Supervisory Board Report for the Reporting Year 2016



Supervisory Board of Makarony Polskie SA

Rzeszów, 24 May 2017

Introduction



The Supervisory Board of Makarony Polskie SA, which fulfils standing supervision of the activities of the Company in all areas of the its operation, accordingly to the provisions of the Code of Commercial Companies, submits to the Annual General Meeting a report on its activities in the reporting year 2016.

This Report was prepared in accordance with the requirements of "The Best Practice for GPW Listed Companies 2016".

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Roman Sobiecki
Chairman of the Supervisory Board
Makarony Polskie SA

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Report on the activities of the Supervisory Board in the reporting year 2016 and self-assessment of the activities by the Supervisory Board



The Supervisory Board of Makarony Polskie SA operates pursuant to the Code of Commercial Companies, the Articles of the Company and the By-law of the Supervisory Board (passed by Resolution No. 17 of the Annual General Meeting of Makarony Polskie SA on 22 June 2007 – binding from 1 January to 28 June 2016, and Resolution No. 25 of the Annual General Meeting of Makarony Polskie SA on 28 June 2016 – binding from 28 June to 31 December 2016).

The Report was prepared in accordance with the following legal regulations:

- Article 382.3 of the Code of Commercial Companies,
- rule II.Z.10 of "The Best Practice for GPW Listed Companies 2016" passed by Resolution No. 26/1413/2015 of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie SA [Warsaw Stock Exchange] on 13 October 2015.

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 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 Elwaziri – Member of the Supervisory Board,
- Marek Rocki – Member of the Supervisory Board,
- Michał Słomkowski – Member of the Supervisory Board,
- Wiesław Wasilewski – Member of the Supervisory Board.

Form and method of supervision

The Supervisory Board supervised the activities of the Company in accordance with the legal regulations, the Company Articles, the By-law of the Supervisory Board and corporate governance principles set out by "The Best Practice for GPW Listed Companies".

Throughout the reporting period, all of the Supervisory Board Members, including the Chairman, were in standing contact with the Management Board, consulting on the particular aspects of the Company operations. The Supervisory Board provided advice to the Management Board of the Company. The Management Board was supported by the Supervisory Board in its decisions regarding operations, also by acceptance of and consent to carrying out major activities and concluding key transactions in accordance with the Company Articles.

A very important element regarding current contacts between the Supervisory Board and the Management Board is that the Supervisory Board Chairman meets the President of the Management Board outside of the meetings of the Supervisory Board.

The Supervisory Board convened 3 meetings from which minutes were taken (the fourth planned meeting was informal owing to the earlier resignation of Mr Tomasz Jankowski from his function of

a Supervisory Board Member and the fact that the Board temporarily counted less than the statutory required 5 people). In its work, the Supervisory Board discussed subjects imposed by the Code of Commercial Companies and the Articles of Makarony Polskie SA, as well as the current operations of the Company. The major subjects discussed by the Supervisory Board were:

- ✓ quarterly assessment of the financial results of the Makarony Polskie Group in 2016, mainly as regards development challenges and operating objectives;
- ✓ analysis of situation as regards production, sales of Private Label products and sales of branded products;
- ✓ assessment of the Company operations and the activities of the Management Board, plus providing opinions on issues to be submitted to the General Meeting, including but not limited to:
  - assessment of the Report of the Management Board on the operations of the Company and the Makarony Polskie Group in 2015, as well as individual and consolidated financial statements for the reporting year 2015;
  - assessment of the Management Board proposal regarding profit distribution for 2015;
  - assessment of the Company standing in 2015;
  - approval of the Supervisory Board Report for the reporting year 2015;
  - filing a request with the General Meeting for granting the vote of approval to the Members of the Supervisory and Management Boards of Makarony Polskie SA;
- ✓ constitution of the Supervisory Board of for the current term;
- ✓ amendments to the Supervisory Board By-law;
- ✓ providing opinions on amendments to the Articles and the By-law of the General Meeting, as requested by the Management Board;
- ✓ assessment of the Company development perspectives and approval of the Management Board information on 2017 plan assumptions;
- ✓ selection of an auditor to review financial statements for the first half of 2016 and audit the financial statements for the reporting year 2016;
- ✓ consent to capital increase of Stoczek Natura Sp. z o.o. subsidiary;
- ✓ consent to changes in the credit finance structure of Makarony Polskie SA;
- ✓ consent to signing the terms of business by and between the Company and Lidl, concerning the manufacture and supply of private label products;
- ✓ consent to performance by the Company of the project entitled "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA" co-financed with EU funds under the Regional Operational Programme of the Podkarpackie Province for the years 2014-2020, Measure 1.4: "Support for SMEs", and establishing the indispensable collaterals for the subsidy agreement;
- ✓ consent to performance by the Company of the project entitled "Creation of a Research and Development Centre of the Pasta Industry at Makarony Polskie SA" co-financed with EU funds under the Smart Growth Operational Programme 2014-2020 Priority Axis 2: "Support

