

Report of the Management Board on the Operations of the Makarony Polskie Group in the Reporting Year 2015

Makarony Polskie SA

18 March 2016

Contents

Contents ..... **i**

Letter of the President of the Management Board **3**

Characteristics of the Makarony Polskie Group **5**

Organisatio of the Group 5

Selected market data 7

Makarony Polskie SA on the capital market 9

Operations of the Makarony Polskie Group **11**

Main products and services 11

Market environment 15

Major agreements 19

Factors important for the Group development 22

Financial standing **31**

Results discussion 32

Operating segments 34

Factorss and events, including atypical ones, affecting 2015 results 37

Structure of the Group assets and equity/liabilities 39

Ratio analysis 42

Other financial information 45

Corporate Governance **53**

Statement of compliance with corporate governance rules 53

Internal control and risk management system in a process of financial statements preparation 53

Equity 55

The right to take a decision about the issue or redemption of shares 59

Principles of amendments to the Articles of Association of Makarony Polskie SA 59

Contents

The General Meeting 60
Supervisory Board 62
Management Board 65

Other information 68
Information concerning cooperation with a statutory auditor 68

Corporate Social Responsibility 69
Employees 69
Natural environment 72
Market 72
Community 74

Declaration by the Management Board 76
Declaration with regard to fairness of the financial statements 76
Declaration on the appointment of the entity authorised to audit financial statements 76
Approval of the financial statements 76

Information about the Company 77

Last year was successful for our Group, as it generated total sales at the level of PLN 132.8 million, net profit of PLN 4.9 million, while EBITDA exceeded PLN 12 million.

Letter of the President of the Management Board



Dear Readers,

Dear Shareholders,

I have the honour to present to you the Report on Operations and Consolidated Financial Statements of the Makarony Polskie Group for 2015. Last year was successful for our Group, as it generated total sales at the level of PLN 132.8 million, net profit of PLN 4.9 million, while EBITDA exceeded PLN 12 million.

The Management Board has been carrying out the policy of goodwill increase through both quantitative and qualitative activities. Net profit per share was by 18% higher, whereas the book value of one share grew from PLN 7.29 to PLN 7.66, i.e. by 5%. The generated results reflect very good foundations of the Company.

Last year was hard for food manufacturers. Deflation pressure, crisis of eastern markets and strong price competition hindered the execution of sales and margin increase. The Makarony Polskie Group has overcome the difficulties thanks to large scale of pasta production, continuous increase of quality and high flexibility of production capacity. We have been able to reply to the market challenges and expectations of discount shop chains very quickly.

In 2016 the Company is going to continue the marketing policy focused on health promoting products which are easy to prepare and are manufactured from local raw materials. Spelt, rye or buckwheat flour pastas are expected by the market, similarly as dried fruit and vegetable snacks.

The production plants in Rzeszów and Częstochowa, as well as Stoczek Natura Sp. z o.o. implemented BIO certificates, thanks to which they are going to offer ecological product lines to the market this year.

As regards capital investments, we have concentrated on extension of the production plant in Rzeszów for new production and warehousing space as well as extension of the finished products packing section by introduction of new packaging models which are comfortable for customers and safe to the environment.

Letter of the President of the Management Board

In 2015 Makarony Polskie SA paid out dividend to the shareholders. This year and in the future years, the Management Board is going to recommend to the General Annual Meeting to pay out over 33% of net profit in the form of a dividend.

Year 2015 was very demanding but also successful. High quality of products, innovative technologies as well as creativity and engagement of staff enabled the Makarony Polskie Group to generate organic growth at the level of over 10%.

In 2016 the Management Board is going to carry out the policy of strong brands, introduction of B2B and HoReCa products and continued expansion in Poland and abroad.

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.

In 2016 the Group plans to publish the strategy of the Gruop operations for the years 2016–2020.

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 manufactured by extrusion or rolling. The Company offers pasta in various forms: spirals, penne, spaghetti, elbow-shaped, strands, shells and many other manufactured based on durum flour and normal wheat, as well as less frequently used primary grain, e.g. spelt flour. In its portfolio the Company has also products complying with the health promoting food trends – pasta with Omega 3 acids. Also planned is the launching of BIO products manufacturing. 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), vegetable products (salads, pickles) and fruit products (jams, syrups). The company offers its products under the brands Stoczek, Tenczynek and Męska Rzecz.

MP Trade Sp. z o.o. is a company providing sales intermediation services as regards the brand products of the Makarony Polskie Group in the traditional, modern and export trade channels. MP Trade Sp. z o.o. also trades on its own account with the goods of other Polish and foreign manufacturers. An additional profile of activities of the new company is providing intermediation services in selling products for Polish and foreign companies.

Characteristics of the Makarony Polskie Group

MP Trade Sp. z o.o. is a trading company. Its creation fits the strategy of the Group consisting in a strive for continuous improvement of profitability and effectiveness of the Group operations.

Changes in the organisation of the Makarony Polskie Group in 2015

On 28 September 2015 the Management Board of Makarony Polskie SA established a subsidiary named MP Trade Sp. o.o. with its registered office in Stoczek Łukowski, in which Makarony Polskie SA holds 100% of shares representing 100% of votes in the General Meeting. The shares have been covered with a cash contribution.

MP Trade Sp. z o.o. was registered on 15 October 2015 by the District Court for Lublin-Wschód in Lublin with its seat in Świdnik, 6th Commercial Division of the National Court Register, under the number 0000579926.

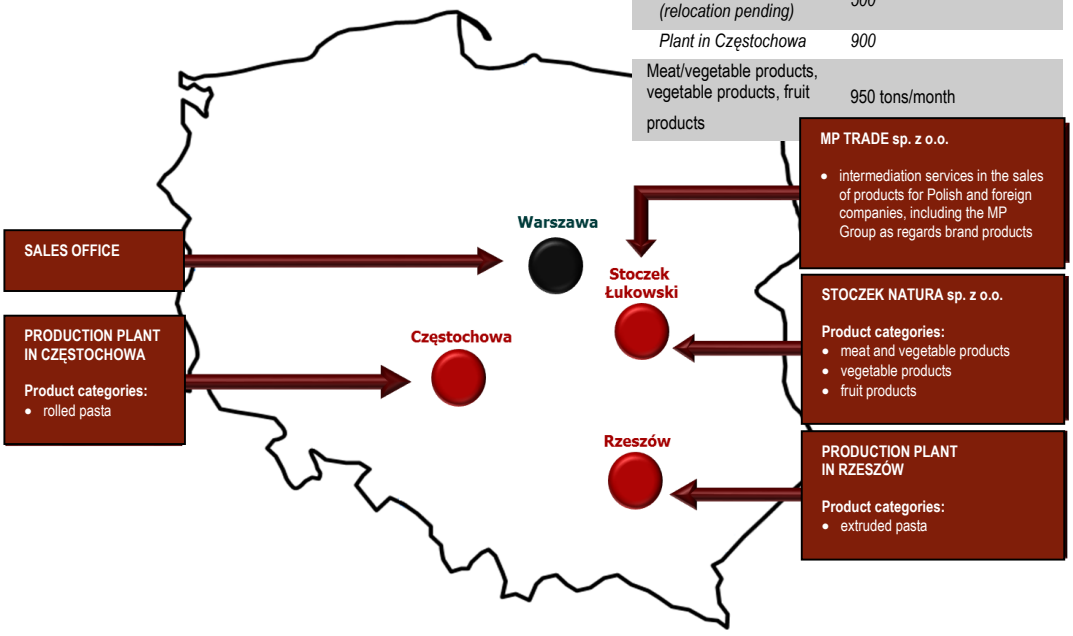
In December 2015 MP Trade Sp. z o.o. took over from Makarony Polskie SA a part of the enterprise consisting of the traditional trade, modern trade, marketing, sales support and exports departments.

Creation of MP Trade Sp. z o.o. with its registered office in Stoczek Łukowski fits the strategy of Makarony Polskie SA consisting in the strive for continuous improvement of profitability and effectiveness of the Group operations.

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.

ORGANISATION OF THE MAKARONY POLSKIE GROUP

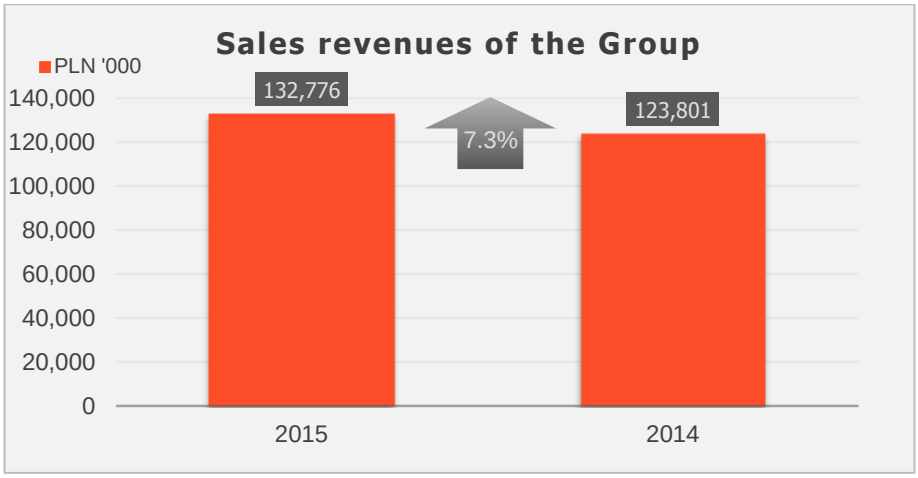
Product category	Production capacity
Pasta	4,600 tons/month
Plant in Rzeszów	*3,200*
Plant in Płock (relocation pending)	*500*
Plant in Częstochowa	*900*
Meat/vegetable products, vegetable products, fruit products	950 tons/month



Selected market data

"World pasta market will be worth over 86 billion dollars in 2020. The average ratio of its annual growth (CAGR) is planned to reach 5%, and the largest sales market for pasta will still remain Asia and Pacific" (Source: *Portal Spożywczy* at technavio.com "Global Pasta and Noodles Market 2016–2020").

The Makarony Polskie Group has been operating on the domestic market (covering for traditional trade, modern trade, as well as B2B and institutions) and on foreign markets. In 2015 the exports of the company grew by 50.7% compared to 2014. This resulted mainly from starting cooperation with new customers on European markets (Sweden, Bosnia and Herzegovina, Greece or France) and some companies in the African countries such as Gabon or Burkina Faso, and also extension of the product offer for the existing customers. Year 2015 proved to be challenging on the Ukrainian and Russian markets owing to unstable political and economic situation. This has not, however, had any significant effect on sales.



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



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

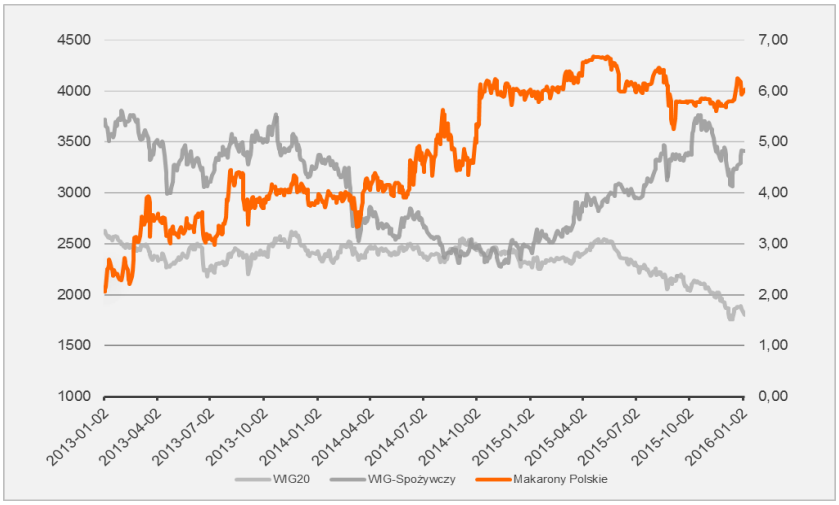
Currently, the market observes better development of the sector of services than that of trading goods, which may translate in future in slower growth rates of the food categories in which the Company is present as regards business to consumer (B2C) segments. Therefore, the Company sees its potential in the business to business (B2B) sector, particularly in the category of products for catering. In its distribution policy with the B2C segment, the Group will focus on customers with the largest trading potential in the food categories represented by the Group as the manufacturer of fast and convenience food, medium and small chains, as well as local chains associated with the so called "megadistributors".

The Group has been actively searching for promising areas of operation, which has translated, among other things, into the consortium agreement signed by the subsidiary Stoczek Natura Sp. z o.o. The consortium is going to develop innovative technologies for dried fruit, vegetables and mushroom, in cooperation with the University of Life Sciences in Lublin.

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.



	02.01.2013	02.01.2014	02.01.2014	02.01.2015	04.01.2016	Change since 02.01.2013
Makarony Polskie SA	2.06	3.80	3.80	6.03	6.03	193%
WIG20	2,626	2,431	2,431	2,309	1,804	-31%
WIG-Spożywczy	3,719	3,330	3,330	2,452	3,409	-8%

Dividend policy at Makarony Polskie SA

In 2015 the Management Board of the Company recommended to the Annual General Meeting to divide the net profit for 2014 amounting to PLN 3,974,619.90 in the following manner:

- assign PLN 1,572,512.07 to the dividend payout, i.e. pay out dividend in the value of PLN 0.17 gross per share;
- assign the remaining part of the profit amounting to PLN 2,402,107.83 to the supplementary capital of the Company.

On 26 June 2015 the AGM of Makarony Polskie SA decided to pay out dividend in accordance with the proposal of the Management Board. The dividend date was set for 15 July 2015. The dividend was paid out on 3 August 2015. 9,250,071 shares of the Company were subject to dividend payout.

Additionally, the Management Board of the Company 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 capital investment objectives and the standing of the Company.

Application of revenues from the shares issue

In the period from 1 January 2015 to the date of publishing this report, the Company has not carried out any shares issues.

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 dedicated to the consumers who care for good Polish quality at a reasonable price. The brand portfolio covers the traditional egg-made pasta (rolled) and extruded pasta made of various types of flour, including wholemeal flour acquired from qualified suppliers. The brand has a distinct identity which fits the popular and stable market trend to promote domestic and local food.

