Short Consolidated Financial Statements of the Makarony Polskie Group for the period from 1 January to 31 March 2017



Rzeszów, 12 May 2017

Contents

Short Consolidated Financial Statements

General Information 4

Organisational structure of the Makarony Polskie Group 4

Organisational data 5

Headcount at Makarony Polskie Group as at 31 March 2017 6

Management Board of the Parent Company 6

Supervisory Board of the Parent Company 7

General Meeting of the Parent Company 8

Management Boards of subsidiaries 11

Publication and approval of financial statements 11

Legal basis for consolidated financial statements 12

Declaration of compliance and basis for preparing the statements 12

Basis for valuation 12

Functional and presentation currency 12

Applied accounting policy and basis for preparing the statements 13

Explanations regarding seasonality and cycles in reference to interim activities of the Group 13

Changes in the principles of preparing financial statements 13

Uncertainty of estimations 13

Going concern 14

Events affecting assets, liabilities, equity, net result or cash flow statement, which are atypical owing to their nature, size or frequency 15

Management Board stand regarding publication of the projected results of the Group 15

Factors and risks significantly affecting financial results in Q.1, 2017 and in subsequent periods 15

Hazards and risks related to the Group activities in the remaining months of 2017 20

Contents

Selected financial data – Makarony Polskie Group 25

Consolidated statement of comprehensive income 27

Statement of other comprehensive income, net – hedge accounting 28

Consolidated statement of financial position 29

Consolidated statement of cash flows 31

Statement of changes in consolidated equity 33

Additional explanatory notes 35

Net sales of products, services, merchandise and materials broken down into segments of activities 35

Operating segments 35

Sales of products, services, merchandise and materials – geographic structure 37

Data on the financial results and shares, used in calculating the basic and diluted earnings per share 38

Share capital 39

Information about changes in estimations regarding consolidated financial statements 39

Dividends paid out and proposed to be paid out 40

Settlements with related companies 41

Information regarding issue, redemption and repayment of debt and capital securities, information about the planned shares issue 42

Information about the planned shares issues 42

Agreements and events important for the operations of the Group 43

Information about credit and factoring agreements signed and terminated 45

Information on loans granted 48

Information on guarantees granted and obtained 48

Information on security bonds granted and obtained 49

Off-balance-sheet items 50

Important court litigations, arbitration proceedings or administrative proceedings 51

Other major events and transactions 51

Major post-balance-sheet events 51

Contents

Short Separate Financial Statements

Selected financial data of Makarony Polskie SA 56

Statement of comprehensive income of Makarony Polskie SA 57

Statement of other comprehensive income, net – hedge accounting 58

Statement of financial position of Makarony Polskie SA 59

Statement of cash flows of Makarony Polskie SA 61

Statement of changes in equity of Makarony Polskie SA 63

Information about the Company 65

General Information

Organisational structure of the Makarony Polskie Group

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

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



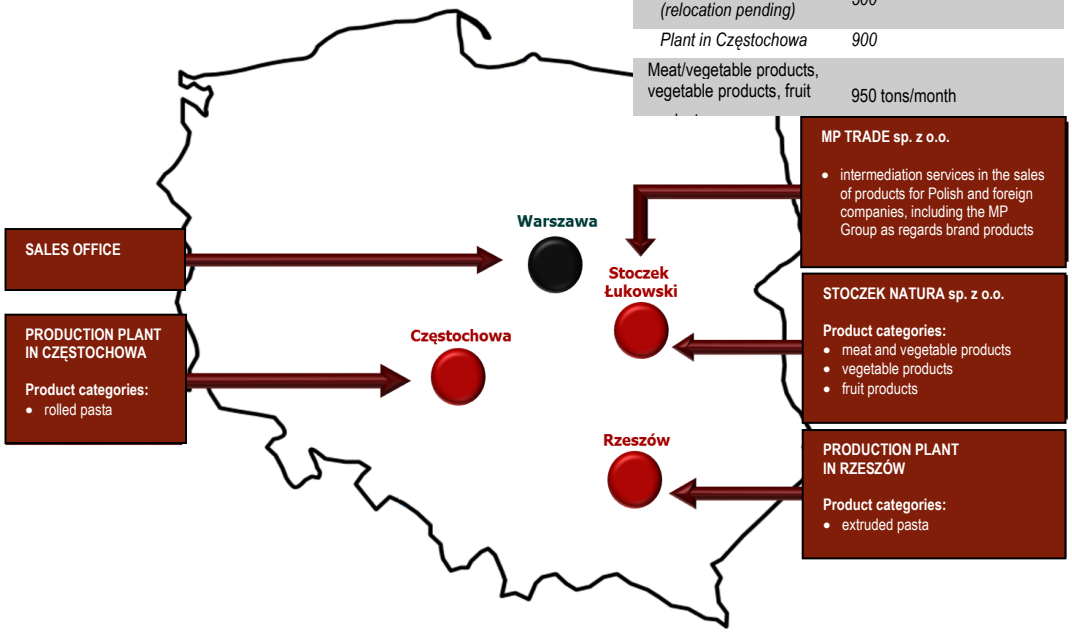
Makarony Polskie SA is a manufacturer of a broad assortment of pasta made by extrusion or rolling. The Company offers pasta in various forms, produced from durum wheat flour or regular wheat flour. In its portfolio the Company has also products which reply to the health-promoting food trends, such as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

ORGANISATION OF THE MAKARONY POLSKIE GROUP

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



Organisational data

Makarony Polskie SA

Registered office: 35-082 Rzeszów, ul. Podkarpacka 15a,
District Court in Rzeszów, 12th Commercial Division of the National Court Register,
court registration number (KRS): 0000212001,
share capital: PLN 27,750,213 (paid up in full),
statistical identification number (REGON): 691674708,
tax identification number (NIP): 813-32-78-856,
www.makarony.pl

Stoczek Natura Sp. z o.o.

Registered office: 21-450 Stoczek Łukowski, ul. Dwernickiego 5,
District Court for Lublin Wschód with its registered office in Świdnik, 6th Commercial Division,
court registration number (KRS): 0000050439,
share capital: PLN 15,520,300,
statistical identification number (REGON): 711584640,
tax identification number (NIP): 825-17-27-212,
www.stoczek.com.pl

MP Trade Sp. z o.o.

Registered office: 21-450 Stoczek Łukowski, ul. Dwernickiego 5,
District Court for Lublin Wschód with its registered office in Świdnik, 6th Commercial Division,
court registration number (KRS): 0000579926,
share capital: PLN 500,000,
statistical identification number (REGON): 362706449,
tax identification number (NIP): 825-21-76-004,
www.mp-trade.pl

100% in the share capital of Stoczek Natura Sp. z o.o. and MP Trade Sp. z o.o. belongs to Makarony Polskie SA. As at 31 March 2017 the share in the general number of votes in the General Meetings of these companies held by the Parent Company, is equal to the share in the capital of each of the subsidiaries.

The duration of all companies of the Makarony Polskie Group is unlimited.

Headcount at Makarony Polskie Group as at 31 March 2017

Headcount at Makarony Polskie Group as at 31 March 2017 was as follows:

Makarony Polskie SA – 125 people,
Stoczek Natura Sp. z o.o. – 46 people,
MP Trade Sp. z o.o. – 32 people.

Management Board of the Parent Company

On 31 March 2017 and on the date of submitting the report, the Management Board of the parent Company consisted of one person, and the President of the Management Board of Makarony Polskie SA was Zenon Daniłowski.

The number and nominal value of shares of Makarony Polskie SA and shares in the companies of the Makarony Polskie Group held by the Members of the Management Board as at the date of preparing the statements:

Management Board Member	Q.1, 2017		2016	
	Number of shares	Nominal value	Number of shares	Nominal value
Zenon Daniłowski	140,000	420,000	140,000	420,000

In accordance with the information possessed by the Company no changes in the status of shares held by the President of the Management Board occurred during the first quarter of 2017 and by the date of publishing these statements.

The President of the Management Board of Makarony Polskie SA has no shares in the subsidiaries of the Makarony Polskie Group.