for the Environment and Capacity of Enterprises for R+D+I Activities", Measure 2.1: "Support for Investments in R&D Infrastructure of Enterprises" and establishing the indispensable collaterals for the subsidy agreement.

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 require 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.

Information on the fulfilment of independence criteria by the Supervisory Board Members

The criteria regarding independence of the Supervisory Board Members were determined in the Commission Recommendation 2005/162/EC of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board and in "The Best Practice for GPW Listed Companies 2016". In accordance with the aforesaid regulations a sufficient number of independent non-executive or supervisory directors should be elected to the (supervisory) boards of companies to ensure that any material conflict of interest involving directors will be properly dealt with. A director should be considered to be independent only if he is free of any business, family or other relationship, with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgement.

The Supervisory Board Members filed with the Supervisory Board and the Management Board of the Company declarations regarding the independence criteria fulfilment by them. The Supervisory Board assessed the possible existence of relations and circumstances which might result in non-fulfilment of the independence criteria by the respective Supervisory Board Members.

Among the five-person Supervisory Board there were three independent Members who submitted the required independence declaration in writing.

The table below refers to the fulfilment of independence criteria by the Supervisory Board Members in accordance with rule II.Z.4 of "The Best Practice for GPW Listed Companies 2016".

In the period from 1 January 2016 to 28 June 2016:

Supervisory Board Member	Independence criteria fulfilment
Roman Sobiecki	Fulfilled
Grzegorz Słomkowski	Not fulfilled
Tomasz Jankowski	Not fulfilled
Marek Rocki	Fulfilled
Wiesław Wasilewski	Fulfilled

In the period from 28 June 2016 to 3 November 2016:

Supervisory Board Member	Independence criteria fulfilment
Roman Sobiecki	Fulfilled
Michał Słomkowski	Not fulfilled
Marek Rocki	Fulfilled
Tomasz Jankowski	Not fulfilled
Wiesław Wasilewski	Fulfilled

In the period from 3 November 2016 to 31 December 2016:

Supervisory Board Member	Independence criteria fulfilment
Roman Sobiecki	Fulfilled
Samer Abdelfatah Mohamed Elwaziri	Not fulfilled
Marek Rocki	Fulfilled
Michał Słomkowski	Not fulfilled
Wiesław Wasilewski	Fulfilled

Self-assessment of the Supervisory Board

The Supervisory Board maintained independent views of the activities of the Management Board and the operations of Makarony Polskie SA. The Supervisory Board Members possess diversified knowledge and experience. The Supervisory Board Members represent high level of professional experience and subject-matter competencies, as needed for the fulfilment of their functions as Supervisory Board Members.

All of the Supervisory Board Members applied due diligence in the performance of their duties, using their knowledge, professional experience and skills possessed. The Supervisory Board Members

represented differentiated views on the operation of the Company and its governing bodies, both as regards business and operations of the Company as a public entity.

In the reporting period, the Supervisory Board exercised ongoing supervision of the Company's activities in all aspects. The Supervisory Board Members, including the Chairman, were constantly in contact with the Management Board of Makarony Polskie SA, consulting on the particular areas of the Company operation.

Thanks to high competencies and engagement of the particular members of the Supervisory Board Members, as well as efficient organisation, the Supervisory Board has effectively performed its statutory tasks, focusing on the interest of the Company.

The representatives of the Supervisory Board participated in the Annual General Meeting of the Company in order to provide subject-matter replies to the questions asked during the Meeting.

Request to the General Meeting to grant the vote of approval to the Members of the Supervisory Board

The Supervisory Board requests the General Meeting to grant the vote of approval to all of the Supervisory Board Members of Makarony Polskie SA with regard to the performance of their duties in the reporting year 2016.

