Management Board Report on the Operations of Makarony Polskie SA and the Makarony Polskie Group in the Reporting Year 2018



Rzeszów, 25 April 2019

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This "Management Board Report on the operations of Makarony Polskie S.A. and the Makarony Polskie Group in the Reporting Year 2018" was prepared based on § 71.8 of the Regulation of the Minister of Finance of 29 March 2018 on current and interim information disclosed by the issuers of securities and conditions of considering equivalent the information required by the laws of a country other than a member state.

Last year was successful for our Group, as it generated total consolidated sales at the level of PLN 154 million, net profit of PLN 5.8 million, and EBITDA of PLN 14.1 million.

Letter of the President of the Management Board



Dear Readers,

Dear Shareholders,

On behalf of the Makarony Polskie Group I wish to present to you the report of the Management Board and the financial statements for the year 2018.

I am really satisfied to announce that it was another year of balanced development in the basic areas of our operations. Consolidated sales grew by 6.3% compared to the preceding year and amounted to PLN 154.0 million. Along with the volume increase, also the quality of our product offer improved, as it was extended for new, innovative pasta made of leguminous plants flours and health-promoting pasta.

In 2018 we concentrated on production, performance of investment projects and improvement of the Group organisation. In that period we generated EBITDA surplus at the level of over PLN 14.1 million, with the profitability level of 9.1% and net profit of PLN 5.8 million, which results in 3.8% net profitability in reference to sales. The earnings per share amounted to PLN 0.63, whereas the value of one share grew to PLN 8.52. In order to accomplish the presented results, we had to maintain the proper relationship between sales and costs, which had not been easy, as the cost pressure on the market of workforce and the basic raw materials had been really strong.

In the reporting period, we were carrying out four investment projects, two in Rzeszów and two at Stoczek Natura. In the second quarter of 2019 we are going to complete the first and the largest of the projects, which is the launch of a modern engineering line to manufacture high-protein pasta at the production plant in Rzeszów. That unique technology results from the cooperation with an established scientific institution, a manufacturer of engineering lines and our R&D Centre. The innovation refers mainly to the ingredients, the mixing of raw materials, pastry making and products forming, which will contribute to a unique taste, colour and texture of the manufactured pasta.

Letter of the President of the Management Board

The other three projects commenced in 2018 are pending and their completion is planned for 2019. The new production capacity as regards pasta and ready-cooked meals merged with the high competencies of the staff will improve our competitive position on the market of brand and private label products. Developed are going to be the Makarony Polskie and Stoczek brands as well as the new Novelle brand. Novelle is a response to the needs of our requiring consumers with regard to the modern and trendy diet based on vegetable raw materials.

In 2018, the Makarony Polskie Group strengthened its market position as a manufacturer of innovative, high-quality and tasty products. We put a great effort into reorganising production capacity, optimising the organisation and developing our products.

2018 was another year of creating the strong Makarony Polskie Capital Group.

Please enjoy reading the complete text of the report.

Yours faithfully,

Zenon Daniłowski
President of the Management Board

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

Characteristics of the Makarony Polskie Group

Organisation of the Group

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

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



Makarony Polskie SA is a manufacturer of a broad assortment of pasta made by extrusion or rolling. The Company offers pasta in various forms, produced from durum wheat flour or regular wheat flour. In its portfolio the Company has also products which reply to the health-promoting food trends, such as pasta made of rare spelt, buckwheat or rye flours, as well as BIO products. The product offer is supplemented by flavoured pasta (e.g. with the addition of spinach, garlic, chilli pepper, lovage, parsley or dill), large pasta forms for stuffing, and vegetable pasta manufactured from leguminous plants, such as chickpeas, red lentils, or green peas.

The basic offered pasta brands are Makarony Polskie, Sorenti and Abak (bi-brand with Makarony Polskie). Under the Sorenti brand also pasta sauces are offered.

Stoczek Natura Sp. z o.o. is the manufacturer of meat and vegetable products (ready-cooked meals, pâtés, lard, tinned food), vegetable products (salads, pickles, bakery stuffing) and fruit products (jams, syrups, fruit pastes, sweet fillings), offered under the Stoczek, Tenczynek and Męska Rzecz brands, as well as dried fruits and vegetables offered under the Deli-Susz brand.

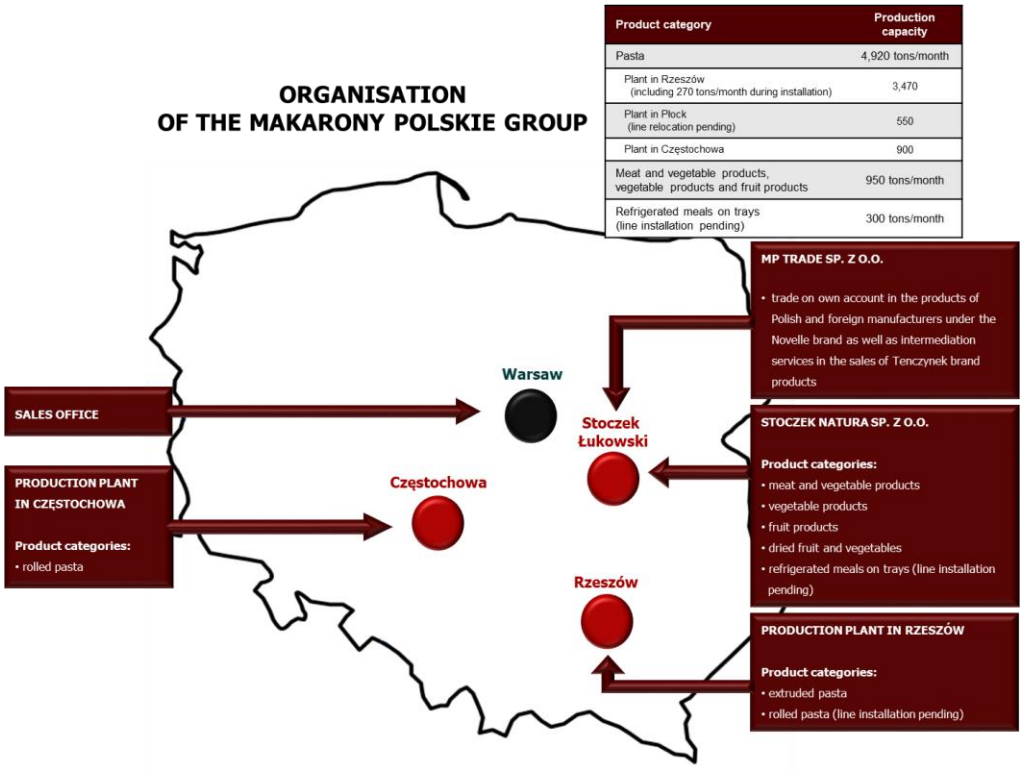
MP Trade Sp. z o.o. has been developing trade on its own account in the goods of Polish and foreign manufacturers. In 2018 the activities of the company concentrated on intermediation in selling Tenczynek brand

products, and selling the products purchased from external suppliers under the company's own Novelle brand. The business model assumed by the company is frequent on the market. The main value creating the company goodwill in that model is the growing brand value, whereas production is contracted with third parties.

Changes in the organisation of the Makarony Polskie Group in 2018

In 2018 no changes were introduced in the Makarony Polskie Group which would have a major impact on the structure or organisation of the Group.

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



In the reporting year 2018 reorganisation of the MP Trade Sp. z o.o. subsidiary, which commenced in the second half of 2017, continued. MP Trade Sp. z o.o. was mainly acting in that period as an intermediary in selling the Tenczynek brand, and selling products purchased from external suppliers under its own Novelle brand. The assumed business model is frequent on the market. The main value creating goodwill in that model is the growing brand value, whereas production is contracted with third parties.

However, the possibility of extending the scale of activities and improving the financial results of MP Trade Sp. z o.o. based on the currently product portfolio is limited. The

Company has started building the value of the Novelle brand by extending its product portfolio and intensification of marketing activities. New products will be gradually introduced in the Novelle brand portfolio.

In the coming periods MP Trade Sp. z o.o. is going to concentrate on further development and proper placement of the Novelle brand. There are plans to extend the Novelle offer for new product lines based on vegetable proteins and processed products treated as delicacies, such as date spread or vegetable pastes. Works over the development of new products are going to be carried out in cooperation with the marketing team of Makarony Polskie SA and the New Product Development (NPD) teams operating at the Makarony Polskie Group.

The possibility of MP Trade Sp. z o.o. growth depends, on the one hand, on the market situation and, on the other hand, on introduction of innovative products from the vegan and vegetarian assortment. The market of products based on vegetable proteins and delicacies such as the line of date spread or vegetable pastes, reflects growing trends all over the world.

Considering the development plans of MP Trade Sp. z o.o., Makarony Polske SA made a decision during the reporting year 2018 to increase the share capital of that company. The capital was increased for the amount of PLN 1.0 million, i.e. from PLN 0.5 million to PLN 1.5 million, by creating 10,000 shares of the nominal value of PLN 100.00 each, and the total value of PLN 1.0 million. The newly created shares were fully covered with a cash contribution by the existing sole shareholder of the company – Makarony Polskie SA. The change in the share capital was entered in the National Court Register on 28 August 2018.

Selected market data

"World pasta market will be worth over PLN 110 billion (USD 31 billion) in 2021. The average ratio of its annual growth (CAGR) is planned to reach 5.76%, and the largest sales market for pasta will still remain Asia and Pacific" (source: technavio.com „Global Pasta and Noodles market 2017-2021").

The pasta market has been quite stable in Poland as regards structure (product assortment and manufacturers competing on the market), and in accordance with the projections for the coming years, it is going to grow at a stable rate of 2.7% a year (in quantities).

The key trends affecting the pasta market are:

- the growing popularity of health-promoting pasta (health and wellness pasta);

- the growing demand for local tastes and varieties;
- the focus on applying natural ingredients and creating the so called "clean label" products.

A strong trend on the food market is the fashion for healthy nutrition and a variety of diets, such as gluten-free, low-carbohydrates or vegan ones. The pasta market has been adjusting to the customers' expectations in that regard in a fast and innovative manner. We have been observing numerous launches of BFY (Better-For-You) products based on whole grains, alternative cereals, leguminous plants or gluten-free ingredients and vegetables, which greatly contributes to the growth rate of the whole category.

"Gluten-free" revolution is a very strong trend and will probably rest in the category landscape for long. Important is the fact that currently the main recipients of gluten-free products are not people with allergies but those who consider food without that ingredient to be better for their health.

Healthy products are currently a standard expected by the customers, therefore, manufacturers striving for being distinguished among the competitors, enrich their products with various functional additions. Superfoods (chia, quinoa, algae) and original cereals (amaranth, buckwheat, kamut, millet/millet groats, teff, sorgo and spelt) are the front runners on the pasta market. Growingly common are also the vegetable trends, among which kale or black garlic are also considered to be superfoods. In each case the consumers search for ingredients characterised with a very high contents of vitamins, minerals, or antioxidants, which are to protect their bodies against diseases. How? Mainly thanks to the antioxidants which hinder the development of neoplastic cells, and thanks to vitamins, minerals and fatty acids, which make the cardiovascular, nervous, alimentary and immune systems work more efficient to create a better protection against the impact of external factors.

Also important in that category is the convenience trend, specifically as regards time. Statements specifying the time needed for the consumer to prepare a product have become as important as those regarding the nutrition-value or ingredients. The most frequent claim in that trend is the short preparation time, but there are also facilitations in the form of packaging (for example a ziplock bag) or single helping. Convenience also means flavourings, which saves some of the cooking work, both inside the pasta and added in the form of a sauce or a seasoning sachet.

As regards the current market trends, the growing consumers awareness with regard to avoiding food waste must be mentioned. The "zero waste" trend has been observed not only in packaging diversification by the manufacturers, into standard, family or single helping ones, but also the social trend promoting sustainable purchasing (buy as much as you can eat) and educating the consumers in complete utilisation of food products. Pasta

fits that context ideally, as it is an inspiring cooking base to prepare many meals with a variety of ingredients, starting from soups and ending with main courses or hot and cold snacks.

An average annual quantitative growth of 3.2% has been expected on the Polish market of ready-cooked meals. The market is characterised with fast structure changes, both as regards the offered products and the manufacturers competing thereon.

On the European markets a trend consisting in the development of ready-cooked meals on trays and in mugs has been observed, at the account of a shrinking number of jarred products. In Poland, the shelf-stable products still enjoy the highest market share, but also here the gradual turn of the consumers towards refrigerated products has been more pronounced. This results from a strong convenience tendency. The manufacturers have been searching for new solutions, which will facilitate food heating and consumption for the people. The convenience and speed have also been emphasised by the proposed products inspired by take-away meals. The category has also watched the growing popularity of meal kits enabling independent composition of one's own meals, which originates from the compromise between mass ready-cooked meals without any individual traits, and a long time needed to prepare meals from the scratch.

The health-promoting and natural characteristics has been more and more important in the ready-cooked meals category, perceived as highly processed. The demand for "free off..." food has been increasing along with the higher consumers awareness and their concerns about allergies and preservatives. Also in that regard the consumers expect "clean labels", meaning products free of artificial additives, taste enhancers or preservatives, while the manufacturers emphasise the simplicity and health-promoting characteristics of the recipes.

Characteristics of the Makarony Polskie Group

The Makarony Polskie Group has been operating on the domestic market (covering for modern trade, traditional trade as well as B2B and institutions) and on foreign markets. As regards exports, the Group has been establishing cooperation with new customers on the European markets (Ukraine, Norway, Slovakia, Germany, Serbia), the African markets (Egypt and the RSA), the Asian markets (Hong Kong and Iraq) and in the USA. It has also been continuously extending the product range offered to the existing customers.



In 2018 the Makarony Polskie Group operated mainly on the European markets (Ukraine, Norway, Slovakia, Germany, Serbia).

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

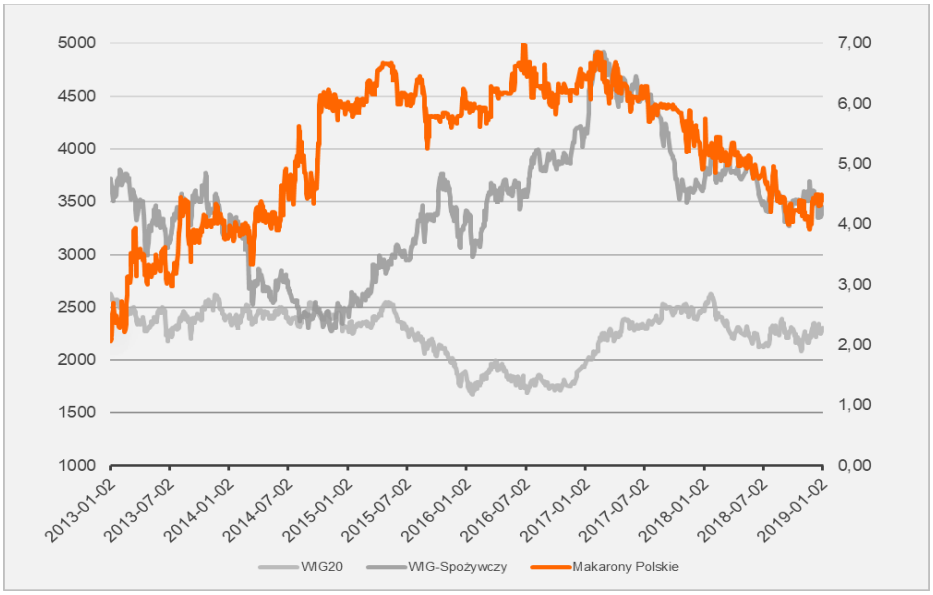
Within the perspective of the next few years the most important will be the e-commerce sector, as a rightful sales channel. The Group plans a multi-level entrance in that promising sector, mainly by presence on the commercial platforms of its contractors and improved activities in social networking media,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

Currently, the market observes better development of the sector of services than that of trading goods, which may translate in the future in slower growth rates of the food categories in which the Group is present as regards business to customer (B2C) segments. Therefore, the Group sees its potential in the business to business (B2B) sector, particularly in the category of products for catering. In its B2C distribution policy the Group is going to concentrate on customers with the highest sales potential in the food products categories represented by the Group as food manufacturer.

Makarony Polskie SA on the capital market

Listings and major indicators

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



	2013-01-02	2014-01-02	2015-01-02	2016-01-04	2017-01-02	2018-01-03	2019-01-02	Change from 2013-01-02
Makarony Polskie	2.06	3.8	6.03	6.03	6.45	5.15	4.4	114%
WIG20	2,626	2,431	2,309	1,804	1,957	2,463	2,302	-12%
WIG-Spożywczy	3,719	3,330	2,452	3,409	4,195	3,696	3,447	-7%

Dividend policy at Makarony Polskie SA

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

flows, it is necessary, in the opinion of the Management Board, to ensure adequate own contribution on the part of the Group.

On 28 June 2018, the Annual General Meeting of Makarony Polskie SA passed Resolution No. 15 regarding the payment of dividend amounting to PLN 2,312,517.75, i.e. PLN 0.25 gross per share. The remaining part of the profit amounting to PLN 2,936,371.26 was assigned to the supplementary capital of the Company.

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

In 2019, the Management Board of the Company decided to recommend to the Annual General Meeting to distribute net profit for the period from 1 January 2018 to 31 December 2018 amounting to PLN 5,069,631.54 in the following manner:

- assign PLN 2,312,517.75 to the dividend pay-out, i.e. pay out dividend in the value of PLN 0.25 gross per share;
- assign the remaining part of the profit amounting to PLN 2,757,113.79 to the supplementary capital of the Company.

In accordance with Article 382.3 of the Code of Commercial Companies, the recommendation was presented by the Management Board to the Supervisory Board and was signed off by the latter. The final decision regarding profit distribution for the reporting year 2018 will be made by the Annual General Meeting of the Company.

The Management Board of the Makarony Polskie SA has decided that in the subsequent reporting years it will try to recommend to the AGM the payment of dividend to shareholders, although the possibility to pay out the dividend may depend on the value of profit generated, the current investment objectives and the standing of the Company.

Application of revenues from the shares issue

In the period from 1 January 2018 to the date of publishing this report, the Company has not carried out any shares issues.

Dialogue with shareholders and investors

The presence on the capital market is treated by the Company as an element of long-term development strategy. The Company has been undertaking actions aimed at building long-

lasting and professional relations with all capital market participants, and ensuring equal access to information for all groups of stakeholders.

A major form of the Company communication with its shareholders and investors is the Company's website at www.makarony.pl. In the "Strefa Inwestora" [Investors Zone] section the Company publishes current information important for the shareholders and investors, e.g. news, events, current financial results.

The Company has provided an e-mail (relacje@makarony.pl), to which all of the interested shareholders, investors and analysts may send questions regarding the broadly understood Investor Relations. The replies and explanations regarding the subjects touched by the stakeholders are provided by the Company in consideration of the ban applicable under the binding legal regulations.

At two weeks before the publication of periodical financial reports the Company does not organise any meetings with investors or does not participate in any such meetings.

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

Operations of the Makarony Polskie Group

Main products and services

Brand products assortment

PASTA

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



The brand portfolio covers both the traditional egg-made pasta (rolled, offered as a bi-brad with Abak brand) and extruded pasta made of various types of flour, including flours originating from organic farming, as well as functional pasta of dietetic and health-promoting nature (100% spelt, rye or buckwheat flour pasta, or wholemeal pasta with increased fibre content). Additionally, under the same brand a completely new product line has been introduced under the name of "W Kuchniach Świata" [World's Cuisines], inspired with the taste of the sunny Italy, based on the "large" pasta forms manufactured in 100% of hard durum wheat, intended for stuffing.



Following the strong food market trend to offer products in single-helping packaging, the health-promoting line is also offered by the Company in 100 g packaging, promoted with the motto "W sam raz na raz" [Perfect for one meal].



In 2018 the egg-made pasta had been enriched for new indexes of popular pasta forms: tagliatelle pasta of two ribbon widths, offered on attractive trays. The advantage of such products is their quality, hand packing and broad culinary use.





Further novelties of the line are the popular forms of egg-made pasta dedicated mainly as an addition to soups: strands and ribbons of the characteristic irregular line resembling home-made and cut pasta. All of the new egg-made pasta varieties are offered under the flag brand of the Company, supported by the Abak brand.

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



SORENTI – a brand created with a thought about connoisseurs of the Italian cuisine. The brand assortment includes the most popular forms of pasta produced in 100% of the highest-quality milled hard durum wheat. On the domestic market the Sorenti brand is basically present in the modern channel. The advantage of the Sorenti brand in the tight-competition environment is the reasonable price of products. The Sorenti brand is also a very attractive exports product with high development and further internationalisation potential.

MEAT AND VEGETABLE PRODUCTS



The brand assortment of meat and vegetable products covers ready-cooked meals and sandwich meat under the brands of Stoczek and Męska Rzecz. The ready-cooked meals offered by the Group, being classical lunch meals of the Polish cuisine, combine the home taste with the comfort and speed of their preparing. Therefore they perfectly fit the current trends on the food market.



The jarred meals assortment has been perfectly supplemented by the "W Kuchniach Świata" [World's Cuisines] line, which responds to the new consumer trends, as well as thick soups with pieces of meat.

Męska Rzecz is a brand dedicated to the broadest group of consumers in that food category, seasoned particularly to fit the men's taste, which competes on the shelf with its very reasonable price.



The offer of Męska Rzecz and Stoczek brands is supplemented with soups and canned meals, including ready-cooked meals in XXL size (approx. 800 g) for those who like to eat well in large quantities. The meals are not only tasty and satiating but also healthy – without preservatives, artificial colourings, flavourings or taste enhancers.

The portfolio of that product group has been gradually extended. Lately, the offer has been enhanced for, among other things: Bogracz Szwejka [Švejk's stew], Gołąbki Zamojskiego [Zamoyski stuffed cabbage], Uczta Kozaka z wędzonką [Cossac's treat with smoked meat], Uczta Sułtana z Curry [Sultan's treat with curry], Potrawka Hanysa [Silesian's fricassee].

VEGETABLE PRODUCTS



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

Moreover, the Tenczynek brand comprises fillings and salty stuffing for the bakery sector and catering. This is a rapidly developing market.

FRUIT PRODUCTS

The fruit products assortment covered plum and other fruit jams (Stoczek and Tenczynek) as well as syrups (Tenczynek) – manufactured to the highest quality. In reply to the market trends of developing new taste categories, the Group has been working on the extension of portfolio for such products, mainly for export.

DRIED FRUIT



A novelty introduced at the end of 2017 is dried fruit offered by Stoczek Natura Sp z o.o. under the Deli-Susz brand. The brand portfolio consists of five products based on dried Polish apples: apple chips in three flavours (natural, with cinnamon, and sour) as well as two flavours of dried fruit (apple and raspberry, apple and cherry). These products respond to the trend of searching healthy alternatives to high-calorie snacks full of chemical additives, because they are 100% natural without any preservatives, artificial colouring, sugar or fat.

NOVELLE BRAND

One of the Makarony Polskie Group companies is MP Trade Sp. z o.o., whose objective is to develop trade on its own account in products offered under the Novelle brand, both on the domestic and foreign markets.