Supervisory Board of the Parent Company

On 31 March 2017 and on the date of publishing the statements, the Supervisory Board consisted of:

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

The number and nominal value of shares of Makarony Polskie SA and shares in the companies of the Makarony Polskie Group held by the Members of the Supervisory Board as at the date of preparing these statements (based on the information possessed):

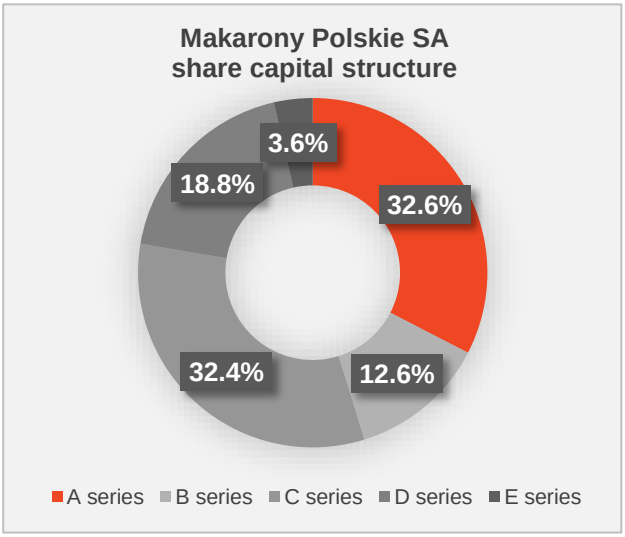
Member of the Supervisory Board	Q.1, 2017		2016	
	Number of shares	Nominal value	Number of shares	Nominal value
Michał Słomkowski	0	0	–	–
Wiesław Wasilewski	5,000	15,000	5,000	15,000
Marek Rocki	0	0	0	0
Roman Sobiecki	0	0	0	0
Samer El Waziri	0	0	–	–

In accordance with the information possessed by the Company no changes in the status of shares held by the Member of the Supervisory Board occurred during the first quarter of 2017 and by the date of publishing these statements.

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

General Meeting of the Parent Company

The share capital of Makarony Polskie SA as at 31 March 2017 amounted to PLN 27,750,213 and was divided into 9,250,071 shares of the nominal value of PLN 3.00 each. The value of the share capital has not changed by the date of submitting these statements.



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 has not issued securities which would grant special control rights to any of the shareholders.

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

Shareholder	Shares in the share capital		Votes in the General Meeting	
	number	% share	number	% share
Praska Giełda Spożywcza SA Group, of which:	2,311,594	24.99%	2,311,594	24.99%
Praska Giełda Spożywcza SA (formerly: Agro-Technika SA)	*2,050,000*	*22.16%*	*2,050,000*	*22.16%*
Zenon Daniłowski	*140,000*	*1.51%*	*140,000*	*1.51%*
Polskie Smaki Sp. z o.o.	*121,594*	*1.31%*	*121,594*	*1.31%*
Raya Holding for Technology & Communications S.A.E., 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%*

Other shareholders	3,962,031	42.83%	3,962,031	42.83%
TOTAL	9,250,071	100.00%	9,250,071	100.00%

In the first quarter the Company received the following notifications regarding changes in the possession of shares of the shareholders who held directly or indirectly through their subsidiaries at least 5% of the total number of votes in the General Meeting of the Company (hereinafter referred to as the "General Meeting"):

- Praska Giełda Spożywcza SA with its registered office in Ząbki (hereinafter referred to as "PGS"):
  - on 20 February 2017 informed about a shares disposal transaction concluded through a brokerage office on 17 February 2017 outside of the regulated market, as a result of which PGS disposed of a stake of 350,000 shares of the Company entitling to the same number of votes in the General Meeting;
  - on 24 March 2017 informed that within two shares disposal transactions concluded on 22 March 2017 and 23 March 2017 on regulated market, it disposed of a stake of 400,000 shares of the Company entitling to the same number of votes in the General Meeting;
  - on 30 March 2017 informed that within three shares acquisition transactions concluded on 28 March 2017 on regulated market, it acquired a stake of 800,000 shares of the Company entitling to the same number of votes in the General Meeting.

  Before the share change PGS held directly and indirectly together with its subsidiaries 2,121,594 shares of the Company, representing 22.93% of the share capital and entitling to 2,121,594 votes in the General Meeting (22.93% of the total number of votes), out of which PGS held directly 2,000,000 shares representing 21.62% of the share capital of the Company and entitling to 2,000,000 votes in the General Meeting (21.62% of the total number of votes) and indirectly 121,594 shares representing 1.31% of the share capital of the Company and entitling to 121,594 votes in the General Meeting (1.31% of the total number of votes).

  After the transactions PGS holds directly and indirectly 2,171,594 shares of the Company, representing 23.47% of the share capital and entitling to 2,171,594 votes in the General Meeting (23.47% of the total number of votes), out of which PGS holds directly 2,050,000 shares representing 22.16% of the share capital of the Company and entitling to 2,050,000 votes in the General Meeting (22.16% of the total number of votes) and indirectly 121,594 shares representing 1.31% of the

share capital of the Company and entitling to 121,594 votes in the General Meeting (1.31% of the total number of votes).

The subsidiary of PGS which holds the shares of Makarony Polskie SA is Polskie Smaki Sp. z o.o. At the same time PGS informed that there were no persons referred to in Article 87.1.3.C of the Act on Public Offering and that it did not possess any financial instruments referred to in Article 69b.1 of the Act on Public Offering.

– On 29 March 2017 Mr Krzysztof Moska informed that as a result of disposal of 800,000 Company shares, representing 8.65% of the share capital and 8.65% of the total number of votes in the General Meeting, carried out on 28 March 2017 within three stake disposal session transactions on the main market of the Warsaw Stock Exchange, the share of Mr Krzysztof Moska in the total number of votes in the General Meeting of the Company changed, such that his holdings dropped below the 5% threshold of the total number of votes in the General Meeting.

  Before the transactions Mr Krzysztof Moska held 1,101,047 shares of the Company, representing 11.90% of the share capital of the Company and 11.90% of the total number of votes in the General Meeting, entitling him to exercise 1,101,047 votes.

  After the transactions Mr Krzysztof Moska holds the total of 301,047 shares of the Company, representing 3.25% of the share capital and 3.25% of the total number of votes in the General Meeting, entitling him to exercise 301,047 votes.

  At the same time Mr Krzysztof Moska informed that he had no subsidiaries holding the Company shares and that there were no persons in Article 87.1.3.C of the Act on Public Offering. Mr Krzysztof Moska declares also that he did not possess any financial instruments referred to in Article 69b.1 of the Act on Public Offering.

After the closure of the reporting period, on 5 April 2017, Mr Leszek Sobik informed that on 3 April 2017 he carried out a D+1 stake disposal off-session transaction in reference to 150,000 shares of the Company, this reducing his holdings in the Company below the 5% threshold, namely to 3.89%. Before the transaction Mr Leszek Sobik held 509,541 shares of the Company, representing 5.51% the share capital and entitling him to 509,541 votes in the General Meeting, i.e. 5.51% of the total votes in the General Meeting. After the transaction Mr Leszek Sobik holds 359,541 shares of Makarony Polskie SA, representing 3.89% of the share capital of the Company and entitling him to 359,541 votes in the General Meeting, i.e. 3.89% of the total number of votes. At the same time Mr Leszek Sobik informed that his subsidiaries did not hold any Company shares.

The Company does not have any other information that would indicate changes in the number of shares held by the shareholders (holding shares stakes exceeding 5%) during the first quarter 2017 and by the date of publishing these statements.

On 18 April 2017, the Company received a notification from Praska Giełda Spożywcza SA (hereinafter PGS) – a person closely related to Mr Zenon Daniłowski, President of the Management Board of Makarony Polskie SA – regarding transactions in the Company shares referred to in Article 19.1 of the Market Abuse Regulation (MAR). PGS informed that on 13 April 2017 it established a pledge on 800,000 shares of the Company.

Management Boards of subsidiaries

Stoczek Natura Sp. z o.o. – the Management Board consists of two persons:

- Rafał Dziobko – President of the Management Board,
- Adam Ławnik – Vice President of the Management Board.

In the period from 1 January to 17 January 2017, the Management Board of Stoczek Natura Sp. z o.o. consisted of one person: Adam Ławnik – President of the Management Board;

MP Trade Sp. z o.o. – the Management Board consists of one person:

- Piotr Wyszecki – President of the Management Board.

In Q.1, 2017 and by the date of publishing these statements, there were no changes in the Management Board of MP Trade Sp. z o.o.

Publication and approval of financial statements

These short consolidated and separate financial data have not been subject to audit by an entity authorised to audit financial statements. The Management Board approved the statements publication on 12 May 2017.

Legal basis for consolidated financial statements

Declaration of compliance and basis for preparing the statements

These short consolidated financial statements have been prepared based on the International Accounting Standards in the form approved by the European Union (EU) and the related interpretations announced in the form of enforcement regulations by the European Commission (hereinafter referred to as "IFRS"), applicable to interim financial reporting in the form approved by the European Union (IAS 34 "Interim Financial Reporting"), published and binding when preparing these short consolidated financial statements. The interim short financial statements do not cover all information and disclosures required to be made in the annual financial statements, and must be read together with the financial statements of the Group and the Parent Company for the year ending 31 December 2016.