In 2015 the brand offer was extended for another functional product – 100% spelt flour dietetic and health promoting pasta. The product supplemented the current functional products line consisting of pasta with Omega 3 and wholemeal pasta with increased fibre content. Additionally, under the same brand a completely new product line was introduced under the name of "W Kuchniach Świata" [World's Cuisines], inspired with the taste of the sunny Italy. The sub-brand debut took place in three large forms of pasta manufactured in 100% from durum hard wheat and intended for stuffing. Works over other innovative products have also been pending. The new products will be gradually marketed in 2016.



Our ambition is that the Makarony Polskie brand becomes a 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.

In the first quarter of 2015 the Makarony Polskie brand was honoured with the "Dobra Marka 2015" [Good Brand] award.

SORENTI – a brand created with at thought about connoisseurs of the Italian cuisine. The brand offer includes the most popular forms of pasta produced in 100% of the highest-quality milled hard durum wheat, thanks to which the pasta never overcooks and always remains al dente.



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

MEAT AND VEGETABLE PRODUCTS



In 2015 the assortment of meat and vegetable products covered ready cooked meals under the brands of Stoczek and Męska Rzecz. Ready cooked meals offered by the Group – classic Polish cuisine dishes – combine the taste of home-made food with fast preparing. As such, they perfectly fit the current trends on the food products market. This is confirmed by two-digit growth of sales by volume in this category which has been observed for several years now. The source of the success is mainly the market development of the Męska Rzecz [Men's Style] brand assortment, supported with non-standard forms of promotion and sales stimulation. 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.

Within the Stoczek brand assortment, among the traditional dishes of the Polish cuisine closed in jars, also meat and fat products in the form of lard or high-quality meat in jars are available. Meat products are a reply to the growing premium segment. These are products made of wholesome high-quality meat without artificial ingredients. This assortment acts as a perfect alternative fo the popular canned meat products.

VEGETABLE PRODUCTS



In 2015 the vegetable products assortment covered mainly salads and pickles under the brand name of Tenczynek – traditional vegetable additions which make meals more attractive and differentiated, both cold and hot. The products have a loyal group of consumers. Moreover, this assortment fits the exports policy of the Group – the Tenczynek brand is positioned on the "ethnic food" shelves as a premium product.

FRUIT PRODUCTS

In 2015, the fruit products assortment covered plum and other fruit jams (Stoczek and Tenczynek) as well as syrups (Tenczynek) – manufactured to the highest quality without artificial colouring or preservatives. Owing to the fact that the food category of jams has reached the market saturation point, observed has been a trend to develop new taste segments and BIO type products. In reply to the market trends the Group is working on extension of the jams portfolio for such products, mainly based on the exports perspectives.

The fruit products of the Group (within the regular and ecological category) have long enjoyed high interest on export markets, particularly in Germany and China.

Private label products assortment

Products identified with a third party brand are present in each segment of the 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/vegetable products, vegetable products and fruit products.

In 2015 cooperation with the standing recipients of the Group was developed by adding new categories and new assortment of pasta, meat/vegetable products, vegetable products and fruit products. One of the achievements was the positively ended market test of our pasta products – the Italian forms intended for stuffing. Thanks to that the new products have become a standing assortment of seasonal in-outs of the key customers, and the Group has been perceived as an innovator with whom it is worth facing the challenge of testing new products. This contributes to perfect perspectives for further cooperation development, and also opens the opportunities for implementation of such novelties within the Group brand assortment.

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

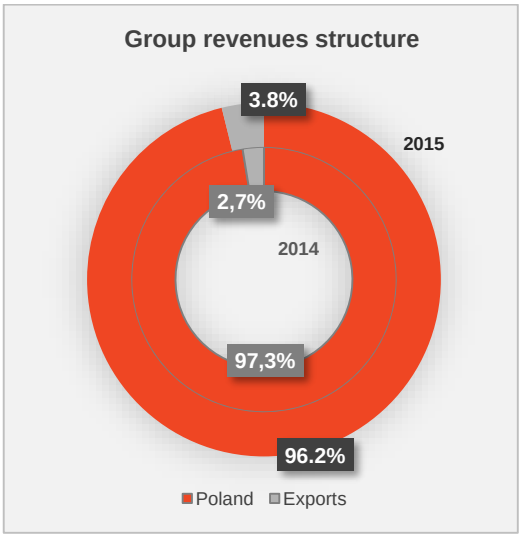
Services offered by the Makarony Polskie Group

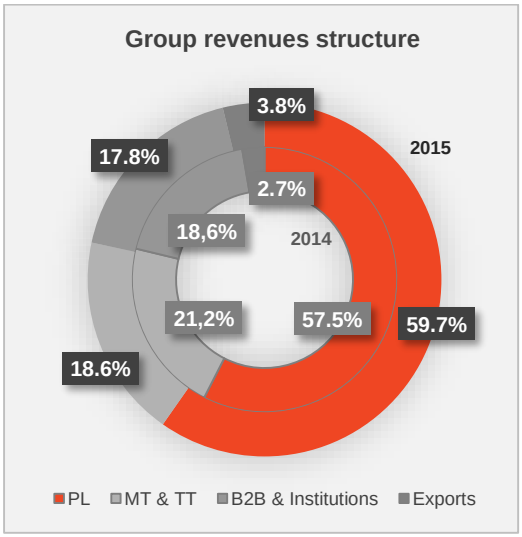
At the end of 2015, due to the establishment of the new subsidiary MP Trade Sp. z o.o., the Makarony Polskie Group entered the market of commercial services. MP trade develops trade on its own account with the third party goods of Polish and external manufacturers, and also provides the services of intermediation in products sales to Polish and foreign entities.

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 2015:

PLN '000	2015	2014	YoY
Sales revenues	132,776	123,801	+7.3%





* Note: In 2015, in order to achieve a better transparency of sales data, customers were ordered and moved among the various sales channels. As a result of that action also the sales data for 2014 were restated in order to arrive at full comparability of data for 2015 and 2014.

Private label

The largest share in the Group revenues (59.7%) was contributed by the private label (PL) channel, offering products under the own brands of domestic and foreign shop chains:

PLN ['000]	2015	2014	YoY
Sales revenues	79,328	71,216	+11.4%

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

In 2015 sales in that channel grew by 11.4% compared to 2014. The growth resulted from a change in the sales policy (in/out actions), marketing new forms of pasta and

various novelties in the segment of ready cooked meals in jars, as well as adjustment of the product assortment to market expectations.

A significant impact on the generated result was also contributed by a change in the perception of the Group potential by some recipients, which resulted in the introduction of the new products of the Group in their commercial offer.

The implementation of 2016 assumptions will bring further growth of sales compared to the preceding year, which will enable strengthening of the leading position in the production of own brands.

In 2015 the Group implemented the customers diversification process. The main customers in the private label channel are such shop networks as: Jeronimo Dystrybucja Polska, LIDL, Auchan, Żabka, Intermarche, Stokrotka, GK Specjał, Lewiatan. Only one customer exceeded the threshold of 10% share in the consolidated sales revenues (total for brand and private label products). 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 representing 18.6% sales on the domestic market is the sales of the Group brands (Makarony Polskie, Sorenti, Stoczek, Tenczynek and Męska Rzecz) in the modern trade (MT) and traditional trade (TT) channels:

MT and TT (PLN '000)	2015	2014	YoY
Sales revenues	24,713	26,286	-6.0%

The drop in the value of sales resulted from price competition on the market and the fact that the Company has been consequently resigning from the sales of non-profitable indexes and ordering its product portfolio offered on the market. This refers both to the products manufactured by Stoczek Natura Sp. z o.o. and Makarony Polskie SA.

Another factor resulting in a drop of sales in MT and TT channels was movement of the selected customers to be served by the private label channel as an element of purposeful Group policy in reply to the market requirements regarding the method and level of customer service.

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

In 2016 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 existing customers, the Group is highly advanced in implementation of new products expected by the market, which will finally extend the basic product offer of the Group. For that purpose at the end of 2015 and beginning of 2016 the Group restructured employment in the trading teams, setting out new ambitious objectives for 2016.

B2B and institutions

In 2015 B2B and institutions represented approx. 17.8% of the total revenues of the Group:

B2B and institutions (PLN '000)	2015	2014	YoY
Sales revenues	23,689	22,948	+3.2%

Sales in the B2B and institutions channel in 2015 amounted to about PLN 23.7 million and was by approx. PLN 0.7 million (3.2%) higher than in 2014.

Within the B2B channel the Group develops the sales of pasta and semi-products, such as sweet fillings and salty stuffing for the bakery sector. This relatively new form of the Group activities, which was introduced in 2013, has been positively received by the market from the very beginning. The Group has been striving for attracting new promising recipients. Activities have been carried out to develop and individualise the offer and to increase the Group competitiveness. Additionally, at the Stoczek production plant, the Group has developed a new form of service, consisting in jars and cans filling for customers as a subcontractor.

Exports

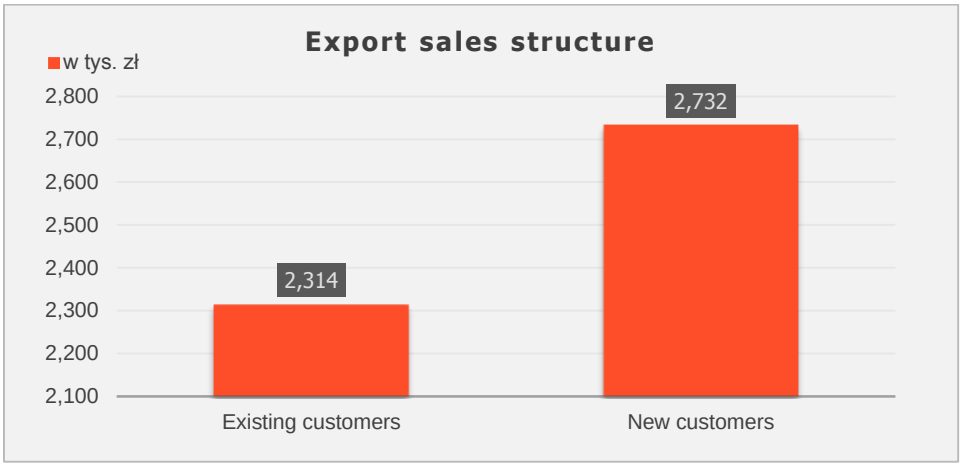
Within the total revenues of the Group for 2015 exports represent 3.8%:

Exports (PLN '000)	2015	2014	YoY
Sales revenues	5,046	3,349	+50.7%

Export sales of the Group brought over PLN 5.0 million in 2015 (through own trading team and through intermediaries). The result was higher by 50.7% than in 2014. The Group has been introducing a long-term strategy of attracting new sales markets. Direct relations established with the final recipients have positively translated to the level of margin generated.

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

The chart below presents the export sales structure broken down into existing and newly attracted customers.



In 2015 the representatives of the Company have actively participated in GULFOOD Fair in Dubai, SIAL in Shanghai, and smaller theme events, for example in Portugal and Ireland (some of the fairs were subject to EU co-financing).

In 2015 the Makarony Polskie Group was present mainly on the European (Portugal, Austria, France, Ireland, Lithuania, Latvia, Germany, UK, Ukraine) and African markets. Year 2015 proved to be challenging on the Ukrainian and Russian markets owing to unstable political and economic situation.

In October 2015 Makarony Polskie SA was awarded a contract for pasta deliveries within a tender procedure announced by a Ukrainian shop chain. The contract was signed in December 2015. The expected value of deliveries within 2-year's term of the contract (2016–2017) is about PLN 4 million.

Post the balance-sheet date the Company, in liaison with other manufacturers associated within the Polish Pasta Chamber (PIM), started performance of the "Makarony Europy" [European Pasta] programme run by PIM. The purpose of the programme is pasta promotion in Ukraine and the People's Republic of China. The Ukrainian and Chinese recipients (consumers, distributors) will be educated about the healthy characteristics of pasta, variety of pasta and high quality of products originating from the EU, including Poland (advertisements will be broadcast on TV, published in newspapers and on the Internet, as well as promotional actions carried out during fairs and in sales outlets). The programme is to contribute to the development of sales markets and increase in the sales volume of pasta manufactured in the European Union. The programme will last three years (2016–2018).

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: Vitalia, Pastani (made of hard-grain durum flour), Dobrusia and Makaron Szlachecki.

In January 2015 the Company signed an annex to the agreement with Jeronimo Martins Polska SA referring to extension of the cooperation to date with deliveries to the Biedronka chain shops of wholemeal pasta under the Pastani brand.

The revenues under the contract in the reporting year 2015 amounted to about PLN 44.4 million and represented 33.4% of consolidated sales.

Agreement with Raya Distribution, Egypt

In January 2015 Makarony Polskie SA signed a five-year agreement on deliveries of the Company branded pasta (Sorenti and Makarony Polskie) to the company of Raya Distribution based in Egypt. Raya Distribution is a food division of the Raya Holding for Technology and Communications, a public company listed on the Cairo Stock Exchange since May 2005. The contract is a part of the strategy of expansion to foreign markets, which has been implemented by Makarony Polskie SA.

In accordance with the agreement provisions Raya is going to distribute the products in Egypt, Middle East and Africa. The agreement was signed on exclusive basis.

The agreement was covered with trade receivables insurance granted by one of the major insurance companies operating in that segment on the Polish market.

2015 was the first year of cooperation and the first turnover on the sales to RAYA amounted to about PLN 0.3 million. The Group considers this agreement to be of key importance owing to the fact that the African market is now the key direction of the Group exports development (apart from the European markets).

Credit agreements with BZ WBK SA and BGK

In 2015 the Company changed the portfolio of credit agreements:

- in May 2015 the Company signed annexes to the agreements with Bank Zachodni WBK SA on credit in the current account, investment credit and an agreement on working capital credit of the total value of PLN 21.8 million.
- in June 2015 the Company signed an agreement with Bank Gospodarstwa Krajowego on a non-revolving working capital credit in the current account with PLN 5 million limit and an annex to the agreement on credit in the current account with the limit of PLN 6.0 million.

The changes have been described in detail in the section entitled "Financial standing/Other information/Information on credit and factoring agreements signed and terminated" of this report.

Factoring agreement with BZ WBK Faktor Sp. z o.o.

In July 2015 the Company signed with BZ WBK Faktor Sp. z o.o., by mail, an annex to the full factoring agreement of 12 December 2013 (the form of factoring assumes the take-over of the risk of customer insolvency).

The annex to the factoring agreement increases the available factoring limit by PLN 1.5 million (from PLN 8.0 million to PLN 9.5 million) and reduces the margin and fees charged by the factor, by adjusting them to the current economic standing of the Company and market conditions.

