Management Board Report on the Operations of the Makarony Polskie Group in the Reporting Year 2016



Rzeszów, 21 March 2017

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Last year was successful for our Group, as it generated total sales at the level of PLN 124 million, net profit of PLN 5 million, and EBITDA exceeding PLN 12 million.

Letter of the President of the Management Board



Dear Readers,

Dear Shareholders,

The Report on the Operations and the Financial Statements of the Makarony Polskie Group in 2016 comprises data confirming the strong and stable position of our Company on the food products market. Total sales reached PLN 124 million, net profit exceeded PLN 5 million, and EBITA amounted to PLN 12 million.

The Management Board has been consequently implementing the policy of profitability improvement, maintenance of high liquidity and debt reduction, which dropped from PLN 27 million to PLN 19 million in the years 2013-2016. Continuous improvement of profitability, liquidity and debt ratios consolidates the trust in the Makarony Polskie Group on the market, among the investors and customers, which creates a good basis for the performance of development projects in the years 2017–2020.

In 2016 the group of the leading shareholders of Makarony Polskie SA was joined by Raya Distribution (Raya Holding division, a company listed on the Cairo Stock Exchange). The cooperation, which started from a commercial agreement, developed into capital relationship, and at the present moment studies are pending on the broad expansion of Makarony Polskie SA on the Middle East and African markets.

The food market is an area of dynamic changes. The products life cycle has been shortening at a fast pace, therefore, product innovations are of major importance to the market position of the manufacturer. Consumers purchasing food products are the driving force of the market, as they search for new flavours, aesthetic experiences, convenience in consumption instead of only satiating their appetites. Offering tailored, health-promoting and convenience products is our reply to the market challenges.

In 2017 our Group is going to carry out extensive R&D works devoted to functional pasta with addition of vegetables and proteins, easy-to-serve lunch dishes, as well as semi-products for bakery sector and catering. We have also started the performance of four capital investment projects: pasta production lines, lunch dishes production lines, 'fresh pasta' production line and R&D Centre.

Letter of the President of the Management Board

In 2016 the business environment watched some events raising uncertainty, including announcements of new legal regulations, trade tax and tax on trading on Sundays, or introduction of new regulations for the labour market. Last year also watched a reversal in the downward trend in agricultural products prices, and in Poland a switch from deflation to inflation. The continuation of the phenomena in 2017 may result in a growth of the costs of manufacturing.

Year 2016 was another year of growing goodwill, both as regards quantity and quality. Product innovations, engagement and high competencies of the staff, research and development, cooperation with universities and incentives for creativity triggered a creative atmosphere, which – in the opinion of the Management Board – is going to improve the Makarony Polskie Group position on the domestic and exports markets in 2017.

Yours faithfully,

Zenon Daniłowski
President of the Management Board.

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

Characteristics of the Makarony Polskie Group

Organisation of the Group

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

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



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

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

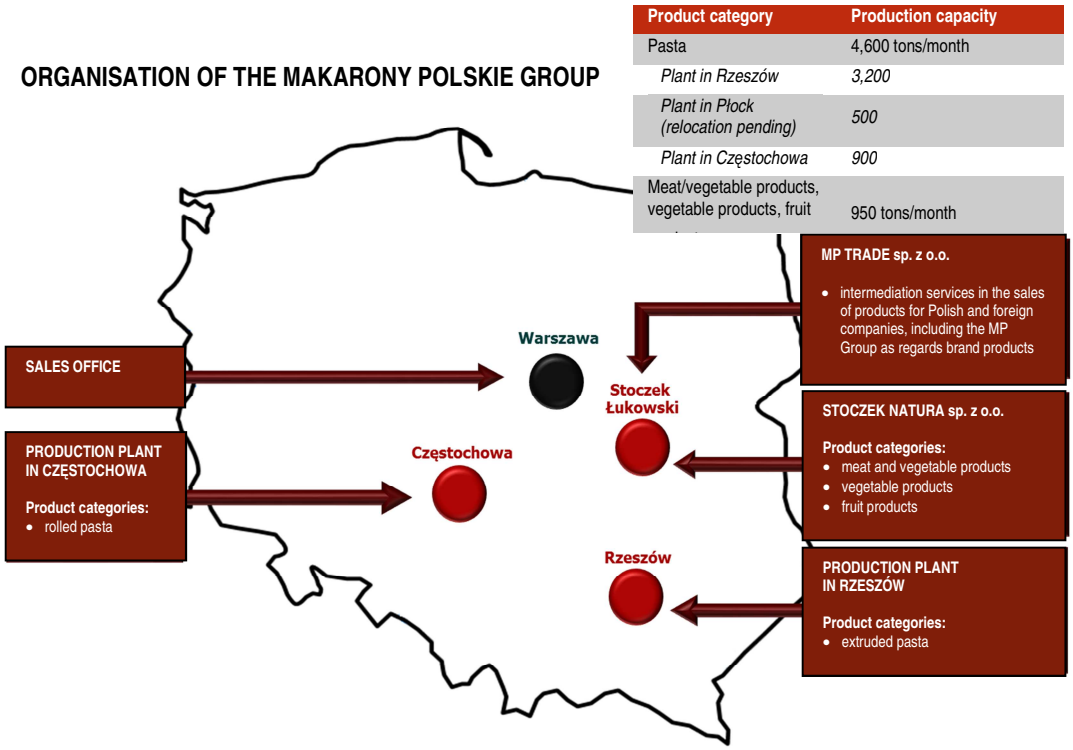
Stoczek Natura Sp. z o.o. is the manufacturer of meat and vegetable products (ready cooked meals, pâtés, lard, tinned food), vegetable products (salads, pickles, bakery stuffing) and fruit products (jams, syrups, fruit pastes, sweet fillings). The company offers its products under the brands Stoczek, Tenczynek and Męska Rzecz.

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 in the goods of other Polish and foreign

manufacturers. An additional profile of activities of the new company is providing intermediation services in selling products to Polish and foreign companies.

Changes in the organisation of the Makarony Polskie Group in 2016

In 2016 there were no major changes in the organisation of the Makarony Polskie Group.



During the reporting year 2016, considering the development and investment plans of Stoczek Natura Sp. z o.o., Makarony Polskie SA increased the share capital of that company by PLN 312.5 thousand, through the issue of 3,125 new shares of the nominal value of PLN 100 each. The issue price of the new shares was PLN 1,600 per share. The shares were covered with cash contribution. The share premium was assigned to the company supplementary capital. All 3,125 new shares in the increased share capital of Stoczek Natura Sp. z o.o. were taken up by Makarony Polskie SA. The change was entered in the National Court Register in December 2016. The share capital increase had been positively received by the Supervisory Board of Makarony Polskie SA, which passed a relevant resolution in that matter.

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 2016 the exports of the company grew by approx. 20% compared to 2015. The recorded growth of sales results mainly from the start of cooperation with new customers in the European markets (Portugal, Ukraine, Norway, Slovakia, Hungary, France) and African markets, as well as extension of the product offer for the existing customers.



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

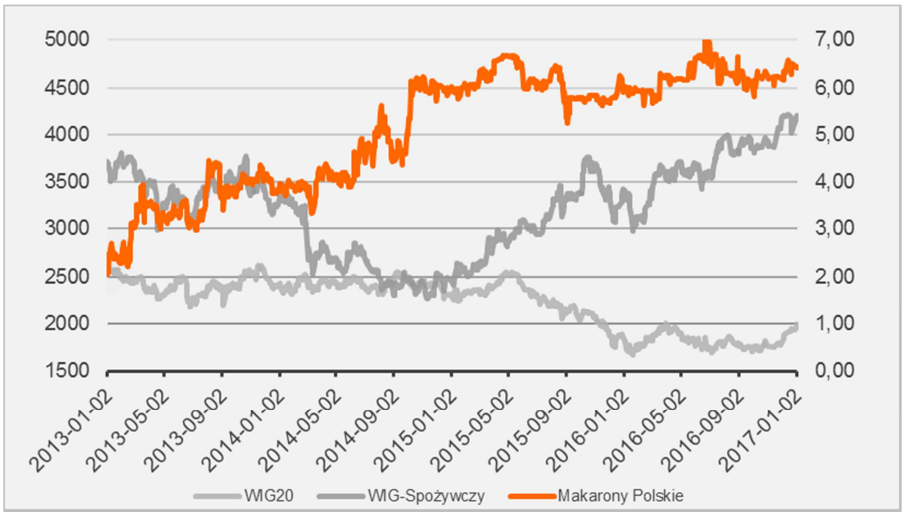
Within the perspective of the next few years the most important will be the e-commerce sector, as a rightful sales channel. The Group plans a multi-level entrance in that promising sector, mainly by presence on the commercial platforms of its contractors and improved activities in social networking media,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

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

Makarony Polskie SA on the capital market

Listings and major indicators

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



	02.01.2013	02.01.2014	02.01.2015	04.01.2016	02.01.2017	Change since 02.01.2013
Makarony Polskie	2.06	3.8	6.03	6.03	6.45	213%
WIG20	2,626	2,431	2,309	1,804	1,957	-25%
WIG-Spożywczy	3,719	3,330	2,452	3,409	4,195	13%

Dividend policy at Makarony Polskie SA

The Management Board of the Company recommended to the Annual General Meeting to divide the net profit for 2015 amounting to PLN 5,010,020.76 in the following manner:

- assign PLN 1,572,512.07 to the dividend pay-out, 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 3,437,508.69 to the supplementary capital of the Company.

On 28 June 2016 the AGM of Makarony Polskie SA decided to divide the profit for the reporting year 2015 in the following manner:

- assign PLN 3,237,524.85 to the dividend pay-out, i.e. pay out dividend in the value of PLN 0.35 gross per share;

– assign the remaining part of the profit amounting to PLN 1,772,495.91 to the supplementary capital of the Company.

The dividend date was set for 15 July 2016. The dividend was paid out on 29 July 2016. 9,250,071 shares of the Company were subject to dividend payout.

In accordance with the declaration of 2015, 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 payout possibility 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 01 January 2016 to the date of publishing this report, the Company has not carried out any shares issues.

Dialogue with shareholders and investors

Treating the presence on the capital market as an element of long-term development strategy, the Company has been undertaking actions aimed at building long-lasting and professional relations with all capital market participants, and ensuring equal access to information for all groups of interest holders.

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

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

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

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

Operations of the Makarony Polskie Group

Main products and services

Brand products assortment

PASTA:

MAKARONY POLSKIE – a brand with clear identity, fitting the popular and stable market trend of promoting Polish-made and local food, dedicated to consumers who care for good Polish quality at a reasonable price. The brand portfolio covers the traditional egg-made pasta (rolled) and extruded pasta made of various types of flour, including wholemeal flours acquired from qualified suppliers, as well as functional pasta of dietetic and health-promoting nature (100% spelt flour pasta, or wholemeal pasta with increased fibre content). Additionally, under the same brand a completely new product line has been introduced under the name of "W Kuchniach Świata" [World's Cuisines], inspired with the taste of the sunny Italy, based on the "large" pasta forms manufactured in 100% of hard durum wheat, intended for stuffing. Works over other innovative products have also been pending. The new products will be gradually marketed in 2017.



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

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



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

MEAT AND VEGETABLE PRODUCTS



In 2016 the assortment of meat and vegetable products covered ready-cooked meals under the brands of Stoczek and Męska Rzecz. The ready-cooked meals offered by the Group, being classical lunch meals of the Polish cuisine, combine the home taste with the comfort and speed of their preparing.Therefore they perfectly fit the current trends on the food market. The market development of Męska Rzecz branded products has been supported by 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.



In 2016 the Męska Rzecz brand offer has been extended for a new product line under the name "W Kuchniach Świata" [World's Cuisines], as a reply to new consumer trends.

VEGETABLE PRODUCTS

In 2016 the vegetable products assortment covered mainly salads and pickles under the brand name of Tenczynek – traditional vegetable additions which make meals more attractive and differentiated, both cold and hot. The products have a loyal group of consumers. Moreover, this assortment fits the exports policy of the Group – the Tenczynek brand is positioned on the "ethnic food" shelves as a premium product.



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

FRUIT PRODUCTS

In 2016, the fruit products assortment covered plum and other fruit jams (Stoczek and Tenczynek) as well as syrups (Tenczynek) – manufactured to the highest quality without artificial colouring or preservatives. A trend has been observed on the market to developing new flavour categories. In reply to the market trends the Group is working on extension of the jams portfolio for such products, mainly based on the exports perspective.

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

Private label products assortment

Products identified with a third party brand are present in each segment of the 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 the first half of 2016 the Makarony Polskie Group focused on product development, based on the trends shaping the market of private labels in the European and World's food sector, as well as on the fact that the Group has been perceived as an innovator with whom it is worth facing the challenge of testing new products. In 2016 works on the implementation of health-promoting products (made of wholemeal flours other than wheat, rich in fibre and mineral ingredients), organic/bio-products, flavoured pastas (with herbs and spices) as well as premium products were pending. Launching of most of the products under the private labels of commercial networks took place in the second half of 2016.