The principles of presentation of these statements are also specified in the Regulation of the Minister of Justice of 19 February 2009 on current and periodical information disclosed by the issuers of securities (Journal of Laws No. 33, item 259 of 2009).

Basis for valuation

The presented consolidated financial statements were prepared based on the historical cost concept, except for some assets which were measured at fair value, i.e. assets acquired through the assets purchase transaction within the purchase transaction of fixed assets used in the manufacture of Tenczynek brand products by Stoczek, including goodwill originating from the transaction, as well as the assets acquired through the Abak Sp. z o.o. purchase transaction, and investment land.

Functional and presentation currency

The measurement currency for the Group applied in these financial statements as well as the reporting currency of these financial statements is Polish zloty (PLN).

Unless otherwise specified, financial data are expressed in thousands zlotys.

Legal basis for consolidated financial statements

Applied accounting policy and basis for preparing the statements

The accounting policy applicable to interim short consolidated financial statements complies with that applied in preparing annual financial statements of the Capital Group for the year ending 31 December 2016 (published on 21 March 2017).

The financial statements of all companies were prepared for the same reporting period, by application of cohesive financial principles. A reporting year of the Group companies is a calendar year, except for the newly established MP Trade Sp. z o.o. subsidiary for which the first reporting year was extended from the date of its establishment, i.e. from 28 September 2015, to 31 December 2016.

The Parent Company – Makarony Polskie SA and subsidiaries – Stoczek Natura Sp. z o.o. and MP Trade Sp. z o.o. prepare financial statements in accordance with IAS/IFRS. Consolidation exclusion applies to any transactions, balances, revenues and costs between the related companies subject to consolidation.

The term of the Group companies is unlimited.

Explanations regarding seasonality and cycles in reference to interim activities of the Group

The activity of the Group does not reflect major seasonal or cyclical trends.

Changes in the principles of preparing financial statements

In Q.1, 2017 no changes occurred in the measuring principles applied when preparing the financial statements.

Uncertainty of estimations

Below presented are the basic assumptions regarding the future and other key sources of uncertainty present as at the balance-sheet date, for which there is a major risk of a significant adjustment of the carrying amount of assets and liabilities in the subsequent financial year:

- depreciation rates;
- loss of value of assets (including receivables);
- value of provisions;

- deferred tax assets (the companies disclose deferred tax assets based on the assumption that in future taxable profit will be generated enabling the deferred assets utilisation; deterioration of the generated tax results in future could make this assumption unjustified);
- valuation of assets of unspecified period of use (as at the date of preparing these financial statements there are no reasons for impairment allowance on account of Stoczek goodwill or value of the Abak and Tenczynek brands. The applicable tests compliant with the binding policies were performed as for the balance at the end of 31 December 2016).

Assumptions regarding future and the assumed estimations are cohesive with the assumptions and estimations made by the Group in the financial statements for 2016.

Going concern

The consolidated financial statements of the Makarony Polskie Group was prepared on going concern basis applied in reference to the Group companies, as regards foreseeable future, and in the scope which is not going to change significantly. The Group did not carry out any activities which would have been abandoned in the first quarter of 2017.

In Q.1, 2017 the Company concentrated its activities on:

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

- extension of the production plant in Rzeszów for a production and warehouse building, with the planned completion date in the first half of 2017;
- investment in automated flour and bulk ingredients dosing system at the production plant in Częstochowa, 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;
- purchase of a modern line to pack fillings and stuffing by Stoczek Natura Sp. z o.o., which will enable offering of products with longer shelf life compared to those offered now, as well as improvement of production security.

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 Q.1, 2017 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).

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

Events affecting assets, liabilities, equity, net result or cash flow statement, which are atypical owing to their nature, size or frequency

In Q.1, 2017 no such events occurred.

Management Board stand regarding publication of the projected results of the Group

The Makarony Polskie Group has not published any financial projections for 2017.

Factors and risks significantly affecting financial results in Q.1, 2017 and in subsequent periods

Post Q.1, 2017 the Makarony Polskie Group generated net profit at the level of PLN 1.8 million. A series of changes were introduced at the Group in order to improve production effectiveness and reduce fixed costs.

The following activities, among others, will contribute to the generated results.

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 the development of innovative manufacturing technologies of new low-processed and health-promoting products that are easy to prepare;
- extension of the production plant in Rzeszów for a production and warehouse building, with the planned completion date in the first half of 2017;
- investment commenced in 2016 in automated flour and bulk ingredients dosing system at the production plant in Częstochowa, 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;
- purchase by Stoczek Natura Sp. z o.o. 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 activities and projects planned by the Group

- In March 2017 the Company concluded with the Authorities of the Podkarpackie Province a co-finance agreement concerning the project entitled "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA" under Measure 1.4: "Support for SMEs" of the Regional Operational Programme of the Podkarpackie Province for the years 2014-2020. The subject of the subsidy agreement is the implementation of the results of R&D works carried out in cooperation with a scientific unit, and consisting in development of innovative product recipes with the use of raw materials which are not applied on a standard basis in the pasta sector. The main objective of the project is the expansion of Makarony Polskie SA on the market of functional food.
- In April 2017 the Company concluded with the Minister of Development and Finance a co-finance agreement concerning the project entitled "Creation of a Research and Development Centre of the Pasta Industry at Makarony Polskie SA", carried out within Measure 2.1 "Support for Investments in R&D Infrastructure of Enterprises", under the Smart Growth Operational Programme 2014–2020.

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

The project will be performed until June 2019. Within the project the Company plans to purchase fixed assets and finance construction works. For the purposes of the R&D Centre a modern line for production tests will be purchased, among other things, the parameters of which will reflect the conditions of the actual industrial production process (the line will be an asset of significant value).

- In March 2017 the members of the consortium consisting of: Makarony Polskie SA (leader), Stoczek Natura Sp. z o.o. and Dary Natury, concluded with the Agricultural Market Agency (ARR) a co-finance agreement concerning the project entitled "*Jakość Natury* [Quality of Nature] Promotional and Information Campaign on the Polish Market" 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.
- Starting from 2016, in liaison with other manufacturers associated within the Polish Pasta Chamber (PIM), the Company has been 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) have been educated about the healthy characteristics of pasta, variety of pastas and high quality of products originating from the EU, including Poland (advertisements 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).
- 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 the first half of 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 domestic market share and distribution level

- 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 products, 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.

Exports development:

- 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.

Hazards and risks related to the Group activities in the remaining months of 2017

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. due to growing prices or generally published information, for example regarding the health advantage of a given category of products.

Market trends are monitored on a current basis. The Group companies adjust their offer in a fast and flexible manner, both as regards the very products and the technology of the products manufacturing. The current product offer of the Group has been modified in accordance with 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 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 funds 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 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 the 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 prices of liquid egg pulp currently applicable on the market range from PLN 3.3-3.7 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 Q.1, 2017 liquid egg pulp prices stabilised at PLN 3.3-3.7 thousand per ton. According to the forecasts, the prices of eggs and liquid egg pulp are going to grow slightly. This will result from the replacement of old hen stocks with new ones in the period of July and August.

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

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

Risk related to foreign exchange rates fluctuation

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

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

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 Q.1, 2017 the Company availed of external sources of finance taken out at a bank in the form of a working capital credit, loan in the current account and investment credits.

As at 31 March 2017 the Company was liable PLN 19,393,000 on account of credits taken out.

Currency	Interest rate	Credit/loan balance	Including	
			Short-term	Long-term
PLN	WIBOR + bank margin	19,393	9,276	10,117

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.

Credit risk

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

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

The Group is not exposed to a major credit risk of a single contractor or a group of contractors. When assessing the credit risk level, the Group treats related companies as one customer.

Selected financial data – Makarony Polskie Group

The selected financial data presented in EUR comply with § 87.7.1 of the Regulation of the Minister of Finance of 19 February 2009:

- the items of the statement of financial position were converted at the mean exchange rate announced by the National Bank of Poland and binding as the balance-sheet date (31 March 2017: EUR 1 EUR = PLN 4.2198; 31 December 2016: EUR 1 = PLN 4.424);
- the items of the statement of comprehensive income and statement of cash flows were converted at the rate being the arithmetic mean of the mean rates announced by the National Bank of Poland and binding as at the last day of each month of Q.1, 2017 (i.e. EUR 1 = PLN 4.2891) and as at the end of each month of the Q.1, 2016 (i.e. EUR 1 = PLN 4.3559).