Agreements on raw materials supplies to Makarony Polskie SA

In September 2015 Makarony Polskie SA assumed the policy of purchasing raw materials for the period 2015/2016 and signed contracts to ensure raw materials deliveries to the production plants of the Company. Signing of the said agreements complies with the Company policy regarding ensuring raw materials supplies at fixed prices, for the purpose of performance of the contracts signed with the recipients of the manufactured products and providing the Company with access to raw materials at relatively low fixed prices for a longer period of time, which is particularly important in the context of the current unstable situation on the raw materials market.

Some of the agreements fulfil the criteria of major agreements:

– AGREEMENT WITH POLSKIE MŁYNY SA WITH ITS REGISTERED OFFICE IN WARSAW

The agreement refers to deliveries of flour manufactured by Polskie Młyny SA. The agreement specifies the framework volume of deliveries and fixed purchase price in the period from 1 October 2015 to end of September 2016, as well as the method of determining the delivery volumes and fixed purchase prices in the subsequent periods. The agreement supersedes all prior agreements signed by the contractors and arrangements regarding cooperation. The agreement was signed for unlimited term.

– AGREEMENT WITH POLSKIE ZAKŁADY ZBOŻOWE PZZ W KRAKOWIE SA

The agreement refers to deliveries of flour manufactured by PZZ Kraków. The agreement specifies the framework volume of deliveries and fixed purchase price in the period from 1 October 2015 to end of September 2016, as well as the method of determining the delivery volumes and fixed purchase prices in the subsequent periods. The agreement supersedes all prior agreements signed by the contractors and arrangements regarding cooperation. The agreement was signed for unlimited term.

– AGREEMENT WITH PHU AGRO SP. Z O.O.

Within less than 12 months Makarony Polskie SA entered into agreements with PHU AGRO Sp. z o.o. with the total estimated value fulfilling the criteria of a major agreement.

The highest value agreement is the one on cooperation with regard to semolina flour deliveries signed by mail on 30 September 2015. The agreement refers to deliveries of semolina flour to the production plants of Makarony Polskie SA. The agreement specifies the framework volume of deliveries and fixed purchase price in the period from 1 October 2015 to end of March 2016, as well as the method of determining the delivery volumes and fixed purchase prices in the subsequent periods. The agreement was signed for unlimited term.

Consortium agreement signed by Stoczek Natura Sp. z o.o.

In October 2015 the subsidiary Stoczek Natura Sp. z o.o. signed a consortium agreement with MP Service Sp. z o.o.

The purpose of the newly established consortium is to merge the resources of the consortium members as well as strategic cooperation in performing a project consisting in preparing drying facilities and carrying out joint business with regard to manufacturing

Factors important for the Group development include:

- *building engineering and manufacturing advantage through innovation and automation;*
- *development of private label segment activities;*
- *increase of domestic market share and distribution level;*
- *exports development;*
- *development of B2B and institutions sales channel, as well as HoReCa.*

and sales of dried fruit, vegetables and mushroom, as well as to provide other services related to such activities.

The term of the consortium ends on 31 December 2018, however, there is a possibility to postpone that date. The leader of the consortium is Stoczek Natura Sp. z o.o, and the partner of the consortium is MP Service Sp. z o.o., which is competent in dried product manufacturing. The agreement determines in detail the rights and duties of each of the consortium members. The consortium members are going to equally participate in the costs of starting the project and the business effects generated by the consortium.

The consortium is going to develop innovative dried products manufacturing technologies in cooperation with the University of Life Sciences in Lublin, with which the consortium partner has signed an agreement. The project fits the strategy of the Makarony Polskie Group consisting in optimal use of the possessed resources and improvement of effectiveness of the Group operations.

Agreements with the Lidl chain

Makarony Polskie SA entered into cooperation agreements with Lidl, which together fulfil the criteria of a major agreement (previously the Company informed about its cooperation with Lidl in the current report No. 33/2009 of 11 September 2009).

The highest value agreement is dated 18 November 2015 and was signed by mail. The agreement determines the cooperation conditions until end of September 2016 and refers to deliveries of pasta manufactured by Makarony Polskie SA to the Lidl shops. The agreement covers for a price guarantee for the products until the end of 2016.

The revenues under the agreements in the reporting year 2015 amounted to about PLN 9.9 million and represented roughly 7.5% of consolidated sales.

Factors important for the Group development

Factors affecting the future results of the Company and the Group

Building engineering and manufacturing advantage through investments in innovation and automation:

- R&D development in the area of product innovations: functional food, health promoting food and food dedicated to the specifically named target groups – an interdisciplinary team has been established at Makarony Polskie SA which in

cooperation with scientific institutions works on development of innovating manufacturing technologies of new low-processed and health promoting products that are easy to prepare;

- in the second half of 2015 the production plant in Rzeszów obtained a processing certificate for ecological products: wholemeal durum wheat pasta, and hard-grain durum wheat pasta (the company is going to offer a new line of BIO products in 2016);
- at the production plants of the Company capital investments were made in order to extend production capacity for new and innovative forms of pasta, including large spirals, calamari and penne (purchase of new moulds) and packaging (paper bags, packs with paper tags and boxes);
- in 2015 Makarony Polskie signed an agreement for a boxing machine supply in Q.1, 2016 to extend the offer for display boxes and significantly improve effectiveness in the packing area;
- a tender procedure for extension of the production plant in Rzeszów for a production and warehouse building was organised and completed – the project will be carried out in 2016;
- at Stoczek Natura Sp. z o.o. research has been carried out in order to adjust the plant to the global trends in food production: convenience products, health promoting products, products packed in modified atmosphere, and ecological products;
- a consortium was established, with Stoczek Natura Sp. z o.o. being the leader thereof, to develop innovative dried products technologies in cooperation with the University of Life Sciences in Lublin;
- in 2015 Stoczek Natura Sp. z o.o. purchased a labelling machine to label atypical jars, which will enable offering irregular shape packaging to the customer in order to build competitive advantage in that area of activities.

Development of private label segment activities:

- extension of the product offer directed to new and existing customers with spelt flour and BIO products;
- extension of the product offer directed to new and existing customers with new forms and shapes of pasta, meat products and dried products;
- activities focused on improvement the sales channel profitability.

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

- development of pasta categories, meat and vegetable products, vegetable products, and fruit products, as well as dried fruits and vegetables, in accordance with the expectations of this 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;
- product offer individualisation and, thus, competitiveness improvement;
- use of the production potential of Stoczek Natura Sp. z o.o. as regards product packing as a subcontractor;
- further development of semi-products manufacturing based on the production capacity of the plant in Stoczek Łukowski, which includes sweet fillings and salty stuffing;
- strengthening of the B2B channel at the Makarony Polskie Group by employing professional sales representatives dedicated to that channel.

Increase of share and growth of distribution level on the domestic market through the specialised MP Trade company:

- improvement of the position of brand products through the strategy of concentration on 5 brands, and particularly on the key brands of Makarony Polskie and Męska Rzecz, as well as continuous portfolio optimisation (both as regards elimination of items which are dying out on the market, and introduction of new products expected by the market);
- optimisation and improvement of effectiveness of the sales structures;
- 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 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 through a specialised MP Trade company:

- introduction of Novelle – a universal exports brand under which both current and new products will be offered, like pasta for stuffing, BIO pasta, dried products, premium products, etc.;
- growth in the number of customers on foreign markets – attracting 10 new recipients is planned;
- intensified communication with the current and potential recipients by virtue of participation in sector fairs and organisation of B2B meetings on the target markets, for example;
- continued cooperation with Raya Distribution – deliveries and distribution on the Egyptian market of the manufacturer's own brands;
- attracting and performing projects focused on supply of products identified with the recipient's own brand, mainly to the African market;
- product assortment extension by offering functional products on foreign markets, e.g. pastas with Omega 3 and BIO products as well as new product categories (dried products, products attracted by MP Trade from outside of the Group).

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. In 2016 the Company plans to publish the strategy of the Group operations for the years 2016–2020.

Risks and threats important for the Group development

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

Risk of market trends changes

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

Market trends are monitored on a current basis. The Group companies adjust their offer in a fast and flexible manner, both as regards the very products and the technology of the products manufacturing. The current product offer of the Group has been modified in accordance with market trends, e.g. in reply to health promoting and "fit" products trend

and the Group introduced pasta with Omega 3 and spelt flour pasta. Also planned is the launching of BIO products manufacturing.

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 Company and, thus, achievement of the assumed objectives. The activities of the competitors are monitored on a current basis and carefully analysed by the Group Marketing Department. Therefore, the Group is capable of fast reacting to the possible threats.

The Company has been trying to minimise the risk through diversification of the Group activities, e.g. by starting production of dried fruits and vegetables as well as development of innovative products (teams have been established within the group to work on R&D tasks).

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 non-reimbursable financing 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.

Makarony Polskie Group will shortly make decisions regarding capital investment plans for the subsequent years, which will directly translate to the performance of further development plan, including determination of the future production profile. The main factor on which both the scale and scope of the planned projects depend is the possibility to obtain EU funds from the 2014–2020 perspective.

The machines and equipment used currently 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) and refers mainly to maintenance of the current production profile of the plants.

In order to maintain the market position and cope with the growing demand for new innovative products and packaging, the Group companies plan to apply for EU funds within the 2014–2020 perspective. The aim of the actions is mainly to modernise the machines used within the current production profile but also development of new areas of operation, e.g. production of stuffings and fillings, as well as entrance in the HoReCa segment.

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

Risk of dependence on the recipients

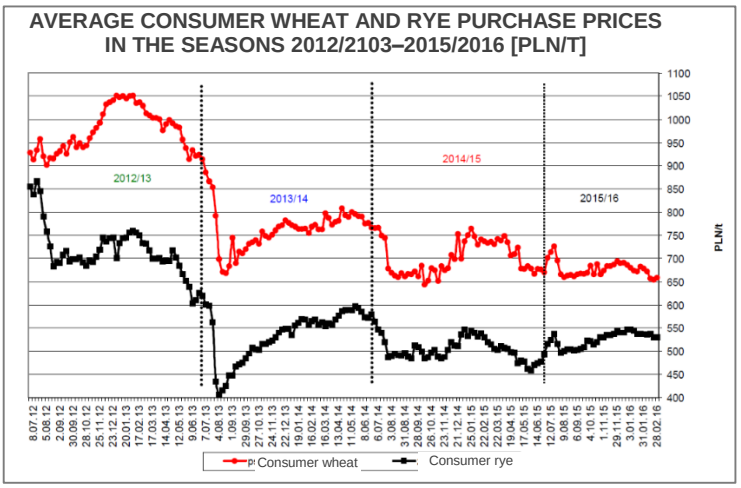
A major part of the revenues is generated by the Group through cooperation with organised commercial networks, which are centralised as regards decision-making. The possible lack of continuity in cooperation with the recipients may affect the sales values. Some commercial agreements do not include strictly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

Risk related to changes in raw materials prices

The Group policy as regards securing raw materials prices with long-term purchase contracts in annual and semi-annual periods made it possible to maintain the average flour and liquid egg pulp purchase prices on a stable level and, thus, avoid major profitability reduction for the manufactured pasta.

In relation to the current situation on the grain market, the Company has monitored on a current basis the forecasts regarding both the domestic market and consumer wheat quoting on the world's markets. As results from the information coming from the European and non-European grain markets, increases in the grain prices should not be expected in the coming months.

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



Source: Grain Market, Week 09'2016, Sparks Polska.

The prices of liquid egg pulp currently applicable on the market rage from PLN 3.7–4.2 thousand per ton. At the end of 2014 the court announced bankruptcy of Borkowski Poultry Farm which produced approximately 5.5 million eggs a day and was a real giant on the domestic market (20% market share). Since the moment the company disappeared from the market, the prices of eggs have risen. Since 2013, a gradual growth of eggs consumption has been observed in Poland (currently more than 146 eggs per person). In the July and August, owing to lower demand and the necessity of renewing stocks, lying hens stocks are slaughtered. This results not only in maintaining the high prices of eggs but also price rises. The situation was perfectly visible in July–August 2015 (in that period prices grew by 50%). In accordance with the projection the prices of eggs and liquid egg pulp in 2016 should be similar to those of 2015, unless a sudden hen plague occurs (any hen disease in Poland or in the world may result in unforeseeable situations).

Stoczek Natura Sp. z o.o. is a manufacturer of fruit and vegetable products (including jams and salads) as well as ready cooked meals. The prices of fruit and vegetables are highly dependent on weather conditions. The Company cooperates with domestic suppliers of fruit and vegetables, which gives it the opportunity to buy cheap raw materials. 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 minimisation in 2015 the Company extended the base of foreign suppliers of key raw materials.

Risk of changing legal and tax environment

The Polish legal and tax system is characterised with frequent changes. An unfavourable factor for the activities of the Group companies may be the changing legal regulations and various interpretations of the regulations (e.g. the planned trade tax will bring a risk that the commercial networks will try to shift some of their costs on the manufacturers through price pressure). In practice, the interpretation of legal regulations by the Polish tax authorities and courts as regards taxes is often non-cohesive. As refers to companies operating on the Polish market the risk of running business is higher than in the countries with stable and long-established legal and tax systems.

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

Risk related to foreign exchange rates fluctuation

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

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

Risk related to deflation pressure

There is a risk of further pressure by the recipients (shop chains and distributors) to lower the prices of the Group products, which is related to the general deflation on the market.

The consumers believe that products should be cheaper and cheaper at shops. Therefore, distributors and shop chains expect further price decreases by manufacturers. In 2015 the sales volume increase did not translate to value increase. This may have a negative impact on margins, also in future.

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

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

In 2015 the Company availed of external sources of finance taken out at a bank in the form of working capital credits, credits in the current account and investment credits.

As at 31 December 2015 the Company was liable PLN 21,750 thousand on account of the credits taken out:

Currency	Interest rate	Credit/loan balance	Including	
			Short-term	Long-term
PLN	WIBOR + bank margin	21,750	8,256	13,494

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.

Owing to the fact that the Company has no assets to which variable interest rates would apply, such as to balance the risk of liabilities, in the reporting period the Company applied an interest rate risk hedging instrument.

Type of transaction	Date of transaction	Term of transaction	Minimum amount [PLN '000]	Company pays	Company receives	Financial liability [PLN '000]
Interest rate swap (IRS)	Oct. 2013	Oct. 2016	7,500	Fixed rate	Variable 3M WIBOR	65

Financial standing

The consolidated financial statements were prepared based on IFRS on the going concern assumption with regard the Group companies in foreseeable future 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 2015.

