Report of the management board on the operations of Makarony Polskie SA and Makarony Polskie Group for the financial year 2017



Rzeszów, 20 March 2018

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This "Management Board Report on the Operations of Makarony Polskie SA and the Makarony Polskie Group in the 2017 Financial Year" has been prepared based on §83 paragraph 7, including §83 paragraph 5, of the Regulation of the Minister of Finance on the current and periodic information disclosed by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state of 19 February 2009 (as amended)

Last year was good for our Group, it achieved total consolidated sales revenue of PLN 145 million, net profit amounted to approx. PLN 5.5 million, while EBITDA amounted to approx. PLN 13 million

Letter from the President of the Management Board



Dear Sirs,

Dear Shareholders,

The report on operations and Financial Statements of the Company and the Makarony Polskie Group for 2017 contain data proving the strong and growing position of our company on the food market. Total consolidated sales revenues increased by 16.7% to PLN 145 million, net profit exceeded PLN 5.5 million, while EBITDA stood at approx. PLN 13 million.

The year 2017 was a successful year for the Makarony Polskie SA Group, because we enjoy high trust of consumers, discount chains and distributors in Poland and abroad.

In 2017, the Management Board implemented the policy of preparing the Group for the investment process planned for 2018-2019. To this end, we improve our financial condition and strengthen our market position. We have good, stable ratios of financing, liquidity and profitability. The debt in recent years has been significantly reduced. On the other hand, we are building the market leader position in the area of private label and modern products such as: convenience, pro-health, low-processed and natural food.

The grocery market in 2017 was very dynamic, the customer expected and expects the product to constantly change and adjust to its needs. The consumer enjoys “eating”, he/she is looking for sensations with all his/her senses: appearance, taste, smell, texture and opinions on social media influence shopping decisions. Food becomes a kind of "medicine", it is supposed to improve our health, condition and prolong our lives. It is a great challenge for marketing, technology, distribution and management in every company.

The Makarony Polskie Group understands consumer expectations and has taken bold investment decisions in the area of pasta and ready meals production. In the years 2018-2019, we will conduct four investment projects - two projects in the Production Plant in Rzeszów and two projects in Stoczek Natura Sp. z o.o. - with a total value of PLN 50 million. One of the investment projects in Rzeszów is the construction of the Research and Development Center. Our ambition for our Center is that it influences the entire industry.

If **Letter from the President of the Management Board<> “Error*” “Letter from the**

In Stoczek Natura Sp. z o.o. a line will be created for the production of ready meals in the form of a full dinner, which combines the taste and affordable price.

When conducting development projects, we do not forget about improving our tasty, traditional, hand-made products such as cabbage rolls, bigos or rolled dumplings.

The implementation of the development plan, supported by subsidies from the European Union, will improve the valuation of the Makarony Polskie Group. We invest in products with a higher margin than currently produced ones and in new product categories. We assume a dynamic sales growth in 2018-2020. I believe that the capitalization of the Makarony Polskie Group as a result of the implementation of the development plan will be at least doubled.

Kind regards,

Zenon Daniłowski
President of the Management Board

The Makarony Polskie Group consists of the following three companies: two production and one commercial ones.

Characteristics of the Makarony Polskie Group

Group Organization

The Makarony Polskie Group (“Group”) consists of the following 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 producer of a wide range of pasta, produced in pressed and rolled technology. The company offers pasta in many different forms, made on the basis of durum flour and wheat flour. In its portfolio, the Company also has products responding to the trends of pro-health food, such as pasta with flours less frequently used, for example, spelled, buckwheat, rye and BIO products. The range of products is varied by flavored pasta (e.g. with spinach and garlic, chili peppers, lovage, parsley and dill) and large pasta forms to be stuffed.

The basic pasta brands offered include Makarony Polskie, Sorenti and Abak (a bibrand from Makarony Polskie). Also pasta sauces are offered under the Sorenti brand.

Stoczek Natura Sp. z o.o. is a producer of canned meat and vegetable (ready meals, pies, lard, canned food), canned vegetable (salads, marinades, bakery stuffing), canned fruit (jams, syrups, plum jam, confectionery filling). The company's products are offered under the brands Sorenti, Stoczek, Tenczynek and Męska Rzecz.

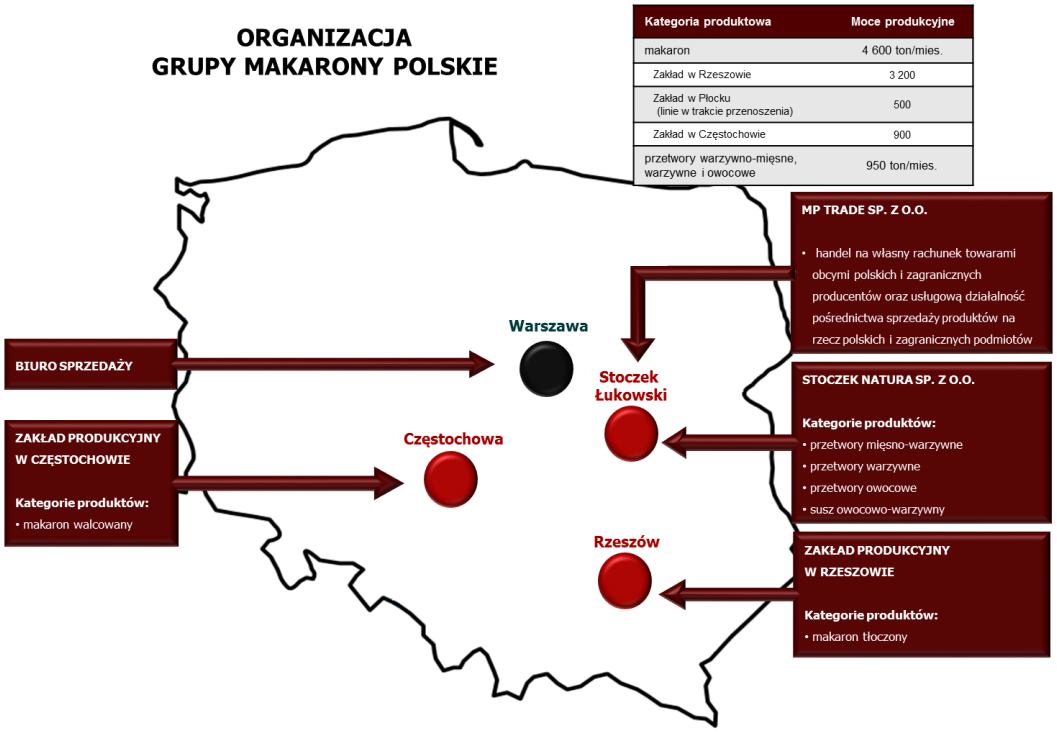
In Q4 In 2017, the company expanded its portfolio with dried fruit and vegetables, offered under Deli-Susz brand.

MP Trade Sp. z o.o. develops, on its own account, trade with external goods of Polish and foreign producers, and also conducts the service of brokering products for the benefit of Polish and foreign companies..

Changes in the organization of the Makarony Polskie Group in 2017

In 2017, there were no changes in the Makarony Polskie Group that would significantly affect the structure or organization of the Group.

Within the Makarony Polskie Group, individual companies conclude transactions of purchase and sale of products, goods and services with each other. All transactions are performed under the market terms and conditions.



At the turn of the second and third quarters of 2017, Makarony Polskie SA introduced organizational changes consisting in the reconstruction and extension of the internal sales team, including through the acquisition from MP Trade Sp. z o.o. a traditional trade team operating in its structures (in the third quarter 2017). The new sales team of Makarony Polskie SA, starting from the third quarter of 2017, has been responsible for all domestic sales of Makarony Polskie SA and Stoczek Natura Sp. z o.o., i.e. under both own brands, as well as private labels, in all distribution channels. Ultimately, it is also planned to include the export sales of the Group's production companies on European markets into services performed by this team.

The decision to introduce the above organizational changes was dictated by the progressive specialization of MP Trade Sp. z o.o. and its focus on the development of export sales, in particular on African and Arab markets. The purpose of the reorganization is primarily to improve the functioning of the domestic sales structures and does not significantly affect the profitability of the contracts handled.

During the financial year 2017, Makarony Polskie SA, taking into account development and investment plans of Stoczek Natura Sp. z o.o., decided to increase the share capital of this company by PLN 187.5 thousand, by issuing 1 875 new shares with a nominal value of PLN 100/share. The issue price of new shares amounted to PLN 1.6 thousand/share. The shares were covered by a cash contribution. The surplus of the issue price over the nominal value was allocated to the company's supplementary capital. All 1,875 new shares in the increased share capital of Stoczek Natura Sp. z o.o. were acquired by Makarony Polskie SA company. The registration of changes in the share capital was performed by the court of the National Court Register on 15 March 2018.

At the end of 2017, Stoczek Natura Sp. z o.o. decided to return to the abandoned in 2016 concept of production and sale of dried fruit and vegetables. At the moment, this activity is not important from the point of view of the company's operations, however, the management of Stoczek Natura Sp. z o.o., taking into account market trends aimed at customer's search for natural and pro-health products, decided to expand the existing portfolio. The dried fruit and vegetable will allow for greater diversification of the company's operations, and at the same time may be a forward-looking developmental direction in the long term. Stoczek Natura Sp. z o.o. has invested in the purchase of assets used for the production of dried fruit and the Deli-Susz trademark, under which the company currently offers five products based on the Polish dried apple: apple chips in three flavors (natural, with cinnamon and sour apple) and two flavors of dried fruit mixes (apple + raspberry, apple + cherry flavors). Those are the products that respond to the trend of looking for healthy alternatives for high-calorie snacks full of chemical additives, due to the fact that they are 100% natural, without the addition of preservatives, artificial colors, sugar or fats.

Selected financial data

"in 2021, the world pasta market will be worth over PLN 110 billion (USD 31 billion). The average annual growth rate (CAR) is to amount to 5.76%, and Asia and the Pacific will

remain the largest market for pastas" (Source: technavio.com "Global Pasta and Noodles market 2017-2021").

The key trends affecting the pasta market include:

- growing popularity of pro-health pasta (health & wellness pasta),
- increasing demand for local flavors and varieties,
- emphasis on the use of natural additives.

The pasta market turns out to be exceptionally innovative and dynamic in response to the strong trend associated with diets such as gluten-free, low-carb or vegan. Numerous implementations of BFY (Better-For-You) type products, based on whole grains, alternative cereals, legumes and gluten-free ingredients as well as vegetables, have a significant impact on the dynamics of the entire category.

"Bezglutenowa rewolucja" [gluten-free revolution] is a very strong trend and is likely to permanently enter the category landscape. Importantly, currently the main customers of gluten-free products are not people who are allergic to gluten, but those who think that a diet deprived of this ingredient is better for their health.

In full bloom are also functional additions to pasta. The supefoods (chia, quinoa, algae) and primary cereals (amaranth, buckwheat, kamut, millet, teff, sorghum, spelled) lead the way. Vegetable "trends" such as kale and black garlic are also appearing more and more often, also included in superfoods. In each case, it comes to ingredients that are distinguished by an extremely high content of vitamins, minerals and antioxidants, to protect the body against diseases. How? This is mainly due to antioxidants that inhibit the development of cancer cells, as well as vitamins, minerals and fatty acids, thanks to which the blood, nervous, digestive and immune systems - work more efficiently, or more effectively protect against the harmful effects of external factors.

Another significant trend for the category is the convenience trend, especially in terms of time. Declarations related to the amount of time that the consumer has to invest in the preparation of the product become as important as those relating to nutritional values and ingredients. The most common claim from the stream of convenience is the short preparation time, but there are also facilitations in packages (e.g. a bag with a zipper) or division into portions. Convenience is also the taste supplements that make part of the work related to cooking is already done - both in the pasta itself and in the sauces or sachets with spices added to the packaging.

In the area of ready-made dishes, the shelf of dishes in jars for products on trays and cups is becoming more and more visible on the European market. Although in Poland, compared

to other European countries, so-called shelf-stable is still the largest one, also here a retreat to the cooling shelf, which is increasingly popular all over Europe, can be seen. This is the result of, among others, a strong convenience trend (convenience, ease of use). Manufacturers are looking for new solutions to help the consumer warm up and consume the meal. Comfort and speed are also emphasized by the ever-emerging offer of dishes inspired by take-out food. The category also records an increase in the popularity of the so-called meal kits (sets that allow you to finish or compose the meals yourself), which comes from the need for a compromise between mass ready dishes, with no shadow of individuality, and long and often demanding cooking from scratch.

The trend of health and naturalness is increasingly important in the category of ready-made meals, having a highly “processed” meals image. The need for “ ...-free” food increases with the level of consumer knowledge and their concerns about allergies and preservatives. Here too, customers more often require "clean labels" (compositions without artificial additives, flavor enhancers and preservatives), and manufacturers emphasize the simplicity and healthiness of recipes.

The Makarony Polskie Group operates on the domestic market (including modern trade, traditional trade, as well as B2B and institutions), as well as on foreign markets. As part of export activities, the Group establishes cooperation with new customers from European markets (Portugal, Ukraine, Norway, Slovakia, Hungary, France) and Africa, and constantly extends the assortment offer for the existing customers.

The products of the Makarony Polskie Group enjoy a good reputation among foreign customers. They are synonymous with healthy products, coming from ecologically clean areas of Poland and tasty, hence their growing popularity on foreign markets. In the coming years, the Group's companies will focus mainly on gaining and servicing customers from European and African markets.



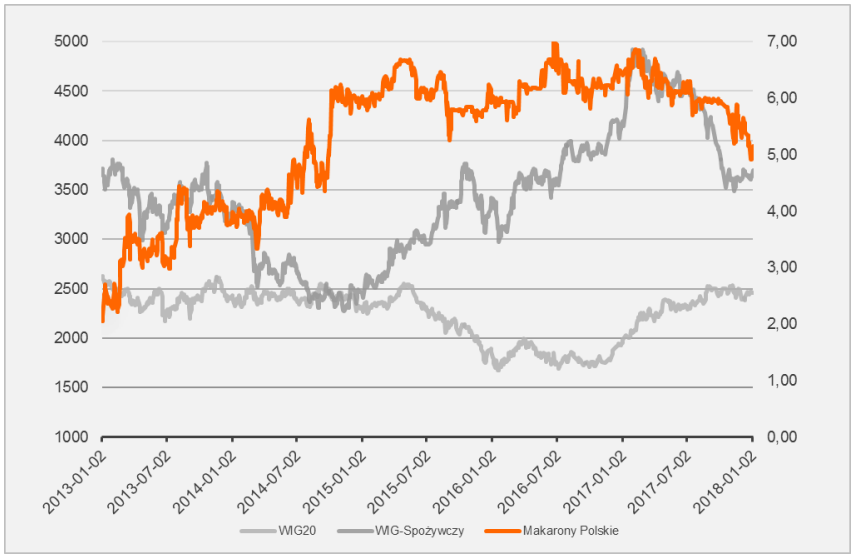
In the coming years, the e-commerce sector will become more important as a full sales channel. The Group plans a multi-level entry into this perspective sector, including through the presence of its contractors on trading platforms and enhanced activity in social media, also in the pro-sales context.

Currently, the market is experiencing the advantage of the development of the services sector over commodity trade, which in the future may translate into a smaller dynamics of the development of food categories in which the Group operates in the "business to consumer" (B2C) segments. For this reason, the Group sees its own potential in the business to business sector (B2B), especially in the category of catering products. In its B2C distribution policy, the Group will focus on customers with the largest sales potential in food categories represented by the Group as a food manufacturer.

Makarony Polskie SA on the capital market

Quotations and main indicators

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



	2013-01-02	2014-01-02	2015-01-02	2016-01-04	2017-01-02	2018-01-03	Change from 2013-01-02
Makarony Polskie	2.06	3.8	6.03	6.03	6.45	5.15	150%
WIG20	2 626	2 431	2 309	1 804	1 957	2 463	-6%
Warsaw Stock Exchange food index	3 719	3 330	2 452	3 409	4 195	3 696	-1%

Dividend policy at Makarony Polskie SA

During 2017, the Company's Management Board recommended to the Ordinary General Assembly that the net profit for the financial year 2016 in the amount of PLN 4,965,759.43 should be divided as follows:

- the amount of PLN 2 312 517.75 for dividend payment, i.e. to pay a dividend in the amount of PLN 0.25 gross per share,
- The remaining part of the profit in the amount of PLN 2 653 241.68 is allocated to the Company's supplementary capital.

On 29 June 2017, the Ordinary General Assembly of Makarony Polskie SA decided to distribute the profit for the financial year 2016 in accordance with the recommendation of the Management Board.

The dividend day was set for 14 July 2017. The dividend was paid on 28 July 2017. There were 9 250 071 shares of the Company entitled to the dividend.

The Management Board of Makarony Polskie SA decided that in 2018-2019 it will not recommend to the General Meeting payment of a dividend to shareholders. This decision is dictated by the ambitious multi-million investment plans adopted by the Group for the years 2018-2019. The Group companies have obtained both co-financing from European Union funds as well as external funding for the implementation of those investments (long-term investment loans), however, to ensure proper cash flows, it is also necessary to ensure an appropriate level of own contribution from the Group. Considering the above, the Management Board decided as at the introduction.

The Management Board of the Company is of the opinion that the planned investments are important for further dynamic development of the Group and strengthening its market position, and in the long-term will also translate into an increase in goodwill for shareholders and the opportunity to achieve a higher return on investment in shares of Makarony Polskie SA.

Investments are aimed not only at modernizing and extending the machine park, but also creating a research and development base allowing for quick response to emerging consumer needs and market trends, as well as offering innovative, including functional products to the market.

Considering the above, the Management Board of the Company decided to recommend to the Ordinary General Assembly that the net profit for the period from 1 January 2017 to 31 December 2017 in the amount of approx. PLN 5,249,000, should be allocated to the supplementary capital of Makarony Polskie SA.

At the same time, the Company informs that pursuant to Article 382 §3 of the Commercial Companies Code, this recommendation shall be directed and reviewed by the Supervisory Board of the Company. The final decision regarding the distribution of profits for the 2017 financial year will be taken by the Ordinary General Assembly of the Company.

Use of proceeds from the issue

In the period from 1 January 2017 to the date of submission of this report, the Company did not issue any shares.

Dialogue with shareholders and investors

Due to treating the presence on the capital market as part of a long-term development strategy, the Company undertakes activities aimed at building lasting and professional relationships with all participants of the capital market and ensuring equal access to information for all stakeholder groups.

An important form of the Company's communication with shareholders and investors is the Company's website - www.makarony.pl. In the Investor's zone section, the Company publishes information important from the point of view of shareholders and investors, e.g. news, calendar of events, current financial results.

The Company has activated a mailbox relacje@makarony.pl, to which all interested shareholders, investors and analysts can send questions regarding widely understood IR issues. Answers and explanations regarding subjects raised by stakeholders are granted by the Company, taking into account the prohibitions resulting from the applicable provisions of law.

Two weeks before the publication of periodic financial statements, the Company does not organize and does not participate in investor meetings.

The Group's portfolio is constantly adapted to market trends and the needs of customers- it has recently been expanded by functional products: dietary and health-related ones.

Activities of Makarony Polskie Group

Main products and services

Assortment of brand products

MAKARONY:

MAKARONY POLSKIE – a brand with a distinct personality, part of the popular and stable market trend of promoting local food; dedicated to consumers who value good Polish quality at a reasonable price. The brand's portfolio includes both traditional pasta (rolled) and pressed pasta, made of various types of flour, including flours from organic farming, as well as functional pasta of a dietetic and pro-health character (100% spelled, rye, buckwheat pasta, or wholegrain pasta with increased fiber content). The brand assortment also has an assortment line called “W kuchniach świata” [In the kitchens of the world] inspired by the flavors of sunny Italy, based on the so-called large pasta forms made from 100% durum hard wheat flour for stuffing.





Also new in the GMP offer is pasta with flavors - for soups (dumplings with Polish herbs: parsley, lovage and dill) and for other dishes (fettucine: paprika + chilly, spinach + garlic, mushrooms, tomatoes + basil).





Following the strong trend in the food market to offer products in disposable packaging, the Company also offers a pro-health line in 100g packaging and promotes the slogan “W sam raz na raz” [good for one time].

In 2017, the line of classic pressed pasta was refreshed, which gained a new recipe improving the organoleptic properties of pasta (the pasta after cooking retains an appetizing color, is flexible and does not stick together) and a new packaging with a more modern image.



Work is under way on new product innovations that will be



gradually implemented for sale in 2018.

Our ambition is to make the Makarony Polskie brand a tool for organizing the currently fragmented medium shelf, located just below the leader and taking over shares that currently are held by a large number of small producers.



SORENTI - is a brand created for the gourmets of Italian cuisine, which offers the most popular forms of pasta made from 100% flour made from the highest quality hard-grained durum wheat flour. On the domestic market, the Sorenti brand operates mainly in the modern channel. The advantage of this brand in intensifying its activities in a competitive environment is the affordable price of products. Sorenti brand is also a

very attractive export product with great potential for development and further internationalization.

MEAT AND VEGETABLE PRESERVES:



In 2017, the brand assortment of meat and vegetable preserves included ready-made meals and meat under the Stoczek and Męska Rzecz brands. Ready-made meals offered by the Group - classic dinners of Polish cuisine - combine the homemade flavor with the convenience and speed of their preparation, which makes it perfectly fit into the current trends on the market of food products. "Męska Rzecz" is dedicated to the widest group of consumers in this food category, specially seasoned for masculine taste, competing on the shelf with its affordable price.



ZUPY NA GĘSTO



The assortment of dishes in jars perfectly complements the line "W kuchniach świata" [In the kitchens of the world], responding to new consumer trends. In 2017 Męska Rzecz brand was expanded to include thick soups, a me





MIĘSIWA

In 2017, the offer of Męska

Soups and canned dishes, including ready-made meals in XXL packaging (approx. 800g) for those who like to eat a lot and eat well were introduced to the offer of Męska Rzecz and Stoczek brands. The dishes are not only tasty and filling, but also healthy - without preservatives, artificial colors, flavors or flavor enhancers.

VEGETABLE PRESERVES



In 2017, the assortment of vegetable preserves mainly included salads and marinades under the Tenczynek brand - traditional vegetable supplements that enhance and diversify both cold and hot meals. Those products have a loyal group of consumers and they also fit in the Group's export policy - the Tenczynek brand is positioned on the “ethnic food” shelves as a “premium” product.

Tenczynek brand also includes sweet and salty fillings for baking and catering. It is a very dynamically growing market. Since the second half of 2017, Stoczek Natura Sp. o.o. has offered those products in a new, improved quality formula and extended shelf life.

FRUIT PRESERVES

In 2017, the assortment of fruit preserves included jams and plum jam (Stoczek and Tenczynek) and syrups (Tenczynek) - produced with the highest quality. A tendency to develop new flavor categories is observed on the market. In response to market trends, the Group expands its portfolio with this type of products, mainly based on the export perspective.

The Group fruit preserves are invariably very popular on export markets, especially in Germany and China.

DRIED FRUIT



The new product introduced at the end of 2017 is dried fruit offered by Stoczek Natura Sp. o.o. within the Deli-Susz brand. The brand portfolio includes five products based on the Polish dried apple: apple chips in three flavors (natural, with cinnamon and sour apple) and two flavors of dried fruit mixes (apple + raspberry, apple + cherry flavors). Those are the products that respond to the trend of looking for healthy alternatives for high-

calorie snacks full of chemical additives, due to the fact that they are 100% natural, without the addition of preservatives, artificial colors, sugar or fats.

Assortment of private label products

Products under an external brand are present in every segment of the Group's commercial offer. In the private label area, the Group is a leading manufacturer of rolled and pressed pasta and a major manufacturer of meat and vegetable, vegetable and fruit preserves.

In 2017, the Makarony Polskie Group, developing its assortment in the brands of its own chains, based on global trends in the food market, in particular premiumisation, health and convenience trends.

The key method for acquiring and localizing customers is offering premium products at affordable prices. In response to the expectations of retail chains, the Group's portfolio has been enriched with multi-century rolled pasta, large pasta shapes pressed on bronze matrices, pasta with flavors (herbs, spices) and packaging emphasizing high quality products, e.g. packaging with a manually riveted paper tag, cartons with stamping and gilding.

The consumers are increasingly turning to food that does not harm the environment and helps health. In response to this trend, the Group focused on the development of pasta made from flours other than wheat, wholemeal flour (rich in fiber and minerals) and organic flour (bio products).

An important determinant of purchases is also the convenience trend understood as the ease of preparing meals and the convenience of their consumption, saving time, "on the go" food, impulse bought and consumed, ease of use (unpacking, storing, throwing), miniaturization. In 2017, the Group carried out development works aimed at creating an offer that is part of this trend.

In categories other than pasta, we have strengthened our position in the category of meats and ready meals in the brands of our own chains.