Selected financial data	31 March 2017	31 March 2016	31 March 2017 (EUR '000)	31 March 2016 (EUR '000)
Net sales of products, services, merchandise and materials	34,395	31,667	8,019	7,270
Profit (loss) on continued operations	2,431	2,106	567	483
Gross profit (loss)	2,338	1,830	545	420
Net profit (loss) on continued operations	1,852	1,409	432	323
EBIT	2,431	2,106	567	483
EBITDA (EBIT + depreciation)	3,684	3,232	859	742
Net cash flows on operating activities	945	1,314	220	302
Net cash flows on investing activities	-430	-370	-100	-85
Net cash flows on financing activities	-680	-1,354	-159	-311
Total net cash flows	-165	-410	-38	-94
Total assets ***	131,508	128,386	31,165	29,020
Liabilities and provisions for liabilities ***	56,840	55,570	13,470	12,561
Long-term liabilities ***	23,074	23,129	5,468	5,228
Short-term liabilities ***	33,766	32,441	8,002	7,333
Equity ***	74,668	72,816	17,695	16,459

Selected financial data – Makarony Polskie Group

Share capital ***	27,750	27,750	6,576	6,273
Number of shares	9,250,071	9,250,071	9,250,071	9,250,071
Average weighted number of shares in the given reporting year	9,250,071	9,250,071	9,250,071	9,250,071
Profit/loss per one ordinary share (PLN/EUR) *	0.20	0.15	0.05	0.03
Book value per one share (PLN/EUR) **	8.07	7.87	1.91	1.78

* 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

*** Comparative data from the statement of financial position as at the 31 December 2016

Consolidated statement of comprehensive income

FOR THE PERIOD	01.01.2017–31.03.2017	01.01.2016–31.03.2016
Net sales	34,395	31,667
Net sales of products and services	32,766	30,460
Net sales of merchandise and materials	1,629	1,207
Prime cost	26,243	24,564
Cost of manufacturing of products and services sold	24,630	23,415
Value of merchandise and materials sold	1,613	1,149
Gross profit (loss) on sales	8,152	7,103
Cost of sales	4,519	3,747
General management costs	1,337	1,147
Other revenues	228	161
Other costs	93	264
Profit (loss) on continued operations	2,431	2,106
Financial revenues	152	30
Financial costs	245	306
Gross profit	2,338	1,830
Income tax – current part	495	114
Income tax – deferred part	-9	307
Net profit (loss) on continued operations	1,852	1,409
Including net profit (loss) assigned to:		
Shareholders of the Parent Company	1,852	1,409
Non-controlling interest		
Basic net earnings per share in PLN	0.20	0.15
Diluted net earnings per share in PLN	0.20	0.15
Other comprehensive income/loss, net		
Total net comprehensive income	1,852	1,409
Net comprehensive income assigned to:		
Shareholders of the Parent Company	1,852	1,409
Non-controlling interest		

Consolidated statement of comprehensive income

Statement of other comprehensive income, net – hedge accounting

FOR THE PERIOD	01.01.2017–31.03.2017	01.01.2016–31.03.2016
Net comprehensive income	1,852	1,409
Profit/loss on account of hedge accounting application	0	22
Total net comprehensive income	1,852	1,431

Consolidated statement of financial position

ASSETS	31 March 2017	31 December 2016	31 March 2016
FIXED ASSETS	**91,329**	**90,606**	**86,545**
Tangible fixed assets	74,326	73,520	69,418
Investment properties	1,235	1,235	1,227
Goodwill	5,949	5,949	5,949
Other intangible fixed assets	9,498	9,559	9,753
Long-term financial assets	0	0	0
Deferred income tax assets	20	17	135
Other long-term assets	301	326	63
CURRENT ASSETS	**40,179**	**37,780**	**37,957**
Inventories	15,374	13,015	12,011
Short-term receivables	23,564	23,469	25,117
Deferred income tax receivables	33	8	0
Loans granted	0	0	0
Cash and cash equivalents	749	920	590
Other short-term assets	459	368	239
FIXED ASSETS HELD FOR SALE	0	0	0
TOTAL ASSETS	**131,508**	**128,386**	**124,502**

Consolidated statement of financial position

EQUITY/LIABILITIES	31 March 2017	31 December 2016	31 March 2016
EQUITY CAPITAL	**74,668**	**72,816**	**72,327**
Share capital	27,750	27,750	27,750
Other reserve capital	39,505	39,505	37,687
Retained profit/loss (profit/loss from previous years)	5,561	469	5,481
Net profit/loss	1,852	5,092	1,409
LONG-TERM LIABILITIES	**23,074**	**23,129**	**24,603**
Deferred income tax provision	3,382	3,387	3,273
Long-term bank credits and loans	10,117	11,117	12,494
Provision for retirement benefits and equivalent (long-term)	143	143	144
Deferred income (long-term)	6,963	7,053	7,461
Long-term financial liabilities	2,469	1,429	1,231
SHORT-TERM LIABILITIES	**33,766**	**32,441**	**27,572**
Short-term bank credits and loans	9,276	8,455	8,283
Short-term financial liabilities	936	709	546
Other short-term liabilities	22,571	22,658	17,645
Deferred income tax payables	0	0	114
Deferred income (short-term)	510	548	510
Provision for retirement benefits and equivalent (short-term)	71	71	90
Other short-term provisions	402	0	384
TOTAL LIABILITIES	**56,840**	**55,570**	**52,175**
TOTAL EQUITY/LIABILITIES	**131,508**	**128,386**	**124,502**

Consolidated statement of cash flows

FOR THE PERIOD	01.01.2017–31.03.2017	01.01.2016–31.03.2016
Net cash flows on operating activities		
Profit before tax	**2,338**	**1,830**
Adjustments for items:	-1,393	-516
Depreciation	1,253	1,126
Foreign exchange gains/losses	6	2
Interest cost and income	226	256
Dividend income	0	0
Profit/loss on investing operations	-25	-7
Change in the balance of provisions	402	384
Change in the balance of inventories	-2,359	-21
Change in the balance of receivables	-95	1,361
Change in the balance of liabilities and accruals	-280	-3,503
Corporate income tax paid/reimbursed	-521	-114
Other adjustments	0	0
Net cash flows on operating activities	**945**	**1,314**
Cash flows on investing activities		
Revenues from sale of tangible and intangible fixed assets	25	11
Revenue from sale of financial assets	0	0
Expenses on purchase of tangible and intangible fixed assets	-455	-381
Expenses on acquisition of subsidiaries and associated companies	0	0
Interest revenues	0	0
Revenues on loans granted	0	0
Loans granted	0	0
Other	0	0
Net cash flows on investing activities	**-430**	**-370**
Cash flows on financing activities		

Consolidated statement of cash flows

Revenues from credits and loans	821	245
Repayment of credits and loans	-1,000	-1,218
Payment of liabilities under financial lease agreements	-275	-125
Interest paid	-226	-256
Dividend paid out to shareholders	0	0
Expenses on purchase of financial assets	0	0
Other financial revenues	0	0
Net cash flows on financing activities	**-680**	**-1,354**
Increase/decrease in the balance of cash and cash equivalents	**-165**	**-410**
Cash, cash equivalents and credit in the current account at the beginning of the period	920	1,002
Foreign exchange gains/losses on valuation of cash, cash equivalents and credit in the current account	-6	-2
Cash, cash equivalents and credit in the current account at the end of the period	**749**	**590**

Statement of changes in consolidated equity

For the period from 1 January 2017 to 31 March 2017

	Share capital	Other reserve capital	Result for the current year	Profit/loss from previous years	Total
As at 1 January 2017	27,750	39,505	0	5,561	72,816
Profit distribution/loss coverage	0	0	0	0	0
Profit/loss on account of hedge accounting application	0	0	0	0	0
Dividend payout	0	0	0	0	0
Net result after Q.1, 2017	0	0	1,852	0	1,852
As at 31 March 2017	27,750	39,505	1,852	5,561	74,668

For the period from 1 January 2016 to 31 December 2016

	Share capital	Other reserve capital	Result for the current year	Profit/loss from previous years	Total
As at 1 January 2016	27,750	37,665	0	5,481	70,896
Profit distribution/loss coverage	0	1,774	0	-1,774	0
Profit/loss on account of hedge accounting application	0	66	0	0	66
Dividend payout	0	0	0	-3,238	-3,238
Net result for 2016	0	0	5,092	0	5,092
As at 31 December 2016	27,750	39,505	5,092	469	72,816

Statement of changes in consolidated equity

For the period from 1 January 2016 to 31 March 2016

	Share capital	Other reserve capital	Result for the current year	Profit/loss from previous years	Total
As at 1 January 2016	27,750	37,665	0	5,481	70,896
Profit distribution/loss coverage	0	0	0	0	0
Profit/loss on account of hedge accounting application	0	22	0	0	22
Dividend payout	0	0	0	0	0
Net result after Q.1, 2016	0	0	1,409	0	1,409
As at 31 March 2016	27,750	37,687	1,409	5,481	72,327

Additional explanatory notes

Net sales of products, services, merchandise and materials broken down into segments of activities

For management purposes the Group has been divided into business units based on the offered product and services

	1 January 2017 to 31 March 2017	1 January 2016 to 31 March 2016
Sales of products	31,973	29,623
Sales of services, including:	793	837
– lease and storage	618	624
– distribution services	0	0
– transport	0	0
– service production	175	212
– other services	0	1
Sales of materials	1,492	142
Sales of merchandise	137	1,065
Total	**34,395**	**31,667**

Operating segments

The Makarony Polskie Group is divided into the operating segments identified in the table below.