Assessment of the Company standing in the reporting year 2016



Pursuant to Article 382.1 of the Code of Commercial Companies and § 19.a o the Company Articles, the Supervisory Board exercised ongoing supervision of the Company's activities in all aspects, as well as considered and assessed quarterly reports of the Management Board in that regard.

Year 2016 was very demanding but also successful. The separate revenues of Makarony Polskie SA in 2016 amounted to PLN 112.4 million and were lower by approximately 12.0% compared to 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, as well as changes in the sales organisation of the Makarony Polskie Group, following which the newly established MP Trade Sp. z o.o. took over the distribution of pasta products in traditional trade and exports channels.

The costs of products, services, merchandise and materials sold in 2016 amounted to PLN 87.9 million (drop by about 8.6%). In 2016 Makarony Polskie SA generated gross profit on sales at the level of PLN 24.5 million (drop by PLN 2.3 million compared to 2015), with gross return on sales at the level of 21.8% (compared to 21% in 2015).

Drop in the costs of sale amounting to PLN 2.3 million YoY presented in the separate financial statements of the Company resulted mainly from changes in the organisation of the Makarony Polskie Group and distribution functions take-over by MP Trade Sp. z o.o.

In 2016 the result on operating activities (EBIT) was PLN 7.1 million, compared to PLN 7.5 million in 2015, i.e. roughly 4.4% drop. Profitability of operating activities equalled 6.3% compared to 5.8% in 2015.

Net profit of 2016 amounted to PLN 5.0 million and equalled to that generated in 2015. Sales profitability calculated in reference to net profit amounted to 4.4% (compared to 3.9% in 2015).

In 2016 Makarony Polskie SA generated EBITDA at the level of PLN 10.5 million, and EBITDA margin of 9.3%.

As at 31 December 2016 fixed assets of Makarony Polskie SA were worth roughly PLN 87.0 million (72.4% of total assets) compared to PLN 76.6 million at the end of 2015 (3.8% growth compared the end of 2015). Growth of the value of fixed assets resulted from the investments made and changes in financing Stoczek Natura Sp. z o.o. subsidiary (increase of capital and conversion of some of the loans to long-term ones). The largest project of 2016 was extension of the production plant in Rzeszów for production and warehouse space.

As at 31 December 2016 current assets represented approx. PLN 33.2 million and dropped by about 24% compared to PLN 43.7 million at the end of 2017. The largest impact on the change in the current assets was brought about by receivables smaller by about PLN 6.6 million, i.e. by over 24% compared to the end of 2015, and changes in the loans granted, i.e. conversion of some of them into long-term ones.

Equity as at the balance-sheet date amounted to approx. PLN 69.2 million and represented roughly 57.6% of the value of equity/liabilities, which means an increase by 2.7% compared to PLN 67.4 million at the end of 2015. The main change resulted from the consolidated profit for 2016 amounting to PLN 5.0 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 23.0 million and dropped by 9.4% (from PLN 25.4 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 28.0 million and were higher compared to the balance at the end of 2015 amounting to PLN 27.5 million. This resulted mainly from an increase in the other liabilities item (growth by about PLN 0.3 million, i.e. 1.4%).

The return, liquidity and debt ratios analysis confirms good financial standing of Makarony Polskie SA 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 Company enabled it 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, among other things.

The food market is an area of dynamic changes. Products life cycle has been shortening quickly. Product innovations are of major importance to the market position of a manufacturer. Consumers purchasing food products are the driving force of the changes, as they search for new flavours, aesthetic experiences, and convenience in consumption instead of only satiating their appetites. Replying to the market trends, in 2016 the Company continued the strategy of portfolio optimisation and its supplementation for high-margin products of the premium segment. The Company 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.

Makarony Polskie SA has been operating on the domestic market (covering for traditional trade, modern trade as well as B2B and Institutions) and on foreign markets. As regards the Private Label sector, the Company 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. The Company products have a good reputation. Among 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 Company is going to focus mainly on attracting and serving customers on European and African markets.

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 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.

The Makarony Polskie Group continuously modernizes its plants, has modern production lines and a comprehensive production process control system. Moreover, it keeps 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 food standards and high quality standards of the Company.

In order to maintain the market position and cope with the growing demand for new innovative products and packaging, the Company has successfully applied for EU funds within the 2014–2020 perspective. The obtained subsidies will enable acceleration and extension of the scope of investments in modernising the machines used in the current production profile, and serving development of new areas of operation.