The high interest in purchasing private label products of the Makarony Polskie Group through leading and also smaller chains is proof of the Group's high quality, organizational efficiency and also proves its competitive position and credibility.

Services offered by the Makarony Polskie Group

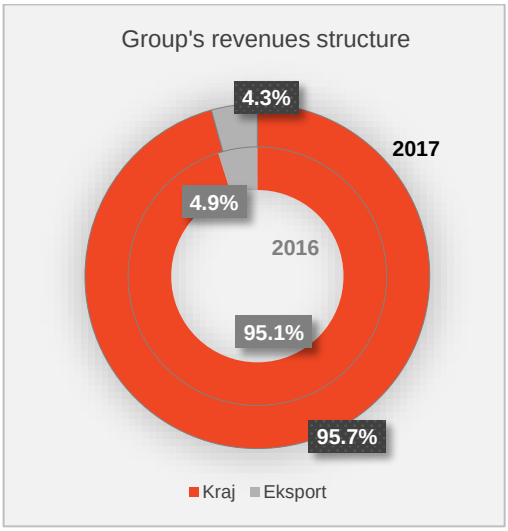
In 2017, the Makarony Polskie Group, due to the subsidiary MP Trade Sp. z o.o., was active on the commercial services market. MP Trade Sp. z o.o. develops, on its own account, trade with external goods of Polish and foreign producers, and also conducts the service of brokering products for the benefit of Polish and foreign companies.

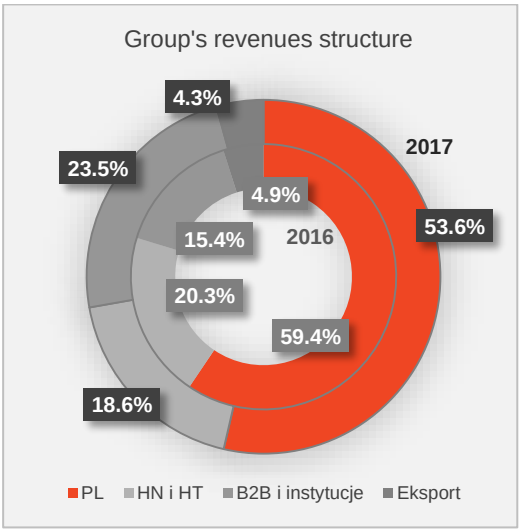
Ultimately, MP Trade Sp. z o.o. intends to focus its activities mainly on the development of export sales, in particular on African and Arab markets.

Market Environment

The sales markets of the Makarony Polskie Group can be divided into the domestic market (including private label, traditional trade, modern trade and B2B and institutions) and exports (including sales through domestic intermediaries). The Company achieved the following sales revenues in 2017 in the Like-for-like (LFL) approach:

in PLN k	2017	2016	y/y
Revenues from sales	144 872	124 181	16.7





Private label

The largest share in the Group's revenues (53.6%) had a private label channel (PL) offering products under own brands of domestic and foreign chains. (including sales to a Lidl contractor operating within one Group in Europe).

PL (in PLN k)	2017	2016	y/y
Revenues from sales	77 685	73 799	5.3%

In the private label sector, the Makarony Polskie Group is a leading supplier of rolled and pressed pasta and a major producer of meat and vegetable, vegetable and fruit preserves on the domestic market.

Sales in this channel increased by 5.3% in 2017 vs. year 2016. The increase in sales revenues was the result of obtaining new contracts in the field of ready meals and jams and conducting many in-out actions for new private label products.

The main customers in this channel are such networks as: Jeronimo Dystrybucja Polska, Lidl, Netto, Auchan, Aldi, Żabka, Intermarche, Stokrotka, GK Specjał, Lewiatan. In 2017, only one of the customers exceeded the threshold of 10% share in consolidated sales revenues (including both brand products and private label). This is the Biedronka network with a share of approx. 26.4%. The Group companies are not in any formal way connected with the operator of this network, and the cooperation occurs on a partnership basis and is beneficial for the Makarony Polskie Group.

Private label is a global trend in which the Makarony Polskie Group is very widely involved, in many product categories: pasta, jams, or ready-made meals. The Group is a supplier to all major discount stores in Poland and has a stable margin in this channel. Price negotiations are often difficult, this is due to the nature of this business, but most often we try to reach an agreement.

Modern trade and traditional trade

The next significant revenue for the Group of 18.6%, achieved on the domestic market, is the sale of the Group's brands (brands: Makarony Polskie, Sorenti, Stoczek, Tenczynek and Męska Rzecz) in modern trade (MT) and traditional trade (TT) channels:

MT&TT (in PLN k)	2017	2016	y/y
Revenues from sales	26 943	25 230	6.8%

The increase in sales value was mainly due to:

- introduction of new products from the category of ready-made meals, e.g.: soups in jars and canned dishes in the Stoczek Męska Rzecz brand;
- introduction of new products - buckwheat, spelled and rye healthy pasta to the offer;
- together with the Group's customers, recognition of the end-user's needs and adequate preparation of the offer and sale campaigns.

Within the B2B channel, the Group develops mainly sales of pastas and semi-finished products for bakery and confectionery, as well as service activities consisting in filling jars and cans for customers as a subcontractor.

In 2018, the Group plans to develop cooperation and acquire new, previously unsupported foreign, domestic and local networks. In addition, in cooperation with companies offering External Sales Force, the Group aims to improve and service the number of current customers and acquire new customers.

B2B and Institutions

In 2017, B2B and Institutions accounted for approx. 23.5% in total revenues of the Group:

B2B and Institutions (in PLN k)	2017	2016	y/y
Revenues from sales	34 015	19 071	78.4%

Sales in the B2B distribution and institutions channels in 2017 amounted to PLN 34.0 million and were higher by approx. PLN 14.9 million (i.e... 78.4%) compared to 2016.

Within the B2B channel, the Group sells pasta and develops semi-finished products production (sweet fillings, salty fillings) for the baking and confectionery industries. The B2B channel also shows sales for re-export, through a sales group appointed by producers gathered around the "Makarony Europy” [Pasta of Europe] project.

The increase in sales results from the introduction of new products for sale with an innovative composition and packaging, which allowed to acquire new contractors as well as increase sales to existing customers. It also results from the acquisition and implementation of the contract for the Material Reserves Agency and the National Center for Agricultural Support.

The relatively new form of the Group's activity, which is the production of sweet fillings and salt stuffing, has been positively received by the market from the very beginning. The group is still working on acquiring new, prospective customers. In the second half of 2017, investment was conducted in a modern technological line for packaging fillings and stuffing, having a thermoforming function, which allows them to offer those products in a new, better quality formula with an extended shelf-life.

On the basis of the production plant in Stoczek, the Group shall also develop its service activity consisting in filling jars and cans for customers under subcontracting. The Group records an increase in the value of sales in this form of activity.

Export

Exports in the Group's total revenues for 2017 accounted for 4.3%:

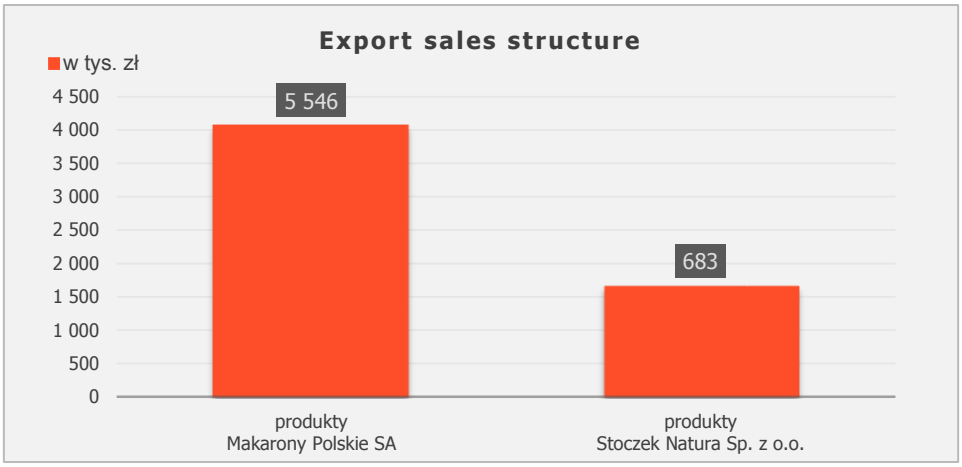
Export (in PLN k)	2017	2016	y/y

Revenues from sales	6 229	6 081	2.4%

The Group's export sales in 2017 amounted to approx. PLN 6.2 million (conducted by its own sales team and intermediaries). It was a result by 2.4% higher than the one achieved in 2016. The Group is currently implementing a long-term strategy to acquire new markets. The direct relations established with the final customers positively translate into the level of the realized margin.

The chart below presents the structure of export sales divided into products produced by the Group's Production Plants in Rzeszów and Częstochowa (pastas) and the Production Plant in Stoczek Łukowski (Stoczek products):

The company participates in the "Makarony Europy” [Pasta of Europe] program, educating Ukrainian and Chinese customers about the health properties of pasta, its diversity and high-quality products from the EU, including Poland.



In 2017, the Makarony Polskie Group was active mainly on European markets (Ukraine, Portugal, Norway, Slovakia, Germany, France) and in Africa.

The company participates in the "Makarony Europy” [Pasta of Europe] program, educating Ukrainian and Chinese customers about the health properties of pasta, its diversity and high-quality products from the EU, including Poland.

Makarony Polskie SA performed a contract signed in 2015 with the Ukrainian trade network for the delivery of pasta. In 2017, the value of sales increased by over 200% compared to 2016. Sales to this customer by over 15% exceeded revenues planned for 2016-2017 (PLN 4 million planned).

In 2016, the Company, along with other producers gathered in the Polish Chamber of Pasta (PIM), proceeded to implement the "Makarony Europy” [Pasta of Europe] program conducted by PIM. The aim of the program is to promote pasta in Ukraine and the People's Republic of China. Ukrainian and Chinese recipients (consumers, distributors) are educated about the health properties of pasta, as well as the diversity and high quality of pasta products from European Union countries, including from Poland (broadcasts on TV, press and websites are conducted, also promotional campaigns during fairs and at points of sale are conducted). The implementation of the Program is to contribute to the development of the sales market and the increase in the volume of sales of pasta produced in the European Union. The program will be implemented for 3 years (in 2016-2018). The manufacturers gathered around the program created an informal sales group. In 2017, as part of this project, the export sales of the Company on the Ukrainian market increased by over 100% and will continue also in 2018.



In 2017-2018, the Group shall focus its activities on the markets of North Africa and Ukraine. To achieve the above objectives, the Group acquired partners on local markets, who support the Group in the further development of sales in those markets.

Material contracts

Contract with Jeronimo Martins Polska SA

Under the agreement concluded between Makarony Polskie SA and Jeronimo Martins Polska SA, pasta is sold to the Biedronka chain under the own brands of the chain: Vitalia, Pasatni, Dobrusia and Makaron Szlachecki.

Contracts with the Lidl network

Makarony Polskie SA concluded trade contracts with Lidl for cooperation regarding the supply of pastas produced by the Company to the Lidl chain, which jointly meet the criteria of a material contract.

Contract for project co-financing under the name “Implementation of R&D results in the field of functional food in Makarony Polskie SA”

In March 2017, the Company concluded with the Podkarpackie Region Board an agreement on co-financing of the project entitled “Implementation of R&D results in the field of functional food in Makarony Polskie SA” implemented under Measure 1.4 Support for SMEs, Regional Operational Program of the Podkarpackie Region 2014- 2020.

The subject of the concluded grant agreement is the implementation of the results of research and development works conducted in cooperation with the scientific unit, consisting in the development of innovative recipes of products using raw materials not normally used in the pasta industry. The main objective of the project is the expansion of Makarony Polskie SA on the functional food market.

The project shall be implemented until June 2018. Within the project, the Company shall purchase fixed assets. The asset of the significant value acquired under the project will be a modern pasta production line.

The total cost of the project is PLN 12.3 million. The total maximum amount of expenditure eligible for support is PLN 10.0 million. Co-financing amounts to PLN 5.5 million.

The terms of the contract are consistent with those commonly used for this type of contracts. The guarantee of proper performance of the contract is a blank promissory note issued by the Company along with a promissory note declaration.

Contract for co-financing the project entitled "Establishment of the Research and Development Center of the Pasta Industry at Makarony Polskie SA"

In April 2017, the Company concluded with the Ministry of Development and Finance Contract for co-financing the project entitled "Establishment of the Research and Development Center of the Pasta Industry at Makarony Polskie SA" implemented under the measure Measure 2.1 Support for investment in infrastructure, enterprises R&D of the Intelligent Development Operational Programme;

The subject-matter of the concluded grant agreement is Establishment of the Research and Development Center of the Pasta Industry at Makarony Polskie SA. The R&D Center will conduct works on innovative products with pro-health features that will ultimately enrich the Company's product offer as well as issues relevant to the entire pasta industry.

The project shall be implemented until June 2019. Within the project, the Company shall purchase fixed assets and construction works. For the needs of the R&D Center, a modern production test line will be purchased, whose parameters will reflect the conditions prevailing during the industrial production process (this line will be an asset of significant value),

The total cost of the project is approx. PLN 18.6 million. The total maximum amount of expenditure eligible for support is PLN 15.2 million. Co-financing amounts to PLN 9.1 million.

The terms of the contract do not differ from the terms commonly used for this type of contracts. The guarantee of proper performance of the contract is a blank promissory note issued by the Company along with a promissory note declaration.

Decision on the withdrawal of the application for co-financing from the procedure of applying for a subsidy for the project entitled "increase in the competitiveness level of Makarony Polskie S.A. by implementing the results of research and development in the form of process innovation"

In February 2017, Bank Gospodarstwa Krajowego published a list of projects selected for co-financing under the competition for Sub-measure 3.2.2. Loan for technological innovations, Intelligent Development Operational Programme 2014-2020, on which the

Company's project under the name "Increasing the competitiveness level of Makarony Polskie SA by implementing the results of research and development in the form of process innovation" was considered.

In April 2017, the Company decided to withdraw the application for co-financing from the application procedure. A written statement on the withdrawal of the application pursuant to §6 paragraph 23 of the Competition Regulations, was sent to the European Programs Department of Bank Gospodarstwa Krajowego.

The withdrawal of the application for co-financing from the application procedure for the grant, and thus the withdrawal from the signing of the contract for co-financing and resignation from the project implementation results from the Company's involvement in the implementation of two other major aforementioned investment projects that have also received funding. This translated into a change in the cost-effectiveness of this project and the benefits achieved as a result of its implementation.

Contract for co-financing the project of Stoczek Natura Sp. z o.o. under the name "Growth of competitiveness Stoczek Natura Sp. z o.o."

In November 2017, Stoczek Natura Sp. z o.o. has concluded project financing agreements for "Increase in competitiveness of Stoczek Natura Sp. z o.o." under the measure 3.7 Increase of competitiveness of SMEs of the Regional Operational Program of the Lubelskie Region for the years 2014-2020.

The main objective of the project is to increase the competitiveness and innovation of Stoczek Natura Sp. z o.o. on the domestic and international markets by implementing the results of R&D research and introducing to the production, on their basis, the innovations in the form of meat ready meals product technology, in which the fat component as a raw material for production is partly or completely replaced with inulin. The task is to implement innovative solutions described in the project by modernizing the production lines of ready meals in jars and cans, which will be allowed by the purchase of new fixed assets and intangible and legal value. The implementation of the project will positively affect the improvement of the quality and innovativeness of the offered products, their repeatability and increase in production efficiency. In addition, as a result of the project, the company will be able to introduce new products with pro-health values, into the commercial offer addressed to a new group of consumers. During the project implementation, modern information and communication technologies will be used (streamlining the management process), which will also positively affect the company's competitiveness and the building of an information society. An increase in innovation will be ensured, among others through investment support for the implementation of research works results.

The terms of the contract are consistent with those commonly used for this type of contracts. The project shall be implemented until February 2019. The total cost of the project is PLN 6.07 million. Co-financing amounts to PLN 2.96 million.

Contract of Stoczek Natura Sp. z o.o. with the Agricultural Market Agency (now: National Center for Agricultural Support)

In August 2017, Stoczek Natura Sp. z o.o. concluded with the Agricultural Market Agency (currently: National Center for Agricultural Support; referred to as KOWR) a contract for the supply of groceries to warehouses of partner organizations under the Operational Program Food Aid 2014 - 2020 Subprogram 2017 (14/2017).

The object of the contract is to provide pork stew with vegetables, to the stores of partner organizations of KOWR, i.e... Federacja Polskich Banków Żywności, Polski Komitet Pomocy Społecznej, Caritas Polska, Polski Czerwony Krzyż. The contract shall be implemented from August 2017 to 31 May 2018. The contract value is PLN 14.7 million.

In accordance with the requirements of the won tender, = Stoczek Natura Sp. z o.o. submitted to KOWR a performance bond in the amount of PLN 1.47 million.

The contract of Stoczek Natura Sp. z o.o. with the Material Reserves Agency

In October 2017, Stoczek Natura Sp. z o.o. has concluded a contract with the Material Reserves Agency whose subject is to provide comprehensive storage services for products covered by the contract, including the storage and exchange of those products. The duration of the contract is 4 years, and its value is approx. PLN 7 million net.

The terms of the contract do not differ from the terms commonly used for this type of contracts. Stoczek Natura Sp. z o.o. Company has submitted to the Material Reserves Agency a performance bond in the amount corresponding to 25% of the gross value of the products covered by the contract.

Agreement between Makarony Polskie SA and the Material Reserves Agency

In November 2017, the Company concluded a contract with the Material Reserves Agency, the subject of which was the sale of pasta and a storage service including exchange. The duration of the contract is 4 years. The total value of the contract will amount to over PLN 10 million. The terms of the contract do not differ from the terms commonly used for this type of contracts. The Company has submitted to the Material Reserves Agency a

performance bond in the amount corresponding to 30% of the gross value of the products covered by the contract.

Contracts of Group companies with Bank Gospodarstwa Krajowego

- In July 2017, Makarony Polskie SA concluded with Bank Gospodarstwa Krajowego amendments to loan agreements with a total contractual value of PLN 11.0 million, i.e., overdrafts facilities non-revolving working loan agreement in a credit account.
  The contract with the highest value was the overdraft facility contract with a credit limit of PLN 6.0 million. The amendment to this agreement postponed the deadline until 30 June 2018 and modified the provisions regarding the Company's disclosure obligations towards the Bank.
  In connection with the conclusion of the above amendments, the term of guarantee granted to the Company by the subsidiary Stoczek Natura Sp. z o.o. was also postponed from 30 December 2017 to 31 December 2018.
- In November 2017, Stoczek Natura Sp. z o.o. concluded with Bank Gospodarstwa Krajowego banking product contracts with a total value of approx. PLN 6.0 million, which jointly meet the criteria of a material contract.
  The contract with the highest value is the overdraft facility with the credit limit of PLN 3.0 million, with the final repayment date of the obligation until 16 November 2018.

Detailed information about the above liabilities are included in the section "Other financial information".

Agreements of Makarony Polskie SA with BZ WBK SA bank

During the financial year 2017, Makarony Polskie SA concluded new loan agreements with BZ WBK SA as well as amended the existing agreements:

- In February 2017, the Company concluded an agreement with the Bank for an EU investment loan of PLN 12.1 million for a period of 5 years. The loan is intended to finance the investment project "Establishment of the Research and Development Center of the Pasta Industry at Makarony Polskie SA".
- In April 2017, the Company concluded with the Bank amendments to four loan agreements, with a total value of approx. PLN 33.9 million. The subject of the amendments was the unification of the provisions of credit agreements concluded by the Company with the Bank, inter alia in the area of the Bank's commission for managing loans and for securing loan agreements.

The Factors important for the development of the Group include:

- *building a competitive advantage through investments in R&D, product, process and organizational innovations*
- *obtaining funds from the European Union for the implementation of investments planned by the Group*
- *business development in the segment of private label*
- *development of B2B and Institutions sales channels*
- *increasing share and level of distribution on the domestic market*
- *export development*

– In September 2017, the Company concluded loan agreements with the Bank with a total value of PLN 9.8 million. The highest-value agreement was an EU investment loan agreement with a value of PLN 8 million with a final repayment date of the obligation until 31 January 2022. The loan is intended to finance investments related to the project entitled “Implementation of the results of research and development in the field of functional food in Makarony Polskie SA”.

Detailed information about the above liabilities are included in the section "Other financial information".

Resignation of Stoczek Natura Sp. z o.o. from the implementation of the project named “Establishment of a Research and Development Center at Stoczek Natura Sp. z o.o.”

In March 2018, Stoczek Natura Sp. z o.o. decided to withdraw from the project “Establishment of the Research and Development Center at Stoczek Natura Sp. z o.o.”, co-financed under Measure 2.1 Support for investments in R&D infrastructure of enterprises of the Intelligent Development Operational Program, and termination of the grant agreement concluded with the Ministry of Investment and Development in September 2017.

The management of the subsidiary company has taken up the abovementioned decision after a detailed material and financial analysis, taking into account other activities and investment projects already implemented and adopted for implementation aimed at the necessary development of the company's operations.

Factors important for the development of the Group

Factors affecting the future results of the Company and the Group

Building a competitive advantage through investments in R&D, product, process and organizational innovations

– development of R&D activities in the area of innovative products: functional, health-oriented food in Makarony Polskie SA, an interdisciplinary team was established that, in cooperation with scientific institutions, works on developing innovative technologies for the production of new low-processed and pro-health products that are easy to prepare,

- implementation of the expansion of the production and warehouse building with another part, i.e. the flour node building for the storage of raw materials and powdery additives as well as the cold room for raw materials and liquid additives as part of the CBR project implementation,
- completing the investment in an automated system of dosing flour and loose ingredients in a production plant in Częstochowa, which enabled the extension of production capabilities and making the production process more flexible,
- it was decided to buy the machine automatically, horizontally packing, which will allow the packaging of products in a new attractive category of packaging and the formation of promotional packages that will be widely used in marketing campaigns,
- in 2018 Makarony Polskie SA will implement the purchase of a machine for forming non-standard shapes based on long-rolled pasta as part of the fettucine and pappardelle,
- in 2018 rolled pasta will be put into sale - multi-season pastas and non-standard additives, as well as the type of pasta in the form of rectangular, large lobes - lasagna,
- a number of investments will be made at the plant in Częstochowa, which will contribute to reducing energy consumption, labor consumption in the production process and increasing product safety,
- in Stoczek Natura Sp. z o.o. research is conducted to adapt to global food production trends: convenience products, health products, products packaged in a modified atmosphere, innovative forms of packaging of offered products,
- a modern packaging line for fillings and stuffing, having a thermo-forming function, purchased by Stoczek Natura Sp. o.o. enables the company to offer products in a new, better quality formula and an extended shelf-life in relation to the products currently offered. Currently finalizing talks with contractors for the delivery of the above-mentioned products are held. Stoczek expects a significant increase in revenues in this segment in the second half of 2018.

Obtaining funds from the European Union for the implementation of activities and investments planned by the Group

- project under the name “Implementation of R&D results in the field of functional food in Makarony Polskie SA”, implemented under Measure 1.4 Support for SMEs, Regional Operational Programme of the Podkarpackie Region 2014-2020, assumes the implementation of research and development results conducted in cooperation with the scientific unit, based on the development of innovative recipes of products using raw materials that are not standard in the pasta industry. The main objective of the project is the expansion of Makarony Polskie SA on the functional food market,

- project under the name "Establishment of the Research and Development Center of Pasta Industry at Makarony Polskie SA", implemented as part of Measure 2.1 Support for investment in enterprise R&D infrastructure, Intelligent Development Operational Programme 2014-2020, assumes establishment of a Research and Development Center of Pasta Industry at Makarony Polskie SA. The R&D Center will conduct works on innovative products with pro-health features that will ultimately enrich the Company's product offer as well as issues relevant to the entire pasta industry. Within the project, the Company shall purchase fixed assets and construction works. For the needs of the R&D Center, a modern production test line will be purchased, whose parameters will reflect the conditions prevailing during the industrial production process (this line will be an asset of significant value),
- The "Makarony Europy" [Pasta of Europe] program conducted since 2016 by the Polish Chamber of Pasta (PIM), whose participant, together with other producers gathered in PIM, is the Makarony Polskie SA, aims to promote pasta in Ukraine and the People's Republic of China. Ukrainian and Chinese customers (consumers, distributors) are educated about the health properties of pasta, as well as the diversity and high quality of pasta products from European Union countries, including Poland (broadcasting of advertisements on television, press and on websites, promotional campaigns conducted during fairs and at points of sale). The implementation of the Program is to contribute to the development of the sales market and the increase in the volume of sales of pasta produced in the European Union. The program will be implemented for 3 years (in 2016-2018).
- project of Stoczek Natura Sp. z o.o. under the name "Improving the energy efficiency of stock Natura Sp. z o.o.", implemented as part of the Priority Axis 5 Energy efficiency and low-emission economy Measure 5.1 Improvement of the energy efficiency of enterprises of the Regional Operational Programme of the Lubelskie Region for 2014-2020, assumes improvement of the energy efficiency of Stoczek Natura Sp. z o.o. through a deep thermo-modernization of the company's building.

