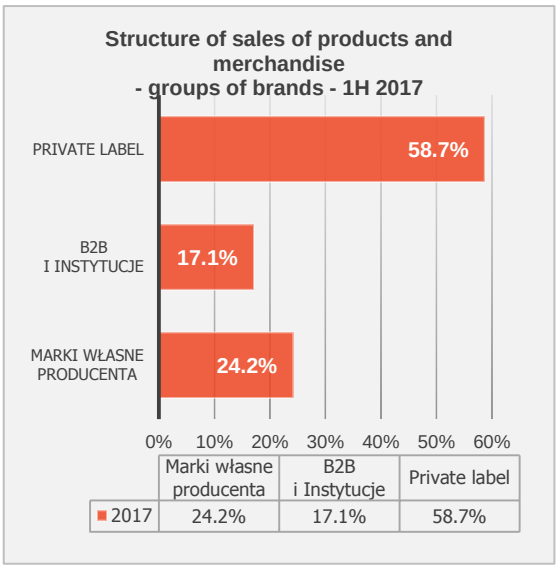
Results generated vs projection

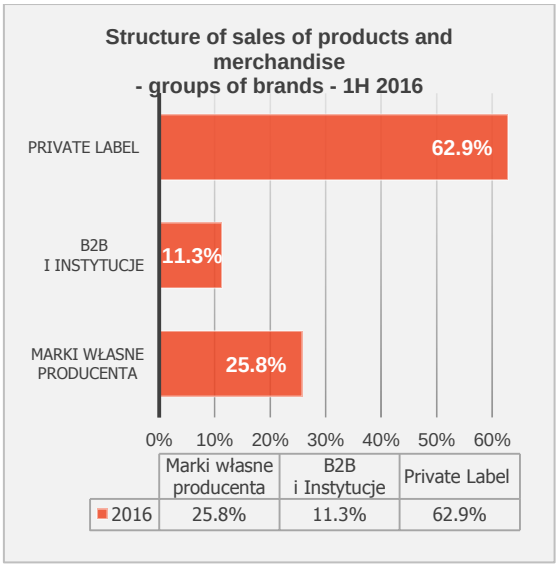
The Makarony Polskie Group has not published any financial projections for the reporting year 2017.

Operating segments of the Group

Sales revenues by own brand and private label

The sales structure of products and merchandise broken down into brands is reflected in the charts below.





Comparing the first half of 2017 to the first half of 2016, there has been growth of total revenues by approximately PLN 6.9 million in all groups: B2B and Institutions - increase by 69.2%, private label - increase by 5.7%, manufacturer's own brands - growth by 3.8%.

Sales revenues by operating segments

In the first half of 2017 the Makarony Polskie Group carried out sales of the following product groups, generating the respective revenues on that account:

(PLN '000)	01.01.2017-30.06.2017	01.01.2016-30.06.2016
Pasta	48,189	46,378
Meat and vegetable products	11,399	7,139
Vegetable products	672	1,411
Fruit products	1,980	2,268
Other	3,807	1,872
Total	**66,047**	**59,068**

Sales revenues of the Makarony Polskie Group in the first half of 2017 amounted to PLN 66 million and were by PLN 6.9 million higher than in the same period of 2016.

Sales in the pasta category was higher by approximately PLN 1.04 million (about 3.9%) than in the first half of 2016.

Sales of meat and vegetable products in the analysed period increased by approximately PLN 4.3 million, up to over PLN 11.3 million. The growth of approximately 59.6% (the first half of 2017 compared to the first half of 2016) has resulted from carrying out an in-out campaign concerning Stoczek branded ready-cooked products and winning new private label contracts.

In the first half of 2017 the Group recorded a drop in the sales of vegetable products by PLN 0.7 million compared to the first half of 2016, and a drop in the sales of fruit products by almost PLN 0.3 million compared to the same period of 2016.

The Group has planned concentration of production on the key product categories by gradual verification of profitability and volumes of vegetable and fruit products manufacturing. Moreover, commencement of the entirely new production has been planned. Therefore the production plant must be duly prepared.

Structure of the Group assets and equity/liabilities

The balance-sheet total of the Group as at 30 June 2017 amounted to PLN 129.7 million, compared to PLN 128.4 million as at 31 December 2016 and PLN 125.2 million as at 30 June 2016.