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 the opinion of the Supervisory Board, the Management Board has consequently and systematically strived for the achievement of the objectives set out, which has contributed to goodwill improvement.

Therefore, the Supervisory Board supports the activities undertaken by the Management Board with the aim to improve the Company standing, and positively assesses the results to date.

Assessment of the system of internal control, risk management, compliance and internal audit function



In accordance with "The Best Practice for GPW Listed Companies 2016", the Supervisory Board assessed the efficiency of the internal control system, risk management, compliance and internal audit function, including all of the material controls, particularly those related to financial reporting and reporting on operating activities.

Pursuant to rule III.Z.3 of "The Best Practice for GPW Listed Companies 2016", the persons responsible for risk management, compliance and audit report directly to the President of the Management Board.

Internal control system

At Makarony Polskie SA there is no separate internal control unit. Internal control is one of the functions of current Company management effected directly by the Management Board of the Company, Directors, Proxies and other staff employed at managerial positions, or persons entrusted with such function, as well as external legal service. Jointly they make up an internal control system to ensure the proper level of the Company operations and active risk management, and specifically such circumstances which may have a negative impact on the financial result of the Makarony Polskie Group.

Control is exercised at all stages of activities, in the form of initial control, current control and *post factum* control. Financial and accounting documents undergo subject-matter, formal and accounting control.

Internal control at Makarony Polskie SA not only protects the Company assets and use of the assets, but also contributes to extension of the assets and generating optimal financial results.

A comprehensive nature of the control system ensures both timely and accurate disclosure of facts related to major elements of the Company operations. It enables the Management Board and the Supervisory Board to gain complete insight in the financial standing of the Company, operating results as well as the status of assets of the Company and effectiveness of management. The Supervisory Board assesses that the control system applied at the Makarony Polskie Group ensures complete reflection of business transactions, proper qualification of source documents, and correct measurement of the possessed assets at various stages of their registration, thus, contributing to the correct preparing of financial statements and enabling the Management Board to run the activities of the Company and the Group based on verified and complete information.

Compliance

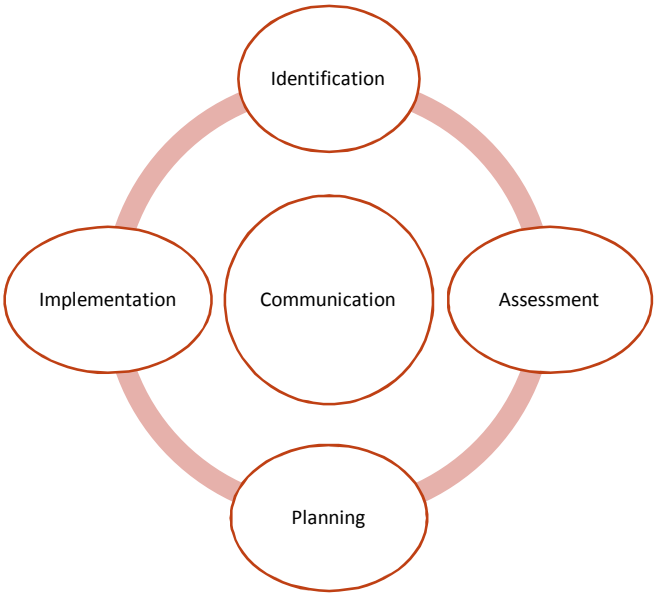
Supervision with regard to the particular business units of Makarony Polskie SA compliance with laws is provided by people responsible for the operation of the business units, supported by the legal service and audit service. The system operates based on the principles of internal procedures of the Group as well as general legal regulations.

Implementation at Makarony Polskie SA of adequately adjusted internal procedures results in reduction to the minimum of the possibility of irregularities occurrence. Some compliance measures are applied on preventive basis, specifically those directly related to the main scope of the Company business operations and risks.

Risk management system

In the opinion of the Supervisory Board, both identification and monitoring of risk factors, as well as the applied system of risk mitigating activities applied at the Makarony Polskie Group, properly protect the interest of the Group.

The risk management system covers all elements of the chain value of the Makarony Polskie Group and is adjusted to the scale of operations and the organisational structure. The risk management structure is based on several competence levels, which means that all of the Group staff participate in the process of risk management.