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. ends on 31 December 2016).

Companies subject to consolidation:

As at 31 December 2015	**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 2015, expressed in PLN thousands, are as follows:

(PLN '000)	01.01.2015–31.12.2015	01.01.2014–31.12.2014
Net sales	132,776	123,801
Net revenues on the sales of products and services	125,024	114,289
Net sales of merchandise and materials	7,752	9,512
Prime cost	104,936	96,459
Cost of manufacturing of the products and services sold	97,414	87,954
Value of merchandise and materials sold	7,522	8,505
Gross profit (loss) on sales	27,840	27,342
Cost of sales	16,523	15,812
General management costs	4,666	4,543
Other revenues	1,608	1,109
Other costs	498	467
Profit (loss) on continued operations	7,761	7,629
Financial revenues	391	604
Financial costs	1,600	2,455
Gross profit	6,552	5,778
Income tax – current part	0	0
Income tax – deferred part	1,638	1,635
Net profit (loss) on continued operations	4,914	4,143
EBITDA (EBIT + depreciation)	12,095	11,785
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) *	0.53	0.45
Book value per share in (PLN) **	7.66	7.29

* 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

Consolidated revenues in 2015 amounted to PLN 132.8 million and were higher by approximately 7.3% compared to 2014. The largest growth of sales was observed by the Group in the segment of pasta products – by PLN 7.5 million YoY – which resulted mainly from the extension of the product offer at the current contractors for new types and forms of pasta (spelt and wholemeal flour pasta, large spirals and tubes), as well as attraction of new contractors. The costs of products, services, merchandise and materials sold in 2015 amounted to PLN 104.9 million (increase by about 8.8%). In 2015 the Makarony Polskie Group generated gross profit worth of PLN 27.8 million, with gross return on sales at the level of roughly 21.0%.

Growth of the costs of sale by about 4.5% YoY resulted mainly from increased sales (including higher cost of transport).

In 2015 the result on operating activities (EBIT) was PLN 7.8 million, compared to PLN 7.6 million in 2014, i.e. roughly 1.7% growth. Profitability of operating activities equalled 5.8% vs 6.2% in 2014.

The result on financial operations (financial revenues less financial costs) improved significantly from PLN -1.8 million in 2014 to PLN -1.2 million in 2015. Such a major improvement of the result originated from renegotiation of credit and factoring agreements and reduction of indebtedness balance.

Net profit in 2015 amounted to PLN 4.9 million compared to PLN 4.1 million in 2014, meaning approximately 18.6% growth. Sales profitability calculated in reference to net profit amounted to 3.7% (compared to 3.3% in 2014).

In 2015 the Makarony Polskie Group generated EBITDA at the level of PLN 12.1 million. EBITDA profitability was 9.1%.

Consolidated statement of other comprehensive income, net – hedge accounting

FOR THE PERIOD	01.01.2015–31.12.2015	01.01.2014–31.12.2014
Net comprehensive income	4,914	4,143
Profit/loss on account of hedge accounting application	95	- 85
Total net comprehensive income	5,009	4,058

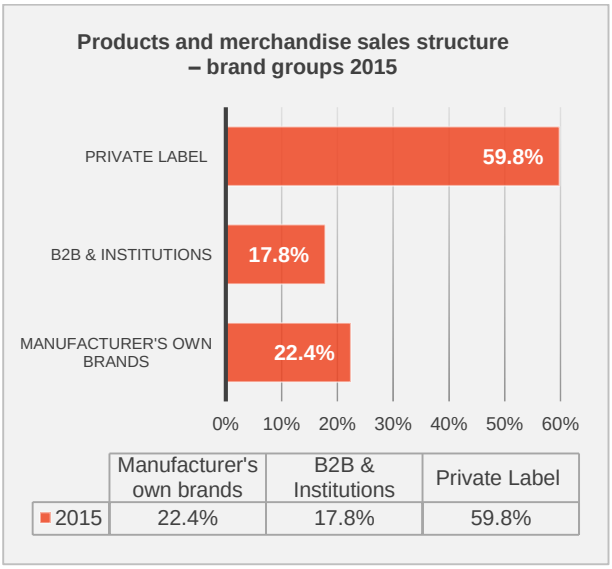
Results generated vs projection

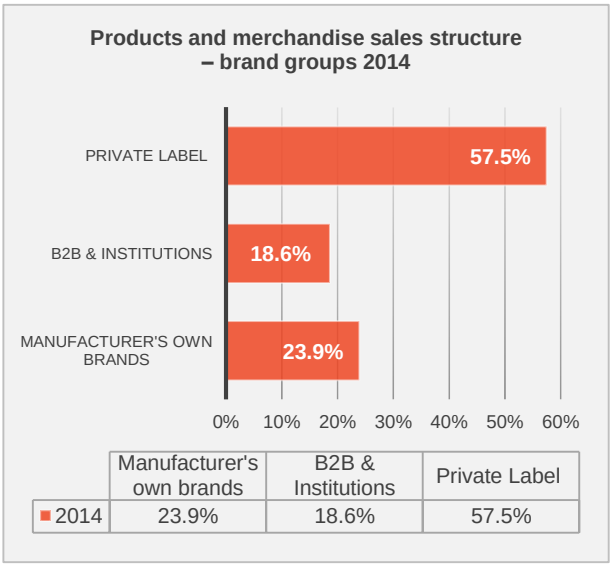
The Makarony Polskie Group has not published any financial projections for the reporting year 2015.

Operating segments

Sales revenues by own brand and private label

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





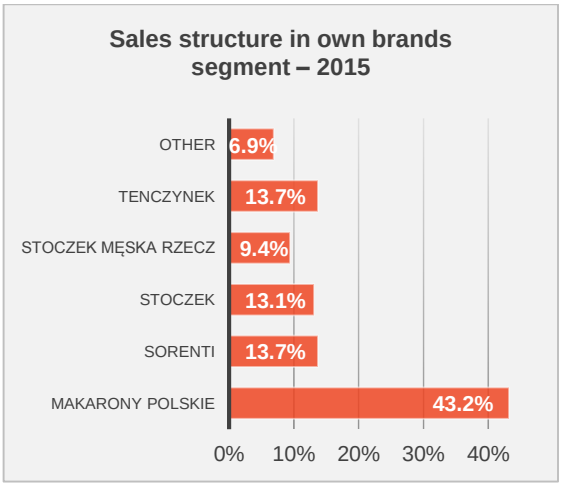
* Note: In 2015, in order to achieve a better transparency of sales data customers were ordered and moved among the various sales channels. As a result of that action also the sales data for 2014 were restated in order to arrive at full comparability of data for 2015 and 2014.

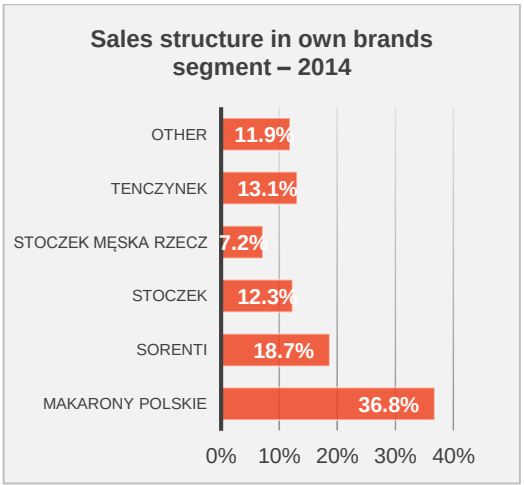
The above sales structure, and specifically the percentage drop of share of the manufacturer's own brands was mainly caused by:

- growth of sales in the private label channel resulting from introduction of new forms and flavours and effective performance of some in-out actions at shop chains;
- growth of sales in B2B and institutions channel through performance of contracts for the Agricultural Market Agency (ARR) and Material Reserves Agency (ARM), as well as dynamic development of service activities and further growth of semi-products sales (stuffings and fillings) by Stoczek Natura Sp. z o.o.;
- drop in the value of sales of the manufacturer's own brands due to strong price competition in the modern and traditional sales channels, and distribution of non-profitable products.

Fulfilling the assortment strategy assumptions, consisting in focusing of commercial forces on 5 basic brands of the manufacturer (Makarony Polskie, Męska Rzecz, Stoczek, Tenczynek, Sorenti), sales teams reduced the share of sales of other brands (Solare, Staropolski and Famil-Jada) for the benefit of the key brands. As a result of the activities,

share of sales of the five basic brands in the segment of the manufacturer's own brands increased by roughly 5 p.p. The results of the activities implementes are shown in the charts below.





The key brand of Makarony Polskie consolidated the sales potential of the Abak brand. Moreover, it has been extended for the health promoting and functional products line. At the end of 2015 the Makarony Polskie brand consisted of the following product lines: popular extruded pasta, popular rolled egg pasta, wholemeal pasta, functional pasta with Omega 3 addition and spelt flour pasta. This is reflected in the dynamically growing importance of the brand in the Company sales.

The Sorenti brand consists of pasta manufactured in 100% from durum wheat and is offered in the forms most popular on the market. Drop in the market share of the Sorenti brand results from a change of the brand distribution policy. In 2015 the process of abandonment of the Sorenti brand in the traditional channel was in progress (in that part of market it will be replaced by the Italian durum pasta line of Makarony Polskie brand, which was initiated in the second half of 2015). It has been planned to regain the Sorenti brand sales potential in 2016 through intensification of the brand promotional activities in the modern channel to which the brand has been dedicated on the domestic market.

In 2015 the Stoczek Męska Rzecz brand watched a growth. It consisted of two assortment lines: classical ready-cooked meals and the so called "Ein-Topf" [complete lunch] meals. In 2015 the the innovativeness potential of the brand on the Polish market was tested in the category of ready cooked meals in jars, by introduction of a new taste of a kebab similar meal. The market test was successful which shows the direction of activities in that assortment for 2016.

The Stoczek brand covered the line of ready-cooked meals typical for the Polish cuisine, jarred meat (the highest quality equivalent of the popular canned meat), lard, or high-sugar-content jams.

The Tenczynek brand was based on vegetable products, including lunch salads and pickles, as well as fruit syrups and low-sugar-content jams.

Brands dedicated to meat and vegetable products, vegetable products and fruit products (Tenczynek, Stoczek and Stoczek Męska Rzecz) kept their market share compared to the data reflected in the report for Q.1, 2015. However, owing to the difficulty related to distribution in the south of Poland and the price competition year over year, the Tenczynek and Stoczek brands watched a drop of share in the sales of the manufacturer's own brands. Corrective actions undertaken at the end of 2015 focus on maintaining and developing the distribution network for these brands, which will translate into growth of sales and reversal of the negative trend.

Sales revenues by operating segments

(PLN '000)	For the period 01.01.2015– 31.12.2015	For the period 01.01.2014– 31.12.2014
Pasta	103,608	96,073
Meat and vegetable products	12,432	10,989
Vegetable products	3,061	4,341
Fruit products	5,904	5,360
Other	7,771	7,038
Total	132,776	123,801

In 2015 sales in the pasta category was higher by approximately PLN 7.5 million (about 8%) than in 2014. The growth resulted from the strategy of introducing new products of the premium segment (including 7-egg pasta, spelt flour pasta, wholemeal pasta, large pasta forms to be stuffed, new types of packaging), as well as attracting new customers and extending cooperation with regard to new indexes at the existing contractors.

Sales of meat and vegetable products in the analysed period increased by approximately PLN 1.4 million, up to nearly PLN 12.4 million. The roughly 13% growth year over year resulted from a well prepared promotional campaign of Stoczek and Męska Rzecz brands, as well as attraction of some new contracts for manufacturing shop chain branded products. Additionally the Group extended its product offer within the segment, among other things, by introduction of market novelties, as for example kebab ready cooked meal.

Factors and events affecting 2015 results:

- *extension of the product portfolio;*
- *projects carried out at the production plants;*
- *change in the conditions of credit and factoring agreements.*

In 2015 the Group recorded a drop in the sales of vegetable products (PLN -1.3 million compared to 2014). Drop of sales in that segment resulted from limitation in 2015 of cooperation under low-margin contracts (such approach was specifically justified by growth of raw materials prices recorded in 2015 compared to 2014). Moreover, the difficulties related this brand distribution in the south of Poland affected the Group sales in that category in 2015. Corrective actions undertaken at the end of 2015 focus on maintaining and developing the distribution network for Tenczynek and Stoczek brands comprising vegetable products, among other things, which will translate into growth of sales and reversal of the negative trend.

Sales of fruit products increased in 2015 by nearly PLN 0.5 million (10%) compared to 2014. The main factor affecting growth of sales was attracting new contracts for deliveries of products under the shop chain brand names.

Factors and events, including atypical ones, affecting 2015 results

Capital investment projects at the production plants in Rzeszów, Częstochowa and Stoczek Łukowski

In the years 2014–2015 the Makarony Polskie Group carried out a series of capital investment projects aimed at improved effectiveness of utilities and raw materials consumption as well as achievement of higher and flexible production capacity:

- at the production plant in Częstochowa the source of heat generation was changed (from fuel oil into gas). The project completion resulted in heat cost reduction for the plant by about 40%;
- at the production plant in Rzeszów the project consisting in installing and modernising lines for short pasta forms manufacturing, which enabled production capacity increase for such pasta by about 90%. Moreover, the Group modernised the flour storage base increasing the number of flour silos by 66% and significantly increased the number of pasta silos (by 250%). The projects will contribute to production flexibility and extension of product offer for pasta made of other types of flour (spelt, wholemeal, rye);
- Makarony Polskie SA signed an agreement in 2014 for the supply of a packing machine by one of the world's leaders in such machines segment. The machine was installed and commissioned in Q.1, 2015;

- the production plant in Częstochowa invested in a drying tunnel to increase capacity and quality of production and reduce energy consumption;
- at the production plants capital investments were made in order to extend production capacity for new and innovative forms of pasta, including large spirals, calamari and penne (purchase of new moulds) and packaging (paper bags, packs with paper tags and boxes);
- in the years 2015–2016 the Company has been carrying out investment projects related to productions safety, i.e. replacement of metal detectors for more technologically advanced ones as compared to those applied to date, plus additional equipment for the laboratory;
- at the production plants a lot of minor investment were made in order to improve production effectiveness, quality and safety of products, including introduction of checkweighers, electric trucks, carton box sealer, pallet wrapper.