	1 January 2017 to 31 March 2017	1 January 2016 to 31 March 2016
Pasta	25,246	25,384
Meat and vegetable products	5,373	2,750
Vegetable products	515	1,021
Fruit products	974	1,532
Other	2,287	980
Total	**34,395**	**31,667**

Basic information regarding operating segments:

For the period 01.01.2017–31.03.2017	Pasta	Meat and vegetable products	Vegetable products	Fruit products	Other	Total segments
Total revenues of the segments	**25,246**	**5,373**	**515**	**974**	**2,287**	**34,395**
Sales to third party customers	25,246	5,373	515	974	2,287	34,395
Sales between the segments	0	0	0	0	0	0
Costs of the segments	**19,044**	**4,298**	**414**	**884**	**1,603**	**26,243**
Profits/losses of the segments	**6,202**	**1,075**	**101**	**90**	**684**	**8,152**
Cost of sales	0	0	0	0	0	-4,519
General management costs	0	0	0	0	0	-1,337
Other revenues	0	0	0	0	0	228
Other costs	0	0	0	0	0	-93
Financial revenues	0	0	0	0	0	152
Financial costs	0	0	0	0	0	-245
Elimination of loss/profit among segments	0	0	0	0	0	0
Other profit/loss	0	0	0	0	0	0
Non-assigned amounts	0	0	0	0	0	0
Gross profit/loss on continued operations						**2,338**

For the period 01.01.2016–31.03.2016	Pasta	Meat and vegetable products	Vegetable products	Fruit products	Other	Total segments
Total revenues of the segments	**25,384**	**2,750**	**1,021**	**1,532**	**980**	**31,667**
Sales to third party customers	25,384	2,750	1,021	1,532	980	31,667
Sales between the segments	–	–	–	–	–	–
Costs of the segments	**19,468**	**2,349**	**887**	**1,445**	**415**	**24,564**
Profits/losses of the segments	**5,916**	**401**	**134**	**87**	**565**	**7,103**
Cost of sales	0	0	0	0	0	-3,747
General management costs	0	0	0	0	0	-1,147
Other revenues	0	0	0	0	0	161
Other costs	0	0	0	0	0	-264
Financial revenues	0	0	0	0	0	30
Financial costs	0	0	0	0	0	-306
Elimination of loss/profit among segments	0	0	0	0	0	0

Other profit/loss	0	0	0	0	0	0
Non-assigned amounts	0	0	0	0	0	0
Gross profit/loss on continued operations						**1,830**

For the purpose of verifying the results generated by the particular segments and assignment of resources, the decision-making persons monitor the assets applicable to the particular segments.

The decision-makers do not obtain information about the liabilities of the respective segments.

The Group applies IFRS 8 "Operating Segments". In accordance with the IFRS 8 requirements, operating segments must be identified based on the internal reports regarding those elements, which are regularly verified by the persons deciding about allocation of resources to the respective segment and assessing the segment financial results. The Group companies operate mainly in the territory of Poland, the regions of which should be treated as a uniform area due to the closeness of location, similar economic conditions and general risk.

Sales of products, services, merchandise and materials – geographic structure

	1 January 2017 to 31 March 2017	1 January 2016 to 31 March 2016
Poland	32,410	30,681
Exports, including	1,985	986
– EU member states	681	737
– other countries	1,304	249
Total	**34,395**	**31,667**

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). In Q.1, 2017 sales amounted to PLN 32.4 million on the domestic market and PLN 2.0 million in exports. In the same period of 2016, the values were PLN 30.7 million and PLN 1.0 million, respectively.

Data on the financial results and shares, used in calculating the basic and diluted earnings per share

	1 January 2017 to 31 March 2017	1 January 2016 to 31 March 2016
Net profit/loss per share	0.20	0.15
Book value per share in PLN	8.07	7.82

	1 January 2017 to 31 March 2017	1 January 2016 to 31 March 2016
Net profit/loss on continued activities assigned to the Parent Company shareholders	1,852	1,409
Profit/loss on discontinued activities assigned to the Parent Company shareholders	0	0
Net profit/loss assigned to the Parent Company shareholders	1,852	1,409
Net profit/loss assigned to regular shareholders, applied in calculation of diluted profit/loss per share	0	0

	1 January 2017 to 31 March 2017	1 January 2016 to 31 March 2016
Weighted average number of ordinary shares issued, applied in calculation of basic profit/loss per share	9,250,071	9,250,071
Dilution impact	N/A	N/A
Weighted average number of ordinary shares issued, applied in calculation of basic profit/loss per share	N/A	N/A

Net profit per share is calculated by dividing net profit for the period assigned to regular shareholders of the Parent Company by the weighted average number of ordinary shares issued and outstanding during the period.

Diluted profit per share is calculated by dividing net profit for the period assigned to regular shareholders of the Parent Company (upon deduction of interest on redeemable privileged shares convertible to ordinary shares) by the weighted average of ordinary shares issued and outstanding during the period (adjusted for the impact of diluting options and diluting redeemable shares convertible to ordinary shares).

In Q.1, 2017 there were no factors at the Parent Company that would dilute share capital.

Book value per share is the quotient of equity and the number of shares as at the respective balance-sheet date.

Share capital

Share capital of Makarony Polskie SA as at 31 March 2017 amounted to PLN 27,750,213 and was divided as follows:

	Type of share	Type of privilege	Number of shares	Nominal value of one share in PLN	Series nominal value in PLN '000	Capital coverage method	Date registered	Right to dividend (from)
A series	bearer shares	ordinary shares	3,013,250	3	9,040	cash contributions	05.07.2004	01.01.2004
B series	bearer shares	ordinary shares	1,169,750	3	3,509	in-kind contributions	29.10.2004	01.01.2004
C series	bearer shares	ordinary shares	3,000,000	3	9,000	cash contributions	18.04.2007	01.01.2007
D series	bearer shares	ordinary shares	1,735,821	3	5,207	cash contributions	22.06.2007	01.01.2007
E series	bearer shares	ordinary shares	331,250	3	994	cash contributions	11.02.2008	01.01.2008
Total			**9,250,071**		**27,750**			

Information about changes in estimations regarding consolidated financial statements

CHANGES ON ACCOUNT OF PROVISIONS

Change of balance as at 31 March 2017	Balance as at 1 January 2017	Created	Utilised or reversed	Balance at the end of the period
On account of pension benefits and similar, including:	214	0	0	214
a) long-term	143	0	0	143
b) short-term	71	0	0	71
Other provisions, including:	0	402	0	402
b) other	0	402	0	402
Total	214	402	0	616

Change of balance as at 31 March 2016	Balance as at 1 January 2016	Created	Utilised or reversed	Balance at the end of the period
On account of pension benefits and similar, including:	234	0	0	234
a) long-term	144	0	0	144
b) short-term	90	0	0	90
Other provisions, including:	0	384	0	384
b) other	0	384	0	384
Total	234	384	0	618

DEFERRED TAX ASSETS AND PROVISIONS

Change of balance as at 31 March 2017	Balance as at 1 January 2017	Created	Utilised or reversed	Balance at the end of the period
Deferred income tax assets	385	149	78	456
Deferred income tax provisions	3,755	88	25	3,818
Deferred income assets/provisions after set-off				3,362

Change of balance as at 31 March 2016	Balance as at 1 January 2016	Created	Utilised or reversed	Balance at the end of the period
Deferred income tax assets	603	230	351	482
Deferred income tax provisions	3,436	203	19	3,620
Deferred income assets/provisions after set-off				3,138

IMPAIRMENT ALLOWANCES FOR ASSETS

Change of balance as at 31 March 2017	Balance as at 1 January 2017	Created	Utilised or reversed	Balance at the end of the period
Impairment allowances for receivables	76	0	0	76
Impairment allowances for inventories	21	0	21	0
Impairment allowances for tangible fixed assets	1,769	0	24	1,745

Change of balance as at 31 March 2016	Balance as at 1 January 2016	Created	Utilised or reversed	Balance at the end of the period
Impairment allowances for receivables	589			589
Impairment allowances for inventories	2			2
Impairment allowances for tangible fixed assets	1,989		24	1,965

The Group monitors assets on a current basis and in case of their loss of value makes impairment allowances for such assets. In Q.1, 2017 no reasons for impairment allowances occurred.