Corporate risk management process

The corporate risk management is exercised by the Management Boards of the particular Group companies as well as the persons responsible for owner supervision of the Makarony Polskie SA subsidiaries.

Within the risk management process at the Group an important role is played by the Management Board of Makarony Polskie SA, as well as Company Director and Finance Office Director, who supervise the area of commercial risk or financial and credit risks, respectively. The persons holding the positions possess adequate knowledge of the Company and its environment, as well as the necessary qualifications and rights.

Assessment of the method performing disclosure duties by the Company with regard to the application of corporate governance principles



The disclosure duties with regard to the application of corporate governance principles are specified in the Stock Exchange By-law and the Regulation of the Minister of Finance of 19 February 2009 on current and periodical information disclosed by the issuers of securities and conditions of considering equivalent the information required by the laws of a country other than a member state.

In 2016, the Company applied "The Best Practice for GPW Listed Companies 2016". The Company submitted to the Warsaw Stock Exchange a current report within the Electronic Information Base System (EIB) with regard to non-application of the selected corporate governance principles, providing justification for the departure from the application of such principles. Except for the rules specified in that report, the Supervisory Board has not found any other departures from the rules of "The Best Practice for GPW Listed Companies 2016".

The Supervisory Board of the Company has read the Statement of compliance with corporate governance rules published in the Report of the Management Board on the operations of the Company for the reporting year 2016. In the assessment of the Supervisory Board, the information disclosed by the Company complies with the requirements and fairly present the status of corporate governance principles application.

In the reporting year ended 31 December 2016 the Supervisory Board had not observed any irregularities in the performance of the disclosure duties by the Company.

Assessment of reasonability of the Company policy with regard to sponsoring, charity or other similar activities

The Supervisory Board has read the Statement of the Company on sponsoring, charity and other similar activities published in the Reports of the Management Board on the operations of the Company and of the Group in the reporting year 2016.



In the opinion of the Supervisory Board, in 2016 the Company had reasonably implemented the policy of sponsoring, charity and other similar activities.

Makarony Polskie SA has established long-term relationships with universities, for example with the University of Rzeszów in the field of R&D and with the Technical University of Rzeszów.

Moreover, for many years Makarony Polskie SA has carried out various charity activities on local and national level, 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.

The Company 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.

Assessment of the Supervisory Board of the financial statements of Makarony Polskie SA and the Report of the Management Board on the operations of the Company

The object of the assessment by the Supervisory Board were the financial statements of the Company for the reporting year 2016, i.e. for the period from 1 January 2016 to 31 December 2016, as well as the Report of the Management Board on the operations of the Company in the reporting year 2016.



Assessment of the financial statements of Makarony Polskie SA for the period from 1 January 2016 to 31 December 2016

The object of the assessment by the Supervisory Board were the financial statements of the Company for the reporting year 2016, i.e. for the period from 1 January 2016 to 31 December 2016.

Pursuant to § 19.c of the Company Articles, the Supervisory Board of Makarony Polskie SA selected REVISION Rzeszów – Józef Król Sp. z o.o. with its registered office in Rzeszów as the statutory auditor to review the financial statements of the Company for the first half of 2016 and audit the financial statements for the reporting year 2016 (Resolution No. 12 of the Supervisory Board of Makarony Polskie SA of 31 May 2016).

The audit company, represented by its key statutory auditor Agnieszka Lew (entered in the list of statutory auditors under the number 11556), audited the financial statements of Makarony Polskie SA consisting of:

- introduction to the financial statements;
- statement of financial position as at 31 December 2016, reflecting on the side of assets and equity/liabilities, respectively, the amount of PLN 120,255,000;
- statement of comprehensive income for the reporting year from 1 January 2016 to

31 December 2016 reflecting total net income of PLN 4,966,000;

- statement of other comprehensive income for the reporting year from 1 January 2016 to 31 December 2016 reflecting other total net income of PLN 5,032,000;
- statement of changes in equity for the reporting year from 1 January 2016 to 31 December 2016, reflecting equity increase by PLN 1,794,000;
- statement of cash flows for the reporting year from 1 January 2016 to 31 December 2016, reflecting a decrease in the balance of cash by PLN 69,000;
- additional information and explanatory notes.