Extension of product portfolio

The World pasta market will be worth over USD 86 billion in 2020 and the average ratio of its annual growth (CAGR) in the years 2016–2020 will equal 5%. The growth will be supported by higher availability of health pasta and dumplings (e.g. gluten-fee, organic, high-fibre and reduced carbohydrates content) as well as offering innovative products (Source: "Portal Spożywczy" [Foodstuff Portal], *World pasta market will be worth over 86 billion dollars in 2020*).

Replying to the market trends, in 2015 Makarony Polskie SA carried out the strategy of portfolio optimisation and its supplementation with high-margin products of the premium segment. The offer includes:

- spelt flour pasta,
- coloured pasta,
- 7-egg pasta: ribbon and strand,
- new forms of pasta: large spirals, calamari and penne,
- multi-shaped pasta,
- pasta with Wedel brand cocoa (Makarony Polskie and Wedel trademarks on the packaging),
- new forms of packaging: with paper tag, in paper bags and in boxes.

Change in the conditions of credit and factoring agreements

In 2015 Makarony Polskie SA renegotiated the conditions of credit and factoring agreements. The purpose of the change in external sources of finance was attraction of additional capital for financing the current activities of the Company as well as the capital

investments at the production plant in Rzeszów, improvement of cash flows on financing activities, e.g. by negotiating grace period in the principal instalments repayment under the long-term credit within the nearest future, extension of the liabilities repayment deadlines and reduction of the financial costs of the Makarony Polskie Group in the subsequent periods. The detailed description of the new conditions has been provided in the section entitled "Financial standing/Other information/Information on credit and factoring agreements signed and terminated" of this report.

Structure of the Group assets and equity/liabilities

The balance-sheet total of the Group as at 31 December 2015 amounted to PLN 127.0 million, compared to PLN 126.6 million as at 31 December 2014.

Structure of the Group assets and equity/liabilities

(PLN '000)	31 December 2015	31 December 2014
FIXED ASSETS	**87,307**	**88,313**
Tangible fixed assets	70,100	70,634
Investment properties	1,227	1,244
Goodwill	5,949	5,946
Other intangible fixed assets	9,820	10,091
Deferred income tax assets	134	288
Other long-term assets	77	110
CURRENT ASSETS	**39,693**	**38,266**
Inventories	11,990	11,570
Short-term receivables	26,479	24,958
Deferred income tax receivables	0	0
Loans granted	0	0
Cash and cash equivalents	1,002	1,534
Other short-term assets	222	204
FIXED ASSETS HELD FOR SALE	**0**	**0**
TOTAL ASSETS	**127,000**	**126,579**

(PLN '000)	31 December 2015	31 December 2014
EQUITY CAPITAL	**70,896**	**67,460**
Share capital	27,750	27,750
Other reserve capital	37,665	35,034
Retained profit/loss (profit/loss from previous years)	567	533
Net profit	4,914	4,143
LONG-TERM LIABILITIES	**25,501**	**23,376**
Deferred income tax provision	2,967	1,482
Long-term bank credits and loans	13,494	13,233
Provision for retirement benefits and equivalent (long-term)	144	235
Deferred income	7,531	8,089
Long-term liabilities under financial lease agreements	1,365	337
SHORT-TERM LIABILITIES	**30,603**	**35,743**
Short-term bank credits and loans	8,256	11,994
Short-term financial liabilities	559	267
Other short-term liabilities	21,130	22,844
Deferred income	568	558
Provision for retirement benefits and equivalent (short-term)	90	80
Other short-term provisions	0	0
TOTAL LIABILITIES	**56,104**	**59,119**
TOTAL EQUITY/LIABILITIES	**127,000**	**126,579**

As at 31 December 2015 fixed assets were worth roughly PLN 87.4 million (69% of total assets) compared to PLN 88.3 million at the end of 2014 (1.1% drop vs the end of 2014). The main change in fixed assets was a resultant of depreciation (PLN 4.3 million in 2015) and capital investments.

As at 31 December 2015 current assets amounted to roughly PLN 39.7 million, which means that they grew by about 3.7% compared to the end of 2014 (PLN 38.3 million). The largest impact on the change in current asset was brought about by the growth in receivables by roughly PLN 1.5 million, i.e. over 6.1% compared to the end of 2014, resulting mainly from prepayments for the purchase of fixed asset and advances on raw materials supplies.

Equity as at the balance-sheet date amounted to approx. PLN 70.9 million, and represented roughly 56.0% of the value of equity/liabilities, which means an increase by 5.1% compared to PLN 67.5 million at the end of 2014. The main change resulted from the consolidated profit for the first half of 2015 amounting to PLN 4.9 million and assignment of a part of 2014 net profit to dividend in the amount of PLN 1.6 million.

Long-term liabilities equalled PLN 25.5 million and grew by 9.1% (from PLN 23.4 million) compared to the balance as at the end of 2014, mainly due to the changes in credit agreements introduced in the first half of 2015 (new agreement on long-term working capital credit at BZ WBK SA, as well as extension of the period of finance and introduction of new repayment schedules for the existing credits, which resulted in their assignment to long-term credits), and capital investments under the project of extruded pasta production consolidation in Rzeszów, which was partially financed with lease.

Short-term liabilities as at 30 June 2015 amounted to PLN 30.6 million and were reduced compared to the balance at the end of 2014 by PLN 35.7 million. This resulted mainly from the reduction in the value of short-term credits (drop by about PLN 3.7 million or roughly 31.0%) and reduction in the value of other liabilities item (drop by about PLN 1.7 million, i.e. roughly 8.0%).

The equity/liabilities reflect the valuation of a transaction aimed at interest rate risk hedge (IRS) made in relation to hedging cash flows for a long-term credit agreement entered into with BZ WBK SA.

Solvency and management of Group financial assets and financial risk

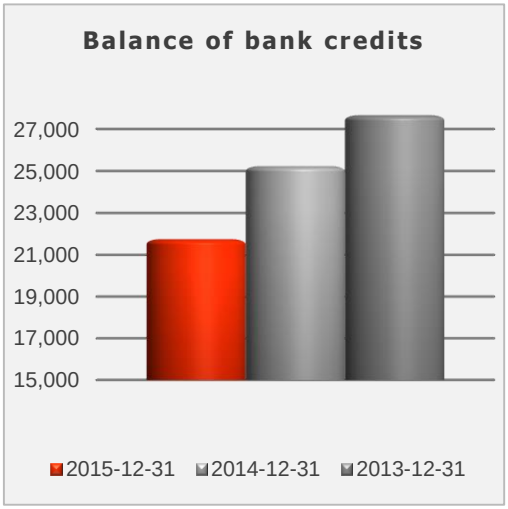
The Makarony Polskie Group manages its economic assets such as to ensure financing of current activities and the projects carried out with its own funds, bank credits, factoring and lease.

Its full capacity to pay liabilities is confirmed by:

- generating of positive cash flows on operating activities amounting to over PLN 7 million;
- changes introduced in external financing which enabled reduction of the costs of finance, among other things;
- carrying out some of the purchases without availing of trade credit by the Group, which results in a financial advantage;
- reduction of credit liabilities in 2015 and improvement of financial liquidity ratios, which is represented in the charts below:

The ratio analysis refelcts good financial standing of the Makarony Polskie Group in 2015 compared to previous periods as regards profitability, capacity to to pay liabilities, fas 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 2015 the Makarony Polskie Group did not make any capital investments.

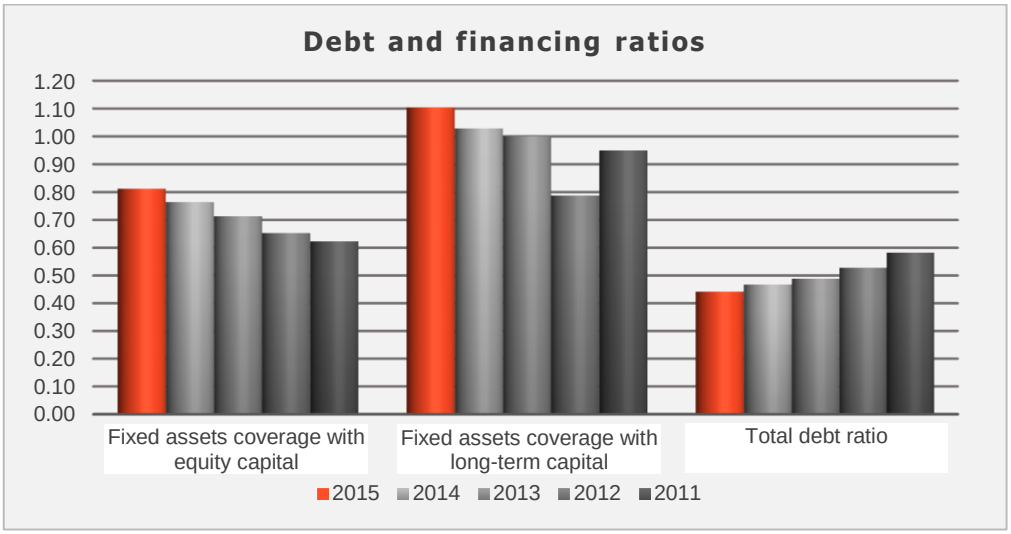
Ratio analysis

The return, liquidity and debt ratios analysis reflects good financial standing of the Makarony Polskie Group in 2015 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 the Group to pay out dividend to shareholders in 2015 in the amount of PLN 1.6 million, carrying out many investments, purchasing raw materials at attractive prices without trade credit and reduction of indebtedness to financial institutions (this has also been confirmed by continued improvement of financial liquidity and debt ratios).

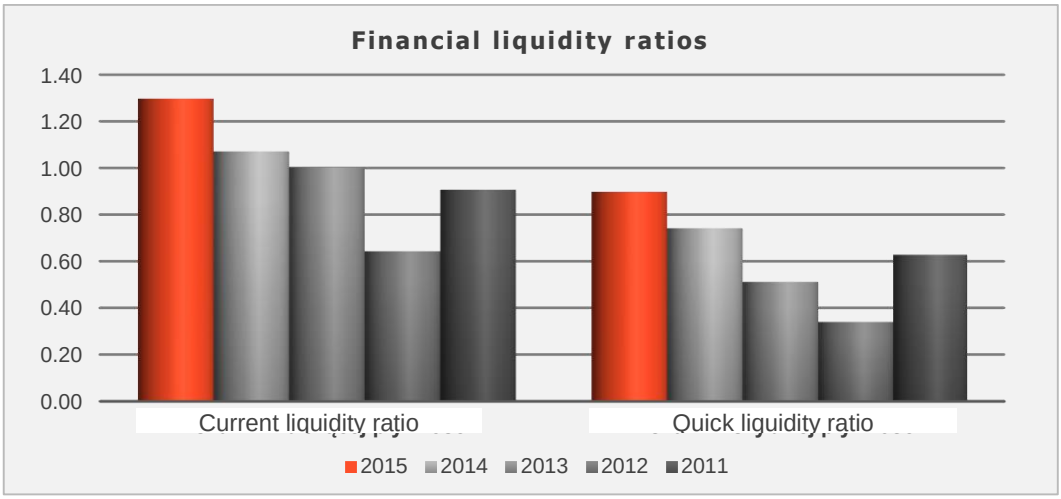
Debt and financing ratios

	2015	2014	2013	2012	2011
Fixed assets coverage with equity capital *[Equity capital/fixed assets]*	0.81	0.76	0.71	0.65	0.62
Fixed assets coverage with long-term capital *[(Equity capital + long-term liabilities)/fixed assets]*	1.10	1.03	1.00	0.79	0.95
Total debt ratio *[Total liabilities/total assets]*	0.44	0.47	0.49	0.53	0.58



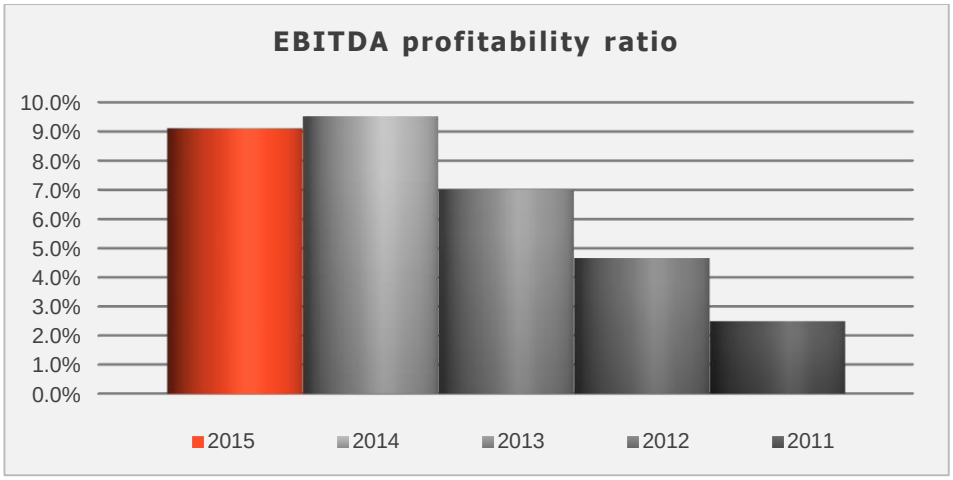
Liquidity ratios

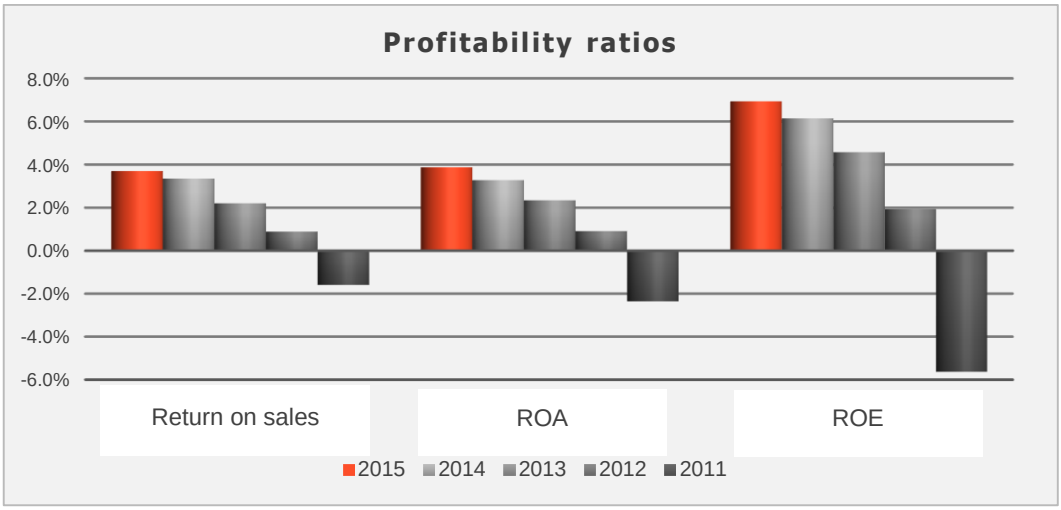
	2015	2014	2013	2012	2011
Current liquidity ratio *[Current assets/short-term liabilities]*	1.30	1.07	1.00	0.64	0.91
Quick liquidity ratio *[(Current assets – inventories – short-term prepayments)/short-term liabilities]*	0.90	0.74	0.51	0.34	0.63



Profitability ratios

	2015	2014	2013	2012	2011
Sales profitability [Gross profit (loss) on sales/net sales]	21.0%	22.1%	21.9%	18.5%	11.1%
Operating profit margin [Profit (loss) on continued operations/net sales]	5.8%	6.2%	3.9%	1.1%	-0.1%
Gross profit margin [Gross profit (loss)/net sales]	4.9%	4.7%	2.1%	0.2%	-1.3%
Return on sales [Net profit (loss)/net sales]	3.7%	3.3%	2.2%	0.9%	-1.6%
ROA [Net profit (loss)/total assets]	3.9%	3.3%	2.3%	0.9%	-2.4%
ROE [Net profit (loss)/equity capital]	6.9%	6.1%	4.6%	1.9%	-5.6%
EBITDA margin [EBITDA/net sales]	9.1%	9.5%	7.0%	4.7%	3.3%





Other financial information

Information about credit and factoring agreements signed and terminated

In 2015 only one company of the Group – Makarony Polskie SA – was party to credit and factoring agreements. The information about credit and factoring agreements binding as at 31 December 2015 is presented in the tables below:

– Credit in the current account at BZ WBK SA

Credit conditions	31 December 2015
Credit agreement value	PLN 5,000,000
Credit period	18.10.2013–31.05.2016
Interest rate	WIBOR 1M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 1,187,000
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 thousand, including the assignment of rights under the registered pledge insurance policy; – security bond by Stoczek Natura Sp. z o.o.