ASSETS	30 June 2017	31 December 2016	30 June 2016
FIXED ASSETS	**91,654**	**90,606**	**88,781**
Property, plant and equipment	74,665	73,520	71,726
Investment properties	1,235	1,235	1,235
Goodwill	5,949	5,949	5,949
Other intangible assets	9,437	9,559	9,686
Long-term financial assets			
Deferred income tax assets	94	17	135
Other long-term assets	274	326	50
CURRENT ASSETS	**38,032**	**37,780**	**36,389**
Inventories	15,636	13,015	12,348
Short-term receivables	21,503	23,469	23,200
Receivables on account of corporate income tax	17	8	
Loans granted			
Cash and cash equivalents	503	920	645
Other short-term assets	373	368	196
ASSETS HELD FOR SALE			
TOTAL ASSETS	**129,686**	**128,386**	**125,170**

EQUITY/LIABILITIES	30 June 2017	31 December 2016	30 June 2016
EQUITY CAPITAL	**73,554**	**72,816**	**70,063**
Share capital	27,750	27,750	27,750
Other reserve capital	42,184	39,505	39,482
Retained profit/loss (profit/loss from previous years)	569	469	469
Net result	3,051	5,092	2,362
LONG-TERM LIABILITIES	**20,802**	**23,129**	**23,974**
Deferred income tax provision	3,334	3,387	3,351
Long-term bank credits and loans	8,077	11,117	11,883
Provision for retirement benefits and equivalent (long-term)	187	143	152
Deferred income (long-term)	6,836	7,053	7,333
Long-term financial liabilities	2,368	1,429	1,255
SHORT-TERM LIABILITIES	**35,330**	**32,441**	**31,133**
Short-term bank credits and loans	10,710	8,455	8,840
Short-term financial liabilities	981	709	562
Financial liabilities on account of dividend	2,313		3,238
Other short-term liabilities	20,428	22,636	17,856
Corporate income tax payables	36	22	49
Deferred income (short-term)	510	548	510
Provision for retirement benefits and equivalent (short-term)	96	71	78

Other short-term provisions	256		
TOTAL LIABILITIES	**56,132**	**55,570**	**55,107**
TOTAL EQUITY/LIABILITIES	**129,686**	**128,386**	**125,170**

As at 30 June 2017 fixed assets were worth roughly PLN 91.7 million (71% of total assets) compared to PLN 90.6 million at the end of 2016 (1.2% growth vs the end of 2016). Growth of the value of fixed assets results from the investment projects carried out. Extension of the production plant in Rzeszów [production and warehouse space] has been the largest project performed since 2016.

As at 30 June 2017 current assets amounted to roughly PLN 38.0 million and they grew by about 0.7% compared to PLN 37.8 million as at the end of 2016. The largest changes in current assets related to inventories (growth by approximately PLN 2.6 million, or by about 20.1% from the end of 2016) and receivables (drop by approximately PLN 2.0 million, or by about 8.3% from the end of 2016).

Equity as at the balance-sheet date amounted to approx. PLN 73.4 million and represented roughly 56.7% of the value of equity/liabilities, which means an increase by 1.0% compared to PLN 72.8 million at the end of 2016. The change resulted from the consolidated profit for the first half of 2017 amounting to PLN 3.1 million and assignment of a part of 2016 net profit to dividend in the amount of PLN 2.3 million.

Long-term liabilities amounted to PLN 20.8 million and dropped by 10.1% (from PLN 23.1 million) compared to the end of 2016, mainly due to reclassification of some of the long-term credits to short-term liabilities in connection with the maturity date of the instalments falling below one year from the balance sheet date.

Short-term liabilities as at 30 June 2017 amounted to PLN 35.3 million and grew compared to the balance at the end of 2016 that was PLN 32.4 million. The largest changes in short-term liabilities referred to decrease in value of other liabilities item (decrease by approx. PLN 2.2 million, or by 9.8%), separation of dividend related liabilities (PLN 2.3 million) and increase in short-term credits item (growth by PLN 2.3 million, that is by roughly 26.7%)

