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Report

report on the Audit of the Consolidated Financial Statements of Makarony Polskie Spółka Akcyjna Group of Companies, with its registered office in Rzeszow, ul. Podkarpacka 15 A, for the financial year from 1 January to 31 December 2016

GENERAL PART

I. Data identifying the parent company

1) MAKARONY POLSKIE Spółka Akcyjna, hereinafter referred to as the Company, conducts its economic activity pursuant to:
   - the Company's Articles of Association,
   - the Act on Freedom of Economic Activity;
   - Commercial Companies Code;

   The company's registered office is located in Rzeszow, ul. Podkarpacka 15 A.

2) The Company was established as a result of the transformation of MAKARONY POLSKIE Spółka z ograniczoną odpowiedzialnością, into a joint stock company. The transformation was performed on the basis of the resolution of the Shareholders Meeting of 10 May 2004 - notary deed Rep. A No. 4882/2004, drawn up at Notary Office in Rzeszow by notary Teresa Panek - Wiśniowska.
   Pursuant to the decision of the District Court in Rzeszow, 12th Commercial Division of 5 July 2004, the Company was entered into the Register of Entrepreneurs under KRS number 0000212001.
   The Company holds the following identification numbers:
   - NIP - tax identification number - 813-32-78-856
   - REGON - national business registry statistic number - 691674708.

3) During the audited period, the scope of activity of the Company included:
   - manufacture of macaroni, noodles, couscous and similar farinaceous,
   - manufacture of food and beverages,
   - other activities mentioned in section 3 of the National Court Register.

4) Governing Bodies of the Company include: General Meeting of shareholders, Supervisory Board and Management Board.

5) In the audited period, members of the Management Board were:
   - **Zenon Daniłowski - President of the Management Board**

6) The Supervisory Board comprises:
   - **Roman Sobiecki - Chairman of the Supervisory Board**
   - **Michał Słomkowski - Member of the Supervisory Board from 28 June 2016,**
   - **Grzegorz Słomkowski - Vice Chairman of the Supervisory Board until 28 June 2016,**
   - **Wiesław Wasilewski - Member of the Supervisory Board,**
   - **Marek Rocki - Member of the Supervisory Board,**
   - **Tomasz Jankowski - Member of the Supervisory Board, until 26 October 2016,**
   - **Samer Elwaziri - Member of the Supervisory Board, from 3 November 2016.**

7) As of 31 December 2016, the share capital of the Company amounted to PLN 27,750,213 and was divided into 9,250,071 shares with the nominal value of PLN 3 each.
Shareholders possessing directly or trough subsidiaries at least 5% of the general number of votes at the General Assembly of Shareholders, as at the day of preparing the Statement as follows:

Shareholder	Number of shares held	Number of votes	Participation in share capital	Participation in total votes
Grupa Praska Giełda Spożywcza S. A. including:	**1 911 594**	**1.911.594**	**20.67%**	**20.67%**
Praska Giełda Spożywcza S. A. (ex: Agro-Technika SA)	1 650 000	1 650 000	17.84%	17.84%
Zenon Daniłowski	140 000	140 000	1.51%	1.51%
Polskie Smaki Sp. z o.o.	121 594	121 594	1.31%	1.31%
Raya Holding for Technology & Communications S.A.E. including:	**1 793 406**	**1 793 406**	**19.39%**	**19.39%**
Madova Sp. z o.o.	1 793 406	1 793 406	19.39%	19.39%
Elżbieta and Grzegorz Słomkowski including:	**1 183 040**	**1 183 040**	**12.79%**	**12.79%**
Z.P.H. Elpast Elżbieta i Grzegorz Słomkowscy s.c.	1 169 750	1 169 750	12.65%	12.65%
Grzegorz Słomkowski	13 290	13 290	0.14%	0.14%
Krzysztof Moska	**931 284**	**931 284**	**10.07%**	**10.07%**
Leszek Sobik	**509 541**	**509 541**	**5.51%**	**5.51%**
Other shareholders	**2 921 206**	**2 921 206**	**31.58%**	**31.58%**
Total	9 250 071	9 250 071	100%	100%