The statutory auditor stated that the audit was carried out in accordance with the provisions of:

- Chapter 7 of the Act on Accounting;
- the domestic financial revision standards issued by the National Council of Statutory Auditors in Poland.

The audit was planned and carried out such as to arrive at a rational surety, enabling the expression of an opinion on the financial statements.

In particular, the audit covered a verification of correctness of the accounting principles and major estimates applied by the Company, verification – mostly at random – of the accounting evidence and entries from which the figures and information included in the financial statements derive, as well as general assessment of the financial statements.

The statutory auditor decided that the audited financial statement presented in a fair and transparent manner any information material for the assessment of the assets and financial standing of the Company as at 31 December 2016, as well as the Company's financial result for the reporting year 2016. The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) and the related interpretations announced in the form of the European Commission regulations, and in the scope which has not been regulated by the Standards, in accordance with the requirements of the Act on Accounting and the related enforcement regulations, which require the application of accounting policy, and based on properly kept books of account. The statements comply with the legal regulations and provisions of the Company Articles that affect the contents of the financial statements.

Pursuant to Article 382 paragraphs 3 and 4 of the Code of Commercial Companies, and based on the audit carried out by the statutory auditor as well as additional information received from the Company Management Board, the Supervisory Board assessed the financial statements of Makarony Polskie SA for the reporting year 2016, stating that the statements had been prepared in accordance with the books of account, evidence documents and the actual status.

The Supervisory Board is of very good opinion on the activities of the Management Board focusing

on the improvement of the Company standing. The current situation of the Company does not pose any threat to the continuation of its operations in the year following the audited year, which is confirmed by the economic and financial ratios analysed by the statutory auditor and by the results of the audit of the financial statements for 2016, or any post-balance-sheet events.

The Supervisory Board of Makarony Polskie SA requests the General Meeting to approve the financial statements of Makarony Polskie SA for the period from 1 January 2016 to 31 December 2016.

Assessment of the Report of the Management Board on the operations of Makarony Polskie SA in the period from 1 January 2016 to 31 December 2016

The statutory auditor stated that the Report on the operations of the Company for the reporting year 2016 prepared by the Management Board was complete within the meaning of Article 49.2 of the Act on Accounting and the Regulation of the Minister of Justice of 19 February 2009 on current and periodical information disclosed by the issuers of securities [...], whereas the information provided therein, derived from the audited financial statements, complied with the statements.

Upon reading the Report of the Management Board on the operations of Makarony Polskie SA in the reporting year 2016, the Supervisory Board declares that it comprises the information required by the Act on Accounting, and specifically that specified in Article 49.2 of the Act, and takes into account the provisions of the Regulation of the Minister of Justice of 19 February 2009 on current and periodical information disclosed by the issuers of securities [...].

The financial data presented by the Management Board comply with the data of the financial statements of Makarony Polskie SA. The Management Board presented the financial standing and assets of Makarony Polskie SA based on the actual economic status.

The Report discusses the directions of business, and assesses the existing opportunities and threats for the development of the Company operations in future.

The Supervisory Board requests the General Meeting to approve the Report of the Management Board on the operations of Makarony Polskie SA in the reporting year 2016.

Assessment of the Management Board proposal for distribution of net profit for the period from 1 January 2016 to 31 December 2016

By Resolution No. 1 of 11 May 2017, the Management Board of Makarony Polskie SA in Rzeszów

proposed net profit distribution for the reporting year 2016, amounting to PLN 4,965,759.43 (say: four million nine hundred and sixty five thousand seven hundred and fifty nine zlotys 43/100) in the following manner:

- the amount of PLN 2,312,517.75 (say: two million three hundred and twelve thousand five hundred and seventeen zlotys 75/100) to be allocated to dividend payout, which means the paying out of dividend in the amount of PLN 0.25 (say: twenty five groshes) gross per share;
- the remaining part of the profit amounting to PLN 2,653,241.68 (say: two million six hundred and fifty three thousand two hundred and forty one zlotys 68/100) to be allocated to the supplementary capital of Makarony Polskie SA.

Upon considering of the Management Board proposal for profit distribution, the Supervisory Board supports the presentation to the General Meeting of a draft resolution on distribution of the total net profit for the reporting year 2016 in the amount of PLN 4,965,759.43 in accordance with the proposal of the Company Management Board.