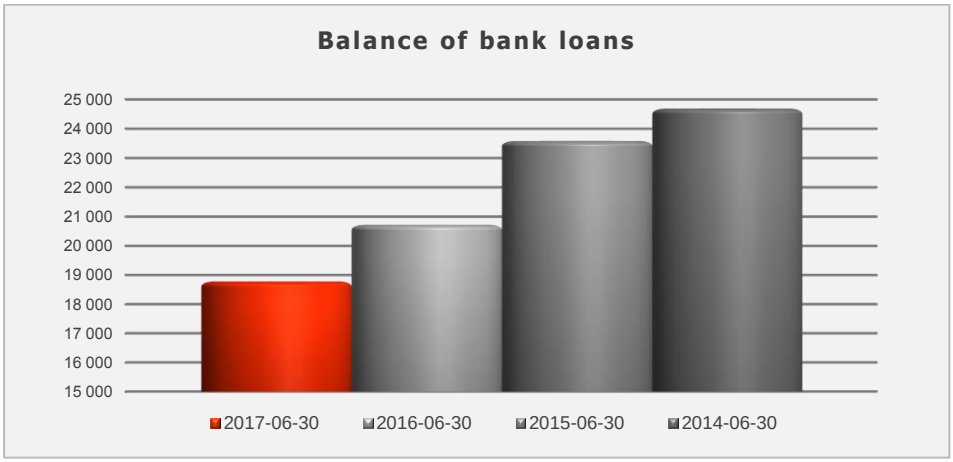
Solvency and management of Group financial assets and financial risk

The Makarony Polskie Group manages its economic assets such as to ensure financing of current activities and the projects carried out with its own funds, bank credits, factoring and lease.

Its full capacity to pay liabilities is confirmed by:

- generating of positive cash flows on operating activities amounting to more than PLN 3.1 million in the first half of 2017;

- generating of EBITDA of PLN 6.4 million in the first half of 2017 (growth by PLN 0.5 million YoY);
- carrying out some of the purchases without availing itself of trade credit by the Group, which results in a financial advantage;
- performance of investment projects and dividend payment in 2017 amounting to PLN 2.3 million (in 2016 the dividend of PLN 3.2 million was paid out);
- The first half of 2017 was another period of reducing credit liabilities.



In the opinion of the Management Board there are no threats to prevent payment of the liabilities incurred.

Ratio analysis

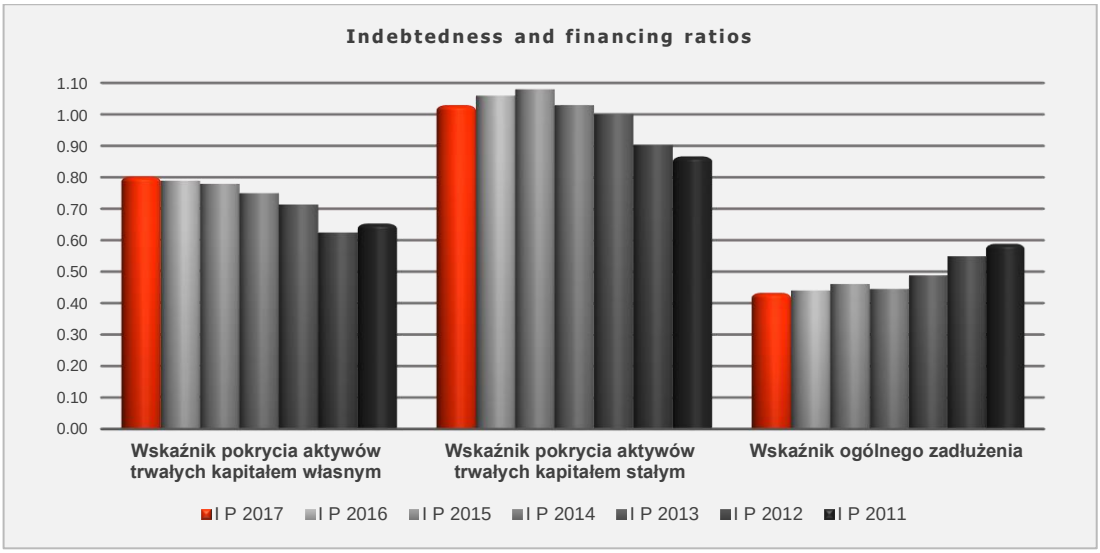
The return, liquidity and debt ratios analysis reflects good financial standing of the Makarony Polskie Group in the first half of 2017 compared to previous periods as regards profitability, capacity to pay liabilities as well as security of financing current and investment activities.