MP Trade has its own product brand registered by the Polish Patent Office – Novelle. In 2018, under that brand the company offered tortellini pasta of various flavours, German type egg-pasta (Spätzle) as well as pasta made of leguminous plants flours (chickpeas, red lentils, or green peas). Moreover, concept work and production tests of new products were carried out, such as date spread, vegetable pastes, vegan lard and vegan meals. The first market launches of the new assortment had been planned for the first half of 2019. The strategic objective of MP Trade Sp. z o.o. is to further develop its own product offer under the Novelle brand.



The brand is going to be extended, and the offer will be constantly adjusted to the identified market trends and consumer needs. In accordance with the assumptions made by the company, the Novelle brand is going to be an umbrella one, under which health-promoting products will be offered, and particularly vegetable products with "clean labels".

Private label products assortment

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

Extending its assortment in the private labels of commercial chains, the Makarony Polskie Group focuses on global tends present on the food market, and specifically: healthy and natural, convenience, local origin, and premium products.

The key method to attract and care for loyal customers is to offer premium products at affordable prices. In reply to the expectations of the commercial chains, the Group portfolio has been extended for rolled egg pasta, large form pasta extruded on bronze moulds, flavoured pasta (herbs, species) as well as packaging which emphasises the high quality of products, e.g. packaging with hand bound paper tags, embossed and gilded cardboard boxes.

The consumers have been more and more frequently searching for health-promoting food. Therefore, the Group has focused on the development of pasta manufactured from vegetable flours (rich in fibre and minerals) as well as organic flours (bio products).

Also important in purchasing food is the convenience trend, understood as the easiness and convenience in preparing meals and eating them, time saving, "fast" food, take-away food, purchased and consumed based on a stimulus, easy handling (unpacking, storage, waste disposal), and miniaturisation. The Group has carried out development work focusing on creating an offer responding to that trend.

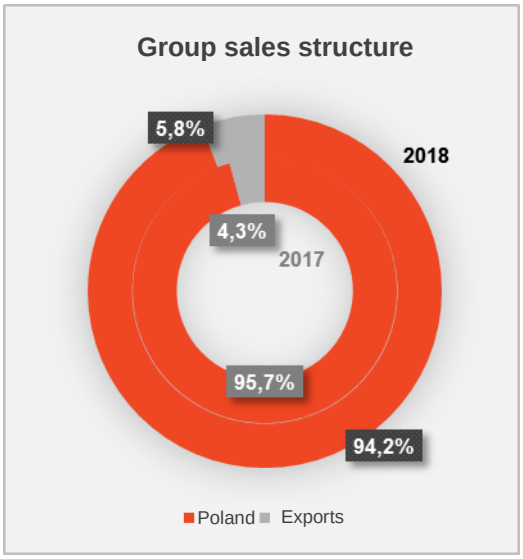
In categories other than pasta, we have improved our position in meat and ready-cooked meals under the private labels of commercial chains.

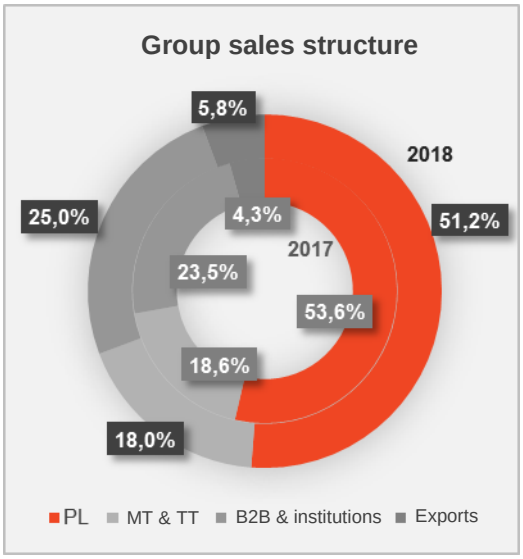
Considerable interest of large and small shop chains in the purchases of private label products from the Makarony Polskie Group confirms the high quality of products as well as the organisational efficiency of the Group and contributes to its competitive position and reliability.

Market environment

The sales markets of the Makarony Polskie Group may be divided into domestic market (including private label, traditional trade, modern trade, and B2B and institutions) and exports market (including sales to domestic intermediaries). As regards Like-for-Like (LFL) measure, the Group generated the following sales revenues in 2018:

PLN '000	2018	2017	YoY
Sales revenues	154,017	144,872	+6.3%





Private label

The largest share in the Group revenues (51.2%) was contributed by the private label (PL) channel offering products under own brands of domestic and foreign shop chains (in consideration of the sales to Lidl operating within one group in Europe).

PLN '000	2018	2017	YoY
Sales revenues	78,903	77,685	2%

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

In 2018 sales in that channel grew by 2.0% compared to 2017. Higher sales revenues resulted from the introduction of a new assortment to the fixed list of products, with simultaneous maintenance of the previously offered products, and attracting new contracts for the sale of jams.

The main recipients in that channel are such shop networks as: Jeronimo Dystrybucja Polska, Lidl, Netto, Auchan, Aldi, Żabka, Carrefour, Intermarche, Stokrotka, GK Specjał, and Lewiatan.

In 2018 only two customers exceeded the threshold of 10% share in the consolidated sales revenues (total for brand and private label products). These are Jeronimo Dystrybucja Polska with approximately 23.7% share and Grupa Lidl with roughly 10.3% share. The Group companies are in no way related to the operator of that shop chain, whereas cooperation is carried out on partner basis and is favourable to the Makarony Polskie Group.

Modern trade and traditional trade

Another significant revenue source for the Group equivalent to 18.0% sales on the domestic market is the sales of the Group brands (Makarony Polskie, Sorenti, Stoczek, Tenczynek, Męska Rzecz, and Novelle) in the modern trade (MT) and traditional trade (TT) channels:

MT and TT (PLN '000)	2018	2017	YoY
Sales revenues	27,736	26,943	3%

Higher sales resulted mainly from:

- consequent and effective fulfilment of long-term sales development strategy;
- introduction of a new price policy, verification and renegotiation of contracts;
- conclusion of new contracts.

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

In 2019 the Group plans to develop cooperation and attract new foreign, domestic and local shop networks which have not yet been serviced. Additionally, in cooperation with the companies offering external sales forces, the Group plans to improve the service of the current customers and attract new recipients.

B2B and institutions

In 2018 B2B and institutions represented approx. 25.0% of the total revenues of the Group.

B2B and institutions (PLN '000)	2018	2017	YoY
Sales revenues	38,494	34,015	13.2%

Sales in the B2B and institutions channel in 2018 amounted to nearly PLN 38.5 million and were by nearly PLN 4.5 million (13.2%) higher than in 2017.

Within the B2B channel the Group runs the sales of pasta and semi-products, such as sweet fillings and salty stuffing for the bakery sector.

Growth of sales is the result of extending cooperation with the existing contractors and attracting a new recipient in the B2B channel.

A relatively new form of the Group activities – manufacturing of sweet fillings and salty stuffing – has been positively received by the market from the very beginning. Stoczek Natura Sp. z o.o. invested in state-of-the-art machines to pack the fillings and stuffing. The manufacturing line complete with a thermoforming function enables offering products of very good quality with extended shelf life. The Group has been striving for attracting new promising recipients in that area.

Exports

Within the total revenues of the Group in 2018 exports represented 5.8%:

Exports (PLN '000)	2018	2017	YoY
Sales revenues	8,883	6,229	42.6%

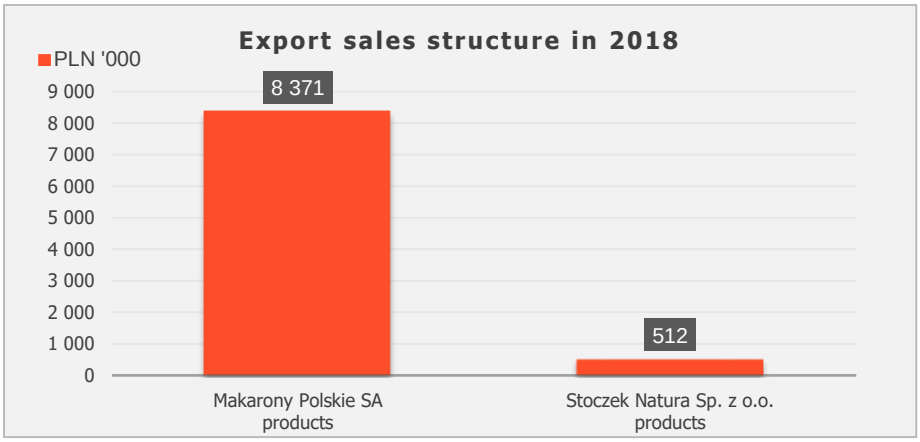
Export sales of the Group accounted for nearly PLN 9.0 million in 2018 (through own trading team and through intermediaries). The result was higher by 42.6% than in 2017. The main export market had been Ukraine, invariably. The Group has now been introducing a long-term strategy of attracting new sales markets. Direct relations established with the final recipients have positively translated into the level of margin generated.

Operations of the Makarony Polskie Group

In 2018 the Makarony Polskie Group operated mainly on the European markets as well as in Africa, Asia and the USA.

In the years to come the Group plans to focus its activities on the markets of Northern Africa and Ukraine.

The chart below presents the export sales structure broken down into products manufactured by the production plants of the Group in Rzeszów and Częstochowa (pasta) and the production plant in Stoczek Łukowski (Stoczek products).



In 2018 the Makarony Polskie Group operated mainly on European markets (Ukraine, Norway, Slovakia, Germany, Serbia), and to a lesser extent on the African markets (Egypt, the RSA), Asian markets (Hong Kong, Iraq) and in the USA.

In 2016–2018, in liaison with other manufacturers associated within the Polish Pasta Chamber (PIM), the Company was carrying out the "Makarony Europy" [European Pasta] programme run by PIM. The purpose of the programme was pasta promotion in Ukraine and the People's Republic of China. The Ukrainian and Chinese recipients (consumers, distributors) were educated about the healthy characteristics of pasta, variety of pastas and high quality of products originating from the EU, including Poland (advertisements were broadcast on TV, published in newspapers and on the Internet, as well as many promotional actions carried out during fairs and at sales outlets). The programme contributed to the development of sales markets and increase in the sales volume of pasta manufactured in the European Union. The manufacturers associated within the programme created an informal sales group. In 2018 the export sales of the Company to the Ukrainian market grew by about 50% and it is going to be continued in the subsequent years.

In the years to come the Group plans to focus its activities on the European markets, mainly Ukraine. For the performance of the objectives the Group has attracted partners on the local markets who support the Group in further sales development on those markets.



Major agreements

Agreement with Jeronimo Martins Polska SA

Based on the agreement signed by and between Makarony Polskie SA and Jeronimo Martins Polska SA, pasta is sold to the Biedronka chain under the chain's private labels: Pastani, Dobrusia and Makaron Szlachecki.

Agreements with the Lidl chain

Based on the agreements concluded by and between Makarony Polskie SA and the Lidl chain, the chain shops offer a variety of products manufactured by the Company.

Agreement on co-financing of the project entitled "Creation of a Research and Development Centre for the Pasta Industry at Makarony Polskie SA"

Starting from April 2017 the Company had been performing the agreement on co-financing of the project entitled "Creation of a Research and Development Centre for the Pasta Industry at Makarony Polskie SA". The agreement was concluded with the Ministry of Development and Finance, the project received a subsidy within Measure 2.1 "Support for Investments in R&D Infrastructure of Enterprises", under the Smart Growth Operational Programme 2014–2020.

The subject of the subsidy agreement is the creation of an R&D Centre of the Pasta Industry at Makarony Polskie SA. At the Centre works will be carried on innovative health-promoting products, which will finally enlarge the product offer of the Company, as well as research work on issues important to the whole pasta industry.

Within the project the Company plans to purchase fixed assets and finance construction works. For the purposes of the R&D Centre a modern line for production tests will be purchased, among other things, the parameters of which will reflect the conditions of the actual industrial production process (the line will be an asset of significant value).

The total cost of the project is about PLN 18.6 million. The total maximum amount of subsidy eligible costs is PLN 15.2 million. Co-financing value is PLN 9.1 million.

In March 2019, the Company entered into an annex to the agreement with the Ministry, the purpose of which was to postpone the project completion deadline to 31 March 2020 (the previous date was 30 June 2019). The request of the Company for a change of the project deadline resulted from the changes in the building documentation and the scope of construction works. The postponement of the project completion date will enable the Company to thoroughly fulfil its obligations and complete the project in accordance with the assumptions.

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

Annexes to investment credit agreement concluded with Santander Bank Polska SA

In June 2018 and January 2019, Makarony Polskie SA concluded with Santander Bank Polska SA (former Bank Zachodni WBK SA, hereinafter referred to as the "Bank") annexes to the EU investment credit agreement worth PLN 8 million. The credit is intended for financing of investments within the project entitled "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA".

The object of the annexes was, among other things, extension of the period of credit limit availability until 31 March 2019 (earlier the deadline was 30 June 2018) and change of the instalments repayment schedule.

The credit will be repaid in 34 monthly instalments starting from 30 April 2019, in the following values: 33 instalments of PLN 0.1 million each, plus the 34th settlement instalment amounting to PLN 4.54 million (the previous schedule assumed the credit repayment in 43 monthly instalments starting from 31 July 2018, including 42 instalments of PLN 0.09 million each, plus the last balloon instalment of PLN 4.13 million). In case the credit is repaid from the subsidy received, the repayment schedule shall change in reference to the balloon instalment repayment. The instalments of the credit will be changed in such proportion to the instalments determined in the original schedule, in which the amount of the credit utilised compares to the amount of the credit granted.

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

Starting from March 2017, the Company had been implementing the agreement on co-financing the project entitled "Implementation of the Results of R&D Works on

Functional Food at Makarony Polskie SA". The agreement was concluded with the Authorities of the Podkarpackie Province, and the project received a subsidy under Measure 1.4 "Support for SMEs" of the Regional Operational Programme of the Podkarpackie Province for the years 2014-2020.

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

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

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

In July 2018 and March 2019, Makarony Polskie SA entered into annexes to the agreement with the Authorities of the Podkarpackie Province, based on which the project completion date was determined to be 30 April 2019 (initially 30 June 2018) and the provisions regarding personal data protection were adjusted to the legal requirements of the binding Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation).

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

Annexes to credit agreements with Bank Gospodarstwa Krajowego

In July 2018 the Company concluded with Bank Gospodarstwa Krajowego annexes to the credit agreements fulfilling the criteria of a significant agreement, of the total contractual value of PLN 8.0 million (with the initial value of the credit agreements of PLN 11.0 million), i.e. agreement on credit in the current account and agreement of non-revolving working capital credit in the credit account.

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

Factors important for the Group development include:

- *building competitive advantage by investments in R&D as well as product, process and organisational innovations;*
- *attracting EU funds for the performance of projects planned by the Group;*
- *development of private label segment activities;*
- *development of B2B and institutions sales channels;*
- *increase of domestic market share and distribution level;*
- *exports development.*

The other terms and conditions of the credit agreement did not change.

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

Withdrawal by Stoczek Natura Sp. z o.o. from the performance of the project entitled "Creation of an R&D centre at Stoczek Natura Sp. z o.o."

In Mach 2018, Stoczek Natura Sp. z o.o. made a decision on withdrawal from the performance of the project entitled "Creation of an R&D centre at Stoczek Natura Sp. z o.o.", within Measure 2.1 Support for Investments in R&D Infrastructure of Enterprises under the Smart Growth Operational Programme, and resigned from the subsidy agreement concluded with the Ministry of Investments and Development in September 2017.

The Management Board of the Subsidiary made the said decision after carrying out a thorough subject-matter and financial analysis, and in consideration of other pending and approved investment tasks and projects needed for the development of the company activities.

Factors important for the Group development

Factors affecting the future results of the Company and the Group

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

- R&D development in the area of innovative products such as functional or health-promoting food – an interdisciplinary team has been established at Makarony Polskie SA which in cooperation with scientific institutions works on the development of

innovative manufacturing technologies of new low-processed and health-promoting products that are easy to prepare;

- extension of the production and warehouse building for another part, i.e. flour handling station to house bulk raw materials and additives store as well as cooling plant for liquid raw materials and additives within the performance of the R&D Centre creation project;
- completion of investment in automated flour and bulk ingredients dosing system at the production plant in Częstochowa, which enabled extension of the production capacity and made the production process more flexible;
- purchase of an automatic horizontal packing machine, which enables packing products in a new attractive type of packaging and forming promotional packages to be broadly used in marketing activities;
- launch of the sales of rolled tagliatelle egg-pasta, which is a promising product popular among the consumers, of broad culinary application scope;
- at the Częstochowa plant projects are pending in order to reduce energy consumption and workload in the production process, and to improve product safety;
- at Stoczek Natura Sp. z o.o. research is in progress to adjust the plant to the global trends in food production: convenience products, health-promoting products, and innovative forms of packaging of the offered products.

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

- the project entitled "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA" carried out within Measure 1.4 – Support to SME, under the Regional Operational Programme of the Podkarpackie Province 2014–2020, assumes implementation of the research and development works carried out in cooperation with a scientific institution, consisting in the development of innovative products recipes, with the use of raw-materials which have not been used in the pasta sector on a standard basis. The main objective of the project is the expansion of Makarony Polskie SA on the market of functional food;
- the project entitled "Creation of a Research and Development Centre of the Pasta Industry at Makarony Polskie SA", carried out within Measure 2.1 "Support for Investments in R&D Infrastructure of Enterprises", under the Smart Growth Operational Programme 2014–2020, assumes creation of an R&D Centre of the Pasta Industry at Makarony Polskie SA. At the Centre works will be carried on innovative health-promoting products, which will finally enlarge the product offer of the Company, as well as research work on issues important to the whole pasta industry. Within the project the Company plans to purchase fixed assets and finance construction works. For the purposes of the R&D Centre a modern line for production

tests will be purchased, among other things, the parameters of which will reflect the conditions of the actual industrial production process (the line will be an asset of significant value);

- the project of Stoczek Natura Sp. z o.o. entitled "Energy effectiveness improvement at Stoczek Natura Sp. z o.o." carried out within Priority Axis 5 – Energy efficiency and low-emission economy, Measure 5.1. Improvement of energy efficiency of the companies within the Regional Operational Programme of the Lubelskie Province for the years 2014–2020, assumes the improvement of energy effectiveness of Stoczek Natura Sp. z o.o. through extensive thermal upgrading of the company building.
  Based on the energy audit the company is going to implement within the project some improvements contributing to lower demand for heat and electricity needed to ensure conditions enabling the performance of the production processes carried out at the respective premises. The objective of the project will be achieved through the performance of preparatory works, purchase of materials and construction works, as well as the necessary fixed assets;
- the project of Stoczek Natura Sp. z o.o. entitled "Growth of competitiveness of Stoczek Natura Sp. z o.o." within Measure 3.7 under the Regional Operational Programme of the Lubelskie Province for the years 2014–2020, assumes growth of competitiveness and innovativeness of the company on the domestic and international markets by way of implementation of the results of R&D works possessed and introduction of production innovations in the form of manufacturing technology of a ready-cooked meat product. The objective of the project is to implement innovative solutions by way of modernisation of the line for production of ready-cooked meals in jars and cans.

The performance of the project will positively affect the improvement of quality and innovativeness of the offered products, their repeatability and increase of production capacity. Additionally, as a result of the project performance, the subsidiary will gain the opportunity to introduce in its commercial offer new health-promoting products, which will be directed to a new group of consumers.

- the Stoczek Natura Sp. z o.o. project entitled "Product innovation introduction for the improvement of competitiveness of Stoczek Natura Sp. z o.o.", carried out within the Operational Programme Eastern Poland 2014–2020, Measure 1.4 "Follow the competitors", assumes company development, better competitiveness and innovativeness, by way of increasing the company potential in skilful design management and more extensive design use in the operations. The planned effect of the project is to introduce new, innovative products on trays to the company offer, implement product, process and marketing innovations, purchase a modern engineering line to manufacture ready-cooked meals on trays, extend the customer base, improve sales revenues, automate production processes, increase design management awareness within the structures of the organisation, ensure cohesive communication with regard to the company visual identification, and to diversify production by introducing new products. The project is expected to be completed in August 2019;
- the Group companies have been applying for EU funds within the 2014–2020 perspective in order to accelerate and extend the scope of investments in plant and machinery, serving the current production profile and development of new areas of operation, with the aim to maintain market position and cope with the growing demand for new, innovative products and packaging.

Development of Private Label segment activities:

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

Development of B2B and Institutions sales channel:

- development of pasta categories, as well as meat and vegetable, vegetable, and fruit products tailored to the expectations of the channel customers;

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

Increase of domestic market share and distribution level:

- intensification of marketing activities focusing on the development of the Makarony Polskie brand, as well as rebranding and new definition of the brands of Stoczek Natura, Sorenti, Tenczynek and Novelle. In 2019 the Group plans to prepare a marketing programme;
- development and implementation of the mechanisms of cooperation with wholesale customers, local retail networks and shop chains, particularly as regards convenience and international medium and small scale chains – as a strategy of selective distribution in consideration of the specifics of the categories within the Group area of operation;
- concentration on fast and effective creation of brand assortment availability in the modern channel and implementation of effective distribution policy in the traditional channel;
- intensified trade marketing activities to support sale and resale of products and build standing relations with the customers.

Exports development:

- concentration on European markets, particularly Ukraine, where the Group has been systematically developing its cooperation with commercial chains;
- change of the model of the Group operation on the Egyptian, Middle East and African market for the purpose of effectiveness improvement. On those markets the Group has been offering Sorenti branded products, which refers to a majority of exports;
- systematic growth in the number of customers on foreign markets, and specifically in the EU;
- intensified communication with the current and potential recipients by virtue of participation in sector fairs and organisation of B2B meetings on the target markets, for example;

- attracting and performing projects focused on the supply of products identified with the recipient's own brand;
- product assortment extension by offering functional products on foreign markets, e.g. wholemeal pastas with high fibre content, spelt, buckwheat and vegetable flour pastas, BIO products as well as new product categories.

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

Risks and threats important for the Group development

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

Risk of market trends changes

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

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

Competition risk

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

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

Risk of dependence on the recipients

A major part of revenues is generated by the Group through cooperation with organised commercial networks, which are centralised as regards decision-making. The possible lack of continuity in cooperation with the recipients may affect sales values. Some commercial agreements do not include strictly determined values of planned purchases to be made by the recipient during the term of the agreement. There is a risk that the recipients will file orders which are different in quantity from those assumed by the Group in its monthly plans. This may result in an inability to satisfy the demand or incomplete use of the production capacity, which will obviously translate into the Group results. In the opinion of the Group, the risk is not high, because the quantities of products supplied so far have not significantly fluctuated within a yearly timeframe, staying at the levels which were possible to foresee. Additionally, the Group companies have been systematically implementing solutions for recipients diversification and increase in the number of medium-sized customers.