Assessment of the Supervisory Board of the consolidated financial statements of the Makarony Polskie Group and the Report of the Management Board on the operations of the Group



The object of the assessment by the Supervisory Board were the consolidated financial statements of the Makarony Polskie Group for the reporting year 2016, i.e. for the period from 1 January 2016 to 31 December 2016, as well as the Report of the Management Board on the operations of the Group in the reporting year 2016.

Assessment of the consolidated financial statements of the Makarony Polskie Group for the period from 1 January 2016 to 31 December 2016

Pursuant to § 19.c of the Company Articles, the Supervisory Board of Makarony Polskie SA selected REVISION Rzeszów – Józef Król Sp. z o.o. with its registered office in Rzeszów as the statutory auditor to review the consolidated financial statements of the Company for the first half of 2016 and audit the financial statements for the reporting year 2016 (Resolution No. 12 of the Supervisory Board of Makarony Polskie SA of 31 May 2016).

The audit company, represented by its key statutory auditor Agnieszka Lew (entered in the list of statutory auditors under the number 11556), audited the consolidated financial statements of the Makarony Polskie Group consisting of:

- the introduction to the consolidated financial statements;
- consolidated statement of financial position as at 31 December 2016, reflecting on the side of assets and equity/liabilities, respectively, the amount of PLN 128,386,000;
- consolidated statement of comprehensive income for the reporting year from 1 January 2016 to 31 December 2016 reflecting total net income of PLN 5,092,000;
- consolidated statement of other comprehensive income for the reporting year from 1 January 2016 to 31 December 2016 reflecting other total net income of PLN 5,158,000;

- consolidated statement of changes in equity for the reporting year from 1 January 2016 to 31 December 2016, reflecting equity increase by PLN 1,920,000;
- consolidated statement of cash flows for the reporting year from 1 January 2016 to 31 December 2016, reflecting a decrease in the balance of cash by PLN 82,000;
- additional information and explanatory notes.

The statutory auditor stated that the audit was carried out in accordance with the provisions of:

- Chapter 7 of the Act on Accounting;
- the domestic financial revision standards issued by the National Council of Statutory Auditors in Poland.

The audit was planned and carried out such as to obtain data enabling the expression of an opinion on the consolidated financial statements of the Makarony Polskie Group. In particular, the audit covered the verification of the correctness of the accounting principles and major estimates applied by the Group companies, verification of the accounting evidence and entries from which the figures and information included in the consolidated financial statements derive, as well as the general assessment of the consolidated financial statements.

The statutory auditor decided that the audited financial statements presented in a fair and transparent manner any information material for the assessment of the assets and financial standing of the Group as at 31 December 2016, as well as the Group's financial result for the reporting year 2016. The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) and the related interpretations announced in the form of the European Commission regulations, and in the scope which has not been regulated by the Standards, in accordance with the requirements of the Act on Accounting and the related enforcement regulations, and based on properly kept books of account. The statements comply with the legal regulations binding for the Makarony Polskie Group that affect the contents of the consolidated financial statements.

Pursuant to Article 382 paragraphs 3 and 4 of the Code of Commercial Companies, and based on the audit carried out by the statutory auditor as well as additional information received from the Company Management Board, the Supervisory Board assessed the consolidated financial statements of the Makarony Polskie Group for the reporting year 2016, stating that the statements had been prepared in accordance with the books of account, evidence documents and the actual status.

The Supervisory Board of Makarony Polskie SA requests the General Meeting to approve the consolidated financial statements of the Makarony Polskie Group for the period from 1 January 2016 to 31 December 2016.

Assessment of the Report of the Management Board on the operations of the Makarony Polskie Group in the period from 1 January 2016 to 31 December 2016

Upon reading the Report of the Management Board on the operations of the Makarony Polskie Group in the reporting year 2016, the Supervisory Board declares that it is complete within the meaning of Article 49.2 of the Act on Accounting, and takes into account the provisions of the Regulation of the Minister of Justice of 19 February 2009 on current and periodical information disclosed by the issuers of securities [...].

The financial data presented by the Management Board comply with the data of the consolidated financial statements. The Management Board presented the financial standing and assets the Makarony Polskie Group based on the actual economic status.

The Report discusses the directions of business and the financial standing, and assesses the existing opportunities and threats for the development of the Makarony Polskie Group operations in the coming years.

The Supervisory Board requests the General Meeting to approve the Report of the Management Board on the operations of the Makarony Polskie Group in the reporting year 2016.