8) The audited financial statements for the current financial year, signed by the Management Board and the preparer, consist of:
- introduction to the financial statements,
- consolidated statement of financial position as at 31 December 2016 with total assets and liabilities of PLN 128,386 k,
- consolidated statement of comprehensive income showing the profit for the financial year of PLN 5 092 k,
- consolidated statement of other comprehensive income for the financial year, showing the remaining total income of PLN 5,158 k,
- consolidated statement of changes in equity for the financial year,
- consolidated statement of cash flows for the financial year,
- of additional notes

And the accompanying report of the Management Board on activity in the financial year.

II. Information about entities belonging to the Group of Companies

As at the balance sheet date, Makarony Polskie Spółka Akcyjna Group of Companies consisted of the following subsidiaries: **Stoczek Natura Spółka z ograniczoną odpowiedzialnością and MP Trade Spółka z ograniczoną odpowiedzialnością.**

Basic information about subsidiaries:

Name of the entity (with indication of its legal form)	**Stoczek Natura Spółka z ograniczoną odpowiedzialnością**
registered office	Stoczek Łukowski, ul. Dwernickiego 5
Registry court	District Court in Lublin, 11th Commercial Division of the National Court Register, KRS [company registration number] 0000050439
scope of activity	production of food and beverages
equity	PLN 23,228,686.02
The date on which the financial statements covered by the consolidated financial statements were prepared	31 December 2016
Character of control	subsidiary
consolidation method	full method
percentage of the company share capital held	100%
share in total no. of votes at GM	100%
Name of the entity (with indication of its legal form)	**MP Trade Spółka z ograniczoną odpowiedzialnością**
registered office	Stoczek Łukowski, ul. Dwernickiego 5
Registry court	District Court in Lublin, 11th Commercial Division of the National Court Register, KRS [company registration number] 0000579926
scope of activity	Agents involved in the sale of food, beverages and tobacco
equity	PLN 506,573.56
The date on which the financial statements covered by the consolidated financial statements were prepared	For the period from 28 September 2015 to 31 December 2016 - appropriate adjustments were made to adjust the reporting period to the reporting period of the parent company
Character of control	subsidiary
consolidation method	full method

percentage of the company share capital held	100%
share in total no. of votes at GM	100%

III. Information on the consolidated financial statements for the previous period

The consolidated financial statements of Makarony Polskie S. A Group of Companies for the period from 1 January to 31 December 2015 were approved by the Resolution No. 6 of the Ordinary General Meeting of Shareholders of 28 June 2016.

The financial statements of Makarony Polskie S. A. Group of Companies, for the previous financial year were audited by ReVISION - RZESZÓW Józef Król Sp. z o.o. in Rzeszow and received as without reservations

IV. General information about the conducted audit

ReVISION - RZESZÓW Józef Król sp. z o.o. was selected as the auditor by the Supervisory Board resolution No. 12 of 31 May 2011.

The audit was conducted on the basis of agreement No. 1/2016 concluded on 15 June 2016 between the Company as the Customer and ReVISION - RZESZÓW Józef Król Sp. z o.o.with its with its registered office in Rzeszow at ul. Bp. J. Pelczara 6c/8, entered into the list of entities authorized to audit the financial statements, registration no. 3510, as the contractor between February and March 2017, with intervals.

Both the auditor entity and the person performing audit on its behalf, the key auditor Agnieszka Lew (reg. no. 11556) declare that they are independent of the parent company and its subsidiaries within the meaning of Article 56 paragraphs 3 and 4 of the Act of 7 May 2009, on statutory auditors and their self-government, entities authorized to audit financial statements and public supervision (Journal of Laws of 2016, item 1000).

2) The parent company, during the audit, provided the certified auditor with accounts and documents that formed the basis of preparation of the financial statements and provided information necessary for the certified auditor's opinion on the audited financial statements.

There were no limits to the scope of the audit.