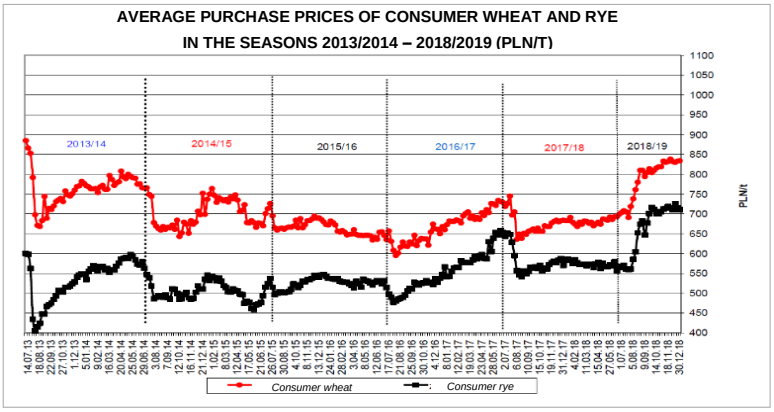
Risk related to changes in raw materials prices

The Makarony Polskie Group has been consequently performing its strategy of raw materials prices securing with long-term purchase contracts in annual and semi-annual periods, which contributes to the avoidance of major profitability reductions of the manufactured pasta. In relation to the current situation on the grain market, the Company has also monitored on a current basis the forecasts regarding both the domestic market and consumer wheat quoting on the world's markets.

In 2018, Makarony Polskie SA had term contracts for the delivery of flour in the first half of 2018, which facilitated the maintenance of raw materials purchase prices on a stable level in that period. However, due to unfavourable weather conditions in 2018 (alternating drought and heavy rainfalls in the cereals growing period), which affected the quantity and quality of harvest, there was a sudden rise in wheat prices in the third and fourth quarter of 2018. A vast majority of wheat producers were not interested in concluding half-year or annual contracts. The other manufacturers, foreseeing wheat prices increases, proposed very high prices for such contracts. Bearing that in mind, after a thorough market analysis (a lot of wheat harvested in Poland, no exports, lower wheat prices in the neighbouring countries), the Makarony Polskie Group decided to purchase wheat on a monthly basis through spot contracts.

In Q.1, 2019, the purchase prices of wheat were stable, however, they were still high, close to the level of Q.4, 2018. A slight dropping trend was observed in March 2019, and from the information originating from the European and non-European cereals markets it appears that the trend should be maintained within the coming months. Further, Makarony Polskie SA is aware that wheat production is highly susceptible to unforeseeable weather conditions, and the prices are exposed to increases due to speculations or natural disasters, therefore, projections regarding both the domestic market and the quoting of consumer wheat on the world's markets will be monitored on an ongoing basis.

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



Source: Weekly report on the market of grains, oilseeds and fodder materials – Grains Market, Week 01'2019, Sparks Polska.

The market of liquid egg pulp, after the significant increases in the last months of 2017 (by 250-260% to the level of PLN 10.0–11.2 thousand per ton), resulting form the withdrawal from the EU market of a large quantity of eggs contaminated with nitrofen, wiping out of large flocks of lying hens, the market stabilised as expected in the first half of 2018, and the prices have been systematically dropping.

Taking into account the current market trends, the Company made a decision on non-conclusion of long-term contracts and was making spot purchased on a monthly basis in 2018.

At the end of Q.4, 2018 liquid egg pulp prices amounted to PLN 3.8-4.2 thousand per ton. In Q.1, 2019, a slight increase of prices was observed, which resulted, among other things, from a higher demand for eggs before Easter. The current market prices of liquid egg pulp oscillate around PLN 4.2-4.8 thousand per ton. In the perspective of the coming months, the market of liquid egg pulp should be stable with possible slight dropping trend, with regard to the growing production due to the increased number of lying hens and reduced eggs exports.

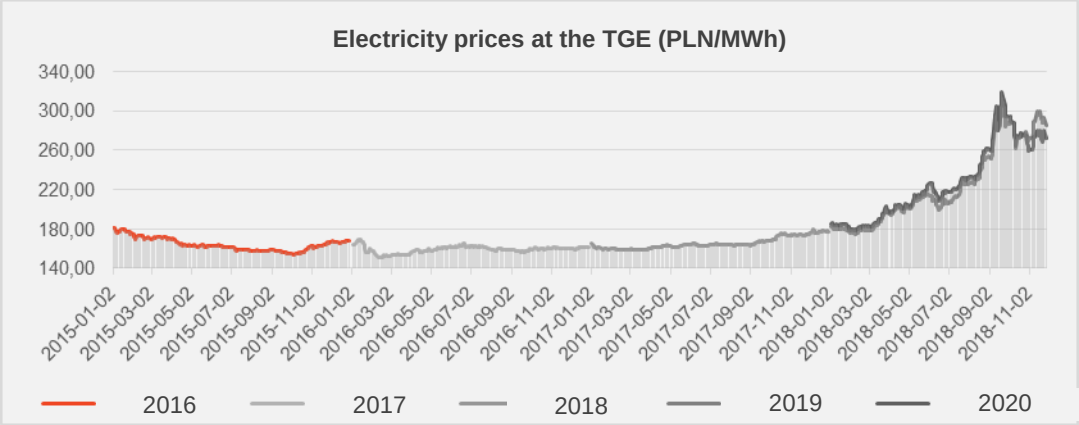
Stoczek Natura Sp. z o.o. is a manufacturer of fruit and vegetable products (including jams and salads) as well as ready-cooked meals. The prices of fruit and vegetables are highly dependent on weather conditions. The Company cooperates with the domestic suppliers of fruit and vegetables as well as an extended base of foreign suppliers of key raw materials, which gives the company better possibilities to obtain cheap raw materials of good quality. The purchase of fruit and vegetables is carried out seasonally, in the months in which the prices are the lowest. In need the purchased raw materials are stored in the in-house warehouses and cold stores. Stoczek Natura Sp. z o.o. is exposed to the growth of raw materials prices resulting from various abnormal weather conditions. Striving for the risk mitigation the company maintains an extended base of key raw materials suppliers. Additionally, in order to optimise the plant operation Stoczek Natura Sp. z o.o. has planned to outsource production of those categories of fruit and vegetable products whose market share does not guarantee to the company the optimal use of the possessed production capacity and purchase of raw materials at attractive prices.

Risk related to electric energy price changes

One of the major costs of production is the purchase of electric energy. The Makarony Polskie Group has been consequently performing its strategy of securing electric energy prices with long-term purchase contracts for the periods of at least one year, which contributes to the avoidance of major profitability reductions of the manufactured pasta and other products. Achieving low prices is possible by way of using various possibilities of purchase within the operating purchasing groups established by the Group companies or participation in lager purchasing groups created by various organisations and companies, for example by the Podkarpacie Business Club. The policy enabled major reductions in electric energy prices in the preceding years or maintaining them at a stable level.

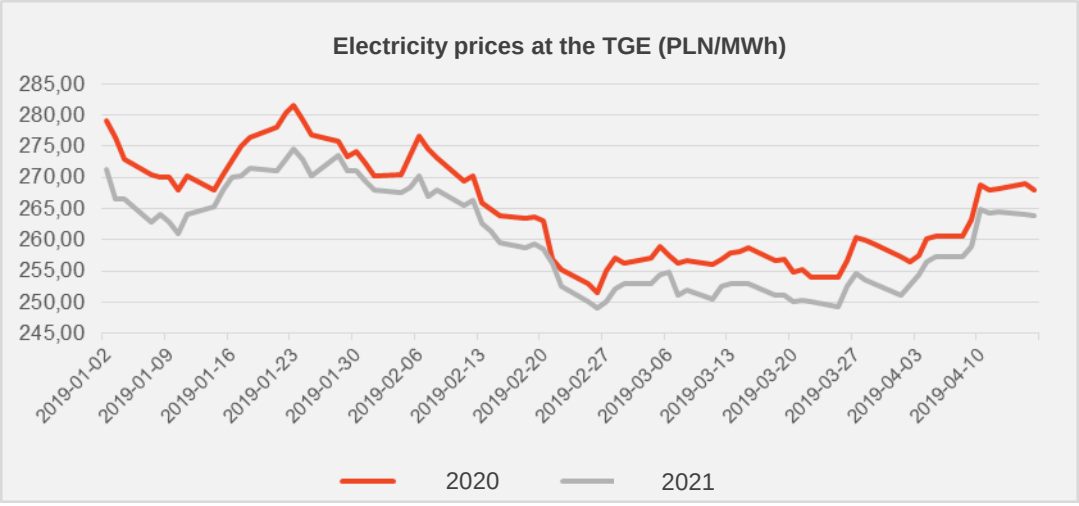
In 2018, there were major changes on the energy market, which resulted in a significant increase of energy at the Towarowa Giełda Energii [Polish Power Exchange] (hereinafter referred to as TGE). That was caused by several factors, among which the most important was the increase of world coal prices for the power engineering industry, from USD 50 per ton in 2016 to even USD 100 in 2017, higher prices of emission certificates in Europe, from less than EUR 5 per ton to nearly EUR 20–25 in 2018.

The chart presents electric energy prices at TGE in the years 2015–2018.



The purchase of energy at TGE, assuming the prices of approximately June 2018, would result in a growth of the costs of electric energy for the Group companies by about 40–50% in 2019. The intervention of the Polish government of the end of 2018 will probably result in maintaining electric energy prices for the Group companies at the level of 2018 (however, the final legal regulations are still missing). Nevertheless, that does not remove the threat of energy prices increase within a longer period of time.

At the moment there is no binding information about the plans for 2020. Shall there be no further interventions of the government or other system solutions limiting the electric energy prices increases, the cost of electricity purchase starting from 2020 may be significantly higher. Based on the current quoting of electric energy prices presented in the chart below, this would result in 35–45% higher costs in 2020 compared to 2018.



The Group companies have been closely watching the market situation development in that regard, in order to purchase electric energy at the best prices for another year or longer. There have also been analysed possible investments in renewable energy sources, trigeneration or cogeneration.

Risk of changing legal and tax environment

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

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

Risk related to foreign exchange rates fluctuation

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

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

The table below presents the currency structure for the respective classes of financial instruments as at 31 December 2018.

Groups/categories of financial instruments	Carrying amount as at 31.12.2018 PLN `000	Currency exposure as at 31.12.2018 PLN `000	EUR PLN `000	USD PLN `000
Financial assets				
Cash and cash equivalents	359	129	73	56
Trade receivables	25,599	2,204	2,204	
Financial liabilities				
Trade liabilities	28,211	5,661	5,661	

The table below presents the analysis of the financial result susceptibility to foreign exchange rates changes as at 31 December 2018.

Groups/categories of financial instruments	EUR		USD	
	5%	-5%	5%	-5%
	Impact on the financial result PLN '000		Impact on the financial result PLN '000	
Financial assets				
Cash and cash equivalents	4	-4	3	-3
Trade receivables (gross)	110	-110	-	-
Financial liabilities				
Trade liabilities	-283	283	-	-

Risk related to payroll pressure

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

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

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

Many domestic manufacturers have extended or are planning to modernise their engineering and machinery facilities in relation to the possibility of obtaining co-finance for that purpose from the EU funds. This has been forced mainly by strong competition among the (domestic and foreign) manufacturers as well as market trends, e.g. as regards new innovative packaging, energy consumption in the production process, the efficiency of machines and equipment, or automation of manual processes.

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

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

There is, however, a risk that any delay in the performance of the development projects may result in a loss of the current market position by the Makarony Polskie Group companies.

Interest rate risk

Interest rate risk is the risk of losses as a result of change in the interest rates applied by the market and change in the statutory interest. The value of revenues and costs of the Company is sensitive to interest rates changes on the market.

The Group finances its activities with credits and loans, which increases the Group's sensitivity to the interest rate risk, both as regards long-term and short-term financial liabilities.

In 2018 the Group availed of external sources of finance taken out at banks in the form of working capital credits, credits in the current account and investment credits.

As at 31 December 2018 the Group was liable PLN 24,711,000 on account of credits and loans taken out.

Currency	Interest rate	Credit/loan balance	Including	
			Short-term	Long-term
PLN	WIBOR + bank margin	24,711	14,170	10,541

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

The structure of financial instruments exposed to the risk of interest rates changes as at 31 December 2018 is presented in the table below.

Groups/categories of financial instruments	Carrying amount as at 31.12.2018 PLN '000	Amount exposed to risk as at 31.12.2018 PLN '000	WIBOR PLN '000
Financial assets			
Cash in hand and at bank	359	–	–
Financial liabilities			
Bank credits/loans	24,711	24,711	24,711
Other financial liabilities	2,173	2,173	2,173

The table below presents the analysis of the financial result susceptibility to interest rates changes as at 31 December 2018.

Interest rate	Assumed fluctuation (in percentage points) 31 December 2018		Amount exposed to risk as at 31.12.2018 PLN '000	Impact on the financial result 31 December 2018 PLN '000	
WIBOR	1%	-1%	26,884	-268.8	268.8

Credit risk

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

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

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

Financial standing of the Makarony Polskie Group

The consolidated financial statements were prepared based on IFRS, in accordance with the going concern assumption with regard to the Group companies in foreseeable future and in reference to the scope of activities which is not going to change significantly. The Group did not carry out any activities which would have been abandoned in 2018.

The financial statements of all companies were prepared for the same reporting period, by application of cohesive financial principles. The reporting year of the Group is a calendar year (except that the first reporting year for MP Trade Sp. z o.o. lasted from September 2015 to 31 December 2016).

Companies subject to consolidation:

as at 31 December 2018	**Stoczek Natura Sp. z o.o.**	**MP Trade Sp. z o.o.**
Nature of relationship	direct subsidiary	direct subsidiary
Consolidation method	full	full
Control assumption date	1 June 2007	28 September 2015
% of share capital held	100%	100%

Results discussion

The selected financial data of the Makarony Polskie Group as at 31 December 2018, expressed in PLN thousands, are as follows:

(PLN '000)	**01.01.2018-31.12.2018**	**01.01.2017-31.12.2017**
Net sales	**154,017**	**144,872**
Net sales of products and services	147,959	138,783
Net sales of merchandise and materials	6,058	6,089
Prime cost	**119,547**	**112,748**
Cost of manufacturing of products and services sold	114,157	107,024
Value of merchandise and materials sold	5,390	5,724
Gross profit (loss) on sales	**34,470**	**32,124**

Costs of sales	19,705	18,763
General management costs	6,918	6,671
Other revenues	1,562	925
Other costs	1,064	433
Profit (loss) on continued operations	**8,345**	**7,182**
Financial revenues	22	404
Financial costs	1,035	1,480
Gross profit	**7,332**	**6,106**
Income tax – current part	1,376	1,233
Income tax – deferred part	126	71
Net profit (loss) on continued operations	**5,830**	**4,802**
EBITDA (EBIT + depreciation)	14,084	12,105
Number of shares	9,250,071	9,250,071
Weighted average number of shares in the given reporting year	9,250,071	9,250,071
Profit/loss per ordinary share (PLN) *	0.63	0.52
Book value per share in (PLN) **	8.52	8.14

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

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

The consolidated revenues in 2018 amounted to PLN 154.0 million and were higher by approximately 6.3% (PLN +9.1 million) compared to 2017.

The largest growth of sale was recorded by the Group in the segment of meat and vegetable products – by about PLN 3.5 million (+12.2% YoY) – as a result of extending cooperation with B2B contractors and institutions, as well as development of the product offer for the private label channel, and in the segment of fruit products – growth by PLN 3.2 million YoY (+69.8% YoY) – as a result of attracting new private label contracts for the delivery of jams and introduction of dried fruit at the beginning of 2018.

The costs of products, services, merchandise and materials sold in 2018 amounted to PLN 119.5 million (increase by about 6.0%).

In 2018 the Makarony Polskie Group generated gross profit on sales at the level of about PLN 34.5 million (growth by PLN 2.3 million compared to 2017), with gross return on sales at the level of roughly 22.4% (22.2% in 2017).

The result on operating activities (EBIT) in 2018 was PLN 8.3 million, compared to PLN 7.2 million in 2017, i.e. roughly 16.2% growth. Profitability at EBIT level amounted to 5.4% (compared to 5.0% in 2017).

Net profit in 2018 amounted to PLN 5.8 million and was higher than the result for 2017 by PLN 1.0 million (+21.4%). Sales profitability calculated in reference to net profit amounted to 3.8% (compared to 3.3% in 2017).

In 2018 the Group reported EBITDA at the level of about PLN 14.1 million, compared to approx. PLN 12.1 million in the first half of 2017, i.e. growth by roughly PLN 2.0 million YoY, i.e. 16.3%. EBITDA profitability in 2018 was 9.1% compared to 8.4% in 2017.

Consolidated statement of other comprehensive income, net – hedge accounting

FOR THE PERIOD	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Net comprehensive income	5,830	4,802
Profit/loss on account of hedge accounting application	0	0
Total net comprehensive income	5,830	4,802

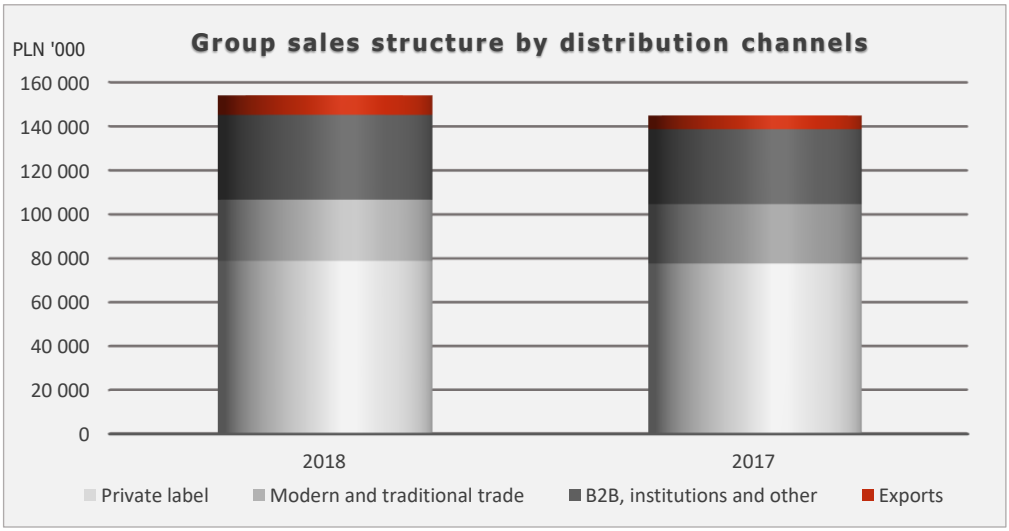
Generated results vs projection

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

Operating segments

Sales structure by distribution channels at the Makarony Polskie Group

The sales structure of products and merchandise broken down into distribution channels is presented in the chart below.



Sales revenues by operating segments

(PLN '000)	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Pasta	101,635	101,255
Meat and vegetable products	32,410	28,880
Vegetable products and stuffing	2,832	2,548
Fruit products	7,767	4,574
Other	9,373	7,615
Total	**154,017**	**144,872**

Sales revenues of the Makarony Polskie Group in 2018 amounted to PLN 154.0 million and were by roughly PLN 9.1 million higher than in 2017.

Sales of meat and vegetable products in the analysed period increased by approximately PLN 3.5 million, up to over PLN 32.4 million. Approximately 12.2% growth in value (2018 compared to 2017) resulted from extension of cooperation with B2B contractors and institutions as well as product offer extension for the private label channel. Further growth of the category has been planned for the future, including by introduction of market novelties.

Factors and events affecting 2018 results:

- *projects carried out at the production plants;*
- *extension of the product portfolio;*
- *export sales development;*
- *increase of the scale of operations of Stoczek Natura Sp. z o.o.;*
- *reorganisation and change of the profile of operation of MP Trade Sp. z o.o.*

Another segment where high growth rate was observed was that of fruit products. The sales of fruit products in the analysed period amounted to nearly PLN 7.8 million and was by PLN 3.2 million higher (69.8%) than in 2017, which resulted from attracting new contracts for manufacturing under chain private labels, development of own brands for jams and dried fruit offering from the beginning of 2018.

The segment of vegetable products and stuffing increased in the analysed period by approximately PLN 0.3 million, up to nearly PLN 2.8 million. This resulted from the extension of sales in the stuffing part of the segment.

The sales in the category of pasta grew by PLN 0.4 million, up to PLN 101.6 million in 2018 (the changes resulted mainly from a new contract in B2B channel and exports development with the simultaneous lower sales to institutions).

Factors and events, including atypical ones, affecting 2018 results

Investment projects at the production plants in Rzeszów, Częstochowa and Stoczek Łukowski:

- at the production plant in Rzeszów, a project was completed to improve the efficient use of raw-materials and modernise the liquid materials dosing system, adjusting it to gluten-free raw materials requiring a medium of higher temperature; production buildings were furnished with new production lines, manoeuvring areas were extended for more effective management of raw materials and packaging supply as well as shipment of products to recipients; new equipment to label unit and collective packaging was purchased, so as to fulfil the high quality expectations of the recipients as regards products labelling; new dies for short pasta forms were purchased in order to make the Company more attractive in that regard;
- at the production plant in Częstochowa, the production line control system was modernised, which contributed to higher efficiency of assets utilisation; a new water supply and sewage system connection was made which resulted in lower cost of utilities; drying chambers were purchased to improve product quality, reduce production energy consumption, and finally extend the offer for new pasta forms (tagliatelle and lasagne); the system of unit packaging weighing was extended, which will further improve the efficiency of packaging; a new automatic flow-pack machine was purchased in order to extend the offer for a new type of packaging, including

trays; equipment was purchased to extend the offer for a new width of unit packaging;

- at the production plant in Stoczek Łukowski modernisation an partial automation of ready-cooked meals production line is pending, for which EU subsidy was obtained; as soon as the project is completed the production capacity of the plant will be increased with the simultaneous reduction of workload.

Extension of product portfolio

The World pasta market will be worth over PLN 110 billion (USD 31 billion) in 2020 and the average ratio of its annual growth (CAGR) in the years 2016–2020 will equal 5.76%. The key trends affecting the pasta market include: growing popularity of health-promoting pasta (health & wellness pasta), higher demand for local tastes and varieties, focus on the use of natural additives.

Replying to the market trends, in 2018 the Makarony Polskie Group continued the strategy of portfolio optimisation and its supplementation for high-margin products of the premium segment. Work is pending on new health-promoting products (e.g. gluten-free, organic, fibre-rich, or reduced-hydrocarbons products), flavoured pasta, or premium products (e.g. new shapes and forms of pasta, innovative packaging).

Replying to the trends in health-promoting products, focusing on vegetable and high-protein pastas, MP Trade Sp. z o.o. introduced in its portfolio, among other things, pasta made of leguminous plants flours (chickpeas, red lentils, green peas). Concept work is pending on date spread, vegetable pastes, vegan lard and vegan meals.

Also Stoczek Natura Sp. z o.o. has been systematically introducing new products to its portfolio. In 2017 the product offer was extended specifically for canned soups, complete-lunch meals in cans, meat products and meat preserves, as well as dried fruit. In 2019 there are going to be launched products responding to the strong convenience trend on the market.

The Group portfolio will be further supplemented with products of other manufacturers, complementary to the basic product assortment.