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.

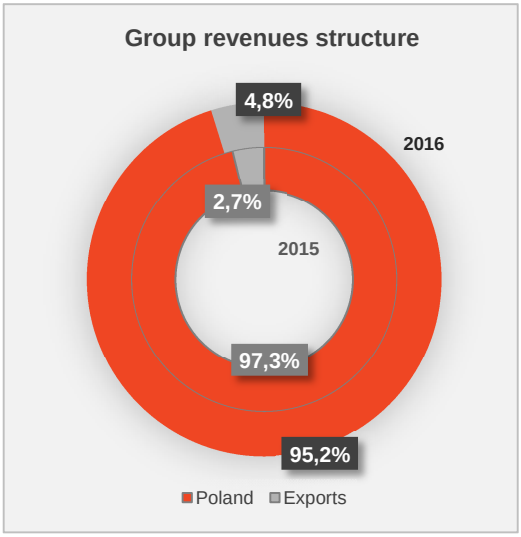
Services offered by the Makarony Polskie Group

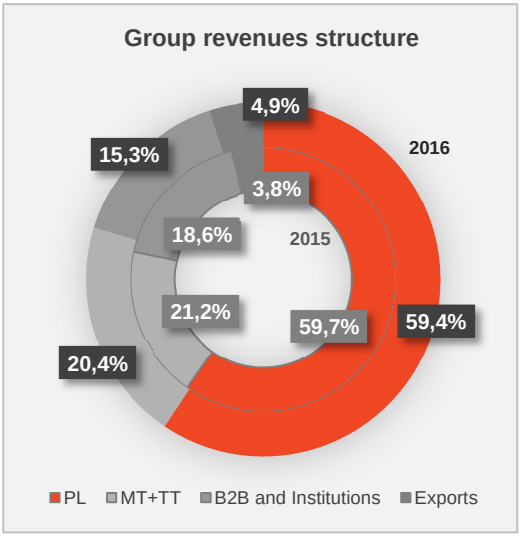
At the end of 2015, due to the establishment of the new subsidiary MP Trade Sp. z o.o., the Makarony Polskie Group entered the market of commercial services. On its own account, MP trade develops trade in third party goods of Polish and external manufacturers and also provides intermediation services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

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 2016:

PLN '000	2016	2015	YoY
Sales revenues	124,181	132,776	-6.6%





Private label

The largest share in the Group revenues (59.4%) was contributed by the private label (PL) channel offering products under own brands of domestic and foreign shop chains:

PLN ['000]	2016	2015	YoY
Sales revenues	73,799	79,328	-7.0%

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 2016 sales in that channel dropped by 7.0% compared to 2015. Lower sales resulted from the maintained price pressure on the part of the competitors due to commissioning of new production capacities and low prices of basic raw materials. The situation lead to negotiations with the Group's largest commercial recipients and resulted in lower sales prices.

The assumptions for 2016 brought about introduction of new products in the commercial offer of the Group as a reply to the demand reported by the recipients with regard to innovative products which provide added value, e.g. flavoured ribbons or strip pasta.

The main recipients in that 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 equivalent to 20.4% 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)	2016	2015	YoY
Sales revenues	25,230	24,713	+2.1%

Higher sales resulted mainly from:

- the introduction of new ready-cooked meals like jarred soups and canned meals of Stoczek Męska Rzecz brand;
- the offer extension for new pasta products of Makarony Polskie brand portfolio;
- the reorganisation of the Group sales forces at the end of 2015 and separation of a specialised subsidiary MP Trade Sp. z o.o.;
- higher expenditures on the costs of sales, e.g. through higher Group engagement in network actions and Trade Marketing support;
- research of end customers needs carried out together with the recipients of the Group and adequate preparing of the offer and sales actions.

In 2017 the Group plans to develop cooperation and attract new foreign, domestic and local shop networks which have not yet been serviced. Additionally, in cooperation with the companies offering External Sales Forces, the Group plans to improve the service of the current customers and attract new recipients.

In 2017 the Company, as the consortium leader consisting of: Makarony Polskie SA, Stoczek Natura Sp. z o.o. and Dary Natury, has been informed about the positive handling of an application for co-financing of the "*Jakość Natury* [Quality of Nature] Promotional and Information Campaign on the Polish Market" project. The project has been listed among the co-financed projects within the Rural Development Programme 2014–2020, Measure 3 "Quality schemes for agricultural products and foodstuffs", Sub-Measure "Support of information and promotional activities performed by groups of manufacturers on internal market". The objective of the project is to carry out a Poland-wide promotional and information campaign throughout the year, covering also foreign trade events, in order to promote the product of the consortium participants awarded with the "Jakość Tradycja" [Quality and Tradition] certificate. The total cost of the project is PLN 2.2 million net. The value of co-financing is PLN 1.6 million, which represents 70% of eligible costs. The project has been planned to be completed in the second quarter of 2018.

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.

B2B and institutions

In 2016 B2B and institutions represented approx. 15.3% of the total revenues of the Group:

B2B and institutions (PLN '000)	2016	2015	YoY
Sales revenues	19,071	23,689	-19.5%

Sales in the B2B and institutions channel in 2016 amounted to about PLN 19.1 million and was by approx. PLN 4.6 million (19.5%) lower than in 2015.

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

The launching of new production capacities of various pasta forms by domestic manufacturers had the largest impact on the revenues drop in this segment. Price pressure on the domestic B2B market grew, which was directly translated into lower number of orders from the existing recipients, who either opened new pasta manufacturing lines themselves or ordered products from new suppliers.

A relatively new form of the Group activities – manufacturing of sweet fillings and salty stuffing – has been positively received by the market from the very beginning. The Group has been striving for attracting new promising recipients. 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. In that part of activities the Group has recorded growing sales.

Exports

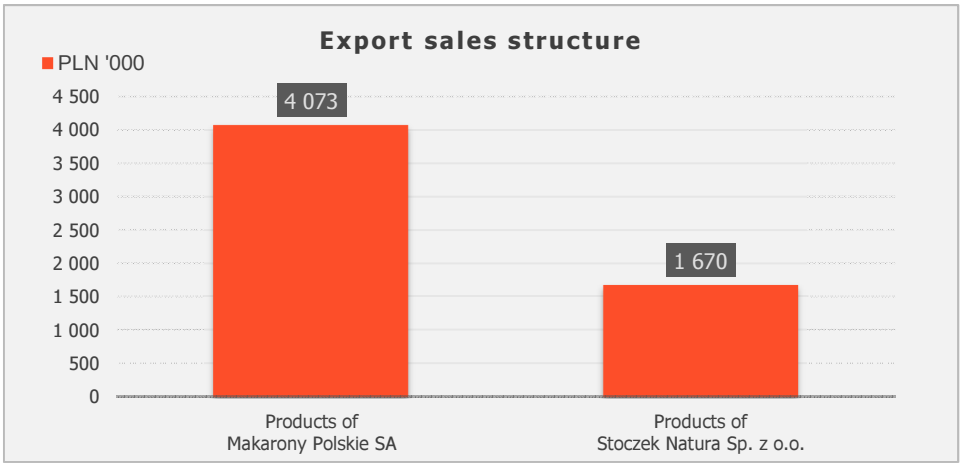
Within the total revenues of the Group for 2016 exports represented 4.9%:

Exports (PLN '000)	2016	2015	YoY
Sales revenues	6,081	5,046	+20.5%

Export sales of the Group brought over PLN 6.0 million in 2016 (through own trading team and through intermediaries). The result was higher by 20.5% than in 2015. 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 pastas and high quality of products originating from the EU, including Poland.

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



In 2016 the Makarony Polskie Group operated mainly on the European markets (Portugal, Ukraine, Norway, Slovakia, Hungary, France) and African markets.

In 2016 Makarony Polskie SA was carrying out a contract signed in 2015 with a Ukrainian commercial network for pasta delivery. The expected value of deliveries within 2-year's term of the contract (2016–2017) is about PLN 4 million. In 2016, in liaison with other manufacturers associated within the Polish Pasta Chamber (PIM), the Company started carrying out 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 pastas and high quality of products originating from the EU, including Poland (advertisements will be broadcast on TV, published in newspapers and on the Internet, as well as promotional actions carried out during fairs and at sales outlets). The programme is to contribute to the development of sales markets and increase in the sales volume of pasta manufactured in the European Union. The programme will last three years (2016–2018).



In the years 2017–2018 the Group plans to focus its activities on the markets of Northern Africa and Ukraine. For the performance of the objectives the Group has attracted partners on the local market and plans to double the current sales on those markets in the perspective of 2017–2018.

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, Pasatni, Dobrusia and Makaron Szlachecki. The revenues under the contract in the reporting year 2016 represented about 30.4% of consolidated sales.

Agreements with the Lidl chain

Makarony Polskie SA entered into cooperation agreements with Lidl regarding supplies of pasta manufactured by the Company to the Lidl chain, which together fulfil the criteria of a major agreement.

Agreement with Raya Distribution, 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.

Makarony Polskie SA has been cooperating with Raya Distribution since 2015 with regard to development of sales of the pasta manufactured under the Company brands (Sorenti and Makarony Polskie) in the territory of Egypt, Middle East and Africa.

In 2016 the commercial cooperation between the companies has been drastically limited by unforeseen external circumstances outside of the control of the companies, and specifically:

- low Egyptian pound exchange rate to foreign currencies, including American dollar and euro;
- limited access to foreign currencies for the importers on the Egyptian market;
- introduction of new regulations imposing the need of foreign manufacturers registration by the importers at GOEIC special authorities [General Organisation for Export and Import Control] functioning at the Ministry of Trade and Industry of the Arab Republic of Egypt (the information on listing Makarony Polskie SA in the register of approved exporters for the Egyptian market was received by the Company in March 2017).

The contract between Raya Distribution and Makarony Polskie is part of the long-term strategy of expansion on foreign markets. The Group considers this contract to be of key

Factors important for the Group development include:

- *building engineering and manufacturing advantage through innovation and automation;*
- *attracting EU funds for the performance of projects planned by the Group;*
- *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.*

importance owing to the fact that the African market is now the strategic direction for the Group exports development (apart from the European markets).

Annexes to credit agreements with BGK

In 2016 the Company signed with Bank Gospodarstwa Krajowego annexes to credit agreements of the total contractual value of PLN 11.0 million (as at 31 December 2016 the current credit balance was approx. PLN 5.9 million). This refers to agreements on credit in the current account and non-revolving working capital credit in the credit account.

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

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

In November 2016 the subsidiary Stoczek Natura Sp. z o.o. terminated the consortium agreement signed with MP Service Sp. z o.o. (now Deli-Susz Sp. z o.o.) on 1 October 2015.

The consortium agreement was terminated owing to the fact that market research and concept works reflected a significant discrepancy between the specifics of the current activities of Stoczek Natura Sp. z o.o. and the area to which the consortium agreement referred. The consortium and Stoczek Natura Sp. z o.o. have not undertaken any activities related to dried fruit, vegetables and mushroom production.

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 Q.2, 2016, the production plant in Częstochowa was awarded a certificate of processing of ecological products: durum flour 2-egg pasta, and in December 2016 the production plants in Rzeszów and Częstochowa extended their processing certificate for regular wheat flour pasta;
- in Q.2, 2016 extension of the production plant in Rzeszów has started, comprising a production and warehouse building, with the planned completion date in the first half of 2017;
- in 2016 the production plant in Częstochowa commenced the performance of an investment project of an automated flour and bulk ingredients dosing system, which will enable extension of the production capacity and make the production process more flexible, with the planned completion date in the first half of 2017;
- at Stoczek Natura Sp. z o.o. research has been carried out in order to adjust the plant to the global trends in food production: convenience products, health-promoting products, and products packed in modified atmosphere;
- at the end of 2016 and beginning of 2017 Stoczek Natura Sp. z o.o. was carrying out the purchase of a modern line to pack fillings and stuffing, which will enable offering of products with longer shelf life compared to those offered now, as well as improvement of production security.

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

- In October 2016 the project of Makarony Polskie SA under the name "Creation of a Research and Development Centre for the Pasta Industry at Makarony Polskie SA" was included in a list of projects to be co-financed within Measure 2.1 – Support for Investments in R&D Infrastructure of Enterprises, under the Smart Growth Operational Programme 2014–2020. The gross value of the project is about PLN 18.6 million, the co-financing value is approx. PLN 9.1 million. Within the project a modern R&D centre will be created to carry out research and development works on innovative health-promoting products, which will be implemented in the business activities of the Company, as well as research work for the issues important to the whole pasta industry. Signing the co-financing agreement has been planned for the first half of 2017, whereas the planned date of the project completion falls to June 2019.
- In October 2016 the project of Makarony Polskie SA under the name "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA" was included in the list of projects to be co-financed within Measure 1.4

– Support to SME, under the Regional Operational Programme of the Podkarpackie Province 2014–2020.