  Based on the conducted energy audit, the enterprise will implement as part of the project improvement in the reduction of heat and electricity demand, serving to ensure conditions in the premises that enable the implementation of the production process taking place there. The objective of the project will be achieved through: implementation of preparatory works, purchase of materials and construction works as well as necessary fixed assets. The total cost of the project is approx. PLN 2.96 million net. Co-financing amounts to PLN 1.49 million.
- the project of Stoczek Natura Sp. z o.o. under the name "Growth of competitiveness Stoczek Natura Sp. z o.o.", implemented as part of measure 3.7 of the ROP WL 2014-2020, assumes increasing competitiveness and innovativeness of the company on the

domestic and international market by implementing the results of R&D works and introducing to the production of innovations in the form of meat product technology ready meals. The subject of the amendments was the unification of the provisions of credit agreements concluded by the Company with the Bank, inter alia in the area of the Bank's commission for managing loans and for securing loan agreements.

The implementation of the project will positively affect the improvement of the quality and innovativeness of the offered products, their repeatability and increase in production efficiency. In addition, as a result of the project, the company will be able to introduce new products with pro-health values, into the commercial offer addressed to a new group of consumers.

The planned project implementation period: May 2017 - December 2018. The total cost of the project is PLN 4.94 million net. Co-financing amounts to nearly PLN 3 million (60%).

- Group companies apply for EU funds under the 2014-2020 perspective to accelerate and expand the scope of investments in the modernization of machinery used in the current production profile and to develop new business areas, such as forage and stuffing, initiate presence in the HoReCa segment - to maintain the position market and meet the growing demand for new, innovative products and packaging, including in Makarony Polskie SA and Stoczek Natura Sp. z o.o. in the first half of 2017, design audits were conducted, as part of which design strategies for each company were developed. Those documents contain recommendations for further activities related to the application of the design in the company. As part of the next stage, it will be possible to implement the recommendation resulting from the developed design strategy, i.e. carry out activities using design processes whose final result will be the introduction of innovations on the market.

Business development in the segment of private label

- enriching the offer directed to new and existing customers with pro-health products, flavored pasta and premium products (e.g. new forms and shapes, innovative packaging),
- enriching the offer directed to new and existing customers with ready meals, meat, canned meat and soups,
- activities aimed at improving the profitability of the sales channel.

Development of B2B and Institutions sales channels

- development of the category of pasta, processed meat and vegetables, vegetables and fruit, adapted to the expectations of customers of this channel,

- establishing cooperation relations with other producers of pasta and ready meals as well as producers of complementary goods, in order to supplement the offer for the final customer,
- individualizing the offer and thus increasing competitiveness,
- using the production potential of Stoczek Natura Sp. z o.o. in the scope of service packaging of products and based on new forms of packaging,
- further development of production of semi-finished products based on the production capacity of the plant in Stoczek Łukowski, including sweet and salty fillings.

Increasing share and level of distribution on the domestic market

- intensification of marketing activities aimed at the development of the Makarony Polskie brand, as well as rebranding and new definition of the Stoczek Natura, Sorenti and Tenczynek brands - the Group has established cooperation with Dom Mediowy; a review of individual brands is currently being conducted because, based on the experience of recent years, it should be stated that high quality and innovation is not enough; in 2018, the Group plans to prepare a marketing program,
- development and implementation of cooperation mechanisms with a wholesale customer, retail local networks and network trade, especially in the area of international networks in medium and small formats and convenience networks - as a selective distribution strategy, taking into account the specificity of the categories in which the Group operates,
- focus on fast and efficient building of the availability of branded assortments in the modern channel and the implementation of an effective distribution policy in the traditional channel,
- intensification of trade marketing activities supporting sales and resale of products and building long-term relationships with customers.

Export development

- focusing on two strategic directions: Ukraine and Egypt, where the Group offers products under the Sorenti brand and where the majority of exports is located; 2018 will be a period of strengthening the Group's cooperation with networks in Ukraine and RAYA / Eden in Egypt; on the Egyptian, Middle East and African markets, the Group together with an Egyptian partner conducts market research and establishes new trade contacts,
- systematic increase in the number of customers on foreign markets, especially in the European Union,

- intensification of communication with current and potential customers through the participation in, among others, trade fairs and organization of B2B meetings in target markets,
- acquiring and implementing projects concerning deliveries under the own customer's brand, mainly for the African market,
- development of the product offer by offering functional products on foreign markets, e.g.: whole wheat pasta with high fiber content, spelled pasta and buckwheat products, as well as BIO products and new product categories.

During the first half of 2017, Makarony Polskie SA and Raya Holding for Technology&Telecommunications S.A.E. based in Giza, Egypt (hereinafter: Raya), made preliminary talks on establishing the principles of cooperation and strategic partnership in the field of potential actions on African markets (the Company announced on receiving an invitation to enter into negotiations in this respect in the current report No. 9/2016 of June 9, 2016).

As a result of the talks, it was decided to establish cooperation in the subject of developing the sale of pasta and other food products on the markets of African and Arab countries.

The company will keep up to date on further progress of negotiations in stock market reports.

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

Risks and threats material for the development of the Group

The current financial situation of the Group, its production potential and market position create opportunities for further development, however, there are many factors, especially those of an external nature, which may directly or indirectly affect the financial results achieved in subsequent years.

Risk of changes in market trends

The risk may be a possible change in consumer habits, e.g. due to rising prices or widely published information on the health benefits of a given product category.

The current market trends are monitored on a regular basis. The Group's companies quickly and flexibly match their offer to them, both in terms of the products themselves and their production technology. The current product range of the Group is modified in

line with market trends, e.g. health-oriented and "Fit" products are systematically developed; spelled pasta, rye, buckwheat and BIO products have, among others, already been introduced to the offer. Responding to the trend of diversification and premiumization of assortments, at the end of 2016, rolled pasta with flavoring additions was introduced - both for main courses and for soups.

Risk related to competition

All areas of the Makarony Polskie Group's operations belong to highly competitive segments. There is a risk that the intensified actions of competitors, manifested mainly in the deterioration of business conditions will affect the profitability and revenues of the Group, and thus may affect the implementation of the assumed objectives. All activities of the competitive environment are constantly monitored and precisely analyzed by the marketing department of the Group, which allows for quick response in the area of possible threats.

The Group attempts to minimize this risk by diversifying its activities and developing innovative products (teams aimed at implementing R&D projects have been set up in the Group).

The risk of economic (moral) and physical wear of machinery and equipment and the loss of their market value

Many domestic producers have recreated, expanded or are planning to modernize their technology and engineering park, in connection with the possibility of obtaining EU funding for this purpose. This is mainly forced by strong competition from producers (domestic and foreign ones) and market trends, e.g. on the level of new, innovative packaging, energy consumption of the production process, the efficiency of the machines and devices themselves, or the automation of processes handled so far.

Machines and devices currently used in the Group's production plants are fully operational, undergo periodic renovations and modernizations. The Group's companies also keep investing in new fixed assets used in production, which is the result of, for example, reaction to market needs (investments in new balers and car toners used in the production of pasta, a new labeler for jars with non-standard shapes in Stoczek Natura Sp. z o.o.), however, it mainly concerns maintaining the current production profile of the plants. Currently, the Group is rapidly changing and installing a new technology park, and the EU funding will speed up this process.

In order to maintain the market position and meet the growing demand for new, innovative products and packaging, the Group companies applied successfully for EU funds under the 2014-2020 perspective. The Group informed the market with current reports on subsidies

received. The objective is both to modernize the machinery park used as part of the current production profile, as well as to develop new business areas.

However, there is a risk that any delay in the implementation of development projects may result in the loss of the current market position of the Makarony Polskie Group companies.

Risk of dependence on customers

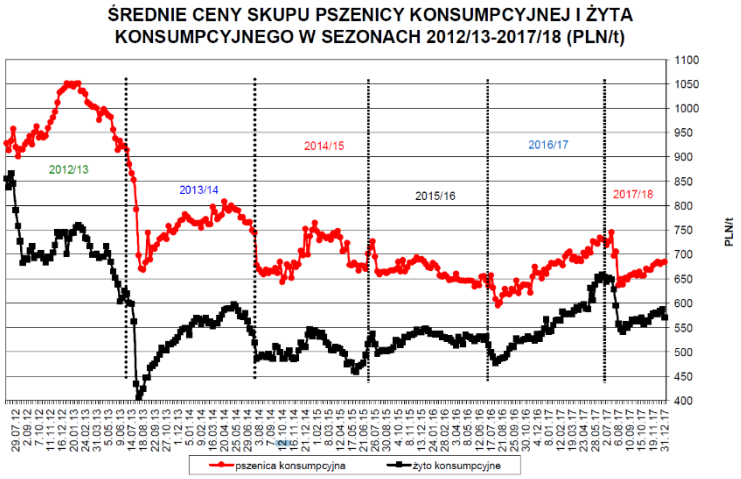
A significant part of the Group's revenues is achieved through cooperation with organized and centrally-decisive retail chains. A possible lack of continuity of cooperation with customers may affect the amount of revenues. Some commercial contracts do not contain a strictly determined amount of estimated purchases that the customer will make during the term of the contract. There is a risk that recipients will submit orders that deviate quantitatively from the monthly plans adopted by the Group. This may result in the inability to satisfy demand or incomplete use of production capacity, which will have an impact on the results. In the Group's opinion, this risk is not significant, as the number of products delivered so far has not been subject to significant fluctuations per year, shaping the foreseeable limits. In addition, the Group's companies conduct systematic actions towards the diversification of customers and increasing the number of so-called medium-sized customers.

Risk related to changes in raw material prices

The Group's policy in the area of hedging the prices of raw materials with long-term purchase contracts, in annual and semi-annual periods, has allowed to maintain the average purchase price of flour and egg pulp at a stable level, thus avoiding a significant reduction in the profitability of the pasta produced.

In relation to the current situation on the cereal market, the Company monitors the forecasts on both the domestic market and the prices of wheat for consumption on global markets on an ongoing basis. Information from European and non-European cereal markets shows that in the coming months cereal prices should remain stable. Nevertheless, Makarony Polskie SA is aware that the current level of flour prices, which has been on the market for several years, is so low that prices are strongly exposed to increases caused by possible speculations or natural disasters. The company systematically takes steps to secure the purchase prices of some raw materials in order to minimize the effects of possible flour price fluctuations.

The chart below presents the prices of soft cereal prices in Poland applicable in recent years:



Source: Cereal market week 01'2018, Sparks Polska

The egg pulp prices currently operating on the market are at the level of PLN 4.4-5.0 thousand per one tonne of egg pulp. Since 2013, there has been a gradual increase in egg consumption in Poland (currently it is over 152 eggs per person). At the end of the third and fourth quarters of 2017, the prices of egg pulp increased sharply (to PLN 10.0-11.2 thousand for one ton of pulp) due to the withdrawal of large batches of food eggs from retail in many EU countries, especially in Germany , Belgium, the Netherlands, Sweden due to the detection of contamination of eggs with the fipronil and the removal of large flocks of laying hens (the source of contamination were fodder with which the hens were fed). A gap was created on the market that caused shopping fever in countries not covered by this problem, including in Poland. The prices soared up by 250-260%. Such drastic increases in the prices of egg pulp caused that suppliers often decided to terminate previously concluded long-term contracts, due to the fact that contractual penalties reserved in those contracts were lower than the profits possible to be achieved from the sale of this raw material to Western Europe.

Summing up - the price of eggs at the end of the third and fourth quarters of 2017 reached such a high level that in order to maintain the profitability of egg pasta production, it was necessary to adjust the sale price of those products.

The situation, in line with earlier predictions, was stabilized at the beginning of 2018, when new sittings of hens in Western Europe reached the level of maturity and they began to lay eggs. Prices of eggs and egg pulp again dropped to the level of PLN 4.40-5,8 thous. per one tonne of the egg pulp. Forecasts for 2018 assume that prices of eggs and egg pulp may slightly increase (according to manufacturers, the current price level is at the lower end of the profitability of production), however, those increases will not have a significant impact on the profitability of products.

Stoczek Natura Sp. z o.o. is a producer of fruit and vegetable preserves (including jams and salads) and ready meals. The prices of fruit and vegetables are strongly dependent on weather conditions. The company cooperates with domestic fruit and vegetable suppliers, additionally in 2017 the database of foreign suppliers of key raw materials has been expanded, which gives the company greater possibilities of obtaining cheap, good quality raw material. Purchase of fruits and vegetables is conducted seasonally, in months in which their prices are the lowest. If necessary, the purchased raw materials are stored in company warehouses and cold stores. Stoczek Natura Sp. z o.o. is exposed to an increase in raw material prices resulting from various types of weather anomalies. In order to minimize this risk, the company maintains an extensive base of suppliers of key raw materials. In addition, Stoczek Natura Sp. z o.o., striving to optimize the operation of the plant, provides for the possibility of outsourcing the production of those categories of fruit and vegetable preserves, whose market share does not guarantee the company the optimal use of existing production capacity and purchase of raw materials at attractive prices.

Risk of variable legal and tax environment

The Polish legal and tax system is characterized by frequent changes. An unfavorable factor for the operations of the Group's companies may be the changing legal regulations as well as its various interpretations. The practice shows that the interpretation of legal provisions by tax authorities and judicial decisions in the aspect of taxation are often inconsistent. In the case of companies operating on the Polish market, there is a greater risk of doing business than in countries with stable and well-established legal and tax systems.

The protection of the Group's interests in legal changes is supervised by legal teams that undertake appropriate actions in a timely manner, aimed at minimizing the possible effects of those changes. Quality teams keep track of all legal regulations regarding products and packaging, and the changes required by law are implemented without unnecessary delay.

Risk related to changes in exchange rates

The Makarony Polskie Group is a semolina importer and exporter of finished products. The sales prices of the Company's products are each time determined and take into account the current value of exchange rates so as to ensure satisfactory sales profitability.

The depreciation of the zloty may have a negative impact on the profitability level of the Group's operations as an importer. In order to minimize the risk of changes in foreign exchange rates, the funds obtained by the Group from export sales are used to purchase raw materials outside Poland.

Risk related to remuneration pressure

The recent legislative changes (increase in the minimum wage, setting a minimum hourly rate for civil law contracts) cause that remuneration pressure is growing among employees and potential job candidates. This phenomenon is compounded by the fact that the labor market is beginning to tilt towards the employee market. Employers, including the Group companies, may have problems in finding suitable candidates for vacant positions, both among specialists and managerial staff as well as among unskilled people.

Aiming at minimizing staff rotation, especially among key employees and specialists, the Group is trying to systematically implement motivational remuneration systems (combined with, among others, production and sales efficiency), which through closely related work results of individual teams/people with the effectiveness of achieving the Group's goals by those teams/employees, allow to combine the level of remunerations satisfying employees with the profitability of the company's operations.

Interest rate risk

Interest rate risk is the risk of incurring losses as a result of changes in market interest rates and changes in statutory interest. Both the amount of revenues and costs of the Company are sensitive to changes in the level of market interest rates.

To a large extent, the Company finances its operations with loans, which increases its sensitivity to the risk caused by interest rate changes in both long-term and short-term financial liabilities.

In 2017, the Company used external sources of financing in the form of bank loans: overdrafts and investment loans.

As at 31 December 2017, the Company had a liability for loans taken of PLN 20,493 thousand:

Currency	Interest	Loans balance	Including credits	
			Short-term	Long-term
PLN	WIBOR + bank margin	20 493	12 272	8 221

The company has liabilities due to loans for which interest is calculated on the basis of a variable interest rate, and therefore there is a risk of an increase in those rates in relation to the moment of conclusion of the contract.

Credit risk

Credit risk means the risk of the Group's contractors failing to meet their obligations. The Group applies the principle of making transactions only with counterparties whose

creditworthiness has been verified and of obtaining, if necessary, an appropriate security as a tool to mitigate the risk of financial loss arising from a breach of agreement. The Group uses financial information available to the public and its own transaction data, assessing the financial condition of its main customers.

The Group's exposure to the risk of counterparties' creditworthiness is constantly monitored; Credit risk control is enabled by limits verified and approved on an ongoing basis within the control structures in the Group. In addition, the Group acquired selected counterparties with trade receivables insurance granted by one of the major insurers operating in this area on the Polish market.

The Group is not exposed to significant credit risk towards a single counterparty or a group of counterparties.

Financial situation of the Makarony Polskie Group

The consolidated financial statements have been prepared on the basis of International Financial Reporting Standards, assuming that the Group companies will continue as a going concern in the foreseeable future and in an undiminished manner. The Group did not conduct any activities that were discontinued during the 2017 financial year.

The financial statements of all entities were prepared for the same reporting period using consistent accounting principles. The financial year of Group companies is the calendar year (with the reservation that the first financial year of MP Trade Sp. z o.o. lasted from September 2015 to December 31, 2016).

Companies subject to consolidation:

as at 31 December 2017	Stoczek Natura Sp. z o.o.	MP Trade Sp. z o.o.
Type of relationship	a direct subsidiary	a direct subsidiary
Consolidation method	full	full
Date of taking control	1 June 2007	28 September 2015
% of the share capital held	100%	100%

Results overview

Selected financial data of the Makarony Polskie Group as at December 31, 2017, expressed in thousand zlotys, are as follows:

(in PLN k)	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Net revenues from sales	144 872	124 181
Revenues from sale of other products and services	138 783	118 281
Revenues from sale of goods and materials	6 089	5 900
Own cost	112 748	95 272
Production costs of products and services sold	107 024	89 541
Value of goods and materials sold	5 724	5 731
Gross profit (loss) on sales	32 124	28 909

Sales costs	18 763	16 726
General administrative costs	5 865	4 760
Other revenues	925	870
Other costs	433	690
Profit (loss) from continued operation	7 988	7 603
Financial incomes	404	201
Financial costs	1 480	1 237
Gross profit	6 912	6 567
Income tax - current part	1 232	937
Income tax - deferred part	163	538
Net profit (loss) from continued operations	5 517	5 092
EBITDA (EBIT + depreciation)	12 911	12 157
Number of shares (in units)	9 250 071	9 250 071
Weighted average number of shares (in units) in the period of a given financial year	9 250 071	9 250 071
Profit/loss per ordinary share (in PLN)*	0.60	0.55
Book value per one share (in PLN) **	8.22	7.87

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

** Book value per ordinary share = equity/number of shares for a given balance sheet date

The value of consolidated revenues in 2017 amounted to PLN 144.9 million and was higher by approx. 16.7% compared to 2016. The Group recorded the largest increase in sales in the segment of meat and vegetable preserves and in the segment of pasta products. Growth in the segment of processed meat and vegetable products amounted to PLN 14.6 million y/y, i.e. + 102.8% y/y, and resulted mainly from the acquisition of new private label and B2B contracts and the acquisition and implementation of a contract for the delivery of ready-made meals for the National Center Support for Agriculture, as well as conducting of effective promotional campaigns on products under the Stoczek brand. In the pasta segment, an increase of approx. PLN 6.1 million (+ 6.4% y/y) was noted, which was the result of obtaining new B2B and institutions contracts, as well as the development of the product offer for the private label channel.

The cost of products, services, goods and materials sold in 2017 amounted to approx. PLN 112.7 million (an increase of approx. 18.3%).

The Makarony Polskie Group closed the year 2017 with a gross profit from sales at the level of approx. PLN 32.1 million (increase by PLN 3.1 million compared to 2016), with gross profit margin from sales at the level of approx. 22.2%.

The costs of sales increased by approx. 12.2%, with the increase being related to the increase in revenues from sales (e.g., an increase in transport costs due to the increase in the scale of operations).

In 2017, the operating result (EBIT) amounted to PLN 8.0 million compared to approx. PLN 7.6 million in 2016, which means an increase by approx. 5.1% (+ PLN 0.4 million). Operating activity profitability amounted to 5.5%.

In 2017, the result on financial activities (financial revenues minus finance costs) was at a level similar to the result of year 2016 (approx. PLN -1.1 million in 2017 vs. approx. PLN -1.0 million in 2016).

In 2017 net profit amounted to approx. PLN 5.5 million in relation to approx. PLN 5.1 million of 2016, which means an increase by approx. 8.3%. Profitability of sales calculated at the level of net profit amounted to approx. 3.8% (approx. 4.1% for 2016).

In 2017, the Makrony Polskie Group generated EBITDA at the level of approx. PLN 12.9 million. Profitability of EBITDA amounted to approx. 8.9%.

Consolidated statements of other comprehensive net income - application of hedge accounting

FOR THE PERIOD	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Total net income	5 517	5 092
Profit/loss on application of hedge accounting	0	66
Total net comprehensive income	5 517	5 158

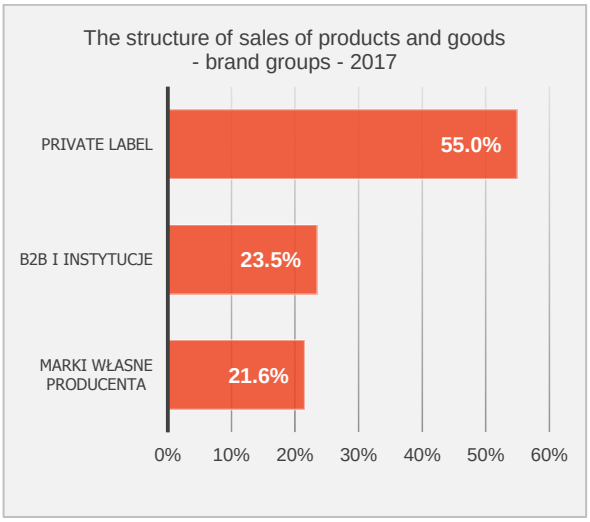
Results achieved vs. forecasts

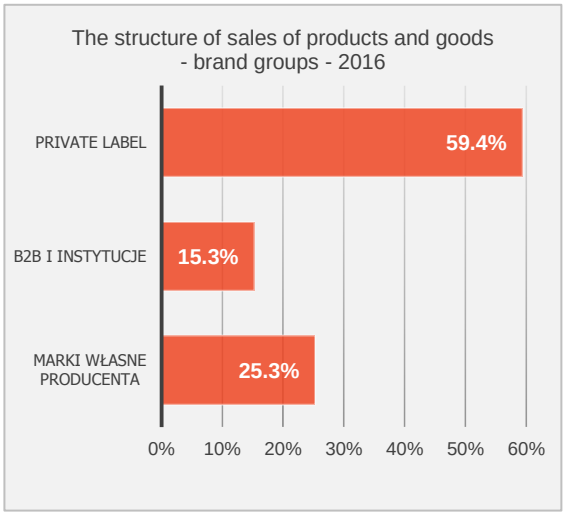
The Makarony Polskie Group did not publish financial forecasts for the 2017 financial year.

Operating segments

Revenues from sales divided into own and foreign brands

The structure of sales of products and goods divided into groups of brands is illustrated by the following charts:





In 2017, the Group recorded an increase in sales by PLN 20.7 million compared to 2016.

Sales teams implemented the assumptions of the assortment strategy consisting in focusing the sales forces on the five basic brands of the manufacturer (Makarony Polskie, Męska Rzecz, Stoczek, Tenczynek, Sorenti).

Makarony Polskie brand, a key pasta brand, consolidated the sales potential of the Abak brand, it has also been expanded to include a healthy and functional product line. At the end of 2017, the Makarony Polskie brand consisted of the following product lines: popular pressed pasta, traditional egg pasta, rolled flavor ribbons, whole wheat pasta, buckwheat, spelled and rye pasta.

Sorenti brand, it consists of pasta produced in 100% from durum wheat flour offered in the most popular forms on the market.

The Stoczek Męska Rzecz brand consisted of two product lines: classic ready meals and a line of so-called one-pot dishes "full dinner". In 2017, the brand's potential and its innovativeness in the category of canned meals on the Polish market was tested by introducing the "Kwaśnica", "Grochówka" and "Zupa Kowala" commercial offer. The market test was successful, which gives direction to the assortment in 2018.

The Stoczek brand included a line of ready meals typical of Polish cuisine, meat in jars (a higher-quality equivalent of popular preserves), lard, as well as a line of high-sugar jams.

Tenczynek brand, it based on vegetable products, including dinner salads and marinades, as well as, fruit syrups and low-sugar jams.