Export sales development

In the years 2016–2018 Makarony Polskie SA participated in the "Makarony Europy" [European Pasta] run by the Polish Pasta Chamber (PIM) in Ukraine and the People's Republic of China. The Ukrainian and Chinese recipients (consumers, distributors) were educated in the healthy characteristics of pasta, variety of pastas and high quality of products originating from the EU, including Poland. The programme contributed to the development of sales markets and increase in the sales volume of pasta manufactured in

the European Union. The manufacturers associated within the programme created an informal sales group. In 2018 the export sales of the Company to the Ukrainian market grew by about 24% and it is going to be continued in the subsequent years.
In the years to come the Group plans to focus its activities on the European markets, mainly Ukraine. Additionally, the Group analyses the change of the model of cooperation with Raya/Eden as regards to the presence on the Egyptian, North African and Middle East countries markets. For the performance of the objectives the Group has attracted partners on the local markets who support the Group in further sales development there.

Increase of the scale of operations of Stoczek Natura Sp. z o.o.

In 2018 Stoczek Natura Sp. z o.o. recorded a growth of revenues by approx. 20% YoY (PLN +6.7 million). The largest growth of sales was watched by the company in the segment of jams, syrups and vegetable products (over 40% YoY), which resulted from the attraction and performance of private label contracts in the jams assortment.

Reorganisation and change of the profile of operation of MP Trade Sp. z o.o.

In reference to the changed profile of operations of MP Trade Sp. z o.o. and the pending reorganisation, the company significantly limited its current operations in 2018. Starting from 2019, MP Trade Sp. z o.o. is going to implement the strategy of building the Novelle brand value, by way of extending the product portfolio and intensification of marketing activities, including proper placement of the Novelle brand.

The possibility of the company growth depends, on the one hand, on the market situation and, on the other hand, on introduction of innovative products from the vegan and vegetarian assortment. The market of products based on vegetable proteins and delicacies such as the line of date spread or vegetable pastes, reflects growing trends all over the world.

Structure of assets and equity/liabilities

The balance-sheet total of the Group as at 31 December 2018 amounted to PLN 145.8 million, compared to PLN 137.2 million as at 31 December 2017.

Structure of the Group assets and equity/liabilities

(PLN '000)	31.12.2018	31.12.2017
FIXED ASSETS	**101,492**	**91,110**
Tangible fixed assets	84,803	74,061
Investment properties	603	643
Goodwill	5,949	5,949
Other intangible fixed assets	9,945	9,953
Deferred income tax assets	1	5
Other long-term assets	191	499
CURRENT ASSETS	**44,300**	**46,098**
Inventories	18,157	15,624
Short-term receivables	25,427	28,513
Deferred income tax receivables	0	29
Loans granted	0	0
Cash and cash equivalents	359	1,454
Other short-term assets	357	478
FIXED ASSETS HELD FOR SALE	0	0
TOTAL ASSETS	**145,791**	**137,208**

(PLN '000)	31.12.2018	31.12.2017
EQUITY CAPITAL	**78,829**	**75,305**
Share capital	27,750	27,750
Other reserve capital	46,095	42,184
Retained profit/loss (profit/loss from previous years)	-846	569
Net profit	5,830	4,802
LONG-TERM LIABILITIES	**21,686**	**20,432**
Deferred income tax provision	3,569	3,447
Long-term bank credits and loans	10,541	8,221

Provision for retirement benefits and equivalent (long-term)	285	190
Deferred income	6,062	6,538
Long-term liabilities under financial lease agreements	1,229	2,036
SHORT-TERM LIABILITIES	**45,276**	**41,471**
Short-term bank credits and loans	14,170	12,272
Short-term financial liabilities	944	826
Other short-term liabilities	27,991	26,800
Deferred income tax payables	220	65
Deferred income	909	553
Provision for retirement benefits and equivalent (short-term)	1,042	955
Other short-term provisions	0	0
TOTAL LIABILITIES	**66,962**	**61,903**
TOTAL EQUITY/LIABILITIES	**145,791**	**137,208**

As at 31 December 2018 fixed assets were worth roughly PLN 101.5 million (69.6% of total assets) compared to PLN 91.1 million at the end of 2017 (11.4% growth vs the end of 2017). The increase in the value of fixed assets resulted from the performance of the investment plan at the plants in Rzeszów and Stoczek Łukowski. The largest project of 2018 was the "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA", carried out at the production plant in Rzeszów.

As at 31 December 2018 current assets amounted to roughly PLN 44.3 million, which means that they dropped by about 3.9% compared to the end of 2017 (approx. PLN 46.1 million). The greatest influence on the change in current assets was brought about a drop in receivables by approx. PLN 3.1 million (10,8%) and cash by approx. PLN 1.1 million (75,3%) compared to the end of 2017, with the simultaneous growth of inventories by approx. PLN 2.5 million (+16.2%).

Equity as at the balance-sheet date amounted to approx. PLN 78.8 million and represented roughly 54.1% of the value of equity/liabilities, which means an increase by 4.7% compared to PLN 75.3 million at the end of 2017. The change resulted from the profit generated in 2018 and amounting to PLN 5.8 million as well as assignment of a part of 2017 net profit to dividend in the amount of PLN 2.3 million.

Long-term liabilities amounted to PLN 21.7 million and grew by 6.1% (from PLN 20.4 million) compared to the value at the end of 2017, due to the utilisation of credit limits granted in reference to the performance of investments projects in Rzeszów.

Short-term liabilities as at 31 December 2018 amounted to PLN 45.3 million and were higher compared to the balance as at the end of 2017 amounting to PLN 41.5 million. That resulted mainly from the higher value of other liabilities item (growth by about PLN 1.2 million, i.e. 4.4%) as well as bank credits and loans item (growth by roughly PLN 1.9 million, i.e. 15.5%).

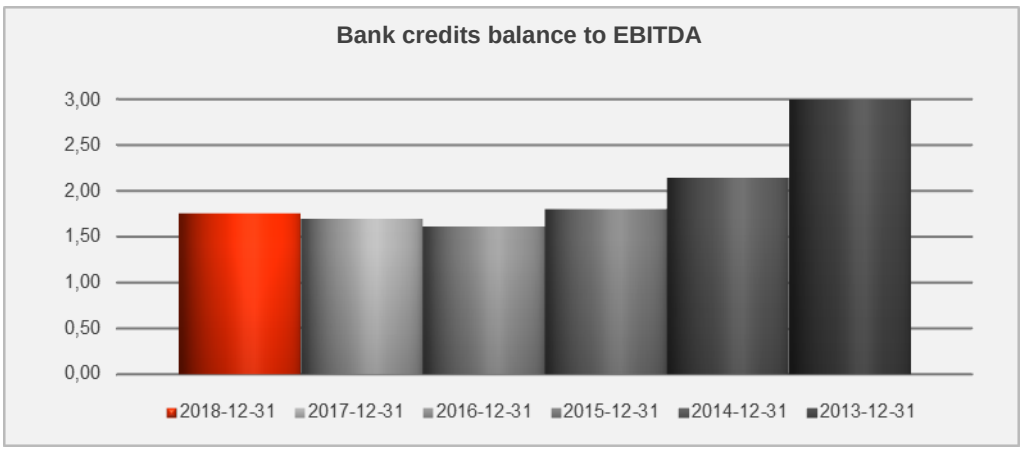
Solvency and management of the Group financial assets and financial risk

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

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

Its full capacity to pay liabilities in 2018 was confirmed by:

- generation of positive cash flows on operating activities of more than PLN 14.0 million in 2018;
- generation of EBITDA at the level of PLN 14.1 million in 2018 (growth by PLN 1.2 million compared to 2017);
- carrying out some of the purchases without availing of trade credit by the Group, which results in a financial advantage;
- performance of investment projects and dividend payment in 2018 amounting to PLN 2.3 million (PLN 2.3 million in 2017);
- maintenance of the balance of bank credits to EBITDA ratio at a safe level at the end of 2018.



The ratio analysis reflects good financial standing of the Makarony Polskie Group in 2018 as regards profitability, capacity to pay liabilities as well as security of financing current and investment activities.

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

Deposits and capital investments

In 2018 the Makarony Polskie Group did not make any capital investments.

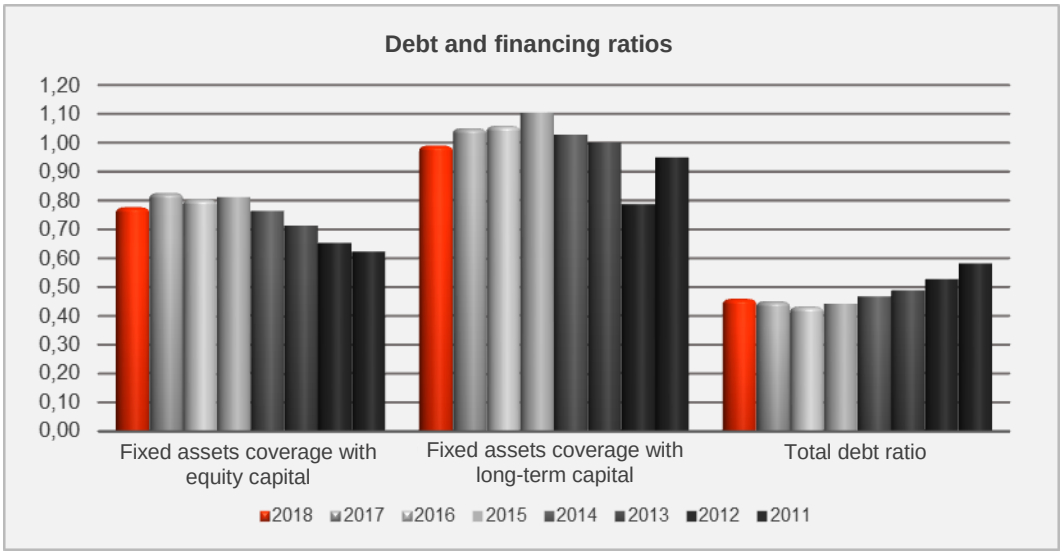
Ratio analysis

The return, liquidity and debt ratios analysis reflects good financial standing of the Makarony Polskie Group in 2018 compared to previous periods as regards profitability, capacity to pay liabilities as well as security of financing current and investment activities.

The level of return and cash flows generated by the Group enabled it to pay out dividend to shareholders in 2018 in the amount of PLN 2.3 million, carry out many investments, purchase some raw materials at attractive prices without trade credit and maintain safe debt level, among other things.

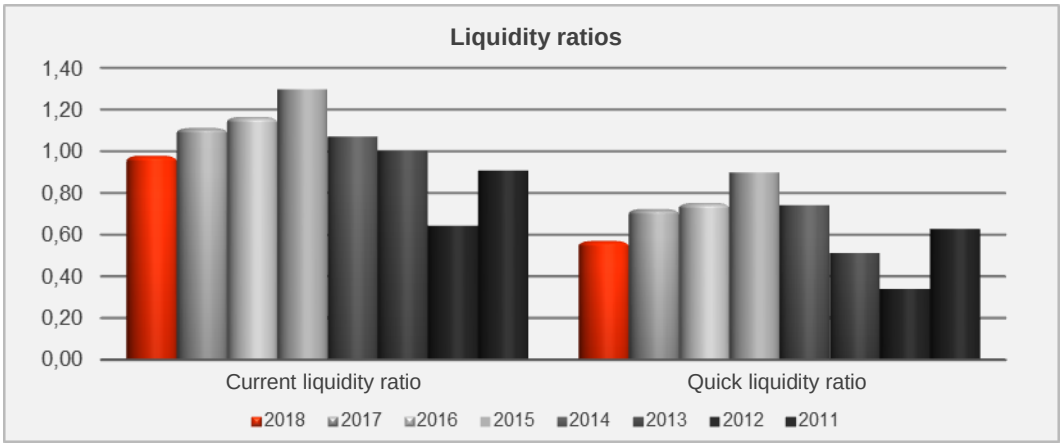
Debt and financing ratios

	2018	2017	2016	2015	2014	2013	2012	2011
Fixed assets coverage with equity capital *[Equity capital/fixed assets]*	0.78	0.83	0.80	0.81	0.76	0.71	0.65	0.62
Fixed assets coverage with long-term capital *[(Equity capital + long-term liabilities)/fixed assets]*	0.99	1.05	1.06	1.10	1.03	1.00	0.79	0.95
Total debt ratio *[Total liabilities/total assets]*	0.46	0.45	0.43	0.44	0.47	0.49	0.53	0.58



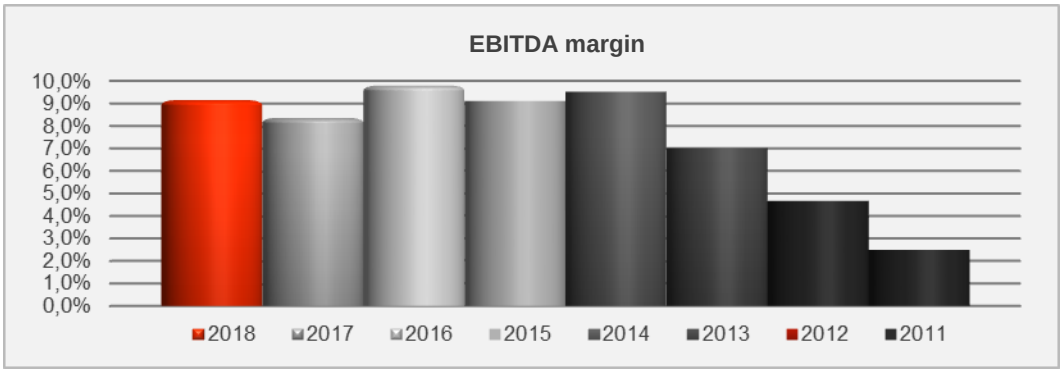
Liquidity ratios

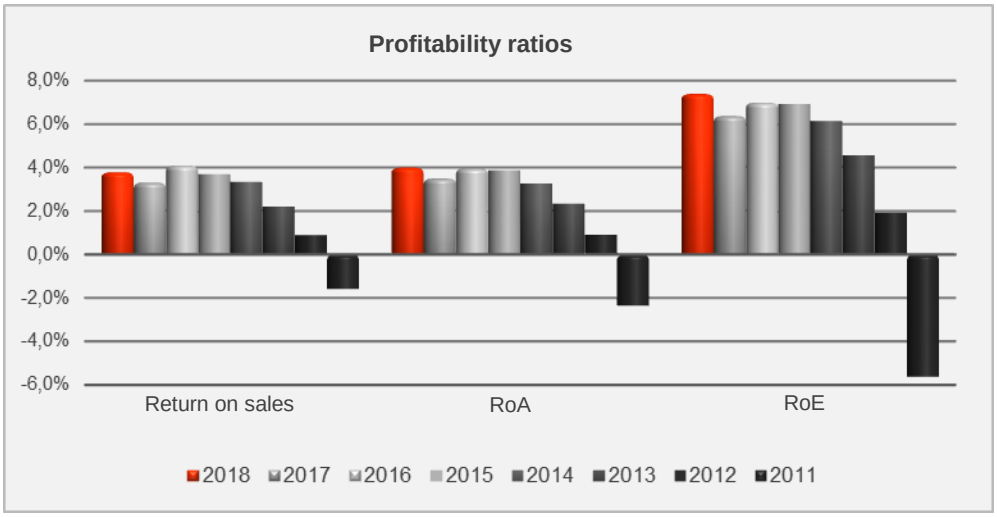
	2018	2017	2016	2015	2014	2013	2012	2011
Current liquidity ratio *[Current assets/short-term liabilities]*	0.98	1.11	1.16	1.30	1.07	1.00	0.64	0.91
Quick liquidity ratio *[(Current assets – inventories – short-term prepayments)/short-term liabilities]*	0.57	0.72	0.75	0.90	0.74	0.51	0.34	0.63



Profitability ratios

	2018	2017	2016	2015	2014	2013	2012	2011
Sales profitability [Gross profit (loss) on sales/net sales]	22.4%	22.2%	23.3%	21.0%	22.1%	21.9%	18.5%	11.1%
Operating profit margin [Profit (loss) on continued operations/net sales]	5.4%	5.0%	6.1%	5.8%	6.2%	3.9%	1.1%	-0.1%
Gross profit margin [Gross profit (loss)/net sales]	4.8%	4.2%	5.3%	4.9%	4.7%	2.1%	0.2%	-1.3%
Return on sales [Net profit (loss)/net sales]	3.8%	3.3%	4.1%	3.7%	3.3%	2.2%	0.9%	-1.6%
ROA [Net profit (loss)/total assets]	4.0%	3.5%	4.0%	3.9%	3.3%	2.3%	0.9%	-2.4%
ROE [Net profit (loss)/equity capital]	7.4%	6.4%	7.0%	6.9%	6.1%	4.6%	1.9%	-5.6%
EBITDA margin [EBITDA/net sales]	9.1%	8.4%	9.8%	9.1%	9.5%	7.0%	4.7%	2.5%





Other financial information

Information about credit and factoring agreements signed and terminated

In the reporting year 2018 parties to credit and factoring agreements were Makarony Polskie SA and Stoczek Natura Sp. z o.o.

The balance of credit ad factoring agreements binding as at 31 December 2018, in which Makarony Polskie SA was the party, is presented in the tables below:

– Credit in the current account at Santander Bank Polska SA

Credit conditions	31 December 2018
Credit agreement value	PLN 5,000,000
Credit period*	18.10.2013–01.06.2019
Interest rate	WIBOR 1M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 2,951,000
Repayment schedule	One-off at the date of maturity
Credit collateral	– Joint mortgage up to PLN 33,000,000 on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy; – blank promissory note issued by the Borrower and promissory note declaration; – registered pledge on inventories of the value not lower than PLN 5,000,000, including the assignment of rights under the registered pledge insurance policy; – security bond by Stoczek Natura Sp. z o.o.; – declaration on submission to enforcement, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed.

* In Q.2, 2018 Makarony Polskie SA signed an annex to the agreement on credit in the current account with Bank Zachodni WBK. Pursuant to the annex the liability repayment date was extended till 1 June 2019.

– Investment credit at Santander Bank Polska SA

Credit conditions	31 December 2018
Credit agreement value	PLN 13,849,000
Credit period	18.10.2013–30.04.2020

Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 7,077,000
Repayment schedule	The credit will be repaid in 52 monthly instalments starting from 31 December 2015, in the following values: 52 instalments of PLN 0.17 million each, plus the 53rd settlement instalment to zero balance.
Credit collateral	– Joint mortgage up to PLN 33,000,000 on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy; – registered pledge on fixed assets (production lines at the Rzeszów plant); – transfer of receivables on account of insurance agreement of the object of the pledge; – blank promissory note issued by the Borrower and promissory note declaration; – civil-law security bond by Stoczek Natura Sp. z o.o.; – declaration on submission to enforcement, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed.

– EU investment credit at Santander Bank Polska S.A.

Credit conditions	31 December 2018
Credit agreement value	PLN 12,121,000
Credit period	07.02.2017–28.02.2022
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 527,000
Repayment schedule	The credit will be repaid in 32 monthly instalments starting from 31 July 2019, in the following values: 31 instalments of PLN 0.15 million each, plus the 32th settlement instalment amounting to PLN 7.65 million. In case the credit is repaid from the subsidy received, the repayment schedule shall change in reference to the balloon instalment repayment. The instalments of the credit will be changed in such proportion to the instalments determined in the original schedule, in which the amount of the credit utilised compares to the amount of the credit granted. After the subsidy is received, the credit will be repaid in 32 monthly instalments starting from 31 July 2019, in the following values: 31 instalments of PLN 0.04 million each, plus the 32th settlement instalment amounting to PLN 1.90 million.

Credit collateral	– Joint mortgage up to PLN 18,200,000 on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy; – registered pledge on semi-industrial test line complete with accessories; – transfer of receivables on account of insurance agreement of the object of the pledge; – blank promissory note issued by the Borrower and promissory note declaration; – civil-law security bond by Stoczek Natura Sp. z o.o.; – declaration on submission to enforcement, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed.

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

– EU investment credit at Santander Bank Polska S.A.

Credit conditions	31 December 2018
Credit agreement value	PLN 8,000,000
Credit period	15.09.2017–31.01.2022
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 5,071,000
Repayment schedule*	The credit will be repaid in 37 monthly instalments starting from 31 January 2019, in the following values: 36 instalments of PLN 0.1 million each, plus the 37th settlement instalment amounting to PLN 4.23 million. In case the credit is repaid from the subsidy received, the repayment schedule shall change in reference to the balloon instalment repayment. The instalments of the credit will be changed in such proportion to the instalments determined in the original schedule, in which the amount of the credit utilised compares to the amount of the credit granted.
Credit collateral	– Joint mortgage up to PLN 12,000,000 on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy; – registered pledge on the production line purchased within the subsidised project; – transfer of receivables on account of insurance agreement of the object of the pledge; – blank promissory note issued by the Borrower and promissory note declaration; – civil-law security bond by Stoczek Natura Sp. z o.o.; – assignment of rights under the subsidy agreement.

* In June 2018 and January 2019, Makarony Polskie SA concluded with Santander Bank Polska SA annexes to the EU investment credit, the object of which was, among other things, extension of the period of credit limit availability and change of the instalments repayment schedule.
The annex of January 2019 extended the credit limit utilisation period until 30 April 2019. It also provided for a new schedule of the credit instalments repayment. The credit will be repaid in 34 monthly instalments starting from 30 April 2019, in the following values: 33 instalments of PLN 0.1 million each, plus the 34th settlement instalment amounting to PLN 4.54 million. In case the credit is repaid from the subsidy received, the repayment schedule shall change in reference to the balloon instalment repayment. The instalments of the credit will be changed in such proportion to the instalments determined in the original schedule, in which the amount of the credit utilised compares to the amount of the credit granted.

The credit is intended for financing the investment project entitled "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA".

– Revolving credit at Santander Bank Polska SA

Credit conditions	31 December 2018
Credit agreement value	PLN 1,800,000
Credit period	15.09.2017–31.10.2019
Interest rate	WIBOR 1M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 0,000
Repayment schedule	Repayment of the credit tranche drawn takes place after 90 days
Credit collateral	– Joint mortgage up to PLN 2,700,000 on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy; – registered pledge on the production lines purchased within the subsidised projects; – transfer of receivables on account of insurance agreement of the object of the pledge; – blank promissory note issued by the Borrower and promissory note declaration; – declaration on submission to enforcement, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed.

The credit is intended on financing VAT on the purchases made within investment projects.

– Working capital credit at Santander Bank Polska SA

In the first half of 2018 Makarony Polskie SA availed of a working capital credit, of the agreed limit of PLN 3,000,000. In accordance with the credit agreement terms, the credit was repaid at the maturity date and the liabilities resulting from the agreement between the Company and the Bank expired.

– Credit in the current account at Bank Gospodarstwa Krajowego

Credit conditions	31 December 2018
Credit agreement value	PLN 6,000,000
Credit period*	14.06.2013–30.06.2019
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 4,571,000
Repayment schedule	One-off at the date of maturity
Credit collateral	– Joint mortgage up to PLN 16,500,000 on properties entered in: a) land and mortgage register No. KW CZ1C/00111425/8 located in Częstochowa, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW LU1U/00022979/2 located in Stoczek Łukowski, including the assignment of rights under the property insurance policy; – blank promissory note issued by the Borrower and promissory note declaration; – power of attorney to dispose of the current account at BGK; – security bond by Stoczek Natura Sp. z o.o.; – declaration on submission to enforcement by the Borrower and the security bond provider, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed (up to the amount of PLN 12 million).

* In 2018, Makarony Polskie SA signed an annex to the agreement on credit in the current account with Bank Gospodarstwa Krajowego. The annex postpones the liability repayment deadline from 30 June 2018 to 30 June 2019.