The gross value of the project is PLN 12.3 million, the co-financing value is PLN 5.5 million. Within the project a modern production line will be purchased in order to implement the results of the research and development works in the form of new pasta types. Signing the co-financing agreement has been planned for Q.1, 2017, whereas the planned date of the project completion falls to June 2018.

- In February 2017 the Company was informed about the publication by Bank Gospodarstwa Krajowego of a list of projects selected for co-financing within Sub-Measure 3.2.2 – Loan on Engineering Innovation, under the Smart Growth Operational Programme 2014–2020, in which the Company project entitled "Increase of Makarony Polskie SA Competitiveness Level by Implementation of the Results of R&D Works in the Form of Process Innovation" was included. The main objective of the project is Makarony Polskie SA expansion on the market of functional food by implementation of innovative pasta manufacturing technology. Within the project the Company plans to purchase fixed assets.

  The total cost of the project is PLN 10 million net. Co-financing value is PLN 6 million. The project has been planned to be implemented in the period from April 2017 to October 2018.
- Within the 2014–2020 perspective the Group companies apply for EU funds in order to accelerate investments and extend the scope of investments in modernisation of the currently used production machines and to develop new areas of operation, e.g. fillings and stuffing production, initiation of presence in the HoReCa segment, with the aim to maintain the market position and cope with the growing demand for new, innovative products and packaging. Among other things, in Q.1, 2017 design audits shall commence so as to develop a design strategy for the companies.

Development of private label segment activities:

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

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

- development of pasta categories, as well as meat/vegetable products and fruit products tailored to the expectations of the channel customers;
- establishing cooperation with other pasta and ready-cooked meals manufacturers, as well as complementary products manufacturers in order to supplement the offer for the final recipient;
- products assortment individualisation and, thus, competitiveness improvement;
- use of the production potential of Stoczek Natura Sp. z o.o. as regards products packing as a subcontractor;
- 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 and HoReCa channels at the Makarony Polskie Group by employing professional sales representatives dedicated to these channels.

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

- 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);
- 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;
- focusing on fast and effective development of brand products availability in the modern channel and implementation of effective distribution policy in the traditional channel, including cooperation with specialised external companies as regards sales forces outsourcing (External Sales Forces) and implementation of new sales strategy by MP Trade Sp. z o.o. consisting in cooperation with external Trade Agencies;
- extension of the Group portfolio by inclusion of third-party products in the sales offer, including niche, high-margin product, which despite small volumes will enable the Group to provide a comprehensive range of products tailored to the needs of various groups of recipients;

- intensified trade marketing activities to support sale and resale of products and build standing relations with the customers;
- performance of an annual promotional and information campaign within the "Jakość Natury [Quality of Nature] Promotional and Information Campaign on the Polish Market" project, promoting the products of the consortium participants (Makarony Polskie SA, Stoczek Natura Sp. z o.o. and Dary Natury) awarded with the "Jakość Tradycja" [Quality and Tradition] certificate.

Exports development through a specialised company MP Trade Sp. z o.o.:

- introduction of Novelle – a universal exports brand under which both current and new products will be offered, like stuffed pasta, BIO pasta, premium products, etc.;
- 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. wholemeal pastas with high fibre content, spelt and buckwheat flour pastas, BIO products as well as new product categories (products attracted by MP Trade Sp. z o.o. 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.

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 the Group introduced spelt, rye and buckwheat flour pastas or BIO products. In reply to the diversification of assortment and offering premium products, at the end of 2016 flavoured rolled pasta intended for both main courses and soups was included in the offer.

Competition risk

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

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

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

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

The machines and equipment currently used at the production plants of the Group are in full working order and have been subject to periodical repairs and modernisations. The Group companies also carry out investments in new production assets on a current basis,

which results from the reaction to the market needs (investments in new packing and boxing machines used in pasta production, new labelling machines for non-standard shaped jars at Stoczek Natura Sp. z o.o.) and refers mainly to maintenance of the current production profile of the plants. At the moment the Group has been undergoing a process of replacement of production machines and installing new ones, whereas the co-finance from the EU finds will accelerate the process.

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

Risk of dependence on the recipients

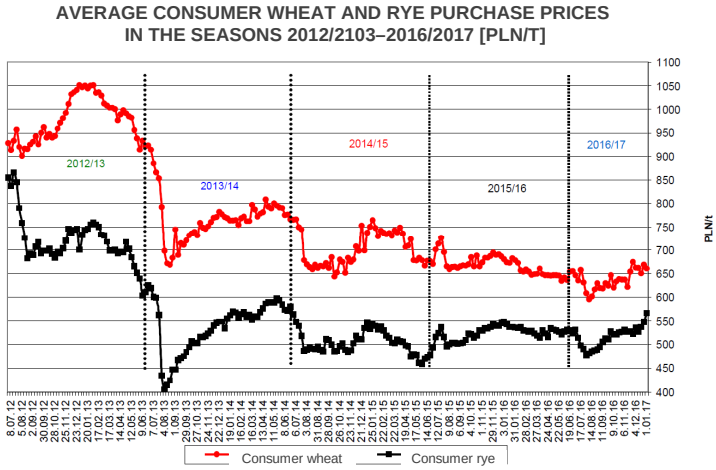
A major part of the revenues is generated by the Group through cooperation with organised commercial networks, which are centralised as regards decision-making. The possible lack of continuity in cooperation with the recipients may affect the sales values. Some commercial agreements do not include strictly 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, and this will obviously translate into the Group results. Nevertheless, in the opinion of the Group, the risk is not high, because the quantities of products supplied so far have not significantly fluctuated within a yearly timeframe, staying at the levels which were possible to foresee. Additionally, the Group companies have been systematically implementing solutions for recipients diversification and increase of the number of medium-sized customers.

Risk related to changes in raw materials prices

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

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

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



Source: Grains Market, Week 01'2017, Sparks Polska.

The prices of liquid egg pulp currently applicable on the market range from PLN 3.5-4.0 thousand per ton. Since 2013, a gradual growth of eggs consumption has been observed in Poland (currently more than 146 eggs per person). At the end of Q.3 and in Q.4, 2016 the prices of liquid egg pulp rose drastically (to PLN 4,400–4,800 per ton) owing to several factors: salmonella hotbed discovery at a large egg producer, avian influenza dissemination and the related wiping out of lying hens flocks. At the end of 2016 and beginning of 2017 the prices of eggs and liquid egg pulp dropped again. In accordance with 2017 projections, the prices of eggs and liquid egg pulp will slightly rise (according to the producers, the current prices hardly guarantee production cost-effectiveness).

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 risk minimisation the Company has extended the base of foreign suppliers of key raw materials. Additionally, in order to optimise plant operation Stoczek Natura Sp. z o.o. has planned to outsource production of those categories of fruit and vegetable products whose market share does not guarantee to the company the optimal use of the possessed production capacity and purchase of raw materials at attractive prices.

Risk of changing legal and tax environment

The Polish legal and tax system is characterised with frequent changes. An unfavourable factor for the 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 current foreign exchange rates, such as to ensure satisfactory sales profitability.

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

Risk related to payroll pressure

The latest changes in legal regulations (increase of minimum wage, determination of minimum hourly rate for civil-law agreements) result in growing payroll pressure among the employees and potential candidates. The phenomenon is intensified by the fact that

the labour market is growingly more favourable to the employees. The employers, including the Group companies, may have problems in finding adequate candidates to cover vacates among the specialists and managerial staff as well as non-qualified workers.

Interest rate risk

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

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

In 2016 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 2016 the Company was liable PLN 19,572 thousand on account of the credits taken out.

Currency	Interest rate	Credit/loan balance	Including	
			Short-term	Long-term
PLN	WIBOR + bank margin	19,572	8,455	11,117

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.

Financial standing

The consolidated financial statements were prepared based on IFRS, according to going concern assumption with regard to the Group companies in foreseeable future and in reference to the scope of activities which is not going to change significantly. The Group did not carry out any activities which would have been abandoned in 2016.

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

Companies subject to consolidation:

as at 31 December 2016	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 2016, expressed in PLN thousands, are as follows:

(PLN '000)	01.01.2016–31.12.2014	01.01.2015–31.12.2015
Net sales	124,181	132,776
Net sales of products and services	118,281	125,024
Net sales of merchandise and materials	5,900	7,752
Prime cost	95,272	104,936
Cost of manufacturing of products and services sold	89,541	97,414
Value of merchandise and materials sold	5,731	7,522
Gross profit (loss) on sales	28,909	27,840

Cost of sales	16,726	16,523
General management costs	4,760	4,666
Other revenues	870	1,608
Other costs	690	498
Profit (loss) on continued operations	7,603	7,761
Financial revenues	201	391
Financial costs	1,237	1,600
Gross profit	6,567	6,552
Income tax – current part	937	0
Income tax – deferred part	538	1,638
Net profit (loss) on continued operations	5,092	4,914
EBITDA (EBIT + depreciation)	12,157	12,095
Number of shares	9,250,071	9,250,071
Weighted average number of shares in the given reporting year	9,250,071	9,250,071
Profit/loss per ordinary share (PLN) *	0.55	0.53
Book value per share in (PLN) **	7.87	7.66

* 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 2016 amounted to PLN 124.2 million and were lower by approximately 6.5% compared to 2015. The highest drop in revenues, resulting mainly from market deflation, was observed by the Group in the segment of pasta products (by approx. PLN 8.4 million YoY). The highest growth of revenues in meat and vegetable products (by approx. PLN 3.2 million YoY) resulted from strengthening of the Stoczek Męska Rzecz brand market position and attraction of new customers in that segment of operations. The costs of products, services, merchandise and materials sold in 2016 amounted to PLN 95.3 million (drop by about 9.2%).

In 2016 the Makarony Polskie Group generated gross profit on sales at the level of about PLN 28.9 million (growth by PLN 1.1 million compared to 2015), with gross return on sales at the level of roughly 23.3%.

The costs of sales and the costs of general management in 2016 were close to those of 2015.

In 2016 the result on operating activities (EBIT) was PLN 7.6 million, compared to approx. PLN 7.8 million in 2015, i.e. roughly 2.0% drop. Profitability of operating activities equalled 6.1% vs 5.8% in 2015.

The result on financing operations (financial revenues less financial costs) improved from approx. PLN -1.2 million in 2015 to about PLN -1.0 million in 2016. The result improvement originated from renegotiation of credit and factoring agreements made in 2015 and reduction of indebtedness balance.

Net profit in 2016 amounted to PLN 5.1 million compared to about PLN 4.9 million in 2015, meaning approx. 3.6% growth. Sales profitability calculated on the net profit level amounted to about 4.1% (approx. 3.7% for 2015).

In 2016 the Makarony Polskie Group generated EBITDA at the level of roughly PLN 12.2 million. EBITDA margin was about 9.8%.

Consolidated statement of other comprehensive income, net – hedge accounting

FOR THE PERIOD	01.01.2016–31.12.2014	01.01.2015–31.12.2015
Net comprehensive income	5,092	4,914
Profit/loss on account of hedge accounting application	66	95
Total net comprehensive income	5,158	5,009

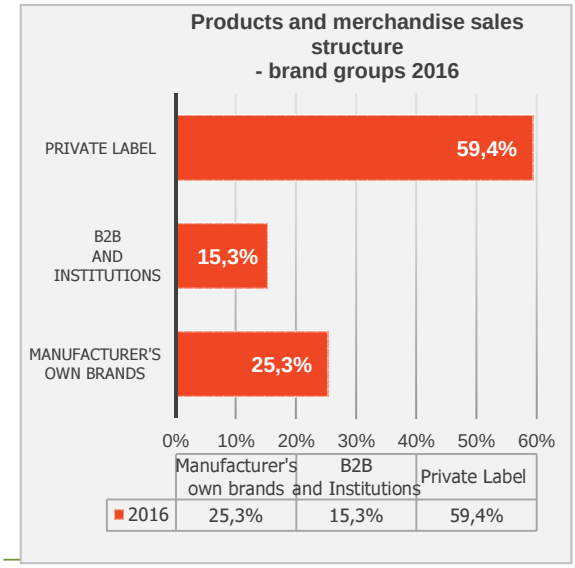
Results generated vs projection

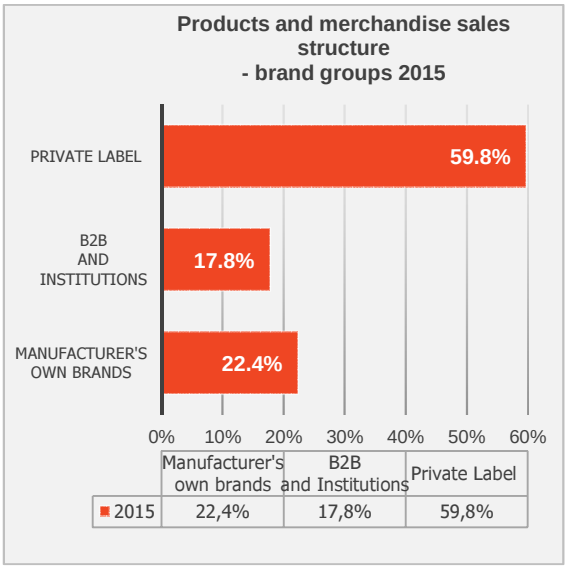
The Makarony Polskie Group has not published any financial projections for the reporting year 2016.