The level of return and cash flows generated by the Group enabled it to pay out dividend to shareholders in 2017 in the amount of PLN 2.3 million, carrying out many investments, purchasing some raw materials at attractive prices without trade credit and reduction of indebtedness on account to credit agreements, among other things.

Debt and financing ratios

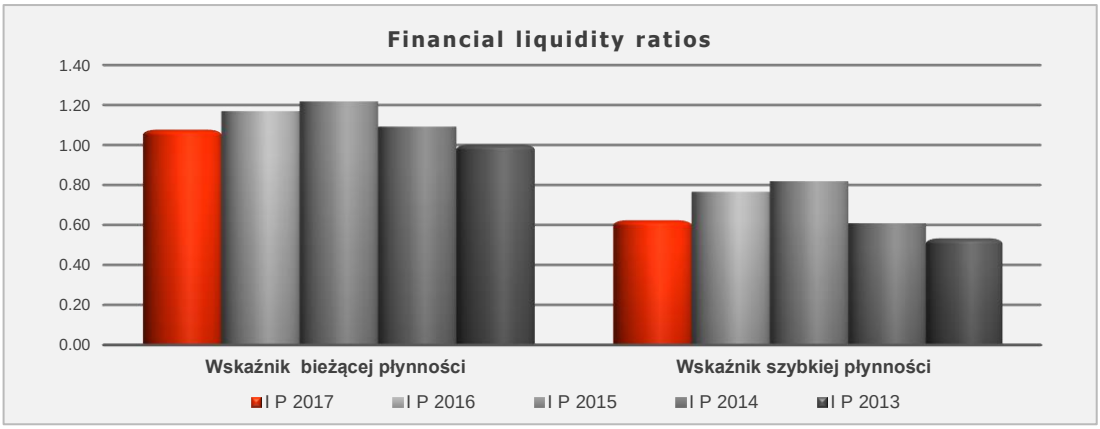
Makarony Polskie Group	1H 2017	1H 2016	1H 2015	1H 2014	1H 2013	1H 2012	1H 2011

Fixed assets coverage with equity capital *[Equity capital/fixed assets]*	0.80	0.79	0.78	0.75	0.71	0.62	0.65
Fixed assets coverage with long-term capital *[(Equity capital + long-term liabilities)/fixed assets]*	1.03	1.06	1.08	1.03	1.00	0.90	0.87
Total debt ratio *[Total liabilities/total assets]*	0.43	0.44	0.46	0.45	0.49	0.55	0.59