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

Credit conditions	31 December 2018
Credit agreement value	PLN 5,000,000
Credit period*	30.06.2015–29.06.2020
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 1,500,000
Repayment schedule*	20 equal quarterly capital instalments of PLN 0.25 million, starting from 30 September 2015 and ending on 29 June 2020.

Credit collateral	– Joint mortgage up to PLN 16,500,000 on properties entered in: a) land and mortgage register No. KW CZ1C/00111425/8 located in Częstochowa, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW LU1U/00022979/2 located in Stoczek Łukowski, including the assignment of rights under the property insurance policy; – blank promissory note issued by the Borrower and promissory note declaration; – power of attorney to dispose of the current account at BGK; – security bond by Stoczek Natura Sp. z o.o.; – transfer of receivables on account of insurance agreement of the object of the pledge; – declaration on submission to enforcement by the Borrower and the security bond provider, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed (up to the amount of PLN 4 million).

* In 2018, Makarony Polskie SA signed an annex to the agreement on non-revolving working capital credit in the credit account with Bank Gospodarstwa Krajowego. The object of the annex was, among other things, postponement of the liability repayment deadline from 29 June 2018 to 29 June 2020, and change of the instalments repayment schedule.

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

Terms of the agreement	31 December 2018
Agreement value	PLN 9,500,000
Period	Agreement signed for unlimited term
Interest rate	WIBOR 1M + bank margin compliant with the standards applied by the bank
Factoring balance	PLN 2,673,000
Agreement collateral	– irrevocable power of attorney to dispose of the account; – blank promissory note with promissory note declaration.

As at 31 December 2018, Stoczek Natura Sp. z o.o. was a party to one credit agreement, with the balance presented in the table below.

– Credit in the current account at Bank Gospodarstwa Krajowego

Credit conditions	31 December 2018
Credit agreement value	PLN 3,000,000
Credit period*	16.11.2017–16.11.2019
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 2,999,000
Repayment schedule	One-off at the date of maturity

Credit collateral	– Contractual mortgage up to PLN 4,500,000 on properties entered in land and mortgage register No. KW LU1U/00022979/2 located in Stoczek Łukowski, including the assignment of rights under the property insurance policy – power of attorney to dispose of the current account at BGK; – security bond by Makarony Polskie SA; – registered pledge on a set of machines and equipment (located at the Stoczek Łukowski plant); – declaration on submission to enforcement by the Borrower and the security bond provider, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed (up to the amount of PLN 6 million).

* In 2018, Stoczek Natura Sp. z o.o. signed an annex to the agreement on credit in the current account with Bank Gospodarstwa Krajowego, which postponed the liability repayment deadline from 16 November 2018 to 16 November 2019.

Information on loans granted

As at 31 December 2018 Makarony Polskie SA granted a short-term loan to its subsidiary Stoczek Natura Sp. z o.o. in the amount of PLN 2.0 million with the repayment date on 31 December 2019 (one-off repayment by the date of the loan maturity). The interest rate on the loan was set on arm's length basis.

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

Information on guarantees granted and obtained

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

All guarantees binding for Makarony Polskie SA as at 31 December 2018 are presented in the table below.

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

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

By March 2018, Makarony Polskie SA availed of two guarantees for the total amount of PLN 544,000 granted by STU Ergo Hestia S.A. The guarantees served as a performance bond for the agreement with the Material Reserves Agency (ARM) and were released owing to the complete settlement of the secured contracts.

All guarantees binding for Stoczek Natura Sp. z o.o. as at 31 December 2018 are presented in the table below.

Guarantor	Guarantee amount PLN '000	Guarantee validity	Object of guarantee	Collateral
Bank Gospodarstwa Krajowego	504	13.12.2021	Guarantee securing the liabilities of the company under the agreement with the Material Reserves Agency (ARM) with regard to keeping ready-cooked meals reserves	– mortgage up to PLN 756,000 on properties entered in land and mortgage register No. KW LU1U/00022979/2 located in Stoczek Łukowski, including the assignment of rights under the property insurance policy; – blank promissory note issued by the Ordering Party and promissory note declaration; – power of attorney to dispose of the current account at BGK; – security bond by Makarony Polskie SA.
Bank Gospodarstwa Krajowego	1,549	15.12.2021	Guarantee securing the liabilities of the company under the agreement with the Material Reserves Agency (ARM) with regard to keeping ready-cooked meals reserves	– mortgage up to PLN 2,323,000 on properties entered in land and mortgage register No. KW LU1U/00022979/2 located in Stoczek Łukowski, including the assignment of rights under the property insurance policy; – blank promissory note issued by the Ordering Party and promissory note declaration; – power of attorney to dispose of the current account at BGK; – security bond by Makarony Polskie SA.
Bank Gospodarstwa Krajowego	24	25.03.2022	Guarantee securing the liabilities of the company under the agreement with the Material Reserves Agency (ARM) with regard to keeping canned food reserves	– blank promissory note issued by the Ordering Party and promissory note declaration; – power of attorney to dispose of the current account at BGK

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

Information on security bonds granted and obtained

As at 31 December 2018, Makarony Polskie SA granted security bonds to the Polish Pasta Chamber (PIM) and Stoczek Natura Sp. z o.o. subsidiary. The balance of the security bonds as at 31 December 2018 is presented below.

Third party liabilities	Name of the guarantee beneficiary	Name of creditor	Security bond value PLN '000	Validity date	Balance of the secured liability in PLN '000 as at 31.12.2018
Security bond for a revolving credit amounting to PLN 2.35 million *	Polish Pasta Chamber	BPS	4,275	30.05.2021	637
Security bond Security bond for a revolving credit amounting to PLN 0.5 million *	Polish Pasta Chamber	BPS	750	30.05.2021	183
Security bond for a credit in the current account amounting to PLN 3.0 million **	Stoczek Natura Sp. z o.o.	Bank BGK	3,000	16.05.2020	2,999
Security bond for a bank guarantee amounting to PLN 0.5 million	Stoczek Natura Sp. z o.o.	Bank BGK	504	13.06.2022	-
Security bond for a bank guarantee amounting to PLN 1.5 million	Stoczek Natura Sp. z o.o.	Bank BGK	1,549	15.06.2022	-

* Credits intended for financing of the 3-year information and promotional campaign entitled "Makarony Europy" [European Pasta], run by PIM in the years 2016–2018 on the Chinese and Ukrainian markets. The cost of the campaign was co-financed by the European Union and the Agricultural Market Agency (ARR). The external finance is a security for the loan repayment.

** During the reporting year Makarony Polskie SA signed with BGK an annex to the agreement on securing the credits taken out by Stoczek Natura Sp. z o.o. Pursuant to the annex, the validity of the security bond applicable to the credit in the current account was extended to 16 May 2020 (previous deadline was 16 May 2019).

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

Makarony Polskie SA received remuneration for the security bonds granted.

Stoczek Natura Sp. z o.o. granted security bonds to the Parent Company Makarony Polskie SA. The balance of the security bonds as at 31 December 2018 is presented below.

Third party liabilities	Name of creditor	Security bond value PLN '000	Validity date	Balance of the secured liability in PLN '000 as at 31.12.2018
Security bond for a credit in the current account amounting to PLN 5.0 million	BZ WBK	7,500	31.05.2019	2,951
Security bond for an investment credit amounting to PLN 13.8 million	BZ WBK	30,000	30.09.2021	7,077
Security bond for a non-revolving working capital credit in the credit account amounting to PLN 5.0 million *	Bank BGK	5,000	29.12.2020	1,500
Security bond for a credit in the current account amounting to PLN 6.0 million *	Bank BGK	6,000	31.12.2019	4,571
Security bond for an EU investment credit amounting to PLN 8.0 million	BZ WBK	8,000	binding till the moment of the subsidy settlement	5,071
Security bond for an EU investment credit amounting to PLN 12.1 million	BZ WBK	12,121	binding till the moment of the subsidy settlement	527

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

Stoczek Natura Sp. z o.o. received remuneration for granting the security bonds.

MP Trade Sp. z o.o. did not grant any security bonds in the reporting year 2018.

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

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

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

Off-balance-sheet items

(PLN '000)	31.12.2018	31.12.2017
1. Contingent assets	3,962	5,329
– guarantees and security bonds obtained	3,337	5,329
– secured on property	0	0
– promissory notes	625	0
2. Contingent liabilities	**174,662**	**171,729**
– guarantees and security bonds granted	5,025	5,025
– secured on property	116,517	118,725
– promissory note payables	53,120	47,979
Total off-balance-sheet items	**-170,700**	**-166,400**

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

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

Important court litigations, arbitration proceedings or or administrative proceedings

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

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

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

Short information on Makarony Polskie SA

Results discussion

The financial statements of Makarony Polskie SA were prepared based on IFRS, in accordance with the going concern assumption with regard to the Company in foreseeable future and in reference to the scope of activities which is not going to change significantly. The Company did not carry out any activities which would have been abandoned in 2018.

The selected financial data of Makarony Polskie SA as at 31 December 2018, expressed in PLN thousands, are as follows:

(PLN '000)	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Net sales	134,457	124,186
Net sales of products and services	104,282	101,282
Net sales of merchandise and materials	30,175	22,904
Prime cost	104,871	98,111
Cost of manufacturing of products and services sold	78,176	76,327
Value of merchandise and materials sold	26,695	21,784
Gross profit (loss) on sales	29,586	26,075
Costs of sales	18,657	15,348
General management costs	4,633	4,790
Other revenues	1,327	812
Other costs	559	364
Profit (loss) on continued operations	7,064	6,385
Financial revenues	87	593
Financial costs	835	1,036
Gross profit	6,316	5,942
Income tax – current part	1,223	1,233
Income tax – deferred part	23	-48
Net profit (loss) on continued operations	5,070	4,757
EBITDA (EBIT + depreciation)	10,655	10,029
Number of shares	9,250,071	9,250,071
Weighted average number of shares in the given reporting year	9,250,071	9,250,071
Profit/loss per ordinary share (PLN) *	0.55	0.51

Book value per share in (PLN) **	8.05	7.75

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

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

The revenues in 2018 amounted to PLN 134.5 million and were higher by roughly 8.3% (PLN +10.3 million) compared to 2017.

The highest growth of sales was recorded by the Company in the segment of meant and vegetable products – by about PLN 4.4 million (+32.7% YoY) – as a result of promotional actions in the private label channel and a change in the model of distribution at the Makarony Polskie Group (take over by Makarony Polskie SA from MP Trade SP. z o.o. subsidiary of sales in the traditional trade channel), in the fruit products segment – growth by PLN 3.1 million YoY (+77.3%) – resulting mainly from new private label contracts for jam supplies, and in the pasta products segment – growth by approximately PLN 2.2 million (+2.2%) – resulting from gaining a contract in B2B channel and development of export sales.

The costs of products, services, merchandise and materials sold in 2018 amounted to PLN 104.9 million (increase by about 6.9%).

In 2018 Makarony Polskie SA generated gross profit on sales at the level of about PLN 29.6 million (growth by PLN 3.5 million compared to 2017), with gross return on sales at the level of roughly 22.0% (21.0% in 2017).

The result on operating activities (EBIT) in 2018 was PLN 7.1 million, compared to PLN 6.4 million in 2017, i.e. roughly 10.6% growth. Profitability at EBIT level amounted to 5.3% (compared to 5.1% in 2017).

Net profit in 2018 amounted to PLN 5.1 million and was higher than the result for 2017 by PLN 0.3 million (+6.6%). Sales profitability calculated in reference to net profit amounted to 3.8% (compared to 3.8% in 2017).

In 2018 the Company reported EBITDA at the level of about PLN 10.7 million, compared to approx. PLN 10.0 million in the first half of 2017, i.e. growth by roughly PLN 0.7 million YoY, i.e. 6.2%. EBITDA profitability in 2018 was 7.9% compared to 8.1% in 2017.

Separate statement of other comprehensive income, net – hedge accounting applied

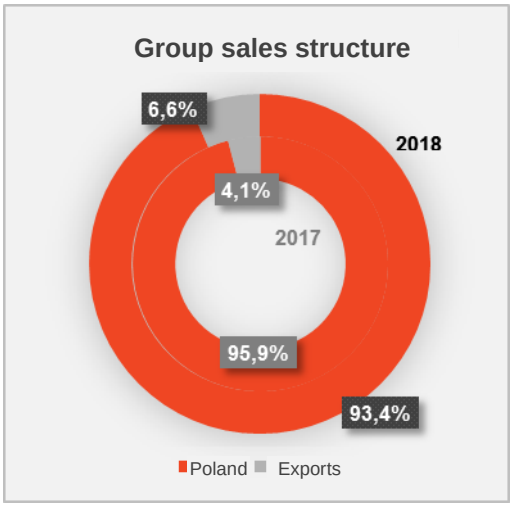
FOR THE PERIOD	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Net comprehensive income	5,070	4,757
Profit/loss on account of hedge accounting application	0	66
Total net comprehensive income	5,070	4,757

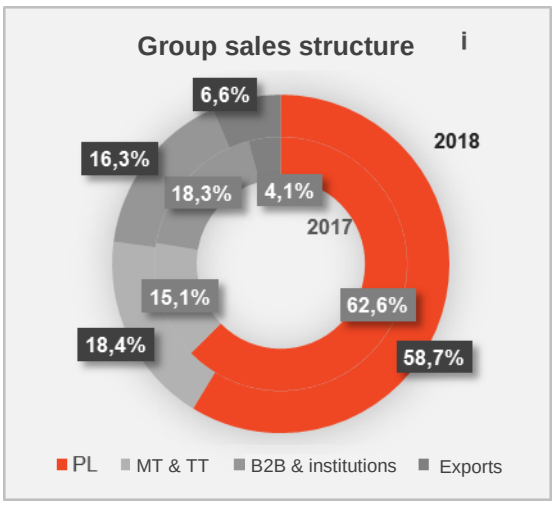
Within the B2B channel the Company has mainly developed the sales of pasta and semi-products for the bakery sector, as well as activities consisting in filling jars and cans for customers as a subcontractor.

Market environment

The sales markets of Makarony Polskie SA may be divided into domestic market (including private label, traditional trade, modern trade, and B2B and institutions) and exports market (including sales through domestic intermediaries). In 2018 the Company generated the following sales revenues:

PLN '000	2018	2017	YoY
Sales revenues	134,457	124,186	+8.3%





Private label

The largest share in the Company revenues (58.7%) was contributed by the private label (PL) channel offering products under own brands of domestic and foreign shop chains (in consideration of the sales to Lidl operating within one group in Europe).

PLN '000	2018	2017	YoY
Sales revenues	78,903	77,685	+2.0%

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

In 2018 sales in that channel grew by 2.0% compared to 2017. Higher sales revenues resulted from the introduction of a new assortment to the fixed list of products, with simultaneous maintenance of the previously offered products, and attracting new contracts for the sale of jams.

The main recipients in that channel are such shop networks as: Jeronimo Dystrybucja Polska, Lidl, Netto, Auchan, Aldi, Żabka, Intermarche, Stokrotka, GK Specjał, and Lewiatan. In 2018

two customers exceeded the threshold of 10% share in the separate sales revenues (total for brand and private label products). These are Jeronimo Dystrybucja Polska with approximately 27.2% share and Grupa Lidl with roughly 11.8% share. The Company is in no way related to the operators of those shop chains, whereas cooperation is carried out on partner basis and is favourable to Makarony Polskie SA.

Modern trade and traditional trade

Another significant revenue source for the Company accounting for 18.4% sales on the domestic market is the sales of the Company brands (Makarony Polskie, Sorenti, Stoczek, Tenczynek, Męska Rzecz, and Novelle) in the modern trade (MT) and traditional trade (TT) channels.

MT and TT (PLN '000)	2018	2017	YoY
Sales revenues	24,792	18,756	+32.2%

Higher sales resulted mainly from:

- the introduction of new ready-cooked meals like jarred soups and canned meals of Stoczek Męska Rzecz brand;
- introduction of new health-promoting buckwheat, spelt and rye pasta products in the offer;
- research of end customers needs carried out together with the recipients of the Company and adequate preparing of the offer and sales actions.

In 2019 the Company plans to develop cooperation and attract new foreign, domestic and local shop chains which have not yet been serviced. Additionally, in cooperation with the companies offering external sales forces, the Company plans to improve the service of the current customers and attract new recipients.

B2B and institutions

In 2018, B2B and institutions represented approx. 16.3% of the total revenues of the Company.

B2B and institutions (PLN '000)	2018	2017	YoY
Sales revenues	21,878	22,665	-3.5%

Sales in the B2B and institutions channel in 2017 amounted to about PLN 21.9 million and was by approx. PLN 0.8 million (-3.5%) lower than in 2017.

Within the B2B channel the Group runs the sales of pasta and semi-products, such as sweet fillings and salty stuffing for the bakery sector.

The change of sales results from organisational changes within the sales area at the Makarony Polskie Group. The Company took over direct distribution in traditional trade, which resulted in sales reduction at the subsidiary.

Exports

Within the total revenues of the Company for 2018 exports represented 6.6%.

Exports (PLN '000)	2018	2017	YoY
Sales revenues	8,883	5,080	74.9%

Export sales of the Company accounted for roughly PLN 8.9 million in 2018 (through own trading team and through intermediaries). The result was higher by 75% than in 2017. The Group has now been introducing a long-term strategy of attracting new sales markets.

In 2018 Makarony Polskie SA operated mainly on European markets (Ukraine, Norway, Slovakia, Germany, Serbia, and Portugal), and to a lesser extent on the African markets (the RSA), Asian markets (Hong Kong, Iraq) and in the USA.

In 2016–2018, in liaison with other manufacturers associated within the Polish Pasta Chamber (PIM), the Company was carrying out the "Makarony Europy" [European Pasta] programme run by PIM. The purpose of the programme was pasta promotion in Ukraine and the People's Republic of China. The Ukrainian and Chinese recipients (consumers, distributors) were educated about the healthy characteristics of pasta, variety of pastas and high quality of products originating from the EU, including Poland (advertisements were broadcast on TV, published in newspapers and on the Internet, as well as many promotional actions carried out during fairs and at sales outlets).



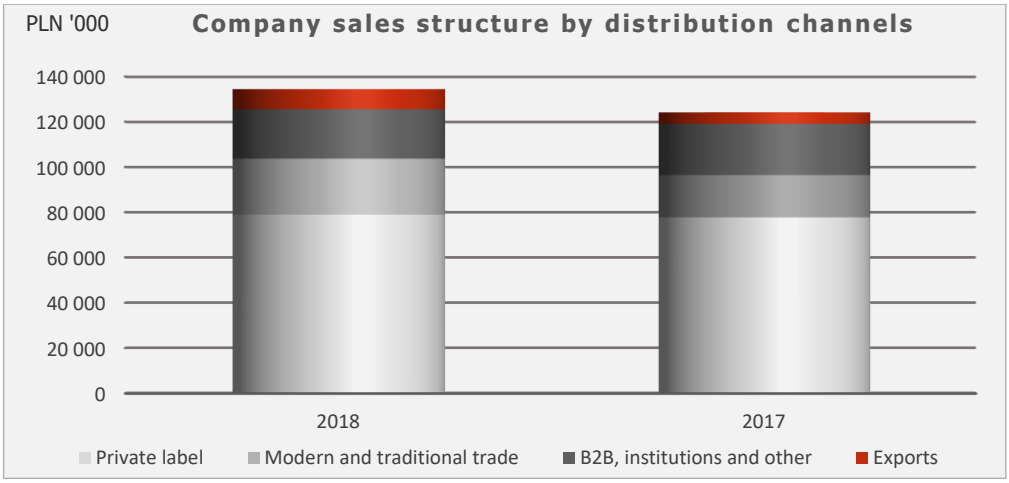
In 2018 the export sales of the Company to the Ukrainian market grew by about 50% and it is going to be continued in the subsequent years.

In the years to come the Company plans to focus its activities on the markets of Northern Africa and Ukraine. For the performance of the objectives the Group has attracted partners on the local markets who support the Group in further sales development there.

Operating segments

Sales structure by distribution channels at Makarony Polskie SA

The sales structure of products and merchandise broken down into distribution channels is presented in the chart below.



Sales revenues by operating segments

(PLN '000)	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Pasta	101,692	99,538
Meat and vegetable products	17,917	13,497
Vegetable products and stuffing	1,320	542
Fruit products	7,212	4,068
Other	6,316	6,541
Total	**134,457**	**124,186**

Sales revenues of Makarony Polskie SA in 2018 amounted to PLN 134.5 million and were by roughly PLN 10.3 million higher than in 2017.

Sales of meat and vegetable products in the analysed period increased by approximately PLN 4.4 million, up to over PLN 17.9 million. Approximately 32.7% growth in value (2018 compared to 2017) resulted from promotional actions carried out in the private label channel and a change in the model of distribution at the Makarony Polskie Group (take over by Makarony Polskie SA from MP Trade SP. z o.o. subsidiary of sales in the traditional trade channel). Further growth of the category has been planned for the future, including by introduction of market novelties.

Another segment where high growth rate was observed was that of fruit products. The sales of fruit products in the analysed period amounted to nearly PLN 7.2 million and was by PLN 3.1 million higher (77.3%) than in 2017, which resulted from attracting new contracts for manufacturing under chain private labels, development of own brands for jams and dried fruit offering from the beginning of 2018.

The sales in the category of pasta grew by PLN 2.2 million, up to PLN 101.7 million in 2018 (the changes resulted mainly from a new contract in B2B channel, export sales development, change in the distribution model introduced by the Group, and lower sales to institutions).

The segment of vegetable products and stuffing increased in the analysed period by approximately PLN 0.8 million, up to nearly PLN 1.3 million (take over by Makarony Polskie SA from MP Trade SP. z o.o. subsidiary of sales in the traditional trade channel).

Structure of assets and equity/liabilities

The balance-sheet total of Makarony Polskie SA as at 31 December 2018 amounted to PLN 132.6 million, compared to PLN 122.9 million as at 31 December 2017.

Structure of assets and equity/liabilities

ASSETS	01.01.2018-31.12.2018	01.01.2017-31.12.2017
FIXED ASSETS	**94,736**	**86,689**
Tangible fixed assets	58,905	51,764
Investment properties	603	642
Other intangible fixed assets	4,971	4,970
Long-term financial assets, of which:	29,080	29,080
- shares	30,080	29,080
- loans granted	0	0
Other long-term assets	177	233
CURRENT ASSETS	**37,904**	**36,194**
Inventories	11,367	10,358
Short-term receivables	23,972	23,121
Deferred income tax receivables	0	0
Loans granted	2,006	2,013
Cash and cash equivalents	294	415
Other short-term assets	265	287

Fixed assets held for sale	0	0
TOTAL ASSETS	**132,640**	**122,883**

EQUITY/LIABILITIES	01.01.2018-31.12.2018	01.01.2017-31.12.2017
EQUITY CAPITAL	74,425	71,668
Share capital	27,750	27,750
Other reserve capital	42,097	39,161
Retained profit/loss (profit/loss from previous years)	-492	0
Net profit/loss	5,070	4,757
LONG-TERM LIABILITIES	**21,337**	**20,190**
Deferred income tax provision	3,367	3,344
Long-term bank credits and loans	10,541	8,221
Provision for retirement benefits and equivalent (long-term)	234	155
Deferred income (long-term)	6,062	6,538
Other long-term financial liabilities	1,133	1,932
SHORT-TERM LIABILITIES	**36,878**	**31,025**
Short-term bank credits and loans	11,170	9,284
Short-term financial liabilities	885	785
Other short-term liabilities	23,456	19,729
Deferred income tax payables	171	65
Deferred income (short-term)	519	553
Provision for retirement benefits and equivalent (short-term)	677	609
Other short-term provisions	0	0
TOTAL LIABILITIES	**58,215**	**51,215**
TOTAL EQUITY/LIABILITIES	**132,640**	**122,883**

As at 31 December 2018 fixed assets were worth roughly PLN 94.7 million (71.4% of total assets) compared to PLN 86.7 million at the end of 2017 (9.3% growth vs the end of 2017). The increase in the value of fixed assets resulted from the performance of the investment plan at the plant in Rzeszów. The largest project of 2018 was the "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA".