In May 2015 the Company signed an annex to the agreement on credit in the current account with Bank Zachodni WBK. Pursuant to the annex: the liability maturity date was postponed to 31 May 2016, the credit limit was increased for PLN 1 million (from PLN 4.0 million to PLN 5.0 million), the Bank margin was adjusted to the current economic assessment of the Company and market conditions, and the value of collateral was adjusted to the increased credit exposure of the Bank.

– Investment credit at BZ WBK SA

Credit conditions	31 December 2015
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 10,576,000
Repayment schedule	The credit will be repaid in 53 monthly instalments starting from 31 December 2015, in the following values: 52 instalments of PLN 0.17 million each, plus 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); – registered pledge on fixed assets of Stoczek Natura sp. z o.o. (collection of fixed assets at Stoczek Łukowski 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.

In May 2015 the Company signed an annex to the agreement on credit in the current account with Bank Zachodni WBK. Pursuant to the annex: the liability maturity date was postponed to 30 April 2020, the credit limit of PLN 2.5 million to finance the investments at the production plant in Rzeszów was provided, the Bank margin was adjusted to the current economic assessment of the Company and market conditions, the value of collateral was adjusted to the increased credit exposure of the Bank, new repayment schedule was established for the credit, and cash deposit as a collateral for repayment of annual interest on the credit was cancelled.

– Working capital credit at BZ WBK SA

Credit conditions	31 December 2015
Credit agreement value	PLN 3,000,000
Credit period	20.05.2015–31.05.2018
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 2,417,000
Repayment schedule	The credit will be repaid in 36 monthly instalments of PLN 0.08 million each starting from 30 June 2015;
Credit collateral	– joint mortgage up to PLN 33,000,000 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; – 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.

On 20 May 2015 the Company signed an agreement with Bank BZ WBK SA on working capital credit worth PLN 3.0 million. The credit serves financing of the current activities of the customer, including replacement of financing under receivables factoring agreement and supplies financing factoring agreements.

– Credit in the current account at Bank Gospodardstwa Krajowego

Credit conditions	31 December 2015
Credit agreement value	PLN 6,000,000
Credit period	14.06.2013–30.06.2016
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 3,069,000
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.

In June 2015 the Company signed an annex to the agreement on credit in the current account with Bank Gospodarstwa Krajowego. Pursuant to the annex: the liability maturity date was postponed to 30 June 2016, the credit limit was increased for PLN 1 million (from PLN 5.0 million to PLN 6.0 million), the Bank margin was adjusted to the current economic assessment of the Company and market conditions, and the value of collateral was adjusted to the increased credit exposure of the Bank.

– Non-revolving working capital credit in a credit account at Bank Gospodardstwa Krajowego

Credit conditions	31 December 2015
Credit agreement value	PLN 5,000,000
Credit period	30.06.2015–29.06.2018
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 4,500,000
Repayment schedule	The credit will be repaid in 12 quarterly instalments payable on the last day of each quarter, starting from 30 September 2015, as follows: 11 instalments of PLN 0.25 million each and the last 12th settlement instalment of PLN 2.25 million payable on 29 June 2016.
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 10 million)

On 30 June 2015 the Company signed with Bank Gospodarstwa Krajowego an agreement on non-revolving working capital credit in the credit account in credit account worth PLN 5.0 million. The credit serves the repayment of the working capital credit of 14 June 2013 (PLN 4 million) and financing of the current activities of the Company.

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

Terms of the agreement	31 December 2015
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 8,449,000
Agreement collateral	– irrevocable power of attorney to dispose of the account; – blank promissory note with promissory note declaration.

Post balance-sheet date the Company signed an annex to the factoring agreement with BZ WBK Faktor Sp. z o.o. Pursuant to the annex the factoring limit was increased by PLN 1.5 million (from PLN 8.0 million to PLN 9.5 million), whereas the margin and fees charged by the factor were reduced, by adjusting them to the current economic standing of the Company and market conditions.

– In June 2015 Makarony Polskie SA closed the following agreements: (partial) receivables factoring agreement and supplies financing factoring agreement with BZ WBK Faktor Sp. z o.o.

Information on loans granted

As at 31 December 2015 Makarony Polskie SA granted a loan to its subsidiary Stoczek Natura Sp. z o.o. in the amount of PLN 6.07 million with the repayment date on 31 December 2016. The interest rate on the loan was set on arm's length basis.

In the reporting year 2015 neither Stoczek Natura Sp. z o.o. nor MP Trade Sp. z o.o. granted any loans.

Information on guarantees granted and obtained

In the reporting year 2015 the Group companies did not grant any guarantees. As regards guarantees obtained, only Parent Company Makarony Polskie SA avails of guarantees. All guarantees binding as at 31 December 2015 are presented in the table below.

Guarantor	Guarantee amount	Guarantee validity	Object of guarantee	Collateral
STU Ergo Hestia SA	PLN 272,000	02/03/2018	bank guarantee securing the liabilities of the Company under the agreement with Material Reserves Agency (ARM) with regard to grain products reserves keeping service	blank promissory note with promissory note declaration
STU Ergo Hestia SA	PLN 272,000	02/03/2018	bank guarantee securing the liabilities of the Company under the agreement with Material Reserves Agency (ARM) with regard to grain products reserves keeping service	blank promissory note with promissory note declaration
Gothaer TU SA	PLN 932,000	30/11/2017	guarantee securing the liabilities of the Company under the agreement with Material Reserves Agency (ARM) with regard to deliveries and ready cooked meals reserves keeping service	two blank promissory notes with promissory note declarations

By February 2015 the Company availed of a guarantee worth PLN 472 thousand granted by BGŻ SA. The guarantee served as a performance bond for the agreement signed with the Material Reserves Agency (ARM). Owing to the complete settlement of the secured contract, the guarantee was released.

Information on security bonds granted and obtained

In the reporting year 2015 Makarony Polskie SA and MP Trade Sp. z o.o. did not grant any security bonds.

In the period from January to December 2015 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 2015 is presented in the table below.

Third party liabilities	Name of creditor	Security bond value	Security bond date	Validity date	Balance of the secured liability as at 31.12.2015
Security bond for a credit in current account amounting to PLN 5.0 million*	BZ WBK	PLN 7,500,000	18.10.2013	31.05.2019	PLN 1,187,000
Security bond for an investment credit amounting to PLN 15.0 million	BZ WBK	PLN 30,000,000	18.10.2013	30.09.2021	PLN 10,576,000
Security bond for a non-revolving working capital credit in current account amounting to PLN 5.0 million **	BGK	PLN 5,000,000	30.06.2015	29.12.2018	PLN 4,500,000
Security bond for a credit in current account amounting to PLN 6.0 million **	BGK	PLN 6,000,000	14.06.2013	30.12.2016	PLN 3,069,000

* In May 2015 Stoczek Natura Sp. z o.o. signed an annex with BZ WBK SA to the agreement on security bond for credit in the current account of Makarony Polskie SA. Pursuant to the annex, the maturity date of the liability was postponed to 31 May 2019 and the value of security bond was increased from PLN 6.0 million to PLN 7.5 million.

** In June 2015 Stoczek Natura Sp. z o.o. signed an agreement with BGK with regard to security bond for non-revolving working capital credit in the credit account of Makarony Polskie SA and annex to the agreement on security bond for credit in the current account of Makarony Polskie SA (pursuant to the annex the liability maturity date was postponed to 30 December 2016).

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

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

In 2015 the Makarony Polskie Group companies did not make any major intercompany on other than arm's length basis.

In 2015 he companies of the Makarony Polskie Group were bound with an agreement on common distribution of the products of Makarony Polskie SA and Stoczek Natura Sp. z o.o. through the distribution network of Makarony Polskie SA. The agreement was signed for the purpose of improving the effectiveness of the Group products sales. The remuneration on account of the agreement was set on arm’s length basis.

In relation to the creation of MP Trade Sp. z o.o. at the end of 2015, which took over from Makarony Polskie SA the commercial teams operating within the modern, traditional and exports trade areas, among other things, the Group companies signed new agreements regarding the conditions of cooperation in sales and distribution of the Group products, accordingly to the new structure of the Group. Remuneration on account of the aforesaid agreements was set on arm’s length basis.

Off-balance-sheet items

(PLN '000)	31 December 2015	31 December 2014
1. Contingent assets	**1,482**	**1,410**
– guarantees and security bonds obtained	1,477	1,405
– secured on property	0	
– promissory notes	5	5
2. Contingent liabilities	**115,551**	**112,209**
– guarantees and security bonds granted	0	0
– secured on property	80,750	74,418
– promissory note payables	34,801	37,791
Total off-balance-sheet items	**-114,069**	**-110,799**

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 Group companies owing to the fact that this does not affect the value of off-balance-sheet items.

Important court litigations, arbitration proceedings or administrative proceedings

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

Since January 2016 the Company applies new Corporate Governance Rules "Best Practice for GPW Listed Companies 2016".

Corporate Governance

Statement of compliance with corporate governance rules

In 2015 the Company applied the "Best Practice for GPW Listed Companies". A document showing a set of rules is available on the website of Giełda Papierów Wartościowych w Warszawie SA (GPW – Warsaw Stock Exchange) http://corp-gov.gpw.pl.

In the reporting year 2015, Makarony Polskie SA did not comply with:

- Recommendation I.1 concerning on-line broadcast of a general meeting in Internet, recording the General Meeting and its disclosure on the website of the Company;
- Rule II.2 of "Best Practice for GPW Listed Companies": "A company should ensure that its website is available in English, at least to the extent described in section II.1.". A decision on non-compliance with the Rule II.2 on a permanent basis was taken because of high costs of compliance with this rule (most notably, as regards translation of interim and current reports), taking into account the present structure of shareholders. Should new circumstances occur, Makarony Polskie SA will consider compliance with that rule;
- Rule IV.10 concerning providing the shareholders with the possibility to participate in a General Meeting with the use of electronic communication means. The Management Board of Makarony Polskie SA assessed that as at the current moment incurring costs of that type would not be justified. Moreover, Articles of Association of Makarony Polskie SA does not provide for the possibility to participate in a General Meeting with the use of electronic communication means as stipulated in Article 4065 of the Code of Commercial Companies.

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

Being a parent company, Makarony Polskie SA prepares individual and consolidated financial statements based on the commonly applicable legal regulations and internal principles. The books of account are kept based on the principles adopted and approved for application by the Management Board of the Company, namely, Accounting Policy and Chart of Accounts in conformity with IFRS, which are updated if needed. Subsidiaries are obligated to implement and use internal documents coherent with the documents of the parent company. Books of Account of the Group companies are maintained in the ERP class

system, and access to IT resources is restricted to the rights granted to a specific group of employees.

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

The Management Board of the Company is responsible for the internal control system of the Company and its effectiveness in the process of preparation of the financial statements and interim reports prepared and published in conformity with the principles of the Regulation of 19 February 2009 concerning current and interim information disclosed by listed companies.

The basic assumption of the developed internal control system of the Company in the financial statements 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 Finance 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 principles.

The financial data used as a basis of the financial statements and periodical reports come from the monthly financial statements 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 and taking into account business segments. Identified errors are corrected on a current basis in the Company's books of account in compliance with the adopted accounting policy.

Preparation of the financial statements and interim reports starts after verification and acceptance of the results of the month/period that 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 are subject to verification by the Director of the Financial Office and Management Board of the Company.

The annual individual and consolidated financial statement of the Group companies are subject to an audit carried out by a statutory auditor. The semi-annual individual and consolidated financial statements of the Group companies are subject to a review carried out by a statutory auditor.

At the final stage, having obtained an opinion of the statutory auditor, the final assessment of the financial statements is made by the Supervisory Board of Makarony Polskie SA which, due to a 5-person composition of the Board, performs also the function of the Audit Committee.

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

In accordance with Article § 19.c of the Articles of Association of Makarony Polskie SA, appointment of a statutory auditor to audit the Company's financial statements falls within the powers of the Supervisory Board. The rules concerning a change of an entity authorised to audit the financial statements are provided for in § 4 of the By-law of the Supervisory Board of the Company.

An entity that is to perform the function of the statutory auditor in the Company is selected in such a way to ensure independence while performing the tasks entrusted to it. Every five years, a new statutory auditor is selected.