Pursuant to Article 67 of the Accounting Act, the management of the entity made at the end of the audit - a written statement on, e.g.: the completeness, correctness and reliability of the financial statements submitted for audit and of the supplementary activity report, the disclosure in the notes any corresponding liabilities with the balance sheet date, lack of existence of other economic events that materially affect the quantitative and qualitative information arising from the financial statements.

Audit of the financial statements for 2016 of the parent company Makarony Polskie Spółka Akcyjna was performed by ReVISION - RZESZÓW Józef Król Sp. z o. o. in Rzeszow.

Audit of the financial statements for 2016 of the subsidiary Stoczek Natura Spółka z ograniczoną odpowiedzialnością was performed by ReVISION - RZESZÓW Józef Król Sp. z o. o. in Rzeszow.

The audit of the financial statements for the period between 28 September 2015 and 31 December 2016 of the subsidiary MP Trade Spółka z ograniczoną odpowiedzialnością was performed by ReVISION - RZESZÓW Józef Król Sp. z o. o. in Rzeszow.

The audited entities received the auditors' opinions without reservation.

V. Overview of the items of the consolidated financial statements. Consolidated statement of financial position as at 31 December 2016 in PLN k (assets)

Specification	2016		2015		The amendment relating to	
	amount	% of share	amount	% of share		%
					2016/2015	
1	2	3	4	5	8	9
Fixed assets	90 606	71	87 307	69	3 299	104
Tangible fixed assets	73 520	57	70 100	55	3 420	105
Investment real estate	1 235	1	1 227	1	8	101
Goodwill	5 949	5	5 949	5	0	100
Other intangible assets	9 559	7	9 820	8	-261	97
Long-term financial assets	0	0	0	0	0	0
Income tax assets	17	0	134	0	-117	13
Other long-term assets	326	0	77	0	249	423
Current assets	37 780	29	39 693	31	-1 913	95
Inventory	13 015	10	11 990	9	1 025	109
Short-term liabilities	23 477	18	26 479	21	-3 002	89
Income tax receivables	0	0	0	0	0	0
Loans granted	0	0	0	0	0	0
Cash and cash equivalents	920	1	1 002	1	-82	92
Other short-term assets	368	0	222	0	146	166
Assets to be disposed of	0	0	0	0	0	0
Total assets	128 386	100	127 000	100	1 386	101

Consolidated statement of financial position as at 31 December 2016 in PLN k (liabilities)

Specification	2016		2015		The amendment relating to	
	amount	% of share	amount	% of share		%
					2016/2015	
1	2	3	4	5	8	9
Equity	72 816	57	70 896	56	1 920	103
Share capital	27 750	22	27 750	22	0	100
Other capital	39 505	31	37 665	30	1 840	105
Retained gains/losses (profit/loss from previous years	469	0	567	0	-98	83
Net profit	5 092	4	4 914	4	178	104
Long-term liabilities	23 129	18	25 501	20	-2 372	91
Deferred tax liability	3 387	3	2 967	2	420	114

Long-term loans and borrowings	**11 117**	**9**	**13 494**	**11**	**-2 377**	**82**
Provision for pensions and similar	**143**	**0**	**144**	**0**	**-1**	**99**
Deferred income	**7 053**	**5**	**7 531**	**6**	**-478**	**94**
Long-term financial liabilities	**1 429**	**1**	**1 365**	**1**	**64**	**105**
Short-term liabilities	**32 441**	**25**	**30 603**	**24**	**1 838**	**106**
Short-term liabilities - loans and borrowings	**8 455**	**7**	**8 256**	**7**	**199**	**102**
Short-term financial liabilities	**709**	**1**	**559**	**0**	**150**	**127**
Other short-term liabilities	**22 658**	**18**	**21 130**	**17**	**1 528**	**107**
Deferred income	**548**	**0**	**568**	**0**	**-20**	**96**
Provision for pensions and similar	**71**	**0**	**90**	**0**	**-19**	**79**
Other short-term provisions	**0**	**0**	**0**	**0**	**0**	**0**
Total liabilities	**128 386**	**100**	**127 000**	**100**	**1 386**	**101**