As at 31 December 2018 current assets amounted to roughly PLN 37.9 million, which means a growth of about 4.7% compared to the end of 2017 (approx. PLN 36.2 million). The greatest influence on the change in current assets was brought about an increase in receivables by approx. PLN 0.9 million (3.7%) and inventories by approx. PLN 1.0 million (9.7%) compared to the end of 2017.

Equity as at the balance-sheet date amounted to approx. PLN 74.4 million and represented roughly 56.1% of the value of equity/liabilities, which means an increase by 3.8% compared to PLN 71.7 million at the end of 2017. The change resulted from the profit generated in 2018 and amounting to PLN 5.1 million as well as assignment of a part of 2017 net profit to dividend in the amount of PLN 2.3 million.

Long-term liabilities amounted to PLN 21.3 million and grew by 5.7% (from PLN 20.2 million) compared to the value at the end of 2017, mainly due to the utilisation of credit limits granted in reference to the performance of investments projects in Rzeszów.

Short-term liabilities as at 31 December 2018 amounted to PLN 36.9 million and were higher compared to the balance as at the end of 2017 amounting to PLN 31.0 million. That resulted mainly from the higher value of other liabilities item (growth by about PLN 3.7 million, i.e. 18.9%) as well as bank credits and loans item (growth by roughly PLN 1.9 million, i.e. 20.3%).

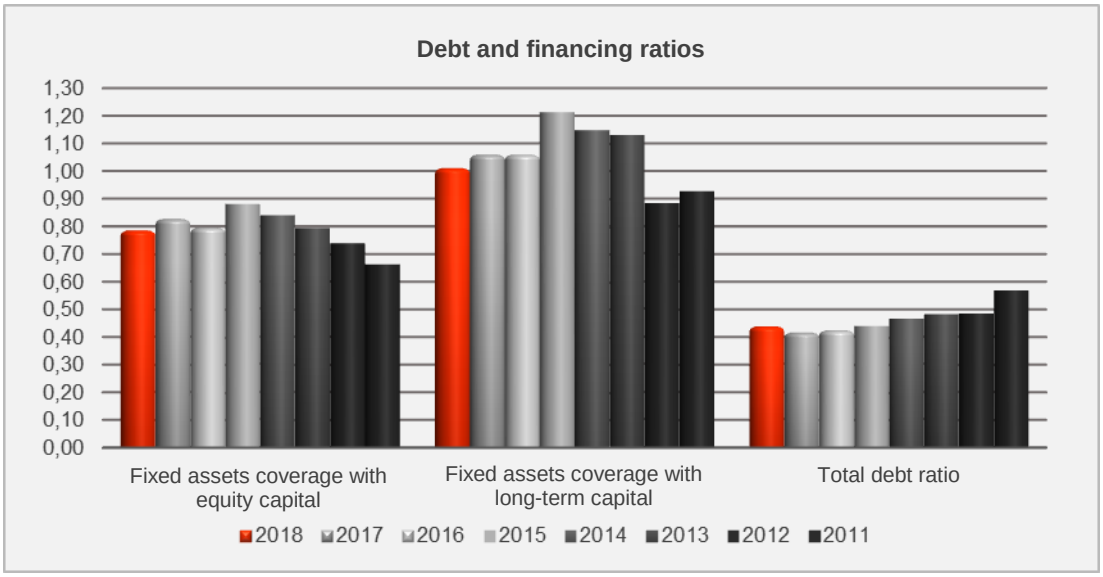
Ratio analysis

The return, liquidity and debt ratios analysis reflects good financial standing of Makarony Polskie SA in 2018 as regards profitability, capacity to pay liabilities as well as security of financing current and investment activities.

The level of return and cash flows generated by the Company enabled it to pay out dividend to shareholders in 2018 in the amount of PLN 2.3 million, carry out many investments, purchase some raw materials at attractive prices without trade credit and maintain safe debt level, among other things.

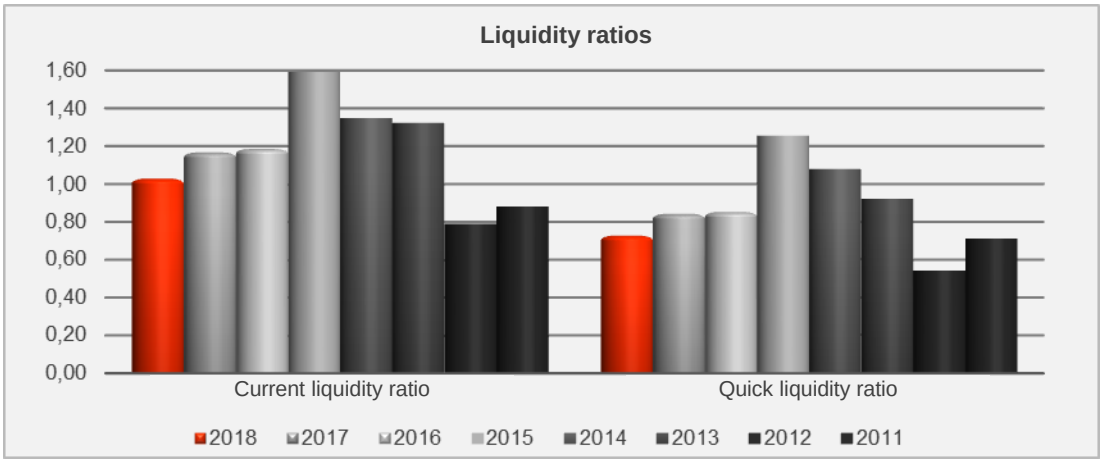
Debt and financing ratios

	2018	2017	2016	2015	2014	2013	2012	2011
Fixed assets coverage with equity capital *[Equity capital/fixed assets]*	0.79	0.83	0.80	0.88	0.84	0.79	0.74	0.66
Fixed assets coverage with long-term capital *[(Equity capital + long-term liabilities)/fixed assets]*	1.01	1.06	1.06	1.21	1.15	1.13	0.88	0.93
Total debt ratio *[Total liabilities/total assets]*	0.44	0.42	0.42	0.44	0.47	0.48	0.48	0.57



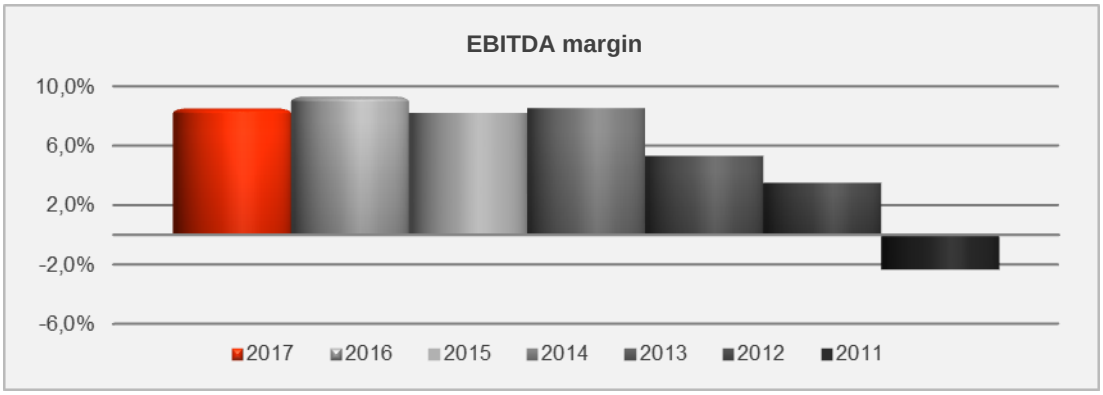
Liquidity ratios

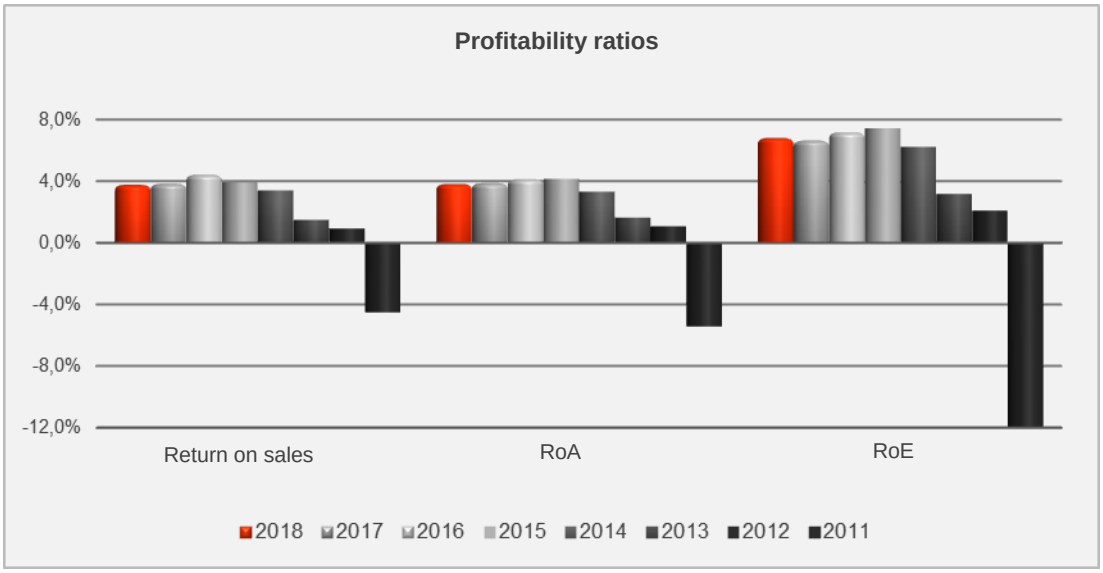
	2018	2017	2016	2015	2014	2013	2012	2011
Current liquidity ratio *[Current assets/short-term liabilities]*	1.03	1.17	1.19	1.59	1.35	1.32	0.79	0.88
Quick liquidity ratio *[(Current assets – inventories – short-term prepayments)/short-term liabilities]*	0.73	0.84	0.85	1.25	1.08	0.92	0.54	0.71



Profitability ratios

	2018	2017	2016	2015	2014	2013	2012	2011
Sales profitability [Gross profit (loss) on sales/net sales]	22.0%	21.0%	21.8%	21.0%	21.8%	20.3%	17.2%	11.3%
Operating profit margin [Profit (loss) on continued operations/net sales]	5.3%	5.1%	6.3%	5.8%	5.9%	2.9%	0.8%	-5.4%
Gross profit margin [Gross profit (loss)/net sales]	4.7%	4.8%	5.6%	5.1%	4.7%	1.5%	0.1%	-4.4%
Return on sales [Net profit (loss)/net sales]	3.8%	3.8%	4.4%	3.9%	3.4%	1.5%	0.9%	-4.5%
ROA [Net profit (loss)/total assets]	3.8%	3.9%	4.1%	4.2%	3.3%	1.6%	1.1%	-5.4%
ROE [Net profit (loss)/equity capital]	6.8%	6.6%	7.2%	7.4%	6.2%	3.2%	2.1%	-12.6%
EBITDA margin [EBITDA/net sales]	7.9%	8.1%	9.3%	8.2%	8.5%	5.3%	3.5%	-2.3%





Off-balance-sheet items

(PLN '000)	31.12.2018	31.12.2017
1. Contingent assets	71,519	72,426
– guarantees and security bonds obtained	68,894	70,426
– secured on property	0	0
– promissory notes	2,625	2,000
2. Contingent liabilities	**161,105**	**153,014**
– guarantees and security bonds granted	10,078	11,550
– secured on property	105,938	105,938
– promissory note payables	45,089	35,526
Total off-balance-sheet items	**-89,586**	**-80,588**

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

In 2018, the Company applied a collection of corporate governance rules entitled "The Best Practice for GPW Listed Companies 2016".

Corporate Governance

Statement of compliance with corporate governance rules

In 2018, the Company applied "The Best Practice for GPW Listed Companies" (Best Practice). A document comprising the Best Practice rules is available on the website of Giełda Papierów Wartościowych w Warszawie SA [Warsaw Stock Exchange] at: http://corp-gov.gpw.pl.

Explanations of the Company regarding the method of application of the particular rules included in "The Best Practice for GPW Listed Companies 2016" collection in reference to the year 2018:

Information policy and communication with investors

- *I.Z.1.16. The Company maintains a corporate website where in a separate section it publishes in a reader-friendly form not only the information required by law but also the information about the planned transmission of the General Meeting – 7 days prior to the date of the General Meeting at the latest.*
  The Company does not record the course of the General Meeting. If the Company decides to transmit the General Meeting online, the relevant information will be shown on the corporate website at 7 days prior to the date of the General Meeting at the latest.
- *I.Z.1.20. The Company maintains a corporate website where in a separate section it publishes in a reader-friendly form not only the information required by law but also the information an audio or video recording of the General Meeting.*
  The Company does not apply the above principle. The Company does not make any audio or video recordings of the course of the General Meeting.
- *I.Z.2. A company whose shares are qualified to WIG20 or mWIG40 stock exchange indexes shall ensure that its website is available also in English, at least within the scope specified in the principle I.Z.1. This principle shall also be applied by companies that are not qualified to the said indexes, if their shareholding structure or the nature and scope of their business so require.*
  In 2018 that principle did not apply. The shares of the Company are qualified neither to WIG20 nor to mWIG40 stock exchange indexes.
  With regard to the current shareholding structure, the Company applies utmost effort that the contents available on its website in English covers all of the subjects to which that principle applies.

Internal systems and functions

- *III.Z.3. As regards a person managing the internal audit function and other persons responsible for execution of the function, the independence principles specified in the commonly acknowledged international standards of internal audit professional practice apply.*

  The Company does not apply the above principle. A person in charge of internal audit reports directly to the Management Board, however, he/she does not meet the criterion of organisational independence specified in the commonly acknowledged international standards of internal audit professional practice, namely that in functional terms a person in charge of internal audit shall report to the Supervisory Board (this means that Supervisory Board does not sign off a decision on appointing or recalling the internal audit manager or does not approve the remuneration of the internal audit manager).

General Meeting and relations with shareholders

- *IV.Z.2. If it is justified by the structure of the Company's shareholding, the Company shall transmit the General Meeting sessions for general public in real time.*

  The Management Board of Makarony Polskie SA assessed that as at the present moment incurring such costs would not be justified by the structure of the Company's shareholding. Moreover, the Articles of Association of Makarony Polskie SA do not provide for the possibility of participation in a General Meeting with the use of electronic communication means, as stipulated in Article 406^5 of the Code of Commercial Companies.
- *IV.Z.3. Mass media representatives may be present at General Meeting sessions.*

  The Company does not apply the above principle. The Management Board of Makarony Polskie SA assessed that currently the presence of the representatives of mass media would not be justified by the structure of the Company's shareholding.

Conflict of interest and transactions with related companies

- *V.Z.6. The Company specifies in its internal regulations the criteria and circumstances giving rise to a conflict of interest within the Company, as well as the principles of conduct in case of a conflict of interest or a possibility of such conflict existence. The internal regulations of the Company take into account, among other things, the ways of prevention, identification and solving of conflicts of interest, as well as the principles of excluding a member of the Management Board or a member of the Supervisory Board from participation in considering a case, in the event of a conflict of interest or a threatened conflict of interest.*

  The Company does not apply the above principle. The current internal regulations of the Company do not meet all the requirements of that principle. The Company will

do its best to implement adequate internal regulations that would meet all those requirements.

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

Being a parent company, Makarony Polskie SA prepares separate and consolidated financial statements based on the commonly applicable legal and internal regulations. The books of account are kept based on the principles adopted and approved for application by the Management Board of the Company. This includes the Accounting Policy and the Chart of Accounts in conformity with IFRS, which are updated from time to time. The subsidiaries are obligated to implement and use internal documents coherent with the documents of the parent company. The books of account of the Group companies are kept in an ERP class system, whereas access to the IT resources is restricted by the rights granted to a specific group of employees.

On a current basis the Company monitors significant factors of legal, tax, economic, operational and similar risks which set the general directions of the operations of the Makarony Polskie Group.

The Management Board of the Company is responsible for the internal control system at the Company and its effectiveness in the process of preparation of financial statements and interim reports which need to be prepared in accordance with the legal regulations and published in conformity with the principles of the Regulation of the Minister of Finance of 29 March 2018 on the current and interim information disclosed by the issuers of securities [...].

The basic assumption of Company internal control system applicable to financial reporting is ensuring adequacy and correctness of financial information disclosed in the financial statements and interim reports.

The Accounting Office is responsible for preparation of the financial statements and interim financial reports, while the Financial Office is responsible for current management reporting of the Company and of the Group. Presenting the financial data in the financial statements, interim financial reports and other reports disclosed to the investors, the Company applies coherent accounting rules.

The financial data used as a basis of the financial statements and interim reports come from the monthly financial and operational reporting applied by the Company. Upon accounting closure of each calendar month, the Financial Office and the Management Board analyse the financial results of the Company comparing them to assumptions for the particular business segments. The identified errors are corrected on a current basis in the Company's books of account, in compliance with the adopted accounting policy.

Preparation of financial statements and interim reports starts after verification and acceptance of the results of the month/period ended by the Management Board. Interim reports of the Company are prepared by the financial and accounting services under the supervision of the Chief Accountant (based on the financial data presented in the interim financial statements) and the Financial Office staff, and are subject to verification by the Director of the Financial Office and the Company Management Board.

The annual separate and consolidated financial statements of the Group companies are audited by an independent statutory auditor. The semi-annual individual and consolidated financial statements of the Group companies are reviewed by a statutory auditor.

Within the Supervisory Board of Makarony Polskie SA there operates the Audit Committee, appointed by the Supervisory Board members. The Audit Committee monitors the financial reporting processes at the Company, the efficiency of the internal control and risk management systems as well as internal audit (also in reference to financial reporting), performing the financial audit activities, and specifically auditing the financial statements of the Company by an audit firm, in consideration of any conclusions and determinations of the Audit Supervision Commission on the basis of control carried out at the respective audit firm.

The Audit Committee members maintain direct contacts with the statutory auditor carrying out the audit of Makarony Polskie SA financial statements, and inform the Supervisory Board about the results of the Company financial statements audit, provide an explanation of the way in which the audit contributed to the fairness of financial reporting at the Company, and the role played by of the Audit Committee in the audit process.

At the last stage, the financial statements are also finally assessed by the Supervisory Board of Makarony Polskie SA.

Information about the principles of changing the entity authorised to audit the financial statements

In accordance with § 19.c of the Articles of Association of Makarony Polskie SA, selection of a statutory auditor to audit the Company financial statements falls within the powers of the Supervisory Board. The selection is made based on the Audit Committee recommendation.

At least every five years, a new statutory auditor is selected.

The rules concerning a change of the entity authorised to audit the financial statements are provided for in § 4 of the By-law of the Supervisory Board of the Company. A policy of selection of an audit firm to carry out the audit of financial statements as well as a Procedure of selection of an audit firm to carry out the audit the financial statements, both prepared by the Audit Committee of the Supervisory Board, are binding at the Company.

An entity that is to perform the function of the statutory auditor at the Company is selected such as to ensure independence during the performance of the entrusted tasks. The assessment of the statutory auditor's independence at the particular stages of selection, as

well as during further cooperation, is made by the Audit Committee. The Audit Committee also consents to the provision by the statutory auditor and the audit firm of the allowed non-audit services, in accordance with the principles of the Policy passed and implemented in that area.

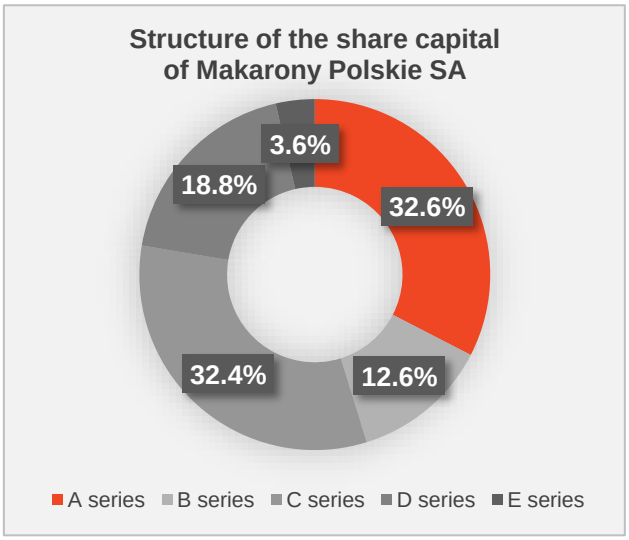
Share capital

Share capital of Makarony Polskie SA:

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

Structure of the share capital of the Company:

- 3,013,250 ordinary bearer shares, A series;
- 1,169,750 ordinary bearer shares, B series;
- 3,000,000 ordinary bearer shares, C series;
- 1,735,821 ordinary bearer shares, D series;
- 331,250 ordinary bearer shares, E series.



The shares of the Company are ordinary bearer shares quoted on regulated market run by Giełda Papierów Wartościowych w Warszawie SA [Warsaw Stock Exchange]. The Company did not issue any securities granting any special control rights to any of its shareholders.

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

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

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

Shareholder	Shares in the share capital		Votes in the General Meeting	
	number	% share	number	% share
Grupa Praska Giełda Spożywcza SA, including:	2,311,594	24.99%	2,311,594	24.99%
Praska Giełda Spożywcza SA (dawniej: 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 i Grzegorz Słomkowscy, 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%*
Krzysztof Moska	580,969	6.28%	580,969	6.28%
Other shareholders	3,381,062	36.55%	3,381,062	36.55%
TOTAL	9,250,071	100.00%	9,250,071	100.00%

Changes in the shareholding in 2018

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

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

and 6.28% of the total number of votes in the General Meeting of the Company, i.e. shares of the Company entitling him to exercise 580,969 votes.

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

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

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

Shares held by the Members of the Management Board

Number and nominal value of the Company shares held by the Management Board Members as at date of the report:

Management Board Member	2018		2017	
	Number of shares	Nominal value	Number of shares	Nominal value
Zenon Daniłowski*	140,000	420,000	140,000	420,000

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

In accordance with the information possessed by the Company no changes in the status of shares held by the President of the Management Board occurred during 2018 and by the publication date of this report.