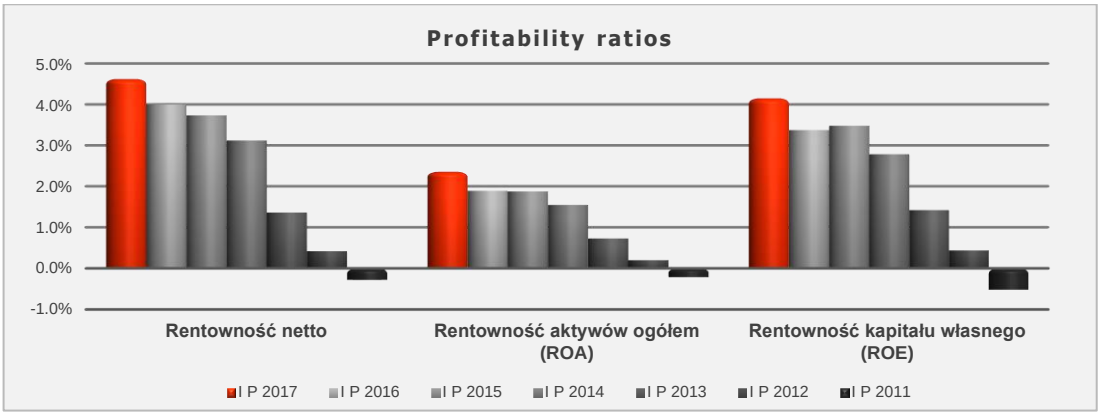
Liquidity ratios

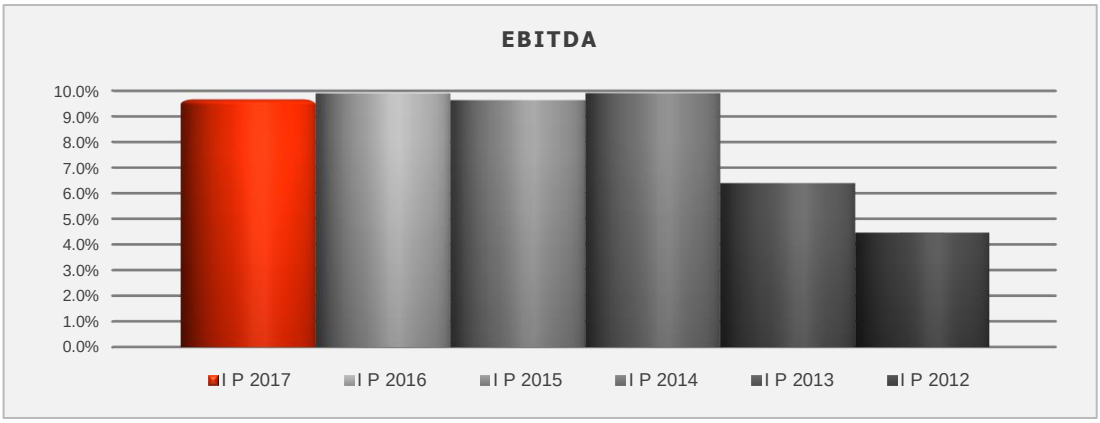
Makarony Polskie Group	1H 2017	1H 2016	1H 2015	1H 2014	1H 2013	1H 2012	1H 2011
Current liquidity ratio *[Current assets/short-term liabilities]*	1.08	1.17	1.22	1.09	1.00	0.80	0.81
Quick liquidity ratio *[(Current assets – inventories – short-term prepayments)/short-term liabilities]*	0.62	0.77	0.82	0.61	0.53	0.47	0.52



Profitability ratios

Makarony Polskie Group	1H 2017	1H 2016	1H 2015	1H 2014	1H 2013	1H 2012	1H 2011
Sales profitability [Gross profit (loss) on sales/net sales]	23.25%	22.21%	20.55%	22.71%	19.53%	17.54%	17.00%
Operating profit margin [Profit (loss) on continued operations/net sales]	5.86%	6.09%	6.19%	6.40%	3.17%	-0.04%	1.82%
Gross profit margin [Gross profit (loss)/net sales]	5.41%	5.10%	4.95%	4.76%	1.32%	-1.48%	0.65%
Return on sales [Net profit (loss)/net sales]	4.62%	4.00%	3.73%	3.12%	1.36%	0.42%	-0.28%
ROA [Net profit (loss)/total assets]	2.35%	1.89%	1.87%	1.54%	0.73%	0.20%	-0.21%
ROE [Net profit (loss)/equity capital]	4.15%	3.37%	3.48%	2.78%	1.42%	0.43%	-0.52%
EBITDA margin [EBITDA/net sales]	9.67%	9.90%	9.63%	9.91%	6.39%	4.46%	4.50%





Other financial information

Information on loans granted

In the first half of 2017 neither Stoczek Natura Sp. z o.o. nor MP Trade Sp. z o.o. granted any loans.

As at 30 June 2017 Makarony Polskie SA granted loans to Stoczek Natura Sp. z o.o. in the amount of PLN 5 million:

- short-term loan of PLN 2 million with repayment date on 31 December 2017 (one-off repayment by the liability repayment deadline);
- long-term loan of PLN 3 million with final repayment date on 31 December 2019 (the loan will be repaid in 24 monthly instalments starting from 31 January 2018 in the following amounts: 23 instalments of PLN 0.07 million each, plus the last 24th settlement instalment to zero balance).

The interest rate on the loan was set on arm's length basis.

Information on guarantees granted and obtained

In the first half of 2017 the Group companies did not grant any guarantees. As regards guarantees obtained, only Parent Company Makarony Polskie SA avails itself of guarantees.