Dividends paid out and proposed to be paid out

In the first quarter and by the date of the publication, Makarony Polskie SA has not paid out dividend.

On 11 May 2017, the Management Board of the Company decided to recommend to the Annual General Meeting to distribute net profit for the period from 1 January 2016 to 31 December 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:

a) 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;
b) 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.

The detailed proposals regarding the method of profit distribution for 2016, the dividend record date, i.e. the date of drawing up the list of shareholders entitled to dividend for 2016, and the date of the dividend payout shall be presented by the Management Board in a separate motion submitted to the General Meeting upon approval by the Supervisory Board. At the same time the Company informs that in accordance with Article 382.3 of the Code of Commercial Companies the recommendation will be submitted to the Company Supervisory Board for approval. The final decision regarding profit distribution for the reporting year 2016 will be made by the Annual General Meeting of the Company.

Settlements with related companies

In Q.1, 2017 Makarony Polske SA did not enter into any significant transactions with subsidiaries 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 signed new agreements regarding the conditions of cooperation in sales and distribution of the Group products, accordingly to the new structure of the Group. Remuneration on account of the aforesaid agreements was set on arm’s length basis.

Related company	Sales to related companies – total revenues		Purchases from related companies	
	01.01.2017–31.03.2017	01.01.2016–31.03.2016	01.01.2017–31.03.2017	01.01.2016–31.03.2016
Parent Company – Makarony Polskie S.A.	1,618	271	2,967	4,080
from/to Stoczek Sp. z o.o.	145	150	2,701	3,516
from/to MP Trade Sp. z o.o.	1,473	121	266	564

Related company	Receivables from related companies		Liabilities to related companies	
	As at 31.03.2017	As at 31.03.2016	As at 31.03.2017	As at 31.03.2016
Parent Company – Makarony Polskie S.A.	2,990	2,671	655	559
from/to Stoczek Sp. z o.o.	961	2,623	518	57
from/to MP Trade Sp. z o.o.	2,029	48	137	502

SETTLEMENTS WITH SUBSIDIARIES

Subsidiaries	Sales among subsidiaries – total revenues		Purchases among subsidiaries	
	01.01.2017–31.03.2017	01.01.2016–31.03.2016	01.01.2017–31.03.2017	01.01.2016–31.03.2016
Total subsidiaries	1,691	247	1,691	247
from/to Stoczek Sp. z o.o.	1,662	1	29	246
from/to MP Trade Sp. z o.o.	29	246	1,662	1

Subsidiaries	Receivables from subsidiaries		Liabilities to subsidiaries	
	As at 31.03.2017	As at 31.03.2016	As at 31.03.2017	As at 31.03.2016
Total subsidiaries	1,924	201	1,924	201
from/to Stoczek Sp. z o.o.	1,873	0	51	201
from/to MP Trade Sp. z o.o.	51	201	1,873	0

Information regarding issue, redemption and repayment of debt and capital securities, information about the planned shares issue

In Q.1, 2017 the companies of the Makarony Polskie Group did not issue, redeem or repay any debt or capital securities.

Information about the planned shares issues

In Q.1, 2017 and in the period from the date of publication of this report the Company has not issued any shares and is not planning to issue any shares in 2017.

Agreements and events important for the operations of the Group

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

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.

The facility will be repaid in 44 monthly instalments starting from 31 July 2019, in the following values: 43 instalments of PLN 0.144 million each, plus 44th settlement instalment amounting to PLN 5.972 million. In case the credit is repaid from the subsidy, the repayment schedule shall change by way of the balloon rate change. The instalments of the credit will be changed in such proportion to the instalments determined in the original schedule, in which the amount of the credit utilised compares to the amount of the loan granted.

The provisions of the credit agreement are not different from the ones generally applied by the Bank to such agreements. The interest rate on the facility was set out based on WIBOR 3M and is not different from the standard applied by the Bank to such credit facilities.

The investment credit repayment is secured by:
1) joint contractual mortgage up to PLN 18,200,000 imposed on:
– the property located in Rzeszów at ul. Podkarpacka 15A, for which a land and mortgage register No. KW RZ1Z/00076860/5 is kept, and
– the property located in Płock at ul. Graniczna 46L, for which a land and mortgage register No. KW PL1P/00094893/6 is kept;
2) transfer of receivables on account of insurance agreement of the said properties;
4) registered pledge on semi-industrial test line complete with accessories;
5) transfer of receivables on account of insurance agreement of the object of the pledge;
7) civil-law security bond by Stoczek Natura Sp. z o.o.;
8) declaration of the Issuer on submission to enforcement made pursuant to Article 777 of the Code of Civil Procedure.

Conclusion of a co-finance agreement concerning the project entitled "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA" under Measure 1.4: "Support for SMEs" of the Regional Operational Programme of the Podkarpackie Province for the years 2014-2020

In March 2017 the Company concluded with the Authorities of the Podkarpackie Province a co-finance agreement concerning the project entitled "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA" under Measure 1.4: "Support for SMEs" of the Regional Operational Programme of the Podkarpackie Province for the years 2014-2020.

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

The project will be performed until June 2018. Within the project the Company plans to purchase fixed assets. An asset of significant value to be purchased within the project will be a modern line for pasta production.

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

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

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

In Q.1, 2017 Makarony Polskie and Raya Holding for Technology & Telecommunications S.A.E. with its registered office in Giza (Egypt) commenced preliminary negotiations with regard to determining the principles of cooperation and strategic partnership in the area of potential activities on the African markets (the Company informed about receiving an invitation to negotiations in that regard in its current report No. 9/2016 of 9 June 2016). The negotiations refer to the possibility of:

- 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;
- development of trade between the African and European markets.

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 its subsequent reports.

Information about credit and factoring agreements signed and terminated

In Q.1, 2017 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 March 2017 is presented in the tables below.

– Credit in the current account at BZ WBK SA

Credit conditions	31 March 2017
Credit agreement value	PLN 5,000,000
Credit period	18.10.2013–31.05.2017
Interest rate	WIBOR 1M + bank margin compliant with the standards applied by the bank
Outstanding credit balance	PLN 1,773,000
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 April 2017 the Company signed an annex to the agreement on credit in the current account with Bank Zachodni WBK SA in order to postpone the maturity date of the liability till 31 May 2018 and ensure uniform provisions of credit agreements between the Company and the Bank, which applies among other things to credit agreements collaterals.

– Investment credit at BZ WBK SA

Credit conditions	31 March 2017
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
Outstanding credit balance	PLN 9,699,000
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.

In April 2017 Makarony Polskie SA signed an annex to the agreement on investment credit with Bank Zachodni WBK SA in order to ensure uniform provisions of credit agreements between the Company and the Bank, which applies among other things to credit agreements collaterals.

– Working capital credit at BZ WBK SA

Credit conditions	31 March 2017
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
Outstanding credit balance	PLN 1,167,000
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.

– EU investment credit at 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. Detailed information about that liability is provided in items "Agreements and events important for the operations of the Group" and "Major post-balance-sheet events" of these statements.

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. As at 31 March 2017 the conditions for paying out the credit have not been fulfilled.

– Credit in the current account at Bank Gospodarstwa Krajowego

Credit conditions	31 March 2017
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
Outstanding credit balance	PLN 3,492,000
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).

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

Credit conditions	31 March 2017
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
Outstanding credit balance	PLN 3,250,000
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).

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

Terms of the agreement	31 March 2017
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 outstanding balance	PLN 7,552,000
Agreement collateral	– irrevocable power of attorney to dispose of the account; – blank promissory note with promissory note declaration.

Information on loans granted

In Q.1, 2017 neither Stoczek Natura Sp. z o.o. nor MP Trade Sp. z o.o. granted any loans.

As at 31 March 2017 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 maturity date);
– 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 24th settlement instalment to zero balance).

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

Information on guarantees granted and obtained

In Q.1, 2017 the Group companies did not grant any guarantees. As regards guarantees obtained, only Parent Company Makarony Polskie SA avails of guarantees.

All guarantees binding as at 31 March 2017 are presented in the table below.