Shares held by the Members of the Supervisory Board

Number and nominal value of the Company shares held by the Members of the Supervisory Board as at date of the report:

Member of the Supervisory Board	2018		2017	
	Number of shares	Nominal value	Number of shares	Nominal value

Marek Rocki	0	0	0	0
Michał Słomkowski	0	0	0	0
Roman Sobiecki	0	0	0	0
Samer Elwaziri	0	0	0	0
Wiesław Wasilewski	5,000	15,000	5,000	15,000

In accordance with the information possessed by the Company no changes in the status of shares held by the Members of the Supervisory Board occurred during 2018 and by the publication date of these statements.

Shares in subsidiaries

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

The right to make decisions on shares issue or redemption

In accordance with § 9 of the Articles of Association of the Company, the share capital may be increased and decreased pursuant to the procedure specified in the Code of Commercial Companies, or by way of a public offering on the terms and conditions specified in the Act of 29 July 2005 on Public Offering and Conditions Governing Introduction of Financial Instruments to Organised Trading, and on Public Companies (as amended).

Principles of making amendments in the Articles of Association of Makarony Polskie SA

The Articles of Association of Makarony Polskie SA in the currently binding wording do not include any stipulations regarding the Articles amendment otherwise than in accordance with the provisions of the Code of Commercial Companies.

In accordance with Article 430 of the Code of Commercial Companies, any amendment of the Articles of Association requires a resolution passed by the General Meeting and an entry in the register. A resolution of the General Meeting concerning amendments to the Articles of Association must be passed with the majority of 3/4 of the votes cast – Article 415 of the Code of Commercial Companies.

The Articles of Association of Makarony Polskie SA are available on the website of the Company at: www.makarony.pl.

General Meeting

The principal rights of the General Meeting

The competencies of the General Meeting include taking decisions on matters concerning organisation and operation of the Company, except for the cases specified in the Code of Commercial Companies and the Articles of Association of the Company.

Operation of the General Meeting

The General Meeting operates in accordance with the Code of Commercial Companies, the Articles of Association of the Company and the By-law of the General Meeting of Makarony Polskie SA adopted by virtue of Resolution No. 24 of the Annual General Meeting of Makarony Polskie SA on 28 June 2016.

An Annual General Meeting is convened by the Management Board annually and takes place within 6 months of the end of each reporting year. An Extraordinary General Meeting is convened by the Management Board on their own initiative, by the Supervisory Board if the Board members deem it advisable, or by shareholders representing at least half of the share capital or at least half of the total votes in the Company.

The General Meeting shall be held at the registered office of the Company or at another place within the territory of the Republic of Poland. The venue and date of the General Meeting are determined such as to enable participation of the possibly largest number of shareholders.

The General Meeting is convened in the way specified for disclosure of current information by public companies with the simultaneous publication of the respective announcement on the website of the Company at: www.makarony.pl.

The General Meeting is capable of adopting resolutions irrespective of the number of shares represented at the session, unless the Code of Commercial Companies provides otherwise. Without prejudice to the provisions of Article 404 of the Code of Commercial Companies, the General Meeting may adopt resolutions only concerning the affairs stipulated in the Code of Commercial Companies and the Articles of Association, which are covered by the agenda of a given Meeting.

The resolutions of the General Meeting shall be adopted by absolute majority of the votes cast, unless the binding laws or the Articles of Association provide otherwise.

Voting is open. Secret balloting is ordered by the chairperson of the General Meeting for personal matters and at the request of a shareholder. The right to demand secret balloting does not apply to resolutions concerning organisational matters. The General Meeting may rescind the secrecy of voting in cases concerning the appointment of commissions to be established by Meeting.

Shareholders' rights

The rights of the shareholders and the method of executing them at the General Meeting are defined in the Code of Commercial Companies, the Articles of Association and the By-law of the General Meeting.

The shareholders representing at least half of the Company share capital or at least half of the votes in the Company are entitled to convene an Extraordinary General Meeting.

Only those who are the shareholders of the Company 16 days prior to the date of the General Meeting (record date) may participate in the General Meeting. The shareholders may participate in the General Meeting in person or by a proxy. All shareholders may express their opinions about the matters covered with the agenda.

Description of the procedures of participation in the General Meeting and execution of the rights to vote is each time published in an announcement about the General Meeting.

2018 General Meeting

In the reporting year 2018, the Annual General Meeting of Makarony Polskie SA took place on 28 June. The agenda of the General Meeting included:

- consideration and approval of the financial statements of Makarony Polskie SA for the reporting year 2017;
- consideration and approval of the Management Board report on the operations of the Company and the Makarony Polskie Group in the reporting year 2017;
- consideration and approval of the consolidated financial statements of the Makarony Polskie Group for the reporting year 2017;
- net profit distribution for the reporting year 2017;
- consideration of the report of the Supervisory Board of Makarony Polskie SA for the reporting year 2017;
- granting the vote of approval to the Members of the Company Management Board with regard to their fulfilment of duties in the reporting year 2017;
- granting the vote of approval to the Members of the Company Supervisory Board with regard to their fulfilment of duties in the reporting year 2017;

- appointment of the Supervisory Board of Makarony Polskie SA for the eighth term and determination of the principles and value of remuneration of the Supervisory Board Members;
- consideration of the request of the Management Board with regard to amending the Company Articles by virtue of authorising the Management Board to increase the share capital within the limits of the authorised capital, with exclusion of rights issue;
- consideration of the request of the Management Board with regard to the issue of bonds convertible into the Company shares, conditional increase of the share capital, amendment of the Company Articles and exclusion of rights issue.

The resolutions of the Extraordinary General Meeting were published in the current report No. 17/2018 of 28 June 2018. Moreover, they are available on the website of the Company at: www.makarony.pl.

The Management Board did not convene any Extraordinary General Meetings. Neither the shareholders of the Company nor the Members of the Supervisory Board submitted any other requests for convening of the General Meeting.

The Members of the Management Board and of the Supervisory Board participated in the sessions of the General Meetings and were able to provide subject-related answers to any questions raised by the shareholders at the General Meetings.

Supervisory Board

The Supervisory Board of Makarony Polskie SA operates based on the Code of Commercial Companies, the Articles of Association of the Company and the By-law of the Supervisory Board adopted by virtue of Resolution No. 25 of the Annual General Meeting of Makarony Polskie SA of 28 June 2016.

The principles of appointing and recalling the Supervisory Board Members

The Supervisory Board of the Company consists of 5 to 7 members appointed and recalled by the General Meeting.

The term of office of the Supervisory Board is two years. The mandates of the Supervisory Board Members expire on the day on which the Annual General Meeting approves the Company financial statements for the last full reporting year of the term of the Supervisory Board. If during the term of office of the Company Supervisory Board a supplementary or an extending election has been held, the mandate of the newly appointed member of the Supervisory Board shall expire simultaneously with the mandates of the remaining members of the Company Supervisory Board.

The candidacies announced for the Supervisory Board Members shall be justified, such as to enable the General Meeting to make an educated selection. Members of the Supervisory Board are selected on the basis of their proper education and life experience, which makes them competent to properly assess the operation of the Company and duly perform their functions at the Supervisory Board and Audit Committee, and such that at least two Members of the Board are independent of the Company, its shareholders or employees.

The Supervisory Board Members are entitled to remuneration according to the principles determined by the General Meeting.

The Supervisory Board Members select the Chairman from among themselves to manage the works of the Supervisory Board. The Supervisory Board may also appoint Deputy Chairmen and a Secretary.

Competencies of the Supervisory Board

The Supervisory Board exercises ongoing supervision of the Company activities in all aspects. The competencies of the Supervisory Board include, among other things:

- assessment of the financial statements and the Management Board report with regard to their conformity with the books of account and evidence documents as well as with the actual state of affairs, and evaluation of the Management Board proposals regarding profit distribution or loss coverage as well as submission to the General Meeting of annual reports on the results of such evaluation;
- approval of annual financial plans of the Company and supervision of their execution;
- selection of a statutory auditor to audit the Company financial statements;
- granting consent to purchase or sale of real estate, perpetual usufruct rights or share in real estate of the value exceeding 10% of the Company equity, calculated in reference to the latest balance sheet of the Company approved by the General Meeting, unless such purchase has been stipulated in the annual financial plan of the Company approved by the Supervisory Board;
- granting consent to a sale of the Company assets, the value of which exceeds 10% (ten per cent) of the total value of the Company equity, calculated in reference to the latest balance sheet of the Company approved by the General Meeting, unless the sale has been stipulated in the annual financial plan of the Company approved by the Supervisory Board;
- granting consent to assume a liability or dispose of rights which – within one or several interrelated legal transactions – exceeds 10% of the Company equity, calculated in reference to the latest balance sheet of the Company approved by the General Meeting, unless such liability or disposal has been stipulated in the annual financial plan of the Company approved by the Supervisory Board;

- granting consent to the payment to the shareholders of an advance on account of the expected dividend;
- appointing and dismissing the whole Management Board of the Company or its individual members;
- establishing the rules and the terms and conditions of remuneration for the Members of the Management Board as well as the value of the remuneration;
- representing the Company in any contracts concluded between the Company and a Member of the Management Board, and in any disputes between the Company and such a person.

The Supervisory Board may examine any and all activities of the Company, request any reports, explanations and information from the Management Board and employees, check the books of account and evidence documents (including the financial documents), request access to all premises of the Company (§ 10 of the By-law of the Supervisory Board), whereas in their activities the Supervisory Board Members are obliged to keep in mind the good name and interest of the Company (§ 6.1 of the By-law of the Supervisory Board).

The work of the Supervisory Board is carried out in the form of meetings, control activities and participation in the work of the Company governing bodies.

Composition of the Supervisory Board

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

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

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

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

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

Committees of the Supervisory Board

In accordance with the legal regulations, an Audit Committee is operating within the Supervisory Board of Makarony Polskie SA.

At the moment, the Company has not planned to appoint other committees at the Supervisory Board than those required by the legal regulations. It is so because of the status of the Company, the shareholding structure, as well as organisational and economic considerations, which include the necessity of providing additional administrative and legal servicing of such committees.

AUDIT COMMITTEE

The Audit Committee of Makarony Polskie SA operates based on the binding legal regulations as well as the By-law of the Audit Committee adopted by virtue of Resolution No. 5 of the Supervisory Board of Makarony Polskie SA of 18 October 2017.

The membership of the Audit Committee is determined by the Supervisory Board, which also appoints the Audit Committee members and appoints the Committee chairperson. The minimum membership of the Audit Committee is 3 people.
The Audit Committee members are appointed from among the Supervisory Board, such that:

- most of the Audit Committee members, including the chairperson, are independent;
- there is at least one member of the Audit Committee who possess knowledge and skills in accounting or auditing financial statements, and at least one member who possesses knowledge and skills in the sector in which the Company operates.

The mandates of the Audit Committee members expire as at the date of expiry of the Supervisory Board mandates. Each of the Audit Committee members may also be recalled at any time by the Supervisory Board.

In case a mandate of a Member of the Supervisory Board appointed for the Audit Committee expires before the expiry of the term of the whole Supervisory Board, or if the Member resigns from his function in the Audit Committee, the Supervisory Board supplements the membership of the Committee by appointing a new member of the Committee for the period ending at the expiry of the Board term.

Specifically, the tasks of the Audit Committee include:

- monitoring of:
  - the Company financial reporting processes;
  - the efficiency of internal control and risk management systems as well as internal audit, also in reference to financial reporting;
  - the financial audit activities performance, and specifically auditing the financial statements of the Company by an audit firm, in consideration of any conclusions and determinations of the Audit Supervision Commission on the basis of control carried out at the respective audit firm;
- control and monitoring the independence of the statutory auditor and the audit firm carrying out the audit of the Company financial statements (specifically if the audit firm also provides the Company with non-audit services);
- informing the Supervisory Board about the results of the Company financial statements and explanation of how the audit contributed to the fairness of the financial reporting of the Company, and what was the role of the Committee in the audit process;
- assessing the independence of the statutory auditor and the audit company carrying out the audit of the Company financial statements, and expressing consent to the provision by them of any allowed non-audit services to the Company;
- preparing a policy of selection an audit firm to carry out the Company financial statements audit;
- preparing a policy of providing the allowed non-audit services to the Company by the audit firm carrying out the audit of the Company financial statements, the entities related to that audit firm or a member of the audit firm's network (within the meaning of generally binding regulations);
- preparing a procedure of selection of an audit firm to carry out the audit of the Company financial statements;
- presentation to the Supervisory Board of a recommendation regarding the selection of a statutory auditor or audit firm to carry out the audit the Company financial statements. The recommendation should comply with the requirements of Regulation No. 537/2014 and the Act on Statutory Auditors;
- providing the Supervisory Board and the Management Board with recommendations aimed at ensuring the fairness of the Company financial reporting process.

When performing its work, the Audit Committee may:

- request the provision of information, explanations and documents needed for the performance of the tasks, without the intermediation of the Supervisory Board;
- request the key statutory auditor to discuss with the Audit Committee or the Management Board the major issues resulting from the audit, which have been mentioned in the additional report referred to in Article 11 of Regulation No. 537/2014.

Membership of the Audit Committee

From 1 January 2018 to the date of publication of this report, the Audit Committee consisted of:

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

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

In accordance with the legal regulations, the Audit Committee members possess:

- knowledge and skills in accounting or auditing financial statements – Mr Michał Słomkowski and Mr Roman Sobiecki;
- knowledge and skills in the sector in which the Company operates – Mr Wiesław Wasilewski and Mr Roman Sobiecki.

Mr Roman Sobiecki is a Professor of Economy at the SGH Warsaw School of Economics, where he has been working since 1978, and currently at the Institute of Markets and Competition. Since 2012 he has been dean of the Collegium of Business Administration. Since 1996 he has been Member of the Board of the Collegium of Business Administration. In the years 1996–1997 he was Advisor to the Political Cabinet of the Minister of State Treasury. In the years 1999–2005 was a member of the Team of Consultants for the President of the Republic of Poland for Agriculture and Rural Development. In the years 2013–2015 he was chairman of the National Council of Entrepreneurship at the Ministry of Economy. Mr Roman Sobiecki is an author and co-author of over 60 books and articles in micro- and macroeconomics, globalisation and entrepreneurship (including the book entitled "Globalisation and the Functions of Polish Agriculture"). He is also author and co-author of academic textbooks for students in the theory of competition and the strategy of competing companies, plus textbooks and curricula for teaching economics at secondary and professional schools.

Mr Michał Słomkowski is a graduate from the bachelor's course in BBA Finance and Accounting and the master's course in Finance and Accounting, major in Company Finance, of the Kozminski University in Warsaw. He also made a post-graduate course organised by the Institute of Spatial Management and Housing and Kozminski University in Real Property Management. He is experienced in managing work effectiveness and labour costs.

Mr Wiesław Wasilewski graduated from the Higher School of Engineering in Radom, Faculty of Economics and Organisation (but has not submitted the master's thesis for defence). Since

2002 he is the owner of an advisory company Big-Pol Fundusze Pomocowe [Support Funds] specialising in gaining EU subsidies and investment advisory services for food processing companies. Most of the projects of the company carried out so far referred to new technologies and energy efficient operation of food processing companies. Moreover, several process and products innovations have been implemented.

Activities of the Audit Committee in 2018 and in reference to 2018

In 2018, the Audit Committee held 3 meetings convened by the Audit Committee Chairman and devoted to the performance of duties by the Committee, and specifically referring to:

- starting the procedure of an audit firm selection;
- presenting recommendations to the Supervisory board with regard to the selection of an audit firm to review semi-annual financial statements and carry out the statutory audit of the annual financial statements of Makarony Polskie SA and the Capital Group of Makarony Polskie in the reporting years 2018–2019;
- acceptance of the annual report on the activities of the Audit Committee in 2017;
- cooperation with the statutory auditor during the audit of the financial statements for the reporting year 2018.

After the end of the reporting year 2018, the Audit Committee held 2 meetings convened by the Audit Committee Chairman and devoted specifically to:

- cooperation with the statutory auditor during the audit of the financial statements for the reporting year 2018;
- preparing information for the Supervisory Board about the results of the Company and the Makarony Polskie Group financial statements audit and explanation of the way in which the audit contributed to the fairness of financial reporting, and the role played by of the Committee in the audit process;
- acceptance of the annual report on the activities of the Audit Committee in 2018.

The object of the ongoing activities of the Audit Committee is to monitor the works related to the process of preparing and auditing the financial statements of the Company. The Audit Committee monitored the correctness of preparing the financial statements by the Company for the reporting year 2018, cooperating in that regard with the Management Board of the Company and remaining in contact with the statutory auditor carrying out the audit of the financial statements, i.e. BDO Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered office in Warsaw.

In the opinion of the Audit Committee, the internal audit activities at the Company were fulfilled by the Management Board, the managerial staff and other employees in accordance with their respective duties. The internal audit mechanisms cover the method of performance of tasks by the employees, and specifically the rights, competencies and compliance of the

carried out activities with the principles and procedures developed for the particular areas of operation. These mechanisms are of control nature and are incorporated both in the internal normative acts and procedures and in the ERP class integrated IT system. The risk areas important for the Company were properly identified for the purpose of ensuring the performance of the strategic objectives assumed by Makarony Polskie SA. The Management Board, together with the managerial staff, review and update on the current basis the risk factors accompanying the operations of the Company which may have impact on the financial and market standing of the Company.

Policies regarding the selection of a statutory auditor and cooperation with the auditor, as prepared by the Audit Committee

On 18 October 2017, the Audit Committee passed:

- the "Policy of selection of an audit firm to carry out the statutory audit of the financial statements of Makarony Polskie SA with its registered office in Rzeszów and the Makarony Polskie Group", which reads that the audit firm is selected in accordance with the following principles:
  - by the Company Supervisory Board, upon recommendation of the Audit Committee;
  - in due advance, such that the agreement on the financial statements audit may be signed at the date enabling the audit firm to participate in the major assets inventory taking;

- with particular attention paid to the independence of the audit firm and the statutory auditor; in that regard – when presenting its recommendation to the Supervisory Board of the Company – the Audit Committee considers the scope of the services performed by the audit firm and the statutory auditor within the last five years preceding the selection of the audit company;
- control and monitoring by the Audit Committee of the statutory auditor and audit firm independence at each stage of the procedure of the audit firm selection or carrying out the audit and review of the aforesaid financial statements;
- the selection of the audit firm is made in consideration of the experience of that firm in carrying out statutory audits of financial statements of public-interest entities, including companies listed on the Warsaw Stock Exchange;
- the selection of the audit firm is made in consideration of the principle of audit firm and key statutory auditor rotation, such that the maximum time of uninterrupted duration of orders regarding statutory audits performed by the same audit firm or an audit firm related to that audit firm, or any member of the audit firm's operating in the European Union member states, must not exceed five years, whereas the key statutory auditor cannot carry out the statutory audits at the Company for a period longer than five years (in such case the key statutory auditor may carry out the statutory audit at the Company again after the lapse of at least three years of the end of the previous statutory audit);
- the first agreement on the financial statements audit is concluded with the audit firm for a period not shorter than two years, with the possibility of extension for further at least two-year periods, in consideration of the principles of rotation of the audit firm and the key statutory auditor, as provided by the legal regulations;

- the "Policy of providing the allowed non-audit services by the audit firm carrying out the audit of the financial statements of Makarony Polskie SA with its registered office in Rzeszów and the Makarony Polskie Capital Group, or by entities related to that audit firm or a member of the audit firm's network", which reads that:
  - the statutory auditor or the audit firm that carry out the statutory audit of the Company, or an entity related to that audit firm, or any member of the statutory auditor's or the audit firm's network, do not provide directly or indirectly to the Company or its related companies any prohibited non-audit services;
  - the prohibited services do not include those identified in Article 136.2 of the Act of 11 May 2017 on Statutory Auditors, Audit Companies and Public Supervision (Journal of Laws of 2017, item 1089);

- the provision of permitted services is possible solely in the scope which is not related to the tax policy of the Company, upon assessment by the Audit Committee of threats and independence security measures, and obtaining the consent of the Audit Committee;
- in the respective cases, the Audit Committee issues guidelines regarding such services.

Consent of the Audit Committee to the provision of additional services by the statutory auditor

In the reporting year 2018 and by the publication of this report, the audit firm carrying out the audit of the financial statements of Makarony Polskie SA did not provide any permitted non-audit services to the companies of the Makarony Polskie Group.

Recommendation of the Audit Committee regarding the selection of an audit firm

In the reporting year 2018, Makarony Polskie SA changed the statutory auditor. The Audit Committee carried out the selection procedure in compliance with the binding criteria, and presented its recommendation regarding the selection of the audit firm to carry out the audit to the Supervisory Board.

Supervisory Board Members Remuneration Policy

In accordance with the Company Articles of Association, the Supervisory Board Members receive remuneration in the value determined by the General Meeting.

The Supervisory Board Members receive remuneration for each Supervisory Board meeting in which they participate. By 28 June 2018, the system of remuneration for the Supervisory Board of Makarony Polskie SA adopted by way of Resolution No. 22 of the Annual General Meeting of 28 June 2016 had been in force. Since 28 June 2018, a new system of remuneration for the Supervisory Board adopted by way of Resolution No. 22 of the Annual General Meeting on 28 June 2018 has been binding.

The information concerning the remuneration paid to the Members of the Company Supervisory Board is presented in the table below, as well as in Note 38 to the consolidated financial statements and Note 37 to separate financial statements.

Forename and surname	Function	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Roman Sobiecki	Chairman of the Supervisory Board	29	18
Samer Abdelfatah Mohamed Elwaziri	Deputy Chairman of the Supervisory Board	30	9
Wiesław Wasilewski	Supervisory Board Member	23	14
Marek Rocki	Supervisory Board Member	23	14
Michał Słomkowski	Supervisory Board Member	23	14
Total		**128**	**69**

There are no liabilities at the Company related to the payment of pensions or other similar payables to the former supervisory staff, or any liabilities incurred in relation to such pensions.

Supervisory Boards of the subsidiaries

The Group subsidiaries have no Supervisory Boards. The governing bodies of the subsidiaries of Stoczek Natura Sp. z o.o. and MP Trade Sp. z o.o. are the General Meeting and the Management Board.

Management Board

Principles of Management Board Members appointment and dismissal

In accordance with the Articles of Association of Makarony Polskie SA, the Management Board of the Company consists of one to three members, including the President of the Management Board and Vice President of the Management Board who are appointed and recalled by the Supervisory Board.

The term of office of the Management Board Members is two years. The Management Board Members may be appointed for the consecutive two-year terms of office. The mandates of the Management Board Members expire pursuant to Article 369.4 of the Code of Commercial Companies. If during the term of office of the Company Management Board a supplementary or an extending election has been held, the mandate of the newly appointed member of the Management Board shall expire simultaneously with the mandates of the remaining members of the Company Management Board.

Competencies of the Management Board

The Management Board represents the Company outside and makes decisions on all the issues which have not been reserved to the competencies of the remaining governing bodies of the Company in accordance with the Company Articles of Association and the binding laws.

The declarations of will on behalf of the Management Board may be made by:

- one person in case of a Management Board consisting of one member;
- two Management Board Members acting jointly or one Management Board Member acting jointly with a Proxy in case of a Management Board with more than one member.

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

- Grażyna Kozielec – from 31 May 2012,
- Beata Majewska-Karp – from 31 May 2012,
- Witold Żarek – from 4 March 2013,
- Tomasz Blat – from 7 August 2017.