Sales revenues broken down into operating segments

(in PLN k)	For the period from 01/01/2017 to 31/12/2017	For the period from 01/01/2016 to 31/12/2016
Pasta	101 255	95 166
Meat and vegetable preserves	28 880	14 244
Vegetable preserves and stuffing	2 548	3 442
Fruit preserves	4 574	4 153
Other	7 615	7 176
Total	**144 872**	**124 181**

In 2017, the sales revenues of the Makarony Polskie Group amounted to PLN 144.9 million and were by approx. PLN 20.7 million higher than in 2016.

The sales value in the pasta category was higher by approx. PLN 6.1 million, i.e., approx. 6.4% compared to 2016. The increase was the result of a series of in-out actions for innovative pro-health products.

Sales of meat and vegetable preserves increased in the analyzed period by approx. PLN 14.6 million towards the amount of approx. PLN 28.9 million. The increase of approx. 103.5% y/y was the result of expanding the range of products offered in cans in the Stoczek and Męska Rzecz brands, obtaining several contracts for the production of products under network brands, as well as a well-conducted promotional campaign for ready-made dishes in jars. In subsequent periods, further growth is planned in this category, including by introducing market novelties.

Sales in the categories of vegetable and fruit preserves remain stable. In the case of fruit preserves, the Group recorded a slight increase at the level of PLN 0.4 million y/y, while in the vegetable preserves category a slight decrease by PLN 0.9 million y/y.

The Group assumes production concentration on key product categories, gradually verifying the profitability and volume of production of vegetable and fruit preserves. In niche categories in which the market share of the Group does not guarantee the effective use of production capacity, the Group allows the outsourcing of those products using a specialized commercial company, MP Trade SP. z o.o. At the same time, the Group is

Factors and events affecting 2017 results:

- *implementation of investments in production plants*
- *extension of the products portfolio*
- *increasing the scale of operations in Stoczek Natura Sp. z o.o. company*
- *reorganization and change of the operating profile of MP Trade Sp. z o.o. company*

constantly looking for new areas of activity ensuring high margin, both by optimizing the use of current production capacities, as well as by launching a completely new production.

Factors and events, including unusual ones, affecting the 2017 results

Realization of investments in production plants in Rzeszów, Częstochowa and Stoczek Łukowski

- in the production plant in Rzeszów, an investment was implemented, which improved the efficiency of raw material utilization and modernized the system of dosing of liquid components, adapting it to gluten-free raw materials requiring a higher temperature medium,
- in the production plant in Częstochowa, the production line control system was modernized, which contributed to increasing the efficiency of property use; investment in a new, independent water and sewage connection was implemented, which contributed to lowering media spending; investments were conducted in drying cabins, which allowed to improve the quality of the product, reduce energy consumption of production, and ultimately contribute to the extension of the offer with the form of past and lasagna pasta; the weighing system for unit packets has been expanded, which will have an impact on further increasing the efficiency of packaging,
- in the production plant in Stoczek Łukowski, a modern packaging line for fillings and stuffing was purchased, which has the function of thermoforming and will allow to offer products with a longer shelf life in relation to the products currently offered and to improve production safety.

Expanding the product portfolio

The world pasta market in 2020 will be worth over PLN 110 billion (USD 31 billion), and the average annual growth rate (CAGR) for 2016-2020 will amount to 5.76%. The key trends affecting the pasta market include: the growing popularity of pro-health pasta (health & wellness pasta), the growing demand for local flavors and varieties, the emphasis on the use of natural additives.

Responding to market trends in 2016, the Makarony Polskie Group continued the implementation of the portfolio optimization strategy and its supplementation with high-

margin products from the premium segment. Work is underway on new health-promoting products (e.g. gluten-free, organic, high in fiber or with a reduced carbohydrate content), organic (BIO), flavor pasta, premium products (e.g. new shapes and forms of pasta, innovative packaging). Responding to the trends of pro-health products focused on vegetable and high-protein pastas, the Group introduced to its portfolio, among others: flavor ribbons with the addition of rosemary, spinach and garlic, peppers and chili and cinnamon, slices of parsley and lovage as well as flour noodles buckwheat and BIO pasta.

Stoczek Natura Sp. z o.o. systematically introduces new products to its offer. In 2017, the company's portfolio was enriched, among others, by canned soups, canned dinner dishes, meat and canned food, dried fruit, in 2018 it is planned to introduce products that respond to the strong market trend - the convenience.

The Group's portfolio will also be supplemented with products of other producers complementary to the basic product offer.

Increasing the scale of operations in Stoczek Natura Sp. z o.o.

In 2017, Stoczek Natura Sp. z o.o. recorded an increase in revenues by approx. 64% y/y (PLN 13.7 million). The company recorded the largest increase in sales in the segment of meat and vegetable preserves(increase by 104% y/y) which resulted from:

- high positive sales dynamics in the Stoczek and Stoczek Męska Rzecz brands, which contributed to the expansion of the product offer, among others by canned soups, canned dinner dishes, meat and canned meat, as well as a well-conducted promotional campaign for products of the current/basic offer,
- acquisition and implementation of private label and B2B contracts, as well as contracts for the delivery of ready meals for the National Center for Agricultural Support,

A material increase in the scale of production capacity utilization has significantly contributed to the reduction of unit costs in the enterprise and had a positive impact on the results achieved by Stoczek Natura Sp. z o.o.

Reorganization and change of the operating profile of MP Trade Sp. z o.o.

Due to the change in the business profile of MP Trade Sp. z o.o. and conducted reorganization, this company significantly reduced employment and incurred one-off costs of reorganization.

Structure of assets and liabilities

The Group's total assets amounted to PLN 137.2 million as at 31 December 2017 compared to PLN 128.4 million as at 31 December 2016.

Structure of the Group's assets and liabilities

(in PLN k)	31 December 2017	31 December 2016
FIXED ASSETS	**91 110**	**90 606**
Tangible fixed assets	74 061	73 520
Investment real estate	642	1 235
Goodwill	5 949	5 949
Other intangible assets	9 953	9 559
Assets for deferred income tax	5	17
Other long-term assets	500	326
CURRENT ASSETS	**46 098**	**37 780**
Inventories	15 624	13 015
Short-term receivables	28 513	23 477
Income tax receivables	29	0
Borrowings granted	0	0
Cash and cash equivalents	1 454	920
Other short-term assets	478	368
FIXED ASSETS INTENDED FOR SALE	0	**0**
TOTAL ASSETS	**137 208**	**128 386**

(in PLN k)	31 December 2017	31 December 2016
EQUITY	**76 020**	**72 815**
Share capital	27 750	27 750
Other capital	42 184	39 505
Retained gains/losses (profit/loss from previous years	569	469
Net profit	5 517	5 092
LONG-TERM LIABILITIES	**20 523**	**23 129**
Provision for deferred income tax	3 538	3 387
Long-term bank loans and borrowings	8 221	11 117
Provision for retirement and similar (long-term) benefits	190	143

Deferred income	6 538	7 053
Long-term liabilities from finance leasing contracts	2 036	1 429
SHORT-TERM LIABILITIES	**40 665**	**32 441**
Short-term bank loans and borrowings	12 272	8 455
Short-term financial liabilities	826	709
Other short-term liabilities	26 800	22 658
Income tax liabilities	65	
Deferred income	553	548
Provision for retirement and similar (short-term) benefits	149	71
Other short-term provisions	0	0
TOTAL LIABILITIES	**61 188**	**55 570**
TOTAL LIABILITIES	**137 208**	**128 386**

As at 31 December 2017, the value of property, plant and equipment amounted to approx. PLN 91.1 million (66% of total assets) compared to PLN 90.6 million at the end of 2016 (up by 0.6% vs. the end of 2016). The increase in the value of non-current assets is the result of ongoing investments. The largest investment conducted in 2017 was the expansion of the production plant in Rzeszów by a new production and warehouse space.

As at 31 December 2017, the current assets amounted to approx. PLN 46.1 million and increased by approx. 22% compared to the end of 2016 (approx. PLN 37.8 million). The biggest impact on the change in current assets was the increase in receivables by approx. PLN 5.0 million, i.e., by approx. 21.5% compared to the end of 2016 (mainly as a result of the contract for the National Center for Agricultural Support + PLN 4.6 million) and inventories by approx. PLN 2.6 million, i.e., by approx. 20.0% compared to the end of 2016.

Equity as at the balance sheet date amounted to approx. PLN 76.0 million, representing approx. 55.4% of the value of liabilities and increased by 4.4% compared to PLN 72.8 million at the end of 2016. The change was caused by the consolidated profit for 2017 in the amount of PLN 5.5 million and the allocation of a part of the net profit for 2016 for the dividend in the amount of PLN 2.3 million.

Long-term liabilities amounted to PLN 20.5 million and were decreased by 11.3% (from PLN 23.1 million) as compared to the end of 2016, mainly due to the repayment of some long-term loans and reclassification of some long-term loans into short-term liabilities in connection with maturity of installments in the period below one year from the balance sheet date.

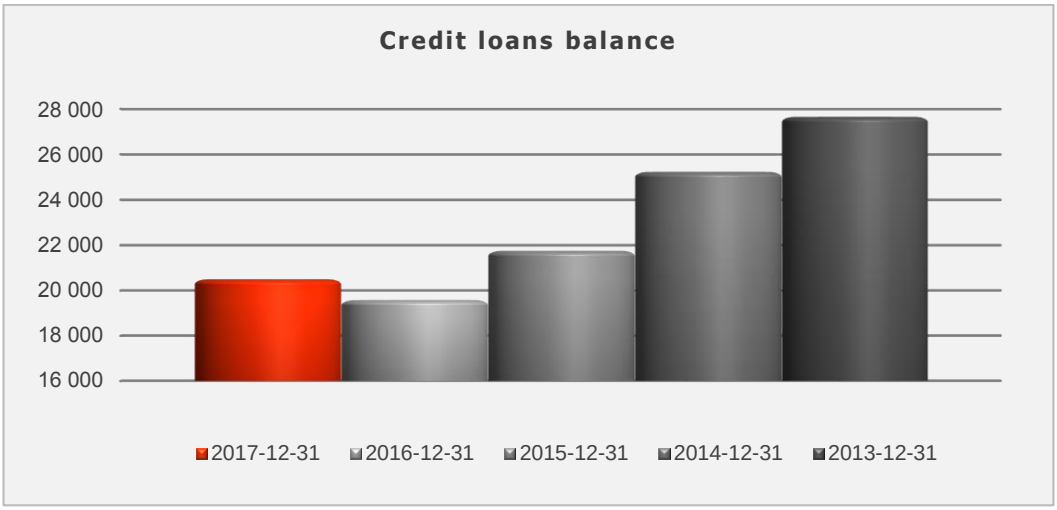
Short-term liabilities as at 31 December 2017 amounted to PLN 40.7 million and increased compared to the end of 2016 amounting to PLN 32.4 million. This was mainly due to the increase in the value of other liabilities (an increase of approx. PLN 4.1 million, i.e... 18.3%) as well as bank loans and borrowings (increase by approx. PLN 3.8 million, i.e... 45.1%).

Liquidity and management of financial resources and financial risk of the Group

The Makarony Polskie Group manages economic resources in such a way as to ensure financing of ongoing operations and investments implemented using own funds, bank loans, factoring and leasing.

The confirmation of full capacity to pay liabilities is:

- generating positive cash flows from operating activities in the amount of approx. PLN 7.7 million in 2017,
- development of EBITDA at the level of PLN 12.9 million in 2017 (increase by PLN 0.7 million compared to 2016),
- Group realizing part of purchases without using the trade credit which are conditioned by obtaining financial benefits,
- investment implementation and payment of a dividend in 2017 in the amount of approx. PLN 2.3 million,
- maintaining a low level of liabilities arising from loans.



In the opinion of the Management Board, there are no threats that would make it impossible to regulate the incurred liabilities.

The ratio analysis indicates the good financial standing of the Makarony Polskie Group in 2017 in terms of profitability, ability to settle liabilities and security of financing of current and investment operations.

Deposits and capital investments

In 2017, the Makarony Polskie Group did not conduct capital investments.

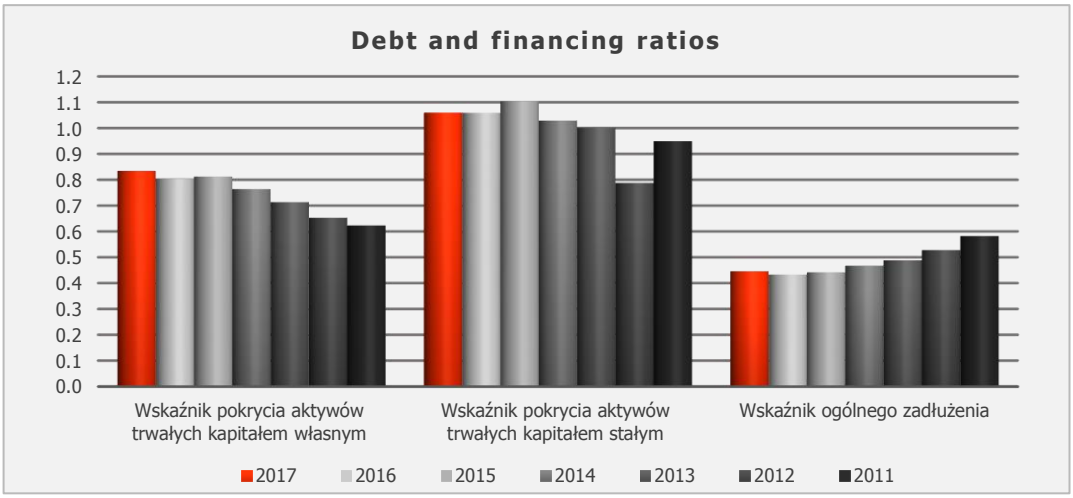
Ratio Analysis

The ratio analysis in terms of profitability, liquidity and debt assessment indicates the good financial standing of the Makarony Polskie Group in 2017, in relation to earlier periods, in terms of profitability, ability to settle liabilities and security of financing of current and investment operations.

The level of profitability and cash flows generated by the Group allowed, among others, for: paying out dividends to shareholders in the amount of PLN 2.3 million in 2017, conducting a number of investments, purchasing a part of the raw material at an attractive price without a trade loan, and maintaining a low level of debt.

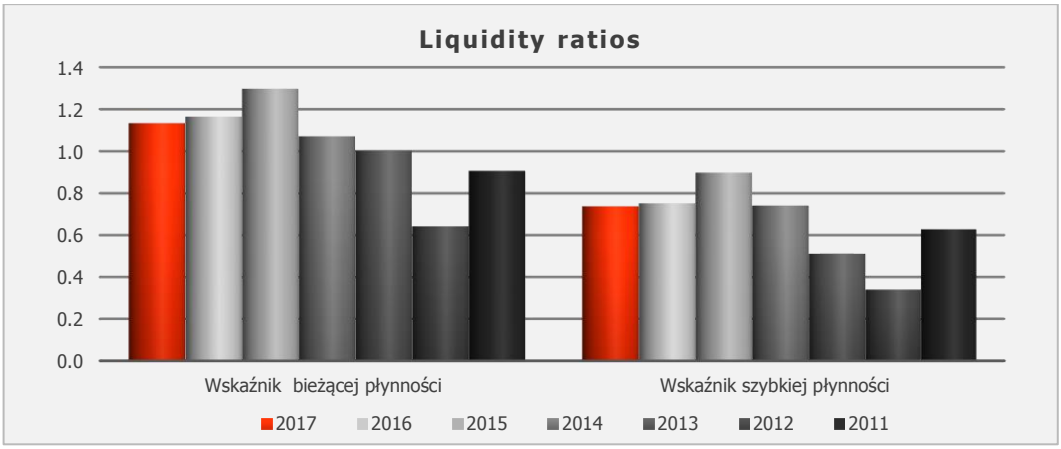
Debt and financing ratios

	2017	2016	2015	2014	2013	2012	2011
Fixed asset coverage with equity ratio *(Equity/Fixed assets)*	0.83	0.80	0.81	0.76	0.71	0.65	0.62
Fixed asset coverage with fixed capital ratio *((Equity + long-term liabilities)/Fixed assets)*	1.06	1.06	1.10	1.03	1.00	0.79	0.95
Total debt ratio *(Total liabilities/Total assets)*	0.45	0.43	0.44	0.47	0.49	0.53	0.58



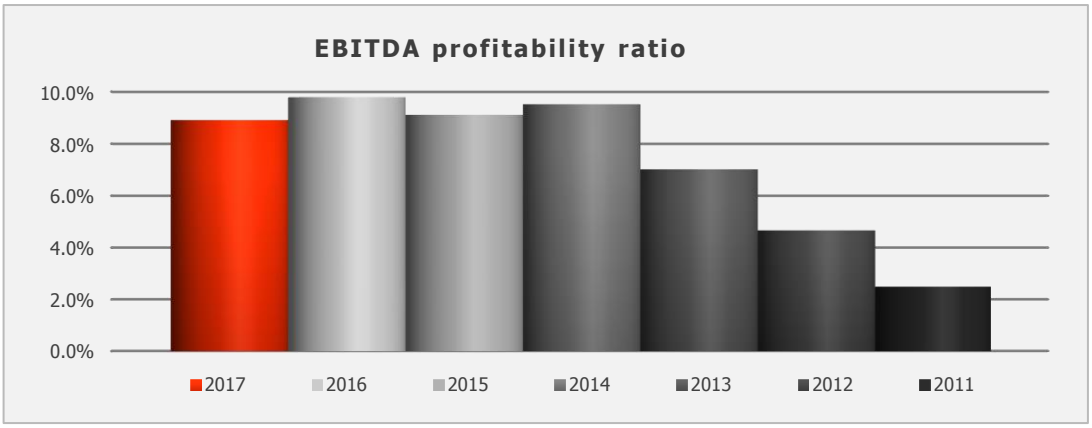
Liquidity ratios

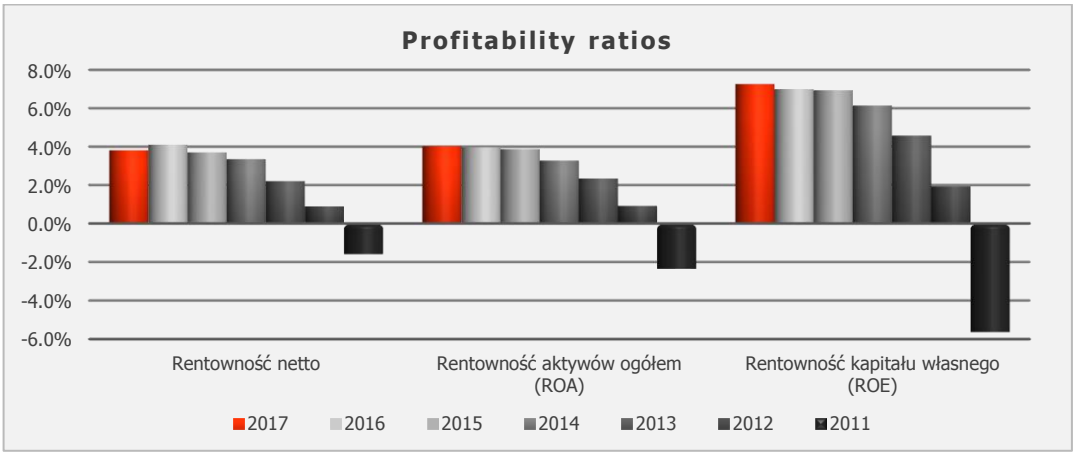
	2017	2016	2015	2014	2013	2012	2011
Current liquidity ratio *(Current assets/Short-term liabilities)*	1.13	1.16	1.30	1.07	1.00	0.64	0.91
Fast liquidity ratio *((Current assets - Inventories - Short-term prepayments)/Short-term liabilities)*	0.74	0.75	0.90	0.74	0.51	0.34	0.63



Profitability ratios

	2017	2016	2015	2014	2013	2012	2011
Return on sales (Gross profit (loss) from sales/Net sales revenues)	22.2%	23.3%	21.0%	22.1%	21.9%	18.5%	11.1%
Operating activity profitability (Profit (loss) from continued operations/Net revenues from sales)	5.5%	6.1%	5.8%	6.2%	3.9%	1.1%	-0.1%
Profitability of economic activity (Gross profit (loss)/Net revenues from sales)	4.8%	5.3%	4.9%	4.7%	2.1%	0.2%	-1.3%
Net profitability (Net profit (loss)/Net revenues from sales)	3.8%	4.1%	3.7%	3.3%	2.2%	0.9%	-1.6%
Return on total assets (ROA) (Net profit (loss)/Total assets)	4.0%	4.0%	3.9%	3.3%	2.3%	0.9%	-2.4%
Return on equity (ROE) (Net profit (loss)/Equity)	7.3%	7.0%	6.9%	6.1%	4.6%	1.9%	-5.6%
EBITDA profitability (EBITDA/Net revenues from sales)	8.9%	9.8%	9.1%	9.5%	7.0%	4.7%	2.5%


EBITDA profitability ratio
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
2017
2016
2015
2014
2013
2012
2011


Profitability ratios
8.0%
6.0%
4.0%
2.0%
0.0%
-2.0%
-4.0%
-6.0%
Rentowność netto
Rentowność aktywów ogółem (ROA)
Rentowność kapitału własnego (ROE)
2017
2016
2015
2014
2013
2012
2011

Other financial information

Information on loan and factoring contracts concluded and terminated

During the financial year 2017, Makarony Polskie SA and Stoczek Natura Sp. z o.o. were the parties to the loan and factoring agreements.

The statuses of loan and factoring agreements in force as at 31 December 2017, to which Makarony Polskie SA was a party to, are presented in the tables below:

– Overdraft in BZ WBK SA bank

Loan Terms and Conditions:	31 December 2017
Loan contractual value	PLN 5 000 k
Loan period	18.10.2013 – 31.05.2018
Interest rate	WIBOR 1M + bank's margin not differing from the standards applied by the bank
Loan balance	PLN 615 k
Repayment schedule	once on the obligation maturity date
Loan collateral	– joint mortgage up to PLN 33,000, on the real estate designated as: a) in the land and mortgage register No. RZ1Z/00076860/5 located in Rzeszów with the assignment of rights from the real estate insurance policy, b) in the land and mortgage register No. PL1P/00094893/6 located in Płock with the assignment of rights from the real estate insurance policy; – a blank promissory note issued by the Borrower together with a promissory note declaration, – registered pledge on inventories with a value not lower than PLN 5,000, with the assignment of rights under the registered pledge insurance policy, – Stoczek Natura Sp. z o.o. company surety, – declaration on submission to enforcement made under Article 777 of the Code of Civil Procedure, in the form of a notarial deed.

In April 2017, the Company and Bank Zachodni WBK SA concluded an amendment to the overdraft facility agreement, the purpose of which was to extend the repayment date of the liability by 31 May 2018 and to harmonize the provisions of loan agreements concluded between the Company and the Bank, including in the area of loan agreement collaterals.

– Investment loan in BZ WBK SA bank

Loan Terms and Conditions:	31 December 2017
Loan contractual value	PLN 13 849 k

Loan period	18.10.2013 – 30.04.2020
Interest rate	WIBOR 3M + bank's margin not differing from the standards applied by the bank
Loan balance	PLN 9 244 k
Repayment schedule	52 monthly installments starting from 31 December 2015 in the following amounts: 52 installments in the amount of PLN 0.17 million each and the last 32nd compensatory installment
Loan collateral	– joint mortgage up to PLN 33,000, on the real estate designated as: a) in the land and mortgage register No. RZ1Z/00076860/5 located in Rzeszów with the assignment of rights from the real estate insurance policy, b) in the land and mortgage register No. PL1P/00094893/6 located in Płock with the assignment of rights from the real estate insurance policy; – registered pledge on fixed assets (production lines in Rzeszów plant), – transfer of receivables under the insurance contract for the subject of the pledge, – a blank promissory note issued by the Borrower together with a promissory note declaration, – civil law surety of Stoczek Natura sp. z o.o. company, – declaration on submission to enforcement made under Article 777 of the Code of Civil Procedure, in the form of a notarial deed.

In April 2017, Makarony Polskie SA concluded with Bank BZ WBK an amendment to the investment loan agreement, the purpose of which was to unify the provisions of credit agreements concluded between the Company and the Bank, including in the area of loan agreement collaterals.

– Revolving loan in BZ WBK SA bank

Loan Terms and Conditions:	**31 December 2017**
Loan contractual value	PLN 3 000 k
Loan period	20.05.2015 – 31.05.2018
Interest rate	WIBOR 3M + bank's margin not differing from the standards applied by the bank
Loan balance	PLN 501 k
Repayment schedule	36 monthly installments starting from 30 June 2015 in the amount of PLN 0.08 million
Loan collateral	– joint mortgage up to PLN 33,000, on the real estate designated as: a) in the land and mortgage register No. RZ1Z/00076860/5 located in Rzeszów with the assignment of rights from the real estate insurance policy, b) in the land and mortgage register No. PL1P/00094893/6 located in Płock with the assignment of rights from the real estate insurance policy; – registered pledge on fixed assets (production lines in Rzeszów plant), – transfer of receivables under the insurance contract for the subject of the pledge,

	– a blank promissory note issued by the Borrower together with a promissory note declaration, – declaration on submission to enforcement made under Article 777 of the Code of Civil Procedure, in the form of a notarial deed.