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.

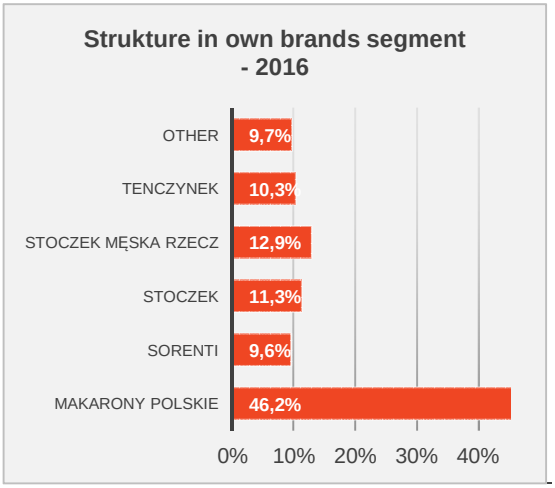


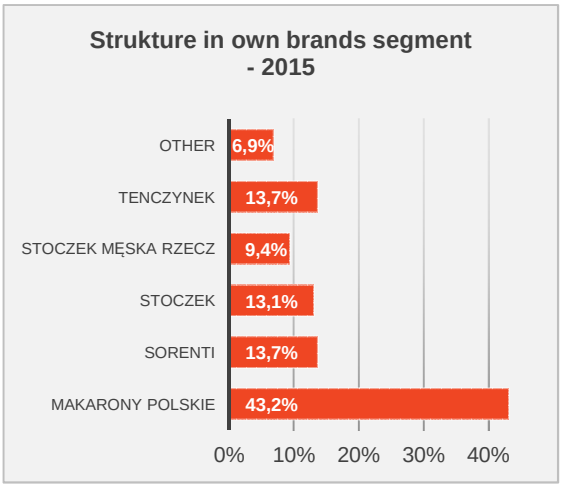


The above sales structure, and specifically the percentage drop of share in the B2B and Institutions channel was mainly caused by:

- commissioning of new production capacities for various forms of pasta by the existing customers;
- shift of orders from the existing pasta recipients to new suppliers;
- price competition resulting from launching of new pasta production lines.

By 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), the sales teams increased the key brands share in sales. Higher sales were recorded mainly for Stoczek Męska Rzecz and Makarony Polskie 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 3 p.p. The results of the activities implemented are shown in the charts below.





The key brand – 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. The drop in the market share of the Sorenti brand results from a change of the brand distribution policy. In 2016 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). In 2017 the Group has planned to regain the full sales potential of the Sorenti brand thanks to concentration of actions on exports markets.

In 2016 the Stoczek Męska Rzecz brand watched over 3% growth. It consisted of two assortment lines: classical ready-cooked meals and the so called "Ein-Topf" [complete lunch] meals. In 2016 the brand potential and its innovativeness in canned ready-cooked meals category on the Polish market was tested by introduction of sour rye soup and tripe. The market test was successful which shows the direction of activities in that assortment for 2017.

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. Drop at the level of approx. 3% resulted from lower market demand for some products and resignation from non-profitable products. The corrective actions undertaken at the end of 2016 focus on maintaining and developing the distribution network for these brands, which will translate into growth of sales and reversal of the negative trend. The Group has also been considering supplementation of its production and commercial offer with the products of other manufacturers in order to cope with the growing market demand.

Sales revenues by operating segments

(PLN '000)	For the period from 01.01.2016– 31.12.2016	For the period from 01.01.2015– 31.12.2015
Pasta	95,166	103,608
Meat and vegetable products	15,617	12,432
Vegetable products	2,069	3,061
Fruit products	4,153	5,904
Other	7,176	7,771
Total	124,181	132,776

Sales revenues of the Makarony Polskie Group in 2016 amounted to PLN 124.2 million and were by roughly PLN 8.6 million lower than in the same period of 2015.

Sales in the pasta category was lower by approximately PLN 8.4 million (about 8.1%) than in 2015. The drop resulted from commissioning of new production capacities by the existing recipients in the B2B channel and deflation on the pasta products market.

Sales of meat and vegetable products in the analysed period increased by approximately PLN 3.2 million, up to over PLN 15.6 million. Approximately 25.6% growth in value (2016 compared to 2015) resulted from a well prepared promotional campaign of Stoczek and Męska Rzecz brands ready-cooked meals, as well as attraction of some new contracts for manufacturing shop chain branded products. Further growth of the category has been planned for the future, including by introduction of market novelties. Additionally, the sales of new products will be combined with promotional cross-selling together with the products of other food manufacturers.

In 2016 the Group recorded a drop in the sales:

– of vegetable products by PLN 1.0 million compared to 2015;
– of fruit products by nearly PLN 1.8 million (approx. 29.7%) compared to 2015.

Factors and events affecting 2016 results:

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

The Group has assumed concentration of production on the key product categories by gradual verification of profitability and volumes of vegetable and fruit products manufacturing. In niche categories, in which the Group's market share does not guarantee effective use of the possessed production capacity, the Group considers the possibility of outsourcing the products through a specialised commercial company MP Trade Sp. z o.o. At the same time the Group has been searching for new areas of operation to ensure high margins, both by optimal use of the currently possessed production capacity and by launching completely new production.

Factors and events, including atypical ones, affecting 2016 results

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

- at the production plants of the Company investments projects were carried out in order to extend the production capacity with new and innovative forms of pasta, including large spirals, calamari and pens (purchase of new moulds), and packaging (paper bags, packs with paper tags and boxes);
- as a result of bronze moulds purchase, the production plant in Rzeszów extended its offer for products with matt, course surface, which ensures better sauce adhesion, among other things;
- at the production plant in Częstochowa an investment project consisting in the purchase of electronic weighers in 2016 resulted in higher effectiveness of the unit packing process;
- in the second half of 2015 the production plant in Rzeszów obtained a processing certificate for ecological products: wholemeal durum wheat pasta and hard-grained durum wheat pasta; the company offered a new line of BIO products in 2016;
- at the production plant in Rzeszów a project consisting in installing and modernising lines for short pasta forms manufacturing was carried out, which enabled production capacity increase for such pasta by 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, buckwheat);

- in the first half of 2016 at the production plant in Rzeszów a new boxing machine was installed and launched to enable extension of the offer for exposition boxes, which significantly improves the packing area effectiveness;
- in the years 2015–2016 the Company has been carrying out investment projects related to production safety, i.e. replacement of metal detectors for more technologically advanced ones as compared to those applied to date, additional equipment for the laboratory, and a system of packed products automatic control;
- at the production plants a lot of minor investment projects were carried out in order to improve production effectiveness, quality and safety of products, including checkweighers, electric trucks, carton box sealer and 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 healthy 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 2016 the Makarony Polskie Group continued the strategy of portfolio optimisation and its supplementation for high-margin products of the premium segment. Works are pending over new health-promoting and organic (BIO) products, as well as flavoured pastas and premium products (new shapes and forms of pasta, innovative packaging). In reply to the trends in health-promoting products focusing on vegetable pastas and high-protein-content pastas, the Group has introduced in its portfolio: pasta ribbons with rosemary, spinach, garlic, chilli pepper and cinnamon, strip pasta with parsley and lovage, as well as buckwheat flour pasta and BIO pasta, among other things. Most probably, Omega 3 pasta will be gradually withdrawn from the offer, as it has not been recognised among the recipients.

The Group portfolio will be systematically supplemented with products of other manufactures, complementary to the basic product assortment. Third-party products will be handled by the specialised commercial company MP Trade Sp. z o.o. An example of such introduction in 2016 are tortellini pastas of various flavours, which have been well received on the market.

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 investments projects 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 facility 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 process success has been confirmed with lower costs of debt servicing on account of credit, factoring and lease agreements by PLN 0.4 million YoY (PLN 1.1 million in 2016 vs PLN 1.5 million in 2015). A description of the current conditions of credit and factoring agreements 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 2016 amounted to PLN 128.3 million, compared to PLN 127.0 million as at 31 December 2015.

Structure of the Group assets and equity/liabilities

(PLN '000)	31 December 2016	31 December 2015
FIXED ASSETS	**90,606**	**87,307**
Tangible fixed assets	73,520	70,100
Investment properties	1,235	1,227
Goodwill	5,949	5,949
Other intangible fixed assets	9,559	9,820
Deferred income tax assets	17	134
Other long-term assets	326	77
CURRENT ASSETS	**37,780**	**39,693**
Inventories	13,015	11,990
Short-term receivables	23,477	26,479
Loans granted	0	0

Cash and cash equivalents	920	1,002
Other short-term assets	368	222
FIXED ASSETS HELD FOR SALE	**0**	**0**
TOTAL ASSETS	**128,386**	**127,000**

(PLN '000)	31 December 2016	31 December 2015
EQUITY CAPITAL	**72,816**	**70,896**
Share capital	27,750	27,750
Other reserve capital	39,505	37,665
Retained profit/loss (profit/loss from previous years)	469	567
Net profit	5,092	4,914
LONG-TERM LIABILITIES	**23,129**	**25,501**
Deferred income tax provision	3,387	2,967
Long-term bank credits and loans	11,117	13,494
Provision for retirement benefits and equivalent (long-term)	143	144
Deferred income	7,053	7,531
Long-term liabilities under financial lease agreements	1,429	1,365
SHORT-TERM LIABILITIES	**32,441**	**30,603**
Short-term bank credits and loans	8,455	8,256
Short-term financial liabilities	709	559
Other short-term liabilities	22,658	21,130
Deferred income	548	568
Provision for retirement benefits and equivalent (short-term)	71	90
Other short-term provisions	0	0
TOTAL LIABILITIES	**55,570**	**56,104**
TOTAL EQUITY/LIABILITIES	**128,386**	**127,000**

As at 31 December 2016 fixed assets were worth roughly PLN 90.6 million (71% of total assets) compared to PLN 87.3 million at the end of 2015 (3.8% growth vs the end of 2015). Growth of the value of fixed assets results from the investment projects carried out. The largest project of 2016 was the extension of the production plant in Rzeszów for production and warehouse space.

As at 31 December 2016 current assets amounted to roughly PLN 37.8 million, which means that they dropped by about 4.8% compared to the end of 2015 (approx. PLN 39.7 million). The largest impact on the change in the current assets was brought about by receivables smaller by about PLN 3.0 million, i.e. by over 11% compared to the end of 2015.

Equity as at the balance-sheet date amounted to approx. PLN 72.8 million and represented roughly 56.7% of the value of equity/liabilities, which means an increase by 2.7% compared to PLN 70.9 million at the end of 2015. The main change resulted from the consolidated profit for the first half of 2016 amounting to PLN 5.1 million and assignment of a part of 2015 net profit to dividend in the amount of PLN 3.2 million.

Long-term liabilities amounted to PLN 23.1 million and dropped by 9.3% (from PLN 25.5 million) compared to the end of 2015, mainly due to repayment of some of the long-term credits (PLN 2.4 million).

Short-term liabilities as at 31 December 2016 amounted to PLN 32.4 million and were higher compared to the balance at the end of 2015 amounting to PLN 30.6 million. This resulted mainly from an increase in the other liabilities item (growth by about PLN 1.4 million, i.e. 7%).

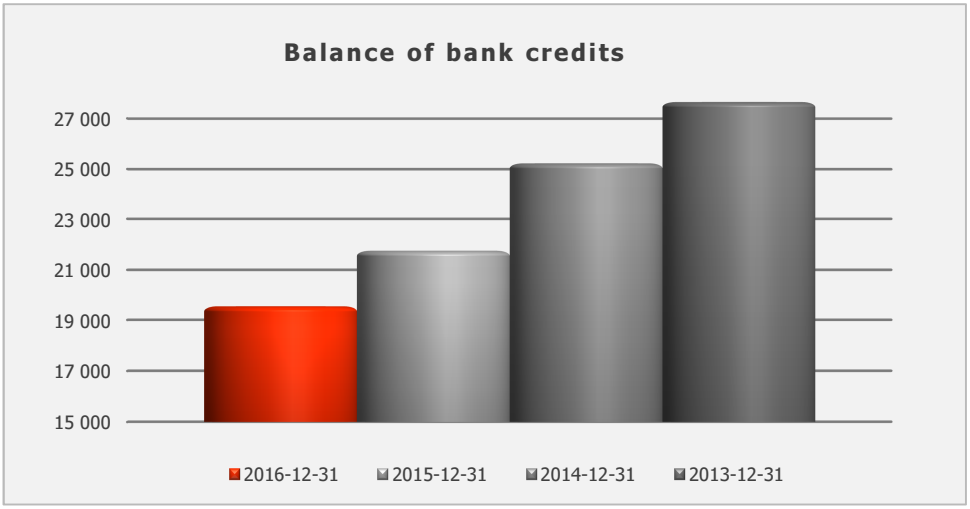
Solvency and management of Group financial assets and financial risk

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

Its full capacity to pay liabilities is confirmed by:

- generating of positive cash flows on operating activities amounting to roughly PLN 13.5 million;
- changes introduced in 2015 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;
- performance of investment projects and dividend payment in 2016 amounting to about PLN 3.2 million.
- Year 2016 was another year of reducing credit liabilities.