Guarantor	Guarantee amount	Guarantee validity	Object of guarantee	Collateral
STU Ergo Hestia S.A	PLN 272,000	till 02.03.2018	bank guarantee securing the liabilities of the Company under a service agreement with the Material Reserves Agency (ARM) regarding grain products reserves maintenance	blank promissory note with promissory note declaration
STU Ergo Hestia S.A	PLN 272,000	till 02.03.2018	bank guarantee securing the liabilities of the Company under a service agreement with the Material Reserves Agency (ARM) regarding grain products reserves maintenance	blank promissory note with promissory note declaration
Gothaer TU SA	PLN 932,000	till 30.11.2017	guarantee securing the liabilities of the Company under the agreement with Material Reserves Agency (ARM) with regard to delivery and storage of ready-cooked meals reserves	two blank promissory notes with promissory note declarations

Information on security bonds granted and obtained

MP Trade Sp. z o.o. did not grant any security bonds in the first half of 2017.

As at 30 June 2017 **Makarony Polskie SA** granted security bonds to the Polska Izba Makaronu [Polish Pasta Chamber]:

Third party liabilities	Name of creditor	Security bond value	Security bond date	Validity date	Balance of the secured liability as at 30.06.2017
Security bond for a revolving credit amounting to PLN 2.85 million*	BPS	PLN 4,275,000	05.07.2016	30.05.2021	PLN 1,075,000
Security bond for a revolving credit amounting to PLN 0.5 million*	BPS	PLN 750,000	05.07.2016	30.05.2021	PLN 309,000

* 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.

Makarony Polskie SA received remuneration for a security bond granted to the Polish Pasta Chamber (PIM).

As at 30 June 2017 **Stoczek Natura Sp. z o.o.** granted security bonds to the Parent Company Makarony Polskie SA. The value of the security bonds is presented.

Third party liabilities	Name of creditor	Security bond value	Security bond date	Validity date	Balance of the secured liability as at 30.06.2017
Security bond for a loan in current account amounting to PLN 5.0 million	BZ WBK	PLN 7,500,000	18.10.2013	31.05.2019	PLN 693,000
Security bond for investment facility amounting to PLN 15.0 million	BZ WBK	PLN 30,000,000	18.10.2013	30.09.2021	PLN 10,077,000
Security bond for a non-revolving working capital credit in the credit account amounting to PLN 5.0 million	BGK	PLN 5,000,000	30.06.2015	29.12.2018	PLN 3,000,000
Security bond for a loan in current account amounting to PLN 6.0 million*	BGK	PLN 6,000,000	14.06.2013	31.12.2018	PLN 4,094,000

* After the balance sheet date, Stoczek Natura Sp. z o.o. signed an annex to the agreement with BGK on security bond for credit in the current account of Makarony Polskie SA. Pursuant to the annex the liability validity date was extended till 30 December 2018.

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

Major intercompany transactions of the Company and its subsidiaries on other than arm's length basis

In the first half of 2017 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. Inter-company agreements setting terms and conditions of cooperation are in place. They are adjusted to the organisational structure of the Group. All transactions are made on arm's length basis.

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 table below in their maximum values.

Makarony Polskie Group [PLN '000]	30 June 2017	31 December 2016
1. Contingent assets	**1,477**	**1,477**
– guarantees and security bonds obtained	1,477	1,477
– secured on property	0	0
– promissory notes	0	0
2. Contingent liabilities	**115,240**	**118,771**
– guarantees and security bonds granted	5,025	5,025
– secured on property	71,166	80,750
– promissory note payables	39,049	32,996
Total off-balance-sheet items	**-113,763**	**-117,294**

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

Makarony Polskie SA [PLN '000]	30 June 2017	31 December 2016
1. Contingent assets	**54,977**	**54,977**
– guarantees and security bonds obtained	49,977	49,977
– secured on property	0	0
– promissory notes	5,000	5,000
2. Contingent liabilities	**115,074**	**118,654**
– guarantees and security bonds granted	5,025	5,025
– secured on property	71,166	80,750
– promissory note payables	38,883	32,879
Total off-balance-sheet items	**-60,097**	**-63,677**

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 the Company or its subsidiaries.

Post-balance-sheet events that could have a significant impact on the financial results

Post the balance-sheet date no events that could have a significant impact on the financial result occurred.