In April 2017, Makarony Polskie SA concluded with Bank BZ WBK an amendment to the revolving loan agreement, the purpose of which was to unify the provisions of credit agreements concluded between the Company and the Bank, including in the area of loan agreement collaterals.

– EU investment loan in BZ WBK SA bank

Loan Terms and Conditions:	31 December 2017
Loan contractual value	PLN 12 121 k
Loan period	07.02.2017 - 28.02.2022
Interest rate	WIBOR 3M + bank's margin not differing from the standards applied by the bank
Loan balance	PLN 0 k
Repayment schedule	The loan will be repaid in 32 monthly installments starting from 31 July 2019, in the following amounts: 31 installments in the amount of PLN 0.15 million each and the last 32nd compensatory installment in the amount of PLN 7.65 million. If the loan is repaid from the co-financing received, the repayment schedule will change by changing the balloon installment. Installments of the loan repayment will be changed in such a relation to the installments specified in the original schedule, in which the amount of credit used remains towards the amount of the loan granted. After receiving the refund, the loan will be repaid in 32 monthly installments starting from 31 July 2019, in the following amounts: 31 installments in the amount of PLN 0.04 million each and the last 32nd compensatory installment in the amount of PLN 1.90 million.
Loan collateral	– joint mortgage up to PLN 18 200, on the real estate designated as: a) in the land and mortgage register No. RZ1Z/00076860/5 located in Rzeszów with the assignment of rights from the real estate insurance policy, b) in the land and mortgage register No. PL1P/00094893/6 located in Płock with the assignment of rights from the real estate insurance policy; – registered pledge on a semi-industrial line for trials and tests including accessories, – transfer of receivables under the insurance contract for the subject of the pledge, – a blank promissory note issued by the Borrower together with a promissory note declaration, – civil law surety of Stoczek Natura sp. z o.o. company, – declaration on submission to enforcement made under Article 777 of the Code of Civil Procedure, in the form of a notarial deed.

The loan, taken by the Company in February 2017, is intended to finance the investment project "Establishment of the Research and Development Center of the Pasta Industry at Makarony Polskie SA".

– EU investment loan in BZ WBK SA bank

Loan Terms and Conditions:	31 December 2017
Loan contractual value	PLN 8 000 k
Loan period	15.09.2017 - 31.01.2022
Interest rate	WIBOR 3M + bank's margin not differing from the standards applied by the bank
Loan balance	PLN 1 063 k
Repayment schedule	The loan will be repaid in 43 monthly installments starting from 31 July 2018, in the following amounts: 42 installments in the amount of PLN 0.09 million each and the last 43rd compensatory installment in the amount of PLN 4.13 million. If the loan is repaid from the co-financing received, the repayment schedule will change by changing the balloon installment. Installments of the loan repayment will be changed in such a relation to the installments specified in the original schedule, in which the amount of credit used remains towards the amount of the loan granted. After receiving the refund, the loan will be repaid in 43 monthly installments starting from 31 July 2018, in the following amounts: 42 installments in the amount of PLN 0.03 million each and the last 43rd compensatory installment in the amount of PLN 1.29 million.
Loan collateral	– joint mortgage up to PLN 12 000, on the real estate designated as: a) in the land and mortgage register No. RZ1Z/00076860/5 located in Rzeszów with the assignment of rights from the real estate insurance policy, b) in the land and mortgage register No. PL1P/00094893/6 located in Płock with the assignment of rights from the real estate insurance policy; – registered pledge on the line purchased under the grant project, – transfer of receivables under the insurance contract for the subject of the pledge, – a blank promissory note issued by the Borrower together with a promissory note declaration, – civil law surety of Stoczek Natura sp. z o.o. company, – assignment from the Grant Agreement

The loan was taken by the Company in September 2017 and is intended to finance the investment project “Implementation of the results of research and development in the field of functional food in Makarony Polskie SA”.

– Revolving loan in BZ WBK SA bank

Loan Terms and Conditions:	31 December 2017
Loan contractual value	PLN 1 800 k
Loan period	15.09.2017 - 31.10.2019
Interest rate	WIBOR 1M + bank's margin not differing from the standards applied by the bank

Loan balance	PLN 0 k
Repayment schedule	the repayment of the loan tranche shall be executed after 90 days
Loan collateral	– joint mortgage up to PLN 2,700, on the real estate designated as: a) in the land and mortgage register No. RZ1Z/00076860/5 located in Rzeszów with the assignment of rights from the real estate insurance policy, b) in the land and mortgage register No. PL1P/00094893/6 located in Płock with the assignment of rights from the real estate insurance policy; – registered pledge on the lines purchased under grant projects, – transfer of receivables under the insurance contract for the subject of the pledge, – a blank promissory note issued by the Borrower together with a promissory note declaration, – declaration on submission to enforcement made under Article 777 of the Code of Civil Procedure, in the form of a notarial deed.

The loan was taken by the Company in September 2017 and is intended to finance VAT for purchases made as part of investment projects.

– Overdraft at Bank Gospodarstwa Krajowego

Loan Terms and Conditions:	31 December 2017
Loan contractual value	PLN 6 000 k
Loan period	14.06.2013 – 30.06.2018
Interest rate	WIBOR 3M + bank's margin not differing from the standards applied by the bank
Loan balance	PLN 3 554 k
Repayment schedule	once on the obligation maturity date
Loan collateral	– joint mortgage up to PLN 16,500, on the real estate designated as: a) in the land and mortgage register No. CZ1C/00111425/8 located in Częstochowa with the assignment of rights from the real estate insurance policy, b) in the land and mortgage register No. LU1U/00022979/2 located in Stoczek Łukowski with the assignment of rights from the real estate insurance policy; – a blank promissory note issued by the Borrower together with a promissory note declaration, – authorization for a current account kept by BGK bank, – Stoczek Natura Sp. z o.o. company surety, – declaration of the Borrower and Guarantor on submission to enforcement made under Article 777 of the Code of Civil Procedure, in the form of a notarial deed (up to PLN 12 million).

In July 2017, the Company concluded an amendment to the overdraft agreement with Bank Gospodarstwa Krajowego, under which the payment deadline was extended until

30 June 2018 and the provisions regarding the Company's disclosure obligations towards the Bank were amended.

– Non-revolving overdraft facility in Bank Gospodarstwa Krajowego

Loan Terms and Conditions:	**31 December 2017**
Loan contractual value	PLN 5 000 k
Loan period	30.06.2015 – 29.06.2018
Interest rate	WIBOR 3M + bank's margin not differing from the standards applied by the bank
Loan balance	PLN 2 500 k
Repayment schedule	12 quarterly installments payable on the last day of each quarter starting from 30 September 2015 in the following amounts: 11 installments in the amount of PLN 0.25 million each and the last 12th compensatory installment in the amount of PLN 2.25 million payable on 29 June 2018.
Loan collateral	– joint mortgage up to PLN 16,500, on the real estate designated as: a) in the land and mortgage register No. CZ1C/00111425/8 located in Częstochowa with the assignment of rights from the real estate insurance policy, b) in the land and mortgage register No. LU1U/00022979/2 located in Stoczek Łukowski with the assignment of rights from the real estate insurance policy; – a blank promissory note issued by the Borrower together with a promissory note declaration, – authorization for a current account kept by BGK bank, – Stoczek Natura Sp. z o.o. company surety, – transfer of receivables under the insurance contract for the subject of the pledge, – declaration of the Borrower and Guarantor on submission to enforcement made under Article 777 of the Code of Civil Procedure, in the form of a notarial deed (up to PLN 10 million).

In July 2017, Makarony Polskie SA concluded an amendment to the non-revolving loan agreement with the Bank Gospodarstwa Krajowego, which amended the provisions regarding the Company's disclosure obligations towards the Bank.

– Factoring agreement (full) with BZ WBK Faktor Sp. z o.o.

Terms of the Agreement	**31 December 2017**
Contractual value	PLN 9 500 k
Duration	Agreement concluded for an indefinite period
Interest rate	WIBOR 1M + bank's margin not differing from the standards applied by the bank
Factoring balance	PLN 6 605 k
Contract Collateral	– irrevocable power of attorney to the account, – blank promissory note with a promissory note declaration.

As at 31 December 2017, Stoczek Natura Sp. z o.o. was a party to one loan agreement and its status is presented in the table below:

– Overdraft at Bank Gospodarstwa Krajowego

Loan Terms and Conditions:	31 December 2017
Loan contractual value	PLN 3 000 k
Loan period	16.11.2017 – 16.11.2018
Interest rate	WIBOR 3M + bank's margin not differing from the standards applied by the bank
Loan balance	PLN 2 983 k
Repayment schedule	once on the obligation maturity date
Loan collateral	– - a contractual mortgage up to PLN 4 500 thousand on real estate designated in the land and mortgage register No. LU1U/00022979/2 located in Stoczek Łukowski with the assignment of rights from the real estate insurance policy; – a blank promissory note issued by the Borrower together with a promissory note declaration, – authorization for a current account kept by BGK bank, – Makarony Polskie SA company surety – registered pledge on the set of machines and devices (located in the plant in Stoczek Łukowski), – declaration of the Borrower and Guarantor on submission to enforcement made under Article 777 of the Code of Civil Procedure, in the form of a notarial deed (up to PLN 6 million).

Information on granted loans

As at 31 December 2017, Makarony Polskie SA granted to the subsidiary - Stoczek Natura Sp. z o.o. a short-term loan in the amount of PLN 2.00 million with the repayment date falling on 31 December 2018 (one-off repayment to maturity date). The interest rate on the loan was determined based on market conditions.

Stoczek Natura Sp. z o.o. and MP Trade Sp. z o.o. companies did not grant loans during the 2017 financial year.

Information on granted and received guarantees

During the financial year 2017, the Group companies did not grant any guarantees, and Makarony Polskie SA and Stoczek Natura Sp. z o.o.

The list of guarantees in force at Makarony Polskie SA as at December 31, 2017 is illustrated in the table below:

Guarantor	Guarantee Amount in PLN k	Guarantee validity period	Subject of guarantee collateral	Collateral
STU Ergo Hestia S.A	272	until 02.03.2018	a guarantee securing the Company's obligations under the contract for the provision of grain products maintenance service under a contract with the Material Reserves Agency	blank promissory note with a promissory note declaration,
STU Ergo Hestia S.A	272	until 02.03.2018	a guarantee securing the Company's obligations under the contract for the provision of grain products maintenance service under a contract with the Material Reserves Agency	blank promissory note with a promissory note declaration,
BZ WBK SA	1 011	until 28.12.2021	a guarantee securing the Company's obligations under the contract for sale storing pasta under a contract with the Material Reserves Agency	joint mortgage up to PLN 1 517, on the real estate designated as: - in the land and mortgage register No. CZ1C/00111425/8 located in Częstochowa with the assignment of rights from the real estate insurance policy, - in the land and mortgage register No. LU1U/00022979/2 located in Stoczek Łukowski with the assignment of rights from the real estate insurance policy; - blank promissory note with a promissory note declaration
BZ WBK SA	249	until 22.01.2021	a guarantee securing the Company's obligations under the contract for maintenance of pasta under a contract with the Material Reserves Agency	joint mortgage up to PLN 373 thousand, on the real estate designated as: - in the land and mortgage register No. CZ1C/00111425/8 located in Częstochowa with the assignment of rights from the real estate insurance policy, - in the land and mortgage register No. LU1U/00022979/2 located in Stoczek Łukowski with the assignment of rights from the real estate insurance policy; - blank promissory note with a promissory note declaration

Until November 2017, Makarony Polskie SA used a guarantee in the amount of PLN 932,000, granted by Gothaer TU SA. The guarantee secured the proper performance of the contract with Agencja Rezerw Materiałowych [Material Reserves Agency] and due to the overall settlement of the secured contract, the guarantee was released.

Statement of guarantees applicable in Stoczek Natura Sp. z o.o. as at December 31, 2017 is illustrated in the table below:

Guarantor	Guarantee Amount in PLN k	Guarantee validity period	Subject of guarantee collateral	Collateral
Bank Gospodarstwa Krajowego	1 472	until 31.08.2018	a guarantee securing the Company's obligations under the contract for the supply of groceries under a contract with the Krajowy Ośrodek Wsparcia Rolnictwa [National Support Center for Agriculture]	- a mortgage up to PLN 2,207 thousand on real estate designated in the land and mortgage register No. LU1U/00022979/2 located in Stoczek Łukowski with the assignment of rights from the real estate insurance policy; - a blank promissory note issued by the Customer together with a promissory note declaration; - authorization for a current account kept by BGK bank; - Makarony Polskie SA company surety
Bank Gospodarstwa Krajowego	504	until 13.12.2021	a guarantee securing the Company's obligations under the contract for storing ready-made meals under a contract with the Material Reserves Agency	- a mortgage up to PLN 756 thousand on real estate designated in the land and mortgage register No. LU1U/00022979/2 located in Stoczek Łukowski with the assignment of rights from the real estate insurance policy; - a blank promissory note issued by the Customer together with a promissory note declaration; - authorization for a current account kept by BGK bank; - Makarony Polskie SA company surety
Bank Gospodarstwa Krajowego	1 549	until 15.12.2021	a guarantee securing the Company's obligations under the contract for storing ready-made meals under a contract with the Material Reserves Agency	- a mortgage up to PLN 2,323 thousand on real estate designated in the land and mortgage register No. LU1U/00022979/2 located in Stoczek Łukowski with the assignment of rights from the real estate insurance policy; - a blank promissory note issued by the Customer together with a promissory note declaration; - authorization for a current account kept by BGK bank; - Makarony Polskie SA company surety

Information on granted and received sureties

As at 31 December 2017, Makarony Polskie SA granted sureties to the Polish Chamber of Pasta:

Foreign liabilities	Creditor Name	Surety amount in PLN k	Expiration date	Balance of the secured liabilities in PLN k as at 31.12.2017
Revolving loan surety in the amount of PLN 2.35 million*	BPS	4 275	30.05.2021	498
Revolving loan surety in the amount of PLN 0.5 million*	BPS	750	30.05.2021	23

* The loans are intended to finance the 3-year information and promotion campaign "Makarony Europy” [Pasta of Europe] Activities will be conducted on the markets of China and Ukraine. The cost of the campaign is supported by the European Union and the Agricultural Market Agency. External co-financing secures the repayment of the loan.

Makarony Polskie SA company granted sureties to Stoczek Natura Sp. z o.o., and their balance as at 31 December 2017 is presented below:

Foreign liabilities	Creditor Name	Surety amount in PLN k	Expiration date	Balance of the secured liabilities in PLN k as at 31.12.2017
Overdraft facility surety in the amount of PLN 3.0 million	Bank BGK	3 000	16.05.2019	2 983
Bank guarantee in the amount of PLN 1.5 million	Bank BGK	1 472	28.02.2019	-
Bank guarantee in the amount of PLN 0.5 million	Bank BGK	504	13.06.2022	-
Bank guarantee in the amount of PLN 1.5 million	Bank BGK	1 549	15.06.2022	-

Stoczek Natura Sp. z o.o. company granted sureties to the parent company Makarony Polskie SA, and their balance as at 31 December 2017 is presented below:

Foreign liabilities	Creditor Name	Surety amount in PLN k	Expiration date	Balance of the secured liabilities in PLN k as at 31.12.2017
Surety of overdraft facility in the amount of PLN 5.0 million	BZ WBK	7 500	31.05.2019	615
Investment loan surety in the amount of PLN 13.8 million	BZ WBK	30 000	30.09.2021	9 244
Non-revolving overdraft surety of PLN 5.0 million	Bank BGK	5 000	29.12.2018	2 500
Overdraft facility surety in the amount of PLN 6.0 million*	Bank BGK	6 000	31.12.2018	3 554
EU investment loan surety in the amount of PLN 8.0 million	BZ WBK	8 000	valid until the grant is settled	1 063
EU investment loan surety in the amount of PLN 12.1 million	BZ WBK	12 121	valid until the grant is settled	0

* During the financial year, Stoczek Natura Sp. z o.o. concluded with BGK bank an amendment to the overdraft facility of Makarony Polskie in BGK bank. Pursuant to the concluded amendment, the validity period of the liability was extended until 31 December 2018.

Makrony Polskie SA and Stoczek Natura Sp. z o.o. companies received remuneration for granting sureties.

In the financial year 2017, MP Trade Sp. z o.o. company did not grant any sureties.

Material transactions concluded by the Company and subsidiaries with associates under the terms other than market terms

In 2017, the companies of the Makarony Polskie Group did not conclude any significant transactions between themselves on non-market terms.

Within the Makarony Polskie Group, individual companies conclude transactions of purchase and sale of products, goods and services with each other. There are contracts between the companies specifying the terms of cooperation, adapted to the Group's organizational structure. All transactions are performed under the market terms and conditions.

Off-balance sheet items

(in PLN k)	31 December 2017	31 December 2016
1. Contingent assets	**5 329**	**1 477**
Received guarantees and sureties	5 329	1 477
- collateral on property	0	0
- promissory notes	0	0
2. Contingent liabilities	**171 729**	**118 771**
for provided guarantees and warranties	5 025	5 025
- collateral on assets	118 725	80 750
- of promissory note obligations	47 979	32 996
Total off-balance items	**-166 400**	**-117 294**

The values of guarantees, collaterals, promissory notes, mortgages and other off-balance sheet liabilities received are presented at maximum values in the table above. The statement does not include sureties between entities within the Group due to the lack of inflows on the balance of off-balance sheet items.

Material proceedings pending before a court, in arbitration proceedings or before a public administration authority

In the reporting period presented before, no significant proceedings regarding liabilities and receivables of the Company or a subsidiary were pending before a court, a competent arbitration authority or a public administration body.

Events after the balance sheet date that could significantly affect the financial results

After the balance sheet date, there were no events that could significantly affect the financial results.

Summary information about Makarony Polskie SA company

Results overview

Selected financial data of Makarony Polskie SA company as at December 31, 2017, expressed in thousand zlotys, are as follows:

(in PLN k)	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Net revenues from sales	124 186	112 385
Revenues from sale of other products and services	101 282	95 150
Revenues from sale of goods and materials	22 904	17 235
Own cost	98 111	87 897
Production costs of products and services sold	76 327	70 987
Value of goods and materials sold	21 784	16 910
Gross profit (loss) on sales	26 075	24 488
Sales costs	15 348	13 808
General administrative costs	4 258	3 711
Other revenues	812	815
Other costs	364	657
Profit (loss) from continued operation	6 917	7 127
Financial incomes	593	382
Financial costs	1 036	1 238
Gross profit	6 474	6 271
Income tax - current part	1 233	914
Income tax - deferred part	-8	391
Net profit (loss) from continued operations	5 249	4 966
EBITDA (EBIT + depreciation)	10 561	10 452
Number of shares (in units)	9 250 071	9 250 071
Weighted average number of shares (in units) in the period of a given financial year	9 250 071	9 250 071
Profit/loss per ordinary share (in PLN)*	0.57	0.54
Book value per one share (in PLN) **	7.80	7.48

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

** Book value per ordinary share = equity/number of shares for a given balance sheet date

Revenues in 2017 amounted to PLN 124.2 million and were higher by approx. 10.5% compared to 2016. The company recorded the largest increase in sales in the segment of pasta products and in the segment of meat and vegetable preserves. In the pasta segment, an increase of approx. PLN 6.1 million (+6.5% y/y) was noted, which was the result of obtaining new B2B and institutions contracts, as well as the development of the product offer for the private label channel. The increase in the segment of processed vegetable and meat amounted to PLN 5.5 million y/y (+ 68.6% y/y) and resulted from the implementation of effective promotional campaigns on products under the Stoczek brand and the acquisition of new private label contracts. The cost of products, services, goods and materials sold in 2017 amounted to approx. PLN 98.1 million (an increase of approx. 10.2%).

The Makarony Polskie SA company closed the year 2017 with a gross profit from sales at the level of approx. PLN 26.1 million (increase by PLN 1.6 million compared to 2016), with gross profit margin from sales at the level of approx. 21.0%.

The increase in sales costs by approx. 11.2% resulted mainly from the increase in revenues, which resulted in an increase in the costs of transport and contract servicing as well as from expenses incurred for marketing.

In 2017, the operating result (EBIT) amounted to PLN 6.9 million compared to approx. PLN 7.1 million in 2016, which means an decrease by approx. 2.9% (+ PLN -0.2 million). Operating activity profitability amounted to 5.6%.

In 2017, the result on financial activities (financial revenues minus finance costs) was improved by approx. PLN 0.5 million compared to 2016 (approx. PLN -0.4 million in 2017 vs. approx. PLN -0.9 million in 2016).

In 2017 net profit amounted to approx. PLN 5.2 million in relation to approx. PLN 5.0 million of 2016, which means an increase by approx. 5.7%. Profitability of sales calculated at the level of net profit amounted to approx. 4.2%.

In 2017, the Makrony Polskie Group generated EBITDA at the level of approx. PLN 10.6 million. Profitability of EBITDA amounted to approx. 8.5%.

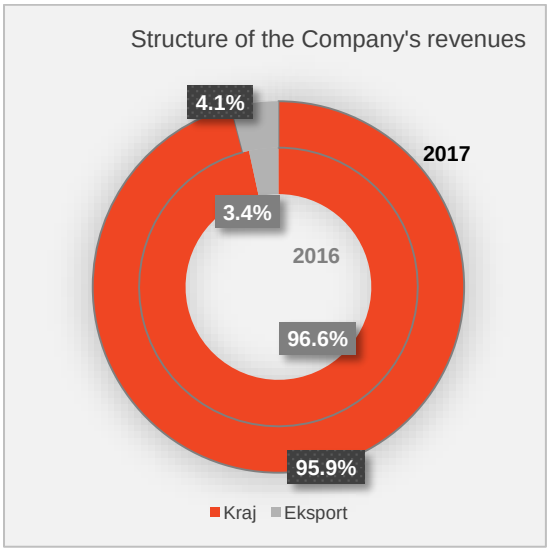
Separate statement of other comprehensive net income - application of hedge accounting

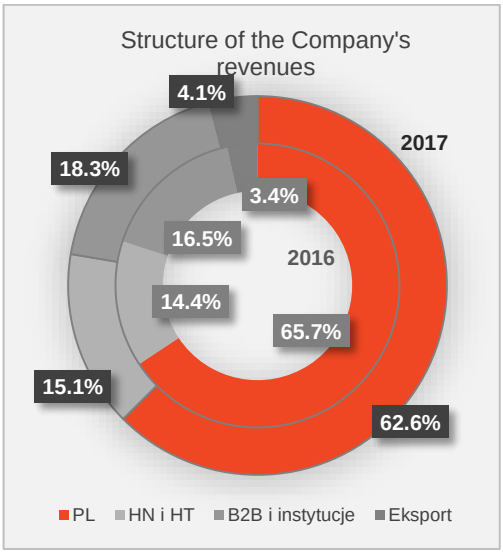
FOR THE PERIOD	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Total net income	5 249	4 966
Profit/loss on application of hedge accounting	0	66
Total net comprehensive income	5 429	5 032

Market Environment

The sales markets of the Makarony Polskie SA can be divided into the domestic market (including private label, traditional trade, modern trade and B2B and institutions) and exports (including sales through domestic intermediaries). The Company achieved the following sales revenues in 2017:

in PLN k	2017	2016	y/y
Revenues from sales	124 186	112 385	+10.5%





Private label

The largest share in the Company's revenues (62.6%) had a private label channel (PL) offering products under own brands of domestic and foreign chains. (including sales to a Lidl contractor operating within one Group in Europe):

PL (in PLN k)	2017	2016	y/y
Revenues from sales	77 685	73 799	+5.3%

In the private label sector, the Makarony Polskie SA company is a leading supplier of rolled and pressed pasta and a major producer of meat and vegetable, vegetable and fruit preserves on the domestic market.

Within the B2B channel, the Group develops mainly sales of pastas and semi-finished products for bakery and confectionery, as well as service activities consisting in filling jars and cans for customers as a subcontractor.

Sales in this channel increased by 5.3% in 2017 vs. year 2016. The increase in sales revenues was the result of obtaining new contracts in the field of ready meals and jams and conducting many in-out actions for new private label products.

The main customers in this channel are such networks as: Jeronimo Dystrybucja Polska, Lidl, Netto, Auchan, Aldi, Żabka, Intermarche, Stokrotka, GK Specjał, Lewiatan. In 2017, two customers exceeded the threshold of 10% share in unit revenue from sales (including brand products and private label). This is the Biedronka network with a share of approx. 30,8%, and the Lidl Group with a share of approx. 10.7%. The company is not in any formal way associated with the operators of those networks, and the cooperation occurs on a partnership basis and is beneficial for Makarony Polskie SA.