The ratio analysis reflects good financial standing of the Makarony Polskie Group in 2016 as regards profitability, capacity to pay liabilities as well as security of financing current and investment activities.



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

Deposits and capital investments

In 2016 the Makarony Polskie Group did not make any capital investments.

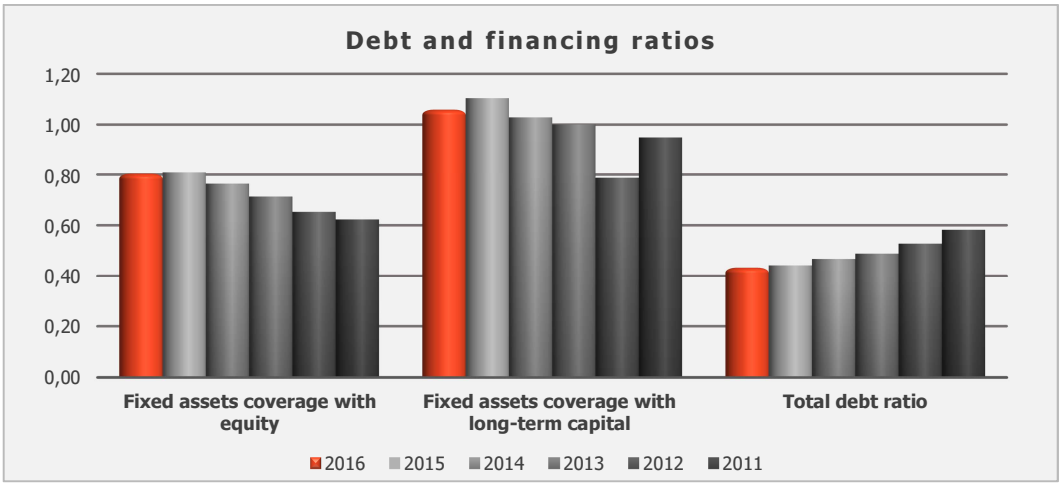
Ratio analysis

The return, liquidity and debt ratios analysis reflects good financial standing of the Makarony Polskie Group in 2016 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 2016 in the amount of PLN 3.2 million, carrying out many investments, purchasing some raw materials at attractive prices without trade credit and reduction of indebtedness to financial institutions (this has also been confirmed by continued improvement of debt ratios).

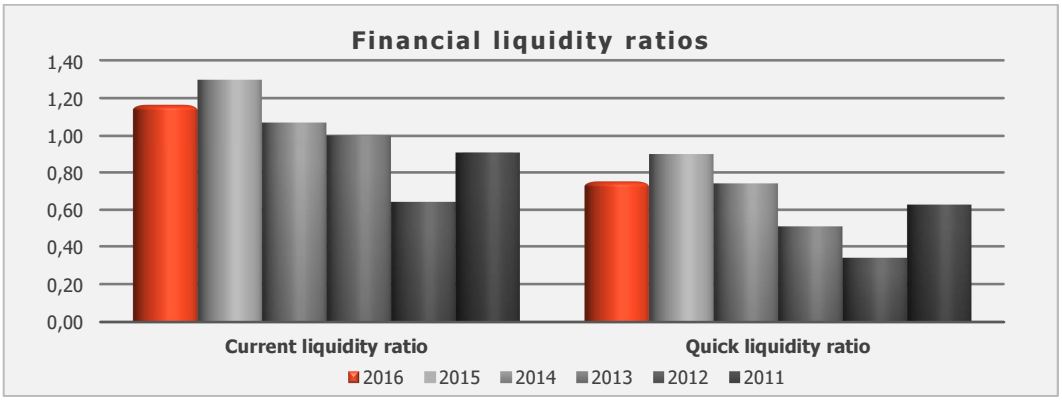
Debt and financing ratios

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



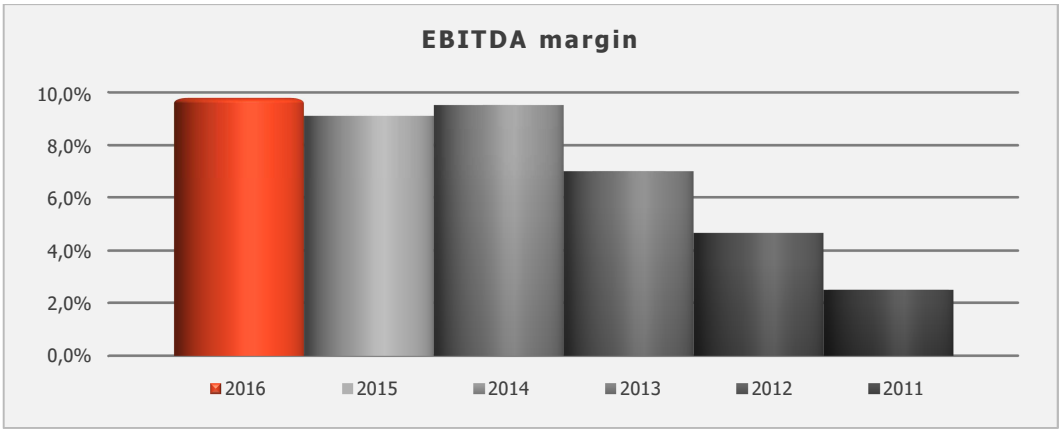
Liquidity ratios

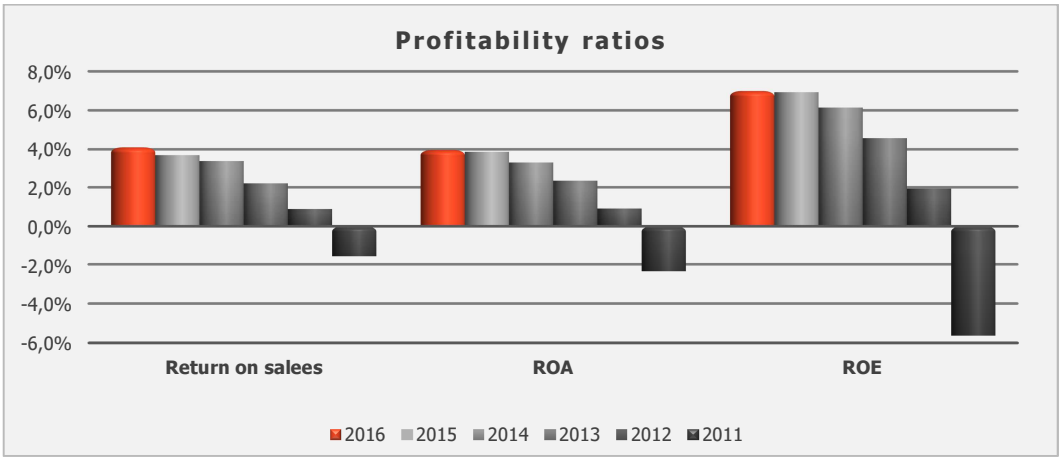
	2016	2015	2014	2013	2012	2011
Current liquidity ratio *[Current assets/short-term liabilities]*	1.16	1.30	1.07	1.00	0.64	0.91
Quick liquidity ratio *[(Current assets – inventories – short-term prepayments)/short-term liabilities]*	0.75	0.90	0.74	0.51	0.34	0.63



Profitability ratios

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





Other financial information

Information about credit and factoring agreements signed and terminated

In 2016 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 2016 is presented in the tables below.

– Credit in the current account at BZ WBK SA

Credit conditions	31 December 2016
Credit agreement value	PLN 5,000,000
Credit period	18.10.2013–30.05.2017
Interest rate	WIBOR 1M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 2,065,000
Repayment schedule	one-off at the date of maturity
Credit collateral	– Joint mortgage up to PLN 33,000,000 on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy; – blank promissory note issued by the Borrower and promissory note declaration; – registered pledge on inventories of the value not lower than PLN 5,000,000, including the assignment of rights under the registered pledge insurance policy; – security bond by Stoczek Natura Sp. z o.o.

In May 2016 the Company signed an annex to the agreement on credit in the current account with Bank Zachodni WBK. Pursuant to the annex the liability repayment date was extended till 31 May 2017.

– Investment credit at BZ WBK SA

Credit conditions	31 December 2016
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 10,199,000
Repayment schedule	The credit will be repaid in 52 monthly instalments starting from 31 December 2015, in the following values: 52 instalments of PLN 0.17 million each, plus the 53rd settlement instalment to zero balance.

Credit collateral	– Joint mortgage up to PLN 33,000,000 on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy; – registered pledge on fixed assets (production lines at the Rzeszów plant); – 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.

– Working capital credit at BZ WBK SA

Credit conditions	31 December 2016
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 1,417,000
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: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy; – registered pledge on fixed assets (production lines at the Rzeszów plant); – transfer of receivables on account of insurance agreement of the object of the pledge; – blank promissory note issued by the Borrower and promissory note declaration.

– Credit in the current account at Bank Gospodarstwa Krajowego

Credit conditions	31 December 2016
Credit agreement value	PLN 6,000,000
Credit period	14.06.2013–30.06.2017
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 2,387,000
Repayment schedule	One-off at the date of maturity

Credit collateral	– Joint mortgage up to PLN 16,500,000 on properties entered in: a) land and mortgage register No. KW CZ1C/00111425/8 located in Częstochowa, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW LU1U/00022979/2 located in Stoczek Łukowski, including the assignment of rights under the property insurance policy; – blank promissory note issued by the Borrower and promissory note declaration; – power of attorney to dispose of the current account at BGK; – security bond by Stoczek Natura Sp. z o.o.; – declaration on submission to enforcement by the Borrower and the security bond provider, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed (up to the amount of PLN 12 million).

The Company signed an annex to the agreement on credit in the current account with Bank Gospodarstwa Krajowego. Pursuant to that annex the repayment deadline has been extended till 30 June 2017, and collateral was supplemented with 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.

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

Credit conditions	31 December 2016
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 3,500,000
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 2018.
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).

Makarony Polskie SA signed an annex to the agreement on non-revolving working capital credit in the current account with Bank Gospodarstwa Krajowego in order to ensure uniform provisions of credit agreements between the Company and Bank BGK, which applies among other things to the Company's disclosure obligations towards the Bank and insurance of the properties on which mortgage was imposed as a collateral for the credit agreements.

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

Terms of the agreement	31 December 2016
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 7,604,000
Agreement collateral	✓ irrevocable power of attorney to dispose of the account; – blank promissory note with promissory note declaration.

Information on loans granted

As at 31 December 2016 Makarony Polskie SA granted loans to its subsidiary Stoczek Natura Sp. z o.o. in the amount of PLN 5 million:

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

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

In the reporting year 2016 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 2016 the Group companies did not grant any guarantees. As regards guarantees obtained, only the Parent Company – Makarony Polskie SA – avails of guarantees. All guarantees binding as at 31 December 2016 are presented in the table below.

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

Information on security bonds granted and obtained

As at 31 December 2016 Makarony Polskie SA granted security bonds to the Polska Izba Makaronu [Polish Pasta Chamber]:

Third party liabilities	Name of creditor	Security bond value	Security bond date	Validity date	Balance of the secured liability as at 31.12.2016
Security bond for a revolving credit amounting to PLN 2.85 million*	BPS	PLN 4,275,000	05.07.2016	30.05.2021	PLN 595,000
Security bond for a revolving credit amounting to PLN 0.5 million*	BPS	PLN 750,000	05.07.2016	30.05.2021	PLN 0

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

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 2016 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 31.12.2016
Security bond for a credit in the current account amounting to PLN 5.0 million	BZ WBK	PLN 7,500,000	18.10.2013	31.05.2019	PLN 2,065,000
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 10,199,000

Security bond for a non-revolving working capital credit in the credit account amounting to PLN 5.0 million	BGK	PLN 5,000,000	30.06.2015	29.12.2018	PLN 3,500,000
Security bond for a credit in the current account amounting to PLN 6.0 million **	BGK	PLN 6,000,000	14.06.2013	30.12.2017	PLN 2,387,000

* Stoczek Natura Sp. z o.o. signed an annex to the agreement with BGK on security bond for credit in the current account of Makarony Polskie SA. Pursuant to the annex the liability validity date was extended till 30 December 2017.

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

MP Trade Sp. z o.o. did not grant any security bonds in the reporting year 2016.