Guarantor	Guarantee amount	Guarantee validity	Object of guarantee	Collateral
STU Ergo Hestia S.A.	PLN 272,000	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	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	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

– Makarony Polskie SA

As at 31 March 2017 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 31.03.2017
Security bond for a revolving credit amounting to PLN 2.85 million*	BPS	PLN 4,275,000	05.07.2016	30.05.2021	PLN 750,000
Security bond for a revolving credit amounting to PLN 0.5 million*	BPS	PLN 750,000	05.07.2016	30.05.2021	PLN 0

* The credits are allocated to financing a three-year information and promotional campaign within the the "Makarony Europy" [European Pasta] project, in which Makarony Polskie SA participates, among others. The activities will be carried out on the Ukrainian and Chinese markets. The cost of the campaign is co-financed by the European Union and the Agricultural Market Agency (ARR).

Makarony Polskie SA received remuneration for a security bond granted to the Polish Pasta Chamber (PIM).

– MP Trade Sp. z o.o.

As at 31 March 2017 MP Trade Sp. z o.o. had not granted any security bonds.

– Stoczek Natura Sp. z o.o.

As at 31 March 2017 Stoczek Natura Sp. z o.o. granted security bonds to the Parent Company Makarony Polskie SA. The value of the security bonds is presented.

Third party liabilities	Name of creditor	Security bond value	Security bond date	Validity date	Balance of the secured liability as at 31.03.2017
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 1,773,000
Security bond for an investment credit amounting to PLN 13.8 million	BZ WBK	PLN 30,000,000	18.10.2013	30.09.2021	PLN 9,699,000
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 3,250,000
Security bond for a credit in the current account amounting to PLN 6.0 million	BGK	PLN 6,000,000	14.06.2013	30.12.2016	PLN 3,492,000

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

Off-balance-sheet items

Off-balance-sheet items [PLN '000]	31 March 2017	31 December 2016
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	**119,436**	**118,771**
– guarantees and security bonds granted	5,025	5,025
– secured on property	80,750	80,750
– promissory note payables	33,661	32,996
Total off-balance-sheet items	**-117,959**	**-117,294**

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.

Additional explanatory notes

Important court litigations, arbitration proceedings or administrative proceedings

In the presented reporting period there were no pending court ligations or any arbitration or administrative proceedings regarding the liabilities or receivables of the Makarony Polskie SA or its subsidiaries with the total value representing at least 10% of the equity of Makarony Polskie SA.

Other major events and transactions

In Q.1, 2017 no major events and transactions other than those described above that would require disclosure in these financial statements of the Group occurred.

Major post-balance-sheet events

Conclusion of a co-finance agreement concerning the project entitled "Creation of a Research and Development Centre of the Pasta Industry at Makarony Polskie SA", carried out within Measure 2.1 "Support for Investments in R&D Infrastructure of Enterprises", under the Smart Growth Operational Programme 2014–2020

In April 2017 the Company concluded with the Minister of Development and Finance a co-finance agreement concerning the project entitled "Creation of a Research and Development Centre of the Pasta Industry at Makarony Polskie SA", carried out within Measure 2.1 "Support for Investments in R&D Infrastructure of Enterprises", under the Smart Growth Operational Programme 2014–2020.

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

The project will be performed until June 2019. Within the project the Company plans to purchase fixed assets and finance construction works. For the purposes of the R&D Centre a modern line for production tests will be purchased, among other things, the parameters of which will reflect the conditions of the actual industrial production process (the line will be an asset of significant value).

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

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

The agreement was concluded under a resolutive conclusion. The agreement will be terminated as of 8 September 2017, if before that day the Company fails to submit to the Ministry of Development and Finance a filled in form entitled "Analysis of the Project Compliance with the Environmental Protection Policy" and documentation related to the filled in form, including a valid decision on the environmental conditions of the project performance and a valid building permit prepared in accordance with the Act on Disclosing Information on the Environment and Its Protection, Share of Society in the Environmental Protection and on the Environmental Impact Assessments as well as the Building Law, or documents confirming that the submission of the aforesaid document is not required.

CONCLUSION OF ANNEXES TO SIGNIFICANT CREDIT AGREEMENTS WITH BZ WBK SA

In April 2017 the Company concluded with Bank Zachodni WBK SA annexes to four credit agreements of the total value of approximately PLN 33.9 million, which jointly fulfil the criteria of a significant agreement.

The object of the annexes is to ensure uniform provisions of credit agreements between the Company and the Bank, which applies among other things the Bank commission for management of the credits and credit agreements collaterals.

The highest value credit agreement is the annexed investment credit agreement amounting to PLN 13.8 million. The initial value of the agreement was PLN 15 million, out of which as at the date of signing the annex the Company repaid a part of principal instalments and the agreement balance dropped to PLN 9.7 million.

The annex to the investment credit agreement covers for the following amendments:

- it enables the Company to avail of an additional limit within the agreement in the amount of PLN 2.5 million, granted to the Company for financing the investments at the production plant in Rzeszów by 30 June 2017 (currently the limit utilisation is roughly PLN 1.6 million);
- the value of collateral has been adjusted to the credit exposure of the Bank;
- the registered pledge on fixed assets of Stoczek Natura Sp. z o.o. has been removed from collateral (Makarony Polskie SA holds 100% shares in Stoczek Natura Sp. z o.o.).

The investment credit repayment is now secured by:

- joint contractual mortgage up to PLN 33.0 million (being at the same time a collateral for the other credit agreements concluded by the Company with BZ WBK) imposed on:
  - the property located in Rzeszów at ul. Podkarpacka 15A, for which a land and mortgage register No. KW RZ1Z/00076860/5 is kept, and
  - the property located in Płock at ul. Graniczna 46L, for which a land and mortgage register No. KW PL1P/00094893/6 is kept;
- transfer of receivables on account of insurance agreement of the said properties;
- registered pledge on fixed assets of Makarony Polskie SA – production lines at the Rzeszów plant;
- transfer of receivables on account of insurance agreement of the object of the pledge;
- blank promissory note issued by the Borrower and promissory note declaration;
- civil-law security bond by Stoczek Natura Sp. z o.o.

The interest rate on the credit was set out based on WIBOR 3M and is not different from the standard applied by the Bank in that regard.

DECISION ON WITHDRAWAL FROM THE PROCEDURE OF APPLICATION FOR A SUBSIDY FOR THE PROJECT ENTITLED "GROWTH OF COMPETITIVENESS OF MAKARONY POLSKIE SA BY IMPLEMENTATION OF THE RESULTS OF RESEARCH AND DEVELOPMENT WORKS IN THE FORM OF PROCESS INNOVATION" WITHIN THE COMPETITION FOR SUB-MEASURE 3.2.2 "LOAN ON ENGINEERING INNOVATION" UNDER THE SMART GROWTH OPERATIONAL PROGRAMME 2014–2020.

In April 2017 the Company made a decision on withdrawal from the procedure of application for a subsidy for the project entitled "Growth of competitiveness of Makarony Polskie SA by implementation of the results of research and development works in the form of process innovation" within the Competition for Sub-measure 3.2.2 "Loan on engineering innovation" under the Smart Growth Operational Programme 2014–2020.

On 13 April 2016 a written declaration on withdrawal from the application was sent to Bank Gospodarstwa Krajowego, European Programmes Department, pursuant to § 6.23 of the Rules of the Competition.

Withdrawal of the application for co-finance under the subsidy application procedure and, thus, withdrawal from signing a co-finance agreement and resignation from the project implementation results from the Company's engagement in the performance of two other large investment projects, which have also been granted co-finance, i.e.:

- "Creation of a Research and Development Centre for the Pasta Industry at Makarony Polskie SA" carried out within Measure 2.1 "Support for Investments in R&D Infrastructure of Enterprises", under the Smart Growth Operational Programme 2014–2020. The total cost of the project is roughly PLN 18.6 million;
- "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA" under Measure 1.4 "Support for SMEs" of the Regional Operational Programme of the Podkarpackie Province for the years 2014-2020. The total cost of the project is PLN 12.3 million.

This has translated into a change in the assessment of the subject-matter project return and the benefits gained as a result of its performance.

No other post-balance-sheet events occurred which could have a major impact on the operations of the Makarony Polskie Group.

.....