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

During the reporting year 2018, Mr Dariusz Cylka also acted as a Proxy, however, his mandate was recalled by the Company Management Board on 17 April 2019.

Composition of the Management Board

In the period from 1 January 2018 to the date of this report publication, the Management Board consisted of one person. The office of the President of the Management Board has been held by Zenon Daniłowski.

Division of duties among the Management Board Members

The Management Board of the Company consists of one person.

Management Board Members Remuneration Policy

In accordance with the Company Articles of Association, the Management Board Members receive remuneration in the value determined by the Supervisory Board. The system of remunerating the President of the Management Board consists of a fixed part (basic salary under an employment contract) and a variable incentive part (remuneration for the fulfilment of function calculated based on the EBITDA result [operating profit + depreciation] generated

by the Company in the quarter for which the remuneration is paid, and disclosed in the published interim reports covering the respective quarter).

In the period covered with these financial statements, the Group companies concluded no contracts with the managing persons providing for a compensation should they resign from their position or should they be dismissed from the office held without important reason or should they be recalled or dismissed due to a merger of the Company by way of takeover.

In the financial year 2018, as well as in the period by the date of publication of this report, Makarony Polskie SA did not have any employee share schemes.

The information concerning remuneration paid to the Members of the Company Management Board is presented in the table below, as well as in Note 38 to consolidated financial statements, and Note 37 to the separate financial statements.

Forename and surname	Function	01.01.2017- 31.12.2017		01.01.2016- 31.12.2016	
		Fixed	Variable	Fixed	Variable
Zenon Daniłowski	President of the Management Board	528*	287	579*	81
	Total	**815***		**660***	

* Including the remuneration on account of acting as the President of the Management Board of MP Trade Sp. z o.o. subsidiary: PLN 108,000 in 2018 and PLN 32,000 in 2017.

There are no liabilities at the Company related to the payment of pensions or other similar payables to the former managing staff or former members of the administrative bodies, or any liabilities incurred in relation to such pensions.

Management Boards of the subsidiaries

As at 31 December 2018 and as at the date of this report publication, the composition of the Management Boards of the subsidiaries was as follows:

- 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.

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

There were no Proxies appointed at MP Trade Sp. z o.o. as at the date of this report publication. During the reporting year 2018, the function of a Proxy at MP Trade Sp. z o.o.

was fulfilled by Mr Dariusz Cylka (the rights of proxy granted were binding jointly – the Proxy might represent the Company only in liaison with another Proxy or a Member of the Management Board), however, the Proxy was recalled by the Management Board on 17 April 2019.

Other information

Information concerning cooperation with the statutory auditor

The Supervisory Board of Makarony Polskie SA selected BDO Spółka z ograniczoną odpowiedzialnością sp.k. (formerly: BDO Spółka z ograniczoną odpowiedzialnością) with its registered office in Warsaw, as the statutory auditor to review the financial statements of the Makarony Polskie Group companies for the first half of the reporting year and to audit the financial statements of the Makarony Polskie Group companies for the reporting year, in the years 2018–2019.

BDO Spółka z ograniczoną odpowiedzialnością sp.k. is entered in the list of audit forms kept by the National Council of Statutory Auditors (KRBR) under the number 3355, as well as the Register of Entrepreneurs of the National Court Register (KRS), kept by the District Court for the Capital City of Warsaw, 13th Commercial Division, KRS number 0000729684.

The companies of the Makarony Polskie group have not previously availed of the services of BDO Spółka z ograniczoną odpowiedzialnością sp.k.

On 27 July 2018, Makarony Polskie SA concluded an agreement with the aforesaid auditor regarding the review of condensed financial statements for the first half of the reporting year, and audit of the financial statements of the Company and the Group for the reporting year, in the years 2018–2019.

The remuneration of BDO Spółka z ograniczoną odpowiedzialnością sp.k. on account of the audit of the financial statements of Makarony Polskie SA for the reporting year 2018 amounts to the total of PLN 80,600 (PLN 26,300 for the review of the separate and consolidated semi-annual financial statements; PLN 54,300 for the audit of the financial statements of Makarony Polskie SA and the Makarony Polskie Group for 2018).

As regards the review and audit of the financial statements for the reporting year 2017, Makarony Polskie SA availed of the services of ReVision – Rzeszów Józef Król Sp. z o.o. with its registered office in Rzeszów. The remuneration of ReVision – Rzeszów Józef Król Sp. z o.o. from Makarony Polskie SA amounted to the total of PLN 52,500 (PLN 18,000 for the review of the separate and consolidated semi-annual financial statements and PLN 34,500 for the audit of the financial statements of Makarony Polskie SA and the Makarony Polskie Group for 2017).

The Group applies utmost effort to act in a sustainable and responsible way while pursuing its business activities.

Corporate Social Responsibility

While executing the main business target for which enterprises are being established, namely profit generation, each enterprise must be aware of the fact that it has a significant effect on its neighbourhood (natural environment, people, other businesses).



Corporate Social Responsibility (CSR) is a responsible way of a company operation in social, economic, and environmental space. The CSR concept has been changing, evolving and continued to be a subject of public debate. Now, CSR is not only an idea but also an approach to management.

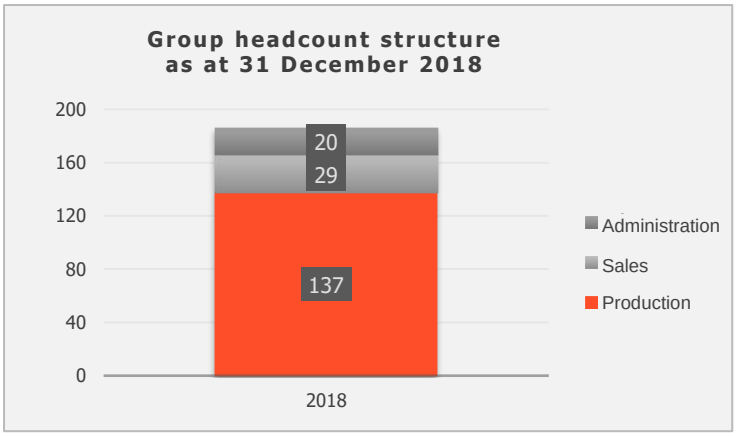
The Makarony Polskie Group applies utmost effort to follow the CSR principles when carrying out its operating activity and accomplishing its business objectives.

Creating its development strategy and accomplishing business objectives, the Makarony Polskie Group has applied utmost effort to carry out its operating activities in consideration of the CSR principles, i.e. in caring for the needs and requirements of the broadly understood social and ecological interest of the Company environment.

Employees

In 2018, the Group was consistently realising the program of headcount optimisation initiated in 2013, which assumes stabilisation of staff employed on permanent basis at the level of the necessary minimum and making the headcount of the production plants flexible by making it dependent on the size of production. The basis of the scheme was continuous care for the proper work organisation (including Lean Manufacturing implementation), as well as effective use of resources.

In accordance with the adopted policy, the Makarony Polskie Group maintained the total headcount at the level of the necessary minimum. The headcount of the Makarony Polskie Group as at 31 December 2018 was to 186 people (compared to 181 people at the end of 2017 and 196 people at the end of 2016).



Diversity policy

The HR policy of the Makarony Polskie Group focuses on keeping the best specialists and managers who, thanks to their knowledge, experience and involvement, ensure the top level of execution of the business goals of the Group entrusted to them, by which they guarantee continuing improvement of the organisation and quality of the offered products and services provided. Makarony Polskie SA has not developed any formal diversity policy concerning the Company governing bodies or its key managers. The current status of the Company does not imply any duty to report that element.

HR planning and recruitment of employees

The increasingly stronger "employee market" and shrinking unemployment, as well as the consequent growing problems in finding qualified personnel, force the employers to focus on the effective use of human resources and fast reacting to changes. In order to ensure the optimum level of tasks and goals execution, the Makarony Polskie Group has undertaken actions aimed at effective HR planning, even before a real demand in this respect occurs. The Group has implemented and carried out systematic identification of future HR needs, in close cooperation with managers of organisational units.

When recruiting and selecting candidates the Group applies utmost effort to make the process transparent, employee friendly and effective for the Company. In the decision-making process with regard to employing the candidates, the Group companies take into account their work history, seniority in their profession and education, adequately to the scope of the entrusted tasks. The Group employs women and men of various age alike, providing that they meet the subject-related criteria, and attempts to prevent any forms of discrimination.

By age and gender	**Group headcount structure as at 31 December 2018**

	Women	Men	Total
18–29	13	19	32
30–49	52	57	109
50+	20	25	45

For its staff, the Makarony Polskie Group has been looking for people who have passion for new challenges, are ready to develop their talents on a continuing basis and willing to share their knowledge. At specialist and managerial positions, the Company prefers persons showing high professionalism, entrepreneurship, and involvement, who want to develop themselves professionally, enjoy their work and can cooperate with other people.

Taking care of its staff the Group, first of all, carries out internal recruitment due to the fact that internal promotions (both horizontal and vertical) make it possible to keep in the organisation those employees who are involved, have extensive experience and the required qualifications. Should no proper candidates be found in internal recruitment, the Group carries out recruitment processes addressed to external candidates, using for that the sources of recruitment adequate to the profile of a vacant position, including but not limited to, headhunters, career offices, student placements and apprenticeships, as well as Internet portals.

The recruitment process is carried out in accordance with the principles of confidentiality and based on the internal procedures binding at the Group.

Placements and apprenticeships

The Makarony Polskie Group appreciates the value and competencies of young people as well as their enthusiasm and creativity. Therefore, the Group gladly participates in various placement programmes addressed to students and graduates. The Group also enables secondary and higher education students to serve their apprenticeship.

In 2018 the Makarony Polskie Group implemented a new apprenticeship programme for graduates, fully financed from the Company own funds. The programme lasts 3 months. It is directed to young, ambitious people, who are making their first steps in their professional career. The purpose of programme is to facilitate the people who are entering the labour market to gain practical skills in the current business operations. The apprentices learn about the organisation of the Group and the operation of its business units. The Group has planned to propose long-term employment to the best apprentices.

In 2018, two graduates availed of the new 3-month paid apprenticeship programme, and one of them was employed at the Group after the apprenticeship completion.

Training

The Makarony Polskie Group attaches great importance to the effective use of human resources. A significant element of that process is ensuring professional development to the employees and continuing improvement of their professional qualifications by way of providing them with specialist training and competencies improvement programmes. Performing such activities, the Group avails mostly of external specialist training and specially prepared, closed programmes for development of competencies that, in the opinion of the Group, are the best investment in the employees.

In 2018, within the internal training formula, there were mainly provided courses in effective use of IT tools at various levels of the organisation, planning and settlement of the working time of the subordinated teams and effective sales and commercial negotiations.

The employees of various levels availed of open external training, refreshing and extending their knowledge in the scope needed for the effective performance of duties at their positions, in the changing technical, engineering, qualitative and legal environment.

The Makarony Polskie Group has also focused on self-education of their staff and improvement of professional qualifications, particularly in the scope of the tasks performed or planned at their positions, which is also important from the point of view of the Group. In 2018, that form of support was provided to three employees, for whom the Group companies provided subsidies for university and post-graduate courses.

It is important to implement the acquired skills at work and share the knowledge with other team members and among the teams. Taking the above into account, when designing various forms of training, the Group uses also the approach of periodically organised internal conferences at which the Group employees become trainers or co-trainers, thus improving their own competencies and sharing their knowledge with the others.

Remuneration system

The incentive remuneration system adopted by the Group assumes that the employees receive remuneration consisting of the fixed part (basic salary) and variable part (which includes bonuses and rewards) awarded depending on their work contribution, involvement and execution of goals/tasks set for the employees by their superiors.

The basic salary is determined depending on how a given position ranks, based on work contribution, scope of responsibilities, qualifications and experience. The Group assesses the specific positions, taking care of keeping the remuneration at a competitive level, which makes it possible to recruit persons of desirable qualifications and experience, based on the best market practices.

The variable part of the remuneration depends on the level of execution of individual goals/tasks set by the superiors, involvement of specific employees, their conscientiousness and care applied in the work performed, improvement of productivity and quality of work as well as special achievements related to execution of the tasks set by the superiors. The purpose is to motivate the employees to have very good work results compliant with the business interest of the Group.

The remuneration system implemented at the Group ensures effective support for business activities and execution of the strategy of development. The variable part of the remuneration system ensures its flexibility, ability to adjust to the needs of the organisation and to reflect the goals of the Group in the goals of the managers, and then delegating them downwards onto the employees.

In 2018 there were no significant changes in the remuneration system adopted at the Group.

OSH

Being a responsible employer, the Makarony Polskie Group takes also care to guarantee safe conditions of work to its employees. The particular companies of the Group have their own OSH policies implemented. In accordance with the regulations binding in this respect, in order to protect the health and life of the employees, the Group companies provide OSH training, ensure pre-employment and interim medical checks, hire employees of the required qualifications and equip them with personal protective equipment.

In 2018, there were reported four minor accidents at work at the Group.

Natural environment



The Group has consistently been trying to minimize its negative impact on the natural environment in each area of its operations by looking for environmentally friendly solutions. The activities of the Group focus, among other things, on rational consumption of water and energy, caring for carbon dioxide emissions limitation, minimisation of the quantity of sewage and waste produced by means of continuing improvement of manufacturing processes, use of modern, energy-efficient and high-performance engineering lines, taking care of good condition of machines and equipment. The Group companies have been applying utmost care

in segregation of waste to the specific fractions. The Group has been carrying out education and information actions in order to raise the staff environmental awareness.

In 2018, Makarony Polskie SA carried out investment projects aimed at improving the effectiveness and energy-consumption of pasta manufacturing processes, e.g. modernisation of production lines and buildings at the plants in Rzeszów and Częstochowa, or modernisation of drying chambers at the Częstochowa plant.

In November 2017, Stoczek Natura Sp. z o.o. entered into a subsidy agreement with regard to the implementation of the project entitled "Energy effectiveness improvement at Stoczek Natura Sp. z o.o.", worth PLN 2.96 million (including PLN 1.49 million subsidy), which is going to be performed in the period from January 2018 to November 2020. The main objective of the project is to improve energy effectiveness of Stoczek Natura Sp. z o.o. by way of thorough extensive thermal upgrading of the company building. Based on the energy audit carried out, within the project the company is going to implement improvements consisting in heat and electricity demand reduction.

Among the environmental protection activities undertaken by the Group, also emphasised should be the systematic disposal of electric and electronic waste as well as segregation and recycling of production waste.

Market

The trust placed by the customers in the Makarony Polskie Group is a stimulus to continuously modernise the manufacturing plants, introduce state-of-the-art production lines and comprehensive systems to control the manufacturing processes. The Group has also been investing in the acquisition and implementation of modern technologies, which is supported by the currently pending EU projects.

Caring for its development, Makarony Polskie SA has been performing EU projects focused on the creation of a Research and Development Centre for the Pasta Industry. At the Centre work will be carried out on innovative health-promoting products to be implemented in the business of the Company in the form of a new product line.

The main objective of the projects carried out by Stoczek Natura Sp. z o.o. is to improve competitiveness and innovativeness of the company on the domestic and foreign markets, by way of introducing product innovation in the form of a technology to manufacture ready-cooked meals based on meat in the form of a complete lunch.

Each production process taking place at the manufacturing plants of the Makarony Polskie Group is strictly supervised by the in-house Quality Control Teams that take care of products conformity with the requirements of food standards and high quality standards of the Company. Both raw materials and finished products are scrutinised at the in-house laboratories and, periodically, they are also examined at independent accredited external laboratories.

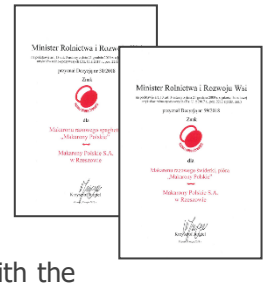


Makarony Polskie SA and Stoczek Natura Sp. z o.o. have implemented and certified a quality system that meets the requirements of IFS (International Food Standard) and BRC (British Retail Consortium), to be in compliance with the legal requirements regarding food safety. Furthermore, the production plants of the Group meet the requirements of the PN-EN ISO 9001:2009 quality standard, which ensures repeatability of the processes carried out and their continuous streamlining.

The Group systematically develops its cooperation with scientific institutes, R&D laboratories, and suppliers of raw materials, machines and packaging.



The achievements of the Group have been appreciated, which is expresses in a number of awards and special mentions granted to the Group and its products in 2018.



In March, 2-egg dumplings under the Makarony Polskie were awarded the title of the Sales Leader in the pasta category.

In May, wholemeal spaghetti, spirals and penne pasta offered under the Makarony Polskie brand were honoured with the "Poznaj Dobrą Żywność" [Know Good Food] title by the Minister of Agriculture and Rural Development.



In November 2018, wholemeal, spelt, buckwheat and egg-made pasta offered under the Makarony Polskie brand was awarded the "Jakość i Tradycja" [Quality and Tradition] title.



In February 2019, the fact that Stoczek Natura Sp. z o.o. belongs to the group of the fastest developing companies was confirmed by the obtained "Business Gazelles 2018" title.

Community

The Makarony Polskie Group attempts to actively participate 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.

Charity is one of the areas of the Makarony Polskie Group activities within the CSR projects, by way of providing support to public benefit institutions and foundations, as well as participation in charity projects.

Moreover, the Group has also actively supported the actions and initiatives for the development of culture, education and sports. It has also been engaging in community activities.

Cooperation with schools and universities

The Group companies have established long-term relationships with universities. For instance, Makarony Polskie SA cooperates with the University of Rzeszów in the field of R&D and with the Poznań University of Life Sciences, whereas Stoczek Natura Sp. z o.o. cooperates with the University of Life Sciences in Lublin.

Makarony Polskie SA has participated in the organisation of the Polish Scientific Conference entitled "Non-conventional Yeasts: from Basic Research to Application", organised on 15–18 May 2018 at the Centre for Innovations and Transfer of Technical and Environmental Knowledge in Rzeszów.



The conference was devoted to a broadly understood biotechnology, food engineering and influence of the environment and various other factors on the health and functioning of a human body.

Charity activities

For many years the Group has carried out charity activities of various kind at local and national level, providing support to children in need (Christmas campaigns and St. Nicholas' Day events, support of recreation during summer holidays), hospices (Rzeszów Hospice for Children), social aid centres (including, but not limited to Caritas Foundation of the Rzeszów Diocese), foundations (Fundacja Dziedzictwa Kresowego we Lwowie [Borderland Heritage Foundation in Lvov]) and schools.



For a few years, the Group companies have been actively involved in various initiatives of the Rzeszów Hospice for Children, such as, St. Nicholas' Day events, gifts for kids staying at the hospice and for their brothers and sisters on the Children's Day.

In 2018, the Group cooperated with the Caritas Foundation of the Rzeszów Diocese, the St. Brother Albert Aid Society and Borderland Heritage Foundation in Lvov. The Group companies supported the holiday recreation of children organised by the "Equal Opportunities" Society and the Catholic Youth Society of the Rzeszów Diocese.



Patronage and sponsoring of culture and sports

The Makarony Polskie Group has been a patron of cultural and sports events, both on Poland-wide and local level.

In 2018 the Group participated, for instance, in such initiatives as:

Sponsoring of the "26th Polish First Aid Championship of the Polish Red Cross organisation" held in Rzeszów in April 2018, within which the Makarony Polskie Group companies founded the prizes for the Championship participants and laureates;

Sponsoring of the Mother's Day and Children's Day taking place at the market square in Rzeszów and organised by the Caritas Foundation of the Rzeszów Diocese;

Sponsoring of the 25th Rzeszów Juwenalia (Juvenile Festival), being one of the largest students' projects in the Podkarpacie Region, organised by three universities based in Rzeszów: the Technical University of Rzeszów, the Higher School of IT and Management, and the Higher School of Law and Administration, awarded by the prestigious ProJuventus statuette in the years 2014 and 2018, in the category of the "Best Juwenalia in Poland".



Ongoing sponsoring by Makarony Polskie SA of the sports activities of Anna Kubiak, the World Vice-Champion in taiji. In 2018, the Company sponsored the athlete's travel to the Third World Taijiquan Championship, as well as her participation in various training courses to improve her skills;



Sponsoring of the beach volleyball team of Martin Chiniewicz and Michał Korycki. In 2018, the team stood on the podium of winners four times in the competitions within the Polish Championship eliminations, and won the competition in Rybnik in July 2018. The highest achievement of the Chiniewicz and Korycki beach volleyball team was the fifth position in the World Cup held in the Hungarian Siófok.

Declarations by the Management Board

Declaration with regard to fairness of the consolidated financial statements

The Management Board of Makarony Polskie SA declares that according to its best knowledge, the annual consolidated financial statements of the Makarony Polskie Group for the reporting year ended 31 December 2018 as well as comparative data have been prepared in accordance with the binding accounting principles and reflect in a true, fair and transparent manner the assets, financial standing and financial result of the Makarony Polskie Group.

Declaration with regard to fairness of the separate financial statements

The Management Board of Makarony Polskie SA with its registered office in Rzeszów declares that according to its best knowledge, the annual separate financial statements of Makarony Polskie SA for the reporting year ended 31 December 2018 as well as comparative data have been prepared in accordance with the binding accounting principles and reflect in a true, fair and transparent manner the assets, financial standing, and financial result of Makarony Polskie SA.

Declaration with regard to Management Board Report on the Operations of the Company and the Makarony Polskie Group

The Management Board of Makarony Polskie SA declares that according to its best knowledge, the report of the Management Board on the operations of Makarony Polskie SA and the Makarony Polskie Group in the reporting year 2018, ended on 31 December 2018, comprises a true image of the development, accomplishments and standing of the Company and the Group, including a description of basic threats and risks.

Declaration regarding the selection and the procedure of selection of an audit firm

Based on the declaration of the Supervisory Board of Makarony Polskie SA with regard to the selection of an audit firm to carry out the audit of the annual separate financial statements of Makarony Polskie SA and consolidated financial statements of the Makarony Polskie Group for the reporting year 2018, ended on 31 December 2018, the Makarony Polskie SA Management Board informs that:

1. the audit firm BDO Spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Warsaw, was selected to audit the annual financial statements of Makarony Polskie SA and the consolidated financial statements of the Makarony Polskie Group, in accordance with the legal regulations, including those applicable to the selection and the procedure of selection of an audit firm;
2. the selected audit firm and the members of the audit team fulfilled the requirements for preparing an impartial and independent report on the audit of the annual financial statements, in accordance with the binding regulations, the professional standards, and the principles of professional ethics;
3. Makarony Polskie SA has complied with the binding legal regulations applicable to audit firm and key statutory auditor rotation, as well as the binding intervals;
4. Makarony Polskie SA has implemented policy with regard to an audit firm selection, as well as the policy of providing to Makarony Polskie SA by the audit firm, an entity related to that audit firm, or any member of the audit firm's network, of additional non-audit services, which includes services conditionally exempt from the ban to provide services by the audit firm.

Approval of the financial statements

This report of the Management Board on the operations of Makarony Polskie SA and the Makarony Polskie Group in the reporting year 2018 was approved for disclosure by the Management Board of the Parent Company on 25 April 2019.

Zenon Daniłowski
President of the Management Board

Information about the Company

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

www.makarony.pl

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

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

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Please contact us at:

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The source of data in this report is the Makarony Polskie Group, unless otherwise specified.