Consolidated Statement of Comprehensive Income (Calculation Option) for the financial year from 1 January to 31 December 2016 in PLN k

Specification	**2016**		**2015**		**The amendment relating to**	
	amount	**% of share**	**amount**	**% of share**	**2016/2015**	**%**
1	**2**	**3**	**4**	**5**	**8**	**9**
Net revenues from sales	**124 181**	**99**	**132 776**	**99**	**-8 595**	**94**
Own cost of sales	**95 272**	**80**	**104 936**	**82**	**-9 664**	**91**
Gross profit (loss) on sales	**28 909**		**27 840**		**1 069**	**104**
Sales costs	16 726	14	16 523	13	203	101
General administrative costs	4 760	4	4 666	4	94	102
Other revenues	870	1	1 608	1	-738	54
Other costs	690	1	498	0	192	139
Profit (loss) from continued operation	**7 603**		**7 761**		**-158**	**98**
Financial incomes	201	0	391	0	-190	51
Financial costs	1 237	1	1 600	1	-363	77
Gross profit (loss)	**6 567**		**6 552**		**15**	**100**
Income tax	1 475		1 638		-163	
Net profit (loss) from continued operations	**5 092**		**4 914**		**178**	**104**
Including: for the shareholders of the parent company	5 092		4 914		178	104
Non-controlling shares						

Consolidated Statement of other Comprehensive Income for the financial year from 1 January to 31 December 2016 in PLN k

Net profit (loss) from continued operations	**5 092**		**4 914**		**178**	**104**
Total comprehensive revenues	**66**		**95**		**-29**	**69**
Profit (loss) from the application of hedge accounting	66		95		-29	69
Other total net income	**5158**		**5 009**		**178**	**103**

Total revenues	**125 252**	**100**	**134 775**	**100**	**-9 523**	**93**

Total costs	**118 685**	**100**	**128 223**	**100**	**-9 538**	**93**

VI. Presentation of the financial standing, financial result and profitability of the group

The economic activity of the audited group, its financial result for the financial year and the financial standing at the balance sheet date compared to the period preceding are characterized by the following indicators:

		Unit of measure	Current Period	Previous Period
Ratios of turnover				
– **total productivity of assets**	sales revenue average balance of assets		**0.97**	**1.05**
– **productivity of fixed assets**	sales revenue average balance of fixed assets		**1.40**	**1.51**
– **productivity of equity**	sales revenue average balance of equity		**1.73**	**1.92**
– **receivables turnover ratio**	average balance of receivables x 365 days sales revenue	days	**78**	**71**
– **inventory turnover ratio**	average balance of inventory x 365 days operating expenses	days	**39**	**34**
Profitability ratios				
– **net return on sales**	net profit/loss sales revenue revenues on sale	%	**4.10**	**3.70**
– **gross return on sales**	gross profit/loss on sales - sales costs – general administrative expenses	%	**5.98**	**5.01**
– **total return on assets**	net profit/loss total assets	%	**3.97**	**3.87**
– **return on equity**	net profit/loss equity		**6.99**	**6.93**

Financing Ratios				
– **debt rate**	Sum of long and short term liabilities - provisions, deferred income, total liabilities	%	**0.35**	**0.35**
– **liabilities turnover ratio**	average balance of (short-term liabilities, provisions, deferred income) x 365 days / operating expenses	days	**97**	**94**
– **equity to assets ratio**	equity + reserves fixed assets		**0.84**	**0.85**
Liquidity ratios				
– **of liquidity I.**	total current assets - short-term liabilities - provisions, deferred income		**1.19**	**1.33**
– **of liquidity II.**	total current assets - provisions, short-term liabilities, deferred income		**0.77**	**0.92**

SPECIFIC PART

I. Application of the Principle of Consolidation

The consolidated financial statements of the Group were prepared in accordance with the International Accounting Standards, International Financial Reporting Standards as adopted by the European Union, and to the extent not covered by these standards, in accordance with the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2013, No. 47, item 330 consolidated text) and the implementing regulations issued hereunder, and in accordance with the requirements of the the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities (Journal of Laws No 33, item 259), applied in a consistent and continuous way.