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

In 2016 the Makarony Polskie Group companies did not make any major intercompany transactions on other than 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 have signed 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 2016	31 December 2015
1. Contingent assets	**1,477**	**1,477**
– guarantees and security bonds obtained	1,477	1,477
– secured on property	0	0
– promissory notes	0	0
2. Contingent liabilities	**118,771**	**115,551**
– guarantees and security bonds granted	5,025	0

– secured on property	80,750	80,750
– promissory note payables	32,996	34,801
Total off-balance-sheet items	**-117,294**	**-114,074**

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

Positive assessment of the application of Makarony Polskie SA for co-financing within Sub-Measure 3.2.2 – Loan on Engineering Innovation, under the Smart Growth Operational Programme 2014–2020

On 16 February 2017 the Company was informed about the publication by Bank Gospodarstwa Krajowego of a list of projects selected for co-financing within Sub-Measure 3.2.2 – Loan on Engineering Innovation, under the under the Smart Growth Operational Programme 2014–2020, in which the Company project entitled "Increase of Makarony Polskie SA Competitiveness Level by Implementation of the Results of R&D Works in the Form of Process Innovation" was included.

The main objective of the project is Makarony Polskie SA expansion on the market of functional food by implementation of innovative pasta manufacturing technology. Within the project the Company plans to purchase fixed assets.

The total cost of the project is PLN 10 million net. Co-financing value is PLN 6 million. The project has been planned to be implemented in the period from April 2017 to October 2018.

Conclusion of a major credit agreement with BZ WBK SA

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

The credit is intended for financing a project entitled "Creation of a Research and Development Centre for the Pasta Industry at Makarony Polskie SA". The investment project has been included in the list of projects qualifying for co-financing within Measure 2.1 of the Smart Growth Operational Programme 2014–2020. The Company disclosed the fact in the current report No. 24/2016 on 11 October 2016. Within the project the Company plans to purchase fixed assets and finance construction works. At the Centre research and development works on innovative health-promoting products to be implemented in the business activities of the Company will be carried out, as well as research work for the issues important to the whole pasta industry.

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

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

Makarony Polskie SA commenced preliminary negotiations with its business partner and shareholder Raya Holding for Technology & Telecommunications S.A.E. with its registered office in Giza (Egypt) with regard to determining the principles of cooperation and strategic partnership in the area of potential activities on the African markets, including:

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

At the current stage, the activities are not specific and no binding decisions have been made. The Company is going to inform about the progress of the negotiations in current reports.

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

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

Corporate Governance

Statement of compliance with corporate governance rules

In 2016, the Company applied "The Best Practice for GPW Listed Companies". A document comprising the Best Practice rules is available on the website of Giełda Papierów Wartościowych w Warszawie SA [Warsaw Stock Exchange] at: http://corp-gov.gpw.pl.

In the reporting year 2016, Makarony Polskie SA provided the following explanations with regard to the application of specific rules of "The Best Practice for GPW Listed Companies 2016".

Information policy and communication with investors

- *I.Z.1.16. The Company maintains a corporate website where in a separate section it publishes in a reader-friendly form not only the information required by law but also the information about the planned transmission of the General Meeting – 7 days prior to the date of the General Meeting at the latest.*

  Corporate commentary regarding the use of the above principle: The Company does not record the course of the General Meeting. If the Company decides to transmit the General Meeting online, the relevant information will be shown on the corporate website at 7 days prior to the date of the General Meeting at the latest.
- *I.Z.1.20. The Company maintains a corporate website where in a separate section it publishes in a reader-friendly form not only the information required by law but also the information an audio or video recording of the General Meeting.*

  The Company does not apply the above principle. The Company does not make any audio or video recordings of the course of the General Meeting.
- *I.Z.2. A company whose shares are qualified to WIG20 or mWIG40 stock exchange indexes shall ensure that its website is available also in English, at least within the scope specified in the principle I.Z.1. This principle shall also be applied by companies that are not qualified to the said indexes, if their shareholding structure or the nature and scope of their business so require.*

  Corporate commentary regarding the use of the above principle: In 2016 that principle was not applied. The shares of the Company are qualified neither to WIG20 nor to mWIG40 stock exchange indexes.

  Considering the shareholding changes of Q.4, 2016, the Company has been gradually extending the website contents available in English.

Management Board and Supervisory Board

- *II.Z.8. A Chairman of the Audit Committee meets the independence criteria specified in the principle II.Z.4.*

  Corporate commentary regarding the use of the above principle: Currently, no separate Audit Committee is operating within the Supervisory Board of the Company. The Supervisory Board members fulfil these duties jointly. Should an Audit Committee be appointed within the Supervisory Board, the Company will do its best to ensure that the Chairman of the Audit Committee meets the independence criteria specified in the principles II.Z.4.

Internal systems and functions

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

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

General Meeting and relations with shareholders

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

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

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

Conflict of interest and transactions with related companies

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

  The Company does not apply the above principle. The current internal regulations of the Company do not meet all the requirements of that principle. The Company will do its best to implement adequate internal regulations that would meet all those requirements.

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

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

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

The Management Board of the Company is responsible for the internal control system at the Company and its effectiveness in the process of preparation of financial statements and interim reports which need to be prepared and published in conformity with the principles of the Regulation of 19 February 2009 on the current and interim information disclosed by the issuers of securities.

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

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

The financial data used as a basis of the financial statements and interim reports come from the monthly financial 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 for the particular business segments. The identified errors are corrected on a current basis in the Company's books of account, in compliance with the adopted accounting policy.

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

The annual individual and consolidated financial statements of the Group companies are audited by a statutory auditor. The semi-annual individual and consolidated financial statements of the Group companies are reviewed 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 its 5-person composition – also acts as the Audit Committee.

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

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

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

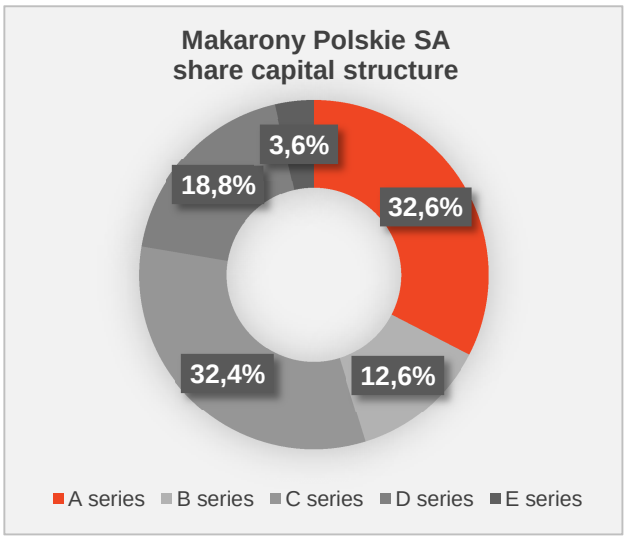
Share capital

Share capital of Makarony Polskie SA:

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

Structure of the share capital of the Company:

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



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

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

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

Structure of the Company's shareholding as at the date of the financial statements publication:

Shareholder	Shares in the share capital		Votes in the General Meeting	
	number	% share	number	% share
The Group of Praska Giełda Spożywcza SA, of which:	**1,911,594**	**20.66%**	**1,911,594**	**20.65%**
Praska Giełda Spożywcza SA (formerly: Agro-Technika SA)	*1,650,000*	*17.84%*	*1,650,000*	*17.83%*
Zenon Daniłowski	*140,000*	*1.51%*	*140,000*	*1.51%*
Polskie Smaki Sp. z o.o.	*121,594*	*1.31%*	*121,594*	*1.31%*
Raya Holding for Technology & Communications S.A.E., of which:	**1,793,406**	**19.39%**	**1,793,406**	**19.39%**
Madova Sp. z o.o.	*1,793,406*	*19.39%*	*1,793,406*	*19.39%*
Elżbieta and Grzegorz Słomkowski, of which:	**1,183,040**	**12.79%**	**1,183,040**	**12.79%**
Z.P.H. „ELPAST" Elżbieta i Grzegorz Słomkowscy s.c.	*1,169,750*	*12.65%*	*1,169,750*	*12.65%*
Grzegorz Słomkowski	*13,290*	*0.14%*	*13,290*	*0.14%*
Krzysztof Moska	**931,284**	**10.07%**	**931,284**	**10.07%**
Leszek Sobik	**509,541**	**5.51%**	**509,541**	**5.51%**
Other shareholders	**2,921,206**	**31.59%**	**2,921,206**	**31.59%**
TOTAL	**9,250,071**	**100.00%**	**9,250,071**	**100.00%**

Changes in the shareholding in 2016

In 2016 the Company received notifications regarding changes in the possession of shares of Makarony Polskie SA:

- Mr Krzysztof Moska informed that on 18 March 2016, as a result of acquisition of 7,819 shares of Makarony Polskie SA within a session transaction at the Warsaw Stock Exchange, he exceeded the threshold of 10% share in the total number of votes at the General Meeting of the Company. Before the transaction Mr Krzysztof Moska held 932,465 shares of the Company, representing 9.98% share in the share capital of the Company and 9.98% of the total number of votes in the General Meeting of the Company, i.e shares of the Company entitling him to exercise 932,465 votes. After the

transaction Mr Krzysztof Moska holds 931,284 shares of the Company, representing 10.07% share in the share capital of the Company and 10.07% of the total number of votes at the General Meeting of the Company, i.e shares of the Company entitling him to exercise 931,284 votes. At the same time Mr Krzysztof Moska informed that he had no subsidiaries that would hold the shares of the Company and there were no people referred to in Article 87.1. 3.c of the Act on Public Offering. He also declared that within the period of 12 moths of filing this notification he did not exclude any acquisition or disposal transactions with regard to the Company shares.

– Bewa Sp. z o.o. and Madova Sp. z o.o. sent a notification concerning a change in number of shares held by Bewa in the share capital and in the total number of votes at the General Meeting ("GM") of Makarony Polskie SA in Rzeszów as well as a change resulting in exceeding by Madova a 15% share in the share capital and in the total number of votes at the General Meeting of the Company. The change resulted from the disposal on 7 September 2016 of 630,000 ordinary bearer shares of Makarony Polskie SA held directly by Bewa that represented 6.81% in the share capital and the total number of votes at the General Meeting in favour of Madova (a subsidiary of Bewa, in which Bewa holds 100% of the share capital and votes at the General Meeting); on 8 September 2016 of 629,000 ordinary bearer shares of Makarony Polskie SA held directly by Bewa that represented 6.80% in the share capital and the total number of votes at the General Meeting in favour of Madova; on 12 September 2016 of 534,406 ordinary bearer shares of Makarony Polskie SA held directly by Bewa that represented 5.78% in the share capital and the total number of votes at the General Meeting in favour of Madova. As a result of the transactions, Bewa does not hold any ordinary bearer shares of Makarony Polskie SA directly but indirectly (through its Madova subsidiary) it holds 1,793,406 ordinary bearer shares of Makarony Polskie SA entitling to the same number of votes, representing 19.39% in the share capital and in the total number of votes at the General Meeting. The transactions of the said shares disposal by Bewa in favour of Madova (a subsidiary of Bewa) mean that at the same time Bewa acquired the said shares indirectly in accordance with applicable regulations of the Act on Public Offering. Before the aforementioned transactions, Bewa did not hold indirectly any shares of Makarony Polskie SA, but it held directly 1,793,406 ordinary bearer shares of Makarony Polskie SA entitling to the same number of votes, representing 19.39% in the share capital and in the total number of votes at the General Meeting. Before the aforementioned transactions, Madova did not hold either directly or indirectly any shares of Makarony Polskie SA, whereas after the transactions it holds directly 1,793,406 ordinary bearer shares of Makarony Polskie SA entitling to the same number of votes, representing 19.39% in the share capital and in the total number of votes at the General Meeting.