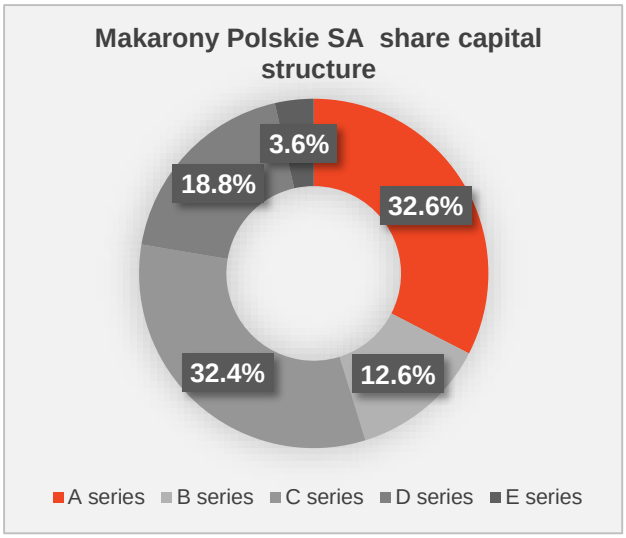
Equity

Share capital of Makarony Polskie SA:

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

Structure of the share capital of the Company:

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



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

There are no restrictions at the Company as regards performance of the right of vote or transfer of ownership rights to the securities issued by the Company.

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

Structure of the Company's shareholding:

Shareholder	Shares in the share capital		Votes in the General Meeting	
	number	% share	number	% share
Praska Giełda Spożywcza SA (former: Agro-Technika SA)	2,000,000	21.62%	2,000,000	21.62%
Bewa Sp. z o.o	1,793,406	19.39%	1,793,406	19.39%
Elżbieta and Grzegorz Słomkowscy	1,183,040	12.79%	1,183,040	12.79%
Krzysztof Moska*	725,117	7.84%	725,117	7.84%
Leszek Sobik	491,541	5.31%	491,541	5.31%
Other shareholders	3,056,967	33.05%	3,056,967	33.05%
TOTAL	**9,250,071**	**100.00%**	**9,250,071**	**100.00%**

* The number of shares and votes in the General Meeting results from the documents received from the National Securities Depository (KDPW), which inform about the shares and votes possessed by the persons entitled to participate in the AGM of the Company as at 26 June 2015. The Company has not received any other notifications about a change in the possession of shares by Mr Krzysztof Moska, particularly as regards notifications to be submitted under Article 69 of the Act on Public Offering.

In 2015 the Company received notifications regarding changes in the possession of shares of Makarony Polskie SA:

- on 13 February 2015 Bewa Sp. z o.o. (legal successor of T.G. BEWA Sp. z o.o.) informed that as a result of acquisition on 9 February 2015 of 200,000 shares of the Company the over 10% share in the total number of votes held by Bewa Sp. z o.o. changed by at least 2%. Bewa Sp. z o.o. informed that on 9 February 2015 it possessed 1,238,955 shares representing 13.39% of the Company share capital and 1,238,955 votes on the shares, representing 13.39% of the total number of votes in the Company, and at moment of notification it possessed 1,438,955 shares representing 15.55% of the share capital of the Company and 1,438,955 votes on the shares, representing 15.55% of the total number of votes. The subsidiaries of Bewa Sp. z o.o. do not hold any shares of the Company.
- on 6 March 2015 Bewa Sp. z o.o. informed that as a result of acquisition on 27 February 2015 of 354,451 shares of the Company the over 10% share in the total number of votes held by Bewa Sp. z o.o. changed by at least 2%. Bewa Sp. z o.o. informed that on 27 February 2015 it possessed 1,438,955 shares representing 15.55% of the Company share capital and 1,438,955 votes on the shares, representing 15.55% of the total number of votes in the Company, and at moment of notification it possessed 1,793,406 shares representing 19.4% of the share capital of the Company and 1,793,406 votes on the shares, representing 19.4% of the total number of votes. The subsidiaries of Bewa Sp. z o.o. do not hold any shares of the Company. Bewa Sp. z o.o. has not entered into and is not a party to an agreement with a third party, with the object being the transfer of the right of vote resulting from the shares of the Company.

The Company has no other information which would reflect any changes in the number of shares possessed by major shareholders (holding stakes of more than 5% shares).

Moreover, the Company has no knowledge about any agreements (including those concluded after 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 shares of the Company held by the Management Board Members as at the end of the reporting period:

Member of the Management Board	2015		2014	
	number of shares	nominal value	number of shares	nominal value
Zenon Daniłowski	140,000	420,000	140,000	420,000

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 2015 and by the date of publishing this report.

Shares held by the Members of the Supervisory Board

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

Member of the Supervisory Board	2015		2014	
	number of shares	nominal value	number of shares	nominal value
Grzegorz Słomkowski*	1,183,040	3,549,120	1,183,040	3,549,120
Wiesław Wasilewski	5,000	15,000	5,000	15,000
Marek Rocki	0	0	0	0
Roman Sobiecki	0	0	0	0
Tomasz Jankowski	0	0	0	0

* Total number of shares held by Mr Grzegorz Słomkowski (Deputy Chairman of the Supervisory Board) and his wife.

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 2015 and by the date of publishing this report.

Shares in subsidiaries

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

The right to take a decision about the issue or redemption of shares

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 as well as by way of a public offering on the terms and conditions specified in the Act of 29 July 2005 on the Public Offering and Conditions of Introducing Financial Instruments to the Organized Trading System and on Public Companies.

In accordance with § 9.a of the Articles of Association, the Management Board of the Company may increase the share capital of Makarony Polskie SA by the total amount which is not higher than PLN 9,300,000, by issue of new shares, by 30 April 2015 (amendment of the Articles of Association passed on 21 May 2012 by the Ordinary General Meeting of the Company). The entitlement referred to increase in the share capital of the Company by virtue of one or several subsequent capital increases within the authorised capital limits and possibility of depriving the existing shareholders of the right to take up new shares (rights issue) in whole or in part, in reference to each capital increase made within the authorised capital, following a consent of the Supervisory Board.

Taking into account the fact that obtaining the capital by way of issue of shares had not been recently the most effective form of gaining additional capital for the Company, the Management Board Members did not avail of the rights granted to them by the Articles of Association of the Company.

Principles of amendments to the Articles of Association of Makarony Polskie SA

Articles of Association of Makarony Polskie SA in the currently binding wording do not include any stipulations concerning amendments thereto that would be different from 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 to the register. A resolution of the General Meeting concerning amendments to the Articles of Association requires the majority of ¾ of the votes cast – Article 415 of the Code of Commercial Companies.

In accordance with § 9.a.6 of the Articles of Association, the resolution of the Management Board regarding share capital increase within the authorised capital replaces the resolution of the General Meeting and must be made in the form of a deed certified by a notary public.

Articles of Association of Makarony Polskie SA is available on the website of the Company www.makarony.pl.

The General Meeting

Principal rights of the General Meeting

The competencies of the General Meeting include taking decisions on matters concerning organisation and operation of the Company, with a reservation of cases specified in the Code of Commercial Companies and 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 Resolution No. 26 of the Annual General Meeting of Makarony Polskie SA of 21 June 2010.

An Annual General Meeting is convened by the Management Board every year and takes place within 6 months from the end of each reporting year. An Extraordinary General Meeting is convened by the Management Board on its own initiative, by the Supervisory Board if it deems it advisable to convene the General Meeting, or by the shareholders representing at least a half of the share capital or at least a half of the total votes in the Company.

The General Meetings are held at the registered office of the Company or at another location within the territory of the Republic of Poland. The venue and term of the General Meeting are determined in such as to make it possible to participate in it by as many shareholders as possible.

The General Meeting is convened in a way specified for communicating current information by public companies together with publication on the website of the Company www.makarony.pl.

The General Meeting shall be capable of adopting resolutions irrespective of the number of shares represented at the General Meeting, unless the provisions of the Code of Commercial Companies stipulate 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 in 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 provisions of the Articles of Association stipulate otherwise.

Voting is open. Secret balloting is ordered by the Chairperson of the General Meeting in case of personal matters and at a request of a shareholder. No one is entitled to demand secret balloting in case of passing resolutions concerning organisational matters. The General Meeting may rescind secrecy of voting in cases concerning selection of commissions established by them.

Shareholders rights

The rights of the shareholders and method of executing the rights 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's share capital or at least half of the votes in the Company are entitled to convene an Extraordinary General Meeting.

Only these 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. Each and every shareholder may express their opinion 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.

2015 General Meeting

In the reporting year 2015, the Annual General Meeting of Makarony Polskie SA took place on 26 June. The Management Board did not convene any Extraordinary General Meetings. Neither shareholders of the Company nor Members of the Supervisory Board submitted motions for convening a General Meeting

In 2015, the General Meeting dealt with the following matters:

- consideration and approval of the financial statements of the Company for 2014 and Management Report on the Company's Operations in 2014;
- consideration and approval of the consolidated financial statements of the Group for 2014 and Management Report on the Group's Operations in 2014;
- net profit distribution for the reporting year 2014;
- consideration of the report of the Supervisory Board of Makarony Polskie SA for the reporting year 2014;
- consideration of the appraisal by the Supervisory Board of Makarony Polskie SA of the financial statements of the Company for 2014 and Management Report on the Company's operations in 2014;
- consideration of the appraisal by the Supervisory Board of Makarony Polskie SA of the consolidated financial statements of the Group for 2014 and Management Report on the Group's operations in 2014;
- granting acknowledgement of the fulfilment of duties to the Members of the Management Board of the Company in the reporting year 2014;
- granting acknowledgement of the fulfilment of duties to the Members of the Supervisory Board of the Company in the reporting year 2014.

The text of the resolutions of the General Meeting was published in the current report No. 17/2015 of 26 June 2015 and is available on the website of the Company www.makarony.pl.

Supervisory Board

The Supervisory Board of Makarony Polskie SA operates based on Code of Commercial Companies, the Articles of Association of the Company and the By-law of the Supervisory Board adopted by Resolution No. 17 of the Annual General Meeting of Makarony Polskie SA on 22 June 2007.

Principles of appointing and recalling of 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 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's financial statements for the last full reporting year of the term of the Supervisory Board. If during the term of office of the Company's 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's Supervisory Board.

Proposals for the Candidate Members of the Supervisory Board must be justified to make it possible for the General Meeting to make an educated choice. Members of the Supervisory Board are selected on a basis of their due educational background and life experience making it possible for them to appraise operation of the Company properly and to perform their functions in the Supervisory Board properly, and in such a way that at least two of the Supervisory Board Members would have no relationships with the Company, its shareholders or employees.

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

The Supervisory Board select a chairperson out of themselves who manages the works of the Supervisory Board. The Supervisory Board may also appoint Vice Chairpersons and a Secretary.

Competencies of the Supervisory Board

The Supervisory Board exercises ongoing supervision of the Company's activities in all aspects. The Supervisory Board shall be competent, among others, to deal with the following matters:

- the evaluation of the financial statements and Management Board report with regard to their conformity with the books and documents as well as with the actual state of affairs and the evaluation of the Management Board applications regarding profit distribution or loss coverage as well as submitting to the General Meeting the annual reports on the results of such evaluation;
- the approval of the annual financial plans for the Company and supervision of their performance;
- selecting a statutory auditor to audit the Company's financial statements;
- granting consent to acquire or sell real estate, perpetual usufruct right or share in real estate of a value over 10% of the Company's equity calculated according to the last balance sheet of the Company approved by the General Meeting, unless it has been stipulated in the annual financial plan for the Company approved by the Supervisory Board;

- granting consent to sell the Company's assets, the value of which exceeds 10% (ten per cent) of the total value of the Company's equity calculated according to the last balance sheet of the Company approved by the General Meeting, unless it has been stipulated in the annual financial plan for the Company approved by the Supervisory Board;
- granting consent to assume an obligation or issue a disposition which on the basis of an individual transaction or several related legal transactions exceeds the amount of 10% of the Company's equity calculated according to the last balance sheet of the Company approved by the General Meeting, unless it has been stipulated in the annual financial plan for the Company approved by the Supervisory Board;
- granting consent for advanced payments to shareholders on account of the expected dividend;
- appointing and dismissing the Company's Management Board or its individual members,
- establishing the rules and the terms and conditions of remunerating the Members of the Management Board as well as the amount of their remuneration;
- representing the Company in any contracts concluded between the Company and a Member of the Management Board, and in any dispute 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 and documents (inclusive of the financial ones), request access to all premises of the Company (§ 10 of the By-law of the Supervisory Board), and the Members of the Supervisory Board are obliged to keep in mind the good and interest of the Company in their operations (§ 6.1 of the By-law of the Supervisory Board).

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

Composition of the Supervisory Board

From 1 January 2015 to the date of publication of this report, the Supervisory Board consisted of:

- Roman Sobiecki – Chairman of the Supervisory Board,
- Grzegorz Słomkowski – Deputy Chairman of the Supervisory Board,
- Tomasz Jankowski – Member of the Supervisory Board,
- Marek Rocki – Member of the Supervisory Board,
- Wiesław Wasilewski – Member of the Supervisory Board.

Committees of the Supervisory Board

At present no committees are established in the Supervisory Board. This is because of the current status of the Company, composition of shareholders, as well as due to organisational and economic reasons, inclusive of the necessity of ensuring an additional administrative and legal service for such committees.

The Supervisory Board of Makarony Polskie SA committed to fulfil the tasks of the audit committee in line with the applicable legal regulations.

Policy of remuneration for the Members of the Supervisory Board

The system of remuneration for the Supervisory Board of Makarony Polskie SA was adopted by Resolution No. 22 of the Annual General Meeting on 12 June 2014. Members of the Supervisory Board receive remuneration for each Supervisory Board meeting in which they participate.

The information concerning remuneration paid to the Members of the Supervisory Board of the Company was disclosed in Note 37 to the financial statements.

Supervisory Boards of the subsidiaries

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

Management Board

Principles of appointment and dismissal of the Members of the Management Board

The Management Board of the Company consists of one to three members, inclusive of 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 the Management Board Members is two years. The members of the Management Board may be appointed for the consecutive two-year terms of office. The mandates of the Management Board Members shall expire pursuant to Article 369.4 of the Code of Commercial Companies. If during the term of office of the Company's 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's Management Board.

Competencies of the Management Board

The Management Board shall represent the Company outside and shall take decisions on all the issues which, pursuant to the Company's Articles of Association and the binding laws have not been reserved to the competencies of the remaining governing bodies of the Company.