Modern trade and traditional trade

The next significant revenue for the Company of 15.1%, achieved on the domestic market, is the sale of the Company's brands (brands: Makarony Polskie, Sorenti, Stoczek, Tenczynek and Męska Rzecz) in modern trade (MT) and traditional trade (TT) channels:

MT&TT (in PLN k)	2017	2016	y/y
Revenues from sales	18 756	16 162	+16.0%

The increase in sales value was mainly due to:

- introduction of new products from the category of ready-made meals, e.g.: soups in jars and canned dishes in the Stoczek Męska Rzecz brand;
- introduction of new products - buckwheat, spelled and rye healthy pasta to the offer;
- together with the Company's customers, recognition of the end-user's needs and adequate preparation of the offer and sale campaigns.

In 2018, the Company plans to develop cooperation and acquire new, previously unsupported foreign, domestic and local networks. In addition, in cooperation with companies offering External Sales Force, the company aims to improve and service the number of current customers and acquire new customers.

B2B and Institutions

In 2017, B2B and Institutions accounted for approx. 18.3% in total revenues of the Company:

B2B and Institutions (in PLN k)	2017	2016	y/y
Revenues from sales	22 665	18 551	+22.2%

The company participates in the "Makarony Europy" [Pasta of Europe] program, educating Ukrainian and Chinese customers about the health properties of pasta, its diversity and high-quality products from the EU, including Poland.

Sales in the B2B distribution and institutions channels in 2017 amounted to PLN 22.7 million and were higher by approx. PLN 4.1 million (i.e... 22.2%) compared to 2016.

Within the B2B channel, the Group sells pasta and develops semi-finished products production (sweet fillings, salty fillings) for the baking and confectionery industries.

The increase in sales results from the introduction of new products for sale with an innovative composition and packaging, which allowed to acquire new contractors as well as increase sales to existing customers and obtain and implement a contract for the Material Reserves Agency.

Export

Exports in the Company's total revenues for 2017 accounted for 4.1%:

Export (in PLN k)	2017	2016	y/y
Revenues from sales	5 080	3 874	+31.1%

The company's export sales in 2017 amounted to approx. PLN 5.1 million (conducted by its own sales team and intermediaries). It was a result by 31.1% higher than the one achieved in 2016. The Group is currently implementing a long-term strategy to acquire new markets. The direct relations established with the final customers positively translate into the level of the realized margin.

In 2017, Makarony Polskie was active mainly on European markets (Ukraine, Portugal, Norway, Slovakia, Germany, France) and in Africa.

The company participates in the "Makarony Europy" [Pasta of Europe] program, educating Ukrainian and Chinese customers about the health properties of pasta, its diversity and high-quality products from the EU, including Poland.

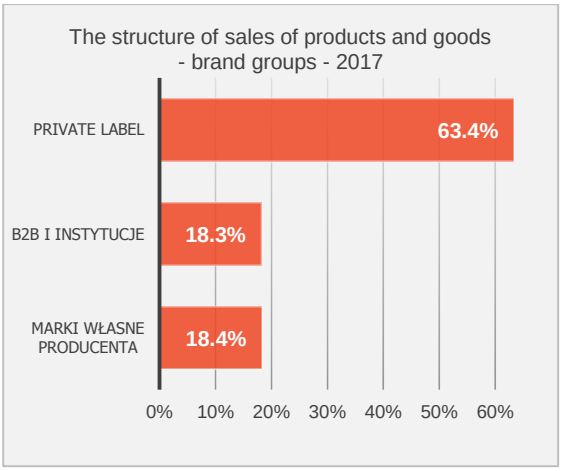
In 2017-2018, the Group shall focus its activities on the markets of North Africa and Ukraine. To achieve the above objectives, the Group acquired partners on local markets, who support the Group in the further development of sales in those markets.

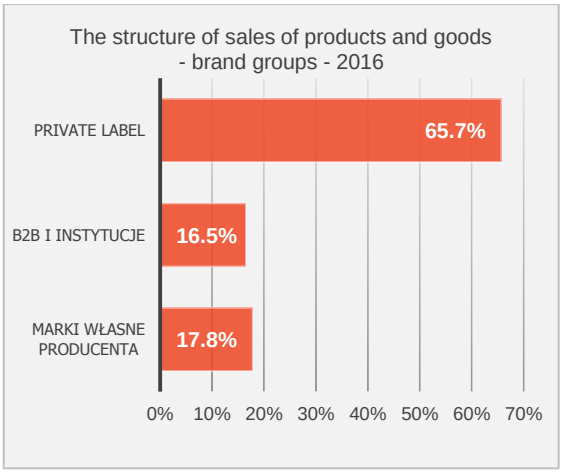


Operating segments

Revenues from sales divided into own and foreign brands

The structure of sales of products and goods divided into groups of brands is illustrated by the following charts:





In 2017, the Company recorded an increase in sales of PLN 11.8 million compared to 2016, which occurred in all groups: own brands of the producer increase by 14.0%, private label increase by 6.6%, and B2B and institutions increase by 22 2%.

Sales revenues broken down into operating segments

(in PLN k)	For the period from 01/01/2017 to 31/12/2017	For the period from 01/01/2016 to 31/12/2016
Pasta	99 538	93 462
Meat and vegetable preserves	13 497	8 006
Vegetable preserves and stuffing	542	1 005
Fruit preserves	4 068	3 466
Other	6 541	6 446
Total	**124 186**	**112 385**

In 2017, the sales revenues of Makarony Polskie SA amounted to PLN 124.2 million and were by approx. PLN 11.8 million higher than in the corresponding period of 2016.

The sales value in the pasta category was higher by approx. PLN 6.1 million, i.e., approx. 6.5% compared to 2016. The increase was the result of a series of in-out actions for innovative pro-health products.

Sales of meat and vegetable preserves increased in the analyzed period by approx. PLN 5.5 million towards the amount of approx. PLN 13.5 million. The increase of approx. 68.6% y/y was the result of expanding the range of products offered in cans in the Stoczek and Męska Rzecz brands, obtaining several contracts for the production of products under network brands, as well as a well-conducted promotional campaign for ready-made dishes in jars. In subsequent periods, further growth is planned in this category, including by introducing market novelties.

Sales in the categories of vegetable and fruit preserves remain stable. In the case of fruit preserves, the Group recorded a slight increase at the level of PLN 0.6 million y/y, (acquisition of new contracts under network brands), while in the vegetable preserves category a slight decrease by PLN 0.5 million y/y.

Structure of assets and liabilities

The Makarony Polskie SA company's total assets amounted to PLN 122.9 million as at 31 December 2017 compared to PLN 120.3 million as at 31 December 2016.

Structure of assets and liabilities

ASSETS	01.01.2017-31.12.2017	01.01.2016-31.12.2016
FIXED ASSETS	**86 688**	**87 038**
Tangible fixed assets	51 763	51 982
Investment real estate	642	642
Goodwill	0	0
Other intangible assets	4 970	5 007
Long-term financial assets	29 080	29 080
Assets for deferred income tax	0	0
Other long-term assets	233	327
CURRENT ASSETS	**36 195**	**33 217**
Inventories	10 359	9 654
Short-term receivables	23 121	20 763
Income tax receivables	0	8
Borrowings granted	2 013	2 019
Cash and cash equivalents	415	453

Other short-term assets	287	320
FIXED ASSETS INTENDED FOR SALE	0	0
TOTAL ASSETS	**122 883**	**120 255**

LIABILITIES	**01.01.2017-31.12.2017**	**01.01.2016-31.12.2016**
EQUITY	**72 160**	**69 223**
Share capital	27 750	27 750
Other capital	39 161	36 507
Retained gains/losses (profit/loss from previous years	0	0
Net profit / loss	5 249	4 966
LONG-TERM LIABILITIES	**20 229**	**23 002**
Provision for deferred income tax	3 383	3 391
Long-term bank loans and borrowings	8 221	11 117
Provision for retirement and similar (long-term) benefits	155	107
Deferred long-term income	6 538	7 053
Long-term financial liabilities	1 932	1 334
SHORT-TERM LIABILITIES	**30 494**	**28 030**
Short-term bank loans and borrowings	9 284	8 455
Short-term financial liabilities	785	687
Other short-term liabilities	19 730	18 303
Commitments for income tax	65	0
Deferred short-term income	553	548
Provision for retirement and similar (short-term) benefits	77	37
Other short-term provisions	0	0
TOTAL LIABILITIES	**50 723**	**51 032**
TOTAL LIABILITIES	**122 883**	**120 255**

As at 31 December 2017, the value of property, plant and equipment amounted to approx. PLN 86.7 million (70.5% of total assets) compared to PLN 87.0 million at the end of 2016 (down by 0.4% vs. the end of 2016). Changes in the value of fixed assets are net of depreciation and the implemented investments. The largest investment conducted in 2017 was the expansion of the production plant in Rzeszów by a new production and warehouse space.

As at 31 December 2017, the current assets amounted to approx. PLN 36.2 million and increased by approx. 9,0% compared to the end of 2016 (approx. PLN 33.2 million). The biggest impact on the change in current assets was the increase in receivables by approx.

PLN 2.4 million, i.e., by approx. 11.4% compared to the end of 2016 (mainly as a result of the takeover of traditional trade services from MP Trade Sp. z o.o.) and inventories by approx. PLN 0.7 million, i.e., by approx. 7.3% compared to the end of 2016.

Equity as at the balance sheet date amounted to approx. PLN 72.2 million, representing approx. 58.7% of the value of liabilities and increased by 4.2% compared to PLN 69.2 million at the end of 2016. The change was caused by the achieved profit for 2017 in the amount of PLN 5.2 million and the allocation of a part of the net profit for 2016 for the dividend in the amount of PLN 2.3 million.

Long-term liabilities amounted to PLN 20.2 million and were decreased by 12.1% (from PLN 23.0 million) as compared to the end of 2016, mainly due to the repayment of some long-term loans and reclassification of some long-term loans into short-term liabilities in connection with maturity of installments in the period below one year from the balance sheet date.

Short-term liabilities as at 31 December 2017 amounted to PLN 30.5 million and increased compared to the end of 2016 amounting to PLN 28.0 million. This was mainly due to the increase in the value of other liabilities (an increase of approx. PLN 1.4 million, i.e... 7.8%) as well as bank loans and borrowings (increase by approx. PLN 0.8 million, i.e... 9.8%).

Ratio Analysis

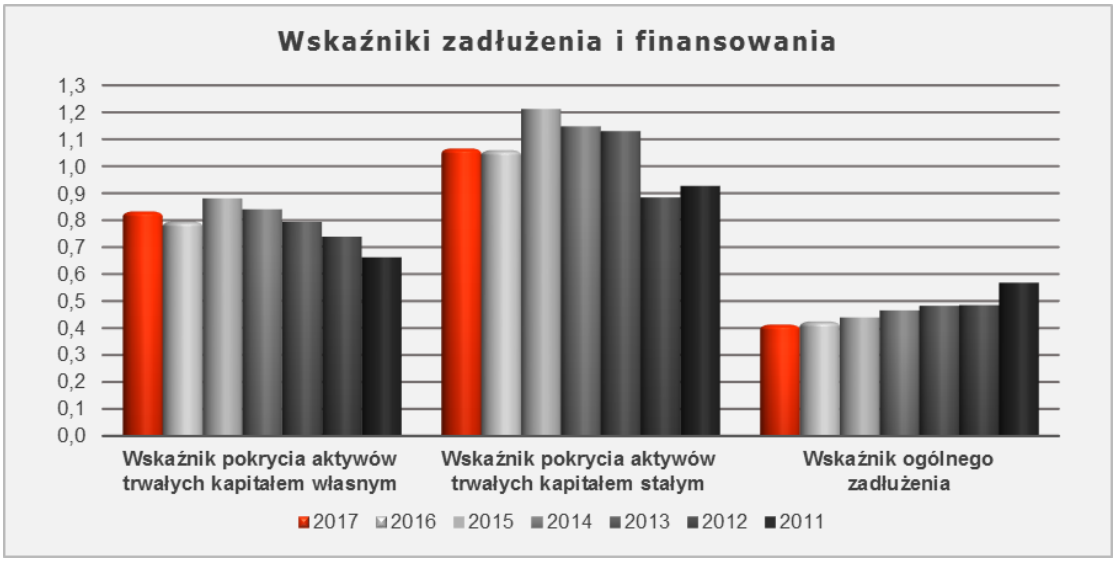
The ratio analysis in terms of profitability, liquidity and debt assessment indicates the good financial standing of the Makarony Polskie company in 2017 in terms of profitability, ability to settle liabilities and security of financing of current and investment operations.

The level of profitability and cash flows generated by the company allowed, among others, for: paying out dividends to shareholders in the amount of PLN 2.3 million in 2017, conducting a number of investments, purchasing a part of the raw material at an attractive price without a trade loan, and maintaining a low level of debt.

Debt and financing ratios

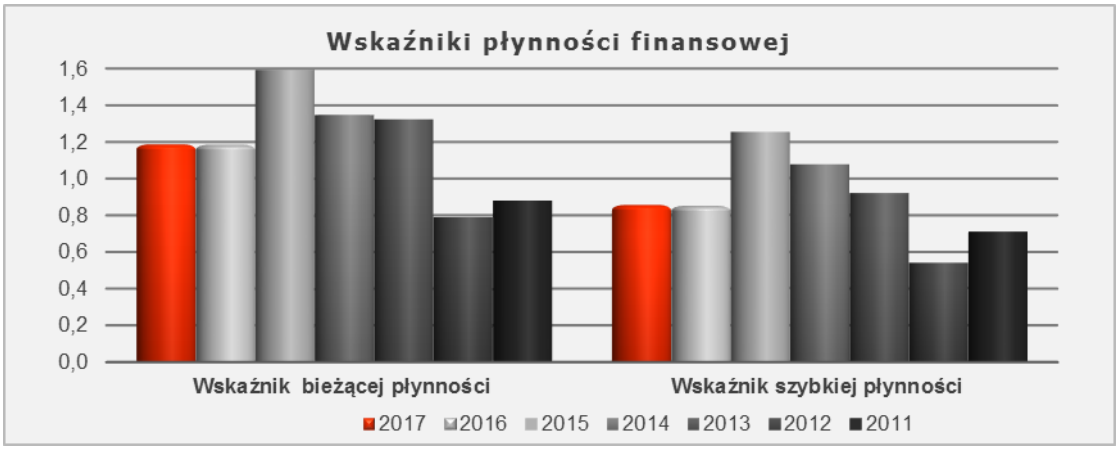
	2017	2016	2015	2014	2013	2012	2011
Fixed asset coverage with equity ratio *(Equity/Fixed assets)*	0.83	0.80	0.88	0.84	0.79	0.74	0.66
Fixed asset coverage with fixed capital ratio *((Equity + long-term liabilities)/Fixed assets)*	1.07	1.06	1.21	1.15	1.13	0.88	0.93

Total debt ratio *(Total liabilities/Total assets)*	0.41	0.42	0.44	0.47	0.48	0.48	0.57



Liquidity ratios

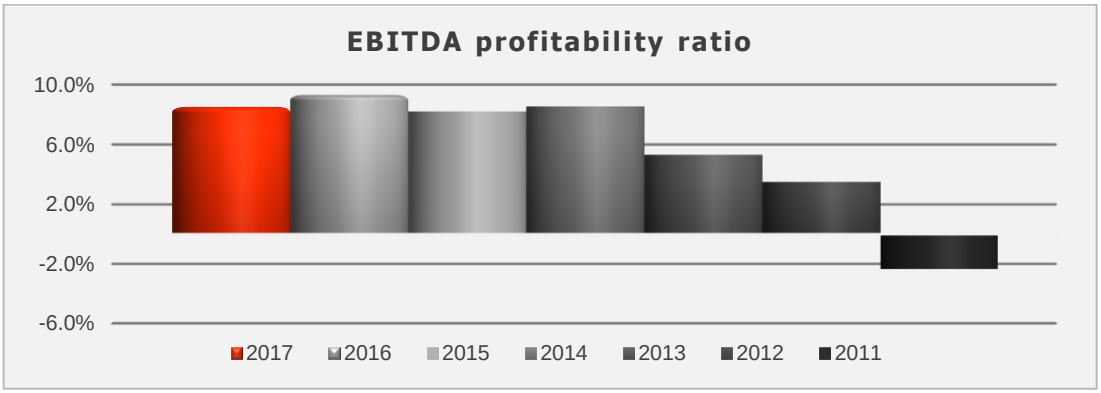
	2017	2016	2015	2014	2013	2012	2011
Current liquidity ratio *(Current assets/Short-term liabilities)*	1.19	1.19	1.59	1.35	1.32	0.79	0.88
Fast liquidity ratio *((Current assets - Inventories - Short-term prepayments)/Short-term liabilities)*	0.86	0.85	1.25	1.08	0.92	0.54	0.71

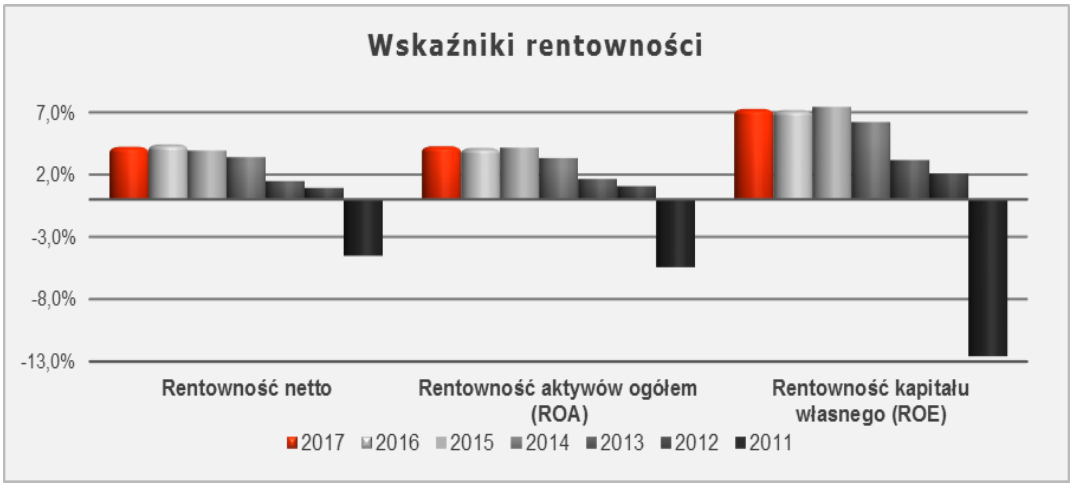


Profitability ratios

	2017	2016	2015	2014	2013	2012	2011
Return on sales (Gross profit (loss) from sales/Net sales revenues)	21.0%	21.8%	21.0%	21.8%	20.3%	17.2%	11.3%

Operating activity profitability (Profit (loss) from continued operations/Net revenues from sales)	5.6%	6.3%	5.8%	5.9%	2.9%	0.8%	-5.4%
Profitability of economic activity (Gross profit (loss)/Net revenues from sales)	5.2%	5.6%	5.1%	4.7%	1.5%	0.1%	-4,4%
Net profitability (Net profit (loss)/Net revenues from sales)	4.2%	4.4%	3.9%	3.4%	1.5%	0.9%	-4,5%
Return on total assets (ROA) (Net profit (loss)/Total assets)	4.3%	4.1%	4.2%	3.3%	1.6%	1.1%	-5.4%
Return on equity (ROE) (Net profit (loss)/Equity)	7.3%	7.2%	7.4%	6.2%	3.2%	2.1%	-12.6%
EBITDA profitability (EBITDA/Net revenues from sales)	8.5%	9.3%	8.2%	8.5%	5.3%	3.5%	-2.3%





Off-balance sheet items

(in PLN k)	31 December 2017	31 December 2016
1. Contingent assets	**72 426**	**54 977**
Received guarantees and sureties	70 426	49 977
- collateral on property	0	0
- promissory notes	2 000	5 000
2. Contingent liabilities	**153 014**	**118 654**
for provided guarantees and warranties	11 550	5 025
- collateral on assets	105 938	80 750
- of promissory note obligations	35 526	32 879
Total off-balance items	**-80 588**	**-63 677**

The values of guarantees, collaterals, promissory notes, mortgages and other off-balance sheet liabilities received are presented at maximum values in the table above.

In 2017, the Company adopted a set of corporate governance rules "Good Practices of WSE Listed Companies 2016".

Corporate Governance

Declaration on the application of corporate governance principles

In 2017, the Company applied the principles of "Good Practices of WSE Listed Companies" (DPSN). The document containing the set of rules is available on the website of the Warsaw Stock Exchange http://corp-gov.gpw.pl.

Makarony Polskie SA provided the following explanations regarding the manner of applying the detailed rules contained in the "Best Practices of Companies Listed on the Warsaw Stock Exchange 2016" package:

Information policy and communication with investors

- *I.Z.1.16. The company conducts a corporate website and publishes, in a legible form and in a separate place, in addition to information required by law, information on the planned broadcast of the general assembly - no later than 7 days before the date of the general assembly,*

  The Company's comment regarding the method of applying the above rules: The Company does not record the coures of the general assembly. If the Company decides to conduct the broadcast of the general assembly, relevant information will be posted on the Company's website no later than 7 days before the date of the general assembly.
- *I.Z.1.20. The company conducts a corporate website and publishes, in a legible form and in a separate place, in addition to information required by law, record of the course of the general assembly, in the audio or video forms.*

  The Company does not apply the above rule. The Company does not record the coures of the general assembly in the audio or video forms.
- *I.Z.2. A company whose shares are classified to the WIG20 or mWIG40 stock indices ensures that its website is also available in English, at least to the extent indicated in rule I.Z.1. This principle should also be applied by companies not listed above, if it is supported by the structure of their shareholders or the nature and scope of their business.*

  The Company's comment regarding the method of applying the above rules: In 2016, the rule did not apply. The Company's shares are not classified into WIG20 and mWIG40 stock exchange indices.

Considering the changes in shareholding that occurred in the fourth quarter, 2016 the Company gradually increases the scope of content available on the website in English.

Management Board and Supervisory Board

- *II.Z.8. The chairman of the audit committee meets the independence criteria indicated in rule II.Z.4.*

  The Company's comment of 2016 regarding the method of applying the above rules: At present, there is no separate Audit Committee in the Company's Supervisory Board, the Supervisory Board performs those duties collectively. If the Audit Committee is separated in the Supervisory Board, the Company shall endeavor to ensure that the chairman of the Audit Committee meets the independence criteria specified in rule II.Z.4.

  After the appointment of the Audit Committee in the Supervisory Board of the Company on 18 October 2017, the chairman of this Committee meets the independence criteria.

Internal systems and functions

- *III.Z.3. In relation to the person managing the function of internal audit and other persons responsible for the implementation of its tasks, the rules of independence set out in universally recognized international standards for the professional practice of internal audit apply.*

  The Company does not apply the above rule. The person managing the internal audit directly reports to the management board, however the criterion of organizational independence defined in universally recognized international standards of internal audit professional practice is not met, stating that the internal audit manager functionally reports to the management board (the board in particular does not approve the decision on appointing and dismissing the manager of the internal audit and does not approve the remuneration of the person managing the internal audit)

General assembly and relations with shareholders

- *IV.Z.2. If it is justified due to the company's shareholder structure, the company provides a universally available broadcast of the general assembly in real time.*

  The rule does not apply: The Management Board of Makarony Polskie SA assessed that, at the moment, the incurrence of such costs is not justified in the shareholding structure of the Company. Moreover, the Articles of Association of Makarony Polskie SA do not provide for the possibility of participation in the general assembly by means of electronic communication in accordance with Article 406^5 of the Commercial Companies Code.

- *IV.Z.3. Representatives of the media are allowed to attend general assemblies.*
  The Company does not apply the above rule. The Management Board of Makarony Polskie SA assessed that, at the moment, the presence of media representatives at general assemblies is not justified by the shareholding structure of the Company.

Conflict of interests and transactions with associates

- *V.Z.6. The company defines in its internal regulations the criteria and circumstances in which a conflict of interests may arise in the company, as well as the rules of conduct in the event of a conflict of interest or the possibility of its occurrence. The company's internal regulations include, inter alia, ways of preventing, identifying and resolving conflicts of interest, as well as the rules of excluding a member of the management board or supervisory board from participation in considering a matter covered or threatened by a conflict of interest.*
  The Company does not apply the above rule. At the moment, the Company does not have internal regulations that would meet all the requirements of this principle. The Company will make every effort to ensure that appropriate internal regulations, which meet the requirements of the rule, are implemented.