- Bewa sent a notification on a change in holdings exceeding 15% of the total number of votes by at least 15% of the total number of votes in Makarony Polskie SA. The change resulted from the transaction of 13 October 2016 concerning the disposal of 100% of the share capital and votes at the General Meeting of Madova Sp. z o.o. with its registered office in Warsaw, which holds directly 19.39% in the share capital and in the total number of votes at the General Meeting of Makarony Polskie SA. As a result of that transaction, Bewa does not hold either directly or indireclty any ordinary bearer shares of Makarony Polskie SA. Before the aforementioned change, Bewa did not hold directly any shares of Makarony Polskie SA but held indirectly – through its Madova subsidiary – 1,793,406 ordinary bearer shares of Makarony Polskie SA entitling to the same number of votes, representing 19.39% in the share capital and in the total number of votes at the General Meeting. There are no other subsidiaries of Bewa holding the shares of Makarony Polskie SA.
- Raya Holding for Technology & Telecommunications S.A.E. with its registered office in Giza (Egypt), a company registered in Egypt under the number 127574 (hereinafter referred to as "Raya") sent a notification about an indirect acquisition by Raya, through Madova Sp. z o.o. with its registered office in Warsaw, of 1,793,406 ordinary bearer shares of Makarony Polskie SA entitling to the same number of votes at the General Meeting of the Company (hereinafter referred to as the "General Meeting"), representing 19.39% shares in the share capital of the Company and 19.39% of the total number of votes at the General Meeting. The said indirect acquisition of shares was a result of acquiring by Raya, on 14 October 2016 – as a result of conclusion of the shares disposal agreement on 11 October 2016 – of 100% shares in Madova being a shareholder of Makarony Polskie SA holding the number of shares referred to above (hereinafter referred to as the "Acquisition"). In connection therewith, Raya became the parent company of Madova within the meaning of Article 87.5.1 of the Act, in connection with Article 4.14 of the Act. Prior to the acquisition, Raya had no shares of Makarony Polskie SA, either directly or indirectly As a result of the acquisition, Raya holds directly 1,793,406 ordinary bearer shares of Makarony Polskie SA entitling to the same number of votes at the General Meeting, representing 19.39% shares in the share capital of the Company and 19.39% of the total number of votes at the General Meeting. Apart from Madova, there are no other subsidiaries of Raya that would hold the shares of Makarony Polskie SA and there are no such subsidiaries of Madova.

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%) in 2016.

Changes in the shareholding after the end of 2016

On 20 February 2017, the Company received a notification from Praska Giełda Spożywcza SA with its registered office in Ząbki (hereinafter referred to as "PGS") concerning a decrease in the shareholding of Makarony Polskie SA.

As a result of a disposal transaction on the OTC market mace through a brokerage office on 17 February 2017, PGS disposed of a stake of 350,000 shares of Makarony Polskie SA entitling to the same number of votes at the General Shareholders Meeting (hereinafter referred to as the "General Meeting"). Prior to a change in shareholding, PGS held directly and indirectly with its subsidiaries (Polskie Smaki Sp. z o.o.) 2,121,594 shares of the Company, or 22.93% of the share capital of the Company, entitling to 2,121,594 votes at the General Meeting (22.93% of the total number of votes), of which PGS held: directly – 2,000,000 shares representing 21.62% in the share capital of the Company and entitling to 2,000,000 votes at the General Meeting (21.62% of the total number of votes); indirectly (through Polskie Smaki Sp. z o.o.) – 121,594 shares representing 1.31% in the share capital of the Company, entitling to 121,594 votes at the General Meeting (1.31% of the total number of votes). At the present moment, PGS holds directly and indirectly 1,771,594 shares representing 20.66% of the share capital of the Company, authorising to 1,771,594 votes at the General Meeting and being 19.15% of the total number of votes, of which PGS holds: directly – 1,650,000 shares, which represents the share of 17.83% in the share capital of the Company, entitling to 1,650,000 votes at the General Meeting (17.83% of the total number of shares); indirectly (through Polskie Smaki Sp. z o.o.) – 121,594 shares representing 1.31% in the share capital of the Company, entitling to 121,594 votes at the General Meeting (1.31% of the total number of votes).

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%) after the end of the financial year 2016.

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

Shares held by the Members of the Management Board

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

Management Board Member	2016		2015	
	Number of shares	Nominal value	Number of shares	Nominal value
Zenon Daniłowski*	140,000	420,000	140,000	420,000

* President of the Management Board Zenon Daniłowski is related to Praska Giełda Spożywcza SA (formerly: Agro-Technika SA) and Polskie Smaki Sp. z o.o. that also hold shares of the Company. The total shareholding as at the publication date of this report is 1,911,594 shares worth PLN 5,734,782.

In accordance with the information possessed by the Company no changes in the status of shares held by the President of the Management Board occurred during 2016 and by the publication date of 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	2016		2015	
	Number of shares	Nominal value	Number of shares	Nominal value
Michał Słomkowski*	0	0	–	–
Wiesław Wasilewski	5,000	15,000	5,000	15,000
Marek Rocki	0	0	0	0
Roman Sobiecki	0	0	0	0
Samer El Waziri*	0	0	–	–

* Messrs Michał Słomkowski and Samer El Waziri were appointed Members of the Supervisory Board of the Company in the course of the reporting year 2016.

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 2016 and by the publication date of this report.

Shares in subsidiaries

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

The right to make decisions on shares issue or redemption

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

Principles of amending the Articles of Association of Makarony Polskie SA

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

In accordance with Article 430 of the Code of Commercial Companies, any amendment of the Articles of Association requires a resolution passed by the General Meeting and an entry in the register. A resolution of the General Meeting concerning amendments to the Articles of Association must be passed with majority of ¾ of the votes cast – Article 415 of the Code of commercial companies.

In accordance with § 9a.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.

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

The General Meeting

The principal rights of the General Meeting

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

Operation of the General Meeting

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

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

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

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

The General Meeting shall be capable of adopting resolutions irrespective of the number of shares represented therein, unless the Code of Commercial Companies provides otherwise. Without prejudice to the provisions of Article 404 of the Code of Commercial Companies, the General Meeting may adopt resolutions only concerning the affairs stipulated in the Code of Commercial Companies and 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 Articles of Association provide otherwise.

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

Shareholders' rights

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

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

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

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

2016 General Meeting

In the reporting year 2016, the Annual General Meeting of Makarony Polskie SA took place on 28 June. The agenda of the General Meeting included:

- consideration and approval of the financial statements of the Company for 2015 and Management Report on Operations of the Company in 2015;
- consideration and approval of the consolidated financial statements of the Group for 2015 and Management Report on the Operations of the Group in 2015;
- net profit distribution for the reporting year 2015;
- consideration of the report of the Supervisory Board of Makarony Polskie SA for the reporting year 2015;
- giving the vote of approval with regard to the fulfilment of duties by the Members of the Management Board of the Company in the reporting year 2015;
- giving the vote of approval with regard to the fulfilment of duties by the Members of the Supervisory Board of the Company in the reporting year 2015;
- appointment of the Supervisory Board for the seventh term;
- determination of principles and amounts of remuneration to be paid to the Members of the Supervisory Board;
- amendments to the Articles of Association of the Company by way of inclusion of the provisions regarding committees establishment within the Supervisory Board;
- amendments to the By-law of the General Meeting;
- approval of amendments to the By-law of the Supervisory Board.

The resolutions of the Extraordinary General Meeting were published in the current report No. 12/2016 of 29 June 2016. Moreover, they are available on the website of the Company at: www.makarony.pl.

On 28 September 2016, the Company received a request of its shareholder MADOVA Sp. z o.o. with its registered office in Warsaw, that was entitled to 1,973,406 shares in the share capital of the Company, representing 19.39% in the share capital of the Company, to

convene an Extraordinary General Meeting of the Company based on Article 400.1 of the Code of Commercial Companies.

Following the above request, the Management Board of the Company convened the Extraordinary General Meeting of the Company on 3 November 2016. As requested by the shareholder, the agenda of the General Meeting included:

- opening of the General Meeting and election of its chairperson;
- acknowledgement that the General Meeting was convened correctly and is able to pass resolutions;
- passing a resolution on the agenda acceptance;
- passing a resolution recalling Mr Tomasz Jankowski from a position of a Member of the Supervisory Board of the Company;
- passing a resolution appointing a new Member of the Supervisory Board of the Company;
- closing of the General Meeting.

The resolutions of the Extraordinary General Meeting were published in the current report No. 31/2016 of 4 November 2016. Moreover, they are available on the website of the Company at: www.makarony.pl.

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

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

Supervisory Board

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

The principles of appointing and recalling the Supervisory Board Members

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

The term of 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.

The candidacies announced for the Supervisory Board Members shall be justified, such as to enable the General Meeting to make an educated choice. Members of the Supervisory Board are selected on the basis of their due educational background and life experience, which makes them competent to properly appraise the operation of the Company and to duly perform their functions in the Supervisory Board, and in such a way that at least two of the Supervisory Board Members would have no relationship with the Company, its shareholders or employees.

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

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

Competencies of the Supervisory Board

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

- assessment 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, evaluation of the Management Board proposals regarding profit distribution or loss coverage as well as submission to the General Meeting of annual reports on the results of such evaluation;
- approval of annual financial plans for the Company and supervision of their execution;
- appointment of a statutory auditor to audit the Company's financial statements;
- granting consent to purchase or sale of real estate, perpetual usufruct right or share in real estate of a value exceeding 10% of the Company's equity calculated based on the last balance sheet of the Company approved by the General Meeting, unless it has been stipulated in the annual financial plan of the Company approved by the Supervisory Board;
- granting consent to a sale of the Company's assets, the value of which exceeds 10% (ten per cent) of the total value of the Company's equity calculated based on 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 disposing of rights which – within one transaction or several related legal transactions – exceeds the amount of 10% of the

Company's equity calculated based on 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 advanced payment to the shareholders on account of the expected dividend;
- appointing and dismissing the whole Management Board of the Company or its individual members;
- establishing the rules and the terms and conditions of remuneration for the Members of the Management Board as well as the amount of the 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 (including the financial ones), request access to all premises of the Company (§ 10 of the By-law of the Supervisory Board), whereas the Members of the Supervisory Board are obliged to keep in mind the good and interest of the Company in their activities (§ 6.1 of the By-law of the Supervisory Board).

The Supervisory Board's work is carried out in the form of meetings, control activities and participation in the work of the Company's authorities.

Composition of the Supervisory Board

From 1 January 2016 to 28 June 2016, 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.

In connection with the end of the sixth term of the Supervisory Board, on 28 June 2016 the Annual General Meeting of the Company appointed the Supervisory Board of the seventh term in the following composition:
- Tomasz Jankowski,
- Marek Rocki,
- Michał Słomkowski,
- Roman Sobiecki,
- Wiesław Wasilewski.

On 11 October 2016, Mr Tomasz Jankowski submitted a declaration on his resignation from the function of a Member of the Supervisory Board of the Company, effective after 10 business days (understood as each day of a week except of Saturdays, Sundays and public holidays in Poland) of the date of submission of the said declaration.

On 3 November 2016, the Extraordinary General Meeting supplemented the composition of the Supervisory Board by appointing Mr Samer Abdelfatah Mohamed El Waziri a Member of the Supervisory Board.

As at this report publication date, the Supervisory Board of Makarony Polskie SA consisted of:

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

Committees of the Supervisory Board

At present no committees are established within the Supervisory Board. It is so because of the current status of the Company, composition of shareholders, and due to organisational and economic reasons, as such committees required additional administrative and legal services.

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

Supervisory Board Members Remuneration Policy

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

By 28 June 2016, the system of remuneration for the Supervisory Board of Makarony Polskie SA adopted with the Resolution No. 22 of the Annual General Meeting of 12 June 2014 was effective. Since 28 June 2016, a new system of remuneration for the Supervisory Board adopted with the Resolution No. 22 of the Annual General Meeting on 28 June 2016 has been binding. 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 is presented in the below table, as well as in Note No. 37 to the financial statements.

Forename and surname	Function	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Roman Sobiecki	Chairman of the Supervisory Board	17	17
Grzegorz Słomkowski (until 28 June 2016)	Deputy Chairman of the Supervisory Board	9	13
Wiesław Wasilewski	Member of the Supervisory Board	11	9
Marek Rocki	Member of the Supervisory Board	6	9
Tomasz Jankowski (since 26 October 2016)	Member of the Supervisory Board	11	19
Michał Słomkowski (until 28 June 2016)	Member of the Supervisory Board	4	0
Samer Abdelfatah Mohamed El Waziri (since 3 November 2016)	Member of the Supervisory Board	0	0
Total		**58**	**57**

Supervisory Boards of the subsidiaries

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

Management Board

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

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

The term of the Management Board Members is two years. The Management Board Members may be appointed for the consecutive two-year terms of office. The mandates of the Management Board Members expire pursuant to Article 369.4 of the Code of Commercial Companies. If during the term of office of the Company'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 represents the Company outside and makes decisions on all the issues which have not been reserved to the competencies of the remaining governing bodies of the Company in accordance with the Company's Articles of Association and the binding laws.

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

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

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

- Grażyna Kozielec – since 31 May 2012,
- Beata Majewska-Karp – since 31 May 2012,
- Witold Żarek – since 4 March 2013,
- Piotr Wyszecki – since 13 February 2015,
- Dariusz Cylka – since 30 August 2016.

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

Composition of the Management Board

Since 1 January 2016 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.

Division of duties among the Management Board Members

The Management Board of the Company consists of one person.

Management Board Members Remuneration Policy

In accordance with the Articles of Association of the Company, Members of the Management Board receive remuneration the value determined by the Supervisory Board. The remuneration of the President of the Management Board is determined on fixed-value basis (basic salary and functional remuneration). The Supervisory Board performs an interim assessment of the operation and results of the Company and of the Group – the said assessment may result in awarding an additional discretionary bonus to the Management Board.

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

In the financial year 2016, as well as in the period by the date of publication of these financial statements, Makarony Polskie SA did not have any employee shares schemes.