Financial results of Makarony Polskie SA

Presentation of the basic economic and financial items of Makarony Polskie SA

The selected financial data of Makarony Polskie SA for H.1 2017, expressed in PLN thousands, are as follows:

Makarony Polskie SA (PLN '000)	**01.01.2017-30.06.2017**	**01.01.2016-30.06.2016**
Net sales of products, services, merchandise and materials	56,295	55,483
Profit (loss) on continued operations	3,433	3,508
Gross profit (loss)	3,238	3,007
Net profit (loss) on continued operations	2,653	2,338
EBIT	3,433	3,508
EBITDA (EBIT + depreciation)	5,295	5,154
Net cash flows on operating activities	2,742	4,007
Net cash flows on investing activities	- 1,073	- 2,304
Net cash flows on financing activities	- 1,716	- 1,764
Total net cash flows	- 47	- 61
Total assets ***	121,035	120,255
Liabilities and provisions for liabilities ***	51,472	51,032
Long-term liabilities ***	20,624	23,002
Short-term liabilities ***	30,848	28,030
Equity ***	69,563	69,223
Share capital ***	27,750	27,750
Number of shares	9,250,071	9,250,071
Weighted average number of shares in the given reporting year	9,250,071	9,250,071
Profit/loss per ordinary share (PLN/EUR) *	0.29	0.25
Book value per share (PLN/EUR) **	7.52	7.48

* 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 31 December 2016

Revenues in H.1 2017 amounted to PLN 56.3 million and were higher by approximately 1.5% compared to H.1 2016. The costs of products, services, merchandise and materials sold in H.1 2017 amounted to approximately PLN 44.5 million (increase by about 2.8%).

In the first half of 2017 Makarony Polskie SA generated gross profit on sales worth of PLN 11.8 million, with gross return on sales at the level of roughly 20.9% (compared to 21.9% in the first half of 2016).

In the first half of 2017 the result on operating activities (EBIT) was PLN 3.4 million, compared to PLN 3.5 million in the first half of 2016. Profitability of operating activities equalled 6.1% vs 6.3% in the first half of 2016.

The result on financing operations (financial revenues less financial costs) improved from PLN -0.5 million in the first half of 2016 to PLN -0.2 million in the first half of 2017.

Net profit in the first half of 2017 amounted to PLN 2.7 million and is higher by PLN 0.3 million than the result in the first half of 2016 (+13.5% YoY). Sales profitability calculated on the net profit level amounted to 4.7% (vs. 4.2% in the first half of 2016).
In the first half of 2017 Makarony Polskie SA generated EBITDA at the level of PLN 5.3 million. EBITDA profitability was 9.4% compared to 9.3% in the first half of 2016.

Separate statement of other comprehensive income, net – hedge accounting

Makarony Polskie SA (PLN '000)	01.01.2017-30.06.2017	01.01.2016-30.06.2016
Net comprehensive income	2,653	2,338
Profit/loss on account of hedge accounting application		43
Total net comprehensive income	2,653	2,381

Structure of the assets and equity/liabilities of Makarony Polskie SA

ASSETS	30 June 2017	31 December 2016	30 June 2016
FIXED ASSETS	**87,566**	**87,038**	**77,416**
Property, plant and equipment	53,080	51,982	50,535
Investment properties	642	642	642
Other intangible assets	4,909	5,007	5,109
Goodwill			
Total long-term financial assets, of which:	28,660	29,080	21,080
Shares	26,080	26,080	21,080
Loans granted	2,580	3,000	
Deferred income tax assets			
Other long-term assets	275	327	50
CURRENT ASSETS	**33,469**	**33,217**	**41,758**
Inventories	11,236	9,654	9,871
Short-term receivables	19,110	20,763	24,925
Receivables on account of corporate income tax		8	
Loans granted	2,434	2,019	6,340
Cash and cash equivalents	406	453	464
Other short-term assets	283	320	158
ASSETS HELD FOR SALE			
TOTAL ASSETS	**121,035**	**120,255**	**119,174**