Internal control and risk management system in the process of preparing the financial statements

Makarony Polskie SA as the parent company prepares separate and consolidated financial statements based on generally applicable laws and internal regulations. The account books are kept based on the rules adopted and approved for application by the Company's Management Board, i.e... Accounting policy and Chart of Accounts in accordance with IFRS, which are updated as necessary. Subsidiaries are obliged to implement and use internal documents consistent with the documents of the parent company. The accounting books of the Group companies are kept in the ERP class system, and access to IT resources is limited by the authorizations for a specific group of employees.

The company constantly monitors significant legal, tax, economic, operational, etc. risks that determine the general directions of the Makarony Polskie Group's operations.

The Company's Management Board is responsible for the internal control system and its effectiveness in the process of preparing financial statements and periodic reports prepared and published in accordance with the principles of the Regulation of February 19th, 2009 on current and periodic information submitted by issuers of securities.

The main assumption of an developed system of internal control of the Company over financial reporting is to ensure the adequacy and accuracy of the financial information included in financial statements and periodic reports.

The Accounting Office is responsible for the preparation of financial statements and periodical financial reporting, the Financial Office is responsible for the current management reporting of the Company and the Group. When presenting financial data in financial statements, periodic financial statements and other reports presented to investors, the Company applies consistent accounting principles.

The financial data underlying the financial statements and interim reports comes from the Company's monthly financial and operational reporting. After the accounting closure of each calendar month, the Financial Office together with the Management Board analyzes the Company's financial results compared to the assumptions and taking into account business segments. Identified errors are corrected on an ongoing basis in the Company's books in accordance with the adopted accounting policy.

The preparation of financial statements and interim reports begins after the Management Board verifies and accepts the results of the ended month/period. Periodic reports of the Company are prepared by financial and accounting services under the supervision of the Chief Accountant (based on financial data contained in periodic financial reporting) and are subject to verification by the Director of the Financial Office and the Management Board of the Company.

The annual separate and consolidated financial statements of the Group companies are subject to audit by an independent certified auditor. The semi-annual separate and consolidated financial statements of the Group companies are subject to review by an independent certified auditor.

Since 18 October 2017, the Audit Committee has operated in the Company, it was appointed from among the members of the Supervisory Board. The Audit Committee monitors the financial reporting processes in the Company, the effectiveness of internal control systems and risk and internal audit management systems (including financial reporting) and the performance of auditing activities, in particular the audit firm's audit of the Company's financial statements, including all applications and arrangements of the Audit Oversight Commission resulting from the audit conducted in a given audit firm.

Members of the Audit Committee are in direct contact with the auditor auditing the financial statements of Makarony Polskie SA, inform the Supervisory Board about the results of auditing the Company's financial statements and provide explanations on how this audit contributed to the reliability of financial reporting in the Company, and what was the role of the Audit Committee in the audit process.

In the final stage, after obtaining the opinion of the certified auditor, the final assessment of the financial statements is also performed by the Supervisory Board of Makarony Polskie SA.

Information on the rules for changing the entity authorized to audit financial statements

In accordance with §19 item c) the Articles of Association of Makarony Polskie SA, the appointment of an auditor to audit the Company's financial statements is within the competence of the Supervisory Board. The rules regarding the change of the entity authorized to audit the financial statements have been specified in §4 of the Regulations of the Supervisory Board of the Company.

The entity that is to perform the function of an auditor in the Company is selected in such a way as to ensure independence in the implementation of the tasks entrusted thereto. The change of the statutory auditor is conducted at least every five years.

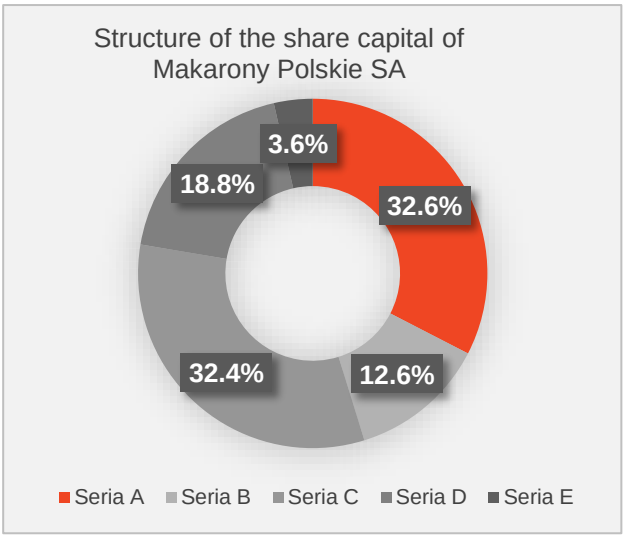
Share capital

Share capital of Makarony Polskie SA:

- amount of share capital PLN 27 750 213,
- total number of shares 9 250 071 shares,
- total number of votes at the General Assembly 9 250 071 votes.

Structure of the Company's share capital:

- 3 013 250 ordinary A series bearer shares,
- 1 169 750 ordinary B series bearer shares,
- 3 000 000 ordinary C series bearer shares,
- 1 169 750 ordinary D series bearer shares,
- 331 250 ordinary E series bearer shares,



The Company's shares are ordinary bearer shares listed on the regulated market operated by Giełda Papierów Wartościowych w Warszawie SA. The company has not issued any securities that grant special controlling rights to any of its shareholders,

There are no restrictions on the exercise of voting rights in the Company. There are also no restrictions on the transfer of ownership of securities issued by the Company.

Shares held by main shareholders (over 5% of share capital)

Shareholders possessing directly or trough subsidiaries at least 5% of the general number of votes at the General Assembly of Shareholders, as at the day of preparing the Statement (according to the information available):

Shareholder	Shares in share capital		Votes at the General Assembly	
	number	share %	number	share %
Praska Giełda Spożywcza SA Group, including:	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. including:	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 including:	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 shareholding during 2017

During 2017, the Company received the following notifications regarding changes in share ownership by shareholders holding, directly or indirectly through subsidiaries, at least 5% of votes in the total number of votes at the General Assembly of the Company (hereinafter: AGM):

- Praska Giełda Spożywcza SA with its registered office in Ząbki (hereinafter: PGS):
  - on 20 February 2017, it informed about the transaction of the sale of shares concluded through the brokerage office on 17 February 2017, outside the regulated market, as a result of which it sold 350,000 shares of the Company entitling to the same number of votes at the AGM,
  - on 24 March 2017, it informed that pursuant to two transactions of sale of shares on the regulated market on 22 March 2017 and on 23 March 2017, it sold a shareholding of 400,000 shares in the Company entitling to the same number of votes at the AGM,
  - on 30 March 2017, it informed that pursuant to three transactions of purchase of shares on the regulated market on 28 March 2017 it purchased a shareholding of 800,000 shares in the Company entitling to the same number of votes at the AGM.

  Before the above PGS held directly and indirectly with its subsidiaries 2,121,594 shares of the Company, constituting 22.93% of share in the share capital, entitling to 2 121 594 votes at the General Assembly (22.93% share in the total number of votes), of which PGS held: directly 2,000,000 shares constituting 21.62% of the Company's share capital, entitling to 2,000,000 votes at the General Assembly (21.62% share in the total number of votes); indirectly 121 594 shares representing 1.31% share in the Company's share capital, entitling to 121,594 votes at the General Assembly (1.31% share in the total number of votes).

  After conducting the above transaction PGS holds directly and indirectly 2,171,594 shares of the Company, representing a 23.47% interest in the share capital, entitling to 2 171 594 votes at the General Assembly (23.47% share in the total number of votes), of which PGS holds: 2,050,000 shares representing 22.16% of the Company's share capital, entitling to 2,050,000 votes at the General Meeting of Shareholders (22.16% of the total number of votes); indirectly 121 594 shares representing 1.31%

share in the Company's share capital, entitling to 121,594 votes at the General Meeting of Shareholders (1.31% share in the total number of votes).

The company Polskie Smaki Sp. z o.o. is a subsidiary of PGS holding shares of Makarony Polskie SA. At the same time, PGS informed that there are no persons referred to in Article 87 paragraph 1 point 3 let. c of the Act on the offer and it does not hold the financial instruments referred to in Article 69b paragraph 1 of the Act on the offer.

- Mr. Krzysztof Moska, on 29 March 2017, announced that as a result of the sale transaction on 28 March 2017, 800,000 shares in the Company constituting 8.65% of the share capital and 8.65% of the total number of votes at the AGM, within the three session block sales transactions on the WSE main market, there was a change in the previous holding of the share by Mr. Krzysztof Moska, in the total number of votes at the General Meeting of the Company in such a way that there was a reduction below 5% of the total number of votes at the AGM.

  Prior to the change in ownership, Mr. Krzysztof Moska owned 1 101 047 shares in the Company, constituting 11.90% of the share capital and 11.90% of the total number of votes at the General Assembly, i.e., entitling to 1 101 047 votes.

  After the change in ownership, Mr. Krzysztof Moska holds a total of 301,047 shares in the Company, representing 3.25% of the share capital and 3.25% of the total number of votes at the AGM, entitling to exercise of 301,047 votes.

  At the same time Mr. Krzysztof Moska announced that he did not have any subsidiaries holding shares of the Company and that there were no persons referred to in Article 87 paragraph 1 point 3 item c of the Act on the offer. Mr. Krzysztof Moska also declared that he does not hold the financial instruments referred to in Article 69b paragraph 1 of the Act on the offer.

- Mr. Leszek Sobik, on 5 April 2017, announced that on 3 April 2017, he sold 150,000 shares of the Company in the D + 1 estate package transaction, as a result of which he reduced the shareholding threshold below 5% to 3.89%. Prior to the transaction, Mr. Leszek Sobik held 509,541 shares in the Company, constituting a total of 5.51% in the share capital, entitling to exercise 509,541 votes at the General Assembly, which constituted 5.51% of votes at the General Meeting of Shareholders. After completing the above transaction, Mr. Leszek Sobik owns 359 541 shares of Makarony Polskie SA, representing 3.89% of the Company's share capital, entitling to 359 541

votes at the General Assembly, which constitutes 3.89% of votes. At the same time, Mr. Leszek Sobik announced that the subsidiaries held no shares.

On 18 April 2017, the Company received from Praska Giełda Spożywcza SA (hereinafter: PGS) – of a close relative of Mr. Zenon Daniłowski, President of the Management Board of Makarony Polskie SA, notification of transactions on shares in the Company referred to in Article 19 paragraph 1 of MAR Regulation. PGS announced that on 13 April 2017, it established a pledge on 800,000 shares of the Company.

The company has no other information that would indicate changes in the number of shares held by material shareholders (holding over 5% shares) during 2017 and until the date of publication of this report.

The company has no knowledge of other contracts (including those concluded after the balance sheet date) as a result of which changes may occur in the future in the proportions of shares held by the existing shareholders.

Shares held by Members of the Management Board

The number and nominal value of the Company's shares held by the Members of the Management Board as at the date of the statements:

Member of the Management Board	year 2017		year 2016	
	number of shares	par value	number of shares	par value
Zenon Daniłowski*	140 000	420 000	140 000	420 000

* President of the Management Board Zenon Daniłowski is associated with companies: Praska Giełda Spożywcza SA (former: Agro-Technika SA) and Polskie Smaki Sp. z o.o., who also own shares of the Company; the total balance of ownership as at the date of publication of the statements is 2,311,594 shares worth PLN 6,934,772.

In accordance with the information possessed by the Company, during 2017 and until the date of publication of this report, there were no changes in the ownership of shares by the President of the Management Board.

Shares held by Members of the Supervisory Board

The number and nominal value of the Company's shares held by the Members of the Supervisory Board as at the date of the statements:

Member of the Supervisory Board	year 2017		year 2016	
	number of shares	par value	number of shares	par value
Marek Rocki	0	0	0	0
Michał Słomkowski	0	0	0	0
Roman Sobiecki	0	0	0	0
Samer Elwaziri	0	0	0	0
Wiesław Wasilewski	5 000	15 000	5 000	15 000

* Mr. Michał Słomkowski and Mr. Samer Elwaziri were appointed to the Supervisory Board of the Company during the financial year 2016.

In accordance with the information possessed by the Company, during 2017 and until the date of publication of this report, there were no changes in the ownership of shares by the Members of the Supervisory Board.

Shares in subsidiaries

The managing and supervising persons of Makarony Polskie SA do not hold shares in subsidiaries of the Makarony Polskie Group.

The right to decide on the issue or buyout of shares

Pursuant to §9 of the Company's Articles of Association, the share capital may be increased and decreased under the terms and in the manner specified in the Commercial Companies Code, as well as through a public offer under the terms of the Act of 29 July 2005 on public offering and conditions for introducing financial instruments to an organized system trading and public companies.

Rules for amendment of the Articles of Association of Makarony Polskie SA

The Articles of Association of Makarony Polskie SA in the wording currently in force do not include provisions regarding the change of the Articles of Association different from the provisions of the Commercial Companies Code.

According to Article 430 of the Commercial Companies Code, the amendment to the Articles of Association requires a resolution of the General Meeting and an entry into the register. The resolution of the General Assembly regarding amendments to the Articles of Association requires a majority of ¾ of votes cast - Article 415 of the Commercial Companies Code.

Pursuant to §9a paragraph 6 of the Articles of Association, the resolution of the Management Board regarding the increase in share capital as part of the authorized capital replaces the resolution of the General Assembly and requires the form of a notarial deed.

The Articles of Association of Makarony Polskie SA are available on the Company's websitewww.makarony.pl.

General Assembly

The main powers of the General Assembly

The competences of the General Assembly include making decisions on matters related to the organization and operation of the Company, subject to the cases specified in the Commercial Companies Code and the Company's Articles of Association.

The manner of operation of the General Assembly

The General Assembly operates in accordance with the Commercial Companies Code, the Company's Articles of Association and the Regulations of the General Assembly of Makarony Polskie SA adopted by the Resolution No. 24 of the Ordinary General Assembly of Makarony Polskie SA of 28 June 2016.

The Ordinary General Meeting is convened annually by the Management Board and is held within 6 months after the end of each financial year. The Extraordinary General Assembly is convened by the Management Board on its own initiative, by the Supervisory Board if it

considers convening the General Assembly as appropriate or by shareholders representing at least half of the share capital or at least half of the total votes in the Company.

the Assemblies shall be held in the registered office of the company or any other place at the territory of the Republic of Poland. The place and date of the General Assembly are selected in such a way as to enable participation of the widest possible circle of shareholders.

The General Assemblies are convened in the manner specified for the publication of current information by public companies together with the announcement on the Company's website www.makarony.pl.

The General Assembly is capable of adopting resolutions irrespective of the number of shares represented on it, unless the provisions of the Commercial Companies Code state otherwise. Subject to the provisions of Article 404 of the Commercial Companies Code, the General Assembly may adopt resolutions only in cases provided for in the Commercial Companies Code and in the Articles of Association and on the agenda of a given Assembly.

Resolutions of the General Assembly are adopted by an absolute majority of votes cast, unless the mandatory provisions of law or the provisions of the Articles of Association provide otherwise.

The voting is open. The Chairman of the General Assembly orders the secret ballot in personal matters and at the request of a shareholder. The right to request secret voting is not exercised when adopting resolutions on procedural matters. The Assembly may repeal the secrecy of voting on matters concerning the selection of committees appointed thereby.

Shareholder rights

The rights of shareholders and the manner of exercising them at the General Assembly are specified in the Commercial Companies Code, the Articles of Association and the Regulations of the General Assembly.

Shareholders representing at least half of the Company's share capital or at least half of the votes in the Company have the right to convene an Extraordinary General Assembly.

Only persons who are shareholders of the Company 16 days prior to the date of the General Meeting have the right to participate in the General Assembly. Shareholders have the right to participate in the General Meeting in person or through a proxy. Each shareholder has the right to comment on matters included in the agenda.

The description of the procedures for participation in the General Assembly and the exercise of voting rights is always included in the announcement of the General Assembly.

General Assembly in 2017

In the financial year 2017, the Ordinary General Assembly of Makarony Polskie SA was held on June 29. The subject matter of the meeting included the following issues:

- consideration and approval of the Company's financial statements for 2016 and the Management Board's report on the Company's operations in 2016,
- consideration and approval of the Group's consolidated financial statements for 2016 and the Management Board's report on the Group's operations in 2016,
- distribution of net profit for the financial year 2016,
- consideration of the report of the Supervisory Board of Makarony Polskie SA for the financial year 2016,
- acknowledgement of the fulfillment of duties in the financial year 2016, by the members of the Company's Management Board.
- acknowledgement of the fulfillment of duties in the financial year 2016, by the members of the Company's Supervisory Board.

The content of the resolutions of the Ordinary General Assembly was published in the current report No. 28/2017 of 30 June 2017 and is available on the company's website www.makarony.pl.

The Management Board did not convene Extraordinary General Assemblies. The Company's shareholders and Members of the Supervisory Board did not submit any other motions to convene the General Assembly.

Members of the Management Board and of the Supervisory Board participated in the meetings of the General Assembly in a composition allowing for a substantive answer to the shareholders' questions asked during the Assemblies

Supervisory Board

The Supervisory Board of Makarony Polskie SA operates under the Commercial Companies Code, the Articles of Association and the Regulations of the Supervisory Board adopted by the Resolution No. 25 of the Ordinary General Assembly of Makarony Polskie SA of 28 June 2016.

Rules for appointing and dismissing Members of the Supervisory Board

The Supervisory Board of the Company consists of 5 to 7 members, appointed and dismissed by the General Assembly.

The term of office of the Supervisory Board members is two years. The term of office of the members of the Supervisory Board shall expire on the day of the Ordinary General Assembly approving the financial statements of the Company for the last full financial year of performing duties of members of the Supervisory Board. If during the term of office of the Company's Supervisory Board election supplementing or extending the mandate was made, the mandate of the newly appointed member of the Supervisory Board shall expire simultaneously with the mandates of the remaining members of the Supervisory Board.

Nominations for the members of the Supervisory Board are justified in order to enable the General Meeting to make an informed choice. Members of the Supervisory Board are selected in such a way that they have appropriate education and life experience enabling them to properly assess the functioning of the Company and proper performance of functions in the Supervisory Board, and in such a way that at least two members of the Supervisory Board are persons free from connections with the Company and shareholders or employees of the Company.

The Board members are entitled to remuneration in accordance with the rules set by the General Assembly.

The Supervisory Board elects a Chairman from among its members who manages the works of the Board. The Supervisory Board may also appoint a Vice-Chairmen and a Secretary.

Competencies of the Supervisory Board

The Supervisory Board exercises permanent supervision over the Company's operations in all areas of its enterprise. The competences of the Supervisory Board include, among others:

- assessment of the financial statements and the report of the Management Board, as regards their compliance with the books and documents as well as the actual state and the Management Board's proposals regarding the distribution of profits and coverage of losses, as well as submitting to the General Assembly an annual written report on the results of that assessment,
- approving annual financial plans for the Company and controlling their performance,
- election of a certified auditor to audit the financial statement.
- granting permission to acquire or sell real estate, perpetual usufruct or shares in real estate of more than 10% of the Company's equity calculated according to the last balance sheet

of the Company approved by the General Assembly, unless provided for in the annual financial plan of the Company approved by the Supervisory Board,

- granting permission to the sale of the Company's assets, the value of which exceeds 10% (in words: ten percent) of the total equity of the Company calculated according to the last balance sheet of the Company approved by the General Assembly, unless provided for in the Company's annual financial plan approved by the Supervisory Board,
- granting permission to to incur liabilities or making disposal which, based on one or more related legal acts, exceeds 10% of the Company's equity calculated according to the last balance sheet of the Company approved by the General Assembly, unless provided for in the Company's annual financial plan, approved by the Council Supervisory Board
- granting permission to paying the Shareholders advance payments towards the anticipated dividend,
- appointing and dismissing the Management Board of the Company or its individual members,
- determining the terms and conditions of remuneration of the Company's Management Board, as well as the amount of remuneration of its individual members,
- representing the Company in contracts between it and a Member of the Management Board, as well as in a company dispute with such a person.

The Supervisory Board has the right to examine all activities of the Company, demand reports, explanations and information from the Management Board and employees, check books and documents (including financial ones), request access to all Company rooms (§10 of the Regulations of the Supervisory Board), and Members of the Supervisory Board in their activities are required to be guided by the good and the interest of the Company (§6 section 1 of the Regulations of the Supervisory Board).

The Board's forms of work include meetings, control activities and participation in works of the Company's governing bodies.

Composition of the Supervisory Board

From 1 January 2017 to the date of publication of this report, the Supervisory Board was composed of:

- Roman Sobiecki – Chairman of the Supervisory Board,
- Samer Abdelfatah Mohamed Elwaziri – 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.

Committees of the Supervisory Board

Until 18 October 2017, there were no committees operating in the Supervisory Board of Makarony Polskie SA. During this period, the Supervisory Board of Makarony Polskie SA assumed the tasks of the audit committee in accordance with the provisions of law then in force.

In connection with the change of legal regulations, the Audit Committee was appointed in the Company on 18 October 2017.

At the moment, it is not planned to appoint other Supervisory Board committees than those required by law. This is supported by the Company's Articles of Association, shareholding structure as well as organizational and economic considerations, including the need to provide additional administrative and legal support for such committees.

AUDIT COMMITTEE

The Audit Committee of Makarony Polskie SA operates on the basis of applicable provisions of law and the Regulations of the Audit Committee adopted by Resolution No. 5 of the Supervisory Board of Makarony Polskie SA on 18 October 2017.

The number of members of the Audit Committee is determined by the Supervisory Board, which also appoints the members of the Audit Committee and appoints its Chairman. The minimum number of members of the Audit Committee is 3 people.
Members of the Audit Committee are appointed from among the Members of the Supervisory Board in such a way that:

- the majority of the Audit Committee members, including its Chairman, were independent members,
- the Audit Committee was composed of at least one member with knowledge and skills in accounting and at least one member with knowledge and skills in the industry in which the Company operates.

The mandate of a Member of the Audit Committee expires on the day of expiry of the mandate in the Supervisory Board. Each Member of the Audit Committee may also be dismissed by the Supervisory Board at any time.

If the mandate of a Supervisory Board Member elected to the Audit Committee expires before the end of the entire Supervisory Board's term of office or resignation from the Audit Committee's function, the Supervisory Board completes the Committee by selecting a new member of the Audit Committee for the term of the Supervisory Board's term.

The tasks of the Audit Committee are specified in the Act on Certified Auditors and Regulation of the European Parliament and of the Council (EU) No 537/2014 of 16 April 2014 on detailed requirements regarding statutory audits of financial statements of public-interest entities. The tasks of the Audit Committee include in particular:

- monitoring of:
  - the financial reporting processes in the Company, the effectiveness of internal control systems and risk and internal audit management systems, including financial reporting, and the performance of auditing activities, in particular the audit firm's audit of the Company's financial statements, including all applications and arrangements of the Audit Oversight Commission resulting from the audit conducted in a given audit firm;
  -
  -
- controlling and monitoring the independence of the statutory auditor and the audit firm auditing the Company's financial statements (in particular in the case when other auditing services are also provided by the audit firm);
- informing the Supervisory Board about the results of auditing the Company's financial statements and explaining how this audit contributed to the reliability of financial reporting in the Company, and what was the role of the Committee in the audit process;
- assessing the independence of the statutory auditor and the audit firm auditing the Company's financial statements, and expressing consent to their provision of permitted non-audit services to the Company's financial statements;
- developing the policy for selecting an audit firm that audits the Company's financial statements;
- developing a policy of providing the Company with an audit service, by an audit firm that audits the Company's financial statements, by associates of that firm and a member of the audit firm network (within the meaning of generally applicable provisions) permitted services that are not auditing the Company's financial statements;
- determining the procedure for selecting an audit firm that audits the Company's financial statements;
- presenting recommendations to the Supervisory Board regarding the selection of a statutory auditor or an audit firm auditing the Company's financial statements. The recommendation should meet the requirements set out in the Regulation No. 537/2014 and the Act on Certified Auditors;
- submitting to the Supervisory Board and Management Board recommendations aimed at ensuring the reliability of the financial reporting process in the Company.

In order to perform the activities specified in §5, the Audit Committee may:

- without the intervention of the Supervisory Board, request information, explanations and transfer of documents necessary to perform the tasks referred to in §5,
- require the key auditor to discuss with the Audit Committee or the Management Board key issues arising from the audit, which were listed in the additional statements referred to in Article 11 of the Regulation No. 537/2014.

From the day of its appointment, i.e., from 18 October 2017 to the date of publication of this report, the Audit Committee was composed of:

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

In accordance with the legal requirements, members of the Audit Committee have knowledge and skills in accounting and with knowledge and skills in the industry in which the Company operates.

Policy of Remunerations for Members of the Supervisory Board

In accordance with the Company's Articles of Association, the Supervisory Board Members receive remuneration, the amount of which is determined by the General Assembly.