Zenon Daniłowski

President of the Management Board

Rzeszów, 12 May 2017

Short separate financial statements of Makarony Polskie SA for the period from 1 January to 31 March 2017

Selected financial data of Makarony Polskie SA

Selected financial data	31 March 2017	31 March 2016	31 March 2017 (EUR '000)	31 March 2016 (EUR '000)
Net sales of products, services, merchandise and materials	29,222	30,395	6,813	6,978
Profit (loss) on continued operations	2,179	2,028	508	466
Gross profit (loss)	2,144	1,800	500	413
Net profit (loss) on continued operations	1,715	1,371	400	315
EBIT	2,179	2,028	508	466
EBITDA (EBIT + depreciation)	3,103	2,854	723	655
Net cash flows on operating activities	1,106	1,486	258	341
Net cash flows on investing activities	-284	-202	-66	-46
Net cash flows on financing activities	-674	-1,347	-157	-309
Total net cash flows	148	-63	35	-14
Total assets ***	122,502	120,255	29,030	27,182
Liabilities and provisions for liabilities ***	51,564	51,032	12,219	11,535
Long-term liabilities ***	22,914	23,002	5,430	5,199
Short-term liabilities ***	28,650	28,030	6,789	6,336
Equity ***	70,938	69,223	16,811	15,647
Share capital ***	27,750	27,750	6,576	6,273
Number of shares	9,250,071	9,250,071	9,250,071	9,250,071
Average weighted number of shares in the given reporting year	9,250,071	9,250,071	9,250,071	9,250,071
Profit/loss per one ordinary share (PLN/EUR) *	0.19	0.15	0.04	0.03
Book value per one share (PLN/EUR) **	7.67	7.48	1.82	1.69

* 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

*** Comparative data from the statement of financial position as at the 31 December 2016

Statement of comprehensive income of Makarony Polskie SA

FOR THE PERIOD	01.01.2017–31.03.2017	01.01.2016–31.03.2016
Net sales	29,222	30,395
Net sales of products and services	25,035	25,531
Net sales of merchandise and materials	4,187	4,864
Prime cost	22,893	23,748
Cost of manufacturing of products and services sold	18,732	19,140
Value of merchandise and materials sold	4,161	4,608
Gross profit (loss) on sales	6,329	6,647
Cost of sales	3,246	3,600
General management costs	1,021	900
Other revenues	191	140
Other costs	74	259
Profit (loss) on continued operations	2,179	2,028
Financial revenues	209	77
Financial costs	244	305
Gross profit	2,144	1,800
Income tax – current part	474	114
Income tax – deferred part	-45	315
Net profit (loss) on continued operations	1,715	1,371
Including net profit (loss) assigned to:		
Shareholders of the Parent Company	1,715	1,371
Non-controlling interest		
Basic net earnings per share in PLN	0.19	0.15
Diluted net earnings per share in PLN	0.19	0.15
Other comprehensive income/loss, net		
Total net comprehensive income	1,715	1,371
Net comprehensive income assigned to:		
Shareholders of the Parent Company	1,715	1,371
Non-controlling interest		

Statement of comprehensive income of Makarony Polskie SA

Statement of other comprehensive income, net – hedge accounting

FOR THE PERIOD	01.01.2017–31.03.2017	01.01.2016–31.03.2016
Net comprehensive income	1,715	1,371
Profit/loss on account of hedge accounting application	0	22
Total net comprehensive income	1,715	1,393

Statement of financial position of Makarony Polskie SA

ASSETS	31.03.2017	31.12.2016	31.03.2016
FIXED ASSETS	**87,940**	**87,038**	**75,927**
Tangible fixed assets	52,959	51,982	48,978
Investment properties	642	642	642
Goodwill	0	0	0
Other intangible fixed assets	4,958	5,007	5,164
Total long-term financial assets, of which:	29,080	29,080	21,080
Share	26,080	26,080	21,080
Loans granted	3,000	3,000	0
Deferred income tax assets	0	0	0
Other long-term assets	301	327	63
CURRENT ASSETS	**34,562**	**33,217**	**41,553**
Inventories	10,979	9,654	9,041
Short-term receivables	20,560	20,763	25,578
Deferred income tax receivables	22	8	0
Loans granted	2,062	2,019	6,291
Cash and cash equivalents	600	453	459
Other short-term assets	339	320	184
FIXED ASSETS HELD FOR SALE	0	0	0
TOTAL ASSETS	**122,502**	**120,255**	**117,480**

Statement of financial position of Makarony Polskie SA

EQUITY/LIABILITIES	31.03.2017	31.12.2016	31.03.2016
EQUITY CAPITAL	**70,938**	**69,223**	**68,822**
Share capital	27,750	27,750	27,750
Other reserve capital	36,507	36,507	34,691
Retained profit/loss (profit/loss from previous years)	4,966	0	5,010
Net profit/loss	1,715	4,966	1,371
LONG-TERM LIABILITIES	**22,914**	**23,002**	**24,500**
Deferred income tax provision	3,346	3,391	3,315
Long-term bank credits and loans	10,117	11,117	12,494
Provision for retirement benefits and equivalent (long-term)	107	107	111
Deferred income (long-term)	6,964	7,053	7,461
Long-term financial liabilities	2,380	1,334	1,119
SHORT-TERM LIABILITIES	**28,650**	**28,030**	**24,158**
Short-term bank credits and loans	9,276	8,455	8,283
Short-term financial liabilities	914	687	524
Other short-term liabilities	17,532	18,303	14,396
Deferred income (short-term)	510	548	510,
Provision for retirement benefits and equivalent (short-term)	37	37	61
Other short-term provisions	381	0	384
TOTAL LIABILITIES	**51,564**	**51,032**	**48,658**
TOTAL EQUITY/LIABILITIES	**122,502**	**120,255**	**117,480**

Statement of cash flows of Makarony Polskie SA

FOR THE PERIOD	01.01.2017–31.03.2017	01.01.2016–31.03.2016
Net cash flows on operating activities		
Profit before tax	**2,144**	**1,800**
Adjustments for items:	**-1,038**	**-314**
Depreciation	924	826
Foreign exchange gains/losses	1	2
Interest cost and income	182	206
Dividend income	0	0
Profit/loss on investing operations	-25	-7
Change in the balance of provisions	382	384
Change in the balance of inventories	-1,326	384
Change in the balance of receivables	203	1,788
Change in the balance of liabilities and accruals	-891	-3,783
Corporate income tax paid/reimbursed	-488	-114
Other adjustments	0	0
Net cash flows on operating activities	**1,106**	**1,486**
Cash flows on investing activities		
Revenues from sale of tangible and intangible fixed assets	25	11
Revenue from sale of financial assets	0	0
Expenses on purchase of tangible and intangible fixed assets	-309	-213
Expenses on acquisition of subsidiaries and associated companies	0	0
Interest revenues	0	0
Revenues on loans granted	0	0
Loans granted	0	0
Other	0	0
Net cash flows on investing activities	**-284**	**-202**

Statement of cash flows of Makarony Polskie SA

Cash flows on financing activities		
Revenues from credits and loans	821	245
Repayment of credits and loans	-1,000	-1,218
Payment of liabilities under financial lease agreements	-270	-120
Interest paid	-225	-254
Dividend paid out to shareholders	0	0
Expenses on purchase of financial assets	0	0
Other financial revenues	0	0
Net cash flows on financing activities	**-674**	**-1,347**
Increase/decrease in the balance of cash and cash equivalents	**148**	**-63**
Cash, cash equivalents and credit in the current account at the beginning of the period	453	524
Foreign exchange gains/losses on valuation of cash, cash equivalents and credit in the current account	-1	-2
Cash, cash equivalents and credit in the current account at the end of the period	**600**	**459**

Statement of changes in equity of Makarony Polskie SA

For the period from 1 January 2017 to 31 March 2017

	Share capital	Other reserve capital	Result for the current year	Profit/loss from previous years	Total
As at 1 January 2017	27,750	36,507	0	4,966	69,223
Profit distribution/loss coverage	0	0	0	0	0
Profit/loss on account of hedge accounting application	0	0	0	0	0
Dividend payout	0	0	0	0	0
Net result after Q.1, 2017	0	0	1,715	0	1,715
As at 31 March 2017	27,750	36,507	1,715	4,966	70,938

For the period from 1 January 2016 to 31 December 2016

	Share capital	Other reserve capital	Result for the current year	Profit/loss from previous years	Total
As at 1 January 2016	27,750	34,669	0	5,010	67,429
Profit distribution/loss coverage	0	1,772	0	-1,772	0
Profit/loss on account of hedge accounting application	0	66	0	0	66
Dividend payout	0	0	0	-3,238	-3,238
Net result for 2016	0	0	4,966	0	4,966
As at 31 December 2016	27,750	36,507	4,966	0	69,223

Statement of changes in equity of Makarony Polskie SA

For the period from 1 January 2016 to 31 March 2016

	Share capital	Other reserve capital	Result for the current year	Profit/loss from previous years	Total
As at 1 January 2016	27,750	34,669	0	5,010	67,429
Profit distribution/loss coverage	0	0	0	0	0
Profit/loss on account of hedge accounting application	0	22	0	0	22
Dividend payout	0	0	0	0	0
Net result after Q.1, 2016	0	0	1,371	0	1,371
As at 31 March 2016	27,750	34,691	1,371	5,010	68,822

.....

Zenon Daniłowski
President of the Management Board

Rzeszów, 12 May 2017

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.