The declaration of will on behalf of the Management Board shall be made by:

- in case of a Management Board consisting of one member – one person,
- in case of many-person Management Board – two Management Board Members acting jointly or one Management Board Member acting jointly with a Proxy.

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

- Grażyna Kozielec – since 31 May 2012,
- Beata Majewska-Karp – since 31 May 2012,
- Witold Żarek – since 4 March 2013,
- Piotr Wyszecki – since 13 February 2015,
- Jacek Pajewski – since 7 January 2016.

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

Composition of the Management Board

Since 1 January 2015 to the date of publication of this report, the Management Board has consisted of one person. The office of the President of the Management Board is held by Mr Zenon Daniłowski.

On 25 May 2015, in reference to the end of the sixth term of the Company Management Board, the Supervisory Board of Makarony Polskie SA decided that in the seventh term Management Board will consist of one person and entrusted the function of the President of the Management Board to the current President of the Management Board – Mr Zenon Daniłowski.

Division of duties among the Management Board Members

The Management Board of the Company consists of one person.

Policy of remuneration for the Management Board Members

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 any reason or should they be recalled or dismissed due to merger of the company by way of takeover.

In the reporting year 2015, as well as in the period by the date of publication of these financial statements, Makarony Polskie SA did not have any employee share schemes.

The information concerning remuneration paid to the Members of the Management Board of the Company was disclosed in Note 37 to the financial statements.

Management Boards of the subsidiaries

As at 31 December 2015 and as at the date of publication of these financial statements, the composition of Management Boards of he subsidiaries was as follows:

- Stoczek Natura Sp. z o.o. – Cezary Pietrzak – President of the Management Board, Adam Ławnik – Member of the Management Board;
- MP Trade Sp. z o.o. – Piotr Wyszecki – President of the Management Board.

The Management Board of MP Trade Sp. z o.o. appointed no proxies. Alicja Hinz, the Chief Accountant, is a Proxy of Stoczek Natura Sp. z o.o. (the rights of proxies granted are binding jointly – a proxy may represent the Company only in liaison with another proxy or a Member of the Management Board).

Other information

Information concerning cooperation with a statutory auditor

The Supervisory Board of Makarony Polskie SA chose ReVision - Rzeszów Józef Król Sp. z o.o. with its registered office in Rzeszow as a statutory auditor to carry out a review of the financial statements for the first half of 2015 and to audit the financial statements of the companies of the Makarony Polskie Group for the reporting year 2015.

ReVision - Rzeszów Józef Król Sp. z o.o. is entered in the list of entities authorised to audit financial statements under the number 3510 and the Register of Entrepreneurs of the National Court Register kept by the District Court in Rzeszów, 12th Commercial Division of the National Court Register, under the number 0000336012.

Makarony Polskie SA availed of the services provided by ReVision - Rzeszów Józef Król Sp. z o.o. Sp.k. in the field of review and audit of the financial statements for the reporting years 2010, 2012, 2013 and 2014.

An agreement with the aforementioned auditor was concluded for a period of the review of the financial statements for the first half of 2015 and of the audit of the financial statements of the companies of the Makarony Polskie Group for the reporting year 2015.

Remuneration owed to ReVision - Rzeszów Józef Król Sp. z o.o. from Makarony Polskie SA totals PLN 52,500 (PLN 18,000 for a review of the individual and consolidated semi-annual financial statements; PLN 34,500 for an audit of the financial statements of Makarony Polskie SA and of Makarony Polskie Group for 2015).

The amount of the remuneration owned to ReVision - Rzeszów Józef Król Sp. z o.o. in Stoczek Natura Sp. z o.o. totals PLN 16,000 (PLN 5,000 for a review of semi-annual financial statements; PLN 11,000 for an audit of the financial statements for 2015).

Remuneration paid to ReVision - Rzeszów Józef Król Sp. z o.o. for the services related to a review and an audit of the financial statements of the Group companies in the reporting year 2014 was:

- PLN 56,000 in Makarony Polskie SA (PLN 20,000 for a review of individual and consolidated semi-annual financial statements; PLN 36,000 for an audit of the financial statements of Makarony Polskie SA and Makarony Polskie Group for 2014);
- PLN 16,000 in Stoczek Natura Sp. z o.o. (PLN 5,000 for a review of semi-annual financial statements; PLN 11,000 for an audit of the financial statements for 2014).

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

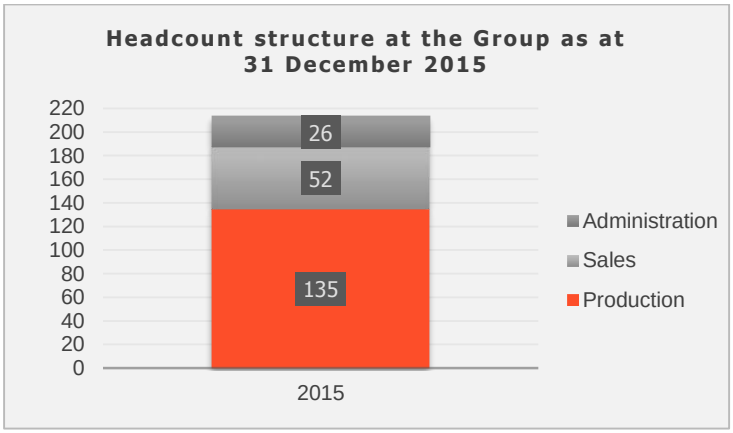
Corporate Social Responsibility

Pursuing its operating activities and realising its business goals, the Makarony Polskie Group applies every effort to act in conformity with the Corporate Social Responsibility rules (CSR), namely in a way that takes into account the needs and broadly understood social and ecological interest of the Company's stakeholders.

Employees

In 2015, the Group was consistent in realising the program of headcount optimisation which had been initiated in 2013, assuming 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 the headcount level 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. As at 31 December 2015 the headcount of the Makarony Polskie Group was 213 people (compared to 216 as at the end of 2014 and 258 FTEs as at the end 2013).



The HR policy of the Makarony Polskie Group is aimed at 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.

Recruitment

Recruiting and selecting candidates, the Group uses its best effort to make the process transparent, employee friendly and effective for the Company. Most notably, the Group sees to ensure diverse staff in terms of age and sex, as well as endeavours to prevent any forms of discrimination.

Per age and sex	Headcount structure at the Group as at 31 December 2015		
	Women	Men	Total
18-29	17	18	35
30-49	67	68	135
50+	24	19	43

The recruitment process is carried out subject to principles of confidentiality and internal procedures binding at the Group. Taking care of its staff, first of all, the Group carries out internal recruitment, which makes it possible to keep within the organisation those employees who are involved, have significant experience and possess 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 purpose the sources of recruitment adequate to the profile of a vacant position, including, but not limited to, Internet portals, career offices, placements and student's internships.

Placements and apprenticeships

The Makarony Polskie Group appreciates the value and competencies of young people and, thus, gladly takes part in various placement programmes addressed to students and graduates. Also, the Group makes it possible for the higher education students to serve their apprenticeship.

In 2015, the Group cooperated with the following universities in the field of arranging student's placements: Rzeszow University of Technology and Siedlce University of Natural Sciences and Humanities.

Training

An important element of the process of gaining additional vocational skills and improving qualifications of the employees of the Group are specialist training courses and programmes aimed at improvement of competencies. Executing the said activities, the Group avails itself mostly of external specialist training and specially prepared, closed programmes of development of competencies that, in the opinion of the Group, are the best investment in employees (in 2015, this form was chosen for training in the field of improvement of sales, communication and competence skills of the employees).

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

Remuneration system

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

Basic salary is determined depending on how a given position ranks, work contribution, scope of responsibilities, qualifications and experience. The Group assesses 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.

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 to the work performed, improvement of productivity and quality of work and special achievements related to execution of the tasks set by the superiors. Its purpose is to motivate the employees to have very good work results compliant with business interest of the Group.

OSH

Being a responsible employer, the Makarony Polskie Group takes also care to guarantee safe conditions of work to its employees. Specific companies of the Group have their own OSH Policies implemented. In accordance with the regulations binding in this respect, in order to protect 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 2015, only two minor accidents at work took place at the Group, of which one occurred in a production plant, and the other one referred to a traffic collision of a sales representative on his way to a customer.

Natural environment

The Group has consistently been trying to minimize its negative impact on natural environment in each area of its operations by looking for the environment friendly solutions. It tries all the time to limit water and energy consumption, and to minimize sewage and wastes produced by it, by continuous streamlining of production processes, application of modern, energy-efficient and high-performance technological lines, taking care of good condition of machines and equipment, production planning that ensures maximum use of production capacities, and also by improving awareness of our personnel by providing training for them.

In 2015, the Group executed investments allowing to lower the energy consumption of the process of drying rolled pasta at the plant in Częstochowa (a drying tunnel was provided that made it possible to replace the previous static method of pasta drying in a go-through system).

Wastes coming from the production process is segregated and recycled.

Market

The fact that our customers placed their trust in us means a lot to us. Thus, the Makarony Polskie Group continuously modernizes its plants, has modern production lines and a comprehensive production process control system. Moreover, we keep investing in acquisition and implementation of modern technologies.

Each production process taking place at the production 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 the food standards and high quality standards of the company.

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

Cooperation with scientific institutes, R&D laboratories, suppliers of raw materials, machines and packaging is being developed systematically.

Achievements of the Group are noticed, which is expresses in a number of awards and special mentions granted to the Group and its products.



In January 2015, the "Makarony Polskie" brand obtained the title of GOOD BRAND 2015 – Quality, Trust, Reputation under the category: Foodstuffs – Pasta, that is given to the brands on the Polish market which present the highest development potential and are the most recognisable (the analysis covers, among other things, the market position of a brand and its progress, product quality and confidence of the consumers and customers in a brand).



In May 2015, the "Jakość Tradycja" [Quality & Tradition] certificates were awarded to three products offered by Stoczek Natura Sp. z o.o.: pickled cucumbers, grated beetroot and plum jam; in September, the same certificate was awarded to two other products: "Ogórki Kartuskie" cucumbers and beetroot with horseradish.



In August 2015, 5-egg pasta noodles and 2-egg pasta noodles were awarded the "Poznaj Dobrą Żywność" [Know Good Food] mark for products meeting the top quality requirements specified in the programme.



In October 2015, the product named Polish Pasta with Omega 3 was awarded a statuette of Podkarpacka Nagroda Gospodarcza [Economic Prize of the Podkarpacie Region]in the Best Products category.



In November 2015, the "Jakość Tradycja" [Quality and Tradition] certificate was awarded to the following products of Makarony Polskie brand: 5-egg noodles, Pełne Ziarno [Whole Grain] wholemeal pasta, spelt flour pasta.



In February 2016, the product "Makaron Razowy Świderki" [Wholemeal Pasta Spirals] became a prize-winner of the fifth edition of the Best Product Survey and got the bronze medal.

Community

The Makarony Polskie Group attempts participate in the life of local communities in which it is present on a daily basis due to location of its production plants and sales offices. The Group actively supports charity activities and initiatives as well as activities and initiatives concerning culture, education and sport.

Cooperation with schools and universities

Group companies have long-term relationships with universities. For instance, Stoczek Natura Sp. z o.o. cooperates with the University of Life Sciences in Lublin and that university participates in a consortium led by Stoczek. Cooperation of Makarony Polskie SA with the University of Rzeszów in the field of R&D may serve as another example of such long-term relationship.

Charity activities

For many years, the Group carries out charity activities of various kind at a local level, providing support both to children in need (Christmas campaigns and Saint Nicholas Day events, for instance Dar Serca [Gift of the Heart]) as well as to hospices (Rzeszów Hospice for Children), social aid centres, foundations and schools.



In 2015, prior to the Easter, the Group together with TVP Rzeszów once again organised a charity campaign DAR SERCA [Gift of the Heart] for the Orphanage. This time St. Brother Albert Orphanage in Stalowa Wola [Ochronka Towarzystwa Pomocy im. Św. Brata Alberta w Stalowej Woli] was chosen.

In 2015, the Company kept supporting the Orphanage in Żyznów on a permanent basis. The said orphanage was a beneficiary of the Dar Serca [Gift of the Heart] campaign in 2014.

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 hospice and their brothers and sisters on the Children's Day.



Patronage and sponsoring of culture and sport

The Group invests in development of culture and art by way of sponsoring cultural events and initiatives, and also by providing support for development of sports.

In 2015, the Group participated, for instance, in such initiatives as:

Sponsoring of the Rzeszów edition of the Solemn Papal Oratory "DALEKIE WYBRZEŻA CISZY" [Far Coasts of the Silence] organised by the Congregation of the Observants.



Sponsoring of the Second Festival of the New Theatre – the 54th Meetings in Rzeszów, that took place from 22 October 2015 to 30 October 2015 at the Wanda Siemaszkowa Theatre in Rzeszów.

Sponsoring of the "Siberia 2015" trip organised by two travellers from Rzeszów. The goal of the trip was to meet the Siberian Polish community living in Vladivostok and to hand them some teaching aids, mostly books in Polish.





In May 2015, the Company, as a general sponsor, once again supported the Open Day of the Polish Radio Rzeszów organised in a form of a family picnic for the residents of the region. On that day, the radio listeners could look around the radio station. There were also various attractions and competitions for kids.



Declaration by the Management Board

Declaration with regard to fairness of the financial statements

The Management Board of Makarony Polskie SA with its registered office in Rzeszów declares that according to its best knowledge, the annual consolidated financial statements of the Capital Group of Makarony Polskie SA for the reporting year ending 31 December 2015 as well as comparative data have been prepared in accordance with the binding accounting principles and reflect in a true, fair and transparent manner the assets and financial standing of the Capital Group of Makarony Polskie SA and its financial result.

The report of the Management Board on the operations of the Capital Group of Makarony Polskie SA in the reporting year 2015 presents a true image of the Group development, achievements and standing, including the basic threats and risks.

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

The Management Board of Makarony Polskie SA with its registered office in Rzeszów declares that the entity authorised to audit financial statements, which audited the consolidated financial statements of the Capital Group of Makarony Polskie SA for the reporting year ending 31 December 2015 was appointed in accordance with the legal regulations.

The entity and the statutory auditors who carried out the audit fulfil the conditions for issuing an impartial and independent opinion on the audited financial statements, in accordance with the binding regulations and professional standards.

Approval of the financial statements

This report of the Management Board on the operations of the Capital Group of Makarony Polskie SA was approved for disclosure by the Management Board of the Parent Company on 18 March 2016.

Zenon Daniłowski
President of the Management Board.

Information about the Company

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

www.makarony.pl

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

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

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