The information concerning remuneration paid to the Members of the Management Board of the Company was presented in the below table as well as in Note No. 37 to the financial statements.

Forename and surname	Function	01.01.2016–31.12.2016		01.01.2015–31.12.2015	
		Fixed	Variable	Fixed	Variable
Zenon Daniłowski	President of the Management Board	600	62	600	181
	Total	**662**		**781**	

Management Boards of the subsidiaries

As at 31 December 2016 and as at the date of publication of these financial statements, the composition of Management Boards of the subsidiaries was as follows:

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

After the closure of the reporting year 2016, the composition of the Management Board of Stoczek Natura Sp. z o.o. has changed. On 17 Janary 2017 the Exraordinary General Meeting appointed a two-person Managemnet Board: Rafał Dziobko – President of the Management Board, Adam Ławnik – Vice President of the Management Board.

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

Other information

Information concerning cooperation with a statutory auditor

The Supervisory Board of Makarony Polskie SA appointed ReVision – Rzeszów Józef Król Sp. z o.o. with its registered office in Rzeszów as the statutory auditor to carry out a review of the financial statements for the first half of 2016 and to audit the financial statements of the companies of the Makarony Polskie Group for the reporting year 2016.

ReVision – Rzeszów Józef Król Sp. z o.o. is entered in the list of entities authorised to audit financial statements under the entry number 3510 and in 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 of ReVision – Rzeszów Józef Król Sp. z o.o. Sp.k. with regard to review and audit of the financial statements for the reporting years 2010, 2012, 2013, 2014 and 2015.

An agreement with the auditor was concluded for the period of the review of the financial statements for the first half of 2016 and the audit of the financial statements of the companies of the Makarony Polskie Group for the reporting year 2016.

The remuneration of ReVision – Rzeszów Józef Król Sp. z o.o. from Makarony Polskie SA amounts to PLN 52,500 (PLN 18,000 for the review of individual and consolidated semi-annual financial statements; PLN 34,500 for the audit of the financial statements of Makarony Polskie SA and of the Makarony Polskie Group for 2016).

The remuneration of ReVision – Rzeszów Józef Król Sp. z o.o. from Stoczek Natura Sp. z o.o. amounts to PLN 16,000 (PLN 5,000 for the review of semi-annual financial statements; PLN 11,000 for the audit of the financial statements for 2016).

The remuneration of ReVision – Rzeszów Józef Król Sp. z o.o. from MP Trade Sp. z o.o. amounts to PLN 5,500 (PLN 1,500 for the review of semi-annual financial statements; PLN 4,000 for the audit of the financial statements for 2016).

The remuneration paid to ReVision – Rzeszów Józef Król Sp. z o.o. for the services related to a the review and audit of the financial statements of the Group companies in the reporting year 2015 amounted to:

- PLN 52,500 from Makarony Polskie SA (PLN 18,000 for the review of individual and consolidated semi-annual financial statements; PLN 34,500 for the audit of the financial statements of Makarony Polskie SA and the Makarony Polskie Group for 2015);
- PLN 16,000 from Stoczek Natura Sp. z o.o. (PLN 5,000 for the review of semi-annual financial statements; PLN 11,000 for the audit of the financial statements for 2015).

MP Trade Sp. z o.o. did not have its financial statements audited in 2015 because the first financial year of that company was extended and lasted from September 2015 to 31 December 2016.

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

Corporate Social Responsibility

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

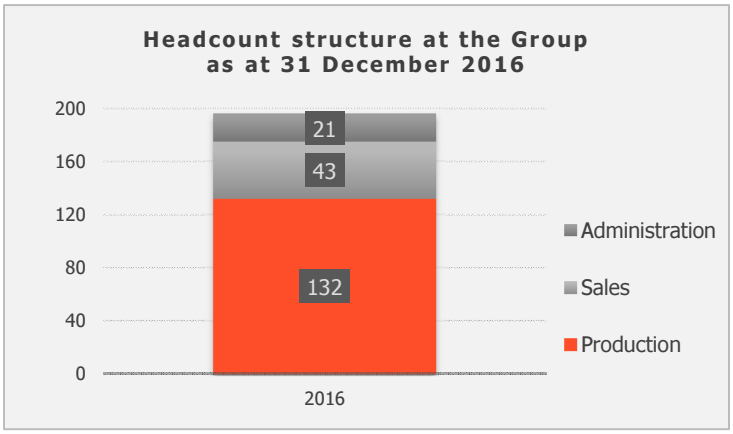


Pursuing its operating activities and realising its business goals, the Makarony Polskie Group does its best to act in conformity with the rules of Corporate Social Responsibility (CSR), which means a way that takes into account the needs and broadly understood social and ecological interests of the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

Employees

In 2016, the Group was consistently realising the program of headcount optimisation initiated in 2013, which assumes stabilisation of staff employed on permanent basis at the level of the necessary minimum and making the headcount of the production plants flexible by making it dependent on the size of production. The basis of the scheme was continuous care for the proper work organisation (including Lean Manufacturing implementation), as well as effective use of resources.

In accordance with the adopted policy, the Makarony Polskie Group maintained the total headcount at the level of the necessary minimum. The headcount of the Makarony Polskie Group as at 31 December 2016 was to 196 people (compared to 213 people at the end of 2015 and 216 people at the end of 2014).



The HR policy of the Makarony Polskie Group focuses on maintaining the best specialists and managers who, thanks to their knowledge, experience and involvement, ensure the top level of execution of the business goals of the Group entrusted to them, by which they guarantee continuing improvement of the organisation and quality of the offered products and provided services. Makarony Polskie SA did not develop any formalized policy of diversity concerning corporate authorities or its key managers.

HR planning and recruitment of employees

In order to ensure the optimum level of tasks and goals execution, keeping in mind the growingly stronger "employee market", the Makarony Polskie Group has undertaken actions aimed at effective HR planning, even before a real demand in this respect occurs. The Group has implemented and carried out systematic identification of future HR needs, in close cooperation with managers of organisational units.

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

Per age and sex	Structure of employment of the employees of the Group as at 31 December 2016		
	women	men	TOTAL
18-29	13	14	27
30-49	56	69	125
50+	23	21	44

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

Taking care of its staff the Group, first of all, carries out internal recruitment due to the fact that internal promotions (both horizontal and vertical) make it possible to keep in the organisation those employees who are involved, have extensive experience and the required qualifications. Should no proper candidates be found in internal recruitment, the Group

carries out recruitment processes addressed to external candidates, using for that the sources of recruitment adequate to the profile of a vacant position, including but not limited to, headhunters, career offices, student placements and apprenticeships, as well as Internet portals.

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

Placements and apprenticeships

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

For example, in 2016 the Group cooperated with the Technical University of Rzeszów and the Vocational Training Centre in Rzeszów in the field of arranging student placements.

Training

The Makarony Polskie Group attaches great importance to effective use of human resources. A significant element of that process is ensuring professional development to the employees and continuing improvement of their professional qualifications by way of providing them with specialist training and competencies improvement programmes. Performing such activities, the Group avails mostly of external specialist training and specially prepared, closed programmes for development of competencies that, in the opinion of the Group, are the best investment in the employees. In 2016 mostly training in the field of communication skills and competences of the employees was carried out.

It is important to implement the acquired skills at the work 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 of periodically organised internal conferences at which the Group employees become trainers or co-trainers, thus improving their own competencies and sharing their knowledge with the others.

Remuneration system

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

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

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

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

In 2016 there were no significant changes in the remuneration system adopted at the Group.

OSH

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

In 2016 one minor accident at work was reported at the Group that happened to a sales representative on his route to a customer.

Natural environment

The Group has consistently been trying to minimize its negative impact on the natural environment in each area of its operations by looking for environmentally friendly solutions. The activities of the Group focus on consistent limitation of water and energy consumption, minimization of sewage and waste by means of continuing improvement of the production processes, use of modern, energy-efficient and high-performance technological lines, taking care of good condition of machines and equipment and many other measures. Moreover, the Group provides training aimed at improvement of the employees' awareness.

In 2016 Makarony Polskie SA made investments in improvement of effectiveness of the pasta production processes, including but not limited to modernization of the production line at Częstochowa plant, purchase of the energy-efficient pump to moulds cleaning equipment at the plant in Rzeszów. At the end of 2016 and at beginning of 2017 Stoczek Natura Sp. z o.o. carried out a professional energy audit, the results of which will become basis for further investment projects planned to improve energy efficiency of the production plant in Stoczek Łukowski.

Among the environmental protection activities undertaken by the Group, we shall also emphasise systematic disposal of electric and electronic waste as well as segregation and recycling of production waste.

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. Both raw materials and finished products are scrutinized at the in-house laboratories and, periodically, they are also examined at independent accredited external laboratories.

Makarony Polskie SA and Stoczek Natura Sp. z o.o. 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, the production plants of the Group meet the requirements of the PN-EN ISO 9001:2009 quality standard that ensures repeatability of the processes carried out and their continuous streamlining.



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

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

In September 2016, "Flaki po zamojsku" [Zamość style tripe] and "Gołąbki w sosie pomidorowym" [Stuffed cabbage in tomato sauce] offered by Stoczek Natura Sp. z o.o. were awarded the "Poznaj Dobrą Żywność" [Know Good Food] quality labels, as awarded by decision of the Minister of Agriculture and Rural Development to products that meet the strictest quality requirements specified within the programme, and also the "Jakość Tradycja" [Quality and Tradition] mark.





In November 2016, the product "Makarony Polskie razowe" [Wholemeal Polish Pasta] received a prestigious statuette of the Podkarpacka Nagroda Gospodarcza [Business Award of the Podkarpacie Province] in the Best Product category.

In December 2016 the products offered by Makarony Polskie SA ("small egg dumplings with curcuma" and "star-shaped pasta with curcuma") were awarded the "Poznaj Dobrą Żywność" [Know Good Food] quality label by decision of the Minister of Agriculture and Rural Development.





In February 2017 the products offered by Stoczek Natura Sp. z o.o. ("Chinese Style Chicken" and "Mexican TEX MEX") became prize-winners of the sixth edition of the "Best Product 2017 - Consumers' Choice Survey".

Community

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

Cooperation with schools and universities

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



Moreover, Makarony Polskie SA became a partner of the Second Nation-wide Scientific Conference of Students and PhD Students – Medical Aspects of Human Nutrition that took place in Rzeszów on the 3rd and 4th June 2016. The conference was addressed to young physicians, PhD students, dieticians, students and student research clubs dealing with nutrition, food, physiology and medical sciences.

Charity activities

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



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


PODZIĘKOWANIE
dla
Makarony Polskie SA

In 2016 the Group also cooperated with the Caritas Foundation of the Rzeszów Diocese, the Foundation "Mimo Wszystko" [Despite Everything] of Anna Dymna, and the Fundacja Dziedzictwa Kresowego we Lwowie [Borderland Heritage Foundation in Lvov].

The Group companies supported also summer holidays organised for children by the "Ruch Światło Życie" [Light-Life Movement] and Stowarzyszenie "Równać Szanse" [Equal Opportunities Association].

Patronage and sponsoring of cultural and sports events

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

In 2016 the Group participated, for instance, in such initiatives as:



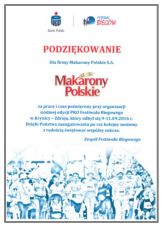
Sponsoring of the Mother's Day and Children's Day taking place at the market square in Rzeszów and organised by the Caritas Foundation of the Rzeszów Diocese;



Sponsoring of the Drone Show Rzeszów 2016 – an event aimed at promotion of rational and secure use of unmanned aerial vehicles.

Sponsoring of the 3rd Festival of the New Theatre – the 55th Theatre Meetings in Rzeszów that took place from the 18th to 26th November 2016 at the Wanda Siemaszkowa Theatre in Rzeszów.

03. RZESZÓW FNT 2016 FESTIWAL NOWEGO TEATRU


PODZIĘKOWANIE
Makarony Polskie

Sponsoring of the 7th Running Festival in Krynica Zdrój, inclusive of sponsoring the Pasta Party – an event preceding the longest distance runs.

Sponsoring of the 7th Spring Welcome in Chotomów, including but not limited to awards for the participants of the running competition.





Support provided to sports clubs: "Mam Talent" [I've Got Talent] Football Academy in Krzeszowice, Moto Jelcz Oława, and Polonez Mordy.

Declarations by the Management Board

Declaration with regard to fairness of the financial statements

The Management Board of Makarony Polskie SA with its registered office in Rzeszów declares that according to its best knowledge, the annual consolidated financial statements of the Makarony Polskie Group for the reporting year ended 31 December 2016 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 2016 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 ended 31 December 2016 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 21 March 2017.

Zenon Daniłowski
President of the Management Board.

Information about the Company

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

www.makarony.pl

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

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

Tel. 17 875 30 10, fax 17 875 30 20.

Please contact us at:

relacje@makarony.pl

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