EQUITY/LIABILITIES	30 June 2017	31 December 2016	30 June 2016
EQUITY CAPITAL	**69,563**	**69,223**	**66,573**
Share capital	27,750	27,750	27,750
Other reserve capital	39,160	36,507	36,485
Retained profit/loss (profit/loss from previous years)			
Net result	2,653	4,966	2,338
LONG-TERM LIABILITIES	**20,624**	**23,002**	**23,880**
Deferred income tax provision	3,337	3,391	3,402
Long-term bank credits and loans	8,077	11,117	11,883
Provision for retirement benefits and equivalent (long-term)	132	107	113
Deferred income (long-term)	6,836	7,053	7,333
Long-term financial liabilities	2,242	1,334	1,149
SHORT-TERM LIABILITIES	**30,848**	**28,030**	**28,721**
Short-term bank credits and loans	10,710	8,455	8,840
Short-term financial liabilities	940	687	540
Financial liabilities on account of dividend	2,313		3,238
Other short-term liabilities	16,047	18,303	15,493
Corporate income tax payables	36		49
Deferred income (short-term)	510	548	510
Provision for retirement benefits and equivalent (short-term)	49	37	51
Other short-term provisions	243		
TOTAL LIABILITIES	**51,472**	**51,032**	**52,601**
TOTAL EQUITY/LIABILITIES	**121,035**	**120,255**	**119,174**

As at 30 June 2017 fixed assets were worth roughly PLN 87.6 million (72% of total assets) compared to PLN 87.0 million at the end of 2016 (0.6% growth vs the end of 2016). Growth of the value of fixed assets results from the investment projects carried out. Extension of the production plant in Rzeszów [production and warehouse space] has been the largest project performed since 2016.

As at 30 June 2017 current assets amounted to roughly PLN 33.5 million, which means that they grew by about 0.8% compared to the end of 2016 (PLN 33.2 million). The largest changes in current assets were decrease in receivables by approx. PLN 1.7 million, or by 8.0%, and increase in inventories by roughly PLN 1.6 million, or by 16.4% from the end of 2016.

Equity as at the balance-sheet date amounted to approx. PLN 69.7 million and represented roughly 57.5% of the value of equity/liabilities, which means an increase by 0.5% compared to PLN 69.2 million at the end of 2016. The change resulted from the net profit generated for the first half of 2017 amounting to PLN 2.7 million and assignment of a part of 2016 net profit to dividend in the amount of PLN 2.3 million.

Long-term liabilities amounted to PLN 20.6 million and dropped by 10.3% (from PLN 23.0 million) compared to the end of 2016, mainly due to reclassification of some of the long-term credits to short-term liabilities in connection with the maturity date of the instalments falling below one year from the balance sheet date.

Short-term liabilities as at 30 June 2017 amounted to PLN 30.8 million and grew compared to the balance at the end of 2016 that was PLN 28.0 million. The largest changes in short-term liabilities referred to decrease in value of other liabilities item (decrease by approx. PLN 2.3 million, or by 12.3%), separation of dividend related liabilities (PLN 2.3 million) and increase in short-term credits item (growth by PLN 2.3 million, that is by roughly 26.7%)

Declarations by the Management Board

Declaration with regard to fairness of the financial statements

The Management Board of Makarony Polskie SA with its registered office in Rzeszów declares that according to its best knowledge, the semi-annual short – separate and consolidated - financial statements of the Makarony Polskie Group for the first six months of the 2017 reporting year that ended on 30 June 2017 as well as comparative data have been prepared in accordance with the binding accounting principles and reflect in a true, fair and transparent manner the assets and financial standing of the Company and Capital Group of Makarony Polskie and its financial result.

The report of the Management Board on the operations of the Company and Capital Group of Makarony Polskie for the period from 1 January 2017 to 30 June 2017 presents a true image of the Company and Group development, achievements and standing, including the basic threats and risks.

Declaration on the appointment of the entity authorised to audit financial statements

The Management Board of Makarony Polskie SA with its registered office in Rzeszów declares that the entity authorised to audit financial statements, which audited the semi-annual short – separate and consolidated - financial statements for the period of the first 6 months of the 2017 reporting period that ended on 30 June 2017 was appointed in accordance with the legal regulations. The said entity is: ReVision - Rzeszów Józef Król Sp. z o.o.

The entity and the statutory auditors who carried out audit of the semi-annual short – separate and consolidated - financial statements fulfilled the conditions for issuing an impartial and independent audit report in accordance with relevant regulations and professional standards.

Approval of the financial statements

This report of the Management Board on the operations of the Capital Group of Makarony Polskie SA was approved for disclosure by the Management Board of the Parent Company on 25 August 2017.

Zenon Daniłowski
President of the Management Board

Information about the Company

Makarony Polskie SA
WITH ITS REGISTERED OFFICE IN RZESZOW
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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Please contact us at:

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