Until 28 June 2016, the remuneration system of the Supervisory Board of Makarony Polskie SA, adopted by the resolution No. 22 of the Ordinary General Assembly of 12 June 2014, was in force. Since 28 June 2016, the Company has had a new remuneration system for the Supervisory Board adopted by the resolution No. 22 of the Ordinary General Assembly of 28 June 2016. Members of the Supervisory Board receive remuneration for each meeting of the Supervisory Board in which they participate.

Information regarding remuneration paid to Members of the Company's Supervisory Board is presented in the table below and included in the consolidated financial statements in note 38 and in the separate financial statements, in note 37.

Name and Surname	Title	For the period from 01/01/2017 to 31/12/2017	For the period from 01/01/2016 to 31/12/2016
Roman Sobiecki	Chairman of the Supervisory Board	18	17
Wiesław Wasilewski	Member of the Supervisory Board	14	11
Marek Rocki	Member of the Supervisory Board	14	6

Michał Słomkowski (from 28.06.2016)	Member of the Supervisory Board	14	4
Samer Abdelfatah Mohamed Elwaziri (from 03.11.2016)	Member of the Supervisory Board	9	0
Grzegorz Słomkowski (until 28.06.2016)	Vice Chairman of the Supervisory Board	0	9
Tomasz Jankowski (until 26.10.2016)	Member of the Supervisory Board	0	11
Total		**69**	**58**

Supervisory Boards of subsidiaries

The Supervisory Boards do not operate in the Group's subsidiaries. The Bodies in subsidiaries of Stoczek Natura Sp. z o.o. and MP Trade Sp. z o.o. are the Meeting of Shareholders and the Management Board.

Management Board

Rules for appointing and dismissing the Management Board Members

The Management Board of the Company consists of one to three members, including the President and Vice-President, appointed and dismissed by the Supervisory Board.

The term of office of the Management Board members is two years. Members of the Management Board may be appointed for the next two-year terms. The mandates of the Management Board members expire in accordance with Article 369 §4 of the Commercial Companies Code. If during the term of office of the Company's Management Board election supplementing or extending the mandate was made, the mandate of the newly appointed member of the Management Board shall expire simultaneously with the mandates of the remaining members of the Management Board.

Competences of the Management Board

The Management Board represents the Company externally and takes decisions in all matters which, in accordance with the Company's Articles of Association and the mandatory legal regulations, have not been reserved to the competences of other Company's bodies.

Declarations of will on behalf of the Management Board are made by:

- in the case of a one-man Management Board - one person,

- in the case of a multi-person Management Board - two members of the Management Board jointly or a Member of the Management Board together with a Proxy.

As at the date of publication of those statements, the proxies in the Company include:

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

The granted power of attorney is joint - the proxy may represent the Company only by cooperating with another proxy or a member of the Management Board

Composition of the Management Board

In the period from January 1, 2017 to the date of publication of those financial statements, the Management Board of the Company operates in a one-person composition. Zenon Daniłowski is the President of the Management Board.

On 24 May 2017, in connection with the end of the 7th term of the Company's Management Board, the Supervisory Board of Makarony Polskie SA decided that the 8th term Management Board would be one-man Management, and again entrusted the function of the President of the Management Board to Mr. Zenon Daniłowski.

Division of duties between Members of the Management Board

The Management Board of the Company is a one-man management board.

Policy of Remunerations for Members of the Management Board

In accordance with the Company's Articles of Association, the Management Board Members receive remuneration, the amount of which is determined by the Supervisory Board. The remuneration system of the President of the Management Board is based on a fixed part (basic remuneration under the employment contract) and motivational variable part (remuneration for performing functions calculated on the basis of EBITDA/operating profit + depreciation/ result generated by the Company in the quarter for which remuneration is paid and disclosed in published periodic statements covering a given quarter).

In the period covered by those financial statements, the Group companies did not conclude any agreements with managers to provide for compensation in the event of their resignation

or dismissal without a valid reason or if their dismissal or dismissal would occur due to the merger of the company through the acquisition.

In the financial year 2017, as well as in the period up to the publication date of this report, Makarony Polskie SA did not conduct employee share programs.

Information regarding remuneration paid to Members of the Company's Management Board is presented in the table below and included in the consolidated financial statements in note 38 and in the separate financial statements, in note 37.

Name and Surname	Title	For the period from 01/01/2017 to 31/12/2017		For the period from 01/01/2016 to 31/12/2016	
		constant	variable	constant	variable
Zenon Daniłowski	President of the Management Board	579*	81	600	62
	Total	**660***		**662**	

* including PLN 32 thousand as remuneration for performing the function of the President of the Management Board in a subsidiary MP Trade Sp. z o.o.

Management boards of subsidiaries

As at 31 December 2017 and the date of publication of those financial statements, the management boards of subsidiaries operated in the following compositions:

- Stoczek Natura Sp. z o.o.: Rafał Dziobko - President of the Management Board, Adam Ławnik - Vice President of the Management Board
- MP Trade Sp. z o.o.: Zenon Daniłowski - President of the Management Board

The function of the Proxy in Stoczek Natura Sp. z o.o. is fully held by Mrs. Alicja Hinz - Chief Accountant (the procuration is joint - the proxy may represent the company only by co-operating with another proxy or a member of the Management Board).

The function of the Proxy in MP Trade Sp. z o.o. is fully held by Mr. Dariusz Cylka (the procuration is joint - the proxy may represent the company only by co-operating with another proxy or a member of the Management Board).

Other information

Information on cooperation with the statutory auditor

The Supervisory Board of Makarony Polskie SA has choses the company ReVision - Rzeszów Józef Król Sp. z o.o. with its registered office in Rzeszów as a certified auditor to review the financial statements for the first half of 2017 and to audit the financial statements of the Makarony Polskie Group companies for the 2017 financial year.

ReVision - Rzeszów Józef Król Sp. z o.o. company is entered on the list of auditing companies kept by the National Council of Statutory Auditors registration number 3510 and entered into the Register of Entrepreneurs of the National Court Register kept by the District Court in Rzeszów, 12th Commercial Division of the National Court Register, registration number 0000336012.

Makarony Polskie SA used the services of ReVision - Rzeszów Józef Król Sp. z o.o. in the scope of review and audit of financial statements for the financial year 2010 and in the financial years 2012-2016.

Agreement with the above auditor was concluded for the period of review of the financial statements for the first half of 2017 and audits of the financial statements of the Makarony Polskie Group companies for the financial year 2017.

Remuneration due to ReVision - Rzeszów Józef Król Sp. z o.o. by Makarony Polskie SA amounts to PLN 52.5 thousand (PLN 18 thousand for the review of the separate and consolidated half-year statements, PLN 34.5 thousand for the audit of the financial statements of Makarony Polskie SA and the Makarony Polskie Group for 2017).

The amount of remuneration due to ReVision - Rzeszów Józef Król Sp. z o.o. by Stoczek Natura Sp. o.o. is a total of PLN 16 thousand (PLN 5 thousand for the review of the semi-annual statements, PLN 11 thousand for the audit of the financial statements for 2017).

The amount of remuneration due to ReVision - Rzeszów Józef Król Sp. z o.o. by MP Trade Sp. o.o. is a total of PLN 5.5 thousand (PLN 1.5 thousand for the review of the semi-annual statements, PLN 4 thousand for the audit of the financial statements for 2017).

Remuneration paid to ReVision - Rzeszów Józef Król Sp. z o.o. for services related to the review and auditing of financial statements of the Group companies in the financial year 2016 amounted to:

- PLN 52.5 thousand in Makarony Polskie SA company (PLN 18 thousand for the review of the separate and consolidated semi-annual statements, PLN 34.5 thousand for the audit of the financial statements of Makarony Polskie SA and Makarony Polskie Group for 2016),
- PLN 16 thousand in Stoczek Natura Sp. o.o. company (PLN 5 thousand for the review of the semi-annual statements, PLN 11 thousand for audit of the financial statements for 2016).
- PLN 5.5 thousand in MP Trade Sp. z o.o. company (PLN 1.5 thousand for the review of the semi-annual statements, PLN 4,000 for audit of the financial statements for 2016).

The Group strives to conduct business in a sustainable and responsible manner.

Corporate social responsibility

Each enterprise realizing the main business goal to which it has been established, i.e., the profit, must be aware of the fact that its impact on the environment in which it operates (environment, people, other enterprises) is significant.

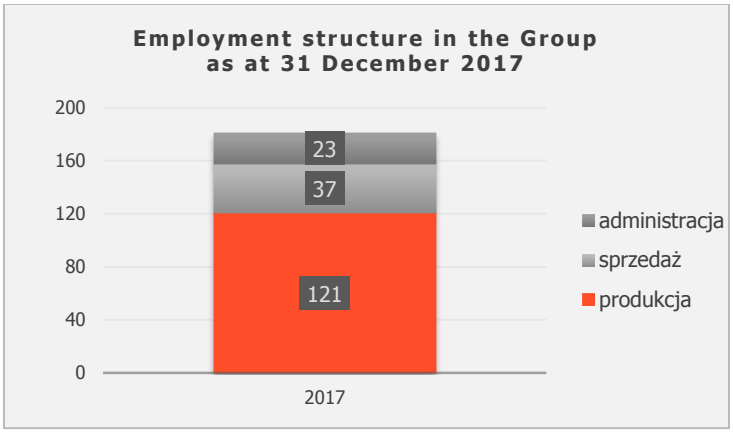


The Makarony Polskie Group strives to operate in accordance with the principles of Corporate Social Responsibility CSR, i.e. in a manner that takes into account the needs and requirements of broadly understood social and environmental interests in the company's environment.

Employees

In 2017, the Group continued to consistently implement the employment optimization program implemented in 2013, assuming stabilization of employment at permanent minimum levels at the level of necessary minimum and more flexible employment in production plants by making its level dependent on changes in production volume. The core of the program is constant care for proper organization of work (including the implementation of Lean Manufacturing) and the effectiveness of resource use.

In accordance with the adopted policy, the Makarony Polskie Group maintains the total employment at the necessary minimum level. The employment in the Makarony Polskie Group as at 31 December 2017 amounted to 181 people (vs. 196 at the end of 2016 vs. 213 posts at the end of 2015).



Diversity policy

The personnel policy of the Makarony Polskie Group is focused on maintaining high-class specialists and managers who, thanks to their knowledge, experience and commitment, ensure the highest level of implementation of the Group's business objectives, thus guaranteeing constant improvement of the organization and improving the quality of products and services provided. Makarony Polskie SA has not developed a formalized diversity policy with respect to the Company's governing bodies and its key managers. The current status of the Company does not imply an obligation to report this item.

Human resource planning and employee recruitment

In order to ensure the optimal level of tasks and objectives, in view of the ever stronger "employee market", the Makarony Polskie Group is taking steps towards effective human resources planning, even before the actual demand in this respect. The Group has implemented and conducts, in close cooperation with the heads of individual organizational units, systematic identification of future staffing needs.

When recruiting and selecting candidates, the Group makes every effort to ensure that the process is transparent and employee-friendly and effective for the company. When making decisions about establishing cooperation with the candidates, the Group's companies are guided by professional experience, seniority in the profession, and education in accordance with the scope of tasks entrusted. The Group employs both women and men in various age groups, taking into account the evaluation of the candidates' compliance with the substantive criteria and strives to prevent any form of discrimination.

according to the age and sex criterion	Structure of employment of the Group's employees as at 31 December 2017		
	woman	men	total
18-29	10	14	24
30-49	52	62	114
50+	20	23	43

The Makarony Polskie Group is looking for people who are passionate about new challenges, ready to constantly develop their talents and share knowledge. In specialist and managerial positions, persons representing a high level of professionalism, entrepreneurial, committed, professional development oriented, who derive satisfaction from their work and who are able to cooperate with other people are preferred.

In the interests of personnel development, the Group first tries to conduct internal recruitment, due to the fact that internal promotions (horizontal and vertical) allow to keep in

the organization the people with extensive experience and desirable qualifications. In the absence of suitable internal candidates, the Group conducts recruitment processes addressed to external candidates, using recruitment sources adequate to the profile of the vacant position, among others through headhunting companies, career offices, internships and student internships, internet portals.

The recruitment processes are conducted in accordance with the confidentiality and internal procedures applicable in the Group.

Internships

The Makarony Polskie Group appreciates the value and competence of young people, as well as their enthusiasm and creativity, which is why it is willing to take part in various internship programs addressed to students and graduates. The group also enables apprentices to high school students and university students.

In 2017, the Group cooperated in the organization of student internships and apprenticeships, among others with the Rzeszów University of Technology and the Vocational Development Center in Rzeszów.

Training

The Makarony Polskie Group pays great attention to the effective use of human resources. An important element of this process is ensuring professional development of employees and continuous improvement of their professional qualifications through specialist trainings and competence improvement programs. In carrying out activities in this area, the Group focuses mainly on external specialist trainings and specially prepared, closed competence development programs, which in the Group's opinion are the best investment in employees. In 2017, mainly trainings in the field of communication skills and competence development of employees were conducted.

It is important to implement the acquired skills at the workplace, as well as sharing knowledge in individual work teams and between them. Considering the above, the Group, while designing various training forms, also uses the approach according to which, at periodically organized internal conferences, employees of the Group become trainers or commonly conduct the training - thus developing their own competences and sharing their knowledge with others.

Wages and salaries system

The motivational remuneration system adopted in the Group assumes that employees receive a remuneration consisting of a fixed part (basic remuneration) and a variable part (including bonuses and awards) granted depending on the contribution of work, commitment and the level of achievement of goals/tasks for employees set by their superiors.

The basic remuneration is a resultant of the rank of the position held, the contribution of work, the scope of responsibility, qualifications and experience. The Group measures individual positions, ensuring a competitive level of remuneration, allowing recruitment of people with the desired qualifications and experience, based on the best market practices.

Variable remuneration depends on the level of achievement of individual goals/tasks set by superiors, commitment of individual employees, their diligence and care in performing work, increasing productivity and quality of work, and special achievements in the implementation of tasks set by superiors. Its purpose is to motivate employees to achieve high results of work, consistent with the business interests of the Group.

The remuneration system implemented in the Group ensures effective support for business operations and the implementation of development strategies. The variable part of the remuneration system ensures its flexibility, the ability to adapt to the needs of the organization and translating the Group's goals into the management staff, and then cascading goals further to the employees.

In 2017, there were no significant changes in the remuneration system adopted in the Group.

OSH

The Makarony Polskie Group, as a responsible employer, also ensures safe working conditions for employees. The Individual Group companies have implemented their own Health and Safety Policy. In accordance with regulations applicable in this area, in order to protect the health and life of employees, the Group companies conduct health and safety trainings, provide initial and periodic medical examinations, employ staff with the required qualifications and equip those people with appropriate personal protection equipment.

In 2017, two light accidents at work were reported in the Group.

Natural environment

The Group consistently strives to minimize the negative impact on the natural environment in every area of its activity, looking for pro-ecological solutions. The Group's activities are focused, among others on the rational use of water and energy, reducing carbon dioxide

emissions, minimizing the amount of sewage generated and waste through continuous improvement of production processes, the use of modern, energy-efficient and efficient technological lines, care for the proper condition of machinery and equipment. The Group conducts educational and information activities aimed at increasing the environmental awareness of the staff.

In 2017, Makarony Polskie SA implemented investments aimed at increasing the efficiency of pasta production processes, e.g. modernization of production lines at plants in Rzeszów and in Częstochowa, modernization of the heat center at the plant in Rzeszów. At the turn of 2016 and 2017, Stoczek Natura Sp. z o.o. company conducted a professional energy audit. In November 2017, the Company signed a subsidy contract for the implementation of the project entitled "Poprawa efektywności energetycznej przedsiębiorstwa Stoczek Natura Sp. z o.o." [Improving the energy efficiency of Stoczek Natura Sp. z o.o.], worth PLN 2.96 million (including PLN 1.49 million co-financing), which will be implemented in the period January 2018 - November 2020. The main objective of the project is to improve the energy efficiency of Stoczek Natura Sp. z o. o. through a deep thermo-modernization of the company's building, a. Based on the conducted energy audit, the enterprise will implement as part of the project, the improvements in the reduction of heat and electricity demand.

The pro-environmental activities conducted by the Group also include the systematic utilization of electro-waste and segregation and subjecting to the process of recycling the waste generated during production.

Market

Consumer confidence obliges, therefore the Makarony Polskie Group is constantly modernizing its plants, has modern production lines and an extensive production process control system, and constantly invests in acquiring and implementing modern technologies.

Each production process taking place at the Makarony Polskie Group facilities is strictly supervised by factory Quality Control Teams that ensure product compliance with the requirements of food standards and high company quality standards. Both raw materials as well as finished products are thoroughly tested in factory laboratories and periodically also tested in independent accredited external laboratories



Makarony Polskie SA and Stoczek Natura Sp. z o.o. companies have implemented and certified a quality system that meets the international IFS (International Food Standard) and BRC (British Retail Consortium) standards in order to meet legal requirements for the safety of foodstuffs. The Group's production facilities also meet the requirements of PN-EN ISO 9001: 2009 quality standard, which ensures the repeatability of ongoing processes and their continuous improvement.

Co-operation with scientific institutions, research laboratories, suppliers of raw materials, machines and packaging is systematically developed.

The Group's achievements in this respect are reflected by awards and prizes received by the Group and its products in 2017.



In February, products offered by Stoczek Natura Sp. z o.o. i.e.. "Kurczak po chińsku" [Chinese Chicken] and "Mexican TEX MEX" became the Winner of the 6th edition of the Consumer Research "Najlepszy Produkt 2017 – Wybór Konsumentów" [Best Product 2017 - Consumers' Choice].



In the first half of the year, the products of Stoczek Natura Sp. z o.o. were awarded with the Pearl of the FMCG market 2017. The Makarony Polskie product flavor ribbons received a bronze medal in their category, and the soup Męska Rzecz Pełna Micha received a silver medal.



In November 2017, wholemeal pasta under the Makarony Polskie brand received the award of Nasze Dobre Podkarpackie 2017 in the Food Products category.

Local community

The Makarony Polskie Group tries to be present in the life of local communities in which it is present on a daily basis due to the location of its production plants and sales offices. Actively supports activities and initiatives in the field of charity, as well as activities and initiatives for the development of culture, education and sport. It is also involved in social actions.

Cooperation with schools and universities

The Group's companies maintain long-term relationships with the academic environment, for example, the cooperation of Makarony Polskie SA with the University of Rzeszów in the field of R&D and the University of Life Sciences in Poznań, as well as the cooperation of Stoczek Natura Sp. z o.o. with the University of Life Sciences in Lublin.

Makarony Polskie SA participated in the organization of the 1st National Scientific Conference of Students and doctoral students in Natural Sciences of the "Human-Food-Environment" series organized on 27-28 April 2017 at Międzynarodowe Centrum Edukacji Ekologicznej w Iwoniczu [International Center for Ecological Education in Iwonicz].


Podziękowanie

Dla

Firmy MAKARONY POLSKIE

Za współpracę oraz wsparcie materialne podczas

I Ogólnopolskiej Konferencji Naukowej Studentów i Doktorantów Nauk Przyrodniczych „Człowiek – Żywność – Środowisko"

Organizowanej przez Studenckie Koło Naukowe Technologów Żywności „FERMENT"

Iwonicz, 27-28 kwietnia 2017 r.

The thematic scope of the conference included issues related to broadly understood biotechnology, food technology and the impact of the environment and various factors on health and the proper functioning of the human body.

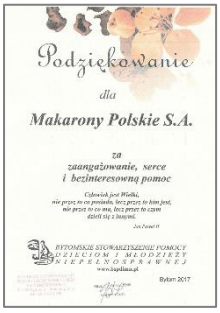
Charity work

For many years, the Group has been involved in various types of charity activities at local and national level, providing support both directly to children in need (Christmas and St. Nicholas activities, support for holidays), and hospice (Rzeszowskie Hospicjum dla Dzieci), social welfare centers (e.g. Caritas of Rzeszów Diocese), foundations (e.g. the Anna Dymna Foundation "Mimo Wszystko", the Kresowy Heritage Foundation in Lviv) and schools.


PODZIĘKOWANIE
z okazji Dnia Dziecka

For several years, the Group's companies have been actively involved in various initiatives of the Rzeszów Hospice for Children, e.g., Santa Clause actions, parcels for the children's day for the hospice patients and their siblings.

In 2017, the Group cooperated with Caritas of the Rzeszów Diocese, the Kresy Heritage Foundation in Lviv and the Bytom Association for the Assistance of Disabled Children and Young People. The Group's companies supported children's holiday organized by "Równać Szanse" [Equal Chance] Association.



In December 2017, Makarony Polskie SA, in cooperation with the Student Self-government of the Rzeszów University of Technology, joined the organization of Santa Claus parcels for the most needy families residing in the Podkarpackie Region as part of the "Szlachetna paczka" campaign. The Group also took part in the charity campaign "Paczka Świąteczna dla Żołnierzy AK" organized by the Scientific Circle of Diplomacy and Law at the Faculty of Law and Administration of the University of Warsaw, addressed to the most needy veterans of the Home Army.

Patronage and sponsorship of culture and sport

The Makarony Polskie Group is a patron of cultural and sports events, both nationwide and local ones.

In 2017, the Group joined, among others rhw initiatives such as

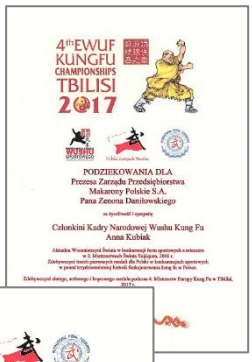
Sponsorship of the Mother and Child Day on the Rzeszów market organized by Caritas of the Diocese of Rzeszów.

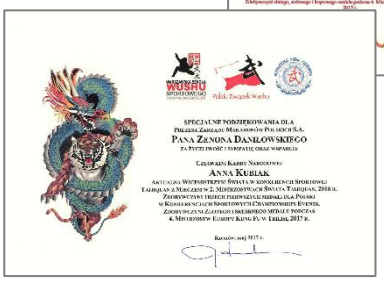




Sponsorship of XXIV Rzeszow Juwenalia, which is the largest student project in the Podkarpacie region awarded with the prestigious ProJuventus 2014 statuette in the "Best Juwenalia in Poland" category. The Juwenalia were organized by three Rzeszów universities, i.e.. Rzeszow University of Technology, University of Information Technology and Management in Rzeszów and University of Law and Public Administration.

Permanent cooperation of Makarony Polskie SA in the scope of supporting the sports activity of the World Vice-Champion in taiji - Anna Kubiak. In 2017, sponsoring concerned the player's trips at the XIV Grand International Wushu Festival, International Polish Championships and Kung Fu World Championships, as well as help in organizing a trip to Xi'an training, which was led by Tianjin coach Mr. Wu Yanan.





Statement of the Management Board

Declaration on the reliability of the preparation of the consolidated financial statements

The Management Board of Makarony Polskie SA with its registered office in Rzeszów declares that, to the best of its knowledge, the annual consolidated financial statements of the Makarony Polskie Group for the financial year ended 31 December 2017 and comparative data have been prepared in accordance with the applicable accounting principles and that they reflect in a true and fair and clear manner the asset and financial situation of the Makarony Polskie Group and its financial result.

The Management Board's report on the operations of Makarony Polskie Group in the financial year 2017 provides a true picture of the Group's development, achievements and standing, including a description of the main threats and risks.

Declaration on the reliability of the preparation of the separate financial statements

The Management Board of Makarony Polskie SA with its registered office in Rzeszów declares that, to the best of its knowledge, the annual separate financial statements of Makarony Polskie SA for the financial year ended 31 December 2017 and comparative data have been prepared in accordance with the applicable accounting principles and that they reflect in a true and fair and clear manner the asset and financial situation of Makarony Polskie SA and its financial result.

The Management Board's report on the operations of Makarony Polskie SA Company in the financial year 2017 provides a true picture of the Company's development, achievements and standing, including a description of the main threats and risks.

Declaration on the selection of the entity authorized to audit financial statements

The Management Board of Makarony Polskie SA with its registered office in Rzeszów declares that the entity authorized to audit financial statements, auditing the annual consolidated financial statements of Makarony Polskie SA Group and the annual financial statements of Makarony Polskie SA for the financial year ended 31 December 2017 was selected in accordance with legal provisions.

That entity and statutory auditors performing the audit met the conditions for issuing an impartial and independent opinion on the audited financial statements, in accordance with the applicable regulations and professional standards.

Approval of the financial statements

This Management Board Report on the operations of Makarony Polskie SA and Makarony Polskie Group in the financial year 2017 has been approved to be made available by the Management Board of the parent company on 20 March 2017.

Zenon Daniłowski
President of the Management Board

Company information

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

www.makarony.pl

Registered in the District Court in Rzeszów, 12th Commercial Division of the National Court Register on 5 July 2004 registration number 0000212001.

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

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Unless otherwise indicated, the source of data in this report is the Makarony Polskie Group