The parent company and the two subsidiaries prepare the financial statements in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published in the form of regulations of the European Commission, and to the extent not covered by those standards - in accordance with the requirements of the Accounting Act and the implementing regulations issued thereunder;

The consolidated financial statements of Makarony Polskie Spółka Akcyjna were prepared on the basis of the financial statements of the companies included in the Group and put together in such a way as if the group was a single entity.

The parent company and its subsidiaries were consolidated using the full consolidation method. In the course of the consolidation process, exclusions were made of reciprocal receivables and liabilities, revenues and expenses relating to the transactions conducted between the consolidated companies, of profits and losses

arising on the transactions concluded between the consolidated companies, included in the values of the consolidated assets and liabilities.

In addition, the values of shares held by the parent company in the share capitals of the subsidiaries were subject to exclusions.

The amount of the margin included in assets of the consolidated companies was subject to exclusions.

The scope of data presented in the notes to the consolidated financial statements is based on the requirements of the International Accounting Standards, International Financial Reporting Standards as adopted by the European Union, and to the extent not covered by these standards, as required by the Accounting Act and the implementing regulations issued thereunder, and in accordance with the requirements of the The Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities (Journal of Laws No. 33, item 259).

The initial capital of the group is the initial capital of the parent company.

The balance of equity disclosed in the consolidated statement of comprehensive income is consistent with the consolidation documentation. The financial data regarding equity is presented in the additional information and explanation notes to the consolidated financial statements.

The basis for preparing the consolidated financial statements was the consolidation documentation, prepared under the requirements of the Regulation of the Minister of Finance of 25 September 2009 on detailed rules of preparation of consolidated financial statements of groups by entities other than banks, insurance companies and reinsurance companies (Journal of Laws No. 169, item 1327), including in particular:

- the financial statements of the consolidated companies,
- the statement of adjustments and exclusions made during the consolidation process.

II. Additional notes

In accordance with the International Financial Reporting Standards, Makarony Polskie S. A. Group prepared additional information including the introduction to the consolidated financial statements and additional notes. The data contained in the additional information was presented accurately and completely.

III. Consolidated Statement of Changes in Equity

The consolidated statement of changes in consolidated equity shows properly an increase in equity, it was prepared properly and shows a correct reference to the consolidated statement of the financial position and consolidated statement of the total income and consolidated statement of other comprehensive income.

IV. Consolidated Statements of Cash Flows

The consolidated statements of cash flows were prepared by way of:

- summing the relevant items of the statements of cash flows of the subsidiaries covered by the financial statements,
- performing consolidation adjustments, involving the exclusion of cash flows between the companies covered by the consolidated financial statements.

V. Report of the management board on the Group of Companies operations

The Management Board of the Parent Company prepared a report on the operations of the Group of Companies which is complete within the meaning of Article 49 paragraph 2 of the Accounting Act and complies with the provisions of the Regulation of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities, contained therein, derived from the audited financial statements is consistent therewith.

information contained herein is consistent with the information contained in the audited financial statements of the Group of Companies for 2016.

VI. Breach of the law

In the procedures applied in the audit of the financial statements for the financial year, no material breach of the applicable legal provisions affecting the financial statements have been disclosed.

VII. Additional issues

The audit agreement did not provide for additional issues.

IX. Statement of the parent company's management

The management of Makarony Polskie S. A. submitted a written statement on the completeness of the data included in the accounting books; reporting all the contingent liabilities and the material events that occurred after the balance sheet date.

This report contains 14 pages consecutively numbered and initialed by the Certified Auditor.

Acting on behalf of ReVISION - RZESZÓW Józef Król Sp. z o. o. in Rzeszow:

(The Company is entered into the list of entities authorized to audit the financial statements, registration no. 3510)

Key Certified Auditor

Agnieszka Lew
reg. No. **11556**

Rzeszow, 21 March 2017